kotak® Institutional Equities

INDIA DAILY

January 30, 2009

Contents

Results

Updates

EQUITY MARKETS

		Change, %		
India	**29-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	9,236	(0.2)	(3.1)	2.1
Nifty	2,824	(0.9)	(3.4)	4.7
Global/Regional indices				
Dow Jones	8,149	(2.7)	(3.9)	(9.4)
FTSE	4,190	(2.4)	(3.0)	(1.2)
Nikkie	7,974	(3.4)	(10.0)	(11.7)
Hang Seng	12,958	(1.5)	(9.0)	(9.6)
KOSPI	1,156	(0.9)	2.8	6.6
Value traded - India				
			Moving avg, Rs bn	
	29-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	153.9		110.5	38.0
Derivatives (NSE)	516.6		333.3	542
Deri. open interest	626.7		393	757

Forex/money market

		Change, basis points		
	29-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	49.0	0	52	(72)
10yr govt bond, %	6.1	14	93	(140)

Commodity market

		Change, %		
	29-Jan	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	904.6	(0.4)	3.5	22.6
Silver (US$/OZ)	12.3	(0.5)	12.3	25.7
Crude (US$/BBL)	44.3	0.3	16.8	(28.6)

Net investment (US$mn)

	28-Jan		**MTD**	**CYTD**
FIIs	6		(1,124)	(1,124)
MFs	6		(493)	(494)

Top movers -3mo basis

		Change, %		
Best performers	**29-Jan**	**1-day**	**1-mo**	**3-mo**
Hindustan Petroleur	277	2.5	(0.6)	44.6
Ntpc Limited	190	(0.5)	4.8	42.0
Power Finance Corp	137	2.7	3.9	41.2
Cairn India Limited	160	(6.9)	(6.9)	39.5
Power Grid Corp O	90	(0.7)	10.1	37.8
Worst performers				
Housing Developme	94	(2.8)	(30.6)	(37.3)
Satyam Computer S	50	(10.2)	(68.9)	(82.3)
Glenmark Pharmac	138	(2.6)	(53.0)	(46.6)
Punj Lloyd Limited	94	(2.7)	(35.5)	(44.9)
Unitech Limited	31	1.5	(21.0)	(38.1)

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Energy

CAIR.BO, Rs160	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	225
52W High -Low (Rs)	343 - 88
Market Cap (Rs bn)	300

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	16.6	23.5	33.1
Net Profit (Rs bn)	2.0	6.3	9.5
EPS (Rs)	(0.1)	4.2	5.0
EPS gth	*(108.2)*	-	*20.1*
P/E (x)	(1,345)	38.2	32.0
EV/EBITDA (x)	37.0	21.9	15.7
Div yield (%)	-	-	-

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(6.9)	39.5	(29.9)	(21.6)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.8	-	-
FIIs	9.4	0.6	(0.6)
MFs	2.2	0.8	(0.4)
UTI	-	-	(1.2)
LIC	2.0	0.6	(0.7)

Cairn India: Marginally weaker-than-expected 3QCY08 results; steady progress on Rajasthan development

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- **Weak comparisons due to (1) lower realizations and (2) lower production volumes**
- **Steady progress on Rajasthan development; first oil in 3QCY09**
- **Maintain BUY with revised 12-month DCF-based target price of Rs225 (Rs240 previously)**

Cairn India reported 4QCY08 consolidated net revenues at Rs2.1 bn (-34% qoq and -21% yoy) and EBITDA at Rs950 mn (-61% qoq and -34% yoy). The qoq decline in EBITDA was due to (1) significantly lower crude price realization at US$56.4/bbl (US$116.3/bbl in 3QCY08), (2) lower production at 16,591 boe/d (-3% qoq), (3) lower gas realization at US$4/mcf (US$4.1/mcf in 3QCY08 and (4) higher high exploration expenditure at Rs375 mn (Rs79 mn in 3QCY08). However, we note that CY2008-09E results are not that material because the bulk of Cairn's valuation resides in its upcoming Rajasthan block (production from 3QCY09). The development in Rajasthan is on track with first oil scheduled from 3QCY09. We have revised our EPS estimates for CY2009E, CY2010E and CY2011E EPS to Rs5, Rs29.3 and Rs49.5 from Rs12.5, Rs57 and Rs49.2 to reflect (1) lower crude price for CY2009-11E and (2) change in production profile in line with management's guidance. We retain our BUY rating with a revised 12-month DCF-based target price of Rs225 (Rs240 previously). Key downside potential stems from lower-than-expected crude price.

MBA development—steady progress on development and likely higher production. The management stressed that it is on track for the production of first oil from its Mangala field in 3QCY09. First production will start from a 30,000 b/d train and crude would be transported by trucks. The subsequent second, third and fourth trains with capacities of 50,000 b/d, 50,000 b/d and 75,000 b/d will start in 4QCY09, 1HCY10 and CY2011. The management has also guided to higher production from Aishwariya field (20,000 b/d now versus 10,000 b/d previously). Exhibit 3 shows our expected ramp-up in production from Cairn's Rajasthan block.

Stock discounting low crude price in perpetuity but use dips in stock price below Rs150 to buy aggressively. We would use any dips in Cairn's share price below Rs150 to buy the stock aggressively. The high volatility in crude prices over the next few months will likely provide opportunities, in our view. Cairn's stock price is discounting about US$53/bbl crude oil price in perpetuity, which some may view as a cause of concern in light of current levels of crude oil prices. We have a constructive view on crude oil prices and expect prices to rebound to over US$60/bbl over the next few quarters and see long-term normalized price at US$75/bbl. The stock may languish at current levels and even decline (providing opportunities to buy) if crude prices were to persist at low US$40/bbl levels for a period of time. We note that Cairn's stock price has high positive correlation with crude oil prices (see Exhibit 4) although its valuation does not vary significantly with crude oil prices.

We do not see significant downside from risks frequently highlighted by investors.

- **Discount to reflect waxy nature of crude.** We model a US$7.2/bbl discount for Cairn's Rajasthan crude to Dated Brent to reflect the somewhat inferior quality of Cairn's crude versus Brent crude.
- **Cess issue.** Our 12-month fair value for Cairn stock declines to Rs205 (+27% upside from current levels) even if we assume Cairn bears cess on its share of production from the Rajasthan block at the current prevailing rate (Rs2,575/ton).

- **Low current visibility on uptake of crude.** We do not believe the sale of crude oil in a short crude market such as India will be an issue. We note that domestic PSU refineries have committed to lift 5.2 mn tons of crude (144,000 b/d) of Cairn's crude as per press reports. Also, Cairn may get to export crude in case domestic refineries are unwilling or unable to process Cairn's crude.

On the other hand, we see likely upgrades to reserves and production over a period of time. We model crude oil production at 1.13 bn bbls from RJ-ON-90/1. We have not factored in production from Cairn's other discoveries apart from MBA, Raageshwari, Shakti and Saraswati fields. We see scope for inclusion of resources of 1.2 bn bbls in Barmer Hill in reserves once Cairn is in a position to extract crude oil from this zone. Also, we note that the DGH has given the 'declaration of commerciality' to Cairn's three Kameshwari (2, 3 and 6) discoveries in January 2009. These discoveries made in May 2007 in the Northern Appraisal Area along with another oil and gas discovery near Raageshwari field in December 2008 in the southern part of the current development area highlight the upside potential to reserves in Cairn's prolific RJ-ON-90/1 block.

Weak results on expected lines and due to lower crude realization. Cairn India reported 4QCY08 consolidated net revenues at Rs2.1 bn (-34% qoq and -21% yoy) and EBITDA at Rs950 mn (-61% qoq and -34% yoy). The qoq decline in EBITDA reflects (1) lower crude price realization at US$56.4/bbl (US$116.3/bbl in 3QCY08), (2) lower production at 16,591 boe/d (-3% qoq), (3) lower gas realization at US$4/mcf (US$4.1/mcf in 3QCY08 and (4) higher high exploration expenditure at Rs375 mn (Rs79 mn in 2QCY08). The sharp qoq increase in exploration expenses reflects higher survey expenses. Cairn had earlier deferred plans to drill three wells in KG-DWN-98/2 block and two wells in Rajasthan block to CY2009E.

Cairn's 4QCY08 production was at 16,591 boe/d (working interest-basis) versus 17,111 boe/d in 3QCY08. At CB-OS-2, gas production declined 14% qoq but oil production increased 18% qoq. Gas production has declined by 21% yoy in CY2008 due to the declining phase of the fields past plateau production. At Ravva, oil production declined by 4% qoq and gas production declined by 9% qoq.

Exceptional items. Cairn reported a forex gain of Rs567 mn on account of (1) options settled or marked-to-market as on December 31, 2008 and (2) translation gain on US Dollar-denominated deposits held by foreign subsidiaries for use for future capital imports due to depreciation in the rupee versus the US Dollar in 4QCY08 (Rs48.8/US$ compared to Rs43.8/US$ in 3QCY08). Cairn also reversed deferred tax liability of Rs1.24 bn created in previous quarters.

Earnings revisions We have revised our EPS estimates for CY2008E, CY2009E and CY2010E EPS to Rs5, Rs29.3 and Rs49.5 from Rs12.5, Rs57 and Rs49.2 to reflect the following changes.

1. **Lower crude oil price**. We have revised our crude oil price assumptions for CY2009-11E to US$57/bbl, US$67.5/bbl and US$75/bbl versus US$70/bbl, US$73/bbl and US$75/bbl. The downward revision in crude oil price assumption for CY2009E reflects current weakness in crude oil prices. We assume a discount of US$7.2/bbl to Dated Brent price to reflect the inferior quality of Cairn's crude versus Brent. We retain our long-term crude price assumption of US$75/bbl (post CY2012E).
2. **Production volumes.** We have revised our production volumes assumptions to reflect (1) the revised production schedule indicated by the management and (2) higher peak production from Aishwariya at 20,000 boe/d. We have delayed the start of production from Bhagyam and Aishwariya fields in line with management guidance that the production from these fields will commence after achievement of peak production from Mangala field.

Interim results of Cairn India, calendar year-ends (Rs mn)

			qoq			yoy			yoy	
	2009E	4Q 2008	3Q 2008	(% chg)	4Q 2008	4Q 2007	(% chg)	2008	2007	(% chg)
Income from operations	**33,099**	**2,108**	**3,206**	***(34.2)***	**2,108**	**2,667**	***(21.0)***	**12,509**	**10,123**	***23.6***
Total expenditure	(13,632)	(1,158)	(775)	*49*	(1,158)	(1,228)	*(6)*	(4,176)	(3,451)	*21*
Inc/(Dec) in stock	—	(91)	56	—	—	—	—	(182)	112	—
Operating expenses	(3,606)	(359)	(448)	*(20)*	(359)	(623)	*(42)*	(1,774)	(1,946)	*(9)*
Staff cost	(1,400)	(271)	(211)	*28*	(271)	(423)	*(36)*	(1,094)	(1,257)	*(13)*
Government taxes/share of profit	(7,927)	—	—	—	—	—	—	—	—	—
Other expenditure	(700)	(438)	(172)	*154*	(438)	(232)	*88*	(1,125)	(360)	*213*
EBITDA	**19,467**	**950**	**2,431**	***(61)***	**950**	**1,439**	***(34)***	**8,334**	**6,672**	***25***
Other income	1,227	1,451	2,055	*(29)*	1,451	268	*441*	4,049	1,324	*206*
Interest	(973)	(6)	(5)	*30*	(6)	(17)	*(64)*	(43)	(27)	*58*
Exploration costs written off	(2,150)	(375)	(79)	*373*	(375)	(577)	*(35)*	(1,057)	(2,512)	*(58)*
DD&A	(3,982)	(326)	(650)	*(50)*	(326)	(633)	*(49)*	(2,255)	(2,077)	*9*
Pretax profits	**13,590**	**1,694**	**3,753**	***(55)***	**1,694**	**481**	***252***	**9,028**	**3,379**	***167***
Extraordinaries/sales tax benefit	—	1,236	(153)	—	1,236	(276)	—	1,522	(2,120)	—
Tax	(2,814)	(40)	(97)	*(59)*	(40)	(378)	*(90)*	(584)	(740)	*(21)*
Deferred taxation	(1,265)	(526)	(570)	*(8)*	(526)	33	*(1,675)*	(2,119)	(764)	*177*
Net income	**9,510**	**2,364**	**2,933**	***(19)***	**2,364**	**(139)**	***(1,800)***	**7,848**	**(245)**	***(3,297)***
Minority interest	—	—	—	—	—	—	—	—	—	—
Net income after minority interest	**9,510**	**2,364**	**2,933**	***(19)***	**2,364**	**(139)**	***(1,800)***	**7,848**	**(245)**	***(3,297)***
Income tax rate (%)	30.0	19.3	18.5		19.3	167.8		25.6	119.5	
Production, selling price data										
Production volume, gross ('000 boepd)		63.0	65.6	*(4)*	63.0	65.3	*(4)*	67.6	73.2	*(8)*
Production volume, net ('000 boepd)		**16.6**	**17.1**	***(3)***	**16.6**	**16.4**	***1***	**17.6**	**18.7**	***(6)***
CB-OS-2		5.5	5.4	*2*	5.5	3.8	*46*	5.5	5.1	*8*
Oil		3.3	2.8	*18*	3.3	2.1	*57*	2.9	1.8	*64*
Gas (mn cf/d)		13.3	15.5	*(14)*	13.3	10.1	*32*	15.7	20.0	*(21)*
Ravva		11.1	11.7	*(6)*	11.1	12.6	*(12)*	12.1	13.6	*(11)*
Oil		8.6	9.0	*(4)*	8.6	9.7	*(11)*	9.5	10.8	*(13)*
Gas (mn cf/d)		14.7	16.2	*(9)*	14.7	17.3	*(15)*	15.9	16.7	*(5)*
Selling price, oil (US$/bbl)		**56.4**	**116.3**	***(52)***	**56.4**	**90.2**	***(37)***	**99.7**	**74.5**	***34***
Selling price, gas (US$/mcf)		**4.0**	**4.1**	***(2)***	**4.0**	**3.6**	***10***	**4.1**	**4.1**	***(0)***
Exchange rate (Rs/US$)		48.7	43.8	*11*	48.7	39.4	*24*	43.5	41.3	*5*

Source: Company data, Kotak Institutional Equities estimates

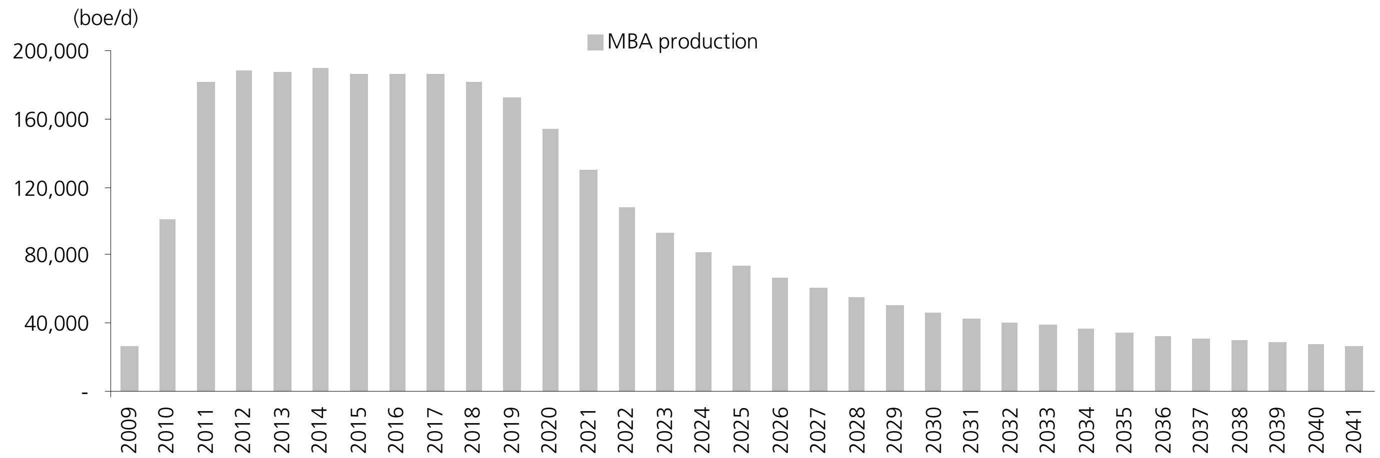
We value Cairn India stock at Rs225
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	7,264	8,588	9,470
CB-OS-2	132	72	49
Ravva	448	335	276
Upside potential (KG-DWN-98/2)	100	112	125
Total	**7,944**	**9,107**	**9,921**
Net debt	39	(660)	525
Equity value	**7,905**	**9,766**	**9,395**
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	**172**	**225**	**238**

Source: Kotak Institutional Equities estimates

Cairn can sustain peak production for a longer period through EOR technique

Gross production volume of Rajasthan block, MBA+EOR calendar year-ends (boe/d)



Source: Company, Kotak Institutional Equities estimates

Cairn's Rajasthan field's enterprise value has moderate leverage to crude prices and 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$110/bbl)	9.7	226	31	11.1	284	27
Dated Brent price (US$100/bbl)	9.0	211	22	10.4	267	19
Dated Brent price (US$90/bbl)	8.3	195	13	9.7	250	11
Dated Brent price (US$80/bbl)	7.6	180	4	9.0	233	4
Dated Brent price (US$75/bbl)	**7.3**	**172**		**8.6**	**225**	
Dated Brent price (US$60/bbl)	6.2	149	(13)	7.5	199	(12)
Dated Brent price (US$50/bbl)	5.5	134	(22)	6.7	181	(19)
Dated Brent price (US$40/bbl)	4.8	118	(31)	6.0	164	(27)
Dated Brent price (US$30/bbl)	4.1	102	(41)	5.2	146	(35)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**7.3**	**172**		**8.6**	**225**	
Royalty (Rs0/ton), Cess (Rs927/ton)	6.9	163	(5)	8.2	215	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	6.5	155	(10)	7.7	205	(9)

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$/bbl)	55.0	57.0	59.0	65.5	67.5	69.5	73.0	75.0	77.0
Net profits (Rs mn)	8,693	9,510	10,328	53,070	55,480	57,889	91,145	93,790	96,435
Earnings per share (Rs)	4.6	5.0	5.4	28.0	29.3	30.5	48.1	49.5	50.8
% upside/(downside)	**(8.6)**		**8.6**	**(4.3)**		**4.3**	**(2.8)**		**2.8**
Exchange rate									
Rs/US$	47.0	48.0	49.0	46.3	47.3	48.3	45.3	46.3	47.3
Net profits (Rs mn)	9,124	9,510	9,897	54,033	55,480	56,926	91,787	93,790	95,794
Earnings per share (Rs)	4.8	5.0	5.2	28.5	29.3	30.0	48.4	49.5	50.5
% upside/(downside)	**(4.1)**		**4.1**	**(2.6)**		**2.6**	**(2.1)**		**2.1**

Source: Kotak Institutional Equities estimates

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

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	23,480	33,099	91,475	163,393	160,853	156,066
EBITDA	**5,332**	**6,705**	**8,334**	**19,467**	**75,261**	**117,829**	**96,206**	**67,219**
Other income	1,100	1,324	4,049	1,227	380	480	1,139	2,006
Interest	(201)	(27)	(43)	(973)	(2,896)	(2,448)	(1,000)	—
Depreciation	(497)	(4,589)	(3,312)	(6,132)	(7,460)	(8,383)	(8,651)	(8,600)
Pretax profits	5,734	3,413	9,028	13,590	65,284	107,478	87,694	60,625
Extraordinary items	—	(2,120)	1,522	—	—	—	—	—
Tax	(1,580)	(740)	(584)	(2,814)	(8,670)	(13,119)	(10,769)	(7,672)
Deferred taxation	(22)	(764)	(2,119)	(1,265)	(1,134)	(568)	(124)	150
Net profits	**4,132**	**(212)**	**7,848**	**9,510**	**55,480**	**93,790**	**76,802**	**53,103**
Earnings per share (Rs)	**2.3**	**(0.1)**	**4.2**	**5.0**	**29.3**	**49.5**	**40.5**	**28.0**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,400	337,910	326,819	365,134	396,509	418,203
Deferred tax liability	4,258	4,916	7,035	8,300	9,434	10,003	10,127	9,976
Total borrowings	5,122	3,124	24,366	42,411	42,411	20,000	0	0
Currrent liabilities	39,716	8,372	18,936	1,829	2,246	6,675	9,555	13,207
Total liabilities and equity	**341,900**	**310,771**	**378,737**	**390,450**	**380,911**	**401,812**	**416,191**	**441,386**
Cash	61,348	1,504	53,121	17,201	4,556	22,963	42,304	72,625
Current assets	6,470	19,029	2,252	3,174	8,772	15,668	15,424	14,965
Total fixed assets	17,609	25,157	57,626	77,129	26,727	24,280	21,727	19,238
Net producing properties	2,354	4,390	5,047	32,254	80,165	78,210	76,044	73,866
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	**341,900**	**310,771**	**378,737**	**390,450**	**380,911**	**401,812**	**416,191**	**441,386**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	3,188	6,387	8,018	12,557	61,545	100,811	82,987	58,097
Working capital changes	34,256	(908)	27,341	(18,029)	(5,180)	(2,467)	3,124	4,110
Capital expenditure	(5,619)	(11,739)	(35,226)	(49,720)	(2,819)	(2,531)	(2,483)	(2,483)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	4,049	1,227	380	480	1,139	2,006
Free cash flow	**(219,792)**	**(58,824)**	**4,182**	**(53,965)**	**53,925**	**96,294**	**84,767**	**61,731**
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	69.7	93.0	160.8	235.7	234.8	225.2
Net production ('000 boe/d)	25.1	19.4	18.2	38.3	88.6	143.3	144.8	140.3
Dated Brent (US$/bbl)	65.3	70.3	102.6	57.0	67.5	75.0	75.0	75.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.3	14.7	7.2	7.2	7.2	7.2	7.2

Source: Kotak Institutional Equities estimates

Automobiles

MRTI.BO, Rs544	
Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	435
52W High -Low (Rs)	946 - 428
Market Cap (Rs bn)	157.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	179.4	195.3	212.4
Net Profit (Rs bn)	17.3	13.0	14.6
EPS (Rs)	59.9	45.0	50.5
EPS gth	*10.8*	*(24.9)*	*12.4*
P/E (x)	9.1	12.1	10.8
EV/EBITDA (x)	5.2	6.5	5.7
Div yield (%)	0.9	0.9	0.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
9.1	0.3	(3.9)	(36.9)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.2	-	-
FIIs	15.6	0.5	(0.1)
MFs	5.2	0.9	0.3
UTI	-	-	(0.6)
LIC	14.3	2.0	1.4

Maruti Suzuki: Other income saves the day; higher fixed cost structure raises break-even bar

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- **3QFY09 EPS of Rs7.4 in line with our estimate of Rs7.5, driven by higher non-operating income**
- **EBITDA margins came in at 6.5% for the quarter and 8.5% adjusted for dealer compensation and adverse currency compared to 10.7% in 2QFY09 and 15% in 3QFY08**
- **We are tweaking down our EPS estimate for FY2009E and FY2010E to Rs45 and Rs50.5; maintain SELL rating with TP of Rs435/share**

Maruti Suzuki reported 3QFY09 EPS estimate of Rs7.4 in line with our estimate of Rs7.5 . However, net profit of Rs2.1 bn included roughly Rs569 mn pre-tax of interest on tax refund. EBITDA margin came in at 6.5% for the quarter and 7.7% adjusted for dealer compensation. Operating profits came in below our expectations driven primarily by higher-than-expected raw material costs, SG&A and adverse forex movement. On a sequential basis, the 300 bps decline in EBITDA margin was driven by 180 bps increase in raw materials costs and 120 bps from negative operating leverage. We are tweaking down our FY2009E EPS estimate to Rs45 from Rs46.5 to reflect slightly lower volumes in 4QFY09. Our margin assumption of 10.5% for 4QFY09E could be aggressive. Similarly, we are modeling a 150 bps improvement in margins for FY2010E, largely driven by lower raw material costs. We are maintaining our Rs435 target and SELL rating and believe the current stock valuation assumes a quick demand recovery. Additionally, we expect the company's margins to come under pressure as its cost structure aligns to global competition.

