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News Roundup

Corporate

- Bharti Airtel and Western Union have approached the RBI seeking changes in regulations so that 700,000 plus retail outlets of telco can offer cash-to-cash mobile money transfers. (BS)
- Leading telecom services provider Tata Communications (TCL) has tied up with US-based content provider BitGravity to provide high-quality video over the Internet. (BS)
- Merill Lynch & Co said it will eliminate 650 jobs as it stops making sub-prime mortgages through its First Franklin Financial Corp Unit. (BL)
- Concerned over delays in enhancing GSM capacity due to the tender controversy last year, state-owned BSNL has placed an order with the existing vendors Nortel and Motorola for adding five million lines in the Southern region. (ET)
- The RPG group-owned KEC International, one of the largest power sector erection, procurement and construction (EPC) majors in the world, will soon acquire a mid-sized power sector EPC player in the US. (BS)

Economic and political

- Pitching for lower interest rates on home loans up to Rs20 lakh, the Finance Minister, Mr P Chidambaram, asked bankers to try and incentivise borrowers of such loans by lowering interest rates. (BL)
- The government has slashed allocations to its key export promotions and overseas market development programs for 2008-09 by Rs600 crore. (BS)

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

EQUITY MARKETS

		Change, %		
India	**5-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	16,542	1.2	(8.8)	(16.4)
Nifty	4,921	-	(7.5)	(17.4)
Global/Regional indices				
Dow Jones	12,040	(1.8)	(1.7)	(11.6)
Nasdaq Composite	2,221	(2.3)	(3.2)	(17.9)
FTSE	5,766	(1.5)	0.7	(12.0)
Nikkie	12,808	(3.1)	(3.0)	(19.7)
Hang Seng	22,638	(3.0)	(3.5)	(21.5)
KOSPI	1,652	(2.7)	(2.6)	(14.6)

Value traded - India

			Moving avg, Rs bn	
	5-Mar		**1-mo**	**3-mo**
Cash (NSE+BSE)	164.0		185.8	172.0
Derivatives (NSE)	335.8		422.4	665
Deri. open interest	656.5		706	988

Forex/money market

		Change, basis points		
	5-Mar	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.5	24	93	106
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	(1)	5	(33)

Net investment (US$mn)

	4-Mar		**MTD**	**CYTD**
FIIs	(117)		317	(4,271)
MFs	(37)		(410)	1,923

Top movers -3mo basis

		Change, %		
Best performers	**5-Mar**	**1-day**	**1-mo**	**3-mo**
NALCO	453	(1.1)	20.1	19.3
Sun Pharma	1,319	5.2	21.0	18.7
Glaxosmithkline	1,124	(1.2)	22.9	15.9
Asian Paints	1,136	(2.9)	(0.7)	14.2
Thomas Cook	84	5.0	12.6	13.4
Worst performers				
Moser Baer	156	1.5	(21.5)	(48.7)
Neyveli Lignite	139	1.7	(13.2)	(45.5)
Balaji Telefilms	195	(4.0)	(9.9)	(44.1)
Arvind Mills	44	(0.9)	(15.8)	(42.0)
Chambal Fert	51	(4.1)	(11.3)	(40.4)

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Consumer Products

NEST.BO, Rs1531	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,400
52W High -Low (Rs)	1663 - 876
Market Cap (Rs bn)	147.6

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	28.2	34.7	40.7
Net Profit (Rs bn)	3.3	4.3	5.4
EPS (Rs)	33.9	44.5	55.7
EPS gth	*(0.7)*	*31.3*	*25.2*
P/E (x)	45.1	34.4	27.5
EV/EBITDA (x)	26.4	20.7	16.7
Div yield (%)	1.7	1.8	2.2

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.8	-	-
FIIs	7.9	0.1	(0.2)
MFs	5.5	0.4	0.2
UTI	-	-	(0.3)
LIC	3.4	0.2	(0.0)

Nestle India: 4QCY07—Hale and hearty

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- **Strong macro environment and healthy business model deliver 22% growth in topline**
- **EBITDA grows by 31% yoy to Rs1.6 bn, margins expand by 130 bps to 17.6%**
- **Retain ADD rating and DCF-based target price of Rs1,560/share (Rs1,400/share previously)**

Nestle India reported yoy sales growth of 21.6% (our est. 17.7%), EBITDA growth of 31.1% (our est. 33.3%) and PAT growth of 33.5% (our est. 32.5%) for 4QCY07. Domestic sales growth rate at 20.5% yoy was the highest reported by any FMCG company in our coverage universe. Despite the high prices of commodities (milk, wheat etc.), EBITDA margins improved by 130 bps yoy to 17.6% during 4QCY07, indicating pricing power as well as positive effects of operating leverage. We retain our EPS estimate for CY2008 and CY2009 at Rs55.7 and Rs66.9. We retain our ADD rating on the stock with a DCF-based target price of Rs1,560/share (Rs1,400/share previously). Our target price implies 28X on CY2007E and 23.3X on CY2009E.

Strong macro environment and healthy business model deliver 24% growth in topline during CY2007. In line with the strong sales growth trend in the first nine months, Nestle reported domestic sales growth of 22% during 4QCY07, resulting in 24% yoy increase in sales for CY2007. We note Nestle had last delivered such healthy topline growth during CY1994-96. The sales increase during CY2007 has been on account of both price increases (we estimate the company has instituted over 10% blended price increases with certain categories like infant foods witnessing the maximum traction w.r.t. price increases at over 15%) as well as higher volumes across categories. Export sales registered growth of 22%—we believe higher skimmed milk powder (SMP) exports have likely led the growth.

EBITDA grows by 31% yoy to Rs1.6 bn, margins expand by 130 bps to 17.6%. EBITDA margins expanded by 130 bps yoy to 17.6% due to likely higher volumes and price increases which resulted in higher fixed costs absorptions. We note that margins continue to be under pressure due to hyper-inflation in key commodities such as skimmed milk powder (SMP), green coffee and wheat flour. However, current prices indicate that SMP prices seem to be declining after peaking in July 2007. The benchmark Oceania export SMP was quoting 18% lower at US$4,250/ton in January 2008 after touching a peak of US$5,150/ton in July 2007. We are confident about the company's ability to pass on raw material and packing material cost inflation. We like the innovation capabilities of the company (e.g., launch of probiotic yoghurts) and the multiple growth drivers, which it possesses. We expect Nestle to continue to wield considerable pricing power to pass on cost inflation. We note that the consumption trends for the categories which Nestle operates are favorable in terms of pricing power.

Retain ADD rating and DCF-based target price of Rs1,560/share (Rs1,400/share previously). We model 17.2% sales growth driven by robust volume growth and net profit growth of 25.2% driven by a further 130 bps expansion in EBITDA margin to 21%. Our DCF model builds in a WACC of 14% and a terminal year growth rate of 6%. Our DCF-based valuation stands increased to Rs1,560/share (Rs1,400/share previously).

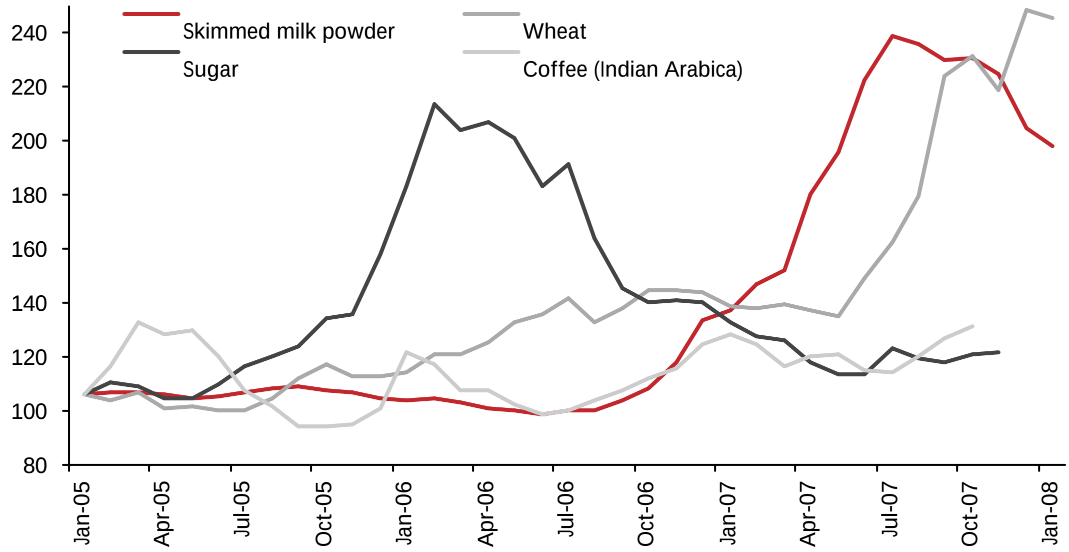
Interim results of Nestle India, December fiscal year-ends (Rs mn)

Rs mn	4Q 2007	4Q 2006	% chg (yoy)	2007	2006	% chg (yoy)	Our est. 4Q 2007	% chg
Net sales	**8,957**	**7,363**	**21.6**	**35,044**	**28,161**	**24.4**	**8,664**	**17.7**
Material cost	(4,268)	(3,339)		(16,726)	(12,934)			
Employee cost	(659)	(569)		(2,694)	(2,162)			
Other overheads	(2,454)	(2,252)		(8,709)	(7,791)			
Total expense	(7,380)	(6,160)		(28,129)	(22,886)			
EBITDA	**1,576**	**1,203**	**31.1**	**6,914**	**5,275**	**31.1**	**1,603**	**33.3**
Depreciation	(206)	(177)		(747)	(663)		(191)	
EBIT	1,371	1,026		6,167	4,612		1,412	
Other income	97	73		254	214		47	
Net interest	(2)	(1)		(9)	(4)		(5)	
PBT	**1,465**	**1,097**	**33.5**	**6,413**	**4,822**	**33.0**	**1,454**	**32.5**
Tax	(481)	(303)		(2,148)	(1,654)		(444)	
PAT	**984**	**794**	**23.9**	**4,265**	**3,167**	**34.6**	**1,010**	**27.2**
Extraordinary Income (loss)	(48)	(169)		(107)	(16)		-	
Net profit	**936**	**625**	**49.9**	**4,158**	**3,151**	**32.0**	**1,010**	**61.7**
EBITDA margin (%)	17.6	16.3		19.7	18.7		18.5	
Effective tax rate (%)	32.8	27.6		33.5	34.3		30.5	

Source: Company data, Kotak Institutional Equities.

Cooling down of skimmed milk powder prices likely aid margin expansion in CY2008

Key raw material price trends (January 2005 = Index 100)



Source: FAO, International Coffee Organisation, Kotak Institutional Equities.

Cairn India, Oil & Natural Gas Corporation: Building in higher point and long-term crude prices; buy ONGC

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- **Raised CY2008-10E crude price estimate to US$80/bbl; long-term to US$65/bbl**
- **Upgrading ONGC to a BUY from ADD; target price is unchanged at Rs1,325**
- **Raised Cairn's target price to Rs195 from Rs160 previously; Retain SELL**

We recommend buying ONGC stock at current levels noting (1) the stock's attractive valuations at 8.2X FY2009E EPS, (2) potential positive catalysts and (3) high degree of visibility on earnings, which is a big positive in the current uncertain market conditions. Our 12-month 9X normalized FCF-based 12-month target price remains at Rs1,325. We have raised Cairn's fair valuation by 22% to Rs195 on (1) higher production assumptions (higher recovery factor of 30.5% versus 27%, previously) and (2) higher long-term crude price assumptions. We retain our SELL rating on the stock noting that the stock price seems to be factoring in a good scenario of US$85/bbl crude price in perpetuity and a high recovery factor (around 30%).

Raised point price forecasts for crude but more important, raised long-term crude price assumptions. We model CY2008-12E crude price (Dated Brent) at US$80/bbl versus US$75/bbl previously on the back of (1) high resilience of global oil demand to high crude prices, (2) likely strong demand from non-OECD countries, particularly China, Middle-East and India and (3) continued high control of OPEC on supply and OPEC's willingness to support a higher crude price; a number of OPEC countries suggested US$80/bbl as a comfortable crude price in the most recent OPEC meeting.

We have also raised our long-term crude price assumption to US$65/bbl from US$60/bbl. We compute the break-even price of a new oil sands project at US$65/bbl based on 9% WACC (project IRR). At 10% WACC, our break-even price comes to US$70/bbl. If anything, we see further upside to our long-term price of crude oil given (1) ongoing resource nationalism and (2) increase in taxation on crude oil even in OCED countries with the proposed change in the taxation regime in Alberta (oil sands) from January 1, 2009 being a good example.

Upward revision to ONGC's earnings. We have raised ONGC's FY2009E and FY2010E EPS to Rs121and Rs123 from Rs112 and Rs119 previously. The upward revision reflects the following changes.

1. **Higher crude oil price (Dated Brent) forecasts** for FY2009E and FY2010E of US$80/bbl versus US$75/bbl assumed previously. ONGC has high leverage to crude prices theoretically (see Exhibit 3) although the subsidy-sharing scheme reduces the leverage to nominal levels currently.
2. **Higher import tariffs versus those assumed previously.** We have adjusted import tariffs in line with the government's decision to leave import tariffs on all oil and gas products and crude oil unchanged in the FY2009 Union Budget versus lower import tariff on crude oil assumed by us.
3. **Higher subsidy losses.** We have increased the subsidy amount to Rs180 bn for FY2009E and FY2010E versus Rs160 bn and Rs140 bn, respectively, previously to reflect our assumption of higher crude prices, resulting in higher under-recoveries for the industry. We currently assume that the share of gross upstream companies in the under-recoveries will be 33.33%. We note that the government has decided to take a larger share (57% from the original 43%) of gross under-recoveries in FY2008E through the issue of oil bonds to the downstream oil companies.

Energy

CAIR.BO, Rs212	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	195
52W High -Low (Rs)	269 - 113
Market Cap (Rs bn)	374

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	18.4	19.1	24.4
Net Profit (Rs bn)	4.1	2.6	4.0
EPS (Rs)	2.3	0.5	2.3
EPS gth	*29.3*	*(82.7)*	*407.3*
P/E (x)	91.4	464.4	93.7
EV/EBITDA (x)	49.3	44.7	33.8
Div yield (%)	-	-	-

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.0	-	-
FIIs	10.9	0.5	(0.4)
MFs	1.6	0.4	(0.5)
UTI	-	-	(0.9)
LIC	2.2	0.5	(0.4)

Energy

ONGC.BO, Rs988	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,325
52W High -Low (Rs)	1387 - 753
Market Cap (Rs bn)	2,113

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	932	1,045	1,098
Net Profit (Rs bn)	180.6	218.4	259.2
EPS (Rs)	84.4	102.1	121.2
EPS gth	*15.0*	*20.9*	*18.7*
P/E (x)	11.7	9.7	8.2
EV/EBITDA (x)	4.7	4.0	3.3
Div yield (%)	3.1	3.6	4.0

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	8.1	2.0	(3.2)
MFs	1.4	2.0	(3.2)
UTI	-	-	(5.2)
LIC	2.3	3.0	(2.2)

Upward revision to Cairn's earnings and target price. We have revised our earnings estimates and raised Cairn's fair valuation by 22% to Rs195 to reflect the changes discussed below.

