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Economy: CAD strikes red mark of 5.0% of GDP in 3QFY09; but set to shrink ahead

News Roundup

Corporate

- The Sahara group has dragged Jet Airways to court over its alleged default in the payment of instalments for the erstwhile Air Sahara. (FE)
- The financial crisis at US automobile companies General Motors (GM) and Chrysler has put at risk deals worth nearly US\$1 bn annually for Indian auto parts suppliers and some of the country's top software firms. (ET)
- Bharti Enterprises is planning to exit its mutual fund joint venture with French major AXA.(ET)
- The Sanmar group has successfully completed the financial closure of a US\$868 mn loan to fund its Egypt plant, TCI Sanmar Chemicals LLC. (FE)
- Godrej Industries is understood to be looking at buying companies in household and haircare segments in the developing economies of Brazil, Russia, China and Indonesia to expand its fast moving consumer goods business. (BS)
- Ranbaxy Laboratories will launch an anti-hypertensive drug, Olvance, in India. In other pharma news, Sun Pharmaceuticals said the mediation to resolve its dispute with Israel's Taro Pharmaceutical on the aborted merger of the two firms has failed. (FE)

Economic and political

- RBI has decided "in principle" to bring under its regulatory ambit holding companies floated by business groups and companies that also own non-banking finance companies. (BS)

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

EQUITY MARKETS

India	Change, %			
	31-Mar	1-day	1-mo	3-mo
Sensex	9,709	1.5	9.2	0.6
Nifty	3,021	1.4	9.3	(0.4)

Global/Regional indices				
Dow Jones	7,609	1.2	7.7	(13.3)
FTSE	3,926	4.3	2.5	(11.5)
Nikkei	8,276	2.1	9.4	(6.6)
Hang Seng	13,576	0.9	6.0	(5.6)
KOSPI	1,225	1.6	15.3	9.0

Value traded - India	Moving avg, Rs bn		
	31-Mar	1-mo	3-mo
Cash (NSE+BSE)	169.2	126.7	112.8
Derivatives (NSE)	489.9	392.0	300
Deri. open interest	597.2	474	417

Forex/money market

	Change, basis points			
	31-Mar	1-day	1-mo	3-mo
Rs/US\$	50.7	(47)	(118)	206
10yr govt bond, %	7.0	(6)	99	201

Commodity market

	Change, %			
	31-Mar	1-day	1-mo	3-mo
Gold (US\$/OZ)	920.8	0.2	(2.3)	4.4
Silver (US\$/OZ)	13.0	0.2	(0.9)	14.1
Crude (US\$/BBL)	48.5	1.6	8.0	16.2

Net investment (US\$mn)

	30-Mar	MTD	CYTD
FIs	(115)	-	(1,666)
MFs	(43)	-	(272)

Top movers -3mo basis

Best performers	Change, %			
	31-Mar	1-day	1-mo	3-mo
Mahindra & Mahindra	384	3.8	23.1	35.5
Hero Honda Motors	1,071	2.3	15.2	31.9
Sterilite Industries In	358	2.6	46.0	29.7
Grasim Industries Lt	1,577	2.8	15.0	28.6
Jindal Steel & Power	1,206	2.0	15.6	27.9

Worst performers				
Housing Developme	82	4.4	11.6	(41.8)
Satyam Computer S	38	(2.3)	(7.0)	(78.8)
Glenmark Pharmac	157	(1.8)	8.4	(47.0)
Aban Offshore Limi	398	4.0	25.6	(45.8)
Dlf Limited	167	1.1	10.1	(42.7)

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Pipes**JIND.BO, Rs177**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	300
52W High -Low (Rs)	750 - 135
Market Cap (Rs bn)	9.7

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	50.0	59.8	49.3
Net Profit (Rs bn)	3.4	3.7	2.7
EPS (Rs)	64.8	67.8	48.2
EPS gth	(44.1)	4.6	(28.9)
P/E (x)	2.7	2.6	3.7
EV/EBITDA (x)	2.7	2.4	2.2
Div yield (%)	2.7	2.8	2.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
10.5	(23.2)	(69.4)	(72.4)

Shareholding, December 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	43.8	-
FIs	19.0	0.1
MFs	15.0	0.2
UTI	-	(0.0)
LIC	-	(0.0)

Jindal Saw: Reduce estimates for lower visibility; valuations still attractive

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- **Depleting order book and low tender activity limits near-term revenue visibility**
- **Reduce our estimates for lower volumes, margins and exchange rate**
- **We cut our TP to Rs300, however, valuations still appear attractive; reiterate BUY**

We reduce our volume and margin estimates for JSAW as near-term revenue visibility reduces due to depleting order book and limited order flows. JSAW's order book has decreased 25% qoq to US\$840 mn currently. However, the management indicated the possibility of winning a large domestic oil and gas pipeline order which may boost revenue visibility. We reduce our EPS estimate for CY2009E and CY2010E to Rs66 and Rs48, respectively from Rs77.5 for both years. Low oil price and funding constraints have pushed back/cancelled many of the pipeline projects globally leading to significant demand contraction. We do not foresee any immediate improvement in order flows and hence reduce our linepipe volume estimates for CY2009E and CY2010E by 20% and 40%, respectively. We expect incremental orders to be at much lower margins as the pipe companies will be bidding at very low rates to maintain capacity utilization. The company has slowed down capex on its infrastructure ventures (through its subsidiary—Jindal ITF limited) due to economic slowdown. We do not expect any major developments in the infrastructure ventures in the short term. We cut our TP to Rs300 (from Rs500) to factor in lower volumes and margin estimates. We believe current valuation more than prices in the decline in earnings, as even after building in very low volumes and margins the stock currently trades at 2.7X CY2009E EPS.

Depleting order book limits near-term revenue visibility

We believe a depleting order book due to low order additions limits near-term revenue visibility for JSAW. Its current order book of US\$840 mn barely meets our CY2009E revenue estimates of Rs60 bn (US\$1.2 bn). JSAW will have to win significant orders over the next few months to improve CY2010E revenue visibility. We highlight that the current order book is largely dominated by LSAW orders and there are very few outstanding orders for HSAW pipes. Management indicated that it is close to winning a large domestic oil and gas spiral pipe order which may further increase revenue visibility.

MTM losses on forex derivatives could hit hard

JSAW reported that it has got MTM losses of US\$109 mn on its outstanding foreign exchange derivative instruments which have maturities ranging upto 2012. The company accounts for gain/loss on these instruments on settlement and does not make MTM provisions. It has reported forex losses amounting to Rs950 mn in CY2008. We believe the outstanding MTM losses could translate into further cash losses over the next few years.

Reduce estimates for lower volumes and margins

We reduce our CY2009E and CY2010E EPS estimates to Rs66 and Rs48 from Rs77.5 for both the years. Key changes made to our assumptions are:

- **Reduce volume assumptions.** We reduce our linepipe volume assumption for CY2009E and CY2010E to 508,000 tons and 414,000 tons from 630,000 tons and 688,000 tons. Our HSAW volumes face downside risk as outstanding orders for HSAW is only US\$25 mn (approximately 25,000 tons). However, the potential domestic HSAW order indicated by management could increase visibility for HSAW volumes.

- **Reduce margin estimate.** We reduce our HSAW margin estimate for CY2009E and CY2010E to US\$130/ton and US\$110/ton, respectively, from US\$150/ton and US\$140/ton. We reduce our LSAW margin assumptions for the same years to US\$190/ton and US\$150/ton, respectively from US\$200/ton and US\$170/ton. We believe lower pipe demand and increasing global supplies will lead to more competitive bidding resulting in decline in conversion spreads for the pipe manufacturers.
- **Exclude FCCBs and warrants from diluted number of shares.** We exclude the outstanding FCCBs and promoter warrants from our computation of fully diluted equity as they are deep out of the money. Our assumption for diluted number of shares is reduced to 54.9 mn from 61.3 mn. The FCCBs are convertible at Rs675/ share (4 mn shares) and the promoter warrants are convertible at Rs819/share (2.6 mn shares) versus current stock price of Rs178/share.
- **Revise exchange rate assumptions.** We revise our Rs/US\$ exchange rate assumption for CY2009E and CY2010E to Rs53 from Rs45 and Rs47, respectively. The lower exchange rate assumption partly offsets the impact of volume decline.