3QFY09 reported net profit of Rs2.14 bn down 54% yoy as margins decline to 6.5% from 15% a year ago

Maruti reported 3QFY09 net profit at Rs2.14 bn, in line with our estimate of Rs2.16 bn. However, excluding the interest on tax refund of Rs569 million, net profit would have been in the Rs1.7 billion range. EBITDA margin came in at 6.5% for the quarter. Excluding the Rs550 million in compensation to dealers, EBITDA margins came in at 7.7% of sales, still much below the 10.7% in 2QFY09. Our 10% EBITDA margin expectation for the quarter had discounted some negative impact from the excise duty mismatch. Operating profits came in below our expectations driven primarily by higher than expected raw material costs, SG&A and adverse forex movement. On a sequential basis, the 300 bps decline in EBITDA margin was driven by an 180 bps increase in raw materials costs and 120 bps from negative operating leverage.

The company indicated that pricing was flat for the quarter, with price increases largely offset by discounts offered. The 10% increase in realizations was primarily driven by higher dollar rates and better mix of vehicles.

We are tweaking down our estimate for FY2009 and FY2010, jump from an 8.5% adjusted EBITDA margin in 3QFY09 to 11.5% for FY2010 could be aggressive

We are lowering our EPS estimate for FY2009E to Rs45 from Rs46.5 to reflect slightly lower domestic volumes. Our EBITDA margin assumption for 4QFY09 is at 10.5% compared to the 7.7% for 4QFY09. For FY2010E, we expect an EPS of Rs50.5 compared to Rs51.5 prior. We expect margins to improve to 11.5% in FY2010E from 10% in FY2009E.

We have maintained our volume assumptions at +8% yoy in FY2010, largely driven by higher exports.

Maintaining Rs435 target price and SELL rating

Our target price of Rs435 implies an almost 9X multiple on our FY2010 EPS estimate. We expect a grimmer picture on the domestic demand front given the weak outlook for jobs and income growth. Separately, we expect Maruti's margins to experience structural pressure as competition intensifies. We don't expect Maruti's operating margins to get back to low teens range experienced in the past as the company ramps up on its capabilities to better compete against global majors. This is evident from the company's spend towards an R&D and brand centers, which should increase hiring needs. For instance, R&D spend average close to 5% globally compared to the 3.5% at Maruti, primarily paid as royalty to Suzuki. Additionally, we see competition increasing on the A segment, where the company has a leading share. Hitherto most new competition has been focusing on margins over volumes. This may change as and when capacity utilization comes under pressure and focus moves to return measures.

Maruti Suzuki India, quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	3Q 2009	2Q 2009	Change (%)	3Q 2009	3Q 2008	Change (%)
Net Sales	**45,371**	**48,303**	**(6.1)**	**45,371**	**46,741**	**(2.9)**
Expenditure	(43,290)	(44,779)	(3.3)	(43,290)	(40,609)	6.6
(Increase)/decrease in stocks	(183)	(561)		(183)	(1,652)	
Consumption of Raw materials	(36,435)	(37,540)	(2.9)	(36,435)	(34,111)	6.8
Staff cost	(1,104)	(1,165)	(5.2)	(1,104)	(968)	14.1
Other expenditure	(5,569)	(5,514)	1.0	(5,569)	(3,879)	43.6
Operating other income	887	1,634	(45.7)	887	853	4.0
EBITDA	**2,968**	**5,157**	**(42.5)**	**2,968**	**6,986**	**(57.5)**
Other income	1,777	960	85.0	1,777	854	108.1
Interest (net)	(45)	(208)	(78.3)	(45)	(144)	(68.6)
Depreciation	(1,775)	(1,658)	7.0	(1,775)	(867)	104.6
Profit before extra-ordinary items	**2,925**	**4,252**	**(31.2)**	**2,925**	**6,828**	**(57.2)**
Extra-ordinary items	-	-		-	-	
Profit before tax	**2,925**	**4,252**	**(31.2)**	**2,925**	**6,828**	**(57.2)**
Tax	789	1,290	(38.8)	789	2,158	(63.4)
Profit after tax	**2,136**	**2,961**	**(27.9)**	**2,136**	**4,670**	**(54.3)**
Adjusted PAT	**2,136**	**2,961**	**(27.9)**	**2,136**	**4,670**	**(54.3)**
Volumes	**173,494**	**189,451**	**(8.4)**	**173,494**	**201,629**	**(14.0)**
Average realisation	**297,746**	**293,402**	**1.5**	**297,746**	**271,811**	**9.5**
Margins (%)						
EBITDA margin	6.5	10.7	(4.14)	6.5	14.9	(8.40)
Net profit margin	4.7	6.1	(1.42)	4.7	10.0	(5.28)
Key ratios						
RM costs (% of net sales)	80.3	77.7	2.59	80.3	73.0	7.33
Staff costs (% of net sales)	2.4	2.4	0.02	2.4	2.1	0.36
Effective tax rate (%)	27.0	30.3	(3.37)	27.0	31.6	(4.63)
EPS (Rs/share)	7.4	10.2		7.4	16.2	

Source: Company data, Kotak Institutional Equities estimates.

Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-11E (# vehicles)

	2007	2008	2009E	2010E	2011E
Segment-wise sales (no of vehicles)					
Entry (A) segment	79,245	69,553	50,000	45,000	40,200
Van-Segment	83,091	89,729	75,000	70,000	67,500
Compact (B) segment	440,375	499,280	501,000	520,000	560,000
Mid-size (C) segment	29,697	49,335	53,000	52,000	60,000
MUV	3,221	3,921	3,000	3,500	4,500
Domestic	**635,629**	**711,818**	**682,000**	**690,500**	**732,200**
Exports	39,295	53,024	83,000	135,500	175,500
Total	**674,924**	**764,842**	**765,000**	**826,000**	**907,700**
Segment-wise sales growth(yoy %)					
Entry (A) segment	(11.0)	(12.2)	(28.1)	(10.0)	(10.7)
Van-Segment	24.0	8.0	(16.4)	(6.7)	(3.6)
Compact (B) segment	31.5	13.4	0.3	3.8	7.7
Mid-size (C) segment	(7.3)	66.1	7.4	(1.9)	15.4
MUV	(19.5)	21.7	(23.5)	16.7	28.6
Domestic	**20.6**	**12.0**	**(4.2)**	**1.2**	**6.0**
Exports	13.0	34.9	56.5	63.3	29.5
Total	**20.1**	**13.3**	**0.0**	**8.0**	**9.9**

Source: SIAM, Kotak Institutional Equities estimates.

Maruti Suzuki, profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	120,522	146,539	179,362	195,274	212,438	238,712
EBITDA	**18,669**	**22,862**	**26,524**	**19,488**	**24,496**	**28,632**
Other income	1,889	3,026	4,784	5,706	4,680	4,622
Interest	(204)	(376)	(596)	(495)	(540)	(840)
Depreciaiton	(2,854)	(2,714)	(5,682)	(6,901)	(8,357)	(10,101)
Profit before tax	**17,500**	**22,798**	**25,030**	**17,799**	**20,279**	**22,313**
Current tax	5,930	6,281	7,696	4,450	5,070	5,578
Deferred tax	(321)	897	26	356	608	669
Net profit	**11,891**	**15,620**	**17,308**	**12,993**	**14,601**	**16,065**
Earnings per share (Rs)	**41.1**	**54.0**	**59.9**	**45.0**	**50.5**	**55.6**
Balance sheet (Rs mn)						
Equity	54,526	68,539	84,154	95,456	108,367	122,742
Deferred tax liability	779	1,675	1,701	2,057	2,665	3,335
Total Borrowings	717	6,308	9,002	9,002	9,002	7,002
Current liabilities	19,771	25,015	28,187	29,040	29,682	30,795
Total liabilities	**75,793**	**101,537**	**123,044**	**135,556**	**149,716**	**163,873**
Net fixed assets	17,872	29,104	40,328	53,427	65,071	72,470
Investments	20,512	34,092	51,807	51,807	51,807	53,807
Cash	14,016	14,228	3,240	1,549	1,304	2,471
Other current assets	23,393	24,113	27,669	28,773	31,534	35,125
Miscellaneous expenditure	-	-	-	-	-	-
Total assets	**75,793**	**101,537**	**123,044**	**135,556**	**149,716**	**163,873**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	12,226	20,398	18,304	14,788	17,306	20,576
Working capital changes	(815)	4,410	(83)	(250)	(2,120)	(2,478)
Capital expenditure	(1,788)	(13,950)	(16,930)	(20,000)	(20,000)	(17,500)
Free cash flow	**9,623**	**10,858**	**1,291**	**(5,462)**	**(4,814)**	**598**
Ratios						
Operating margin (%)	15.5	15.6	14.8	10.0	11.5	12.0
PAT margin (%)	9.9	10.7	9.6	6.7	6.9	6.7
Debt/equity (X)	0.0	0.1	0.1	0.1	0.1	0.1
Net debt/equity (X)	(0.6)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)
Book Value (Rs/share)	191.4	243.0	297.1	337.4	384.2	436.3
RoAE (%)	23.7	24.9	22.2	14.2	14.0	13.6
RoACE (%)	**23.1**	**24.0**	**20.7**	**13.3**	**13.2**	**13.2**

Source: Company, Kotak Institutional Equities estimates.

Metals

JNSP.BO, Rs917	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,250
52W High -Low (Rs)	2630 - 517
Market Cap (Rs bn)	141.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	54.1	77.9	77.7
Net Profit (Rs bn)	14.0	14.2	12.1
EPS (Rs)	101.8	92.4	78.9
EPS gth	*123.0*	*(9.2)*	*(14.6)*
P/E (x)	9.0	9.9	11.6
EV/EBITDA (x)	7.6	6.9	7.6
Div yield (%)	0.5	0.6	0.8

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
1.3	32.8	(51.9)	(60.6)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	58.6	-	-
FIIs	21.7	0.7	0.1
MFs	4.3	0.7	0.1
UTI	-	-	(0.6)
LIC	-	-	(0.6)

Jindal Steel and Power: Steel and power both outperform, maintain BUY

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- **Net income (standalone) at Rs3.25 bn (+2% yoy, -27.7% qoq)**
- **Power business net income at Rs5.75 bn up 82.5% qoq**
- **Results ahead of expectations, maintain BUY with TP of Rs1,250/share**

JSP reported net income (standalone) at Rs3.25 bn which was higher than our expectations of Rs2.23 bn. Strong efficiency gains on account of aggressive costs control drove earnings. Also, volumes remained largely unaffected unlike peers most of whom have reported 20-25% decline in qoq volumes citing extremely weak market conditions. Power business reported net income at Rs5.75 bn which was up 82.5% qoq. The current quarter was the first quarter of full operations for the power business and had strong average realizations of Rs7/unit. The consolidated EPS for the quarter stands at Rs58/share, which is the highest ever. We have marginally revised our earnings upwards for JSP (standalone) higher for FY2009 and FY2010 5.6% and 1.5%, respectively. We maintain our BUY rating and TP of Rs1,250/share.

Steel business—standing out from the crowd

Unlike the rest of the steel companies which have reported 20-25% drop in volumes owing to sharply adverse market conditions JSP's total steel volumes were down 1% yoy and 11% qoq. Average blended realizations were higher by 29% yoy and lower by 11% qoq. The increase in average realizations is largely on account of improvement in product mix post commissioning of the 600,000 ton plate mill.

We expect JSP to deliver a PAT of Rs14.23 bn and Rs14.23 bn for FY2009 and FY2010, respectively. The weaker earning for FY2010 is on account of expected weaker realizations which would offset savings arising out of sharp decrease in input costs of coking coal.

Power business—strong realizations drive earnings

JSP's wholly-owned subsidiary Jindal Power (JPL) reported strong 3QFY09 net sales at Rs11.6 bn (Rs6.5 bn in 2QFY09) and PAT at Rs5.75 bn (Rs3 bn in 2QFY09). The 3QFY09 quarter was the first quarter of full operations for the 1000 MW power plant. We estimate the power plant to have sold about 1.65 bn units during 3QFY09 (1.3 bn units in 2QFY09). The estimated average realizations during the quarter thus increased to ~Rs7/unit. We estimate JPL to achieve a PAT of Rs12.8 bn in FY2009E and Rs16.9 bn in FY2010E.

We use an average realization of Rs4.56/unit in FY2010E and FY2011E. We expect the merchant tariffs to soften over the next few quarters due to a slowdown in the economy, coupled with increased generation from naphtha-based power plants (which have become competitive at the current prices of naphtha).

Valuations

We marginally revise our earnings estimates higher for FY2009 and FY2010 by 5.6% and 1.5%, respectively. We value the steel business at 4X EV/EBITDA FY2010E earnings and value the steel business at Rs323/share. We value the power business on a DCF basis have arrived at a value of Rs900/share. We maintain our BUY rating on the stock with a TP of Rs1,250/share.

Jindal Steel and Power, interim results, March fiscal year-ends (Rs mn)

	3Q 2009	2Q 2009	3Q 2008	% change qoq	% change yoy
Quantitative details ('000 tons)					
Steel sales	305,295	372,997	335,722	(18.2)	(9.1)
Metallics (DRI + pig iron)	186,328	176,350	159,857	5.7	16.6
Power sales (mn units)	302	265	268	13.9	12.5
Earnings drivers					
Average US HRC prices (US/ton)	787	1,159	590	(32.1)	33.4
Average UK HRC prices (US/ton)	667	795	643	(16.1)	3.7
Average INR:USD	48.8	43.8	39.4	11.4	23.7
Interim results					
Net revenues	**17,811**	**22,161**	**13,956**	(19.6)	27.6
Expenditure	**(11,691)**	**(14,717)**	**(8,633)**		
Stock adjustment	456	(811)	230	(156.3)	98.3
Raw materials	(7,988)	(8,336)	(5,627)	(4.2)	41.9
Employee cost	(464)	(463)	(301)	0.2	54.0
Other costs	(3,696)	(5,108)	(2,934)	(27.6)	26.0
EBITDA	**6,120**	**7,445**	**5,324**	(17.8)	15.0
Other income	104	150	118	(30.5)	(11.9)
Depreciation	(1,109)	(1,077)	(1,188)	3.0	(6.6)
EBIT	5,115	6,517	4,254	(21.5)	20.2
Interest	(743)	(563)	(500)	32.1	48.8
Pre-tax profits - as reported	4,371	5,955	3,754	(26.6)	16.4
Unusual or infrequent items	-	-	-	-	-
Pre-tax profits - as adjusted	**4,371**	**5,955**	**3,754**	(26.6)	16.4
Taxes	(1,120)	(1,455)	(564)		
Reported profits - as reported	**3,252**	**4,500**	**3,191**		
Extra-ordinary items	-	-	-		
Reported profits - as adjusted	**3,252**	**4,500**	**3,191**	(27.7)	1.9
Ratios					
Costs as % of revenue (%)	65.6	66.4	61.9		
EBITDA margin (%)	34.4	33.6	38.1		
ETR (%)	25.6	24.4	15.0		
EPS (Rs/share)	21.1	29.2	20.7		

Source: Company data, Kotak Institutional Equities estimates

Jindal Steel and Power, SOTP-based valuation, March 2010E (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	Enterprise value (Rs/share)	Comments
Steel business			**49,765**	**323**	
Steel business (extant business)	25,407	4.0	101,627	660	
Less: Net debt of steel business			51,861	337	FY2010E net debt, adjusted for cash
Power business			**138,529**	**900**	
Jindal Power (100% Sub) -1000 MW				689	1-yr forward DCF-to-firm basis, including 800 MW sale on spot basis for 7 years
Incremental 2,400 MW				210	Valued at P/B of 2X
Arrived market capitalization			**232,299**	**1,223**	
Target price (Rs/share)				**1,250**	

Notes:
1. Based on our assumptions of extraction, production and pricing; at 75% probability of fructifying and a discount rate of 15%.

