MORNING INSIGHT

Kotak Securities

PRIVATE CLIENT RESEARCH

JULY 24, 2008

Economy News

- The UPA government is now set to fast-track economic liberalisation onto a new trajectory with finance minister P Chidambaram attaching top priority to reforms in banking, pension sectors and capital markets. (ET)
- Oil prices fell to a seven-week low below $125 a barrel on Thursday amid a view US energy demand has reached a tipping point. (ET)
- The government has put on fast track a proposal to dilute its stake in mini-ratna companies like MMTC, STC, Bharat Electronics (BEL) and Shipping Corporation of India (SCI) through follow-on public offers (FPOs). The government is contemplating dilution of up to 5 per cent in these companies through FPOs to raise about Rs 7,000 crore. (ET)
- Civil Aviation ministry lobbies for 4%tax on ATF in all states. At present, the ATF price for domestic airlines include customs duty of 10 per cent and excise duty of eight per cent, while different states levy sales tax ranging between 20 per cent and 30 per cent. (ET)

Corporate News

- The government is examining possibilities of easing out a part of the shortage in diesel by diverting some of the fuel produced by **RIL's** Export Oriented Unit (EOU) refinery in Jamnagar to the domestic market. RIL is willing to consider the proposal if it is tax neutral. (ET)
- **NMDC** is seeking up to 97 per cent increase in iron ore prices from foreign steel makers, a move that could have similar repercussions on the domestic market, which may result in higher steel prices. (BS)
- **Ranbaxy Laboratories** announced the launch of its first independently developed generic product, Amlodipine tablets 2.5 mg and 5 mg in Japan. Amlodipine is currently the largest molecule which has gone off patent in Japan and represents the biggest generic opportunity so far in the Japenese generic market. (BS)
- **Century Textiles and Industries** said it will invest Rs 6,300 crore, including Rs 2,600 crore to develop commercial projects on mill land at Worli and Rs 1,800 crore for cement manufacturing capacity expansion, over the next five years. (ET)
- **Shree Cement** is building a waste heat recovery-based power plant of 10- mw capacity in Ras (Rajasthan) with an outlay of Rs 250 crore. In addition, it is expanding its clinker capacity by one-million tonne per annum (MTPA) in Rajasthan for a total outlay of Rs 300 crore. (ET)
- **Strides Arcolab Ltd's** joint venture with South Africa's Aspen Pharmacare has struck a global licensing and supply agreement with GlaxoSmithKline. The deal will take 1,200 branded products of Strides, Aspen and their 50:50 venture, Onco Therapeutics Ltd, to 95 emerging markets. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	23 July 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
BSE Sensex	14,942	5.9	5.9	(10.6)
Nifty	4,477	5.6	6.8	(10.5)
BSE Banking	7,292	10.0	12.2	(15.0)
BSE IT	3,734	2.3	(9.9)	(7.8)
BSE Capital Goods	12,340	8.2	16.0	(10.7)
BSE Oil & Gas	9,865	5.1	7.9	(13.3)
NSE Midcap	5,600	6.1	0.7	(17.8)
BSE Small-cap	6,813	4.2	(2.8)	(22.1)
World Indices				
Dow Jones	11,632	0.3	(1.5)	(9.5)
Nasdaq	2,326	1.0	(1.8)	(4.2)
FTSE	5,450	1.6	(3.3)	(9.9)
Nikkei	13,313	1.0	(3.0)	(0.7)
Hangseng	23,135	2.7	3.2	(9.8)

Value traded (Rs cr)

	23 July 08	% Chg - Day
Cash BSE	7,334	34.5
Cash NSE	20,418	55.8
Derivatives	68,011	25.7

Net inflows (Rs cr)

	22 July 08	% Chg	MTD	YTD
FII	(391)	(249)	(1,922)	(28,413)
Mutual Fund	372	285	609	9,758

FII open interest (Rs cr)

	22 July 08	% Chg
FII Index Futures	19,963	6.7
FII Index Options	25,145	7.9
FII Stock Futures	17,919	4.5
FII Stock Options	1,139	7.7

Advances / Declines (BSE)

23 July 08	A	B	S	Total	% total
Advances	198	1,524	363	2,085	83
Declines	7	272	88	367	15
Unchanged	-	40	7	47	2

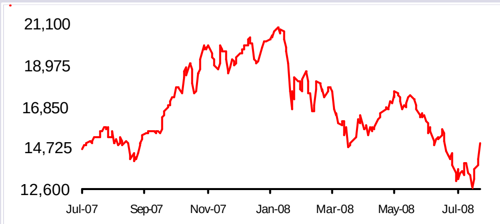
Commodity

	23 July 08	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (NYMEX) (US$/BBL)	124.2	(0.2)	(9.3)	7.0
Gold (US$/OZ)	920.9	(2.7)	3.7	4.1
Silver (US$/OZ)	17.4	(3.3)	4.2	3.7