Infrastructure ventures put on hold

JSAW has put on hold most of its earlier announced infrastructure ventures due to slowdown in demand and business opportunities. It has till date invested Rs1.4 bn in Jindal ITF Limited—its infrastructure subsidiary—and expects further investment of Rs0.5 bn in CY2009. Status of the various infrastructure projects are:-

1. Jindal Water Infrastructure Ltd (construction of power and water utility projects)

Reported revenues of Rs1.9 bn and PAT of Rs34 mn. Its current order book is Rs4 bn and it has got a Letter of Intent for a Rs2.5 bn project. The company currently does not have any debt.

2. Jindal Waterways Ltd (inland and coastal water transportation)

Reported revenues of Rs449 mn and net loss of Rs150 mn. JSAW has invested Rs280 mn as equity in the company and it currently has debt of Rs1.4 bn. It has total fixed assets of Rs1.6 bn; however, due to slowdown in economic activity further capex in this business has been put on hold for the time.

3. Jindal Urban Infrastructure Ltd (urban waste management)

The company is currently implementing a garbage based power project in Delhi. The project capacity is around 16-20 MW and total cost is estimated at Rs20 bn. Financial closure of the project has been achieved and it is expected to be completed by 3QCY2010. The company does not have any debt currently. It has so far invested Rs63 mn as its equity contribution in the project.

4. Jindal Shipyards Ltd (shipyard in Gujarat)

The company has procured around 300 acres of land in Gujarat at a total cost of Rs155 mn to set up a shipyard in Gujarat. However, due to adverse conditions in the shipbuilding industry and slowdown in demand for ships, the project has been put on hold.

5. Jindal Rail Infrastructure Ltd (wagon manufacturing facility)

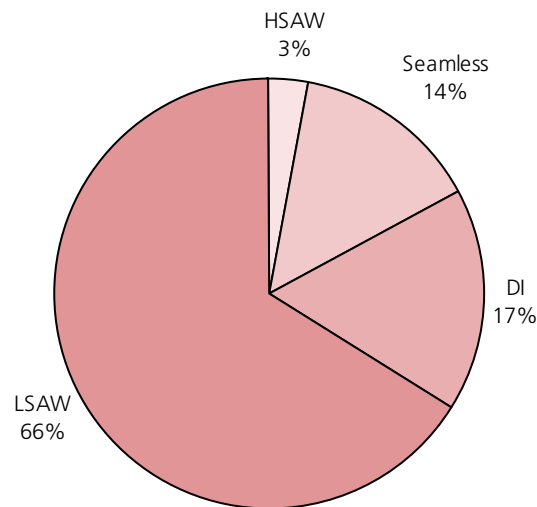
It has acquired 90 acres of land at a cost of Rs79 mn to set up a manufacturing facility for wagon/metro coaches/EMU and other rolling stocks in Gujarat. However, considering the economic conditions, this project has also been put on hold.

Cut TP to Rs300; maintain BUY on attractive valuations

We cut our 12-month DCF-based target price to Rs300 (from Rs500) to factor in reduced volume and margin estimates across our forecast period. We maintain our BUY rating—even after building in lower volumes and a sharp decline in margins, our target valuation implies 4.5X CY2009E EPS which we believe is quite attractive. We find limited downside risk from current levels as valuations are very low at 2.5X EBITDA, 2.7X EPS and 0.3X BPS based on CY2009E.

Exhibit 1: JSAW has current order book of US\$840 mn

JSAW, order book break up



Source: Company, Kotak Institutional Equities

Exhibit 2: Jindal Saw Ltd, change in estimates, December year-ends, (Rs mn)

	New estimates		Old estimates		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Financials						
Revenue	59,768	49,260	60,179	60,648	(0.7)	(18.8)
EBITDA	7,604	6,119	8,915	8,508	(14.7)	(28.1)
EBITDA margin (%)	12.7	12.4	14.8	14.0	—	—
Adjusted net profit	3,706	2,701	4,830	4,806	(23.3)	(43.8)
Diluted EPS	66.1	48.2	77.5	77.5	(14.7)	(37.7)
Volumes						
LSAW	340	296	410	460	(17.1)	(35.7)
HSAW	168	118	220	228	(23.9)	(48.4)
Seamless	91	125	130	175	(29.8)	(28.6)
Ductile Iron	234	234	234	234	—	—
Realisation (\$/ton)						
LSAW	1,597	1,278	1,442	1,327	10.8	(3.7)
HSAW	1,117	1,084	1,336	1,216	(16.4)	(10.9)
Seamless	1,215	1,142	1,334	1,254	(8.9)	(8.9)
Ductile Iron	926	898	880	836	5.3	7.5

Source: Kotak Institutional Equities estimates

Exhibit 3: Profit model, balance sheet, cash model for Jindal Saw, September fiscal year-ends, 2006, December year-ends, 2007-2010E (Rs mn)

	2006	2007(1)	2008E	2009E	2010E
Profit model					
Net revenues	38,731	66,957	50,032	59,768	49,260
EBITDA	4,066	8,371	7,006	7,604	6,119
Other income	144	112	101	120	125
Interest (expense)/income	(1,290)	(1,684)	(1,757)	(1,483)	(1,099)
Depreciation	(537)	(773)	(706)	(1,137)	(1,359)
Pretax profits	2,383	6,026	4,644	5,104	3,786
Tax	(704)	(2,777)	(1,176)	(1,449)	(1,161)
Deferred taxation	(164)	(63)	(45)	51	76
Minority interest	2	56	—	—	—
Adjusted consolidated net income	1,563	5,745	3,424	3,706	2,701
Diluted earnings per share (Rs)	29.5	105.2	61.0	66.1	48.2
Balance sheet					
Total equity	8,631	22,750	26,622	32,109	34,447
Deferred taxation liability	763	826	871	820	744
Total borrowings	17,217	13,455	17,190	13,054	9,004
Minority Interest	151	95	95	95	95
Current liabilities	12,303	10,429	12,471	14,255	11,347
Total liabilities and equity	39,066	47,555	57,248	60,332	55,637
Cash	3,922	6,586	6,836	3,495	4,518
Other current assets	24,055	25,496	29,840	35,175	30,092
Total fixed assets	10,254	13,380	18,800	20,389	19,755
Miscl. Exps. not w/o	—	—	—	—	—
Investments	836	2,093	1,772	1,272	1,272
Total assets	39,066	47,555	57,248	60,332	55,637
Free cash flow					
Operating cash flow, excl working capital	2,375	14,450	4,074	4,672	3,860
Working capital changes	(2,231)	(4,635)	(2,293)	(3,567)	2,267
Capital expenditure	(2,815)	(3,909)	(6,168)	(2,768)	(767)
Investments	345	(718)	320	500	—
Other income	351	311	101	120	125
Free cash flow	(1,976)	5,499	(3,967)	(1,043)	5,485
Ratios (%)					
EBITDA margin (%)	10.5	12.5	14.0	12.7	12.4
Debt/equity	172.6	106.8	39.8	50.3	30.8
Net debt/equity	152.3	103.9	21.3	31.7	26.0
RoAE	18.1	15.3	18.6	12.2	11.4
RoACE	10.5	10.2	17.9	11.5	10.5

Note: (1) 15 months period ended December 2007.