Source: Kotak Institutional Equities estimates

Jindal Steel & Power, change in estimates, March fiscal year-ends, 2009E-11E (Rs mn)

	Revised estimates			Old estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net sales	77,878	77,725	89,089	80,682	86,756	99,212	(3.5)	(10.4)	(10.2)
EBITDA	25,853	25,407	32,834	25,708	26,232	35,266	0.6	(3.1)	(6.9)
Adj. PAT	14,227	12,144	15,878	13,474	11,961	16,761	5.6	1.5	(5.3)
EPS (Rs)	**92.4**	**78.9**	**103.1**	**87.5**	**77.7**	**108.9**	**5.6**	**1.5**	**(5.3)**

Source: Kotak Institutional Equities estimates

Valuation of JPL is sensitive our assumption of near-term tariff

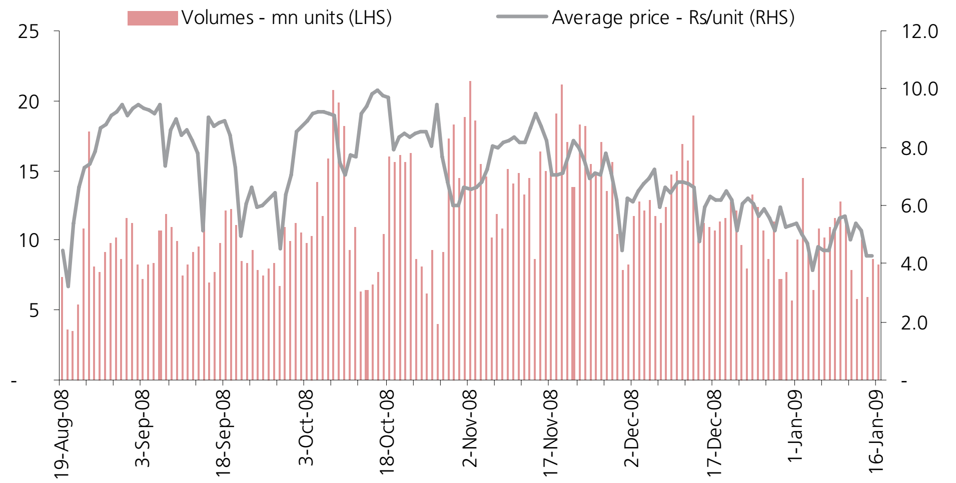
Sensitivity of valuation (Rs/share) to near-term tariff (Rs/unit) and PLF (%)

Merchant tariff (Rs/unit)	PLF (%)			
	80.0%	85.0%	90.0%	95.0%
3.0	438	477	516	555
4.0	538	583	629	674
5.0	638	**689**	741	792
6.0	738	795	853	911
7.0	837	901	965	1,029

Source: Kotak Institutional Equities estimates

Average tariff in short-term trades at the power exchange has declined in December 2008

Trading volumes (mn units) and average trading price (Rs/unit) for India Energy Exchange



Source: IEX, Kotak Institutional Equities

JPL has earned a PAT of Rs9.3 bn in nine-months ending December 31, 2008

Income statement for JPL, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net revenues	**27,676**	**31,407**	**31,407**	**31,407**	**31,407**	**18,459**	**18,459**
Variable costs	(2,363)	(3,344)	(3,444)	(3,548)	(3,654)	(3,764)	(3,877)
O&M expenses	(1,200)	(1,248)	(1,298)	(1,350)	(1,404)	(1,460)	(1,518)
Operating profit	**24,112**	**26,815**	**26,665**	**26,510**	**26,349**	**13,235**	**13,063**
Operating margin %	87%	85%	85%	84%	84%	72%	71%
Interest	(3,029)	(4,396)	(4,037)	(3,678)	(3,319)	(2,960)	(2,601)
Depreciation	(1,685)	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
Profit before tax	**19,399**	**20,079**	**20,288**	**20,491**	**20,690**	**7,935**	**8,122**
Tax	(4,759)	(2,275)	(2,299)	(2,322)	(2,344)	(899)	(920)
Deferred tax	(1,834)	(871)	(654)	(466)	(302)	(159)	(35)
Profit after tax	**12,805**	**16,933**	**17,335**	**17,704**	**18,044**	**6,876**	**7,167**
Net margin	46%	54%	55%	56%	57%	37%	39%

Source: Company data, Kotak Institutional Equities estimates

Jindal Steel & Power, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	25,894	35,198	54,108	77,878	77,725	89,089
EBITDA	**10,189**	**13,955**	**22,788**	**25,853**	**25,407**	**32,834**
Other income	281	290	491	400	400	400
Interest	(873)	(1,503)	(2,086)	(2,509)	(2,843)	(3,757)
Depreciaiton	(2,192)	(3,365)	(4,515)	(4,519)	(6,553)	(8,021)
Profit before tax	**7,270**	**9,448**	**18,332**	**19,225**	**16,411**	**21,456**
Current tax	(889)	(1,071)	(1,859)	(2,884)	(2,462)	(3,218)
Deferred tax	(660)	(1,348)	(796)	(2,115)	(1,805)	(2,360)
Net profit	**5,721**	**7,030**	**15,677**	**14,227**	**12,144**	**15,878**
Earnings per share (Rs)	**36.5**	**46.0**	**71.5**	**92.4**	**78.9**	**103.1**
Balance sheet (Rs mn)						
Equity	18,397	24,784	37,253	50,572	61,582	76,042
Deferred tax liability	2,803	4,150	4,947	7,061	8,867	11,227
Total Borrowings	27,454	35,077	38,634	48,634	58,634	60,634
Current liabilities	8,982	11,804	16,208	25,883	25,852	28,168
Total liabilities	**57,685**	**75,998**	**97,352**	**132,461**	**155,245**	**176,382**
Net fixed assets	38,470	50,851	53,963	75,110	102,788	112,572
Investments	4,303	7,098	10,362	10,362	10,362	10,362
Cash	313	530	5,779	11,120	6,267	14,511
Other current assets	14,592	17,487	27,217	35,839	35,797	38,905
Miscellaneous expenditure	7	32	31	31	31	31
Total assets	**57,685**	**75,998**	**97,352**	**132,461**	**155,245**	**176,382**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	9,628	12,067	18,118	20,860	20,502	26,259
Working capital changes	(4,163)	(497)	(4,000)	1,053	11	(792)
Capital expenditure	(15,873)	(15,208)	(9,298)	(25,666)	(34,232)	(17,805)
Free cash flow	**(10,409)**	**(3,638)**	**4,820**	**(3,752)**	**(13,719)**	**7,662**
Ratios						
Debt/equity (%)	129.2	120.5	90.9	83.9	82.9	69.2
Net debt/equity (%)	126.1	118.6	76.1	63.9	73.3	52.1
RoAE (%)	26.9	27.9	43.8	28.3	18.9	20.1
RoACE (%)	**13.2**	**14.4**	**24.0**	**17.1**	**12.1**	**13.4**

Source: Company, Kotak Institutional Equities es

Banking

BOB.BO, Rs255	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	330
52W High -Low (Rs)	450 - 188
Market Cap (Rs bn)	93.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	61.8	77.5	83.6
Net Profit (Rs bn)	14.4	19.2	19.0
EPS (Rs)	39.3	52.4	51.9
EPS gth	*39.8*	*33.5*	*(0.9)*
P/E (x)	6.5	4.9	4.9
P/B (x)	1.1	0.9	0.9
Div yield (%)	3.1	4.2	4.2

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(4.5)	5.2	11.9	(37.6)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.8	-	-
FIIs	18.9	0.3	0.0
MFs	11.8	1.1	0.8
UTI	-	-	(0.3)
LIC	5.5	0.4	0.1

Bank of Baroda: Continues to impress; strong performance on all operational parameters

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- **BoB reported PAT of Rs7.1 bn, up 41% yoy and 13% above estimates; NII up by 47% yoy**
- **Key highlights: Improved NIM, strong fee income, steady asset quality**
- **Higher provisions for wage hike and international book to strengthen balance sheet; revise estimates and retain ADD rating**

Bank of Baroda (BoB) reported a PAT of Rs7.1 bn in 3QFY09—a growth of 41% yoy and 13% ahead of our estimates. The key highlights of the current quarter were (1) strong operational performance with improved margins, (2) steady asset quality, (3) higher provisions on international investment and equity book and (4) provisions for the likely wage liabilities. We have revised our estimates upwards by 10% for FY2009E and by 15% for FY2010E. The stock current trades at 4.9X PER and 0.8X PBR FY2010E. Retain ADD rating with a target price of Rs330.

Core operational profits of the company remain healthy. BoB's operations continue to remain healthy with the core profits (PBT- treasury + provisions – extraordinary profits) in 3QFY09 growing by a healthy 28% yoy and 19% ahead of our estimates. This performance was driven by: (1) improvement in NIM, (2) higher growth of average advances and (2) strong non-interest revenues (excluding treasury and recoveries) of 19% yoy.

The improvement in NIM was driven by better pricing of loans in the domestic market and continued emphasis of the company on its liability side. BoB's yield on advances in the domestic market increased to 11.25% in 3QFY09 compared to 10.73% in 2QFY09, while the increase in cost of deposits (domestic market) was a more moderate 6.25% in 3QFY09 compared to 6.12% in 2QFY09. The company was also able to improve its CASA ratio in the domestic book to 36.1% as of December 2008 from 35.9% as of September, which is unlike the decline in CASA ratio reported by all banks under coverage in the current quarter. However, given the softening of interest rates, assets are likely to reprice faster than liabilities over the next few quarters. Consequently, we model 2.58% of NIM in FY2010E compared to 2.73% likely to be reported in FY2009E.

Strong non interest income driven by higher fees

Non-interest income (excluding treasury and recoveries) increased by 19.4% yoy to Rs3.5 bn in 3QFY09 and more importantly, a large part of these revenues were driven by core fees of Rs1.7 bn (up 27% yoy). The better pricing of its services and improved leveraging of the core banking platform are the likely reasons for the buoyancy in revenues. Treasury gains were strong at Rs4.3 bn during the quarter.

Loan growth at 33% continues to remain high and is a cause of concern. BoB's loans as of December 2008 stood at Rs1.3 tn—a growth of 33.2% yoy. The domestic loan book constituted Rs981 bn (up 31.4% yoy) of the overall loans. The company's incremental loan growth (domestic book) in 3QFY09 was Rs67 bn, which is the highest in the past three quarters. We remain concerned at this pace of loan growth as this could result in higher NPLs in future periods. Our estimates factor NPL provisions of Rs14.6 bn in FY2010E and Rs20.4 bn in FY2011E compared to Rs7.2 bn likely to be reported in FY2009E.

Asset quality—amongst the best performing bank

We note that the company's reported gross NPL ratio and net NPL ratio as of December 2008 were at 1.5% and 0.4%, which is healthy. Both, gross and net NPAs declined qoq for Bank of Baroda in absolute amount. More importantly, BoB's incremental slippages during 9MFY09 were Rs7.3 bn compared to Rs6.4 bn in 9MFY08, a rise of only 15%, which is healthy and indicates better loan origination.

Higher employee provisions to meet likely wage hike liabilities. The company had treasury gains of Rs4.2 bn in 3QFY09 benefiting from the softer yield environment apart from having an extraordinary gain of Rs691 mn on account of merging its Hong Kong operations with itself in 3QFY09. BoB utilized these one-off gains to make Rs1.9 bn of higher provisions for likely liabilities on account of the wage hike negotiations currently underway between IBA and employee unions as a prudential measure.

Depreciation losses on international investment book and equity book result in higher provisions. BoB made Rs1.5 bn of provisions in 3QFY09 for mark-to-market losses on its international investment book. The company also had Rs2.3 bn of mark-to-market losses on its equity book in 3QFY09. These losses resulted in higher provision burden of Rs3.5 bn for the company in the current quarter.

The company's international investment book as of December 2008 stood at Rs40 bn and consisted of Rs17 bn of CLN exposure, Rs8 bn of government securities and Rs15 bn of corporate bonds.

Bank of Baroda, quarterly results, (Rs mn)

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	yoy growth	3QFY09KS	Actual Vs KS
Interest income	30,022	33,310	33,538	35,510	41,080	36.8	38,700	6.1
Interest on advances	21,631	23,267	23,897	26,892	30,422	40.6	28,500	6.7
Income from invts	7,111	7,681	8,512	7,265	9,085	27.8	8,800	3.2
Bal with RBI	1,280	2,363	1,129	1,353	1,573	22.9	1,400	12.3
Interest expenses	20,047	23,026	22,368	24,172	26,462	32.0	26,500	(0.1)
Net interest income	**9,975**	**10,285**	**11,170**	**11,338**	**14,618**	**46.6**	**12,200**	**19.8**
Non-interest income	6,180	5,546	5,126	4,759	9,156	48.2	5,500	66.5
Other income (excld treasury)	4,241	4,734	4,236	3,837	4,285	1.0	4,500	(4.8)
Other income (excld treasury and reco	2,899	3,536	3,691	3,404	3,461	19.4		
Fee income	1,367	1,742	1,555	1,632	1,729	26.5		
Forex income	633	862	942	551	1,367	115.9		
Treasury income	1,939	813	890	923	4,180	115.6	1,000	318.0
Total income	**16,155**	**15,831**	**16,296**	**16,097**	**23,774**	**47.2**	**17,700**	**34.3**
Operating expenses	7,281	7,687	7,694	8,250	9,627	32.2	8,500	13.3
Employee expenses	4,409	4,212	5,227	5,244	6,673	51.3	5,300	25.9
Other operating expenses	2,872	3,475	2,467	3,006	2,954	2.9	3,200	(7.7)
Operating profit	8,874	8,144	8,602	7,847	14,147	59.4	9,200	53.8
Provisions	1,120	4,250	2,803	1,810	3,501	212.7	(460)	(861.1)
Loan loss	1,350	2,478	581	620	1,040	(23.0)	2,500	(58.4)
Invt. Depreciation	(45)	614	2,788	1,189	2,329	(5,333.0)	(3,500)	(166.5)
PBT	7,754	3,895	5,799	6,037	10,646	37.3	9,660	10.2
Taxation	2,744	1,131	2,090	2,084	3,562	29.8	3,381	5.4
Net profit	**5,011**	**2,764**	**3,709**	**3,953**	**7,084**	**41.4**	**6,279**	**12.8**
PBT-invt gains/losses	5,771	3,696	7,697	6,304	8,104	40.4	5,160	57.0
PBT-invt gains + provisions	7,121	6,174	8,278	6,924	9,144	28.4	7,660	19.4
Tax rate	35.4	29.0	36.0	34.5	33.5		35.0	

Source: Company, Kotak Institutional Equities estimates.

Bank of Baroda—key financial and analytical ratios

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	yoy growth
Key balance sheet items (Rs bn)						
Deposits	1,369	1,520	1,549	1,611	1,686	23.2
Domestic	1,124	1,225	1,238	1,310	1,365	21.5
CASA ratio (%)	37.3	36.0	36.9	35.9	36.1	
Foreign	245	296	311	301	321	30.8
Advances	955	1,067	1,112	1,195	1,272	33.2
Domestic	746	845	853	913	981	31.4
Retail loans	154	169	167	177	188	22.1
Home loans	67	73	73	76	79	18.3
SME	107	117	-	127	137	27.8
Farm credit	121	131	137	149	156	29.4
Foreign	209	222	259	282	291	39.4
Investments	390.0	443.1	466.4	404.6	460.6	18.1
Yield management measures (%)						
Average cost of deposits	5.60	5.69	5.55	5.59	5.73	
Avg. cost of deposits (domestic)	5.77	5.91	6.05	6.12	6.25	
Avg. cost of deposits (international)	4.84	4.76	3.43	3.38	3.52	
Yield on advances (total)	9.61	9.53	9.08	9.37	9.58	
Yield on advances (domestic)	10.51	10.46	10.34	10.73	11.25	
Yield on advances (international)	6.31	6.17	4.91	NA	5.58	
Yield on investments (total)	6.91	6.55	7.22	-	7.18	
Yield on investments (domestic)	6.95	-	-	-	7.30	
Yield on investments (international)	6.53	-	-	-	5.88	
NIM	3.00	2.90	2.76	2.77	3.30	
Asset quality details						
Gross NPLs (Rs bn)	20.4	19.8	20.9	19.5	19.2	(5.8)
Gross NPLs (%)	2.1	1.8	1.9	1.6	1.5	
Net NPLs (Rs bn)	5.2	4.9	5.8	5.0	4.7	(8.6)
Net NPLs (%)	0.5	0.5	0.5	0.4	0.4	
Capital adequacy details (%)						
CAR	13.5	12.9	13.0	12.9	13.2	
Tier I	9.1	7.6	7.9	7.8	8.5	
Tier II	4.5	5.3	5.2	5.1	4.7	

Source: Company, Kotak Institutional Equities estimates.

Bank of Baroda earnings estimate

March year-ends, 2009-2011E (Rs mn)

	Old Estimates			New Estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
NII	48,698	56,858	68,821	51,647	58,031	70,310	6.1	2.1	2.2
Loan growth	26.2	17.0	15.9	26.2	17.0	15.9			
NIM	2.57	2.53	2.63	2.73	2.58	2.68			
Non-treasury other inc	17,777	18,971	20,666	18,340	19,596	21,362	3.2	3.3	3.4
Fee income	7,292	8,167	9,147	7,292	8,167	9,147	0.0	0.0	0.0
Operating expenses	33,583	38,506	42,385	35,333	39,819	43,774	5.2	3.4	3.3
Employee expenses	21,076	24,237	26,176	23,110	25,883	27,953	9.6	6.8	6.8
Provisions and contingencies									
Loan loss prov	7,240	13,145	18,704	7,240	14,606	20,404	0.0	11.1	9.1
PBT	**26,889**	**25,447**	**30,399**	**29,480**	**29,202**	**31,994**	**9.6**	**14.8**	**5.2**
PAT	**17,478**	**16,540**	**19,759**	**19,162**	**18,981**	**20,796**	**9.6**	**14.8**	**5.2**
PBT- invt gains + provisions	**30,728**	**35,592**	**47,102**	**34,654**	**37,808**	**47,898**			

Source: Company, Kotak Institutional Equities estimates.

Banking

IDFC.BO, Rs56	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	85
52W High -Low (Rs)	216 - 45
Market Cap (Rs bn)	73.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	13.1	15.3	17.5
Net Profit (Rs bn)	7.5	8.4	9.4
EPS (Rs)	5.7	6.4	7.2
EPS gth	*3.0*	*13.3*	*11.8*
P/E (x)	9.9	8.8	7.8
P/B (x)	1.3	1.2	1.0
Div yield (%)	2.1	2.0	2.2

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(15.7)	11.7	(36.3)	(72.9)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	31.2	0.5	0.2
MFs	8.5	0.7	0.4
UTI	-	-	(0.3)
LIC	5.9	0.4	0.1

IDFC: Core earnings in line, improvement in margins is positive

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- **IDFC reported PAT of Rs1.85 bn, down 15% yoy and 7% below estimates**
- **NIM reported an improvement but loan book remains stable**
- **Higher AMC fees on the back of rising AUMs; capital market-linked income low**
- **We will revisit estimates post conference call with management**

IDFC reported core earnings (PBT- capital gains + provisions) of Rs2.67 bn, up 15% yoy but 3% below estimates. Reported earnings were lower on account of negligible capital gains. The company's strategy to prefer margins over growth is reflected in a qoq improvement in NIM and stable loan book over the past three quarters. Income from capital gains and investment banking income was subdued due to slowdown in the equity markets. However, high growth in asset management income on the back of significant ramp up of assets under management supported fees. We will revise our earnings estimates post the conference call with management. The stock currently trades at 7.8X PER and 1.1X PBR FY2010E.

Key highlights

NIM improves qoq but loan book stable. IDFC's reported NIM for rolling four quarters have improved to 2.9% in December 2008 from 2.7% in September 2008 likely indicating an improvement in NIM for the quarter—a key positive considering the interest rate/ liquidity pressures on bulk borrowers like IDFC. This is likely because of IDFC's policy to focus on margins than growth. The loan book has grown by 7% yoy in 3QFY09 but remained almost stable for the past three quarters. Disbursements were down 76% yoy and approvals down 81% yoy in 3QFY09. We believe that a low growth strategy is prudent in the current environment. However, we will be concerned if growth does not catch up over the medium term.

Provision cost under control. IDFC reported provisioning expenses of Rs34 mn down 54% yoy. Its net NPLs have been NIL thus indicating stable NPL position.

Growth in AUM supports fee income. IDFC's private equity/ project equity assets under management have increased to over US$2 bn from about US$650 mn in 3QFY08. This has largely supported growth in asset management fees as well. Fees from advisory business were down 77% to Rs110 mn. Large part of this segment is linked to disbursements—these were low during the quarter. Income from investment banking/ broking has been low on the back of subdued equity markets. The minority interest reported in the financials was negative likely indicating a loss in IDFC SSKI—we, however, need to confirm this with the management.

IDFC - Quarterly results

1QFY08-3QFY09 (Rs mn)

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	YoY(%)	3Q09E	Actual vs KS (%)
Consolidated financials										
Total Income	**6,097**	**6,567**	**7,667**	**7,734**	**8,705**	**9,465**	**8,652**	**13**	**-**	**-**
Operating Income	6,096	6,551	7,634	7,670	8,686	9,397	-	-	-	-
Treasury	-	-	-	-	-	-	-	-	-	-
Other Income	1	16	33	63	19	68	33	(1)	-	-
Interest and Other Charges	3,112	3,306	3,960	4,451	4,867	5,219	5,306	34	-	-
Net operating income	2,986	3,261	3,707	3,283	3,839	4,246	3,346	(10)	3,732	(10)
Net operating inc excl cap gains	2,206	2,811	2,977	3,083	3,199	3,356	3,336	12	3,558	(6)
Net interest income on infr	1,040	1,460	1,490	1,660	1,770	1,790	2,070	39	1,714	21
Treasury (incl secu and others)	300	500	280	210	360	200	510	82	322	58
Fees and advisory	870	790	1,167	1,193	990	1,300	720	(38)	1,017	(29)
Asset management	130	130	130	170	170	600	480	269	506	(5)
IDFC SSKI / Investment bankinc	500	380	560	430	360	370	130	(77)	250	(48)
Advisory and other fees	240	280	477	530	460	330	110	(77)	261	(58)
Dividend	-	40	-	-	-	-	-	-	-	
Profit on sale of equity	780	450	730	200	640	890	10	(99)	174	(94)
Miscellaneous income	-	-	-	-	-	-	-	-	-	
Total Expenditure	549	650	702	1,256	918	1,019	638	(9)	929	(31)
Staff Expenses	348	344	451	534	467	488	328	(27)	516	(36)
Other Expenses	138	142	179	322	252	383	277	55	236	17
Provisions and Contingencies	63	164	73	400	199	148	34	(54)	177	(81)
PBDT	2,437	2,611	3,004	2,027	2,920	3,226	2,707	(10)	2,804	(3)
Depreciation	12	13	13	35	49	58	58	332	50	16
Profit before Tax	2,425	2,598	2,991	1,992	2,871	3,169	2,649	(11)	2,754	(4)
Provision for Tax	582	620	774	503	685	833	810	5	743	9
Profit after Tax	1,843	1,978	2,217	1,488	2,186	2,336	1,839	(17)	2,010	(9)
Share of profit in associates / minority	33	32	41	6	26	16	(6)	(116)	20	(132)
PAT (incl minorities share/ after minority share)	1,810	1,946	2,176	1,494	2,160	2,320	1,845	(15)	1,990	(7)
PBT treasury and provisions	1,708	2,313	2,334	2,192	2,430	2,427	2,673	15	2,757	(3)
PBT bef treasury provisions and misc income	1,708	2,313	2,334	2,192	2,430	2,427	2,673	15	2,757	(3)
Tax rate	-	-	26	25	24	26	31	-	27	-
Balance sheet (Rs mn)										
Shareholders funds	30,550	54,060	56,240	55,930	56,640	60,520	62,400	11	-	-
Subordinated debt	6,500	6,500	6,500	6,500	6,500	6,500	6,500	-	-	-
Loan Funds	168,880	164,940	197,560	216,540	231,950	222,410	231,190	17	-	-
Minority interest	-	-	210	240	-	280	270	29	-	-
Total	205,930	225,780	260,510	279,210	295,090	289,710	300,360	15	-	-
Goodwill	-	2,260	2,930	2,940	-	10,770	10,770	268	-	-
Fixed assets	1,030	3,120	3,120	3,850	3,570	4,050	4,060	30	-	-
Investments	53,510	45,410	57,960	70,050	76,770	56,970	73,270	26	-	-
Equity	6,850	8,080	11,770	13,500	14,530	12,950	13,870	18	-	-
Treasury	43,690	37,330	46,190	52,600	49,900	44,020	59,400	29	-	-
Infrastructure loans	151,080	171,600	195,760	204,940	214,890	213,930	210,220	7	-	-
Deferred Tax	830	850	830	970	900	1,130	1,120	35	-	-
Net current assets	(520)	2,540	(100)	(3,550)	(1,040)	2,850	920	(1,020)	-	-
Total	205,930	225,780	260,500	279,210	295,090	289,700	300,360	15	-	-
Key ratios (%)										
CAR (%)	19.1	-	-	22.2	20.4	22.2	22.1	-	-	-
Tier I	15.5	-	-	19.5	17.7	18.9	18.9	-	-	-
Tier II	3.3	-	-	2.7	2.7	3.3	3.2	-	-	-

Source:Company, Kotak Institutional equities estimates.