Debt / forex market

	23 July 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.30	9.33	8.73	8.19
Re/US$	42.09	42.65	43.04	40.08

Sensex



RESULT UPDATE

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INFOTECH ENTERPRISES LTD (IEL)

PRICE: RS.189 **RECOMMENDATION: BUY**
TARGET PRICE: RS.288 **FY09E P/E: 9X**

- IEL's results for 1QFY09 were a mixed bag- business revenue growth was healthy and above our expectations. PAT growth though was modestly below estimates on account of forex losses which led to lower than estimated other income. Operationally it was a strong quarter with margins growing QoQ to 18.4%, leading to 8% QoQ EBITDA growth.
- Revenues were up 7% QoQ and 35% YoY at Rs.2bn, PAT was up c90% YoY. QoQ though PAT de-grew 5% to Rs.245.6mn. We had estimated revenues and PAT of Rs.1.94bn and Rs.277mn respectively for the quarter.
- Within verticals EMI grew by a healthy 15% QoQ in INR terms, this vertical contributes c64% of company revenues. UTG vertical de-grew 5% QoQ on account of delay in a new project scale up (lower employee utilisation). Growth in UTG was also tepid following two consecutive quarters of 12% + INR revenue growth. Management sees a ramp up from this vertical in the succeeding quarters, based on revenue pipeline.
- No impact of US economic slow-down seen, till date, according to management commentary. In our opinion strong OBP (order book position), pipe-line (c80% of estimated revenues) and client additions lend revenue visibility to FY09. Hiring trends across both verticals were also healthy and in line with our expectations.

We recommend BUY on Infotech Enterprises with a price target of Rs.288

- The management has guided for a 30% - 35% rise in FY09 revenues with stable margins. IEL had negotiated 7% price increases from Top 2 clients and remains optimistic on pricing trends - reflecting its strong positioning in its differentiated business verticals.
- 'Offset clause' can bring in potentially large business in defence and aerospace areas in the long term, in our opinion.
- Marginal change in earnings estimates to factor in the 1Q results. FY09E EPS at Rs.20.4 (Rs.20.3), a growth of 30% YoY.
- Maintain BUY with a revised price target of Rs.288 (Rs.338 earlier), an exit multiple of 14x FY09E EPS. We have adjusted our target price for modest changes to estimated earnings and higher costs of capital. We have now assumed the rupee to average Rs.40.5 per USD in FY09.
- We continue to rate Infotech as a favoured mid-cap pick given strong potential in its differentiated business verticals and the company's execution abilities.
- We will look out for potential impact on growth in future quarters as Infotech services large accounts in the airlines and related spaces which are facing a slowdown globally.
- A prolonged recession in major user economies and a sharper-than-expected appreciation in rupee v/s major currencies are pronounced risks for every IT services player; Infotech is no different.

1QFY09 results

(Rs mn)	1QFY09	4QFY08	QoQ (%)	1QFY08	YoY (%)
Income	**2006.1**	**1874.0**	**7.0**	**1488.1**	**34.8**
Expenditure	1637.2	1532.4		1223.9	
EBDITA	**368.9**	**341.6**	**8.0**	**264.2**	**39.6**
Depreciation	107.5	103.0		75.9	
EBIT	**261.4**	**238.6**	**9.6**	**188.3**	
Interest	10.4	11.5		4.5	
Other income	32.8	91.8		-30.4	
PBT	**283.8**	**318.9**	**-11.0**	**153.4**	**85.0**
Tax	58.7	86.3		33.8	
PAT	**225.1**	**232.6**	**-3.2**	**119.6**	**88.2**
Sh of profit	21.4	25.3		10.0	
MI	-0.9	1.4		0.0	
Adj PAT	**245.6**	**259.3**	**-5.3**	**129.6**	**89.5**
EPS (Rs)	**4.51**	**4.76**		**2.38**	
Margins (%)					
EBDITA	18.4	18.2		17.8	
EBIT	13.0	12.7		12.7	
PAT	11.2	12.4		8.0	