1. **Higher production volumes.** We have revised production from Cairn's Rajasthan block based on the expectation of higher recovery from the existing resource base (3.6 bn boe). We now model cumulative production from the Rajasthan fields at around 1.1 bn bbls (0.97 bn bbls previously), which translates into a higher recovery factor of 30.5% versus 27% previously. The upward revision in production volumes has added Rs20/share to Cairn's fair valuation. Cairn management had revised the production profile for the Rajasthan block recently; we factor in higher recoverable reserves and production versus the last disclosed figures.

2. **Higher crude price.** We have revised our assumptions for normalized crude to US$65/bbl as discussed above. We have also revised our crude price assumption for CY2008E-12E to US$80/bbl from US$75/bbl for CY2008E and US$70 for CY2009E-12E previously. We continue to maintain a US$5/bbl discount for Cairn's Rajasthan crude given the heavy, waxy nature of Cairn's crude (API is 27° although sulfur content is low), which may preclude consumption by several Indian refineries.

   However, we note that PSC terms meaningfully limit the upside from higher crude prices. We clarify that Cairn's moderate leverage to crude price is due to the nature of the PSC under which Cairn will operate its Rajasthan block; higher crude prices will increase Cairn's investment multiple (IM) faster and move the share of the government of profit petroleum to a higher bracket faster. Exhibit 6 shows that the share of government of profit petroleum at various levels of IM; the share of the government increases to 50% once IM exceeds 2.5X.

   Exhibit 7 shows that our valuation for Cairn does not vary significantly with higher crude oil prices. At US$65/bbl in perpetuity from CY2013E and US$80/bbl in CY2009-12E, our fair value for Cairn stock comes to Rs195. However, it rises to only Rs212/bbl even if we change our normalized crude price assumption (beyond CY2013E) to US$80/bbl. We assume that Cairn will be allowed to treat the capex and opex of the evacuation pipeline as part of the upstream field development cost and it will not bear any royalty and cess on the portion of crude oil (70%) produced by it from the Rajasthan block.

We value ONGC stock at Rs1,325 on US$65/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2008E	2009E	2010E
A. Core business valuation			
Normalized crude price assumption (US$/bbl)	65.0	65.0	65.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	231,192	240,910	224,724
Add: OCF after normalizing natural gas price	30,094	29,745	25,510
Add: OCF after removing subsidies	126,878	125,243	121,838
Recurring OCF	388,164	395,899	372,072
Recurring capex			
Production per annum (mn bbls)	377	397	390
Replacement or F&D costs (US$/bbl)	8.0	8.0	8.0
Recurring capex	121,449	122,256	117,043
Free cash flow	**266,716**	**273,643**	**255,029**
Free cash flow multiple (X)	9	9	9
Enterprise value	2,400,442	2,462,784	2,295,263
(Net debt)/cash	251,173	403,707	521,540
Investments	98,224	98,224	98,501
Equity value	2,749,840	2,964,715	2,915,303
Equity value of core business (Rs/share)	**1,286**	**1,386**	**1,363**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	44	49	55
MN-DWN-98/3 block (Rs/share)	13	15	16
Equity value of new discoveries (Rs/share)	**57**	**64**	**71**
Less: NPV of subsidy losses for three years	**135**	**135**	**135**
Total equity value per share (Rs/share)	**1,207**	**1,315**	**1,299**

Source: Kotak Institutional Equities estimates.

We value Cain India stock at Rs195

EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	6,406	7,871	9,463
CB-OS-2	145	112	79
Ravva	410	391	363
Upside potential (KG-DWN-98/2, RJ-ON-90/1)	100	112	125
Total	**7,061**	**8,486**	**10,030**
Net debt	(1,241)	(322)	55
Equity value	**8,302**	**8,809**	**9,975**
Equity shares (mn)	1,765	1,765	1,765
Equity value per share (Rs/share)	**194**	**195**	**215**

Source: Kotak Institutional Equities estimates.

ONGC's valuation is highly leveraged to normalized crude prices
Valuation sensitivity of ONGC to normalized crude price (Rs/share)

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$80/bbl	1,691	29
US$75/bbl	1,541	17
US$70/bbl	1,391	6
US$65/bbl	**1,315**	
US$60/bbl	1,087	(17)
US$55/bbl	933	(29)
US$50/bbl	774	(41)

Source: Kotak Institutional Equities estimates.

Natural gas price increase and moderate volume growth are key earnings drivers
Key assumptions, March fiscal year-ends, 2003-2010E

	2004	2005	2006	2007	2008E	2009E	2010E
Rs/US$ rate	46.0	45.0	44.3	45.3	40.3	38.5	37.5
Subsidy share scheme loss (Rs bn)	26.9	41.0	119.6	170.2	200.0	180.0	180.0
Import tariff on crude oil (%)	10.0	9.7	5.1	5.1	5.2	5.2	5.2
Crude/natural gas prices							
Crude price							
Crude price, WTI (US$/bbl)					78.9	82.0	82.0
Crude price, Dated Brent (US$/bbl)	28.7	40.6	57.2	64.8	78.9	80.0	80.0
Net crude price, ONGC-India (Rs/ton)	6,255	9,196	10,390	10,692	11,107	11,435	10,790
Net crude price, ONGC-India (US$/bbl)	18.6	28.0	32.1	32.4	37.8	40.7	39.4
Natural gas price							
Ceiling natural gas price, India (Rs/cu m)	2.85	2.85	3.52	4.21	4.25	4.50	4.75
Ceiling natural gas price, India (US$/mn BTU)	1.66	1.69	2.12	2.49	2.82	3.12	3.39
Net natural gas price, ONGC-India (Rs/cu m)	2.18	2.18	3.11	3.76	3.79	4.02	4.26
Net natural gas price, ONGC-India (US$/mn BTU)	1.27	1.29	1.88	2.22	2.51	2.79	3.03
International operations							
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.2	3.2	3.1	3.2	2.8	2.7	2.6
Net crude price, OVL-Sudan (Rs/ton)	4,285	5,893	8,118	9,384	10,142	9,833	9,578
Net crude price, OVL-Russia (Rs/ton)	—	—	8,320	9,633	10,434	10,118	9,855
Sales volumes—Domestic fields (a)							
Crude oil (mn tons)	23.9	24.1	22.5	24.4	24.2	25.0	24.6
Natural gas (bcm)	21.1	20.6	20.5	20.3	19.9	20.0	19.7
Sales volumes—Overseas fields							
Crude oil (mn tons)	3.3	3.7	4.6	5.8	7.8	9.3	9.1
Natural gas (bcm)	0.5	1.3	1.8	2.1	2.1	2.4	2.4
Total sales							
Crude oil (mn tons)	27.3	27.8	27.0	30.2	32.0	34.3	33.7
Natural gas (bcm)	21.6	22.0	22.3	22.5	22.0	22.4	22.1
Total sales (mn toe)	**46.6**	**47.4**	**46.9**	**50.3**	**51.7**	**54.4**	**53.4**
Total sales (mn boe)	**340**	**346**	**342**	**367**	**377**	**397**	**390**
Crude oil (%)	59	59	58	60	62	63	63
Natural gas (%)	41	41	42	40	38	37	37

(a) Includes ONGC's share of production from joint venture fields.

Source: Company data, Kotak Institutional Equities estimates.

ONGC's earnings are highly leveraged to crude prices

Earnings sensitivity of ONGC to key variables

	2008E			2009E			2010E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rs/US$	39.3	40.3	41.3	37.5	38.5	39.5	36.5	37.5	38.5
Net profits (Rs mn)	209,244	220,855	232,463	246,430	259,164	271,896	249,399	262,189	274,977
Earnings per share (Rs)	97.8	103.3	108.7	115.2	121.2	127.1	116.6	122.6	128.6
% upside/(downside)	**(5.3)**		**5.3**	**(4.9)**		**4.9**	**(4.9)**		**4.9**
Average crude prices									
Crude price (US$/bbl)	76.9	78.9	80.9	78.0	80.0	82.0	78.0	80.0	82.0
Net profits (Rs mn)	209,352	220,855	232,352	247,353	259,164	270,970	250,625	262,189	273,749
Earnings per share (Rs)	97.9	103.3	108.6	115.6	121.2	126.7	117.2	122.6	128.0
% upside/(downside)	**(5.2)**		**5.2**	**(4.6)**		**4.6**	**(4.4)**		**4.4**
Cess									
Cess on domestic crude (Rs/ton)	3,090	2,575	2,060	3,090	2,575	2,060	3,090	2,575	2,060
Net profits (Rs mn)	212,829	220,855	228,881	250,888	259,164	267,440	253,841	262,189	270,537
Earnings per share (Rs)	99.5	103.3	107.0	117.3	121.2	125.0	118.7	122.6	126.5
% upside/(downside)	**(3.6)**		**3.6**	**(3.2)**		**3.2**	**(3.2)**		**3.2**
Natural gas prices									
Natural gas price ceiling (Rs/'000 cum)	3,750	4,250	4,750	4,000	4,500	5,000	4,250	4,750	5,250
Net profits (Rs mn)	215,438	220,855	226,268	253,784	259,164	264,540	256,904	262,189	267,470
Earnings per share (Rs)	100.7	103.3	105.8	118.7	121.2	123.7	120.1	122.6	125.1
% upside/(downside)	**(2.5)**		**2.5**	**(2.1)**		**2.1**	**(2.0)**		**2.0**

Source: Kotak Institutional Equities estimates.

Maximum share of government of profit petroleum at 50% for Rajasthan block

Details of share of profit petroleum between the government and Cairn for Cairn's key assets

IM	Government share (%)
<1	**20**
>1, <1.5	20
>1.5, <2	30
<2, <2.5	40
>2.5, <3	**50**
>3	**50**

Note:
(a) IM = Investment Multiple.

Source: Company data.

Cairn's Rajasthan field's enterprise value is highly leveraged to crude prices, regulations

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

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$80/bbl)	7.2	212	9	8.8	215	10
Dated Brent price (US$75/bbl)	6.9	206	6	8.5	208	7
Dated Brent price (US$70/bbl)	6.7	200	3	8.2	201	3
Dated Brent price (US$65/bbl)	**6.4**	**194**		**7.9**	**195**	
Dated Brent price (US$60/bbl)	6.2	189	(3)	7.6	188	(3)
Dated Brent price (US$50/bbl)	5.7	177	(9)	7.0	175	(10)
Dated Brent price (US$40/bbl)	5.2	165	(15)	6.4	161	(17)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**6.4**	**194**		**7.9**	**195**	
Royalty (Rs0/ton), Cess (Rs927/ton)	6.0	186	(5)	7.4	185	(5)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	5.4	170	(13)	6.6	167	(14)
Royalty (Rs481/ton), Cess (Rs927/ton)	4.3	145	(25)	5.4	139	(28)
Royalty (Rs481/ton), Cess (Rs2,575/ton)	3.8	134	(31)	4.8	127	(35)

Source: Kotak Institutional Equities estimates.

Cairn's earnings are highly leveraged to crude prices

Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	78.0	80.0	82.0	78.0	80.0	82.0	78.0	80.0	82.0
Net profits (Rs mn)	31,352	32,525	33,698	88,471	90,958	93,450	60,593	62,647	64,700
Earnings per share (Rs)	17.8	18.4	19.1	50.1	51.5	52.9	34.3	35.5	36.7
% upside/(downside)	**(3.6)**		**3.6**	**(2.7)**		**2.7**	**(3.3)**		**3.3**
Exchange rate									
Rs/US$	37.0	38.0	39.0	37.0	38.0	39.0	37.0	38.0	39.0
Net profits (Rs mn)	31,432	32,525	33,618	88,553	90,958	93,363	60,786	62,647	64,507
Earnings per share (Rs)	17.8	18.4	19.0	50.2	51.5	52.9	34.4	35.5	36.5
% upside/(downside)	**(3.4)**		**3.4**	**(2.6)**		**2.6**	**(3.0)**		**3.0**

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	433,264	635,956	742,532	931,571	1,045,488	1,098,275	1,085,687
EBITDA	**192,480**	**269,526**	**318,069**	**352,991**	**422,779**	**458,068**	**452,131**
Other income	18,220	21,811	28,446	45,408	37,142	45,472	56,347
Interest	(6,964)	(3,950)	(955)	662	(1,279)	(1,235)	(1,013)
Depreciation and depletion	(65,480)	(73,466)	(98,007)	(119,502)	(113,613)	(127,742)	(116,650)
Pretax profits	138,255	213,921	247,553	279,559	345,030	374,564	390,815
Tax	(46,101)	(74,003)	(71,523)	(88,621)	(110,997)	(128,027)	(140,186)
Deferred tax	(4,218)	(770)	(16,585)	(6,797)	(15,149)	14,083	13,906
Net profits	86,811	138,943	159,706	176,873	222,749	260,620	264,535
Net profits after minority interests	**87,979**	**137,639**	**157,201**	**175,819**	**220,855**	**259,164**	**262,189**
Earnings per share (Rs)	**41.1**	**64.4**	**73.5**	**82.2**	**103.3**	**121.2**	**122.6**
Balance sheet (Rs mn)							
Total equity	415,582	488,912	578,830	671,200	799,439	959,413	1,109,015
Deferred tax liability	54,250	57,911	71,557	80,435	94,640	77,716	64,305
Liability for abandonment cost	80,292	80,941	128,675	151,857	151,857	151,857	151,857
Total borrowings	60,961	39,028	22,259	21,139	22,039	12,747	45,488
Currrent liabilities	85,376	128,346	152,162	193,614	111,371	111,766	110,848
Total liabilities and equity	**696,461**	**795,138**	**953,483**	**1,118,245**	**1,179,346**	**1,313,498**	**1,481,513**
Cash	95,721	101,843	91,132	205,499	273,212	416,454	567,027
Current assets	133,039	178,421	240,479	198,697	199,016	195,605	194,403
Total fixed assets	419,213	471,543	568,252	644,303	637,372	631,693	650,369
Goodwill	11,661	10,753	14,172	27,686	27,686	27,686	27,686
Investments	30,811	26,961	35,480	36,615	36,615	36,615	36,888
Deferred expenditure	6,017	5,617	3,969	5,446	5,446	5,446	5,141
Total assets	**696,461**	**795,138**	**953,484**	**1,118,245**	**1,179,346**	**1,313,499**	**1,481,513**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	120,499	178,158	225,995	248,050	255,354	259,571	250,189
Working capital changes	24,950	18,839	44,082	1,408	(85,405)	(41,663)	40,636
Capital expenditure	(56,366)	(102,727)	(110,836)	(139,466)	(49,138)	(54,915)	(36,550)
Investments	(10,608)	(9,887)	(28,640)	53,822	—	—	—
Other income	9,765	12,964	14,539	20,996	37,797	45,847	56,347
Free cash flow	**88,240**	**97,347**	**145,141**	**184,809**	**158,608**	**208,839**	**310,623**
Ratios (%)							
Debt/equity	14.7	8.0	3.8	3.1	2.8	1.3	4.1
Net debt/equity	(8.4)	(12.8)	(11.9)	(27.5)	(31.4)	(42.1)	(47.0)
RoAE	20.2	27.4	26.5	25.4	27.1	27.1	24.0
RoACE	**19.2**	**24.1**	**22.8**	**21.8**	**22.5**	**23.4**	**21.1**
Key assumptions							
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	38.5	37.5
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	78.9	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	4,211	4,250	4,500	4,750
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	200.0	180.0	180.0

Source: Kotak Institutional Equities estimates.