IDFC - Quarterly results

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	YoY(%)	3Q09E	Actual vs KS (%)
Other details										
Gross approvals (Rs bn)	42	43	64	54	45	29	12	(81)	-	-
Gross disbursements (Rs bn)	24	25	35	36	27	19	9	(76)	-	-
Loan book (Rs bn)	148	168	192	199	232	222	231	20	-	-
Outstanding disbursements										
Loans	**147**	**168**	**192**	**200**	**213**	**212**	**208**	**8**	**-**	**-**
Project loans	82	82	90	96	94	99	99	10	-	-
Corporate loans	50	66	77	79	96	85	87	12	-	-
Loans against shares	16	20	25	24	24	28	22	(11)	-	-
Mezzanine products	6	6	7	7	5	5	6	(15)	-	-
Sub-debt	0	6	1	9	1	1	-		-	-
Preference shares	6	6	6	59	4	4	-		-	-
Equity/ pref shares	7	11	11	14	15	13	14	18	-	-
Financial	-	-	3	4	-	-	-		-	-
Infrastructure	-	-	7	9	-	-	-		-	-
Venture Capital units	-	-	1	1	-	-	-		-	-
Non-funded	9	6	4	13	13	5	5	24	-	-
Total	169	192	214	233	245	234	232	8	-	-
Sectorwise break ups										
Total exposure (Rs bn)	**246**	**277**	**318**	**340**	**363**	**350**	**331**	**-**	**-**	**-**
Energy	91	100	109	-	130	131	128	-	-	-
Transportation	69.9	76.9	87.0	-	80.7	81.8	78.3	-	-	-
Telecom	38.6	34.9	53.0	-	68.3	44.0	34.8	-	-	-
Commercial/Industrial	21.5	26.3	30.7	-	42.8	40.4	40.9	-	-	-
Tourism	15.2	17.3	17.2	-	16.7	21.7	16.9	-	-	-
Others	9.6	22.5	21.1	-	24.9	31.4	32.0	-	-	-
O/s disbursements										
Energy	67.6	72.9	79.1	-	85.0	86.2	85.9	-	-	-
Telcom	49.3	56.0	30.1	-	46.8	30.1	27.4	-	-	-
Transportation	22.3	22.8	61.4	-	58.1	58.5	58.1	-	-	-
Commercial/Industrial	14.7	19.8	24.3	-	36.0	33.3	32.6	-	-	-
Others	12.7	19.5	19.3	-	19.0	26.3	27.9	-	-	-
Breakup of outstanding borrowings										
Short term	23%	17%	21%	13%	12%	12%	12%	0%	0%	0%
LT Rupee loans	26%	28%	38%	26%	28%	26%	25%	0%	0%	0%
LT bonds	41%	44%	29%	50%	49%	49%	51%	0%	0%	0%
Foreign currency loans	7%	7%	9%	8%	9%	10%	10%	0%	0%	0%
Sub debt	4%	4%	3%	3%	3%	3%	3%	0%	0%	0%
ROA analysis (%)										
Net interest income	2.7	3.0	2.9	2.9	2.9	2.7	2.9	-	-	-
Infrastructure	2.4	2.5	2.3	2.4	2.4	2.3	2.4	-	-	-
Treasury	0.4	0.5	0.5	0.5	0.5	0.4	0.4	-	-	-
Non Interest income	2.2	2.2	2.6	2.6	2.3	2.5	2.0	-	-	-
Fees, syndication and advisory	1.2	1.1	1.0	1.6	1.4	1.7	1.0	-	-	-
Capital gains & dividend	1.0	0.9	0.2	0.9	0.8	0.7	0.6	-	-	-
Mis. Fees	-	(0.0)	0.8	0.1	0.1	0.1	0.4	-	-	-
Operating income	5.0	5.1	5.5	5.6	5.3	5.3	4.9	-	-	-
Operating expenses	0.7	0.8	0.9	1.1	1.1	1.1	1.1	-	-	-
Pre- provisioning profits	4.3	4.3	4.6	4.5	4.3	4.1	3.8	-	-	-
Provisions and losses	0.1	0.2	0.2	0.3	0.3	0.3	0.3	-	-	-
PBT	**4.1**	**4.1**	**4.3**	**4.2**	**4.0**	**3.8**	**3.6**	**-**	**-**	**-**
Tax	0.9	1.0	1.1	1.1	1.0	1.0	1.0	-	-	-
Associate co profit	0.1	0.1	-	-	-	-	-	-	-	-
Net Income (PAT)	**3.3**	**3.2**	**3.2**	**3.1**	**2.9**	**2.8**	**2.6**	**-**	**-**	**-**

Source:Company, Kotak Institutional equities estimates.

Pharmaceuticals

LUPN.BO, Rs562	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	950
52W High -Low (Rs)	782 - 438
Market Cap (Rs bn)	49.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	27.1	36.7	43.5
Net Profit (Rs bn)	4.1	4.4	5.3
EPS (Rs)	49.8	49.6	59.5
EPS gth	*30.2*	*(0.4)*	*20.0*
P/E (x)	11.3	11.3	9.4
EV/EBITDA (x)	13.5	10.3	8.2
Div yield (%)	1.7	1.7	2.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(4.9)	(15.5)	(21.9)	10.0

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	13.0	0.1	(0.1)
MFs	12.0	0.6	0.4
UTI	1.2	0.5	0.3
LIC	2.4	0.1	(0.1)

Lupin: Results in line with forecasts; retain rating and price target

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- **3QFY09 revenues in line but adjusted margins beat KIE**
- **No changes in estimates for FY2010-11E**
- **Maintain BUY with SOTP-based target price unchanged at Rs950**

Lupin reported 5% qoq and 32% yoy increase in revenues at Rs9.8 bn, in line with KIE. Growth was led by (1) finished dosages from USA (Rs3.4 bn versus Rs3 bn), (2) Kyowa (Rs1.3 bn versus Rs890 mn) and (3) India finished dosage sales continued to show strong growth with 17% sales growth at gross level in line with KIE. However, API revenues were lower than KIE (Rs1.4 bn versus Rs1.8 bn) due to diversion towards captive use and reduced supplies to customers due to currency fluctuations. EBITDA margins before R&D at 22% was 200 bps lower than KIE 24% due to (1) higher personnel costs (12% versus 11%) due to the acquisitions made last year and (2) other expenses (25% versus 23%) due to sales conference. However, adjusting for the forex loss of Rs400 mn booked in sales, margins were at 25% versus KIE 24%. PAT at Rs1.1 bn was 4% lower than KIE's Rs1.2 bn due to lower margins and higher interest costs despite higher other income and lower tax rate. No material changes to FY2009-11E KIE PAT. The stock trades at 9X FY2010E and 8X FY2011E earnings. Maintain BUY rating with a SOTP-based target price of Rs950.

3QFY09 revenues, broadly in line with KIE at Rs9.8 bn. Revenues were broadly in line with KIE driven by

1) Finished dosages from USA (Rs3.4 bn versus Rs3 bn). Lupin currently markets 21 products in the US and informed that it is the market leader in seven of them. 20% of the revenues were from branded segment comprising Suprax franchise and Aerochamber Plus which the company started marketing in a co-promotion agreement with Forest last quarter.
2) Kyowa (Rs1.3 bn versus Rs890 mn). Sales from Japan grew 30% qoq in rupee terms with ten products launched. The company maintained that its Amlodipine brand enjoys market leadership in the highly competitive product segment.
3) India finished dosage sales continued to show strong growth with 17% sales growth at gross level in line with KIE revenues. This growth was driven by strong performance in therapeutic segments of CVS, Diabetes, CNS, Asthma. In asthma, Lupin enjoys a double digit market share.
4) However, revenues from Europe at Rs290 mn (including Hormosan) were lower than KIE Rs448 mn. The company did not get any approvals for new products during the quarter. Lupin will be participating in the AOK contract in Germany through the recently acquired company, Hormosan. There are a few legal issues to be sorted out before revenues can begin.

EBITDA margins before R&D at 22% was 200 bps lower than KIE 24% due to (1) higher personnel costs (12% versus 11%) due to the acquisitions made last year and (2) other expenses (25% versus 23%) due to sales conference. However, adjusting for the forex loss of Rs400 mn booked in sales, margins were at 25% versus KIE 24%. Most Indian companies report this forex loss as other expenses while Lupin has reduced revenues instead.

PAT at Rs1.1 bn was 4% lower than KIE's Rs1.2 bn due to (1) lower margins and (2) higher interest costs. Interest costs at Rs146 mn were higher than KIE Rs130 mn and Rs127 mn in previous quarter. However, other income was at Rs221 mn versus KIE Rs130 mn while tax rate was lower at 16% versus KIE 20%.

FCCB-related issues—Lupin issued convertible bonds of $100 mn which are convertible into shares at Rs567 per share. At end December 2008, bonds of $72 mn are outstanding. With current price of Rs562, we treat these bonds as equity shares from FY2009.

Debt and interest costs—Gross debt of Lupin at end December 2008 was about Rs9 bn + Rs3.5 bn of FCCB. Of this debt, Rs2 bn is long-term debt taken in Japan with interest cost of 1% payable over three-five years. Rs7 bn is the working capital loan. Lupin has about Rs1 bn cash on hand. Lupin's bonds are trading above par and are not eligible for buy back that other Indian companies are planning. FCCB are due for repayment on December 20, 2010.

Working capital management—Lupin informed that it has managed to control its working capital tightly. It was down 4% while sales have increased 32% YTD.

Capex—Lupin plans to spend about $60 m each in FY2009E and FY2010E

Intangible assets—At end March 2008, Lupin had net intangible assets of Rs1.87 bn. Following recent acquisitions in Germany, South Africa and Australia, we expect the number to have increased by another Rs2 bn. Under Indian GAAP, they are recognized only if it is probable that the future economic benefits that are attributable to these assets will flow to the company and can be measured reliably. They are recorded at cost and carried at cost less accumulated amortization and impairment losses if any. Lupin has not recorded any amortization for goodwill on acquisition in FY2008 income statement. Lupin believes that no impairment charges are likely to be necessary in FY2009 since all its acquisitions are profitable.

Foreign currency hedges for future revenues—Lupin has hedged for multi year sales. Most of these hedges are near term at about Rs46. This could impact FY2010 sales and profits but no clarity on how much is hedged. Our income statement is based on US$= Rs48. Since Lupin will be collecting at lower rate for a part of its revenues, we have included Rs200 mn as losses in foreign exchange for FY2010. This number may turn out to be materially different since Lupin has not provided sufficient information.

US FDA issues at Mandideep facility—Lupin reiterated that nothing is pending from company side. They are waiting to meet US FDA and hope that the issue could be resolved fully in the next two months.

Maintain BUY rating with SOTP-based target price of Rs950. FY2009-11E PAT estimates left unchanged. Maintain BUY rating with SOTP-based target price of Rs950. FY2009 EPS growth rate appears low since Lupin sold IP rights amounting to Rs1,127 mn in 3QFY08. There is no such income in this year. We think Lupin offers attractive EPS growth of 20% in FY2010E while trading at 9x. Our price target implies that it will trade at 15x FY2011.

We think Lupin's revenues and PAT is more predictable than most other Indian companies since 85% of its revenues come from dosage segment. In addition, its exposure to CIS/Brazil/Russia is limited. Advanced market accounted for 51% of its revenues this quarter and Indian dosage segment accounted for another 29% of its revenues.

Interim results- Lupin, March fiscal year-ends (Rs mn)

	3QFY08	2QFY09	3QFY09	3QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KIE)
Gross revenues	**7,381**	**9,221**	**9,718**	**9,734**	**32**	**5**	(0)
Excise duty	168	138	100	167	(40)	(27)	(40)
Net sales	**7,213**	**9,083**	**9,618**	**9,567**	**33**	**6**	1
Net material cost	3,125	3,555	3,858	3,923	23	9	(2)
Personnel cost	830	992	1,205	1,100	45	22	10
R&D	372	604	599	622	61	(1)	(4)
Other expenses	1,671	2,106	2,417	2,200	45	15	10
Total expenditure	5,998	7,257	8,079	7,845	35	11	3
EBITDA	**1,215**	**1,529**	**1,539**	**1,722**	**27**	**1**	**(11)**
Other income	1,389	273	221	130	(84)	(19)	70
Interest expense	101	127	146	130	45	15	12
Depreciation	175	201	219	210	26	9	4
PBT	**2,329**	**1,473**	**1,396**	**1,512**	**(40)**	**(5)**	**(8)**
Tax	520	312	219	302	(58)	(30)	(28)
Minority interest	—	2	—	—	NM	NM	NM
PAT	**1,809**	**1,160**	**1,177**	**1,210**	**(35)**	**2**	**(3)**
Share of associate	—	4	13	—	NM	242	NM
Reported PAT	**1,809**	**1,156**	**1,164**	**1,210**	**(36)**	**1**	**(4)**
API	**1,856**	**1,765**	**1,367**	**1,895**	**(26)**	**(23)**	**(28)**
India	609	739	256	579	(58)	(65)	(56)
Developing markets	1,045	981	1,073	1,219	3	9	(12)
Advanced markets	202	45	39	98	(81)	(13)	(60)
Finished dosages	**4,919**	**6,194**	**6,707**	**6,839**	**36**	**8**	**(2)**
India	2,381	3,033	2,791	2,762	17	(8)	1
Developing markets	224	442	445	585	99	1	(24)
Advanced markets	2,064	2,522	3,181	3,044	54	26	4
Others	**606**	**1,262**	**1,644**	**1,000**	**171**	**30**	**64**
Novodigm (CMO in India)	—	160	125	195	NM	(22)	(36)
Kyowa (Japan)	606	1,013	1,319	805	118	30	64
others	—	89	200	—	NM	125	NM
Total	**7,381**	**9,221**	**9,718**	**9,734**	**32**	**5**	**(0)**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-2011E (Rs mn)

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs)	(%)	(%)	(X)
2007	20,137	18.8	4,281	28.2	3,086	78.4	38.2	14.9	41.2	14.7
2008	27,064	34.4	6,015	40.5	4,082	32.3	49.8	17.6	37.9	11.3
2009E	36,658	35.5	8,141	35.3	4,392	7.6	49.6	18.1	26.9	11.3
2010E	43,520	18.7	10,437	28.2	5,269	20.0	59.5	19.2	24.0	9.4
2011E	49,085	12.8	11,869	13.7	6,239	18.4	70.4	19.9	23.7	8.0

Source: Company, Kotak Institutional Equities estimates.

Infrastructure

IRBI.BO, Rs112	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	130
52W High -Low (Rs)	222 - 64
Market Cap (Rs bn)	37.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	7.3	10.5	23.0
Net Profit (Rs bn)	1.1	2.2	4.6
EPS (Rs)	3.4	6.6	13.9
EPS gth	*150.9*	*92.3*	*111.2*
P/E (x)	32.5	16.9	8.0
EV/EBITDA (x)	12.2	10.6	5.4
Div yield (%)	-	-	-

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(13.2)	31.5	(19.9)	#N/A N.A.

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.4	-	-
FIIs	6.2	0.0	(0.1)
MFs	4.1	0.1	0.0
UTI	-	-	(0.1)
LIC	-	-	(0.1)

IRB Infrastructure Developers: Revenues miss expectations led by slowdown in traffic growth, construction segment in line. Retain ADD

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- **Lower-than-expected traffic growth leads to disappointing toll collection revenues**
- **Construction revenues meet expectations; Surat-Dahisar project to start construction in a week**
- **Maintain earnings estimates and target price of Rs130; reiterate ADD rating**

IRB Infrastructure reported 3QFY09 revenues of Rs2.4 bn (up 18.6% qoq) about 14% below our estimate of Rs3.4 bn. The miss on our expectations was mainly due to lower-than-expected toll collection revenues of Rs1.07 bn (down from Rs1.08 bn in 2QFY09) led by lower traffic growth during the quarter. The key road asset of Mumbai-Pune has likely experienced traffic growth of about 4% during 3QFY09 lower versus management confidence band of 6%+. Construction segment revenues of Rs1.4 bn were in line with our estimates. Despite lower-than expected margins during the quarter the construction business is likely to meet our full-year margin estimate of 17.5% as it has already registered an operating margin of 17.7% so far in 9MY09. The management highlighted that the Surat-Dahisar project has achieved financial closure and that toll collection and construction work is likely to commence within a week's time. We maintain our earnings estimates of Rs6.6 and Rs13.9 for FY2009E and FY2010E, respectively. We retain our target price of Rs130/share and reiterate our ADD rating on the stock. We believe IRB has the ability to create value by leveraging further growth opportunities based on the experience that it has accumulated so far in the toll-road segment.

Lower-than-expected traffic growth leads to disappointing toll collection revenues

IRB Infrastructure reported 3QFY09 consolidated revenues of Rs2.4 bn (up 18.6% qoq) about 14% below our estimate of Rs3.4 bn (see Exhibit 1). The miss on our expectations was mainly due to lower-than-expected toll collection revenues of Rs1.07 bn (down from Rs1.08 bn in 2QFY09, see Exhibit 2) led by lower traffic growth rates during the quarter. Mumbai Pune toll collection has grown at 21.4% on a yoy basis in the quarter (see Exhibit 3). Considering blended 17.25% or so of toll increase since beginning of the year, means that traffic has actually grown at a rate of 4%, which is lower versus management confidence band of 6%+. However, MIPL is likely to meet our full-year revenue estimate of Rs2.88 bn (we were expecting 5% traffic growth for the full year post recent downward estimate revision) as it has already booked revenue of Rs2.17 bn in 9MFY09. Other assets such as Thane-Ghodbunder have reported a yoy decline in toll collection to the extent of 4%.

Construction revenues meet expectations; Surat-Dahisar project to start construction in a week

The company declared construction revenues of Rs1.4 bn in line with our estimates versus Rs1 bn in 2QFY09 (see Exhibit 2). The cumulative construction revenues for the nine-month period ended December 31, 2008, stood at Rs3.67 bn. Thus we believe the company is on track to achieve construction revenues close to about Rs5.5 bn or so. Despite lower construction margins of 14.3% during the quarter the company might still beat our full-year margin expectation of 17.5%. The company has reported margins of 18% for 9MFY09, leading to potential of outperforming our margin expectation significantly with better margins in 4QFY09. The company highlighted that the Surat-Dahisar project has achieved financial closure with only some documentation left. The project is likely to start toll collection and construction by the second week of February.

Maintain earnings estimates and target price of Rs130; reiterate ADD rating

We maintain our EPS estimates of Rs6.6 and Rs13.9 for FY2009E and FY2010E, respectively. We retain our SOTP-based target price of Rs130/share (see Exhibit 4) which comprises (1) Rs94.4 per share for the road BOT portfolio that we value based on free cash flow to equity method (based on March FY2010E, using an expected return on equity of 14%), (2) Rs25 per share for the construction business, applying an EV/EBITDA multiple of 4X FY2010E EBITDA and (3) Rs10.4 per share of estimated net cash on books as of end-FY2009E.

We reiterate our ADD rating on the stock. We believe IRB has the ability to create value by leveraging further growth opportunities based on the experience that it has accumulated so far in the toll-road segment.