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Jindal SAW, operating assumptions, December year-ends, 2008-11E

	2008E	2009E	2010E	2011E
Sales ('000 tons)				
HSAW	135	168	118	118
LSAW	344	340	296	304
Seamless	68	91	125	113
DI	234	234	234	234
Realisation (US\$/ton)				
HSAW	1,314	1,117	1,084	1,084
LSAW	1,551	1,597	1,278	1,278
Seamless	1,429	1,215	1,142	1,142
DI	1,052	926	898	898
EBITDA				
HSAW (US\$/ton)	162	130	110	110
LSAW (US\$/ton)	220	190	150	130
Seamless (%)	18.3	16.0	15.5	15.5
DI (%)	18.0	17.0	16.0	16.0

Source: Kotak Institutional Equities estimates

Exhibit 5: Jindal SAW, DCF valuation, December year-ends, (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal Value
EBITDA	7,604	6,119	5,581	5,438	5,340	5,228	5,026	5,026	5,051	5,051	
Tax expense	(1,844)	(1,466)	(1,407)	(1,396)	(1,308)	(1,285)	(1,202)	(1,196)	(1,195)	(1,171)	
Changes in working capital	(3,567)	2,267	623	(96)	125	256	546	101	(47)	102	
Cash flow from operations	2,193	6,921	4,797	3,946	4,157	4,200	4,370	3,931	3,808	3,982	
Capital expenditure	(2,768)	(767)	(790)	(814)	(838)	(863)	(889)	(916)	(1,415)	(1,478)	
Free cash flow to the firm	(575)	6,154	4,008	3,133	3,319	3,337	3,481	3,015	2,393	2,504	21,177
Discounted cash flow-now	(523)	4,930	2,829	1,948	1,819	1,611	1,481	1,130	790	728	
Discounted cash flow-1 year forward		5,596	3,211	2,211	2,064	1,828	1,681	1,282	897	827	
Discounted cash flow-2 year forward			3,644	2,510	2,343	2,075	1,908	1,456	1,018	938	
Discount rate	13.5%										
Growth from 2018 to perpetuity	1.5%										
Discount factor at WACC	0.91	0.80	0.71	0.62	0.55	0.48	0.43	0.37	0.33	0.29	

	+ 1-year	+ 2-years
Total PV of free cash flow (a)	19,597	76% 15,892 69%
PV of terminal value (b)	6,160	24% 6,992 31%
EV (a) + (b)	25,758	22,884
EV (US\$ mn)	505	449
Net debt	9,153	4,081
Equity value	16,604	18,802
No. of shares	54.9	54.9
Implied share price (Rs)	303	343
Exit EV/EBITDA multiple (X)	4.2	
Exit FCF multiple (X)	8.5	

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

Growth Rate	WACC				
	12.5%	13.0%	13.5%	14.0%	14.5%
0.0%	317	302	289	276	264
0.5%	322	307	293	280	268
1.0%	328	312	298	284	271
1.5%	335	318	303	288	275
2.0%	342	324	308	293	280
2.5%	349	331	314	299	284
3.0%	358	338	321	304	289

Source: Company, Kotak Institutional Equities estimates

Property

Sector coverage view

Neutral

Company	Rating	Price, Rs	
		31-Mar	Target
MLife	BUY	132	410
Sobha	REDUCE	79	90
DLF	REDUCE	167	190
Unitech	SELL	35	24
HDIL	REDUCE	82	120
Puravankara P	REDUCE	41	55
Phoenix Mills	BUY	68	210
Indiabulls Real I	ADD	99	180
IVR Prime	BUY	30	120

Key takeaways from our Thane visit: Sharp increase in enquiries post price correction

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- **Developers have taken pricing reductions in existing projects of 25-30%; sharp increase in enquiries post pricing correction**
- **Visited 10+ projects in Thane across the weekend; found good activity at most sites**
- **A large number of new launches over the past six weeks, indicating that investor interest is also coming back**
- **Limited competition to HDFC in housing loan segment**

We visited around 10 residential properties in Thane to gauge consumer response during a key home-buying season for Mumbai customers. We view Thane as an affordable and high-quality residential location of Mumbai. In addition, around four weeks ago, most Thane developers have announced pricing cuts of 25-30% resulting in basic pricing of Rs3.300-4,500/sq. ft., which we believe has again kick-started home buying activity. In most locations we saw large enquiries even 3-4 weeks after price correction indicating sustained interest. However, we gathered from salespeople that house purchases have lagged enquiries as customers are still uncertain about pricing. We believe prices will likely start stabilizing at current levels since rental yields have inched upto 4-5% and therefore present pricing is attracting investor interest as well. However, a meaningful uptick in home purchases will likely take another six months as customers get more confidence on pricing stability and as the economic environment stabilizes. Another key insight was that most companies in Thane have HDFC as the preferred housing finance partner and market it aggressively to customers.

Enquires sustain across projects; price stability is becoming more important than affordability

We visited around 10 properties in Thane with a mix of finished apartments as well as new launches. We found the response to most of the new launches encouraging with a significant increase in the number of enquiries. This is in line with our view that the focus is now shifting away from affordability to consumer confidence and comfort in selling prices. We believe the decline of real estate prices is the right direction; however, stability of prices will result in pick-up of demand. We observed that developers who have not reduced prices had relatively vacant sales offices. We also visited the HDIL's Premier Residency project in Kurla and we see interest levels sustaining in terms of enquiries even though more than 75% of the project has been sold. We summarize key trends:

Large number of new launches. We observed a large number of new project launches by developers in Thane in the last few weeks. We note that the key development regions in Thane are—Pokhran Road no.1, Road no. 2 and Ghodbunder Road. Dosti, Hiranandani, Kalpataru, Acme and Lodha have launched large projects. Lodha has launched a large 55-acre project, Casa Univis on Ghodbunder Road.

Price correction of 25-30% across projects. We note that developers have reduced prices by 25-30% from the October 2008 prices as they acknowledge the slowing demand environment. Kalpataru has reduced prices for Kalpataru Siddhanchal in Thane (W) by 23% to Rs4,221/sq. ft from Rs5,500/sq. ft in October 2008. We observed similar trends at most other project sites.

New launches at 10-15% discount to completed projects. We also note that new launches are at a discount of 10-15% to the existing projects. Kalpataru Hills, launched recently by Kalpataru near Pokhran Road No.2 is quoting Rs3,182/sq. ft—about 25% less than Kalpataru Siddhanchal, a project which is almost complete. We would attribute half of this discount to the inferior location and the rest being an incentive given to customers to purchase an under-construction project.

Rental yield of 4-5%. Current rentals in the Thane market are in the range of Rs12,000-15,000/month for a 2-BHK flat (1,000 sq. ft) resulting in an annual rental of Rs0.15-0.18 mn. This would result in annual yield of 4-5% for properties in the range of Rs3-4.5 mn, which is currently the case in the Thane residential market. Any increase in rental yields to 6%+ is likely to result in sharp investor demand.

Developers charging construction-linked payments. Most developers have similar payment structures with approximately 30% to be paid within three months of booking and the balance linked to construction. We understand that many banks are insisting on this payment schedule as it reduces construction risk.

Total pricing is 15-20% more than the basic pricing. Other costs like floor rise, car parking (in some case open, stilt), maintenance charges in advance for 1-2 years, water supply and MSEB charges account to 20-25% of the basic pricing (see Exhibit).

Cancellation is a difficult process; no price protection except in Lodha. We observed that most developers have stringent cancellation policies. Most developers allow cancellations with the caveat that the amounts paid would be refunded (not fully) if and when the flat is re-sold. In case of few projects, cancellations are not entertained at all. We note that Lodha was the only builder who was providing price protection to customers for any price reduction undertaken by the developer.

Product features similar leading to similar pricing. We highlight that most projects in Thane have similar features resulting in similar pricing as well. We note that Kalpataru Hills at Rs3,182/ sq.ft and Acme Ozone at Rs3,330/sq.ft is similar. Acme is priced a little higher because of a slightly better location. Our Exhibit at the end of this note shows that most of the general features—kitchen and bathroom fittings as well as leisure features—are similar across projects.

Limited competition for HDFC in the home loan segment; onus on customer to get home loans sanctioned from SBI

We found most developers pushing HDFC on account of its quick turnaround time for sanctioning loans. This suits developers as they undertake faster closure of sales—less than a week. We could see an HDFC sales person at almost every project site—to the exclusion of competitors. Some developers said that a few customers insist on taking funding from SBI/PSU banks but in these cases, approvals need to be taken by customers on their own. Some developers like Kanakia Spaces had an exclusive tie-up with HDFC till recently but now allow funding from other banks as well. Acme Ozone also had a preference for HDFC since the project had HDFC Property fund as a partner. Developers seem clearly inclined towards HDFC and LIC HF with only a few mentioning ICICI Bank and PSU banks.