Source : Company

Revenues grew by 7% QoQ-EMI vertical drives volume growth

- Revenues for the quarter were up by about 7% on a sequential basis to Rs.2bn.
- While volumes grew by 1.9% (4.7%), realisations contributed 0.5% (0.5%) to the growth. Exchange rate helped revenues grow further by 4.7% (0.8%).
- EMI revenues (c61% of revenues) grew by a strong 15% QoQ. Volumes grew impressively on the back of scale up in existing accounts and contributions from new engagements.
- EMI revenues were impacted during the previous quarter by issues in two accounts. Management opines these have been addressed. Revenues from the largest client were impacted because of delays in awarding of the contract, which has since been awarded. In the other case, new contract did not start at the expected time.
- UTG (c36% of revenues) saw revenues de-growing 5% QoQ. This de growth follows two strong quarters where revenues from UTG grew in excess of 12% QoQ.
- We also believe there is an element of seasonality in the project based UTG vertical, with more projects getting executed and completed in the 2H of the fiscal.

Deeper relationships with existing customers and new client additions

- Infotech has managed to deepen client engagement for clients like SP AusNet, P&W, Bombardier, Tele-Atlas & Swisscom over the recent quarters.
- In terms of new clients Infotech has signed a MoU with a French based aviation company- a major player in civil and military aviation industry. The MoU is initially for five years and aims to jointly collaborate activities related to Ministry of Defence, GoI proposed 'Medium Multi role combat aircraft' (MMRCA) offset program.
- Also, Infotech bagged 24 new accounts during the quarter comprising 16 in the EMI vertical and 8 in the UTG vertical.

- Within the EMI vertical, projects from P&W Canada in the avionics segment are scaling up at the Bangalore facility. Infotech had also got projects from other P&W repair locations like Norway, Singapore and New Zealand.
- In avionics, the company has not faced any project cancellations because of delays in the Dreamliner project. However, there have been some delays from the sub-contractors involved in that project.
- We opine this is a business segment (aerospace) that needs to be monitored given the impact of high crude oil prices on the aviation/travel industry. IEL's significant clients -P&W, Bombardier and Boeing are related to the above business verticals. Management has seen no negatives on this front yet and in fact sees opportunities in the greater thrust aerospace companies are giving to efficient and light engine design skill sets- areas where IEL has domain expertise and existing impressive client roster.

No impact of the US slowdown, as yet; 30% - 35% revenue growth guidance- non-BFSI revenue mix showing healthy traction

- As of now, Infotech does not have any significant exposure to companies in the BFSI segment. The company does not have any revenues coming from clients belonging to the US mortgage industry.
- Thus, till date, there has been no direct or indirect impact of turmoil in the US sub-prime mortgage market on the company.
- According to the company, it has not faced any project cancellations from any of its clients. There have been client specific delays, nevertheless.
- The management continues to guide for a 30% - 35% revenue growth in USD terms.
- In our opinion the current order book and pipe line are strong, providing significant revenue visibility. The current purchase orders in hand and the annuity contract provide visibility for about 60% - 65% of the projected FY09 revenues.
- However, in our opinion, the company may be impacted indirectly in the future in terms of reduced work flow from clients impacted by the general economic conditions in developed countries (read the US).

Offset opportunity

- Infotech has large clients in the aerospace vertical with clients like Boeing, Bombardier, Dassault and P&W.
- The offset clause imposed by the Government provides for outsourcing of materials and services from India by foreign companies, which are awarded contracts in various fields.
- In our opinion this provides a big opportunity for companies like Infotech. The company is already in dialogue with large players like Boeing, Lockheed Martin, Rothschild, etc.
- We see the announced JV with the French aviation company and IEL's HAL JV as the company's foray into the segment, where it sees significant potential in the opportunity space and also its domain expertise.

Employee additions

- Infotech added 298 (150 in 4QFY08) engineers on a net basis during the quarter. Of these, 156 are in UTG and the remaining in EMI.
- The employee additions are modestly consistent with our estimates. Previous quarter had seen lower additions on account of the client delays experienced. We believe these new accounts have begun a ramp up in the medium term and are expected to deliver healthy growth in FY09E.

EBIDTA margins - up 20bps QoQ

EBITDA margins for the quarter were up 20bps QoQ, and above estimates at 18.4% (17.8% was our estimate).