Key risks to existing projects are (1) lower-than-expected economic growth which affects traffic growth as well as real estate demand, (2) higher interest rates, affecting interest cost of BOT projects and real estate demand and (3) cost and time escalations in projects under execution, affecting expected returns. We highlight that a 1% lower traffic growth rate and 1% higher interest rate assumption (throughout the life of the project versus our base-case assumption) reduces our target price by about 10% while 1% higher traffic growth rate and 1% lower interest rate assumption increases our target price by 10%. Risks to growth opportunities are posed by (1) government delays in offering projects for development and (2) increasing competition, which would probably reduce equity returns.

Exhibit 1. IRB (consolidated)—3QFY09—key numbers (Rs mn)

	qoq			versus estimates				yoy		
	3QFY09	2QFY09	% change	3QFY09	3QFY09E	% variation	9MFY09	FY2009E	FY2008	% chng yoy
Net Sales/Income from Operations	**2,391**	**2,016**	**18.6**	**2,391**	**2,782**	**(14.1)**	**6,708**	**10,522**	**7,327**	**43.6**
Total Expenses	(1,376)	(1,031)	**33.4**	(1,376)	(1,369)	**0.5**	(3,539)	(5,412)	(3,208)	68.7
Direct expenses	(1,182)	(833)	41.9	(1,182)			(2,917)			
Employees cost	(115)	(97)	18.1	(115)			(309)			
Other Expenditure	(79)	(101)	(22.2)	(79)			(313)			
Operating Profit	**1,015**	**985**	**3.1**	**1,015**	**1,413**	**(28.1)**	**3,170**	**5,111**	**4,119**	**24.1**
Other Income	90	82	10.2	90	136	(33.6)	231	412	520	(20.8)
EBITDA	**1,105**	**1,067**	**3.6**	**1,105**	**1,548**	**(28.6)**	**3,401**	**5,522**	**4,639**	**19.0**
Depreciation	(286)	(271)	5.4	(286)	(277)	3.5	(813)	(1,080)	(1,016)	6.3
EBIT	819	795	3.0	819	1,272	(35.6)	2,588	4,443	3,623	22.6
Interest	(364)	(304)	19.8	(364)	(465)	(21.7)	(974)	(1,539)	(1,958)	(21.4)
PBT	**455**	**491**	**(7.4)**	**455**	**807**	**(43.6)**	**1,615**	**2,904**	**1,666**	**74.3**
Tax Expense	(72)	(79)	(8.1)	(72)	(186)	(61.0)	(277)	(639)	(400)	59.7
Net Profit	**382**	**412**	**(7.2)**	**382**	**621**	**(38.4)**	**1,337**	**2,265**	**1,266**	**78.9**
Extraordinary Items/Minority interest	-	-		-	-		-	(74)	(126)	(41.3)
Reprted PAT	**382**	**412**	**(7.2)**	**382**	**621**	**(38.4)**	**1,337**	**2,191**	**1,139**	**92.3**
Key Ratios										
Direct expenses	49.5	41.3		49.5			43.5			
Employees cost	4.8	4.8		4.8			4.6			
Other Expenditure	3.3	5.0		3.3			4.7			
OPM	**42.5**	**48.9**		**42.5**	**50.8**		**47.3**	**48.6**	**56.2**	
EBITDA Margin	46.2	52.9		46.2	55.7		50.7	52.5	63.3	
PBT Margin	19.0	24.3		19.0	29.0		24.1	27.6	22.7	
PAT Margin	16.0	20.4		16.0	22.3		19.9	21.5	17.3	
Effective tax rate	15.9	16.1		15.9	23.0		17.2	22.0	24.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2. IRB - key segmental numbers - 3QFY09 (Rs mn)

	qoq				
	3QFY09	**2QFY09**	**% change**	**FY2009E**	**FY2008**
Revenues	**2,481**	**2,098**	**18.3**	**10,522**	**7,327**
BOT	1,068	1,082	(1.3)	4,943	3,696
Construction	1,413	1,015	39.2	5,579	3,631
EBITDA	**1,105**	**1,067**	**3.6**	**5,124**	**4,110**
BOT	908	904	0.4	4,120	3,380
Construction	198	163	21.6	1,004	730
Margins (%)	*44.5*	*50.8*	*(12.4)*	*48.7*	*56.1*
BOT	*85.0*	*83.5*	*1.8*	*83.3*	*91.4*
Construction	*14.0*	*16.0*	*(12.6)*	*18.0*	*20.1*
PBT	**455**	**491**	**(7.4)**	**2,904**	**1,666**
BOT	312	373	(16.3)		
Construction	143	118	20.8		
PAT	**382**	**412**	**(7.2)**	**2,191**	**1,139**
BOT	279	324	(13.9)		
Construction	103	88	17.7		

Source: Company, Kotak Institutional Equities estimates

Exhibit 3. IRB - key segmental numbers - 3QFY09 (Rs mn)

	3QFY09	**3QFY08**	***% chng***	**2QFY09**	**2QFY08**	***% chng***	**1QFY09**	**1QFY08**	***% chng***	**FY2009E**	**FY2008**	***% chng***
Toll collection	**1,053**	**932**	***13.0***	**1,068**	**891**	***19.8***	**1,097**	**905**	***21.3***	**4,200**	**3,635**	***15.5***
4 BOT projects	137	131	*4.2*	143	117	*22.6*	163	124	*31.0*	497	529	*(6.0)*
Kharpada Bridge	16	18	*(9.0)*	17	17	-	20	21	*(3.5)*	78	75	*4.7*
Nagar - Karmala - Tembhurni	27	27	*(2.4)*	29	27	*7.1*	31	28	*13.6*	116	110	*5.2*
Pune - Solapur	30	35	*(16.2)*	31	29	*4.8*	37	34	*8.2*	156	137	*14.2*
Pune - Nashik	41	40	*0.9*	42	39	*7.7*	40	40	*(0.7)*	182	160	*14.4*
Mumbai - Pune	722	594	*21.4*	726	584	*24.3*	720	579	*24.5*	2,884	2,352	*22.6*
Thane - Ghodbunder	67	69	*(4.1)*	64	63	*1.9*	68	66	*2.4*	285	273	*4.5*
MMK	15	16	*(5.9)*	17	16	*6.4*	18	13	*43.1*			

Note: We do not include MMK, a small project, in our estimates

Source: Company, Kotak Institutional Equities estimates

Exhibit 4. IRB Infrastructure Developers - SOTP valuation

	Equity value of asset (Rs mn)	IRB's stake (%)	Value of IRB's stake (Rs mn)	Contribution to value of IRB (%)	Per share contribution to IRB (%)	Asset valuation methodology
Roads	**31,285**	**-**	**31,376**	**72.7**	**94.4**	**FCFE**
4 BOT projects	3,127	100.0	3,127	7.2	9.4	FCFE based on FY2010E
Kharpada Bridge	378	100.0	378	0.9	1.1	FCFE based on FY2010E
Nagar - Karmala - Tembhurni	633	100.0	633	1.5	1.9	FCFE based on FY2010E
Pune - Solapur	1,332	100.0	1,332	3.1	4.0	FCFE based on FY2010E
Pune - Nashik	1,562	100.0	1,562	3.6	4.7	FCFE based on FY2010E
Mumbai - Pune	12,134	100.0	12,134	28.1	36.5	FCFE based on FY2010E
Thane - Ghodbunder	2,854	100.0	2,854	6.6	8.6	FCFE based on FY2010E
Bharuch - Surat	8,717	100.0	8,717	20.2	26.2	FCFE based on FY2010E
Surat-Dahisar	(455)	80.0	(364)	(0.8)	(1.1)	FCFE based on FY2010E
Kolhapur urban road project	1,002	100.0	1,002	2.3	3.0	FCFE based on FY2010E
Construction	**8,311**	**100.0**	**8,311**	**19.3**	**25.0**	**EV/EBITDA multiple of 4X based on FY2010E**
Net cash at parent level and investments at consolidated level	**3,460**	**100.0**	**3,460**	**8.0**	**10.4**	**Estimated balance at end-FY2009E**
Grand total	**43,055**	**-**	**43,146**	**100**	**129.8**	**SOTP**

Source: Kotak Institutional Equities estimates

Exhibit 5. IRB - Sensitivity analysis of stock price to initial traffic growth rate and interest rate assumptions

		Initial traffic growth rate (%)				
		4.0	**5.0**	**6.0**	**7.0**	**8.0**
Interest rate (%)	**Assumed rate -2**	81	97	114	130	148
	Assumed rate -1	72	88	104	119	136
	Assumed rate	65	80	**94**	109	125
	Assumed rate +1	58	72	86	100	114
	Assumed rate +2	51	65	78	91	105

Note: Base case interest rate is 11.5% throughout the life of the project with equity return expectation of 14%

Source: Kotak Institutional Equities estimates

Banking

JKBK.BO, Rs293	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	480
52W High -Low (Rs)	818 - 268
Market Cap (Rs bn)	14.2

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	10.8	12.4	13.4
Net Profit (Rs bn)	3.6	4.0	3.5
EPS (Rs)	74.2	82.7	72.3
EPS gth	*31.2*	*11.4*	*(12.6)*
P/E (x)	3.9	3.5	4.1
P/B (x)	0.7	0.6	0.6
Div yield (%)	5.3	5.9	5.1

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(18.0)	(22.0)	(39.3)	(62.6)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.2	-	-
FIIs	32.1	0.1	0.1
MFs	2.3	0.0	0.0
UTI	-	-	-
LIC	-	-	-

J&K Bank: Results in line with estimates; retain ADD

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- **J&K Bank reported PAT of Rs1.2 bn, up 10% yoy and 4% lower than estimates**
- **Net interest income was strong, though fee income was subdued**
- **Gross NPLs increase 11% on a sequential basis, retain ADD with a TP of Rs480**

Jammu and Kashmir Bank (J&K Bank) has reported a PAT of Rs1.2 bn in 3QFY09, which was a growth of 11% yoy and 4% below our estimates. The performance appears satisfactory despite the volatile operational environment in Jammu and Kashmir in the current quarter. The prime driver of earnings in the current quarter was the net interest income (NII), which reported a smart increase of 30% yoy. We have marginally changed our earnings estimates by around 4% for FY2009E (due to higher treasury income) but reduced earnings by 5% for FY2010 and 1% for FY2011E to factor in the current earnings. We retain our ADD rating despite undemanding valuation of 0.5X PBR FY2010E to account for the volatile operational environment of J&K region.

Net interest income remained strong in 3QFY09. J&K Bank reported robust growth in net interest income of 30% yoy in 3QFY09 and booked revenues of Rs2.6 bn on account under this head. This growth on largely on account of the better pricing of its advances—yield on advances was up by 47 bps on a sequential basis reflecting the monopoly of J&K Bank in the J&K state. The growth in advances and deposits were lower than the industry at 13% yoy and 17% yoy as of December 2008. We expect the company to manage its NIM better than most companies as interest rates soften in the economy.

Decline in non-interest income. J&K Bank's non-interest revenues in 3QFY09 were down 41% yoy to Rs454 mn. Treasury profits were lower (down 80% yoy) and commission income from sale of financial products was impacted by volatile political situation in J&K. The management expects the fee income to increase from the current levels as the political environment improves post the installation of the new government. The company has also indicated that it would be looking to realize gains on its Gsec book in 4QFY09 to boost its income and support its overall profitability.

Reported gross NPLs increased in 3QFY09. J&K Bank's gross NPLs increased to Rs5.5 bn as of December 2008 from Rs4.9 bn as of September 2008. The management indicated that this increase was largely on account of slippage in two accounts—one in the commodity sector and one in the pharmaceutical sector. The company expects at least one of these accounts to be upgraded by end of 4QFY09. We currently model in 1.4X rise in NPL provisions in FY2010E compared to FY2009E to factor in slippage in asset quality.

Economic interest in life insurance JV reduces to 13% from 25%. J&K Bank had 25% of economic interest in the MetLife life insurance venture in India. This required Rs700 mn of additional equity infusion by the company in the life insurance venture in 3QFY09. However, J&K Bank could not infuse these funds as the equity investment in a joint venture by a bank cannot exceed more than 10% of its net worth. While the other partners in the venture went ahead and infused equity into the venture. Consequently, the economic interest of J&K Bank was reduces to 13% from 25% earlier.

J&K Bank has invested Rs2.3 bn of equity in this venture as of 2QFY09 (net worth of J&K Bank is Rs261 bn). The management has indicated that it could exercise the option of exiting this venture at an appropriate time. The terms of agreement of the JV allow J&K Bank to sell its stake to MetLife and earn interest at 15% p.a. on this amount.

J&K Bank quarterly performance, Rs mn

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	% chg	3QFY09KS	\ctual Vs KS
Interest income	6,183	6,442	6,514	7,477	8,000	29.4	7,890	1.4
Loans	4,810	4,963	5,048	5,800	6,132	27.5	6,100	0.5
Investments	1,364	1,458	1,453	1,589	1,778	30.3	1,750	1.6
Balance with RBI & banks	8	21	14	88	91	991.6	40	126.5
Interest expense	4,169	4,198	4,252	4,865	5,379	29.0	5,250	2.5
Net interest income	**2,013**	**2,244**	**2,263**	**2,613**	**2,621**	**30.2**	**2,640**	**(0.7)**
Non-int.income	**765**	**866**	**694**	**456**	**454**	**(40.7)**	**550**	**(17.5)**
Other income exld treasury	475	514	434	402	396	(16.7)	450	(12.1)
Treasury income	290	352	260	53	58	(79.9)	100	(41.7)
Total income	**2,778**	**3,110**	**2,956**	**3,068**	**3,075**	**10.7**	**3,190**	**(3.6)**
Operating expenses	1,039	1,021	1,096	1,148	1,145	10.2	1,150	(0.5)
Employee cost	613	436	685	664	676	10.3	650	4.0
Other cost	426	585	412	484	469	10.1	500	(6.3)
Operating profit pre provisio	**1,739**	**2,089**	**1,860**	**1,920**	**1,930**	**11.0**	**2,040**	**(5.4)**
Provisions and cont.	148	501	459	288	180	22.1	238	(24.2)
Investment depreciation	-	192	288	122	(11)	-	(222)	-
Credit provisions	86	229	126	113	132	52.7	400	(67.1)
Standard asset provisions	80	36	66	67	-	(100.0)	-	
PBT	1,592	1,589	1,401	1,633	1,750	9.9	1,802	(2.9)
Tax	500	990	455	474	543	8.6	541	0.5
Net profit	**1,092**	**598**	**946**	**1,159**	**1,207**	**10.5**	**1,261**	**(4.3)**
Tax rate (%)	31.4	62.3	32.5	29.0	31.0		30.0	
PBT-invt gains+ provisions	**1,390**	**1,677**	**1,555**	**1,822**	**1,812**	**30.4**	**1,880**	**(3.6)**
Key balance sheet items (Rs bn)								
Total Deposits	265	286	285	310	312	17.8		
Savings deposits	61	69	71	74	73	19.3		
Current deposits	34	43	40	40	42	21.9		
Term deposits	170	174	174	196	198	16.4		
CASA ratio (%)	36.0	39.2	38.9	36.8	36.7			
Advances	183	189	201	213	207	13.1		
Investments	82	88	92	99	114	39.7		
AFS	19	24	21	20	34	76.1		
HTM	62	64	72	78	80	28.3		
Assets	301	328	327	352	353	17.4		

Source:Company, Kotak Institutional Equities estimates.

J&K Bank—key financial/analytical ratios and balance sheet snapshot

	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	% chg	3QFY09KS	\ctual Vs KS
Asset quality details								
Gross NPLs (Rs mn)	4,686	4,852	4,762	4,931	5,457	16.5		
Gross NPL ratio (%)	2.5	2.5	2.3	2.3	2.6			
Net NPLs (Rs mn)	1,502	2,036	1,927	2,050	2,532	68.6		
Net NPL ratio (%)	0.8	1.1	1.0	1.0	1.2			
Yield management measures (%)								
Cost of Deposits (Annualised)	6.19	5.91	5.71	6.30	6.69			
Yield on Advances (Annualised)	10.58	10.68	10.37	11.22	11.69			
Yield on Investments (Annualised)	6.75	6.70	6.46	6.65	6.68			
Net Interest Margins (Annualised)	2.98	3.18	3.09	3.41	3.25			
Capital adequacy details (%)								
CAR	13.82	12.80	12.20	12.44	13.24			
Tier I	13.12	12.14	11.59	11.78	12.57			
Tier II	0.70	0.66	0.61	0.66	0.67			
Balance sheet snapshot (Rs mn)								
Capital	485	485	485	485	485	-		
Reserves and surplus	22,604	22,604	23,269	24,428	25,635	13.4		
Deposits	265,270	285,933	285,044	309,785	312,490	17.8		
Borrowings	4,187	7,518	8,169	5,646	5,115	22.2		
Other liabilities and provisions	7,961	11,020	10,328	11,734	9,095	14.2		
Total	**300,507**	**327,560**	**327,295**	**352,078**	**352,819**	**17.4**		
Cash and balance with RBI	17,128	32,200	23,306	26,950	17,092	(0.2)		
Balance with banks etc	11,706	12,173	3,129	5,951	6,680	(42.9)		
Investments	81,770	87,577	92,473	98,844	114,203	39.7		
Advances	182,867	188,826	200,752	212,722	206,861	13.1		
Fixed assets	1,950	1,920	1,973	1,963	1,952	0.1		
Other assets	5,086	4,865	5,661	5,647	6,032	18.6		
Total	**300,507**	**327,560**	**327,295**	**352,077**	**352,819**	**17.4**		

Source:Company.

J&K Bank—old and new estimates

March fiscal year-ends, 2009-2011E (Rs mn)

	Old estimates			New estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Net Interest income	9,737	11,382	13,406	9,889	10,898	13,127	1.6	(4.2)	(2.1)
NIM (%)	2.87	2.96	3.05	2.92	2.84	2.99			
Loan (Rs bn)	228	270	312	222	262	303	(2.7)	(2.7)	(2.7)
Other income	2,291	2,393	2,591	2,530	2,502	2,721	10.4	4.6	5.0
Fee	916	1,053	1,179	999	1,149	1,287	9.1	9.1	9.1
Treasury	500	400	400	650	400	400			
Total income	12,027	13,775	15,997	12,419	13,401	15,848	3.3	(2.7)	(0.9)
Operating expense	4,733	5,503	6,203	4,796	5,575	6,283	1.3	1.3	1.3
Employee expense	2,631	3,065	3,415	2,723	3,171	3,532	3.5	3.5	3.4
Other expense	2,102	2,438	2,788	2,073	2,404	2,751	(1.4)	(1.4)	(1.3)
Provisions	1,443	2,662	2,927	1,639	2,596	2,849	13.6	(2.5)	(2.7)
NPLs	1,042	2,488	2,907	1,027	2,422	2,829	(1.5)	(2.7)	(2.7)
Invt depreciation	188	-	-	399	-	-			
Invt amortization	192	154	-	192	154	-			
PBT	5,852	5,610	6,867	5,984	5,229	6,716	2.3	(6.8)	(2.2)
Tax	1,990	1,907	2,335	1,975	1,726	2,216	(0.7)	(9.5)	(5.1)
PAT	**3,862**	**3,702**	**4,532**	**4,009**	**3,504**	**4,499**	**3.8**	**(5.4)**	**(0.7)**
PBT - treasury + provisions	6,582	7,698	9,373	6,760	7,251	9,144	2.7	(5.8)	(2.4)

Source: Kotak Institutional Equities estimates.

Property

PHOE.BO, Rs64	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	210
52W High -Low (Rs)	495 - 45
Market Cap (Rs bn)	9.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2.0	0.9	2.1
Net Profit (Rs bn)	1.7	0.8	1.3
EPS (Rs)	12.4	5.4	8.7
EPS gth	*89.5*	*(56.7)*	*62.3*
P/E (x)	5.2	11.9	7.3
EV/EBITDA (x)	6.5	12.6	5.3
Div yield (%)	1.6	1.6	1.6

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(22.8)	26.7	(65.3)	(84.7)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	65.6	-	-
FIIs	24.2	0.1	0.1
MFs	1.1	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Phoenix Mills: Results marginally below estimates; high margin of safety makes it an attractive BUY

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- **Revenues below expectations as a 40,000 sq. ft commercial block was demolished for construction of phase IV**
- **Healthy balance sheet with cash balances of Rs1.95 bn (Rs14/share); books interest income of Rs62 mn for 3QFY09**
- **Maintain BUY rating with a target price of Rs210/share (earlier Rs215)**

Phoenix Mills (PHNX) reported standalone operating revenues of Rs221 mn (versus our expectation of Rs240 mn) and PAT of Rs148 mn (versus our expectation of Rs131 mn) for 3QFY2009. Revenues were 8% below our expectations mainly because a 40,000 sq. ft commercial block earlier occupied by Standard Chartered Bank was demolished for construction of phase IV of High Street Phoenix (HSP). We would like to note that the current stock price of Rs65 is not even giving full value to any one of three key parts of business, (1) HSP, Mumbai, (2) other market cities and (3) liquid investments and strategic investments (EWDPL, Atlas Hospitality and Big Apple Real Estate). We adjust our model to account for (1) lower operating cost, (2) higher other income and (3) lower tax rates for FY2009E. Accordingly, our EPS is revised to Rs5.4 in FY2009E (earlier Rs5.2) and Rs8.7 in FY2010E (earlier Rs9.2). Our target price is revised to Rs210/share (earlier Rs215) which is based on a 30% discount to our March 2010 NAV of Rs297 (earlier Rs305).