New launches have picked up in Thane

Project details

S no.	Company	Project	Location
1	Dosti Homes	Dosti Vihar	Near Vedant complex, Pokhran Road No.1, Thane (W)
2	Acme	Acme Ozone	Off Gladys Alwares Road, near Pokhran Road No.2, Manpada, Thane (W)
3	Lodha	Casa Unisys	Bhayandarpada, Ghodbunder Road, Thane
4	Kalpataru	Kalpatataru Hills	Opposite Tikuji-Ni-Wadi, Manpada, Thane (W)
5	Akruti City	Akruti Greenwoods	Vartak Nagar circle, adj to L & T Recreation Centre, Pokhran Road No. 1, Thane (W)
6	Lodha	Casa Royale	Balkum Road, Near Saket, Off Eastern Express Highway, Thane
7	Lodha	Casa Ultima	Pokhran Road No.2, Majiwade, Thane (W)

Source: Kotak Institutional Equities

Details of projects in Thane market

Company	Project	Sub Location	Rate/psf				Other charges	Year	Booking amount	Cancellation charges	Banks providing home loans	Comments
			Apr-08	Oct-08	Mar-09							
1	Kanakia Spaces	Niharika	Off Pokhran Road No. 2	5,200	5,500	4,800	Car parking: Rs 0.45 mn/Rs0.55 mn; Floor rise: Rs20/sq. ft; Maintenance charge: Rs3/sq. ft	Ready	70-100%	Need to re-sale it. Transfer charges: Rs300/sq. ft	Earlier HDFC exclusive; now SBI and ICICI as well	
2	Dosti Homes	Dosti Vihar	Pokhran Road No. 1	5,750	5,750	4,241	Car parking: Rs 0.2 mn; Floor rise: Rs15/sq. ft; Maintenance charge: Rs3/sq. ft	May-11	Rs0.1 mn	No refund	HDFC, ICICI, IDBI approved	
3	Kalpataru	Siddhanchal	Pokhran Road No. 2	5,500	5,500	4,221		Dec-09				
4	Kalpataru	Hills	Opp Tikuji-Ni-Wada, Manpada	NA	NA	3,182	Car parking: Rs 0.25 mn/Rs0.35 mn; Floor rise: Rs25/sq. ft; Maintenance charge: Rs2.5/sq. ft	May-11	5% of cost	Rs51,000 cancellation fee (only if the flat re-sold again)		
5	Acme	Acme Ozone	Near Pokhran Road No. 2	NA	NA	3,300	Car parking: Rs 0.20 mn; Floor rise: Rs25/sq. ft; Maintenance charge: Rs2.5/sq. ft	Aug-11	5% for booking and 15% in 1 month		HDFC Property fund is a partner	
6	Everest Developers	Countryside	Kasarvadawali			2,779	Car parking: Rs 0.10 mn/Rs 0.20 mn; Floor rise: Rs20/sq. ft; Maintenance charge: Rs2.5/sq. ft	Oct-09			HDFC, LIC HF, IDBI, SBI	
7	Hiranandani	Meadows	Off Pokhran Road No. 2			6,300	Car parking: Rs 0.17 mn/Rs 0.4 mn/Rs0.57 mn; Floor rise: Rs63/sq. ft; Maintenance charge: Rs3.5/sq. ft, IDC of Rs100/sq. ft	Dec-10	95% for booking			Developer offering 15% discount
8	Akruti City	Akruti Greenwoods	Pokhran Road No. 1	NA	NA	3,725	Floor rise: Rs25/sq. ft; Maintenance charge: Rs2.5 sq. ft	Jun-11	15% of cost			
9	Lodha	Casa Unisys	Bhayandarpada, Ghodbunder Road, Thane	NA	NA	3,024	Floor rise: Rs25/sq. ft; Maintenance charge: Rs2.5 sq. ft				HDFC and others	
10	Lodha	Casa Ultima	Pokhran Road No. 2	NA	NA	3,897		Dec-10				
11	Lodha	Casa Royale	Balkum Road	NA	NA	3,537		Dec-10				
12	Sheth Developers	Vasant Lawns		6,200	6,200	6,200		Dec-09				
13	Neelkanth	Greens		4,200	4,400			Jun-11				
14	Rustomjee	Urbania		4,400	4,860	3,330		May-11				

Source: Kotak Institutional Equities

Price decline of 25-30% has taken place in the last 6 months

Prices quoted by developers as of Apr'08, Oct'08 and Mar'09

Company	Project	Sub Location	Rate/sq. ft				Drop from Oct' 08 (%)
			Oct-07	Apr-08	Oct-08	Mar-09	
1	Kanakia Spaces	Off Pokhran Road No. 2		5,200	5,500	4,800	-13%
2	Dosti Homes	Pokhran Road No. 1		5,750	5,750	4,241	-26%
3	Kalpataru	Siddhanchal	4,600	5,500	5,500	4,221	-23%
4	Kalpataru	Hills		NA	NA	3,182	
5	Acme	Acme Ozone		NA	NA	3,300	
6	Everest Developers	Countryside				2,779	
7	Hiranandani	Meadows			6,300	6,300	0%
8	Akruti City	Akruti Greenwoods		NA	NA	3,725	
9	Rustomjee	Urbania		4,400	4,860	3,330	-31%

Source: Kotak Institutional Equities

Key development zones: Pokhran Road 1, Pokhran Road 2 and Thane Ghodbunder Road

Thane map showing locations of projects visited



Source: Company brochure, Kotak Institutional Equities

Total unit pricing is 20-25% above the basic pricing quoted by developer

Costing sheet for 2 projects

	Kalpataru Hills	Acme Ozone
Unite size (sq. ft)	909	942
Basic pricing (Rs/sq. ft)	3,182	3,330
Floor rise (Rs/sq. ft)	25	25
Total basic cost (ground floor, Rs mn)	2.89	3.14
Car parking (Rs mn)	0.25	0.2
Total cost (ground floor, Rs mn)	3.14	3.34
Maintenance cost (Rs/sq. ft/month)	2.5	3.5
Stamp duty (@5% of total cost, Rs mn)	0.16	0.14
Registration (Rs)	37,000	30,000
Other charges (Rs)	0.28	0.3
Total unit cost (Rs mn)	3.58	3.78
Total unit cost/ Total basic cost	23.8%	20.4%

Source: Kotak Institutional Equities

Product features similar leading to limited pricing differential

Specification	Kalpataru Hills	Acme Ozone
Pricing (Rs/sq. ft)	3,182	3,330
General features	Vitrified flooring in living,dining and bedrooms Oil bound distemper on walls CCTV with intercom Generator backup	Wooden flooring in master bedroom Burglar Alarm, Video door phone Generator backup
Kitchen/Bathroom	Kitchen with granite top, stainless steel sink Superior quality sanitary fixtures	Kitchen with granite top, stainless steel sink Superior vitrified tiles and premium bathroom fitting
Leisure features	Swimming pool Clubhouse, gymnasium	Swimming pool Clubhouse, gymnasium

Source: Kotak Institutional Equities

Limited competition to HDFC in home loans segment

Banks providing home loans

S no.	Company	Project	Banks providing home loans
1	Kanakia Spaces	Niharika	Earlier HDFC exclusive; now SBI and ICICI as well
2	Dosti Homes	Dosti Vihar	HDFC approved, ICICI and IDBI
3	Kalpataru	Siddhanchal	HDFC and others
4	Kalpataru	Hills	HDFC,
5	Acme	Acme Ozone	HDFC (HDFC Property fund is a partner for the project)
6	Everest Developers	Countryside	HDFC,LIC HF, IDBI, SBI
7	Lodha	Casa Univis	HDFC and others

Source: Kotak Institutional Equities

February 2009-Decline in APE continues as base effect plays out

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- **In February 2009, adjusted premium declined 25% yoy; private players down 29% yoy**
- **Large private players (Bajaj Allianz, ICICI Pru) reported substantial decline**
- **We reduce our fair value estimates by 13-22% to factor lower growth and margins**

During February 2009, the insurance industry reported 25% decline in APE. Companies with relatively low bases—Birla Sun Life (up 16% yoy), Reliance Life (up 10% yoy)—reported positive growth while most others declined by 10-57% yoy. We are reducing our fair value estimates by 13-22% on the back of lower growth estimates for the FY2009E and FY2010E and margin assumptions. March remains the most important month in the entire fiscal year. However, given the current sluggishness, we expect the business in March 2009 to contribute about 18% of annual business significantly below 20-25% contribution in the past.