- Margins improved 20bps QoQ despite salary hikes being affected during the quarter. Margins were aided by lower other operating costs that were down 10.4% QoQ. This was on account of certain one times (one time debits on account of annual maintenance cost, costs of due diligence) incurred in the last quarter.
- In our projections, we have assumed margins for the full year FY09E to hold at current quarter levels- 18.3%. due to:
  - Our assumed rupee appreciation by end-FY09 and,
  - Sustained investments in sales and support functions (mainly on recruitments).
- We expect margins to settle at 18.3% in FY09, down from the 20.9% in FY07 and marginally above 18.3% reported in FY08.
- Higher realisations, an assumed favourable INR in 1H and cost rationalisation initiatives are expected to partly set off the impact of the above-mentioned factors.

Forex losses (lower other income) impact net profit line negatively

- The company reported other income of Rs.33mn, which was lower than our estimates.
- This included interest income of Rs18mn and dividend income of Rs.25mn, forex loss on forward contracts of Rs.82mn, benefits on re-statement of assets being Rs.99mn. The balance being attributable to subsidiaries and intra company adjustments.
- The company has also hedged its USD exposure for close to $41.5mn ($42mn). It also has Euro hedges of 7mn (Euro15mn).
- IASI also earned a share of profit of Rs.21.4mn, which impacted the overall net profit positively.

Future prospects- Growth rates, at the top-end of our coverage universe; IEL is a favoured mid-cap.

Future prospects

(Rs mn)	FY07	FY08	YoY (%)	FY09E	YoY (%)
Income	**5425.4**	**6741.4**	**24.3**	**8735.0**	**29.6**
Expenditure	4291.7	5521.9		7134.5	
EBDITA	**1133.7**	**1219.5**	**7.6**	**1600.5**	**31.2**
Depreciation	256.0	365.8		449.5	
EBIT	**877.7**	**853.7**		**1151.0**	
Interest	13.9	38.0		41.6	
Other income	66.8	225.1		207.8	
PBT	**930.6**	**1040.8**	**11.8**	**1317.2**	**26.6**
Tax	186.5	257.5		291.2	
PAT	**744.1**	**783.3**		**1026.0**	
Share of Profit	92.5	70.5		87.4	
Adj PAT	**836.6**	**853.8**	**2.1**	**1113.4**	**30.4**
Shares (mns)	46.2	54.5		54.5	
EPS (Rs)	**18.1**	**15.7**		**20.4**	
Margins (%)					
EBDITA	20.9	18.1		18.3	
EBIT	16.2	12.7		13.2	
PAT	15.4	12.7		12.7	

Source : Company, Kotak Securities - Private Client Research

- We believe that, the revenue growth will remain healthy in FY09, led by the EMI vertical. We expect EMI to form about 63.5% of FY09 revenues and grow c33% YoY.
- We expect profits to grow to Rs.1.1bn in FY09, translating into an EPS of Rs.20.4.

Concerns

- A sharp acceleration in the rupee from our assumed levels (Rs.39.5 by FY09 end) will impact earnings estimates negatively for the company.
- A steep deceleration / recession in major global economies could impact revenue growth of Infotech.

RESULT UPDATE

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CROMPTON GREAVES LTD

PRICE: RS.257 **RECOMMENDATION: BUY**
TARGET PRICE: RS.310 **FY09E P/E: 18.9X**

- **Crompton Greaves' first quarter numbers came ahead of expectations.**
- **While revenue growth came in line with expectations, the company has surprised on the margin front.**
- **International order book remains healthy and has risen 34% on a sequential basis.**
- **Revising earnings upwards to reflect higher than expected margins.**
- **Upgrade to BUY from Reduce earlier. Target price revised to Rs 272 from Rs 310.**

Summary table - Consolidated

Rs mn	FY08	FY09E	FY10E
Sales	68,463	85,579	100,984
Growth (%)	14.8	21.3	20
EBITDA	7,579	8,986	10,603
EBITDA margin (%)	11.10	10.50	10.50
Net profit	4,066	4,995	6,022
Net cash (debt)	(5,975)	(4,930)	49
EPS (Rs) cons	11.1	13.6	16.4
EPS (Rs)	8.6	8.3	11.0
Growth (%)	44.3	22.8	20.6
ROE (%)	35.8	32.9	30.7
ROCE (%)	34.2	37	38.3
EV/Sales (x)	1.5	1.2	0.9
EV/EBITDA (x)	13.2	11.0	8.9
P/E (x)	23.2	18.9	15.6
P/BV (x)	7.2	5.4	4.1