Grand Galleria becomes operational in December 2008

We highlight that Grand Galleria is 85-90% occupied with balance space almost fully leased. The management has indicated that the average lease rentals are Rs300/sq. ft/ month. Key events for PHNX would be (1) the launch of Palladium in June 2009 and (2) progress on other market cities. We see good progress in construction of Shangri La hotel with 6+ stories getting constructed in the last quarter. This quarter also saw the launch of 2,000 seater PVR Cinemas which has contributed to sharp increase witnessed in footfalls. PHNX had sold the multiplex site to PVR Cinemas in FY2007. Our NAV from Palladium kicks in March 2010 and hence any nominal delay in launch will not impact valuations. Management has indicated that Palladium is already 60% leased out and currently it is on schedule to open in June 2009.

We see significant value as the current stock price not even valuing HSP, Lower Parel

Current stock price of Rs65 is not even giving full value to any one of three key parts of business, (1) High Street Phoenix, Mumbai, (2) other market cities and (3) investments (liquid investments) and strategic investments (EWDPL, Atlas Hospitality and Big Apple Real Estate). We carry out sensitivities looking at each part of business while ignoring any value from the other two portions.

High Street Phoenix, Mumbai (HSP). This project contributes Rs119 to our NAV of Rs297/share. We highlight that once fully operational, HSP will earn annual rentals of Rs3.1 bn at an average rental of Rs220/sq. ft (FY2012E). If we assume correction in rentals of 30% we arrive at a fair value of PHNX of Rs92/share (see Exhibit 2). Current stock price of Rs65 indicates correction of 50% from our base case or average rental of Rs110/sq. ft. We highlight that PHNX has been signing leases at Rs300/sq. ft/month.

Other market cities. In our base case NAV, these five market cities contribute Rs81/share. These market cities have been acquired through issue of 40 mn post-split shares and cash payments of Rs4 bn. At 20% correction, fair value of these five market cities is equivalent to current stock price of Rs65/share (see Exhibit 2).

Other businesses. These include a 42% stake in EWDPL, stake in Atlas Hospitality, 410-room hotel coming up in Mumbai and net cash balances of Rs1.7 bn. These have been acquired through issue of 9 mn post-split shares and cash investments of Rs5 bn. These contribute Rs97/share to our March 2009-based NAV of Rs297/share.

Healthy balance sheet lends comfort in the current difficult environment

We highlight that PHNX has a healthy balance sheet since it raised Rs13 bn of funds in FY2008 (see Exhibit 4). We note that PHNX has Rs1.95 bn of cash balances as of end 3QFY09 and it booked interest income of Rs62 mn in the quarter. PHNX has received commitment from MPC synergy to invest Rs13 bn primarily into hotel projects and retail projects of its associates (EWDPL). The first tranche of investment has been made into Pallazzio Hotels & Leisure Limited, a wholly subsidiary of PHNX which is building the Shangri-La Hotel at Lower Parel, Mumbai and three other SPVs belonging to EWDPL and BARE. We await further details from the management on MPC Synergy deal before building these into our estimates. We believe the deal reduces the financing risk to a large extent as the funds were essentially raised for the capital intensive hotel projects and tier II retail projects.

Key changes to model.

1. **Lower operating cost.** We have lowered our operating costs to Rs263 mn in FY2009E (earlier Rs318 mn) and Rs302 mn in FY2010E (earlier Rs407 mn) because of lower-than-expected employee costs and SG&A costs.
2. **Other income.** We have increased our other income to Rs437 mn in FY2009E (earlier Rs413 mn). PHNX has already done Rs400 mn in 9MFY09.
3. **Tax rate.** We have lowered our tax rate assumption to 20% in FY2009E (earlier 22%) given that PHNX has incurred an average tax rate of 20% in 9MFY09. Currently, we are maintaining our 25% tax rate assumption for FY2010E to be on the conservative side. PHNX is entitled to a 30% standard deduction from rental income.

Our March 2010-based target price is Rs210/share; maintain BUY

Our target price of Rs210 is based on a 30% discount to our March 2010 NAV of Rs297/share. We note that a 30% discount to NAV implies rentals being 20-25% lesser than our base case assumptions which are 35-40% below peak rentals. PHNX has shown a track record of investing in good quality assets over the past two years. In many cases PHNX has got ownership stakes disproportionate to its own equity investments. The key risks to our call are— (1) execution risk and (2) rentals risk.

Phoenix Mills :3QFY2009 results

(in Rs mn)	3QFY08	2QFY09	3QFY09	% change qoq	% change yoy	Kotak estimates 3QFY09	Kotak estimates % deviation	FY08A	FY09E	Change (%) FY09/FY08
Net sales	**202**	**234**	**221**	**(5.7)**	**9.4**	**240**	**(8.0)**	**766**	**935**	**22.1**
Operating costs	**(58)**	**(54)**	**(66)**	**20.4**	**12.8**	**(60)**	**9.3**	**(347)**	**(263)**	**(24.1)**
EBITDA	**144**	**180**	**155**	**(13.7)**	**8.0**	**180**	**(13.7)**	**419**	**671**	**60.4**
Other income	116	322	62	(80.8)	(46.5)	30	106.1	283	437	54.5
Interest costs	(34)	(17)	(9)			(15)		(48)	(44)	(9.0)
Depreciation	(18)	(18)	(21)	20.1		(20)		(78)	(85)	9.8
PBT	**207**	**467**	**187**	**(60.0)**	**(9.7)**	**175**		**576**	**979**	**70.2**
Taxes	(36)	(81)	(39)	(51.2)		(44)		(194)	(199)	2.9
PAT	**172**	**387**	**148**	**(61.8)**	**(14.0)**	**131**	**12.5**	**382**	**780**	**104.3**
Key ratios										
EBITDA margin (%)	71.2	76.8	70.3			75.0		54.7	71.8	
PAT margin (%)	85.0	165.0	66.8			54.7		49.9	83.5	
Effective tax rate (%)	17.2	17.3	21.1			25.0		33.7	20.4	

Source: Company data, Kotak Institutional Equities estimates.

Current stock price of Rs64 is not valuing any of the businessess fully

March 2010 NAV for HSP (Rs/share)

WACC (%)	% decline in March 2010 rentals: 0	10	20	30
12	133	119	106	92
13	132	119	105	92
14	132	**119**	105	92
15	132	119	105	92

March 2010 NAV for other market cities (Rs/share)

WACC (%)	% decline in March 2010 rentals: 0	10	20	30
12	104	85	65	46
13	102	83	64	45
14	100	**81**	62	44
15	98	79	61	42

Source: Kotak Institutional Equities estimates.

Revenue build-up from High Street Phoenix, Lower Parel in Mumbai

	FY2008	FY2009E	FY2010E	FY2011E	FY2012E	Comments
HSP I						
Commercial (mn sq. ft)	**0.25**	**0.2**	**0.2**	**0.2**	**0.2**	40,000 sq. ft commercial block occupied by Standard Chartered bank demolished in FY2009
Rentals (Rs/sq. ft)	100	110	124	124	136	
Time (months)	12	12	12	12	12	
Retail I (mn sq. ft)	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	Big Bazaar, Mcdonalds, bowling alley, Sports bar
Rentals (Rs/sq. ft)	50	50	108	108	108	
Time (months)	12	12	12	12	12	
Retail II (mn sq. ft)	**0.24**	**0.24**	**0.24**	**0.24**	**0.24**	Marks and Spencer, Lacoste, Pepe, Nike Guess, Lifestyle and Pantaloon+ Quroum (Fashion floor: Wills Lifetsyle)
Rentals (Rs/sq. ft)	180	170	176	176	194	
Time (months)	8	12	12	12	12	
Total HSP I (Rs mn)	**766**	**874**	**1,063**	**1,063**	**1,143**	
HSP II						
Commercial (mn sq. ft)	0.11	0.11	0.11	0.11	0.11	Under construction
Rentals (Rs/sq. ft)	0	0	180	180	189	
Time (months)	0	0	0	3	12	
Retail I (mn sq. ft)	0.31	0.046	0.296	0.296	0.296	Palladium (0.25 mn sq. ft) to be operational in 1QFY10. Grand Galleria (0.06 mn sq. ft) to be operational by 4QFY09.
Rentals (Rs/sq. ft)	250	300	346	346	363	
Time (months)	0	3	10	12	12	
Retail II (mn sq. ft)	0.1	0.1	0.1	0.1	0.1	Under construction. To be located at existing Standard Chartered Bank office.
Rentals (Rs/sq. ft)	0	0	293	293	307	
Time (months)	0	0	0	1	12	
Total HSP II (Rs mn)	**0**	**41**	**1,024**	**1,318**	**1,909**	
Total HSP (Rs mn)	**766**	**915**	**2,087**	**2,381**	**3,052**	
Average rentals	**105**	**117**	**196**	**204**	**222**	

Source: Kotak Institutional Equities estimates.

Equity capital base has increased rapidly on account of fresh issuances, mergers

Shareholding as of March 2008

	Shares	Shareholding (%)			
Period	**(mn)**	**Promoters**	**FII**	**MFs**	**Comments**
Sep-06	12.3	84.4	1.3	1.2	
Dec-06	12.3	84.4	1.5	1.4	
Mar-07	12.3	76.4	8.6	1.3	
Jun-07	14.2	64.4	22.6	0.9	1.98 mn equity shares issued at Rs1,600/share to raise Rs3.2 bn
Sep-07	19.1	47.9	42.6	1.7	4.9 mn equity shares issued at Rs2,000/ share raise Rs9.8 bn
Dec-07	27.1	63.3	27.6	1.2	Amalgmation between AREPL and Phoenix Mills. 8 mn shares issued to shareholders of AREPL
Dec-07	28.9	65.5	25.9	1.1	Amalgmation between Ruia Real Estate Development Company Pvt. Ltd(RREDCPL) and Phoenix Mills. RREDCPL shareholders issued 1.8 mn shares
Mar-08	144.7	65.5	25.9	1.1	Stock split 1:5

Source: Kotak Institutional Equities.

Our March 2010-based NAV is Rs297/share

	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**29.3**	**29.5**	**28.9**	**30.1**
Add: (Net debt)/Net cash as on March 31,2009	0.8	0.8	0.8	0.8
42% stake in EWDPL	6	6	5	6
70% stake in BARE	2	2	2	2
75% in Atlas Hospitality+Lower Parel hotel+Other hotels	6	6	6	6
29% stake in Galaxy Entertainment (market value)	0.4	0.4	0.4	0.4
NAV (Rs bn)	**44.8**	**45.1**	**43.1**	**45.7**
Total no. of shares (mn)	144.8	144.8	144.8	144.8
NAV/share	**310**	**312**	**297**	**316**
Target price @30% discount to NAV			**215**	

Source: Kotak Institutional Equities estimates.

Profit model of Phoenix Mills, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009E	2010E	2011E
Total revenues	**1,095**	**1,999**	**935**	**2,111**	**2,409**
Land costs	—	—	—	—	—
Operating costs	(218)	(25)	(29)	(33)	(38)
Employee costs	(32)	(34)	(41)	(54)	(80)
SG&A costs	(139)	(183)	(193)	(215)	(236)
EBITDA	**706**	**1,757**	**671**	**1,809**	**2,055**
Other income	17	235	437	144	115
Interest	(38)	(48)	(44)	(146)	(146)
Depreciation	(73)	(73)	(85)	(94)	(115)
Pretax profits	**612**	**1,872**	**979**	**1,713**	**1,909**
Share of profit from associates	10	5	—	—	—
Current tax	(223)	(197)	(202)	(453)	(517)
Deferred tax	3	7	3	7	11
Net income	**402**	**1,686**	**780**	**1,266**	**1,403**
Adjusted net income	**396**	**1,682**	**780**	**1,266**	**1,403**
EPS (Rs)					
Primary	6.6	18.1	5.7	8.7	9.7
Fully diluted	6.5	12.4	5.4	8.7	9.7
Shares outstanding (mn)					
Year end	61	136	145	145	145
Primary	61	93	138	145	145
Fully diluted	61	136	145	145	145
Cash flow per share (Rs)					
Primary	9.4	16.4	3.1	8.3	9.6
Fully diluted	9.4	11.2	2.9	8.3	9.6
Growth (%)					
Net income (adjusted)	146	325	(54)	62	11
EPS (adjusted)	146	92	(57)	62	11
DCF/share	131	74	(81)	171	15
Cash tax rate (%)	36	11	21	26	27
Effective tax rate (%)	36	10	20	26	27

Source: Kotak Institutional Equities estimates.

Banking

SREI.BO, Rs35	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	100
52W High -Low (Rs)	219 - 33
Market Cap (Rs bn)	4.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2.7	4.1	4.1
Net Profit (Rs bn)	1.3	0.9	0.9
EPS (Rs)	11.4	7.6	7.6
EPS gth	*57.4*	*(33.5)*	*(0.2)*
P/E (x)	3.0	4.5	4.6
P/B (x)	0.6	0.4	0.3
Div yield (%)	3.5	6.7	8.1

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(17.0)	(25.5)	(68.3)	(83.6)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.1	-	-
FIIs	45.8	0.1	0.1
MFs	8.0	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Srei Infrastructure Finance: Core results in line, macro environment remains a challenge

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- **Srei reported 3QFY09 PAT of Rs87 mn—in line with estimates**
- **PAT down 68% yoy, lower stake in construction equipment finance business, large forex losses resulted in sharp yoy decline**
- **We remained concerned on challenges on asset side—risk of NPLs and loan growth**
- **We will revisit estimates post conference call with the management**

Srei reported consolidated PAT of Rs87 mn, down 68% yoy but in line with our estimates. We believe the earnings are not strictly comparable yoy due to its lower stake in core (construction equipment finance) business post the JV with BNP. The earnings of the wholesale (infrastructure) finance business did not fully offset this due to its low core earnings, absence of lumpy revenues (as observed in the previous quarters) and high forex losses during the quarter. We believe that challenges on the liquidity front are now reducing, though likely rise in NPLs and lower business growth, on the back of slowdown in infrastructure development, remain key concerns. We will revisit our earnings estimates and target price post the conference call with the management.

Key highlights

Construction equipment finance business (now with JV)

Lower in NIMs in 3QFY09E. Srei NIMs (calculated) in the JV moved down by 35 bps qoq to 3.45% in 3QFY09E. A sharp rise in borrowings cost has likely affected the company. Management has highlighted that its marginal borrowings cost was about 13.5-14% during 3QFY09 which has now reduced to about 12-12.5%. As such, NIM will likely move up in 4QFY09.

Employee cost pushed up operating expenses. The employee cost—Rs157 mn for 3QFY09 was significantly above Rs95 mn reported in 2QFY09. The management has highlighted that the higher cost is on account of certain expat employees. Excluding the one-off expenses, the normalized cost will be about Rs120 mn.

Project business (standalone entity)

Negative net interest income due to forex losses. Srei (standalone) reported net interest income of Rs28 mn on account large forex losses—Rs145 mn. The management has highlighted that the company was not significantly affected by higher interest rates as the ALM position as positive for most part of the quarter. The company (standalone) has open forex position of US$12-13 mn. The company has also availed a partial hedge on US$85 mn of exposure up to Rs47/US dollar. In addition, the JV has open forex exposure of US$39 mn, which is not reflected in the standalone financials.

Write-back of operating expenses drives PAT. Srei made a write-back of Rs150 mn which has largely supported the reported earnings. The management has highlighted that the provision a Rs470 mn for operating expenses of the Ganga Expressway project was made in 2QFY09. As part of this provision was assessed as excess and hence reversed during the quarter.

Srei Infrastructure Finance (standalone quarterly results)
In Rs mn

	4Q08	1Q09	2Q09	3Q09	3Q09KS	Actual vs KS(%)
Operational income	150	1015	1092	386	440	(12)
Interest expenses	370	300	296	269	316	(15)
Provision for forex	120	110	60	145	50	190
Net operational income	**(340)**	**605**	**736**	**(28)**	**74**	**(137)**
Provision expenses	0	0	2	0	20	(100)
Provisions for forex	0	0		0		
Net operational income (post provisions)	**0**	**605**	**734**	**(28)**	**54**	**(151)**
Other income	640	0	10	20	20	(1)
Operating expenses	**0**	**137**	**517**	**(48)**	**55**	**(187)**
Admin and other expenses	50	113	487	(120)	25	(581)
Employee expenses	0	21	30	51	30	71
Depreciation	0	3		21	0	
Profit before tax	**250**	**469**	**227**	**40**	**19**	**113**
Tax	(17)	159	65	16	0	
Profit after tax	**267**	**309**	**163**	**24**	**19**	**26**
Profit before tax (before provisionaries, extraordinaries)	0	664	50	190		
Tax rate (%)	(7)	34	28	41		
NIM (excl forex losses) (%)		9.55	4.99	3.62	2.35	
Loan book	8,270	9,739	14,139	11,840		
AUM	16,620	16,670	19,093	20,249		

Source: Company, Kotak Institutional Equities estimates.

Srei Infrastructure Finance—quarterly results (equipment finance business)
In Rs mn

	4Q08	1Q09	2Q09	3Q09	3Q09KS	Actual vs KS(%)
Operational income	1,875	2,035	2,306	2,401	2,300	4
Interest expenses	1,478	1,491	1,553	1,777	1,700	5
Provision for forex	-	-	110	99	70	41
Net operational income	397	544	642	525	530	(1)
Provision expenses	66	80	121	53	120	(56)
Net operational income (post provisions)	-	464	522	473	410	15
Other income	225	16	45	56	40	39
Operating expenses	-	175	247	324	260	24
Admin and other expenses	196	90	137	153	145	5
Employee expenses	-	75	95	157	100	57
Depreciation	-	10	14	14	15	(7)
Profit before tax	360	306	320	205	190	8
Tax	116	104	137	89	63	42
Profit after tax	244	202	183	116	127	(9)
Tax rate (%)	32	34	43	43	33	
NIM - calculated (%)	4.7	3.27	3.81	3.45	3.04	
Loans under management	63,789	69,310	71,334	73,300		
Outside books	16,567	13,960	12,030	12,047		
Loans on books	47,222	55,350	59,304	61,253		

Source: Company, Kotak Institutional Equities estimates.

Industrials

BHEL.BO, Rs1358	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,475
52W High -Low (Rs)	2366 - 981
Market Cap (Rs bn)	664.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	193.0	257.9	340.8
Net Profit (Rs bn)	28.6	35.4	48.0
EPS (Rs)	58.4	72.2	98.0
EPS gth	*22.9*	*23.7*	*35.6*
P/E (x)	23.3	18.8	13.9
EV/EBITDA (x)	12.2	9.6	7.2
Div yield (%)	1.1	1.1	1.5

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
0.9	15.5	(14.8)	(33.8)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.7	-	-
FIIs	16.6	2.2	(0.2)
MFs	6.3	4.3	1.9
UTI	-	-	(2.4)
LIC	2.2	1.2	(1.2)

BHEL: Lower-than-expected execution cramps results; margin pressures transient, could reverse next year

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- **Results below expectations led by lower-than-expected execution**
- **Margin decline led by staff provisioning and lag effect of commodity prices; likely to reverse in FY2010E**
- **Order inflows remain strong, sustain growth visibility for the future**
- **Maintain estimates, target price and rating unchanged at Rs1,475/share; relatively protected business model among peers still make it a preferred bet**

BHEL reported 3QFY09 operating revenues of Rs60.2 bn, up 21% yoy from Rs49.6 bn in 3QFY08. This was about 7.5% below our expectation of Rs65.1 bn (yoy revenue growth expectation of about 31%). Adjusted for increase in WIP in the quarter on a sequential basis, growth in revenues is about 23.6%. Profit after tax was Rs7.9 bn (up 2.4% yoy) versus our expectation of Rs8.8 bn. While revenues have disappointed, we believe that near-term margin pressure—reflecting a decline of 310 bps in 9MFY09 led by commodity prices and staff provisioning—will decline and reverse post FY2009E. Simultaneously, massive order backlog of Rs1,135 bn at the end of the third quarter, registering a growth of 45.5% yoy, provides comfort on execution growth. We would revisit our estimates post the conference call and reiterate that BHEL is a preferred bet among peers based on its relatively protected business model in the near term.

Results below expectations led by lower-than-expected execution

BHEL reported 3QFY09 operating revenues of Rs60.2 bn, up 21% yoy from Rs49.6 bn in 3QFY08. This was about 7.5% below our expectation of Rs65.1 bn (yoy revenue growth expectation of about 31%). Adjusted for an increase in WIP in the quarter on a sequential basis, the growth in revenues is about 23.6%. We highlight that BHEL has also reported a very large WIP of Rs5.5 bn in this quarter. Profit after tax reported was Rs7.9 bn (up 2.4% yoy) versus our expectation of Rs8.8 bn.