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

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	19,074	24,423	60,491	151,706	150,897	147,282	115,756
EBITDA	**5,332**	**6,666**	**10,625**	**45,933**	**112,153**	**78,321**	**64,129**	**48,787**
Other income	1,100	1,392	502	472	1,000	1,990	2,994	3,698
Interest	(201)	(25)	(47)	(169)	—	—	—	—
Depreciation	(497)	(4,465)	(4,899)	(7,073)	(8,791)	(8,286)	(8,404)	(8,380)
Pretax profits	5,734	3,567	6,182	39,162	104,362	72,025	58,720	44,104
Extraordinary items	—	(1,844)	—	—	—	—	—	—
Tax	(1,626)	(854)	(2,115)	(5,652)	(12,337)	(8,844)	(7,326)	(5,444)
Deferred taxation	(22)	(64)	(82)	(986)	(1,066)	(534)	(115)	140
Net profits	**4,087**	**804**	**3,985**	**32,525**	**90,958**	**62,647**	**51,279**	**38,800**
Earnings per share (Rs)	**2.3**	**0.5**	**2.3**	**18.4**	**51.5**	**35.5**	**29.0**	**22.0**
Balance sheet (Rs mn)								
Total equity	292,804	293,609	297,593	330,118	379,770	409,371	433,601	451,935
Deferred tax liability	4,258	4,322	4,405	5,391	6,457	6,991	7,106	6,965
Total borrowings	5,122	4,985	13,555	—	—	—	—	—
Currrent liabilities	39,716	1,681	1,900	2,019	5,784	10,769	12,369	9,938
Total liabilities and equity	**341,900**	**304,597**	**317,454**	**337,528**	**392,011**	**427,131**	**453,076**	**468,838**
Cash	61,348	18,316	11,415	20,955	70,869	110,690	141,722	165,225
Current assets	6,470	1,829	2,342	5,800	14,547	14,470	14,123	11,100
Total fixed assets	17,609	28,121	47,079	27,386	25,915	23,625	21,232	18,901
Net producing properties	2,354	2,211	2,499	29,267	26,561	24,227	21,880	19,494
Investments	4	4	4	4	4	4	4	4
Goodwill	254,115	254,115	254,115	254,115	254,115	254,115	254,115	254,115
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	**341,900**	**304,597**	**317,454**	**337,528**	**392,011**	**427,131**	**453,076**	**468,838**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,944	1,064	5,795	37,792	97,665	68,027	55,353	41,892
Working capital changes	34,256	(33,394)	(293)	(3,340)	(4,981)	5,062	1,947	592
Capital expenditure	(5,619)	(11,957)	(21,475)	(11,830)	(2,463)	(2,213)	(2,213)	(2,213)
Investments/Goodwill	(252,717)	—	—	—	—	—	—	—
Other income	1,100	1,392	502	472	1,000	1,990	2,994	3,698
Free cash flow	**(220,035)**	**(42,895)**	**(15,471)**	**23,094**	**91,221**	**72,866**	**58,081**	**43,969**
Key assumptions								
Gross production ('000 boe/d)	91.0	84.2	84.8	128.4	248.0	242.3	233.6	225.8
Net production ('000 boe/d)	25.1	23.4	26.7	60.8	147.6	146.3	142.4	139.4
Dated Brent (US$/bbl)	65.3	70.3	80.0	80.0	80.0	80.0	80.0	65.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Kotak Institutional Equities estimates.

Pharmaceuticals	
RANB.BO, Rs454	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	525
52W High -Low (Rs)	490 - 300
Market Cap (Rs bn)	169.1

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	60	66	73
Net Profit (Rs bn)	5.1	7.6	7.4
EPS (Rs)	13.7	20.4	19.8
EPS gth	*115.7*	*48.8*	*(3.0)*
P/E (x)	33.1	22.3	22.9
EV/EBITDA (x)	21.9	15.4	15.6
Div yield (%)	1.9	2.1	2.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	34.8	-	-
FIIs	16.8	0.2	(0.1)
MFs	5.1	0.4	0.1
UTI	-	-	(0.3)
LIC	15.4	1.2	0.9

Ranbaxy Laboratories: Four key drivers for future growth; rolling forward price target to Rs525

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- **2008 management guidance reinforced: 18-20% dollar sales growth, EBITDA margin of 17-18%, PAT growth 20-25% yoy**
- **Four key drivers to drive future growth: (1) Emerging markets, (2) FTF products, (3) Specialty segment and (4) NCE r esearch**
- **Ranbaxy receives tentative approval on generic Nexium; at-risk launch in partnership with Teva may happen**
- **Stock up 24% in one month; Maintain BUY rating with an SOTP-based target price of Rs525 (from Rs485)**

Management guides towards a revenue target of US$1.9 bn for 2008E with 18-20% dollar sales growth and 20-25% PAT growth. Four key drivers for future growth are (1) emerging markets (2) FTF products (3) specialty segment (4) NCE Research. The stock trades at 22.9X FY2008E and 17.9X FY2009E earnings. Maintain BUY rating with an SOTP-based target price of Rs525 (from Rs485). Our price target includes the present value of 180 day exclusivity opportunities but excludes the value of NCE pipeline.

2008 management guidance reinforced: 18-20% dollar sales growth, EBITDA margin of 17-18%, PAT growth 20-25% yoy. We model 21% dollar sales growth and EBITDA margin ex R&D of 17.7%. PAT growth rate of 20-25% growth yoy guided by the management gives a PAT estimate of Rs9.5-9.9 bn for 2008E. Our 2008 PAT estimate of Rs 7.4 bn is lower than the guidance due to exclusion of forex gain. (2007 reported PAT includes Rs 3.2 bn fx gain). In addition we believe, Ranbaxy maybe factoring in an asset disposal or monetization of surplus real estate in their profit guidance.

Four key drivers to propel future growth: (1) emerging markets (2) first-to-file (FTF) products (3) specialty segment (4) NCE research.

1. **Emerging markets** contribution to total sales has increased to 54% in 2007 from 44% in 2005. We believe future growth in emerging markets will be driven by India and East European markets. For India, Ranbaxy has guided towards 15% growth in 2008. We have modeled 13% growth in-line with the industry growth rate. For East European countries comprising Romania and other markets, we model a 20% and 25% growth rate, respectively. Romania is yet to announce the regulatory changes relating to reimbursement and prices. This could reduce prices for existing products but also lead to new product approvals for Ranbaxy that can deliver the growth we forecast.

2. **FTF products**: Ranbaxy has at least one FTF launch planned each year up to 2012/ 2013 and has already announced its launch plans till 2010. As of 2007 end, it had 98 ANDAs pending approval with USFDA targeting a market size of US$54 bn (at innovator prices) and 18 FTF products targeting US$27 bn market size. Litigation has started on 7 of these para IVs and the company believes all other filings are valid and will get exclusivity without litigation. Ranbaxy's planned launches are – Imitrex (Sumatriptan, 2008 launch); Valtrex (Valacyclovir, 2009); Flomax (Tamsulosin, 2009) and Lipitor (Atorvastatin, 2010). The present value of the planned FTF launches till 2010E, according to our estimate, is EPS of Rs70 for 2009E and Rs80 for 2010E. Our 2008-2009E forecasts exclude profits from these launches.

   Products where we believe Ranbaxy has filed patent challenge include—Actos, Allegra, Advil, Aricept, Biaxin, Biaxin XL, Caduet, Clarinex, Diflucan, Diovan, Provigil, Risperdal, Tricor, Valcyte and Vantin.

Ranbaxy receives tentative approval on generic Nexium; at-risk launch in partnership with Teva may happen. On February 7, Ranbaxy received tentative approval for generic Nexium which had revenues of US$5.5 bn in 2007. Ranbaxy believes it has first-to-file status. It was sued by AstraZeneca in November 2005. The Ranbaxy case is still at the discovery stage in US courts and the claim construction is to be filed by March 21. Thus, a hearing is likely in 3Q2008 and a decision may follow a few months thereafter. However, media reports suggest that Ranbaxy may launch its generic version in April 2008, following the expiry of 30 months mandatory stay of action, in partnership with Teva who has also filed patent challenge litigation and was sued in March 2006. This would make it an "at-risk" launch since the lower court decision would not be announced by that time. Partnership with Teva is suggested since the product is too large for Ranbaxy to risk triple damages that are payable if the court decides in favour of Astrazeneca. Dr. Reddy's Labs is the third company involved in this litigation and was sued in July 2007. Thus, DRL can potentially launch in January 2010.

In case, Ranbaxy decides to wait for lower court decision (possibly in 1Q09),it runs the risk that Teva may launch its own product in 2H2008, reducing profit potential for Ranbaxy. This may compel Ranbaxy to enter into an agreement with Teva for an early launch. We estimate that Ranbaxy can earn net profit of Rs769 mn or EPS of Rs2.1 every month while this arrangement is in place assuming that Teva gets 50% of the profits. Our current estimates for 2008 and 2009 do not include this potential upside. It is worth remembering that Ranbaxy and Teva had entered into similar arrangement for quinapril in US in December 2004. However, it was not a very fruitful association as Pfizer successfully stopped the partners from selling the product in March 2005.

3. **Specialty segment**: Ranbaxy is following a two-pronged strategy of (1) building alliances and (2) leveraging in-house capabilities to establish presence in this segment. It is leveraging its front end presence and regulatory expertise to establish presence in technology and resource-intensive product segments with high entry barriers.

   - The company has entered into alliances with three Indian companies. Ranbaxy has taken a 45% stake in Zenotech Laboratories costing Rs2.1 bn. This gives Ranbaxy access to generic biopharmaceutical and oncology segments. Ranbaxy plans to file seven US ANDAs from Zenotech facilities in 2007-2008E. Zenotech has received three Indian approvals and seven products are in the pipeline.

     Ranbaxy has also taken a 15% stake in Hyderabad-based Jupiter Bioscience. JB wants to establish itself as a global peptide solutions group. Some of the products that JB wants to launch in future are—Oxytocin, vasopressin, desmopressin, leuprolide, lisinopril, calcitonin. Ranbaxy expects revenues to accrue from this alliance starting 2008.

     Ranbaxy has taken a 15 % stake in Krebs Biochemicals based in Hyderabad, India. Krebs' API and fermentation capabilities will be useful to Ranbaxy in the statin segment globally.

   - Leveraging in-house capabilities: Three areas that Ranbaxy has invested in are penems (treatment of infection caused by bacteria resistant to penicillin and cephalosporin), a range of limuses (immunosuppressant that reduces risks in organ transplant) and oral high potency substances in areas other than cancer. These could be biomolecules, hormones or retinoids. A potent drug compound is an active pharmaceutical ingredient or intermediate that is capable of exerting strong chemical or physiological effects.

4. **NCE Research**: Ranbaxy plans to de-merge its new drug discovery research (NDDR) unit into a subsidiary, Ranbaxy Life Science Research Ltd (RLSRL). The de-merger will result in cost savings of US$25 mn in 2008 for Ranbaxy.

   Ranbaxy shareholders will receive one equity share of Re.1 each of RLSRL for every four equity shares held in Ranbaxy. Ranbaxy has subscribed to redeemable preference shares of RLSRL of Rs2 bn, to meet its business needs. Ranbaxy and RLSRL employees will hold 19.8% and 4.9% of the equity share capital of RLSRL with the balance will be held by Ranbaxy shareholders.

   Ranbaxy focuses on the therapeutic segments of infectious diseases, metabolic diseases, inflammatory/ respiratory disease and oncology. Presently, the company has 8-10 candidates in its research pipeline. It has 2 NCEs in Phase II trials- (1) anti-malarial molecule, RBx11160 being developed by Ranbaxy and (2) statin molecule, Dyslipidemia RBx 10558 out-licensed to PPDI, a contract research company in US, in 2007. PPDI is pushing the statin program and wants to partner with a R&D driven company in 2008 for further development of compound.

   Ranbaxy has collaborated with GSK on two research programs in the anti-infective and respiratory segments. Ranbaxy now has the responsibility for advancing the selected compounds to proof of concept studies, whereby total milestone payments, excluding royalties, could exceed over US$100 mn.

Stock up 24% in one month; maintain BUY rating with an SOTP-based target price of Rs525 (from Rs485). We continue to use a sum-of-the-parts valuation measure for arriving at the price target. The increase in our price target is due to the passage of time since it was last set in November 2007. There are no material changes to earnings estimates.

Announced FTF launches, 2008-2010E

Molecule	Brand	Innovator	Market Size (US$ bn)	Status	Year
Sumatriptan	Imitrex	GSK	1.0	Settled	2008
Valacyclovir	Valtrex	GSK	1.3	Settled	2009
Tamsulosin	Flomax	BI/Astellas	1.2	Settled	2010
Atorvastatin	Lipitor	Pfizer	8.0	Won '995	2010

Source: Company.

Forecasts and valuation, December fiscal year-ends, 2005-2009E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs)	(%)	(%)	(X)
2005	50,949	(2.9)	6,265	(45.4)	2,618	(62.5)	6.3	(0.5)	9.5	70.9
2006	60,183	18.1	11,529	84.0	5,103	95.0	13.7	10.4	20.3	32.9
2007E	65,904	9.5	10,697	(7.2)	7,863	54.1	20.4	6.2	27.4	22.1
2008E	72,947	10.7	12,905	20.6	7,368	(6.3)	19.8	9.4	23.8	22.8
2009E	84,175	15.4	16,248	25.9	9,434	28.0	25.3	12.2	27.3	17.8

Source: Company, Kotak Institutional Equities estimates.