Significant yoy decline in APE. The overall insurance industry reported 25% decline in APE during February 2009 as private players were down 29% and LIC was down 18% yoy. Base effects played a crucial role—companies with relatively low bases—Birla Sun Life (up 16% yoy), Reliance Life (up 10% yoy) reported positive growth while most others declined 10-57% yoy. The largest decline was reported by Bajaj Allianz (down 57% yoy) and ICICI Pru Life (down 44% yoy) primarily due their large base. On a mom basis, the private sector grew 3%, while LIC declined by 30% on the back of high base in January 2009 due to sales from 'Jeevan Aastha'.

Reducing estimates to factor lower APE growth. We are reducing our fair value estimates by 13-17% for most insurance players on the back of lower growth estimates for the FY2009E and FY2010E. We are reducing our fair value estimate for HDFC SL by 22% to factor in lower near-term growth in APE and lower our margin estimate to 13% from 14% in the past primarily due to likely lower persistency from HDFC Pension Plus Plan (even as we marginally increasing our NBP multiple to 18X from 17X). This plan allowed the policyholders to reduce the quantum of premium payment from the second year. Thus, while the policy may remain alive the overall persistency will decline. In the past, this product had a significant contribution to the overall business though the company has withdrawn this product from October 2009.

Business will likely pick up in March, yet remain subdued. We factor about 50% mom growth for most companies in March 2009; thus, March should contribute about 14% of the annual business. This is significantly lower than earlier years when private players reported 100% + mom growth and collected 20-25% of their annual APE in the last month of the fiscal year.

Adjusted life insurance premium income collections (Rs mn)

	Feb-09					YTD FY2009						
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Bajaj Allianz	2,617	(57)	31	839	2,648	(57)	32,145	(30)	132	149	32,277	(29)
Birla Sunlife	1,906	16	13	38	1,919	16	19,933	52	187	85	20,120	52
HDFC Standard Life	1,906	(22)	3	(75)	1,910	(22)	20,013	8	112	(20)	20,126	8
ICICI Prudential	4,656	(45)	130	42	4,785	(44)	45,859	(19)	1,156	48	47,015	(18)
Max NY	1,071	(16)	1	(80)	1,072	(16)	13,810	34	24	(38)	13,834	33
KMOM	862	(15)	8	55	870	(14)	9,511	39	90	18	9,601	39
Reliance Life	2,667	10	6	(76)	2,673	10	25,132	63	110	(56)	25,243	61
MetLife	879	13	3	0	883	12	19,933	52	187	85	20,120	52
SBI Life	2,389	(41)	70	(56)	2,459	(41)	23,232	15	1,609	175	24,841	19
Tata AIG	763	(10)	9	22	773	(10)	7,460	16	124	13	7,584	16
Private sector	21,901	(29)	279	(15)	22,181	(29)	225,575	5	3,651	67	229,225	6
LIC	16,835	(19)	664	(4)	17,499	(18)	161,761	(26)	9,282	28	171,044	(24)
Total	38,736	(25)	944	(8)	39,680	(25)	387,336	(10)	12,933	37	400,269	(9)

Source: IRDA.

We expect adjusted premium growth to reduce significantly

yoy growth of insurance companies, March fiscal year-end, 2009E (%)

	Bajaj Allianz	HDFC Standard Life	ICICI Prudential	Reliance Life	SBI Life	Birla Sunlife	Max NY	LIC	Private pl	Total
2009E	(35)	4	(20)	52	12	37	25	(21)	(3)	(12)
YTD 20009E	(29)	8	(18)	61	19	52	33	(24)	6	(9)
Residual period	(59)	(19)	(27)	13	(9)	(12)	(5)	(9)	(40)	(25)

Source: Kotak Institutional Equities estimates

We are scaling down our growth estimates for adjusted premia

yoy growth in APE, March fiscal year-ends, 2009-2010E (%)

	Old		New	
	2009E	2010E	2009E	2010E
HDFC SL	30	30	4	10
ICICI Pru Life	(20)	20	(20)	10
Reliance Life	55	20	52	15
SBI Life	30	25	12	15

Source: Kotak Institutional Equities estimates

.. And reduced the fair value estimates as well

FY2010E based fair value estimates of insurance companies (Rs per share)

	Old	New	% chg
HDFC SL	248	193	(22)
ICICI Pru Life	121	106	(13)
Reliance Life	375	310	(17)
SBI Life	150	126	(16)

Source: Kotak Institutional Equities estimates

Likely price range based on fair value (based on March 2010E)

Value addition to parents SOTP from insurance business (Rs per share of holding company)

HDFC Ltd.				
Multiple (X)	Margin (%)			
		10.81	11.81	12.80
15	154	163	171	180
17	166	176	186	196
18	173	183	193	204
19	179	190	201	212
21	191	204	216	228

ICICI Bank				
Multiple (X)	11.73	12.71	13.68	16.17
	14	93	97	102
16	101	106	111	116
17	105	110	116	121
18	108	114	120	126
20	116	123	130	136

Reliance Capital				
Multiple (X)	Margin (%)			
		11.7	12.7	13.7
14	253	268	283	298
16	279	296	313	330
17	291	310	328	346
18	304	323	343	362
20	330	351	372	394

SBI Ltd				
Multiple (X)	Margin (%)			
		11.4	12.4	13.5
14	111	116	122	128
16	119	126	132	139
17	124	130	137	144
18	128	135	142	149
20	137	144	152	160

Source: Kotak Institutional Equities

Growth in premium income from individual business, adjusted for single premium (%)

	2005	2006	2007	Oct-07	Nov-07	Dec-07	Jan-08	FY2008	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	YTD
Bajaj Allianz	182	199	136	93	99	129	105	79	53	2	7	14	(4)	(47)	(3)	(30)	(54)	(54)	(57)	(30)
Birla Sun Life	90	11	24	198	151	213	152	143	255	254	213	107	23	16	10	14	35	44	16	52
HDFC Standard Life	164	118	57	119	86	64	88	80	70	16	58	16	41	141	12	(27)	(31)	(46)	(22)	8
ICICI Prudential	114	57	87	84	98	107	116	68	44	60	33	25	11	(6)	(37)	(46)	(49)	(43)	(45)	(19)
KMOM	103	82	43	108	78	106	121	88	95	121	130	165	136	123	55	(31)	(12)	(22)	(15)	39
Max NY	72	103	75	81	44	59	40	70	66	130	43	58	60	54	18	38	(7)	29	(16)	34
Reliance Life	21	160	813	386	303	236	335	168	250	182	132	123	117	178	54	16	29	20	10	63
SBI Life	87	206	290	179	178	172	138	111	110	85	95	114	46	39	41	6	(4)	(28)	(41)	15
Private sector	122	81	100	117	105	118	119	86	84	64	53	51	33	15	6	(17)	(22)	(26)	(29)	5
LIC	3	18	88	(65)	(57)	109	133	0	(41)	(22)	(29)	(38)	(63)	15	21	(9)	(10)	(17)	(19)	(26)
Total	19	34	92	(27)	(22)	115	125	31	1	14	5	(5)	(34)	15	12	(13)	(17)	(21)	(25)	(10)