For the nine-month period ending December 31, 2008, the company reported revenues of Rs158 bn (up 30.1% yoy) and profit after tax of Rs17.9 bn (up 13.1% yoy). Operating profit margin declined by 230 bps yoy to 14.1% in 9MFY09 from 16.5% for the same period in the previous year.

Margin decline lead by staff provisioning and lag effect of commodity prices; likely to reverse in FY2010E

Margins came in at 16.9% (down 310 bps yoy) below our estimate of 17.6% by 60 bps. The decline in margins is mainly led by raw material costs (by 220 bps) and employee expenses (by 30 bps) as a percentage of sales in 3QFY09 on a yoy basis. For 9MFY09, a margin decline of 310 bps is led by (a) 230 bps of raw material expenses and (b) 90 bps of employee expenses. There has been a sharp reversal in commodity prices in the past few months and we believe margin pressure led by commodity prices would clearly wean off over the next one or two quarters. Similarly, employee expenses are seeing an exceptional increase in FY2009E based on Sixth Pay Commission related wage cost provisioning. Once the employee cost settles on a higher base, this expense item is likely to grow at a slower rate versus sales, leading to operating-leverage-led margin expansion.

Order inflows remain strong, sustains growth visibility for the future

BHEL has reported a strong order backlog of Rs1,135 bn at the end of the third quarter registering a growth of 45.5% yoy. This backlog provides revenue visibility of 3.7 years based on estimates of forward four quarter revenues. Order inflows continued to remain strong in this quarter, growing at 51.1% yoy to Rs156.5 bn in this quarter from Rs103 bn in 3QFY08. Order inflows stood at Rs434 bn (up 32.5% yoy) for the nine-month period ending December 31, 2008.

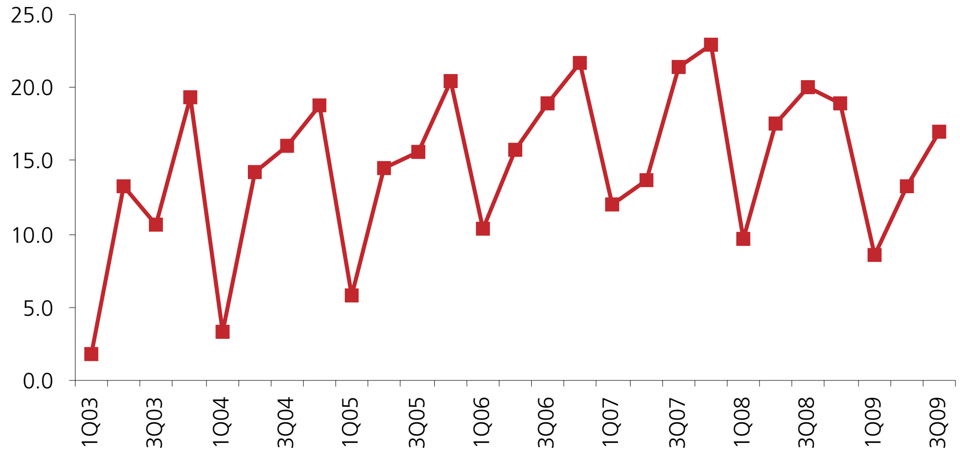
Estimates and target price likely to be reviewed after this morning's conference call; relatively protected business model makes it the preferred bet among peers

We would review our estimates and target price post the management conference call at 11:00 AM today. Given the demand slump plaguing the capex universe–seen across quarterly results of several capital goods companies—we believe BHEL is relatively well positioned with (1) strong order backlog and (2) public sector projects that are relatively better insulated in terms of credit and pose a low risk of client-related order execution delays or cancellations. We believe earnings would get a boost from (1) margin support from operating leverage (very high employee cost as a percentage of sales) and (2) a decline in commodity prices post FY2009E amidst strong top-line growth.

Exhibit 1. BHEL 3QFY09 result - key numbers (Rs mn)

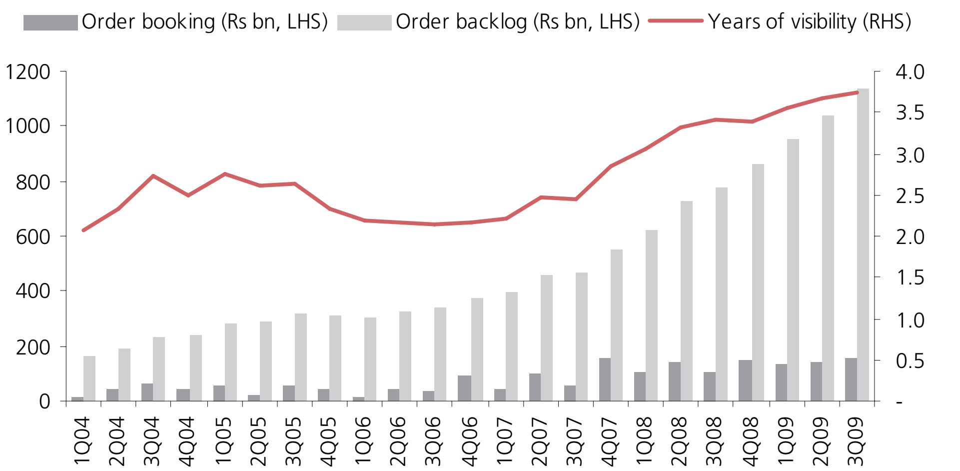
		yoy			qoq			yoy	
	3QFY09	**3QFY08**	***% change***	**3QFY09**	**2QFY09**	***% change***	**9MFY09**	**9MFY08**	***% change***
Net revenues	**60,223**	**49,641**	***21.3***	**60,223**	**53,426**	***12.7***	**156,941**	**121,634**	***29.0***
(Inc)/Dec in WIP	5,537	687	*705.8*	5,537	4,400	*25.8*	9,794	4,342	*125.6*
Raw material consumption	(40,586)	(28,510)	*42.4*	(40,586)	(36,212)	*12.1*	(101,977)	(72,952)	*39.8*
Staff cost	(9,202)	(7,464)	*23.3*	(9,202)	(8,898)	*3.4*	(27,053)	(19,799)	*36.6*
Other items	(5,764)	(4,380)	*31.6*	(5,764)	(5,609)	*2.8*	(16,653)	(13,191)	*26.2*
Total Expenditure	(50,016)	(39,666)	*26.1*	(50,016)	(46,319)	*8.0*	(135,890)	(101,600)	*33.8*
Operating profit	**10,207**	**9,976**	***2.3***	**10,207**	**7,107**	***43.6***	**21,051**	**20,034**	***5.1***
Other income	3,063	2,649	*15.6*	3,063	3,072	*(0.3)*	9,053	7,046	*28.5*
EBIDT	13,270	12,624	*5.1*	13,270	10,179	*30.4*	30,104	27,080	*11.2*
Interest	(179)	(98)	*83.0*	(179)	(22)	*711.8*	(226)	(138)	*64.3*
Depreciation	(865)	(762)	*13.6*	(865)	(744)	*16.3*	(2,334)	(2,145)	*8.8*
PBT	**12,226**	**11,765**	***3.9***	**12,226**	**9,414**	***29.9***	**27,543**	**24,797**	***11.1***
Tax	(4,321)	(4,046)	*6.8*	(4,321)	(3,256)	*32.7*	(9,636)	(8,970)	*7.4*
PAT	**7,906**	**7,719**	***2.4***	**7,906**	**6,158**	***28.4***	**17,907**	**15,827**	***13.1***
Key ratios (%)									
Raw Material to Sales	58.2	56.0	*2.2*	58.2	59.5		58.7	56.4	
Staff Cost to sales	15.3	15.0	*0.2*	15.3	16.7		17.2	16.3	
Other exp to sales	9.6	8.8	*0.7*	9.6	10.5		10.6	10.8	
OPM	**16.9**	**20.1**	***(3.1)***	**16.9**	**13.3**		**13.4**	**16.5**	
EBIDTA margin	22.0	25.4		22.0	19.1		19.2	22.3	
Effective tax rate	35.3	34.4		35.3	34.6		35.0	36.2	
Order backlog (Rs bn)	1,135,000	780,000	*45.5*	1,135,000	1,040,000	*9.1*	1,135,000	780,000	*45.5*
Order inflow (Rs bn)	155,223	103,641	*49.8*	155,223	143,426	*8.2*	432,946	351,634	*23.1*
Segmental revenues									
Power	48,188	42,046	*14.6*	48,188	44,090	*9.3*	127,365	102,447	*24.3*
Industry	17,522	14,354	*22.1*	17,522	14,961	*17.1*	45,334	35,974	*26.0*
Revenue mix (%)									
Power	73.3	74.5		73.3	74.7		73.7	74.0	
Industry	26.7	25.5		26.7	25.3		26.3	26.0	
EBIT margin (%)									
Power	14.8	20.5	*(5.7)*	14.8	17.3		16.7	21.1	
Industry	12.7	17.2	*(4.5)*	12.7	15.1		13.9	12.7	

Exhibit 2. Operating margin trend for BHEL over the last five years (%)



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3. Order backlog provides visibility of 3.7 years based on forward four quarter revenues
Order booking, Order backlog & visibility trend for BHEL



Source: Company data, Kotak Institutional Equities.

List of orders bagged by BHEL during FY2008 and FY2009 so far

Order, Client	Configuration	Value (Rs mn)	Nature of work	Date
Order received in FY2009 so far				
NTPC Ltd	2X 500 MW	21,000	Main Plant Package	24-Dec-08
Bina Power Supply Company Limited (BPSCL)	2X 250 MW	11,750	Installation of 2 thermal sets	22-Dec-08
Coastal Gujarat Power Limited (CGPL), a Tata Power company	5X 800 MW	2,400	Manufacture and supply of power transformers and busducts	24-Nov-08
APGENCO	1X 600 MW	13,250	Main Plant Package	18-Nov-08
NTPC Ltd	2X 660 MW	14,740	Steam Turbine Generator package at Barh Thermal Power	23-Oct-08
Satluj Jal Vidyut Nigam Limited (SJVNL)	6x 68.67 MW	6,410	Hydro Electric Project (HEP) in Himachal Pradesh	21-Oct-08
Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL)	2X250	9,900	Chhabra Thermal Power Station	30-Sep-08
SAIL		3,380	Equipment supply	25-Sep-08
ONGC Tripura Power Company Limited (OTPCL)	2X 363.3 MW	22,000	Turnkey contract - Combined Cycle Power Plant	9-Sep-08
GVK Power Ltd	2X 270 MW	11,550	Thermal Power Project	29-Aug-08
International Energy Resources (IER), UAE	2X 42 MW	1,400	Supply of two gas turbine generating units	26-Aug-08
Ministry of Infrastructure, Government of the Republic of Rwanda	2X 14 MW	4,000	Turnkey contract- Hydro Power Project	8-Aug-08
Andhra Pradesh Power Development Company Limited (APPDCL)	2X 800 MW	25,000	Supply of Steam Generators Boilers	5-Aug-08
Nam Chien Hydropower Joint Stock Company, Vietnam	2X 100 MW	2,000	EPC Basis	4-Aug-08
International Energy Resources, UAE	2X 42 MW	1,600	Supply of two gas turbine generating units	16-Jul-08
Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power	1X 600 MW	21,750	EPC Basis	11-Jul-08
Public Establishment of Electricity for Generation and Transmission, Ministry of Electricity, Syria	2X 200 MW	20,800	Turnkey contract- Thermal Power Project	30-Jun-08
Oil and Natural Gas Corporation Limited ONGC		5,060	Onshore Drilling rigs	26-Jun-08
Damodar Valley Corporation DVC	1X 500 MW	18,400	Power Project - Turnkey Contract	20-Jun-08
Pragati Power Corporation Limited	1X 1371 MW	35,880	Combined Cycle Power Plant	9-Jun-08
Chhattisgarh State Electricity Board	3X 500 MW	33,680	Main Plant Package	28-Apr-08
Total Orders received in FY09 so far	**15965.6**	**285,950**		
Order received in FY2008				
New Caledonia	2X 135 MW	5500	CCF Boiler supply	31-Mar-08
Gujarat State Energy Generation Limited	1X 350 MW	10750	EPC Contract	26-Feb-08
Gujarat State Petroleum Corporation GSPC	2X 350 MW	18930	EPC Contract	29-Feb-08
Nabinagar Rail Bijlee Company Ltd	4X 250 MW	20300	Main Plant Package	17-Mar-08
General Electricity Company of Libya	1X 300 MW	6500	EPC Basis	18-Feb-08
Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power	1X 600 MW	24750	EPC basis	24-Jan-08
Maithon Power Limited (MPL), a joint venture company of Tata Power and	2X525 MW	21080	BTG package	22-Nov-07
Reliance Industries LTd.	345 MW	8660	EPC basis	22-Jan-08
Vallur power project, Ennore Tamil Nadu	2X 500 MW	19900	Equipment supply	30-Aug-07
Durgapur Steels	2X 500 MW	32500	Equipment supply	21-Aug-07
Sudan	2X 500 MW	40000	EPC Contract	
OBRA, UP Power Corporation Ltd.	2X 800 MW	64,000	EPC Contract	
Anpara - D, UP Power Corporation Ltd.	2X 500 MW	33,900	EPC Contract	8-Feb-08
Sikka, Gujarat State Electricity Corporation Ltd.	540 MW	20,000	EPC Contract	
Koderma, Damodar Valley Corporation	2X 500 MW	32,800	EPC Contract	21-Aug-07
Maheshwar hydro electric power project, Madhya Pradesh	400 MW	5,730	Electromechanical component	
Rayalseema, APGENCO	210 MW	6,100	EPC Contract	
Srinagar Hydro power project, GVK Power and Infrastructure	330 MW	4,450	Electromechanical component	
Teesta, National Hydro Power Corporation	270 MW	2,760	Electromechanical component	
Jhajjar, Haryana Power Generation Corporation Ltd.	3 X 500 MW	18,690	Equipment supply	9-Aug 2007
HMEL, a JV of HPCL and L.N. Mittals, Mittal Energy Limited	1X 153 MW	11,500	Captive Power Plant	26-May-08
Rashtriya Ispat Nigam Ltd.		1060	Turbo power blower	
National Thermal Power Corp.		1390	Transformers	
Total Orders received in FY08	**14273**	**411,250**		

Source: Company, Kotak Institutional Equities

Exhibit 5. Our March 2010 DCF based valuation results in a target price of Rs1,475/share

DCF valuation for BHEL, March fiscal year ends, 2008E-2018E (Rs mn)

	Existing orders ensure visibility				XII plan execution of 65,000 MW; 16% CAGR growth in industry sector revenues							
Year to March	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Revenue	**257,892**	**340,795**	**397,201**	**459,054**	**462,444**	**506,592**	**562,492**	**664,858**	**749,372**	**824,309**	**906,740**	**997,414**
Growth (%)	*33.6*	*32.1*	*16.6*	*15.6*	*0.7*	*9.5*	*11.0*	*18.2*	*12.7*	*10.0*	*10.0*	*10.0*
EBIT margin	*19.1*	*16.4*	*19.5*	*19.7*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*
EBIT*(1-tax rate)	**32,573**	**36,899**	**51,231**	**59,608**	**50,360**	**55,168**	**61,255**	**72,403**	**81,607**	**89,767**	**98,744**	**108,618**
Depreciation	3,246	3,961	4,890	5,818	6,695	6,527	5,871	5,445	5,563	5,480	5,313	5,251
Change in working capital	6,024	(36,335)	(16,705)	(20,867)	(678)	(8,830)	(11,180)	(20,473)	(16,903)	(14,987)	(16,486)	(18,135)
Capital expenditure	(11,000)	(11,000)	(11,000)	(11,000)	(5,703)	(2,649)	(3,354)	(6,142)	(5,071)	(4,496)	(4,946)	(5,440)
Free Cash Flows	**30,842**	**(6,475)**	**28,416**	**33,559**	**50,674**	**50,217**	**52,593**	**51,233**	**65,196**	**75,763**	**82,625**	**90,294**
Growth (%)	*(23.0)*	*(121.0)*	*(538.8)*	*18.1*	*51.0*	*(0.9)*	*4.7*	*(2.6)*	*27.3*	*16.2*	*9.1*	*9.3*
Years discounted	-	-	1	2	3	4	5	6	7	8	9	10
Discount factor	1.00	1.00	0.88	0.78	0.68	0.60	0.53	0.47	0.41	0.36	0.32	0.28
Discounted cash flow	**30,842**	**(6,475)**	**25,036**	**26,051**	**34,658**	**30,260**	**27,922**	**23,965**	**26,869**	**27,510**	**26,433**	**25,451**

Target price calculation	**Rs mn**
Sum of free cash flow	267,679
Discounted terminal value	314,392
Enterprise value	582,071
Add Investments	83
Net debt	(125,275)
Net present value-equity	707,429
Shares o/s	490
Target price /share(Rs)	**1,445**

Terminal value calculation	
Cash flow in terminal year	90,294
Growth to perpetuity (g)	***5.0%***
Capitalisation rate (WACC-g)	*8.5%*
Terminal value	1,115,400
Discount period (years)	10.0
Discount factor	0.28
Discounted terminal value	**314,392**

WACC calculation	
Risk-free rate (Rf)	*8.5%*
Beta (B)	1.00
Equity risk premium	*5.0%*
Expected market Return (Rm)	*13.5%*
Cost of Equity (Ke)	*13.5%*
Cost of Debt (Kd) (Post-tax)	*8.0%*
WACC	***13.5%***

Terminal multiples	
EV/EBIDTA	6.6
P/FCF	12.4

Note: We have used cash EBIT margins for DCF, effecting the margins in FY2010E, when we expect the employee cost related provisions to be realised as cash expense

Source: Kotak Institutional Equities estimates.

Utilities

TTPW.BO, Rs762	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,140
52W High -Low (Rs)	1511 - 530
Market Cap (Rs bn)	169.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	108.9	175.2	188.8
Net Profit (Rs bn)	7.1	14.7	21.2
EPS (Rs)	31.8	65.8	95.2
EPS gth	*20.1*	*109.9*	*45.9*
P/E (x)	23.9	11.6	8.0
EV/EBITDA (x)	11.6	8.9	8.4
Div yield (%)	1.4	1.4	1.6

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
5.0	24.3	(26.8)	(41.9)

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.3	-	-
FIIs	20.0	0.7	0.1
MFs	6.5	1.1	0.5
UTI	-	-	(0.6)
LIC	10.4	1.5	0.9

Tata Power: 3QFY09—Standalone earnings impacted by funding of SPVs; retain BUY

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- **Lower-than-estimated revenue growth due to delay in commercialization of new capacities**
- **Higher interest cost and depreciation lead to decline in standalone net income**
- **Retain BUY rating with target price of Rs1,140**

Tata Power (TPWR) reported standalone revenues of Rs17.4 bn, EBITDA of Rs2.2 bn and net profits of Rs0.8 bn for 3QFY09 compared to our estimate of Rs20.5 bn, Rs3.3 bn and Rs1.7 bn, respectively. Lower-than-estimated revenues were on account of (1) delay in commissioning of power capacities at Trombay (250 MW) and Haldia (90 MW), and (2) lower cost of power purchased. Reported profits at Rs1 bn include a forex gain of Rs209 mn. The results are not comparable year-on-year due to the change in accounting policy wherein regulatory adjustments are being made on a quarterly basis compared to the previous policy of annual adjustment. We have revised our EPS estimates to Rs65.8 (Rs66.1 previously) for FY2009E and Rs95.2 (Rs88.7 previously) for FY2010E. Our revised estimates factor (1) a change in interest costs—accelerated repayment of debt by the SPVs holding stake in the coal mines in Indonesia and increased debt in standalone company for funding equity investments, (2) higher capex for Mumbai distribution business, and (3) marginal delay in commercialization of capacities at Trombay (250 MW), Haldia (120 MW) and in the JV with Tata Steel (240 MW). We retain our BUY rating on TPWR with an SOTP-based target price of Rs1,140/share.

Delay in commercialization of capacities hampers growth, operational performance of extant power assets stable. TPWR reported revenues of Rs17.4 bn, EBITDA of Rs2.2 bn and net profit of Rs1.8 bn. Lower-than-estimated revenues were due to (1) delay in commercialization of capacities at Trombay (250 MW) and Haldia (90 MW), (2) planned shut-down of Unit#7 at Trombay and (3) lower cost of power purchased due to higher dependence on internal generation. TPWR generated 3,847 MU in 3QFY09, 4.8% higher than 3,672 MU in 3QFY08. We note that TPWR has made tariff adjustments and statutory adjustments during the quarter in reported financials, which it was earlier doing once at the end of the year. On a like-to-like comparison, PAT for 3QFY08 would have been lower by Rs650 mn.

We note satisfactory growth in the profits of the various subsidiaries – (1) NDPL reported YTD profit of Rs1.17 bn, (2) Powerlinks reported YTD profit of Rs0.32 bn, and (3) Tata Power Trading reported YTD profit of Rs0.4 bn.

Higher usage of internal generation results in lower power purchase costs and revenues. Lower-than-estimated fuel price increases and power purchases resulted in lower tariffs (effective) during the quarter in the Mumbai licence area. Fuel and power purchase costs are a pass-through for the regulated business and recovered as Fuel Adjustment Charges (FAC). The Mumbai distribution business has now a PPA for 477 MW as against 360 MW allocated by the regulator previously (in the absence of PPAs). This resulted in a reduced requirement of power purchases from other sources and is reflected in lower-than-estimated power purchase costs and revenues.