Consumer Products

GOCP.BO, Rs135	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	140
52W High -Low (Rs)	178 - 95
Market Cap (Rs bn)	30.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	9.5	11.0	12.3
Net Profit (Rs bn)	1.3	1.6	2.1
EPS (Rs)	5.9	7.3	8.0
EPS gth	*12.5*	*22.9*	*9.0*
P/E (x)	22.7	18.4	16.9
EV/EBITDA (x)	17.2	14.0	11.1
Div yield (%)	2.8	3.0	3.4

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.8	-	-
FIIs	19.1	0.1	(0.0)
MFs	1.0	0.0	(0.0)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Godrej Consumer Products: Aggressive pricing for rights issue

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- **Rights issue (1:7) for 14.3% dilution at Rs123/share**
- **Competitive scenario getting tougher**
- **Potential for geographic expansion led growth exists**
- **Change in EPS, retain ADD rating and target price of Rs140/share**

GCPL has announced rights issue of one share for every seven shares held, which will likely result in a dilution of 14.3% equity. With promoters currently owning 68% of the equity, we expect the Rs4 bn rights issue to sail through despite the aggressive pricing (at Rs123/share compared to the closing price of Rs135/share). The proceeds of the rights issue will be utilized for soap capacity expansion, repayment of debt and supporting inorganic growth. We have reduced our EPS estimates to Rs8.0 (Rs 8.1 earlier) for FY2009E and Rs8.5 (Rs9.2 earlier) for FY2010E to factor in the dilution in equity due to rights issue. We model higher depreciation in FY2010E post the Himachal soap capacity expansion, lower interest expense and higher other income from the proceeds of the rights issue. We retain our ADD rating and target price of Rs140/share. Our target price implies a P/E of 17.6X on FY2009E and 16.5X on FY2010E.

Rights issue for 14.3% dilution at Rs123/share. GCPL has announced a rights issue to raise Rs4.0 bn at a 1:7 ratio (one share for every seven held). The right issue priced at Rs123 (Face value of Re 1 + Share premium of Rs122), will result in a dilution of 14.3%. According to the offer document filed with SEBI, the company will utilize the money raised for:

- Soaps capacity expansion in Himachal Pradesh – Rs1,135 mn. We estimate the company will add about 30,000 tpa capacity in soaps including the back-end facilities like distilled fatty acid. The company would target commissioning this by March 2010 before the sunset clause for the location takes effect
- Investment in JV, Godrej SCA Hygiene Ltd – Rs205 mn
- Repayment of debt (taken for Keyline, Rapidol acquisitions) – Rs840 mn
- For M&A (inorganic growth pursuits) - Rs1,820 mn.

Competitive scenario getting tougher. Significant price increase in both soaps (~17% in last 8 months) and hair color business (~10% yoy) aided GCPL's topline growth of 16% in 9MFY08. Market sources indicate that the highly penetrated soap category is facing volumes decline due to high retail prices. The input cost scenario continues to be challenging in soaps with prices of palm oil and variants ruling firm. ITC's entry could possibly cap further price increases and the requirement for higher ad spends could adversely impact the margin profile as well. GCPL continues to lose market share in the top-end hair color segment. While we believe in the company's ability to have a presence and garner higher incremental share in the top-end fashion hair color market, substantial back-end and front-end investments would be required to mark an entry.

Potential for geographic expansion led growth exists. Over the past three years, we believe GCPL had derived significant growth through geographic expansion (by moving into newer markets/geographies). Currently, the company has a total reach of about 3 mn and direct reach of about 0.6 mn retail outlets. The current coverage means that GCPL reaches all villages with population of about 10,000. However, we believe that further geographical expansion will entail significantly higher incremental cost and would require higher concern sales. (The total no. of retail outlets in India as per AC Nielsen is 2.5 mn in urban and 5.0 mn in rural).

Change in estimates, retain ADD rating and target price of Rs140/share. We model soap and hair color to grow at 12% and 10% respectively in FY2009E and FY2010E. Modest growth of 2.3% in soaps and higher penetration and upgradation driven growth rates of 24.5% is considered for the hair color business during FY2011-15E. We have marginally reduced the EPS estimates to Rs8.0 (Rs 8.1 earlier) for FY2009E and Rs8.5 (Rs9.2 earlier) for FY2010E to factor in the dilution from rights issue. We model higher depreciation in FY2010E post the Himachal soap capacity expansion, lower interest expense and higher other income from the right issue proceeds.

We retain our DCF-based target price of Rs140/share on expanded equity base. Our target price of Rs140/share was previously based on 15% discount to our DCF value. Our target price implies a P/E of 17.6X on FY2009E and 16.5X on FY2010E. Key risks to our estimates include softening of palm prices, lesser than expected impact of ITC's soap launches, ITC gaining market share from Nirma and HUL brands, upsides due to GCPL pursuing inorganic route to growth.

Exhibit 1: GCPL is raising Rs4 bn through a rights issue

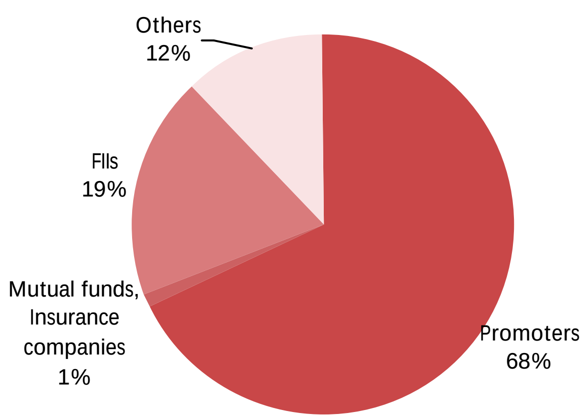
Objects of the issue

Item	Deployment (Rs mn)	KIE Comments
Soaps capacity expansion in Himachal Pradesh	1,135	Likely addition of two soap cascades including a distilled fatty acid plant
		Company will target commissioning before sunset clause sets in on 31st March 2010
Investment in JV, Godrej SCA Hygiene Ltd.	205	Snuggy' brand sold to the JV
		Setting up manufacturing facility for paper based absorbent products in Nashik
		SCA is a US$17bn global leader in tissue paper and hygiene products
		JV will target the nascent baby and feminine hygience segments in India
Repayment of debt	840	Debt taken for Rapidol and Keyline acquisitions
For M&A	1,820	
Net proceeds of the Issue	**4,000**	

Source: SEBI, SCA global website, Kotak Institutional Equities estimates.

Exhibit 2: Promoter holding of 68% will likely ensure successful fund raising

Shareholding in GCPL as on 31st December 2007



Note: Godrej & Boyce Ltd. holds 44%, Godrej Industries 10% and other promoters hold 14%

Source: NSE, Kotak Institutional Equities.

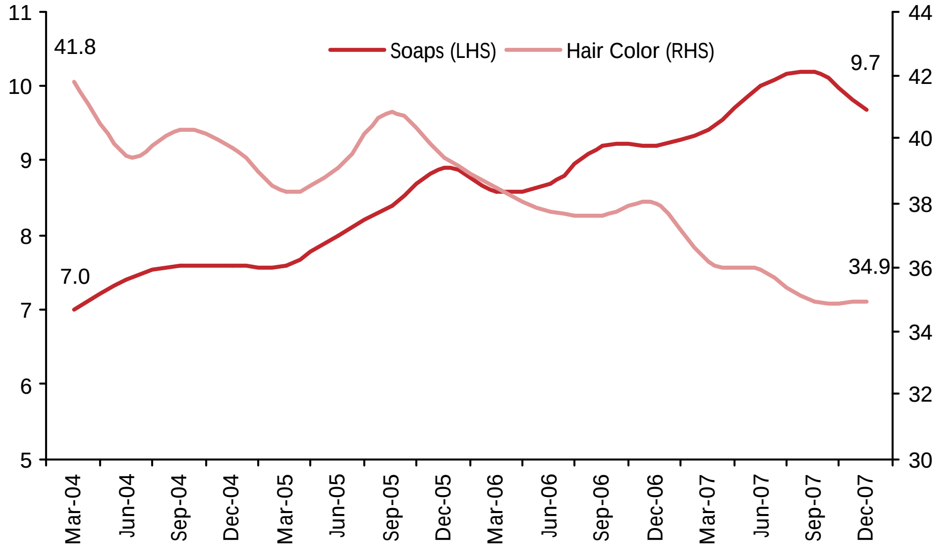
Exhibit 3: GCPL, change in estimates, March fiscal year-ends (Rs mn)

	FY08			FY2009E			FY2010E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Net Sales	11,033	11,052	(0.2)	12,313	12,313	0.0	13,746	13,746	0.0
EBITDA	2,122	2,163	(1.9)	2,316	2,316	0.0	2,577	2,577	0.0
Net profit	1,649	1,686	(2.2)	2,054	1,840	11.6	2,196	2,074	5.9
EPS	7.3	7.5	(2.2)	8.0	8.1	(2.3)	8.5	9.2	(7.4)
Sales growth (%)	15.7	15.9		11.6	11.6		11.6	11.6	
Own brand sales growth (%)	16.9	17.2		11.6	11.6		11.6	11.6	
EPS growth (%)	22.9	25.7		9.0	11.6		6.9	12.7	

Source: Kotak Institutional Equities estimates.

Exhibit 4: Share gains in soaps moderating, hair color shares maintained

Value market shares (%) in soaps and hair color



Source: Company data, Kotak Institutional Equities.

Exhibit 5: GCPL: Profit model, balance sheet, 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	6,997	9,532	11,033	12,313	13,746
EBITDA	**1,412**	**1,797**	**2,122**	**2,316**	**2,577**
Other income	72	66	81	350	322
Interest	(65)	(135)	(94)	(67)	(46)
Depreciation	(115)	(142)	(185)	(204)	(254)
Extraordinary items	20	99	0	0	0
Pretax profits	1,325	1,684	1,923	2,394	2,600
Tax	(113)	(243)	(274)	(340)	(404)
Net profits (reported)	**1,212**	**1,440**	**1,649**	**2,054**	**2,196**
Earnings per share (Rs)	**5.3**	**5.9**	**7.3**	**8.0**	**8.5**
Balance sheet (Rs mn)					
Total equity	787	1,220	2,049	6,863	7,851
Total borrowings	687	1,736	1,147	335	335
Currrent liabilities	1,885	2,617	2,774	3,108	3,431
Deferred tax liability	66	80	86	101	101
Total liabilities and equity	**3,426**	**5,653**	**6,056**	**10,407**	**11,718**
Cash	263	475	1,098	1,743	2,584
Current assets	1,451	2,300	2,212	2,514	2,919
Total fixed assets	850	1,992	1,985	2,229	3,144
Investments	10	0	727	3,887	3,037
Goodwill	851	886	35	35	35
Total assets	**3,426**	**5,653**	**6,056**	**10,407**	**11,718**

Source: Kotak Institutional Equities estimates.

Strategy

Sector coverage view	N/A

We find market valuations reasonably attractive; replacing Suzlon Energy with ONGC

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- **Valuations offer attractive reward-risk balance on 9-12 months investment horizon**
- **We are replacing Suzlon Energy with Oil & Natural Gas Corp. (ONGC) in our Top-10 and model portfolio**
- **We retain our 12-month market (BSE-30 Index) target at 17,000-21,000 based on 14X-16.5X FY2009E earnings plus our estimated fair value of 'embedded' assets**

We are replacing Suzlon Energy with ONGC in our Top-10 and model portfolio owing to increased risks to Suzlon's earnings due to the blade-cracking issue. Both the stocks play on the theme of high energy prices for the next several years but we see more visibility to ONGC's earnings versus Suzlon's. We await a successful resolution of Suzlon's blade-cracking problem since this may affect its future order book and revenues too. We find ONGC's valuations attractive at current prices and see 30% upside to our Rs1,325 12-month target price. We retain our 12-month market (BSE-30 Index) target at 17,000-21,000 based on 14X-16.5X FY2009E earnings plus our estimated fair value of 'embedded' assets.

The market offers favorable reward-risk balance now, in our view. We see the reward-risk balance as favorable in light of the market's 15.5X FY2009E earnings multiple. Adjusted for 'embedded' value (22% of market capitalization in our estimate), the market is trading at 12.8X FY2009E earnings, which is about the mid-point of the market's 10-15X historical trading range and low end of the range between March 2005-August 2007. We do see earnings risks in certain sectors such as cement, technology and telecom but we do not see meaningful risks to earnings in sectors such as automobiles, banking, consumers and industrials. We recommend investors buy stocks, which offer exposure to the core India themes of consumption and investment.

Recommend ONGC on high earnings visibility, compelling valuations and few catalysts. We find ONGC's valuations attractive at current prices and see a 30% upside to our 12-month target price of Rs1,325. More important, we see low downside risks to ONGC's earnings. ONGC has a modest leverage to crude prices and we currently model 'low' crude oil prices for FY2009E and FY2010E at US$80/bbl versus current crude prices.

We find ONGC's valuations compelling on current and normalized cash flows and earnings and also see potential catalysts (although not imminent) such as (1) potential new discoveries or announcement of reserves in recent discoveries, (2) potential acquisition of stakes in discovered blocks in Russia, (3) increase in gas price, and (4) partial resolution of the subsidy issue through retail price increase, lower taxation or increase in amount of oil bonds. ONGC stock trades at 8.2X FY2009E EPS and 8.1X FY2010E EPS after surrendering Rs51 EPS in both years to the downstream oil companies as part of the subsidy-sharing scheme.