Source: Company, Kotak Securities - Private Client Research

Standalone

(Rs mn)	Q1 FY09	Q1 FY08	% change
Net Sales	**10,829**	**8,961**	**21**
Other Income	81	126	-36
Total Income	**10,910**	**9,087**	**20**
RM costs	5,453	5,274	3
Purchase of traded goods	2,107	1,337	58
Staff costs	567	496	14
Other costs	1,321	1,026	29
Total Expenditure	9,448	8,134	16
PBIDT	**1,381**	**828**	**67**
Interest	22	66	-66
PBDT	**1,440**	**888**	**62**
Depreciation	108	105	3
PBT	**1,332**	**783**	**70**
Tax	443	313	42
Reported Profit After Tax	889	470	89
RM costs to sale (%)	69.8%	73.8%	
staff costs (%)	5.2%	5.5%	
other costs (%)	12.2%	11.4%	
OPM (%)	12.8%	9.2%	
Total tax rate (%)	33%	40%	

Source: Company

CGL's standalone revenues grew 21% during the first quarter: Revenue growth has been in line with our expectations. The company has been guiding towards a 20% plus growth on domestic as well as international front.

Segment-wise, revenue growth in power segment has come below expectations. Going by the capacity addition plans at generating and transmission levels, we believe the power segment growth should accelerate in the coming quarters. The company had indicated in earlier quarter that they had deliberately not taken orders in the power sector in FY08. This would change in FY09 and the company sees faster order inflow in FY09.

Consolidated revenues have grown 33.6% yoy to Rs 20.3 bn driven mainly the strong growth in international operations of Pauwels, Ganz and Microsol.

Consolidated

	Q1 FY09	Q1 FY08	% change
Net Sales	**20347.5**	**15226**	**34**
Other Income	171.2	402	-57
Total Income	**20519**	**15628**	**31**
RM costs	11078.9	8825	26
Trading	2106.5	1337	58
Staff costs	2506.5	1914	31
Other costs	2572.6	1925	34
Total Expenditure	18264.5	14002	30
PBIDT	**2083**	**1224**	**70**
Interest	137.5	177	-22
PBDT	**2117**	**1449**	**46**
Depreciation	322.6	270	20
PBT	**1794**	**1179**	**52**
Tax	567.2	287	98
Reported Profit After Tax	**1226.9**	**892**	**38**
OPM (%)	10.2	8.0	
Raw material cost to sales (%)	54.4	58.0	
Staff cost to sales (%)	12.3	12.6	
Other expenditure to sales (%)	12.6	12.6	
Tax rate (%)	31.6	24.3	

Source: Company

In the industrial segment, the company makes motors and is the largest maker of motors in India. The demand for motors is driven by capex in the industrial sector and manufacturing sector. The company has launched new variants in the market and has also enhanced manufacturing capacity. The industrial projects segment reported 20% growth in segment revenues for the quarter.

Segment revenues (standalone)

(Rs mn)	Q1 FY09	Q1 FY08	% change
Standalone			
Power Segment	4906	4326	13
Consumer	3771	3016	25
Industrial	3006	2508	20

Source: Company

Segment revenues (Consolidated)

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Other expenditure to sales %	12.6	12.6	
Tax rate %	31.6	24.3	

Source : Company

Strong margin gains

Standalone operating profit for the quarter rose 67% yoy to Rs 1.38 bn. In an environment of spiraling steel prices, it was surprising to see raw material to sales ratio going down on a standalone basis.

Share of physical exports has risen to 20% of sales in Q1 FY09 from 16% in FY08. Depreciation in rupee could be a part contributor to margin expansion.

Management has indicated that it does not foresee similar margin gains for the rest of the year and should able to end the year with margins maintained at FY08 levels.

Segment Margins (%)

	Q1FY09	Q1FY08	Q4FY08
Power Segment	12.5	11.5	15.6
Consumer	11.2	10.5	10.5
Industrial	17.4	17.8	19.2

Source: company

Adequate capacity to meet demand

CGL incurred Rs 1.5 bn in capex in FY08 on domestic operations. CGL expects to continue with the same quantum of investment in FY09. However, the management has indicated that sufficient capacity exists in the system to take care of demand growth for FY09-10.

Strong order backlog

Standalone order backlog is up 12% to Rs 24 bn providing revenue visibility of 1x of Power segment revenues. International order backlog stand at Rs 68.8 bn, growing 34% on a sequential basis. We estimate revenue visibility in international operations has improved significantly due to 18 months of FY08 revenues.