Source: IRDA

Trend in market share for key players in individual premium, adjusted for single premium (%)

	2004	2005	2006	2007	2008	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	YTD	YTD private players
Bajaj Allianz	1.2	2.9	6.4	7.8	10.7	9.8	8.5	6.8	6.0	6.8	8.3	14.3
Birla Sun Life	2.0	3.3	2.7	1.7	3.3	4.8	4.6	6.0	4.3	4.9	5.1	8.8
HDFC Standard Life	1.0	2.3	3.7	3.1	4.2	6.0	3.6	4.2	3.1	4.9	5.2	8.9
ICICI Prudential	4.8	8.7	10.1	9.9	12.7	8.8	9.9	9.4	10.4	12.0	11.8	20.3
Max NY	1.0	1.4	2.1	1.9	2.5	2.9	3.4	4.3	2.0	2.8	3.6	6.1
Reliance Life	0.2	0.2	0.4	1.7	3.6	6.8	6.9	7.6	6.4	6.9	6.5	11.1
SBI Life	0.4	0.7	1.5	3.1	5.0	7.2	7.4	7.0	4.6	6.2	6.0	10.3
Private sector	13.6	25.3	34.2	35.5	50.5	59.1	55.2	56.9	46.7	56.5	58.2	100.0
LIC	86.4	74.7	65.8	64.5	49.5	40.9	44.8	43.1	53.3	43.5	41.8	-

Source: IRDA

Market share in group business unadjusted (%)

	2005	2006	2007	FY2008	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	YTD
Bajaj Allianz	0.2	0.5	0.5	1.3	0.3	0.9	0.5	1.1	1.0	0.5	0.6	0.4	2.0	2.1	3.3	1.0
Birla Sun Life	2.1	1.7	1.0	1.6	1.6	0.1	0.4	0.6	2.5	1.9	2.7	1.9	1.3	1.6	1.3	1.4
HDFC Standard Life	1.1	2.7	2.0	2.3	4.4	0.8	0.1	0.3	1.5	0.3	0.5	0.5	2.3	2.5	0.4	0.9
ICICI Prudential	2.5	5.7	6.3	8.7	24.2	9.3	8.9	11.2	9.2	4.7	14.8	4.0	3.9	14.6	13.8	8.9
Max NY	0.1	—	—	—	2.3	0.4	0.1	0.3	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.2
Reliance Life	0.1	0.2	0.9	2.9	5.7	0.5	0.3	1.2	1.4	0.8	0.8	0.3	0.7	0.6	0.6	0.9
SBI Life	7.2	7.8	5.7	7.3	7.0	10.8	22.9	5.7	4.7	13.2	8.1	23.5	10.9	7.5	7.4	12.4
Private sector	15.4	21.2	18.3	26.9	55.1	24.0	34.5	23.0	22.0	22.8	32.0	32.4	26.1	35.1	29.6	28.2
LIC	84.6	78.8	81.7	73.1	44.9	76.0	65.5	77.0	78.0	77.2	68.0	67.6	73.9	64.9	70.4	71.8

Source: IRDA

Economy

Sector coverage view

N/A

CAD strikes red mark of 5.0% of GDP in 3QFY09; but set to shrink ahead

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- **Current account deficit (CAD)/GDP touches 5.0% but may fall to 1.7% in 4QFY09E**
- **Private transfers fall by US\$2.6 bn qoq**
- **Capital outflows in foreign investments, banking capital and short term credit**
- **CAD/GDP likely to improve to 2.5% of GDP in FY2010E from 3.5% in FY2010E**

The data release on balance of payments (BOP) for 3QFY09 threw quite a few negative worries, many of which came as surprises: (1) CAD/GDP ratio hit the 5% danger mark, (2) at US\$14.6 bn, it marked the highest quarterly deficit since FY1990, (3) private transfers have got adversely impacted in the background of global economic slowdown, (4) capital account turned negative for the first time since 1QFY99, (5) net FDI inflows were just 0.8 bn, the lowest since 4QFY06, (6) large flight of banking capital occurred and (7) valuation losses of US\$12.5 bn. Consensus was that CAD in 3QFY09 would be about US\$8 bn, with all estimates pointing to lower CAD on a qoq basis. The street was completely caught off guard as CAD widened in spite of soft global crude prices. The higher-than-expected CAD was the result of (a) RBI import figures for 3QFY09 being higher than DGCIS by nearly US\$9 bn, and (b) transfers declining by US\$2.4 bn qoq, even after 2QFY09 numbers were revised downwards by US\$1.3 bn. Net capital outflows in 3QFY09 were stark in foreign investment (US\$5 bn), banking capital (US\$5 bn) and short term credit (US\$3.1 bn). Though we expect CAD to shrink in 4QFY10E and remain low in FY2010E, we expect the rupee to come under near term pressure in view of the latest BOP numbers.

CAD remains wide on export contraction, robust imports and falling invisibles

Indian crude oil basket price dropped 52% qoq in 3QFY09. Oil imports dropped 41.5% as some of the crude was contracted at earlier prices. In spite of a sharp fall in oil imports, total imports on a BOP basis fell just by 15.3% qoq in 3QFY09. In contrast, exports contracted by 23% qoq and trade deficit widened to US\$36.3 bn on a BOP basis.

Invisibles surplus also dropped by US\$4 bn or 15.7% qoq, due mainly to fall in software exports by US\$1.1 bn and private transfers by US\$2.6 bn. It is not clear if the fall is more due to falling private remittances as job losses in the US and some Gulf economies has been significant or dues to lower withdrawals of NRI deposits in India.

Discrepancies in RBI and DGCIS data drive wider than expected CAD

A discrepancy of between RBI's and DGCIS import data has led to renewed worries that trade deficit is widening instead of shrinking in spite of oil prices falling. RBI's import figures differ from that of DGCIS on two accounts:

- 1) RBI captures trade data on BOP basis based on realization of payments and receipts made through the banking channel by collecting statistical returns filed with bank branches which have an authorized dealer status. DGCIS captures trade data on shipping basis through ports by statistical returns that are filed with customs authorities.
- 2) Some defence imports do not get captured in DGCIS data, but are captured in RBI data.

RBI data shows trade deficit in 3QFY09 at US\$36.3 bn, compared with US\$27.3 bn in DGCIS data. Generally, RBI import numbers in any quarter are higher by about US\$3-4 bn, but higher than usual discrepancy caused CAD to be above expectations.

Capital inflows drop significantly in 3QFY09

Capital account was more in line with our expectations with large outflows in foreign investment, banking capital and trade credit. Net FDI inflows dropped to just US\$820 mn due to large FDI outflows of US\$5.9 bn (compared with inwards FDI of US\$6.7 bn). Tata's overseas acquisitions have resulted in large outward FDI. Net FII outflows of US\$5.8 bn exceeded the US\$3.3 bn net sales by FII's in cash equity and debt segments reported in SEBI data.

In spite of US\$1.0 bn of NRI deposits inflows, banking capital outflows aggregated US\$5.0 bn as global financial turmoil in 3QFY09 that followed the collapse of Lehman in mid-September made it difficult for Indian banks to raise capital abroad and prompted foreign banks to pull out capital from their Indian subsidiaries to tide over the liquidity crunch in the global markets. Short term trade credit rollover also faced some difficulties in this period resulting in a US\$3.1 bn outflows. ECB inflows improved to US\$3.9 bn in 3QFY09 from US\$1.8 bn in 2QFY09. Capital account turned into a deficit of US\$3.7 bn in 3QFY09 against a surplus of US\$7.9 bn in 2QFY09.

Valuation losses in FX reserves remain significant

On a BOP basis, total overall balance has been in deficit of US\$17.9 bn. FX reserves valuation losses at US\$12.5 bn in 3QFY09, though lower than US\$21.1 bn in 2QFY09, still remain significant. High valuation losses have been largely the result of appreciation of US dollar against euro and pound sterling.