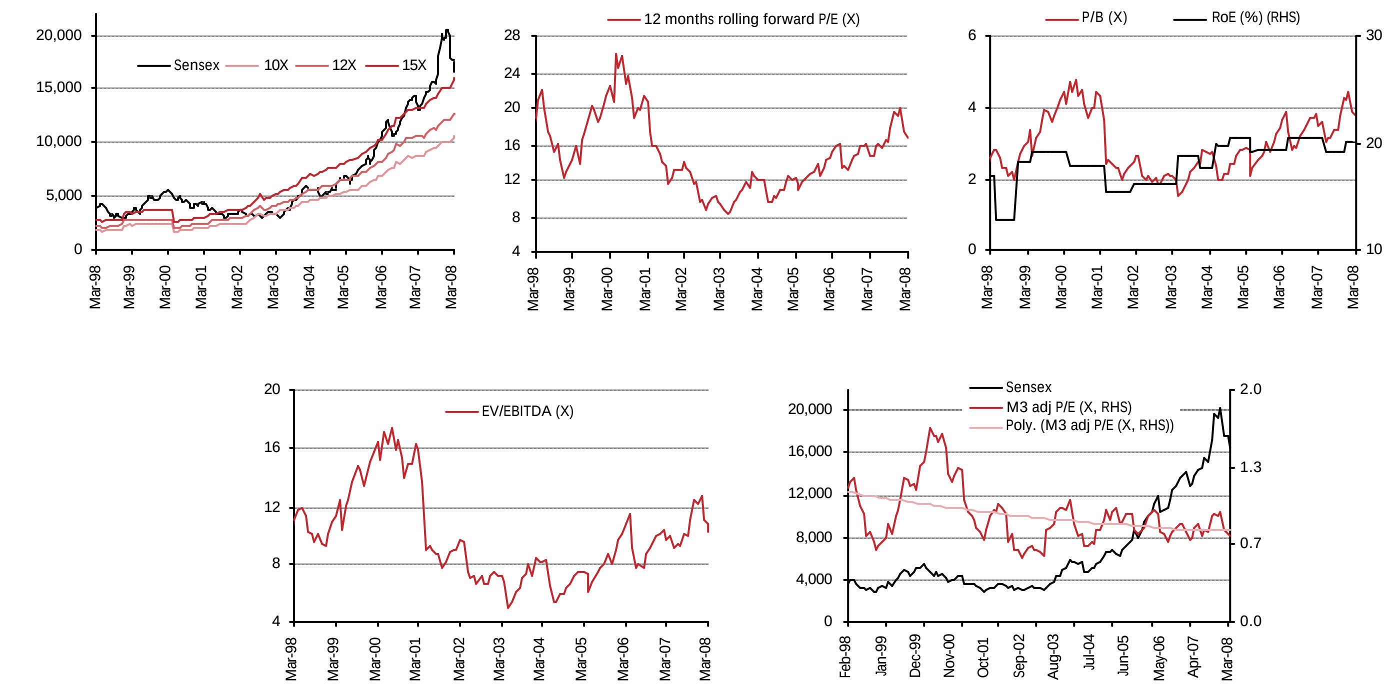
We have a BUY rating on ONGC stock and a target price of Rs1,325 based on 9X normalized FCF and valuation for new discoveries in KG basin and Mahanadi basin. We believe the market has lingering concerns about a higher subsidy share for ONGC under the current scenario of high crude prices and resultant high gross under-recoveries. However, it appears that the government is committed to sharing a larger portion of the gross under-recoveries through the issue of oil bonds to the downstream oil companies. We note the government's decision to increase its share of gross under-recoveries in FY2008E to 57% from the original 43%; the government will now give around Rs420 bn of oil bonds versus the original Rs235 bn to the government-owned downstream R&M companies.

Execution is the key for Suzlon's stock to outperform the markets. Suzlon's execution issues in general over the past few quarters and the blade-cracking issue in particular in 3QFY08 have raised questions about Suzlon's ability to meet our forecasted revenues and earnings. We had included Suzlon in our Top-10 list and Model Portfolio noting its excellent position in the renewable energy space (wind power generation equipment) in a likely very high crude price environment. Also, it had a large rapidly-growing order book in a fast-growing market, which provided high visibility on its revenues and earnings.

We note that the blade in question is part of Suzlon's S-88; 2.1 MW turbine-set; the latter forms a substantial proportion (2,655 MW) of Suzlon's total order booking (3,785 MW) from FY2007. Suzlon will strengthen blades of 417 turbine-sets at an estimated cost Rs1.2 bn in 4QFY08 as part of its retrofit program. This may successfully address the issue of blade-cracking. However, the issue raises concerns about the performance of the S-88 turbine-set in the future; each turbine-set has a life of 20 years. Thus, Suzlon's future order book and revenues may come into question. The stock has corrected 24% in the past six trading sessions. However, we believe that the overhang of the recent development will likely persist till completion of the announced retrofit program (six months) and prove that the issue is not a recurring one and will not impact future orders.

1-year rolling forward P/E now trading close to normal range

1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations



Source: BSE, RBI, Kotak Institutional Equities.

Biased towards Automobiles, Banking and Consumers and Industrials

Kotak Institutional Equities' Top-10 List

			Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
Companies	**Sector**	**Rating**	**(US$ mn)**	**(Rs)**	**(Rs)**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
ICICI Bank	Banking	ADD	26,402	960	1,200	34.6	36.7	45.7	27.8	26.1	21.0	—	—	—
Larsen & Toubro	Industrials	BUY	22,893	3,201	4,050	62.8	91.6	123.5	51.0	35.0	25.9	32.1	22.0	16.4
ITC	Consumer Products	BUY	18,065	194	250	7.2	8.3	9.7	26.9	23.3	20.0	17.1	14.7	12.2
DLF	Property	BUY	28,866	681	1,220	12.7	55.1	72.4	53.6	12.4	9.4	44.8	10.3	7.6
HDFC Bank	Banking	ADD	11,515	1,336	1,500	35.7	48.4	64.4	37.4	27.6	20.8	—	—	—
Maruti Suzuki	Automobiles	BUY	6,753	940	1,240	54.0	67.8	93.0	17.4	13.9	10.1	10.2	8.4	6.0
Bajaj Auto	Automobiles	BUY	5,352	2,128	2,865	127.2	119.9	140.7	16.7	17.7	15.1	11.7	12.1	10.6
Oil & Natural Gas Corporation	Energy	BUY	52,520	988	1,325	84.4	102.1	121.2	11.7	9.7	8.2	4.7	4.0	3.3
Tata Power	Utilities	ADD	6,934	1,197	1,540	26.6	29.7	38.1	45.0	40.3	31.4	26.0	26.8	24.0
Mid-cap. basket														
IVRCL	Construction	BUY	1,445	432	570	12.4	13.5	20.4	34.7	32.1	21.2	26.7	16.6	12.2
Jindal Saw	Pipes	BUY	1,112	799	1,150	101.4	70.9	114.2	7.9	11.3	7.0	5.5	5.9	3.6
Lanco Infratech	Utilities	BUY	2,270	411	670	8.5	17.6	33.8	48.5	23.4	12.2	25.5	21.0	11.5
Nagarjuna Construction Co.	Construction	BUY	1,359	236	365	6.5	9.2	12.7	36.2	25.7	18.6	23.6	14.7	11.4
Rajesh Exports	Retail	BUY	765	106	215	4.6	7.6	10.5	23.1	14.0	10.1	13.9	5.5	4.3
Mid-cap. basket				**16,542**										

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Over-weighting Automobiles, Banking and Consumers

Kotak Institutional Equities' Model Portfolio

	5-Mar		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**(bps)**
Bajaj Auto	2,128	BUY	1.3	2.8	150
Mahindra & Mahindra	697	BUY	1.3	1.3	—
Maruti Suzuki	940	BUY	1.2	2.7	150
Tata Motors	703	BUY	1.6	—	(163)
Automobiles			**5.4**	**6.8**	**137**
Punjab National Bank	523	BUY	—	1.0	100
State Bank of India	1,854	NR	4.0	4.0	—
PSU Banking			**4.0**	**5.0**	**100**
HDFC	2,755	REDUCE	6.1	3.6	(250)
HDFC Bank	1,336	ADD	3.3	4.8	150
ICICI Bank	960	ADD	9.6	11.1	150
Pvt Banking/Financing			**19.0**	**19.5**	**50**
ACC	741	REDUCE	0.8	—	(76)
Ambuja Cements	121	REDUCE	1.0	—	(99)
Grasim Industries	2,863	ADD	1.8	—	(178)
Cement			**3.5**	**—**	**(353)**
Hindustan Unilever	226	ADD	2.2	2.2	—
ITC	194	BUY	4.6	6.1	150
Consumers			**6.8**	**8.3**	**150**
HPCL	285	BUY	—	1.0	100
Oil & Natural Gas Corporation	988	BUY	3.8	5.3	150
Reliance Industries	2,293	RS	13.0	10.9	(207)
Energy			**16.8**	**17.2**	**43**
Bharat Heavy Electricals	2,081	ADD	3.2	1.7	(150)
Larsen & Toubro	3,201	BUY	7.5	9.5	200
Industrials			**10.7**	**11.2**	**50**

	5-Mar		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**(bps)**
Hindalco Industries	208	ADD	1.7	—	(172)
Jindal Steel & Power	2,115	ADD	—	1.5	150
Tata Steel	798	REDUCE	4.3	3.3	(100)
Metals			**6.1**	**4.8**	**(122)**
Cipla	205	REDUCE	0.9	—	(94)
Sun Pharmaceuticals	1,319	BUY	—	1.0	100
Ranbaxy Laboratories	454	BUY	1.1	1.1	—
Pharmaceuticals			**2.0**	**2.1**	**6**
DLF	681	BUY	1.6	3.1	150
Housing Development & Infrastructure	710	BUY	—	1.0	100
Real estate			**1.6**	**4.1**	**250**
Infosys Technologies	1,475	BUY	6.5	6.5	—
Satyam Computer Services	434	BUY	2.5	2.5	—
TCS	875	ADD	1.9	—	(193)
Wipro	431	ADD	1.1	1.6	50
Technology			**12.1**	**10.6**	**(143)**
Bharti Airtel Limited	750	REDUCE	4.5	3.0	(150)
Reliance Communications	528	SELL	3.4	2.4	(100)
Telecom			**7.9**	**5.4**	**(250)**
NTPC	195	REDUCE	2.2	—	(217)
Reliance Energy	1,459	NR	2.0	—	(202)
Tata Power	1,197	ADD	—	2.0	200
Utilities			**4.2**	**2.0**	**(219)**
IVRCL	432	BUY	—	0.6	60
Jindal Saw	799	BUY	—	0.6	60
Lanco Infratech	411	BUY	—	0.6	60
Nagarjuna Construction Co.	236	BUY	—	0.6	60
Rajesh Exports	106	BUY	—	0.6	60
Mid-cap. basket			**—**	**3.0**	**300**

Note:

(1) Weights are with respect to March 5, 2008 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities.

Valuation summary of BSE-30 sectors

	Mkt cap.	Adj mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ mn)	(US$ mn)	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2007	2008E	2009E
Automobiles	24,005	14,888	27.6	10.9	20.4	16.9	15.2	12.6	10.6	9.9	8.1	4.1	3.3	2.7	1.4	1.4	24.0	21.4	21.2
Banking	81,666	63,109	14.2	34.3	12.5	31.8	23.6	21.0	—	—	—	5.2	3.3	2.9	0.7	0.9	16.5	13.8	13.8
Cement	14,522	9,690	89.5	16.5	8.5	13.5	11.6	10.7	8.0	6.2	5.6	3.6	2.8	2.2	1.5	1.9	26.5	24.0	20.7
Consumers	30,214	18,714	19.8	14.8	15.4	28.6	24.9	21.6	19.6	15.8	13.5	8.9	8.5	7.4	2.2	2.9	31.2	34.0	34.1
Energy	123,787	46,165	23.2	17.0	20.0	16.5	14.1	11.8	8.2	7.1	5.9	3.1	2.6	2.1	1.6	1.9	18.7	18.3	18.1
Industrials	48,134	29,416	52.0	37.9	31.9	46.3	33.5	25.4	26.7	19.7	15.0	11.8	9.0	6.9	0.4	0.5	25.5	26.7	27.0
Metals	23,783	16,648	33.1	(0.6)	7.3	13.8	13.9	13.0	8.9	8.0	7.7	3.2	1.9	1.7	1.2	1.3	23.5	14.0	13.3
Pharmaceuticals	8,157	5,512	39.6	21.7	(3.0)	27.9	22.9	23.6	19.6	15.8	16.1	5.6	4.8	4.3	1.4	1.7	19.9	21.0	18.3
Property	28,816	4,322	913.2	383.2	31.4	59.8	12.4	9.4	43.1	10.2	7.5	29.3	5.4	3.6	—	0.7	49.0	43.5	37.9
Technology	64,964	33,125	44.4	20.7	18.6	21.6	17.9	15.1	15.9	12.8	10.3	7.2	5.7	4.5	1.2	1.7	33.5	31.7	29.9
Telecom	62,090	21,731	182.9	67.6	26.1	34.5	20.6	16.3	18.5	12.3	9.3	7.2	5.3	4.1	0.0	0.2	20.9	25.7	24.9
Utilities	48,359	11,522	16.1	11.8	9.6	25.6	22.9	20.9	13.6	13.9	14.8	3.3	3.0	2.8	1.4	1.7	12.9	13.2	13.4
BSE-30	**558,496**	**274,842**	**36.5**	**29.4**	**18.7**	**23.4**	**18.1**	**15.2**	**12.8**	**10.3**	**8.7**	**4.9**	**3.7**	**3.0**	**1.1**	**1.4**	**20.7**	**20.2**	**19.9**
BSE-30 ex-Energy	**434,710**	**228,677**	**43.5**	**35.0**	**18.2**	**26.6**	**19.7**	**16.6**	**15.8**	**12.1**	**10.2**	**5.8**	**4.1**	**3.5**	**0.9**	**1.2**	**21.8**	**21.0**	**20.8**
BSE-30 ex-Energy, Com.	**396,405**	**202,340**	**42.2**	**41.0**	**19.8**	**29.2**	**20.7**	**17.3**	**17.9**	**13.2**	**10.9**	**6.2**	**4.5**	**3.8**	**0.9**	**1.2**	**21.3**	**21.8**	**21.8**
BSE-30 ex-Technology	**493,532**	**241,717**	**35.4**	**30.6**	**18.7**	**23.7**	**18.1**	**15.3**	**12.4**	**10.0**	**8.5**	**4.7**	**3.5**	**2.9**	**1.0**	**1.3**	**19.7**	**19.3**	**19.1**

Note:
(a) EV/EBITDA excludes Banking sector.

Source: Company reports, Kotak Institutional Equities estimates.

Equity risk premium has increased off late

Equity risk premium (%) for BSE Universe, using our proprietary tool, Whizdom

Equity risk	Implied BSE Sensex		
premium	Rf = 8%	Rf = 7.5%	Rf = 7%
5.0	14,412	15,562	16,916
4.5	15,292	16,591	18,136
4.0	16,289	17,768	19,551
3.5	16,887	18,517	20,513
3.0	18,144	20,043	22,413
2.5	19,614	21,859	24,732
2.0	21,358	24,065	27,645

Source: Kotak Institutional Equities estimates.