Strong demand Environment

Growth in the power segment has been fuelled by the simultaneous investment in power generation and T&D. As against the norm 50% investment in T&D for every 100% investment in power sector, the investment in T&D has been lagging at 30%. This has resulted in high T&D losses. Power Grid Corporation of India plans to invest Rs.550 bn during the XIth Plan to increase its transmission capacity. The plan is to raise the current transmission capacity from 11,500 MW to 37000 MW by 2012. PGCIL also plans to go for Hybrid Ultra High Voltage Transmission System, which will reduce transmission losses.

Raised earnings estimates

While earlier management had guided towards margin decline in FY09, our recent interaction with the management indicates confidence in maintaining margins at FY08 levels. Thus we raise our margin estimate for FY09 and FY10.

We upgrade the stock to HOLD from Reduce earlier. Our reasons

We recommend BUY on Crompton Greaves with a price target of Rs.310

- Upgrade in earnings estimates by 11% for FY09
- Strong growth on international order book providing adequate revenue visibility.
- Post upgradation of earnings, we estimate profits to grow at a CAGR of 21% between FY08-10.

We upgrade the stock to **BUY** from Reduce earlier with an enhanced price target of Rs 310 based on DCF. Our earlier price target was Rs 272.

RESULT UPDATE

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SESA GOA

PRICE: RS.3303 **RECOMMENDATION: BUY**
TARGET PRICE: RS.6000 **FY09E P/E: 5.4X; EV/EBIDTA: 2.9X**

Summary table - Standalone

Rs mn	FY08	FY09E	FY10E
Sales	35,516	64,662	92,110
Growth (%)	80.4	82.1	42.4
EBITDA	22,108	33,472	43,985
EBITDA Margins (%)	61.4	51.4	47.5
Net Profit	14,920	24,209	32,164
EPS (Rs.)	**379**	**615**	**817**
Growth (%)	146.0	62.0	33.0
ROE (%)	53.5	48.4	40.1
ROAE(%)	69.4	62.1	49.4
EV/Sales (x)	3.1	1.5	0.8
EV/ EBITDA (x)	**5.0**	**2.9**	**1.7**
P/E (x)	**8.7**	**5.4**	**4.0**

Source: Company, Kotak Securities - Private Client Research

Iron ore sales volumes led growth getting better and better

- Sesa Goa seems to be on track to achieve iron ore sales volume of 35% CAGR for next 2-3 years significantly higher than the 25% CAGR growth expectations we had, post the last quarter conference call. The company aims to double its sales volumes in next 2-2.5 years from 12.4 million tonnes in FY08 to 25 million tonnes by mid of FY2010-11. High production volumes of above 4.5 million tonnes achieved in the last two quarters displays the management's operational excellence and gives us confidence to believe that even if the company is unable to achieve the targets due to any unforeseen events or bottlenecks, the volumes are likely to reach the vicinity of the destination which in itself would create tremendous shareholder value.
- We are maintaining a 10-15% discount to management guidance on iron ore sales volumes to account for unforeseen adverse events but with increased guidance we have raised our iron ore sales volumes estimates to 16, 21 and 24 million tonnes against our previous estimates of 15.5, 18 & 20 million tonnes in FY09E, FY10E and FY11E respectively.
- As more volumes would be from the Goa mines which have lower sales realizations and also to reduce investors fear of future iron ore price risks, we have significantly reduced our estimates for iron ore spot prices by $10/tonne to $97/tonne and reduced our annual contract prices by $2/tonne to $77/tonne for FY09E. The average price realization for FY09E is reduced by 7.5%. Price estimates have been reduced even more for FY10E and FY11E.
- The above changes significantly de-risks the business valuation model as future growth leverages more on scale and reduces the risks of product price variances.

Iron ore mining reserves fillip on cards

- Sesa Goa has a philosophy of having 20 years of mine-able reserves on long term basis. The company presently has proven reserves of 180 million tonnes and further 22 million tonnes of resources as of 31st March 2008 based on its operating mines in Goa. Karnataka and Orissa. They have a prospecting license for a high grade mine in Jharkand which would boost the reserves significantly but it might take another 2.5-3 years for the mine to kick-start any meaningful production.
- Fully understanding that obtaining a new mining license in India is very cumbersome and time consuming process, the company has focused its strategy on augmenting its reserves by acquiring iron ore mines both within India and abroad. Sesa Goa is a zero debt company would present cash reserves in excess of Rs.25000mn which is expected to rise above $1 billion with next year. With conservative 1:1 debt equity ration it can easily allocate $2 billion for any large acquisition. Management in its conference call has stressed that though at present they don't have any story to speak on this front, one can definitely expect a big story (large acquisition) within a year, year and a half. Vedanta management has an impressive previous track record of successful M&A led growth in its other group companies and given the exercise on this front is already aggressively on within the firm, it seems that significant shareholder value can be created for the investors in medium term.