Current account to narrow, capital account to improve in 4QFY09 and FY2010E

We maintain our expectations of a BOP turnaround starting 4QFY09 on the back of low crude oil prices and evidence that non-oil imports are falling, even though the capital goods imports remain small. In our view:

- CAD/GDP ratio may fall to 1.7% in 4QFY09E from 5.0% in 3QFY09
- CAD/GDP ratio may drop to 2.5% in FY2010E from 3.5% in FY2009E
- Mild improvement in capital account flows may start from 4QFY09

In our view, there would be no significant reserve losses or accretion ahead, except if large exchange rate movements.

Exhibit 1: Current account deficit widens to 5.0% of GDP in 3QFY09 but likely to narrow ahead

India's quarterly balance of payments, March fiscal year-ends, 2008-2010E (US\$ bn)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09E	2008	2009E	2010E
Current account	(6.8)	(4.3)	(4.5)	(1.0)	(9.0)	(12.8)	(14.6)	(5.0)	(17.0)	(41.5)	(28.6)
GDP	257	266	317	331	296	292	290	291	1,173	1,176	1,123
% of GDP	(2.6)	(1.6)	(1.4)	(0.3)	(3.0)	(4.4)	(5.0)	(1.7)	(6.0)	(3.5)	(2.5)
Trade balance	(22.1)	(21.2)	(26.1)	(23.8)	(30.5)	(38.5)	(36.3)	(25.6)	(91.6)	(130.9)	(111.2)
% of GDP	(8.6)	(8.0)	(8.2)	(7.2)	(10.3)	(13.2)	(12.5)	(8.8)	(7.8)	(11.1)	(9.9)
- Exports	34.4	38.3	41.0	42.8	49.1	47.7	36.7	37.0	156.4	170.5	159.5
- Imports	56.5	59.5	67.0	66.6	79.6	86.2	73.0	62.6	249.6	301.5	270.7
o/w Oil imports	17.0	17.4	19.8	19.0	29.2	32.9	19.2	18.0	73.2	99.3	76.8
o/w Non-oil imports	39.5	40.6	47.2	47.7	50.4	53.3	53.8	44.6	175.0	202.1	193.9
Invisibles (net)	15.3	16.9	21.5	22.8	21.5	25.7	21.7	20.6	74.6	89.5	82.6
- Services	9.0	9.0	12.0	10.8	10.7	13.6	12.8	11.0	37.6	48.1	42.2
o/w Software	8.2	8.2	8.8	12.1	10.8	11.3	10.2	9.8	37.2	42.1	40.6
- Transfers	8.2	9.3	10.9	13.4	11.6	12.9	10.5	10.6	41.9	45.7	44.9
- Other invisibles	(1.9)	(1.4)	(1.4)	(1.4)	(0.9)	(0.8)	(1.7)	(1.0)	(4.9)	(4.3)	(4.5)
Capital account	17.8	33.2	31.0	26.2	11.1	7.9	(3.7)	2.6	108.0	17.9	23.9
Foreign investment	10.3	13.0	16.9	2.6	4.8	4.3	(5.0)	(0.9)	45.0	3.1	10.1
- FDI	2.7	2.1	2.0	6.4	9.0	5.6	0.8	2.8	15.4	18.2	13.3
- FII	7.2	8.4	9.1	(3.9)	(5.2)	(1.4)	(5.8)	(3.7)	20.8	(16.2)	(4.6)
- ADRs/GDRs	0.3	2.5	5.8	0.1	1.0	0.1	0.0	0.0	8.7	1.2	1.4
Banking capital	(0.9)	6.6	0.2	5.8	2.7	2.1	(5.0)	(1.1)	11.8	(1.2)	2.5
- NRI deposits	(0.4)	0.4	(0.9)	1.1	0.8	0.3	1.0	1.2	0.2	3.3	3.3
Short-term credit	2.0	4.6	4.1	6.3	2.4	1.3	(3.1)	(0.5)	17.2	0.0	1.4
ECBs	7.0	4.2	6.2	4.8	1.5	1.8	3.9	1.6	22.6	8.7	5.0
External assistance	0.2	0.5	0.6	0.8	0.4	0.5	1.0	0.8	2.1	2.7	2.2
Other capital account items	(0.7)	4.2	3.0	5.9	(0.6)	(2.1)	4.5	2.7	9.3	4.6	2.7
E&O	0.1	0.4	0.3	0.6	0.1	0.2	0.4	0.0	1.2	0.8	0.0
Overall balance	11.1	29.2	26.7	25.8	2.2	(4.7)	(17.9)	(2.4)	92.2	(22.8)	(4.7)
memo: RBI's net forex purchases	9.7	25.1	23.1	20.3	(0.8)	(8.9)	(22.1)				
Assumptions											
Average exchange rate (Rs/US\$)	41.26	40.53	39.47	39.79	41.65	43.76	48.76	49.83	40.26	46.00	52.50
Average Indian crude basket price (US\$/b)	66.3	72.1	85.8	93.8	119.1	114.6	54.7	44.8	78.2	83.3	55.0