Metals

Sector coverage view			Neutral

		Price, Rs	
Company	Rating	5-Mar	Target
Hindalco	ADD	208	225
NALCO	REDUCE	453	400
Tata Steel	REDUCE	798	775
Hindustan Zinc	ADD	604	1,000
JSPL	ADD	2,115	2,900
Sterlite	ADD	778	1,000
Sesa	BUY	3,372	4,500
JSW	ADD	985	1,040

Cold winters heat up aluminium prices; market balance might return to surplus in 2HCY08

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- **Aluminium prices reach multi-year high; thanks to the power outage in China (and consequent closure of a number of smelters) and continued fears of further power outages in South Africa**
- **China's aluminium production fell below consumption for the first time in four years; NAFTA's faltering consumption growth currently met by growing consumption in Europe**
- **At current spot prices of Aluminium, marginal EBITDA margin and incremental ROIC very attractive—expect prices to sober up in 2HCY08 as closed smelters return to production**
- **Increase FY2009 aluminium price expectations by ~10% following loss in production. Consequently, raise targets on Hindalco to Rs225/share (Rs210 earlier) and Nalco to Rs400/share (Rs375 earlier)**
- **Reduce rating on Hindalco to ADD (BUY earlier) citing limited upside/credit spread risk and retain REDUCE on Nalco citing lack of volume growth**

The recent power crunch situation in China and continued fears of further power outages in South Africa curtailed Jan-08 aluminium production, which led to spiraling aluminium prices in the past couple of months. China's monthly production lagged consumption for the first time in last four years, and NAFTA's faltering consumption was more than covered up by growing consumption from European region. We estimate the high incremental EBITDA margins and ROIC to reduce in 2HCY08 as prices sober up post resumption of production in the affected smelters. We raise our price expectations for FY2009E following higher-than-expected 1HCY08 aluminium prices. Consequently, we raise our target on Hindalco to Rs225 (from Rs210) and that on Nalco to Rs400 (Rs375 earlier). However, we reduce rating on Hindalco to ADD (from BUY) citing limited upside and retain REDUCE on Nalco.

Aluminium cash prices on LME crossed US$3,100/ton in Mar-08 following supply disruptions in China, South Africa and CIS regions. The market balance returned to deficit in Jan-08 after staying in surplus for the past couple of years. It appears that the 1HCY08 market surplus might be wiped off following disruptions, but the balance may still turn to surplus in 2HCY08 after affected smelters resume production.

Heavy rains and snow in China have reportedly led to curtailment in coal output, increase in power demand from households and damage to transmission trunk projects. CRU estimates a loss of 584,000 tons of production in China for 1HCY08.

Severely cold weather took its toll on Tajikistan too, freezing rivers and impacting production in the country’s 517,000 tpy Tursunzade smelter, which runs on hydroelectric power reservoir. CRU expects a disruption of 30,000 tons from this geography.

In addition, a growing power supply crunch in South Africa has led to lower availability at BHP Billiton’s Hillside, Bayside and Mozal (smelter in Mozambique sources energy from South Africa) smelters (by approx. 10%). Unlike China, the problem in South Africa do not stem from adverse weather conditions and therefore the problem can get prolonged.

China's aluminium production fell below consumption for the first time since Dec-03, but NAFTA's consumption is on a continuous decline. There have been numerous smelter closures in various provinces in China—at the 415,000 tpy Guizhou smelter and 113,000 tpy Zuny smelter in Guizhou province, 275,000 tpy Sichuan Meishan smelter in Sichuan province—and production cuts in several smelters in the Yunnan and Hunan provinces. CRU estimates that 393,000 tons of production will be lost in the first quarter and 191,000 tons in the second quarter of CY2008.

However, lower housing starts, lower vehicle sales and generally gloomy investor sentiment in the US have led to faltering consumption in the NAFTA region. After falling 13% in CY2007, we expect a modest growth in NAFTA aluminium demand for CY2008, which appears to have downside risk at this juncture. However, strong consumption growth from Europe and steady consumption growth from Japan in Jan-08 have allowed global consumption to grow 8% yoy in the month of Jan-08.

At current spot prices of aluminium, marginal EBITDA margin and incremental ROIC have become extremely attractive; aluminium prices will likely sober towards 2HCY08 as smelters resume production after a more favorable weather. Alternatively, if prices manage to stay at current levels (for some reason), we expect incremental integrated/non-integrated smelter capacities to be announced to take advantage to higher expected returns.

At current aluminium prices, the marginal EBITDA margin for an un-integrated smelter in our calculations stands at 33% and incremental ROIC at 22%. We believe these are reasonably high levels to attract incremental investments in regions with ample supply of energy.

We increase our aluminium price expectation to US$2825/ton (from US$2552/ton earlier) for FY2008E, following higher-than-expected ensuing prices. Deficits in 1HCY08 will likely allow prices to stay at higher levels than our previous expectations. However, we expect prices to normalize to reflect lower marginal EBITDA for non-integrated smelters (in the second half of the current calendar year) triggered by resumption of production by currently affected smelting capacities. This and other housing-keeping changes lead to a revision in target prices of Hindalco by 7% to Rs225/share from Rs210 earlier and that of Nalco again by 7% to Rs400/share from Rs375 earlier.

We note that the increase in aluminium price assumptions for a particular year result in two counter-acting actions for Hindalco. On one hand, it results in higher realizations for the India entity, increasing net earnings for the standalone business. On another hand, Novelis tends to loose money on fixed-price can sheet contracts in North America as those contracts are locked in, whereas ingot purchases are made largely on a spot basis (we make a simplifying assumption of no hedges, since we are not aware of outstanding positions).

For Nalco, on the other hand, higher LME cash aluminium has dual benefits (a) it increases realization of its aluminium business, and (b) it also increases realization on part sale of alumina (70% of alumina sales) since alumina prices are fixed as percentage of aluminium prices. Therefore, in a rising aluminium price scenario, Nalco tends to outperform Hindalco.

Reduce rating on Hindalco to ADD (BUY before) and retain REDUCE on Nalco. We reduce our rating on Hindalco to ADD citing limited upside to our target prices and credit spread risk despite rising earnings. We retain our REDUCE rating on Nalco as we continue to believe returns in Nalco will likely emulate LME aluminium price return, which we expect will sober up in 2HCY08.

We have been positive on Hindalco over the past few months citing the mismatch in our valuation methodology of Novelis versus the street's. We have argued in the past that

a) Given the difference in the tenure of loss-making beverage can sheet contracts and continuing EBITDA of Novelis, it is inappropriate to value Novelis' reported EBITDA using a unified multiple. Consequently, we continue to value Novelis' recurring EBITDA at a 10% discount to Hindalco's multiples, and separately calculate a NPV of Novelis' loss making contracts.

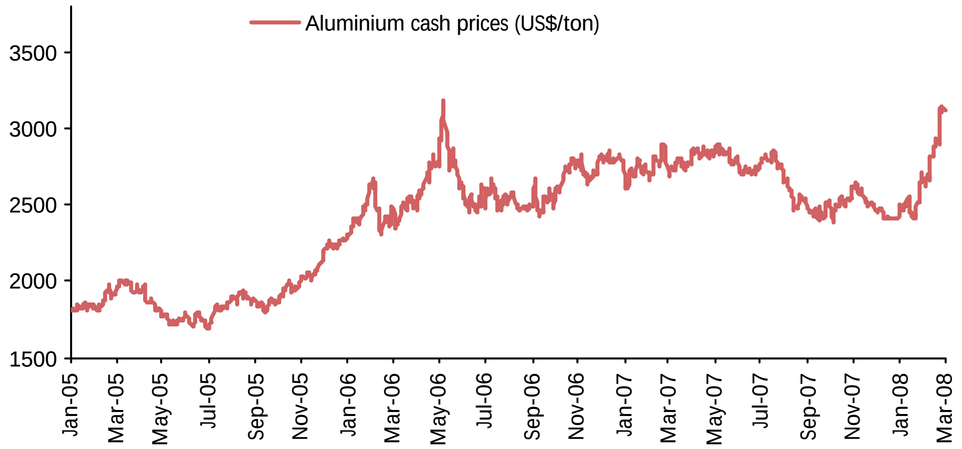
b) Novelis' continuing EBITDA should eventually be valued at a higher multiple to Hindalco's EBITDA (which we do not do at this point in time), given that being a standalone rolling business, Novelis' EBITDA will likely not carry commodity price risk to the same extent as Hindalco's.

We now believe that argument (a) has now been played out to a large extent and the current market price does reflect investors' willingness to value the two earnings streams individually. Whereas we believe that argument (b) is yet to be played out, the risk of credit spreads (Hindalco is yet to fully convert its bridge facilities into fixed-term loans), coupled with unattractive upside to current market prices now warrants a downgrade. Nevertheless, we continue to stay positive on the prospects of Hindalco's consolidated businesses and rate it an ADD.

We continue to believe that Nalco, in the absence of volume growth till FY2010E, will continue to be a pure price play on LME aluminium prices. The stock has done considerably well since our downgrade (to REDUCE, ADD previously) in Jan-08 following rising aluminium prices (and resultant increase in contract alumina realizations as well). However, we expect aluminium prices to sober up in 2HCY08 following the resumption of currently idle smelting capacity, which will likely preclude sustained outperformance of Nalco. We continue to maintain our REDUCE on the stock, despite likely possibility of stock trading above its fair price following strength in aluminium prices.

Aluminium prices react strongly to disruptions

LME cash prices of aluminium, December fiscal year-ends, 2005-08 (US$/ton)



Source: LME, Kotak Institutional Equities.

Aluminum market balance will likely shift back to surplus in 2008

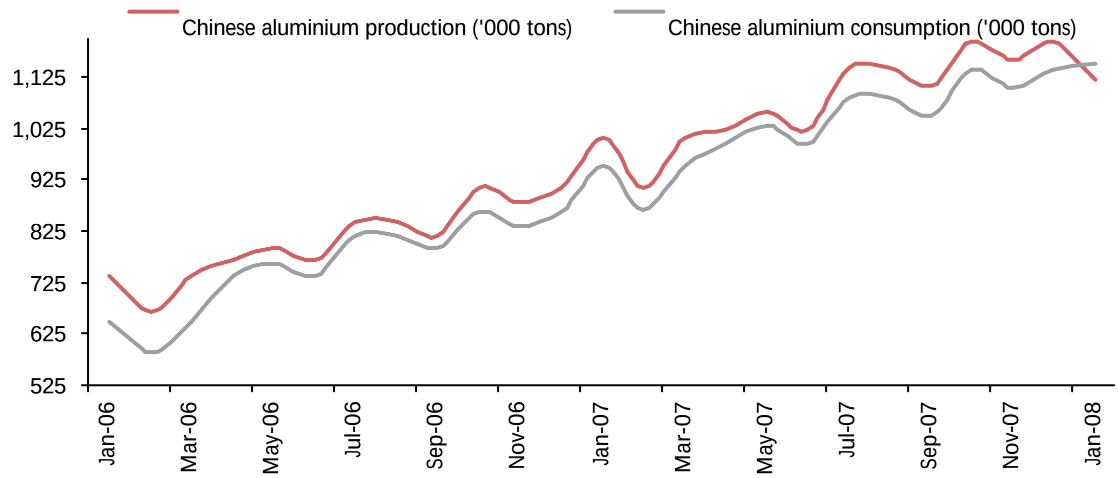
Annual world aluminum demand-supply balance, December fiscal year-ends, 2002-08E ('000 tons)

	2002	2003	2004	2005	2006	2007	2008E	Jan-08
Production	**26,120**	**27,948**	**29,831**	**31,841**	**33,903**	**38,157**	**40,216**	**3,293**
Africa	1,372	1,428	1,711	1,752	1,864	1,816	1,865	154
N. America	5,415	5,495	5,109	5,375	5,332	5,638	6,020	496
L. America	2,229	2,275	2,356	2,391	2,493	2,544	2,876	222
Asia	2,113	2,317	2,585	2,944	3,299	3,557	3,716	302
W. Europe	4,260	4,425	4,667	4,741	4,541	4,645	4,918	416
Australiasia	2,170	2,198	2,246	2,252	2,274	2,304	2,303	197
China	4,420	5,465	6,589	7,743	9,349	12,621	13,212	1,091
CIS + E. Europe	4,141	4,345	4,569	4,643	4,751	5,032	5,307	415
Consumption	**25,538**	**27,577**	**30,401**	**31,916**	**34,170**	**37,811**	**39,532**	**3,337**
N. America	6,595	6,829	7,500	7,567	7,653	6,662	6,728	536
Asia (excl. China)	5,473	6,001	6,577	6,692	6,836	7,639	7,200	547
W. Europe	6,038	6,192	6,603	6,717	7,055	7,245	8,332	617
China	4,189	5,148	6,086	7,091	8,580	12,051	13,015	1,124
Others	3,243	3,408	3,635	3,850	4,046	4,214	4,257	513
Implied surplus (deficit)	**581**	**371**	**(570)**	**(75)**	**(267)**	**345**	**684**	**(44)**

Source: MBR, IAI, WBMS, CRU, Kotak Insititutional Equities.

China turns net importer after a long time, as storm forces production to reduce in Jan-08

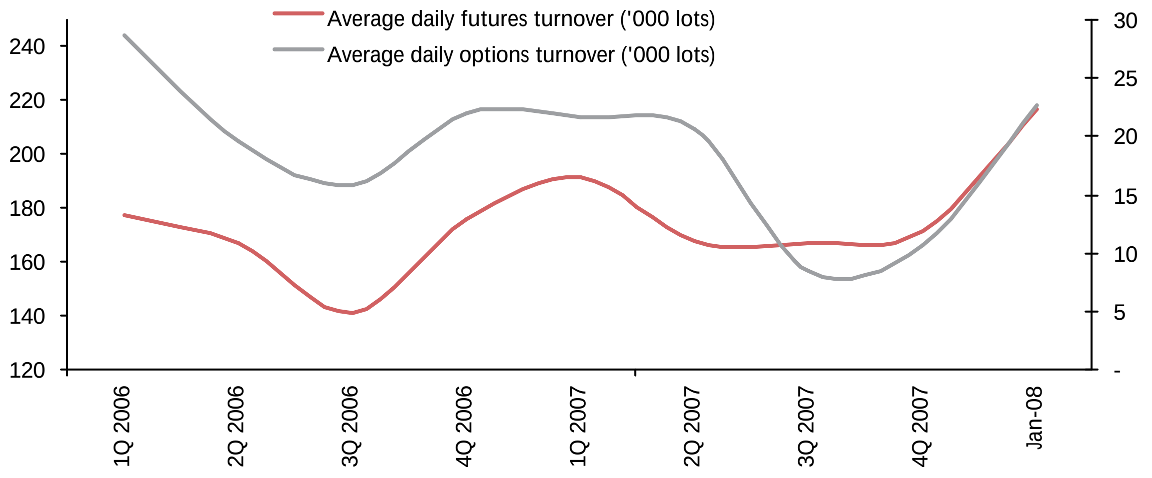
Chinese production and consumption of unwroght aluminium, December fiscal year-ends, 2003-08 ('000 tons)



Source: CRU, Kotak Institutional Equities.