- Sesa Goa is also investing heavily in exploration of the existing operating iron ore mines at Goa and Karnataka. The company is at present exploring 30,000 meters of land with imported rigs and foreign specialist contracted and working on the same. The company believes it would lead to discovery of significant additional reserves and resources from its present operating mines and they would be in position to announce some positive news within a year or so.

Tax planning to boost bottom line

Sesa Goa would be availing the tax planning skill sets of Vedanta group, its new management. The company expects that it can bring down the tax rate closer to 25% substantially lower from the previous year 33.3% levels. In light of this we are now modeling a 30% tax rate for our valuation but can bring it down in our future review to the levels the company is able to consistently achieve. This effort significant boosts company net profit but the benefit would not be appropriately captured in our EV/EBITDA based valuation methodology.

Q1FY09 results even better than reported

In the results declared for Q1FY9, the annual contract iron ore price realizations have been accounted for 65% price increase against the 80% price increase achieved post the end of last quarter with retrospective effect. So the company would adjust the accounts with a PBT of Rs.400mn higher in Q2FY09E.

Valuation

We recommend BUY on Sesa Goa with a price target of Rs.6000

We are increasing the EPS estimates for FY09E to Rs.615 and FY10E to Rs.817 against our previous estimates of Rs.605 and 754 for FY09E and FY10E respectively. However, as we continue to value Sesa Goa on 6x 2009E EV/EBITDA our target price is not affected by higher EPS and we maintain our **BUY** recommendation on Sesa Goa with a target price of Rs.6000.

Financials: Sesa Goa

Balance Sheet

Year ending Mar	FY08	FY09E	FY10E
LIABILITIES			
Equity Share Capital	394	394	394
Reserves & Surplus	27,518	49,655	79,747
Net Worth	**27,911**	**50,048**	**80,140**
Short Term Loans	-	-	-
Long Term Loans	-	-	-
Deferred Tax Liabilities	535	550	565
Total Liabilities	**28,446**	**50,598**	**80,705**
ASSETS			
Gross Block	6,378	9,334	14,806
Less Depreciation	2,397	2,939	3,772
Net Block	3,981	6,395	11,034
CWIP	159	933	1,513
Investments	20,004	33,464	53,805
of which financial investments	19,585	33,044	53,386
Total Current Assets	7,701	13,562	18,892
Total Current Liabilities	3,399	3,755	4,539
Net Current Assets	**4,303**	**9,807**	**14,353**
Total Assets	**28,446**	**50,598**	**80,705**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement

Year ending Mar	FY08	FY09E	FY10E
Net Profits	14,920	24,209	32,164
Add Depreciation	426	542	833
Decrease in Working Capital	(1,219)	(5,505)	(4,546)
Increase in Deferred Tax	14	15	15
Cash flow from Operations	**14,141**	**19,262**	**28,466**
Capital Expenditure	(410)	(3,730)	(6,052)
Increase in Investments	0	-	-
Increase in Loans and advances	(178)	-	-
Other items	-	-	-
Cash flow from investing	**(588)**	**(3,730)**	**(6,052)**
Increase in Equity	-	-	-
Increase in Borrowings	-	-	-
Dividend Payment	(2,072)	(2,072)	(2,072)
Cash flow from financing	**(2,072)**	**(2,072)**	**(2,072)**
Total Cash Flow	**11,481**	**13,459**	**20,341**
Opening Cash in Hand	8,403	19,717	33,176
Closing Cash in Hand	19,717	33,176	53,517
Change in Cash Balance	**11,314**	**13,459**	**20,341**

Source: Company, Kotak Securities - Private Client Research

Profit & Loss

Year ending Mar	FY08	FY09E	FY10E
Net Sales	**35,516**	**64,662**	**92,110**
EBITDA	**22,108**	**33,472**	**43,985**
Other Income	703	1,666	2,811
Depreciation	426	542	833
Interest	15	-	-
PBT	22,369	34,596	45,963
Taxes	14,920	10,125	13,726
PAT	**14,920**	**24,209**	**32,164**
Shares Outstanding mn	39.36	39.36	39.36
EPS (Rs)	**379**	**615**	**817**