Source: Reserve Bank of India, Kotak Institutional Equities estimates

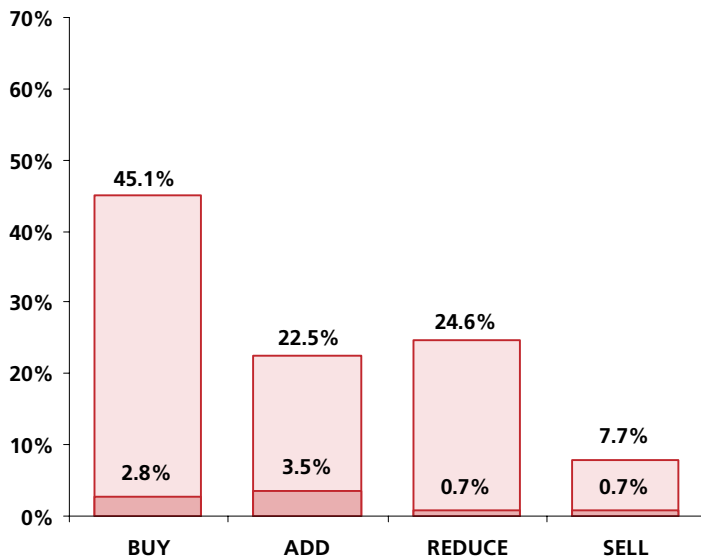
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Property	31-Mar-09 Price (Rs)	Rating	O/S shares (mn)	Mkt cap. (US\$ mn)	EPS (Rs)	EPS growth (%)	PER (X)	EV/EBITDA (X)	Price/BV (X)	Dividend yield (%)	RoE (%)	Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)															
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E																
Property					419,915	8,277	187.5 (36.7)	(23.4)	3.5	5.6	7.3	4.4	7.1	8.1	1.1	0.9	0.8	2.3	2.1	2.3	32.1	16.8	11.7						
Company																													
Retail																													
Pantaloon Retail	162	REDUCE	508	25,775	7.9	8.3	10.2	23.3	20.5	19.6	15.9	10.2	8.2	7.3	1.4	1.4	1.3	0.5	0.5	0.6	8.2	6.7	7.8	165	2.0	1.3			
Titan Industries	782	REDUCE	684	34,701	44	35.1	41.9	48.7	55.2	19.6	16.1	15.2	11.4	9.7	7.4	5.6	4.4	1.0	1.2	1.4	37.7	34.1	30.7	830	6.2	2.8			
Vibral Retail	35	ADD	15	774	22	18.1	10.6	10.8	37.2	(41.2)	1.9	1.9	3.2	3.2	4.5	4.3	3.4	0.3	0.3	0.3	20.2	8.3	7.8	75	117.1	0.1			
Retail																													
Sugar	61,250	1,207																											
Balaram Chini Mills	53	BUY	256	13,492	3.1	6.5	7.0	(27.2)	10.6	8.0	16.8	8.1	4.8	4.1	1.3	1.2	1.0	1.1	1.3	1.5	7.6	13.5	12.7	70	32.6	3.2			
Shree Renuka Sugars	91	BUY	503	25,532	30	8.2	8.4	(87.3)	10.7	2.8	23.2	11.2	10.9	5.6	2.9	2.2	1.8	0.3	0.8	1.1	19.9	24.5	20.6	100	9.6	8.3			
Bajaj Hindustan	48	SELL	134	6,781	(2.6)	(6.0)	0.8	375.9	126.2	NA	(18.2)	(8.0)	59.4	14.1	8.3	5.4	0.5	0.6	0.6	1.5	—	0.6	(6.8)	(7.0)	4.6	36	(24.9)		
Sugar																													
Sugar	45,805	903																											
Technology																													
HCL Technologies	102	REDUCE	1,398	70,925	15.3	16.6	13.5	(19.0)	8.8	(18.6)	6.7	6.1	7.5	3.0	3.8	3.7	1.4	1.1	1.0	7.8	11.8	11.8	21.4	18.3	13.3	110	7.8	2.9	
Hexaware Technologies	26	SELL	73	3,717	4.2	7.7	4.1	3.0	(13.7)	(46.4)	(27.8)	3.4	6.4	8.8	0.4	0.8	1.7	0.5	0.6	0.5	3.5	3.8	3.8	15.1	8.6	6.3	25	(44.4)	
Infosys Technologies	1,324	BUY	14,978	759,919	57.4	79.1	101.8	112.0	180	288	10.0	16.7	13.0	11.8	12.9	9.1	7.7	5.5	4.2	3.4	2.5	1.9	2.1	36.1	36.7	31.6	1,500	13.3	50.2
Mphasis BFL	203	REDUCE	835	42,376	20.8	12.2	14.2	32.6	67.6	15.7	129.8	16.6	14.2	6.2	9.9	10.8	4.2	3.7	3.0	2.1	1.7	2.0	2.2	23.6	22.8	39.5	190	(6.5)	1.7
Mindtree	211	BUY	8,336	164	40	26.7	21.0	37.1	12.3	(31.6)	76.9	7.9	10.1	5.7	6.9	3.1	2.9	1.6	1.3	1.1	1.2	—	21.3	11.9	17.8	400	89.5	1.4	
Patri Computer Systems	129	SELL	326	16,547	128	33.2	26.8	17.5	29.2	(19.3)	(34.7)	3.9	4.8	7.4	0.6	0.6	0.5	0.6	0.7	0.6	1.7	1.4	2.7	19.2	16.2	7.9	130	0.9	0.8
Polaris Software Lab	45	SELL	87	4,428	98	7.4	14.9	12.7	(27.6)	100.0	(14.9)	6.0	3.0	3.6	2.2	0.9	0.7	0.7	0.6	0.5	3.9	3.9	3.9	11.7	20.4	15.0	50	11.0	2.0
TCS	539	REDUCE	10,388	527,030	979	51.3	53.2	58.5	21.5	3.8	10.0	10.5	10.1	9.2	8.4	7.0	6.1	4.3	3.4	2.8	2.6	3.5	4.3	47.0	37.4	33.7	550	2.1	17.2
Tech Mahindra	265	BUY	33,031	651	125	59.1	67.6	58.7	25.7	14.5	(13.2)	4.5	3.9	4.5	3.9	2.3	2.2	2.6	1.6	1.2	2.0	2.3	2.3	70.7	53.1	31.6	320	20.7	3.0
Wipro	246	ADD	359,506	7,086	1,462	22.2	25.3	26.9	12.6	13.9	6.0	11.1	9.7	9.2	8.8	6.9	5.8	2.8	2.4	2.0	2.4	1.6	3.1	27.9	26.6	23.8	280	13.9	8.9
Technology																													
Technology	1,825,814	35,987																											
Telecom																													
Bharti Airtel	626	ADD	1,187,611	23,408	1,998	35.3	44.2	48.9	65.0	25.1	10.8	17.7	14.2	12.8	10.8	8.1	7.2	5.3	3.9	2.9	—	0.6	1.0	39.1	31.4	26.0	675	7.9	61.7
IDEA	50	REDUCE	3,196	162,141	3.236	3.9	2.6	2.1	78.5	(33.2)	(21.0)	12.7	19.0	24.0	9.7	6.6	6.4	4.6	1.2	1.2	—	—	—	36.4	10.1	5.1	50	(0.2)	5.3
MTNL	69	SELL	857	43,470	650	7.1	4.0	4.1	(11.0)	(44.3)	2.6	9.7	17.3	16.9	1.3	4.2	3.1	0.4	0.4	0.4	5.8	8.7	8.7	3.5	1.6	1.6	50	(27.5)	0.9
Reliance Communications	175	SELL	360,894	7,113	2,064	26.5	26.7	20.1	86.4	0.7	(24.7)	6.6	6.6	8.7	6.1	6.9	6.7	1.2	1.0	0.9	0.4	0.5	—	16.8	18.4	11.7	150	(14.2)	47.1
Tata Communications	518	REDUCE	147,730	2,912	285	10.9	13.6	14.0	36.3	24.0	3.2	47.3	38.2	37.0	19.7	16.2	14.7	2.2	2.1	2.1	0.9	1.0	1.3	4.4	5.4	5.2	400	(22.8)	2.1
Telecom																													
Telecom	1,901,846	37,486																											
Transportation																													
Container Corporation	719	REDUCE	93,443	1,842	130	57.7	63.4	67.8	7.8	9.8	7.0	12.5	11.3	10.6	8.4	7.6	6.7	2.9	2.5	2.1	1.8	2.0	2.1	25.8	23.6	21.4	735	2.2	0.8
Transportation																													
Transportation	93,443	1,842																											
Utilities																													
CECS	211	BUY	26,361	520	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.6	6.6	5.7	3.9	3.7	4.8	0.8	0.7	0.6	1.9	2.2	2.5	12.5	11.7	11.9	385	82.5	0.7
Lanco InfraTech	145	BUY	32,300	637	222	14.8	14.6	17.1	75.2	(1.3)	16.6	9.8	9.9	8.5	8.9	20.0	15.4	1.8	1.5	1.2	—	—	—	19.7	16.2	15.8	265	82.4	4.7
NTPC	180	REDUCE	8,245	29,229	8.245	9.3	10.9	7.9	0.1	16.7	19.3	19.3	16.5	13.4	13.4	12.4	2.7	2.5	2.3	1.9	1.9	2.3	14.9	13.6	14.6	180	0.1	24.6	
Reliance Infrastructure	516	BUY	119,046	2,346	231	37.6	59.9	56.2	13.9	59.4	(6.2)	13.7	8.6	9.2	9.3	9.2	9.4	0.7	0.7	0.7	1.2	1.4	1.6	4.3	6.2	6.7	970	88.1	78.2
Reliance Power	102	REDUCE	245,308	4,835	2,397	0.4	1.3	2.5	—	252.9	82.7	269.1	76.3	41.8	—	—	—	—	—	—	—	—	—	1.3	2.3	4.2	120	17.2	9.8
Tata Power	769	BUY	171,087	3,372	223	31.8	65.2	90.2	19.5	104.6	38.4	24.1	11.8	8.5	11.7	8.9	8.6	2.0	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Utilities																													
Utilities	2,077,049	40,939																											
Others																													
Aban Offshore	388	REDUCE	15,089	297	38	72.3	142.4	185.5	(1,066)	97.0	30.3	5.5	2.8	2.1	11.0	7.6	5.7	1.7	0.9	0.7	0.9	1.0	1.3	51.7	44.5	37.6	300	(24.7)	19.3
Educomp Solutions	2,087	BUY	39,696	782	19	35.2	64.2	108.1	114	82.7	68.3	59.4	32.5	19.3	31.6	14.3	8.7	12.9	5.4	4.4	0.1	0.3	0.5	33.5	23.4	24.3	2,550	22.2	81.2
Havells India	144	REDUCE	8,736	172	61	26.6	(1.0)	10.3	40	(103.7)	(1,135)	5.4	(145.5)	14.1	5.6	7.5	6.5	1.3	1.2	1.2	1.7	2.3	2.9	33.7</					

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Source: Kotak Institutional Equities

As of December 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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