Fund activity increases in the month of January

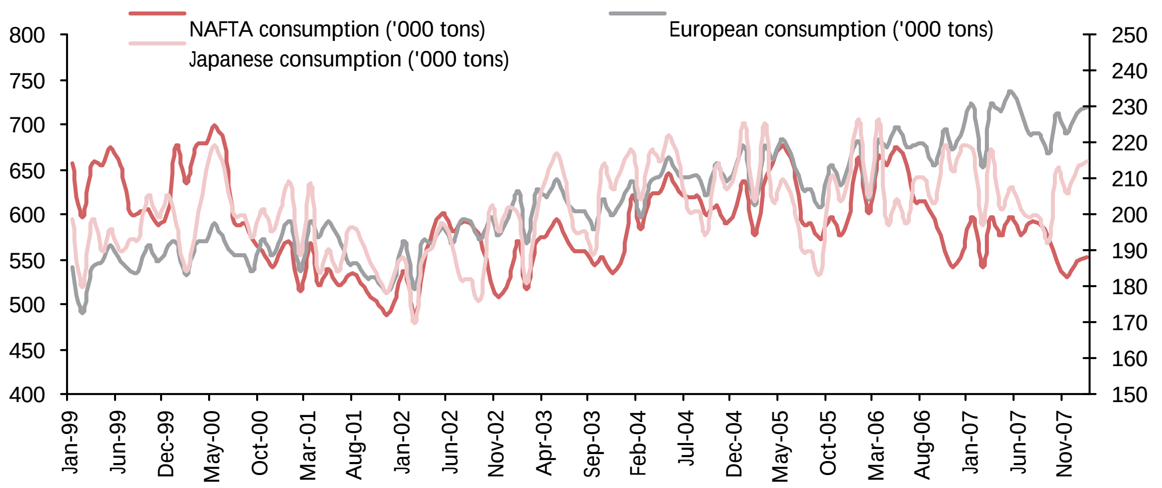
Avg daily F&O turnover, December fiscal year-ends, 2002-08 ('000 lots)



Source: CRU, Kotak Institutional Equities.

NAFTA consumption faltering; growing European consumption and steady Japanese consumption aids

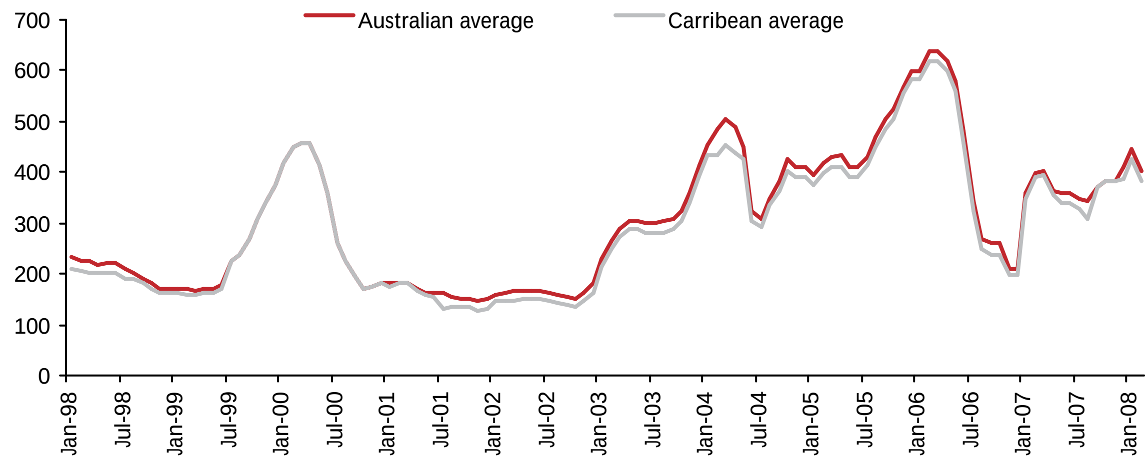
Region-wise refined aluminium consumption, December fiscal year-ends, 2002-08 ('000 tons)



Source: CRU, Kotak Institutional Equities.

Lower aluminium production in China forces alumina prices to soften

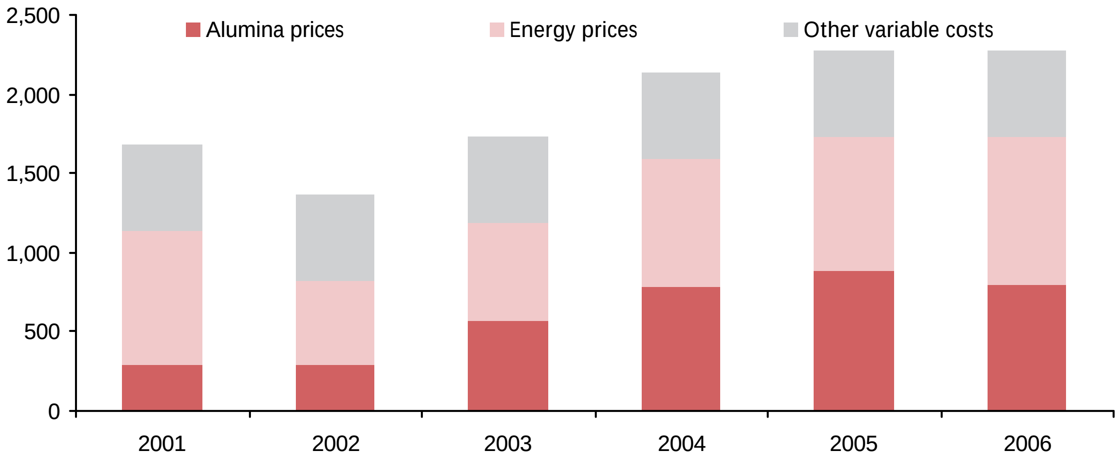
Alumina prices, December fiscal year-ends, 1999-2007 (US$/ton)



Source: CRU, Kotak Institutional Equities.

Rising costs ensure continued support to refined metal prices

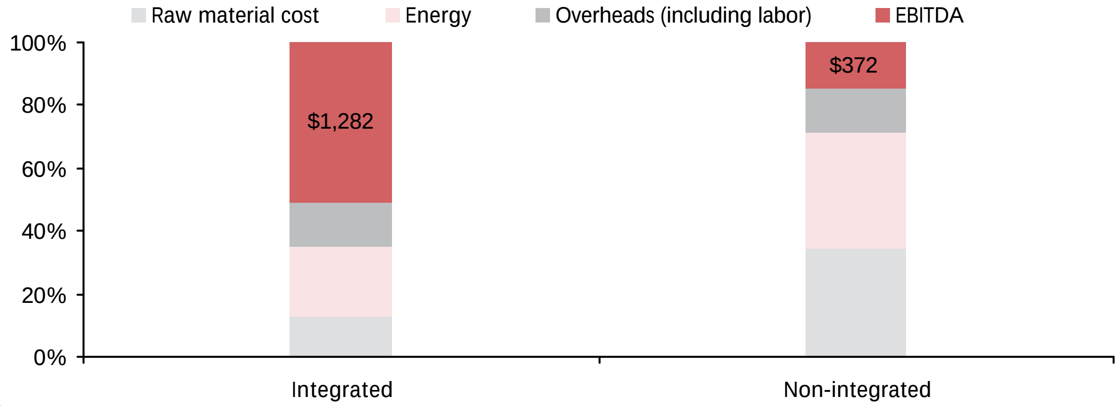
Variable aluminum production cost, December fiscal year-ends, 2001-06 (US$/ton)



Source: CRU, IEA, Kotak Institutional Equities estimates.

At US$2500/ton, we believed incremental margins and incremental ROCE were not very attractive

Proportionate cost and EBITDA on integrated and non-integrated aluminum manufacture, (%)



Note:
(a) We assume non-integrated aluminium manufacturers buy alumina and power from open markets.
(b) Costs calculated on input-output norms of 1.9X for alumina and 15 mwh for power per ton of aluminium.

Source: Kotak Institutional Equities estimates.

Notes:

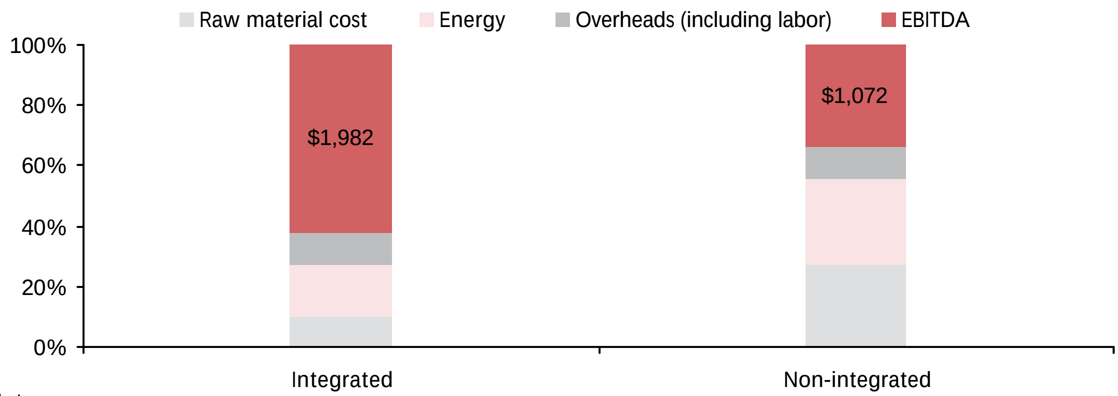
(a) We assume non-integrated aluminium manufacturers buy alumina and power from open markets.

(b) Costs calculated on input-output norms of 1.9X for alumina and 15 mwh for power per ton of aluminium.

Source: Kotak Institutional Equities estimates

At US$3200/ton, EBITDA margin and ROCE on marginal smelter increases drastically

Proportionate cost and EBITDA on integrated and non-integrated aluminum manufacture, (%)



Note:
(a) We assume non-integrated aluminium manufacturers buy alumina and power from open markets.
(b) Costs calculated on input-output norms of 1.9X for alumina and 15 mwh for power per ton of aluminium.

Source: Kotak Institutional Equities estimates.

Valuation comparison of global non-ferrous companies

		Market Cap	Enterprise Value	Price to earnings (X)		Price to book (X)		EV to EBITDA (X)	
Company	Country	(Rs mn)	(Rs mn)	2008E	2009E	2008E	2009E	2008E	2009E
Alcoa Inc	USA	30,946	40,976	13.8	11.3	1.8	1.6	8.0	7.2
Aluminum Corp Of China Ltd-H	China	48,585	49,918	14.4	13.6	2.7	2.4	16.4	15.9
Century Aluminum Company	USA	2,743	2,834	13.3	11.7	3.9	3.5	7.6	6.7
Hunan Non-Ferrous Metals-H	China	1,778	2,528	14.6	11.7	1.7	1.7	7.1	6.9
Teck Cominco Ltd-Cl B	Canada	18,088	18,297	10.5	10.0	1.8	1.8	6.0	5.7
Jiangxi Copper Company Ltd-H	China	14,597	14,956	10.0	10.4	2.2	1.9	14.6	14.3
Southern Copper Corp	USA	31,534	31,474	12.4	11.5	6.8	6.2	7.4	7.1
Freeport-Mcmoran Copper	USA	37,867	48,666	10.4	9.9	2.1	1.8	5.1	4.6
Antofagasta Plc	UK	15,902	15,226	11.9	13.5	3.3	2.8	5.7	6.4
Grupo Mexico Sab De Cv-Ser B	Mexico	17,515	18,791	8.8	7.7	3.1	2.6	4.4	3.9
Jiangxi Copper Co Ltd-A	China	14,597	14,956	31.7	28.1	7.0	6.4	16.3	16.4
Vedanta Resources Plc	UK	12,740	15,203	14.1	11.9	4.1	2.4	5.4	4.7
Xstrata Plc	UK	75,978	89,002	12.4	12.0	2.5	2.1	7.6	7.5
Global average				**13.7**	**12.6**	**3.3**	**2.9**	**8.6**	**8.3**

Source: Bloomberg, Kotak Institutional Equities

Hindalco, SOTP-based target-price, 2009E basis

	EBITDA	EV/EBITDA	EV	Stake	Attiutable EV		Value
	(Rs bn)	(X)	(Rs bn)	(%)	(Rs bn)	(US$ mn)	(Rs/share)
Copper business	4	7.0	25	100.0	25	621	19
Aluminium business	37	8.0	293	100.0	293	7,157	225
ABML (a)	-		-	51.0	10	251	8
Novelis (c), (e)	21	7.2	153	100.0	153	3,723	117
PV of Novelis beverage can contracts (d)					(23)	(558)	(18)
Total Enterprise value					**459**	**11,195**	**351**
Total Debt					**263**	**6,409**	**201**
Hindalco's debt (excl LBO debt)					22	531	17
LBO debt					127	3,100	97
Novelis standalone debt					114	2,778	87
Value of investments (b)					**95**	**2,314**	**73**
Resultant Market capitalization					**291**	**7,100**	**223**
Target price (Rs/share)							**225**

Notes:
(a) Stake in ABML is valued based on market-capitalization of ABML.
(b) We have valued investments at 20% discount to market value (for quoted investments) and 20% discount to book (for unquoted investments).
(c) We value Novelis' EBITDA without its loss-making contracts.
(d) Loss-making beverage can contracts will likely exhaust over the next three years. We use 12% discounting for calculating its PV.
(e) We have valued Novelis at 10% discount to Hindalco's aluminium business valuations.