Source: Company, Kotak Securities - Private Client Research

Key ratios

Year ending Mar	FY08	FY09E	FY10E
EBITDA Margins (%)	61.4	51.4	47.5
NPM Margins (%)	41.4	37.1	34.7
ROE on yr-end equity (%)	53.5	48.4	40.1
ROAE (%)	69.4	62.1	49.4
EPS growth (%)	146.0	62.3	32.9
P/E (x)	8.7	5.4	4.0
EV/sales (x)	3.1	1.5	0.8
EV/EBITDA (x)	5.0	2.9	1.7
P/B (x)	4.7	2.6	1.6
BVPS (Rs)	709.1	1271.5	2036.0

Source: Company, Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
23-Jul	Action Fin	Biren Valabhji Savla	S	49,900	27.00
23-Jul	Anu Labs	Gopal Traders	S	62,792	384.11
23-Jul	Bgil Fl Tec	Chetan Dogra	S	33,914	20.38
23-Jul	Bihar Tubes	Securocrop Securities India P	B	310,000	173.07
23-Jul	Bihar Tubes	Geomatrix HK Ltd Ac Dumauritius Ltd	S	272,940	173.20
23-Jul	Champagn Ind	Rakesh Jhunjhunwala	B	438,650	364.00
23-Jul	Champagn Ind	Arisaig India Fund Limited	S	408,964	364.00
23-Jul	Everonn Sys	Ruia International Holding Co	B	108,683	452.50
23-Jul	Everonn Sys	Ashokkumar Ruia	S	115,316	451.85
23-Jul	First Win	Jupitor Business Ltd	B	100,000	151.87
23-Jul	Future Cap	Roopchand Bhansali HUF	B	389,433	330.00
23-Jul	Future Cap	Businessmatch Services Ind Ltd	S	390,000	330.00
23-Jul	Ipca Lab Ltd.	Prudential Icici Trust Ltd Ac Dynamic Plan	B	591,000	544.00
23-Jul	Ipca Lab Ltd.	HDFC Standard Life Insurance Co Ltd	S	590,844	544.00
23-Jul	Kancha Inter	Bharat Shantilal Sha	S	22,874	5.67
23-Jul	Koff Br Pict	Darshan Narendra Shah	B	30,000	19.33
23-Jul	Manoj Hou Fi	Vidhi Holdings Private Limited	B	25,000	13.62
23-Jul	Netwo St Bro	Magna Umbrella Fund Plc	S	77,576	45.56
23-Jul	Prajay Eng S	Ge Asset Management Incorporated	S	255,000	56.96
23-Jul	Punjab Chem	Rupak Kumudhbai Shah	B	25,455	277.23
23-Jul	Rasand Eng I	Reliance Tax Saver Elss Fund	S	55,729	65.03
23-Jul	SBT Intern	Seaglimpse Investments Pvt Ltd	S	96,954	14.09
23-Jul	Silverline T	BSMA Ltd	S	213,885	18.13
23-Jul	Sita Shree	Sagar Constructions	S	120,000	18.52
23-Jul	Usher Agro	Merill Lynch Capital Market Espana	B	900,000	125.00
23-Jul	Usher Agro	Somerest Emerging Opp. Fund	S	150,518	125.00
23-Jul	Usher Agro	Sophia Growth	S	849,482	125.02

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	2,267	5.4	27.7	5.1
Reliance Com	526	12.4	19.9	18.0
SBI	1,543	10.0	14.7	1.8
Losers				
Cairn India	220	(2.5)	(1.7)	8.4
Hindustan Unilever	231	(0.8)	(0.7)	6.7
Cipla	233	(2.2)	(0.7)	2.0

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
24-Jul	Tata Motors holds shareholders meeting; Reliance Industries, ACC, Bharti Airtel, Exide Industries, Sobha Developers, United Breweries, Cummins India, Idea Cellular, MRF, United Phos, Hindustan Zinc, Aventis Pharma, CRISIL, Esab India, Essal Propack, Marico, NIIT Ltd, Rolta India, Zee News, Piramal Healthcare earnings expected
25-Jul	TTK Healthcare to consider buy-back of its shares; HCC, ABB, Grasim, Nagarjuna Fert, Indusind Bank, Engineers India, Alstom Proj, GSPL, Educomp, MRPL, Jindal Steel & Power, Union Bank of India, Reliance Power, RNRL, Ambuja Cements, OBC, Indian Hotels, Andhra Bank, i-flex, Indiabulls earnings expected
26-Jul	State Bank of India, ICICI Bank, Reliance Infrastructure, Jaiprakash Hydro Power, Vijaya Bank, Shipping Corporation, Divis Lab, UCO Bank earnings expected

Source: Bloomberg

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