Source: Kotak Institutional Equities estimates

Hindalco, Standalone summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**183,130**	**196,491**	**203,824**	**210,204**
Expenditure	**(142,980)**	**(157,993)**	**(163,755)**	**(171,847)**
Raw materials	(106,358)	(118,197)	(120,804)	(126,092)
Employee expenses	(5,196)	(5,819)	(6,692)	(7,361)
Other expenditure	(31,426)	(33,977)	(36,259)	(38,393)
EBITDA	**40,150**	**38,498**	**40,069**	**38,357**
Non-operating income	3,701	3,648	4,358	4,319
Depreciation	(6,380)	(7,542)	(9,137)	(10,152)
EBIT	37,470	34,604	35,290	32,525
Interest expenses	(2,424)	(3,316)	(2,947)	(2,947)
Adjusted pre-tax profits	35,046	31,289	32,343	29,577
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	**35,046**	**31,289**	**32,343**	**29,577**
Current taxes	(9,954)	(7,181)	(7,423)	(6,788)
Deferred taxes	551	(1,267)	(1,310)	(1,198)
Reported net income	25,643	22,841	23,610	21,591
Adjusted net income	**25,643**	**22,841**	**23,610**	**21,591**
EPS (Rs), based on wtd avg shares	**22.1**	**18.5**	**18.1**	**16.5**
EPS (Rs), based on fully diluted shares	**19.6**	**17.5**	**18.1**	**16.5**
Year-end shares outstanding (mn)	1,159.3	1,306.8	1,306.8	1,306.8
Weighted average shares outstanding (mn)	1,159.3	1,233.1	1,306.8	1,306.8
Fully diluted shares outstanding (mn)	1,306.8	1,306.8	1,306.8	1,306.8

Balance sheet	2007	2008E	2009E	2010E
Equity capital	1,043	1,307	1,307	1,307
Reserves and surplus	123,137	169,228	190,499	209,751
Deferred tax liability	11,258	12,525	13,835	15,033
Total Equity	**135,438**	**183,060**	**205,641**	**226,091**
Secured loans	64,102	64,102	64,102	64,102
Unsecured loans	9,584	9,584	9,584	9,584
Total borrowings	**73,686**	**73,686**	**73,686**	**73,686**
Current liabilities	40,275	42,055	43,032	43,882
Total capital	**249,400**	**298,801**	**322,359**	**343,659**
Cash	6,655	41,551	51,915	66,339
Inventory	43,153	46,302	48,030	49,533
Debtors	15,045	16,143	16,745	17,269
Other current assets	12,930	12,930	12,930	12,930
Total current assets	**77,783**	**116,926**	**129,620**	**146,072**
Gross block	112,527	147,527	167,527	182,527
Less: Depreciation	(42,459)	(50,001)	(59,138)	(69,289)
Net block	70,067	97,526	108,389	113,237
Add: Capital work-in-process	14,764	14,764	14,764	14,764
Total fixed assets	**84,831**	**112,290**	**123,153**	**128,002**
Investments	86,753	69,553	69,553	69,553
Miscellaneous expenditure	32	32	32	32
Total assets	**249,400**	**298,800**	**322,358**	**343,658**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	35,046	31,289	32,343	29,577
Add: Depreciation	6,380	7,542	9,137	10,152
Add: Non cash expenses	(208)	-	-	-
Add: interest expenses	2,424	-	-	-
Add: investing activities	(3,488)	-	-	-
Less: Taxes paid	(5,604)	(7,181)	(7,423)	(6,788)
Add: Working capital changes	(1,185)	(2,466)	(1,354)	(1,178)
Total operating cash flow	**33,366**	**29,183**	**32,703**	**31,763**
Operating Cash flow w/o working capital	34,551	31,649	34,057	32,941
Cash flow from investing activities				
Capital expenditure	(13,472)	(35,000)	(20,000)	(15,000)
Investments	(46,945)	17,200	-	-
Interest and dividend received	4,054	-	-	-
Total investing cash flow	**(56,363)**	**(17,800)**	**(20,000)**	**(15,000)**
Cash flow from financing activities				
Share issuances	5,529	25,852	-	-
Loans	24,652	-	-	-
Less: Dividends paid (including dividend tax)	(4,495)	(2,339)	(2,339)	(2,339)
Interest and finance charges	(5,795)	-	-	-
Total financing cash flow	**19,890**	**23,513**	**(2,339)**	**(2,339)**
Net change in cash	**(3,107)**	**34,896**	**10,364**	**14,424**
Opening cash	9,762	6,655	41,551	51,915
Closing cash	**6,655**	**41,551**	**51,915**	**66,339**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	28.4	23.0	23.0	23.0
EBITDA margins	21.9	19.6	19.7	18.2
EBIT margins	20.5	17.6	17.3	15.5
Net debt/equity	0.5	0.2	0.1	0.0
Net debt/capitalization	0.5	0.2	0.1	0.0
ROACE	14.9	10.9	9.7	8.2
ROAE	21.0	14.3	12.2	10.0

Key assumptions	2007	2008E	2009E	2010E
Alumina production (tons)	1,198,658	1,275,000	1,350,000	1,425,000
Aluminium production (tons)	442,686	494,000	517,010	527,670
Copper cathode production (tons)	287,800	320,000	375,000	425,000

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	10.7	12.0	11.6	12.7
EV/EBITDA	7.7	7.6	7.4	7.3
EV/Sales	1.7	1.5	1.5	1.3
M.cap/Sales	1.3	1.3	1.3	1.3
Price to book	2.0	1.5	1.3	1.2

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	22.1	18.5	18.1	16.5
Diluted Earnings	19.6	17.5	18.1	16.5
Cash earnings	14.7	11.7	11.1	8.8
Free cash	15.2	(4.5)	9.7	12.8
Book	103.6	140.1	157.3	173.0

Source: Company data, Kotak Institutional Equities estimates

Hindalco, Proforma consolidated summary financials, March fiscal year-ends, 2007-10E (Rs mn)

	2008E	2009E
Income statement		
Revenues	628,783	636,691
EBITDA	**51,326**	**50,543**
Other income	4,938	6,458
Depreciation	(18,061)	(19,926)
Interest	(18,773)	(15,943)
Extra-ordinaries	-	-
PBT	26,915	27,120
Taxes	(8,851)	(8,153)
PAT	**15,669**	**17,051**
Balance sheet		
Equity	190,365	208,858
Borrowings	312,280	300,601
Liabilities	502,645	509,459
Net fixed assets	213,297	219,711
Investments	215,753	215,453
Net working capital	73,594	74,294
Assets	502,644	509,459

Source: Kotak Institutional Equities estimates

Hindalco is yet to convert its bridge facility into fixed-loans

Fuding plan for Novelis acquisition, March fiscal year-ends (Rs mn)

Details	US$ mn	Comments
Total enterprise value	**5,950**	
Paid to equity share holders	3,208	At US cents 44.9 per share
Novelis debt assumed	2,634	Long and short term debt, excl. current portion of LT debt
Asssumed transaction fees	108	Balancing figure assumed
Total enterprise value	**5,950**	
Recource financing	**3,550**	
Debt	**3,100**	**Bridge financed at LIBOR+35 bps; approx. 15 months to maturity**
Equity treasury	450	Equity treaury from Hindalco's investments
Non-recourse financing	**2,400**	Assumed at 8% pre-tax yeild
Term-loans	1,000	
High-yield bonds	1,400	

Source: Company data, Kotak Institutional Equities estimates

Nalco, EV/EBITDA-based target-price, 2009E basis

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2009E	30,618	8.0	244,941	380	Multiple based on average global non-ferrous companies
Net debt			(11,626)	(18)	FY2009E net debt
Market capitalization			**256,568**	**398**	
Target price				**400**	

Source: Kotak Institutional Equities estimates

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

Income statement	2007	2008E	2009E	2010E
Net revenues	**59,402**	**51,523**	**56,689**	**65,673**
Expenditure	**(24,043)**	**(25,523)**	**(27,265)**	**(32,049)**
Raw materials	(5,301)	(5,717)	(6,152)	(7,688)
Employee expenses	(3,929)	(4,322)	(4,646)	(5,110)
Other expenditure	(14,813)	(15,485)	(16,467)	(19,251)
Operating other income	906	1,040	1,193	1,370
EBITDA	**36,265**	**27,039**	**30,618**	**34,994**
Non-operating income	3,110	2,438	1,202	2,131
Depreciation	(3,171)	(3,654)	(4,794)	(6,675)
EBIT	36,204	25,824	27,027	30,449
Interest expenses	-	-	-	-
Adjusted pre-tax profits	36,204	25,824	27,027	30,449
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	36,204	25,824	27,027	30,449
Current taxes	(12,563)	(8,982)	(9,400)	(10,590)
Deferred taxes	173	124	130	146
Reported net income	23,814	16,966	17,756	20,005
Adjusted net income	**23,814**	**16,966**	**17,756**	**20,005**
EPS (Rs), based on wtd avg shares	**37.0**	**26.3**	**27.6**	**31.0**
EPS (Rs), based on fully diluted shares	**37.0**	**26.3**	**27.6**	**31.0**
Year-end shares outstanding (mn)	644.3	644.3	644.3	644.3
Weighted average shares outstanding (mn)	644.3	644.3	644.3	644.3
Fully diluted shares outstanding (mn)	644.3	644.3	644.3	644.3

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	36,204	25,824	27,027	30,449
Add: Depreciation	3,212	3,654	4,794	6,675
Add: Non cash expenses	125	-	-	-
Less: net interest	-	-	-	-
Less: Taxes paid	(12,732)	(8,982)	(9,400)	(10,590)
Less: Other income	-	(2,438)	(1,202)	(2,131)
Add: Working capital changes	417	443	(290)	(505)
Total operating cash flow	**27,225**	**18,500**	**20,928**	**23,899**
Operating Cash flow w/o working capital	26,809	18,057	21,218	24,404
Cash flow from investing activities				
Capital expenditure	(6,419)	(24,045)	(32,955)	(2,000)
Investments	-	-	-	-
Interest and dividend received	-	2,438	1,202	2,131
Total investing cash flow	**(6,419)**	**(21,607)**	**(31,753)**	**131**
Cash flow from financing activities				
Share issuances	-	-	-	-
Loans	-	-	-	-
Less: Dividends paid (including dividend tax)	(5,877)	(5,654)	(5,654)	(5,654)
Interest and finance charges paid	-	-	-	-
Total financing cash flow	**(5,877)**	**(5,654)**	**(5,654)**	**(5,654)**
Net change in cash				
Opening cash	21,937	36,865	28,105	11,626
Closing cash	**36,865**	**28,105**	**11,626**	**30,002**

Balance sheet	2007	2008E	2009E	2010E
Equity capital	6,443	6,443	6,443	6,443
Reserves and surplus	70,509	81,822	93,924	108,276
Deferred tax liability	6,127	6,003	5,874	5,727
Total Equity	**83,080**	**94,268**	**106,241**	**120,446**
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Total borrowings	**-**	**-**	**-**	**-**
Current liabilities	12,186	11,741	12,033	12,540
Total capital	**95,266**	**106,009**	**118,274**	**132,986**
Cash	36,865	28,105	11,626	30,002
Inventory	6,350	5,507	6,060	7,020
Debtors	341	296	326	377
Other current assets	6,185	6,185	6,185	6,185
Total current assets	**49,741**	**40,093**	**24,196**	**43,584**
Gross block	90,341	92,341	147,341	149,341
Less: Depreciation	(53,232)	(56,885)	(61,679)	(68,354)
Net block	37,109	35,455	85,662	80,986
Add: Capital work-in-process	8,416	30,461	8,416	8,416
Total fixed assets	**45,525**	**65,916**	**94,078**	**89,402**
Investments	-	-	-	-
Miscellaneous expenditure	-	-	-	-
Total assets	**95,266**	**106,009**	**118,274**	**132,986**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	34.2	34.3	34.3	34.3
EBITDA margins	61.1	52.5	54.0	53.3
EBIT margins	60.9	50.1	47.7	46.4
Net debt/equity	(0.4)	(0.3)	(0.1)	(0.2)
Net debt/capitalization	(0.4)	(0.3)	(0.1)	(0.2)
ROACE	32.1	19.1	17.7	17.7
ROAE	32.1	19.1	17.7	17.7

Key assumptions	2007	2008E	2009E	2010E
Alumina sales ('000 tons)	779,104	818,199	807,622	1,159,830
Aluminium metal sales ('000 tons)	356,616	365,909	391,522	460,000
Average LME aluminium price (US$/to	2,663	2,536	2,825	2,690

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	10.8	15.2	14.5	12.9
EV/EBITDA	6.1	8.5	8.0	6.5
EV/Sales	3.7	4.5	4.3	3.5
M.cap/Sales	4.3	5.0	4.5	3.9
Price to book	3.1	2.7	2.4	2.1

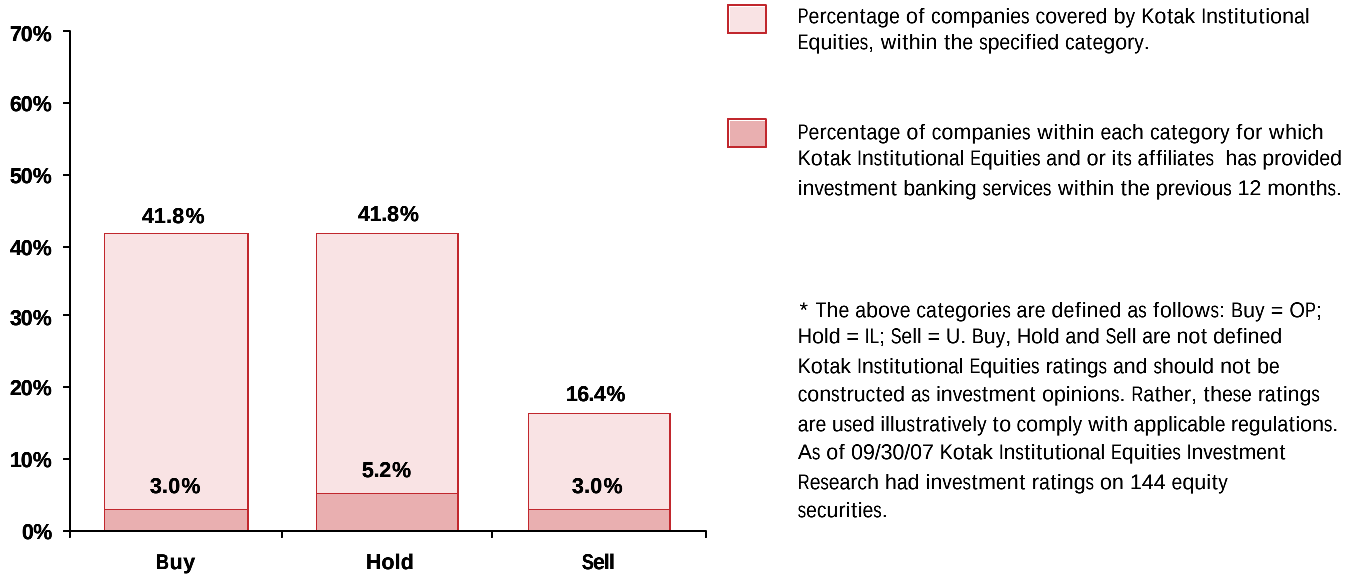
Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	37.0	26.3	27.6	31.0
Diluted Earnings	37.0	26.3	27.6	31.0
Cash earnings	41.9	32.0	35.0	41.4
Free cash	32.3	(8.6)	(18.7)	34.0
Book	128.9	146.3	164.9	186.9

Source: Company data, Kotak Institutional Equities estimates

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

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

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

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