Higher interest costs impact bottomline. Net interest costs increased by Rs452 mn yoy due to—(1) interest expense of Rs325.3 mn due to debt raised for funding the equity contribution in project SPVs, (2) interest expenses (~Rs63 mn) on the recently commissioned power plant at Haldia and windmills, and (3) interest resets of Rs64.1 mn (Rs46.6 mn in recoverable through tariffs). During April-December 2008, TPWR has invested Rs8.9 bn as its share of equity in various project SPVs and another Rs2.5 bn equity contribution for funding capex in Mumbai licence area. Management indicated a further Rs6 bn equity contribution in various ongoing projects will be made in 4QFY09. Management highlighted the capex budgeted for Mumbai licence area at Rs10 bn over the next couple of years. We have revised our estimates to factor in increased investments in the Mumbai licence area. We note the equity investments funded through debt in licence area will increase interest costs till the commissioning of project starts yielding returns.

Cash flows from coal mines in Indonesia supporting accelerated repayment of SPV debt. Tata Power's SPVs have received cash inflows of US$220 mn during CY2008 (in addition to US$45 mn in CY2007), which has allowed accelerated repayment of ~US$100 mn out of the original debt of US$950 mn taken to fund the acquisition of the coal mines in Indonesia. Management noted satisfactory operational performance of the coal mines and indicated that the current realizations of US$80/ton (peak realizations were US$140/ton) adequately support the servicing of SPV debt. We note that valuations (and cash flows) for TPWR's stake in coal mines is highly sensitive to assumptions of coal prices. We have currently factored in coal prices of US$65/ton on a sustainable basis yielding a value of Rs389/share for TPWR.

Tata Power to increase generation capacity to 8 GW in the next four years. During the next one year, TPWR will add about 600 MW of generation capacity comprising 250 MW at Trombay (scheduled to commission in 4QFY09), 120 MW at Haldia (90 MW has already commissioned), 120 MW at Jojobera, 40 MW DG sets and about 100 MW of wind power assets to its current installed capacity of about 2,400 MW.

Management reports satisfactory progress in projects under implementation.

1. Mundra UMPP (4,000 MW)—Management highlighted that about 13% of works at Mundra UMPP have been completed and the first unit of 800 MW should commission by September 2011 with subsequent units after every four months. TPWR has also chartered three ships and ordered two ships from Korean shipyards for transportation of coal. Mundra UMPP has drawn debt of Rs11.77 bn till December 31, 2008.
2. Maithon (1,050 MW)—About 21% works has been completed and the project has so far drawn a debt of Rs4.6 bn. Management has firmed up power sale arrangements under CERC regulations with NDPL (300 MW) and West Bengal (150 MW), while final approval is awaited for power sale to Punjab (300 MW). We had made changes in our model to reflect the power sale arrangement. We had earlier assumed that TPWR will sell power under competitive bidding.
3. Trombay (250 MW)—The Unit 8 at Trombay has been synchronized and is expected to start commercial generation in February 2009. While 150 WM would be sold under PPAs to distribution business of Tata Power and BEST in Mumbai, 100 MW would be sold on merchant-basis (through Tata Power Trading). Unit 4 at Trombay will now be used a standby unit.
4. Haldia—TPWR commissioned 45 MW capacity in August 2008 and another 45 MW in December 2008. The balance 30 MW is expected to commission by March 2009. TPWR was unable to benefit from sale of merchant power till December 2008, as the necessary open access approvals were not received and power generated was being sold to utilities in West Bengal.
5. JV with Tata Steel—Management highlighted the two 120 MW projects as the only ones in their portfolio which do not have 100% financing tied-up. However, the progress on these projects is on schedule with likely commissioning in February 2009 and mid-FY2010.

SOTP-based target price of Rs1,140/share. We retain our BUY rating with a revised SOTP-based target price of Rs1,140/share. Our SOTP valuation comprises four components—(1) value of operating power assets and projects nearing completion (Rs351/share), (2) valuation of investments and cash in books equivalent to Rs226/share, (3) projects under-implementation (Rs144/share) and (4) valuation of stake in coal mines in Indonesia valued at Rs389/share. We do not ascribe any value for projects under development where financial closure has not been completed.

Exhibit 1: Tata Power, Standalone quarterly performance, March yearends (Rs mn)

			yoy		qoq	
	FY2009E	3QFY09	2QFY08	*(% chg)*	2QFY09	*(% chg)*
Net sales	**76,820**	**17,415**	**14,194**	***22.7***	**19,242**	***(9)***
Cost of electrical energy purchased	(6,205)	(506)	(506)		(1,301)	
Cost of fuel	(52,545)	(12,752)	(9,642)		(13,740)	
Personnel costs	(2,860)	(690)	(474)		(749)	
Other expenses and provisions	(5,319)	(1,261)	(995)		(1,152)	
Total expenses	(66,930)	(15,208)	(11,617)		(16,942)	
EBITDA	**9,890**	**2,206**	**2,577**	***(14.4)***	**2,299**	***(4)***
Depreciation	(3,116)	(809)	(705)		(763)	
EBIT	6,774	1,398	1,873		1,536	
Other income	3,128	605	186		1,463	
Net interest	(3,244)	(952)	(386)		(681)	
PBT	**6,657**	**1,051**	**1,673**	***(37.2)***	**2,318**	***(55)***
Tax	(1,132)	(109)	(281)		(385)	
Net profit	**5,526**	**802**	**1,392**	***(42.4)***	**1,844**	***(57)***
Extraordinary	1,013	209	581		686	
EBITDA margin (%)	13	13	18		12	
Effective tax rate (%)	17	18	17		17	
Segment revenues						
Power business	75,258	17,507	14,051	*24.6*	19,296	*(9)*
Others	1,562	262	143	*83.5*	293	*(11)*
Total	**76,820**	**17,769**	**14,194**		**19,589**	
Less: Inter segment revenues	—	—	—		—	
Net revenues	**76,820**	**17,769**	**14,194**		**19,589**	
EBIT						
Power business		1,797	2,121	*(15.3)*	1,873	*(4)*
Others		47	(3)	*(1,837)*	36	*32*
Total		**1,844**	**2,118**		**1,908**	
EBIT margin (%)						
Power business		10	15		10	
Others		18	(2)		12	
Key operating parameters						
Units generated (MU)	14,618	3,847	3,672	*4.8*	3,459	*11*
Units sold (MU)	13,714	3,711	3,614	*2.7*	3,377	*10*
Per unit price realization (Rs)	5.5	5.6	3.9	*44.0*	5.7	*(1.99)*
Fuel cost per unit sold (Rs)	3.8	4.0	2.7	*48.8*	4.1	*(2.43)*

Source: Company data, Kotak Institutional Equities

Exhibit 2: Tata Power, Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	FY2009E Book value per share (Rs)	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	DCFe Disc. Rate: 12% Term. Yr. Grth: 2%	The business enjoys very high predictability of cash flows. We have not built in any incremental capacity creation in Mumbai (beyond the 250 MW already under construction).	104	214
Other generation assets	DCFe Disc. Rate: 12%	P/B of 2X for operational generation capacity at Jojobera (428 MW), Belgaum (81 MW) and Haldia (30 MW). P/B of 1.5X for projects under construction - 240 MW at Jamshedpur /Jojobera and 90 MW at Haldia.	46	87
Powerlinks Transmission Ltd	Price/Book (X)	We value the equity investment at 1.4X book: The project earns a regulated RoE of 14% as per the CERC tariff guideline for inter-state transmission project.	11	15
Delhi Distcom (NDPL)	DCF Disc. Rate: 12% Term. Yr. Grth: 2%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks	18	40
Tata BP Solar	P/E (X)	12X P/E on FY08	1	16
Investments	Various	20% discount to CMP/ KIE target price	89	188
Investible surplus on books	Market value	Marketable securities & cash on books	38	38
Bumi Resources	DCF	Net economic interest - based on dividend discount model	45	389
Mundra UMPP	DCF-equity	Levelized tariff of Rs2.26/unit for 25 years	57	115
Maithon	DCF-equity	74% stake in 1,050 MW project; 300 MW to be sold to DVC (regulated returns); Balance to be tied up; Coal linkage allocated	21	29
TOTAL			**432**	**1,130**

Source: Kotak Institutional Equities estimates

Exhibit 3: Change in estimates for Tata Power (consolidated), March fiscal year-ends, 2009-11E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2009E	176,564	175,181	(0.8)	36,626	36,517	(0.3)	14,719	14,653	(0.4)
2010E	187,785	188,770	0.5	45,508	46,494	2.2	19,743	21,181	7.3
2011E	198,817	199,201	0.2	47,064	48,318	2.7	19,328	20,916	8.2

Source: Kotak Institutional Equities estimates

Exhibit 4: Tata Power: Profit model, balance sheet, cash model 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	64,756	108,909	175,181	188,770	199,201	221,767
EBITDA	**10,786**	**21,221**	**34,039**	**44,037**	**45,722**	**54,895**
Other income	2,671	1,641	2,478	2,457	2,597	2,857
Interest	(2,833)	(4,881)	(6,936)	(6,846)	(7,888)	(10,969)
Depreciation	(4,148)	(5,593)	(6,806)	(8,134)	(9,242)	(11,470)
Pretax profits	6,476	12,389	22,775	31,514	31,189	35,313
Tax	(816)	(4,083)	(7,552)	(9,707)	(9,521)	(10,933)
Minority interest	6	(1,219)	(569)	(626)	(752)	(975)
Net profits	**5,667**	**7,088**	**14,653**	**21,181**	**20,916**	**23,405**
Extraordinary items	1,877	3,179	1,013	—	—	—
Earnings per share (Rs)	**26.6**	**31.8**	**65.8**	**95.2**	**94.0**	**105.1**
Balance sheet (Rs mn)						
Total equity	59,479	82,408	96,179	114,234	131,505	151,003
Deferred taxation liability	458	2,820	6,211	6,211	6,211	6,211
Total borrowings	51,784	91,136	154,011	213,795	244,215	277,763
Currrent liabilities	22,238	38,539	43,637	41,056	45,505	49,513
Capital contribution from Consumers	758	1,506	1,506	1,506	1,506	1,506
Minority interest	2,496	8,062	9,933	11,688	13,179	14,154
Total liabilities and equity	**137,214**	**224,471**	**311,477**	**388,490**	**442,121**	**500,149**
Cash	14,024	5,623	17,434	10,330	15,660	25,638
Current assets	29,293	44,426	54,071	54,687	56,631	57,917
Total fixed assets	63,001	140,901	204,064	287,566	333,922	380,686
Investments	30,833	31,253	33,640	33,640	33,640	33,640
Deferred expenditure	62	2,268	2,268	2,268	2,268	2,268
Total assets	**137,214**	**224,471**	**311,477**	**388,490**	**442,121**	**500,149**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	10,255	19,587	23,514	26,537	33,054	36,204
Working capital	(2,849)	(1,265)	(1,662)	(8)	(68)	2,154
Capital expenditure	(11,054)	(77,900)	(69,969)	(91,635)	(55,598)	(58,234)
Investments	(1,767)	(2,625)	(2,387)	—	—	—
Free cash flow	**(5,416)**	**(62,203)**	**(50,504)**	**(65,106)**	**(22,611)**	**(19,876)**

Source: Kotak Institutional Equities estimates

Energy

BPCL.BO, Rs390	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	483 - 206
Market Cap (Rs bn)	127.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,102	1,548	1,172
Net Profit (Rs bn)	14.9	13.7	12.4
EPS (Rs)	41.1	37.9	34.3
EPS gth	*(21.6)*	*(7.9)*	*(9.5)*
P/E (x)	9.5	10.3	11.4
EV/EBITDA (x)	4.3	4.2	3.6
Div yield (%)	1.1	1.0	0.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
2.5	26.7	25.4	2.4

Shareholding, September 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.3	-	-
FIIs	8.1	0.2	(0.2)
MFs	6.3	0.7	0.3
UTI	-	-	(0.4)
LIC	10.0	0.9	0.5

BPCL: Better-than-expected results boosted by higher-than-expected amount of oil bonds

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- **Higher-than-expected amount of oil bonds resulted in positive surprise**
- **No merit in analyzing quarterly results given volatility in compensation**
- **Fine-tuned estimates; maintain REDUCE with revised 12-month TP of Rs400 (Rs360 previously)**

BPCL reported 3QFY09 net income at Rs8 bn versus our expected net loss of Rs19.6 bn; the variance was due to (1) provision of oil bonds at Rs36 bn versus Rs17.7 bn assumed by us and (2) surprisingly higher refining margins. We have made modest earnings revisions for FY2009E-2011E EPS to Rs37.9, Rs34.3 and Rs43.4 versus Rs30.4, Rs42.8 and Rs41.1. We see limited merit in analysing quarterly results for downstream companies as earnings can swing wildly depending on the quantum and timing of receipt of oil bonds. Nevertheless, estimating earnings for downstream companies remains an academic exercise given the lack of clarity on the subsidy sharing scheme. We retain our REDUCE rating with a revised 12-month fair valuation of Rs400 (Rs360 previously) based on 8X FY2010E EPS plus value of treasury shares and other investments. Key upside risk stems from lower-than-expected subsidy losses.

3QFY09 results boosted by higher-than-expected oil bonds; weak operating performance otherwise. BPCL reported 3QFY08 EBITDA at Rs15.5 bn versus our expected –Rs15.8 bn. The stronger-than-expected performance was due to (1) higher oil bonds at Rs36 bn versus Rs17.7 bn assumed by us and (2) significantly higher refining margins. We are at a loss to explain BPCL's 3QFY09 refining margins, which seem much higher than those reported by PSU peers.

Nonetheless, the operating performance was weak led by inventory loss of Rs15.3 bn. BPCL's overall 3QFY09 refining margin was -US$0.3/bbl versus US$3.2/bbl in 2QFY09 and US$5.4/bbl in 3QFY08; the decline in line with decline in global refining margins. BPCL sold 6.8 mn tons of products in 3QFY09 (+1.9% yoy and +9.1% qoq) and 20.1 mn tons in 9MFY09 (+6.6% yoy) led by strong demand for diesel (+14% yoy), gasoline (+11.5% yoy), jet fuel and LPG.

Earnings uncertainty remains pending clarity on subsidy sharing scheme. We note there is no real basis to forecast earnings of the downstream oil companies in the current environment given (1) lack of clarity on the subsidy sharing scheme, (2) continued government control over pricing and (2) high dependence on government and upstream companies to compensate for subsidy loss. We work on the philosophy that the government will ensure profits of the downstream oil companies at a certain 'minimum' level over the next few years (until the situation improves); there is no other basis to forecast earnings of the downstream oil companies in the current environment.

Other financial and operating details of 3QFY09 results

1. **Refining margins.** BPCL's overall 3QFY09 refining margin was -US$0.3/bbl versus US$3.2/bbl in 2QFY09 and US$5.4/bbl in 3QFY08. We expect refining margins to decline in FY2009E and FY2010E due to (1) global demand weakness and (2) significant refining capacity additions from 2HCY08 (4.2 mn b/d plus 1.2 mn b/d of additional NGL supply in CY2008-10E). We model refining margin for BPCL at US$3.8/bbl in FY2009E, US$2.7/bbl in FY2010E and US$4/bbl in FY2011E.

2. **Compensation (oil bonds) from the government.** BPCL booked oil bonds for Rs36 bn in 3QFY09 versus Rs48 bn in 2QFY09 and Rs20.8 bn in 3QFY08. Based on the share of oil bonds for BPCL in FY2008 (24.34%), we model BPCL will receive Rs182 bn, Rs63 bn and Rs40 bn of oil bonds in FY2009E, FY2010E and FY2011E, respectively, based on total issue of Rs775 bn, Rs270 bn and Rs170 bn of bonds to the industry in FY2009E, FY2010E and FY2011E, respectively.

3. **Refining throughput in 3QFY09.** BPCL's two refineries processed 4.8 mn tons of crude in 3QFY09 compared to 5.3 mn tons in 2QFY09 and 5.2 mn tons in 3QFY08. BPCL's Mumbai refinery processed 9.4 mn tons of crude in 9MFY09 and its Kochi refinery processed 5.7 mn tons of crude. We model crude throughput at 21 mn tons in FY2009E, 21.5 mn tons in FY2010E and 23 mn tons in FY2011E. BPCL will expand its refining capacity (Kochi refinery) by 2 mtpa in FY2011E, which will boost its throughput significantly.

4. **Steep decline in other expenditure.** BPCL's 3QFY09 other expenditure declined by Rs13 bn qoq to Rs8.5. Other expenditure for 9MFY09 has increased by Rs20 bn yoy to Rs48.5 bn. The sharp swing in other expenditure is due to gains from the sale of oil bonds of Rs2.4 bn in 3QFY09 versus a loss of Rs5 bn in 2QFY09.

5. **142% qoq increase in employee costs.** BPCL's 3QFY09 employee cost increased to Rs7.5 bn (+142% qoq and +169% yoy). The steep increase reflects (1) provision of Rs1.7 bn for estimated liability due to pending pay revision of staff from January 1, 2007 and (2) bonus of Rs1.5 bn paid to employees in December 2008.

Interim results of Bharat Petroleum, March fiscal year-ends (Rs mn)

			qoq			*yoy*			*yoy*	
	2009E	**3Q 2009**	**2Q 2009**	***% chg***	**3Q 2009**	**3Q 2008**	***% chg***	**9M 2009**	**9M 2008**	***% chg***
Net sales	1,548,018	319,080	378,507	*(15.7)*	319,080	289,284	*10.3*	1,087,807	779,682	*39.5*
Increase/(decrease) in stock		(38,713)	20,031		(38,713)	(11,096)		(3,603)	(1,084)	
Raw material	(723,486)	(108,822)	(188,434)	*(42.2)*	(108,822)	(125,911)	*(13.6)*	(457,415)	(360,652)	*26.8*
Trading purchase	(731,857)	(140,027)	(206,885)	*(32.3)*	(140,027)	(137,893)	*1.5*	(570,269)	(359,284)	*58.7*
Staff cost	(17,582)	(7,540)	(3,115)	*142.1*	(7,540)	(2,798)	*169.5*	(14,002)	(8,423)	*66.2*
Other expenses	(30,784)	(8,533)	(21,534)	*(60.4)*	(8,533)	(7,215)	*18.3*	(48,557)	(28,159)	*72.4*
Total expenditure	(1,503,710)	(303,636)	(399,936)	*(24.1)*	(303,636)	(284,913)	*6.6*	(1,093,847)	(757,602)	*44.4*
EBITDA	**44,308**	**15,445**	**(21,430)**	***(172.1)***	**15,445**	**4,371**	***253.3***	**(6,040)**	**22,080**	***(127.4)***
Other income	9,460	2,766	2,980	*(7.2)*	2,766	1,904	*45.3*	8,503	7,422	*14.6*
Interest	(22,294)	(7,161)	(5,338)	*34.1*	(7,161)	(1,620)	*342.0*	(15,515)	(4,088)	*279.5*
Depreciation	(10,743)	(3,014)	(2,419)	*24.6*	(3,014)	(3,065)	*(1.7)*	(8,124)	(7,663)	*6.0*
Pretax profits	**20,732**	**8,036**	**(26,207)**	***(130.7)***	**8,036**	**1,590**	***405.4***	**(21,176)**	**17,751**	***(219.3)***
Extraordinary item	—	—	—		—	1,279		(7,638)	1,560	
Tax	(5,799)	(38)	(46)		(38)	(57)		(108)	(5,573)	
Deferred tax	(1,248)	—	—		—	101		—	(710)	
Net income	**13,685**	**7,998**	**(26,253)**	***(130.5)***	**7,998**	**2,913**	***174.6***	**(28,921)**	**13,028**	***(322.0)***
Adjusted net income	**13,685**	**7,998**	**(26,253)**	***(130.5)***	**7,998**	**1,614**	***395.4***	**(21,255)**	**11,976**	***(277.5)***
Tax rate (%)	34.0	0.5	(0.2)		0.5	(1.5)		(0.4)	32.5	
Volume data										
Crude throughput (mn tons)		4.8	5.3	*(8.9)*	4.8	5.2	*(7.7)*	15.1	15.9	*(5.5)*
Domestic sales volume (mn tons)		6.8	6.3	*9.1*	6.8	6.7	*1.9*	20.1	18.8	*6.6*
Refining margin (US$/bbl)		(0.3)	3.2		(0.3)	5.4		5.3	5.2	
Inventory gain/(loss)		(15,330)	(6,000)		(15,330)	4,000		(17,330)	6,500	
Receipt from upstream companies		12,401	34,208		12,401	16,229		73,186	36,059	
Receipt from refining companies		—	—		—	—		—	—	
Reciept of oil bonds from government		35,984	47,824		35,984	20,789		141,468	46,180	
Subsidy gain/(loss)		(28,000)	(103,000)		(28,000)	(50,500)		(246,000)	(109,500)	

Source: Company, Kotak Institutional Equities estimates

Earnings sensitivity of BPCL to refining margins and marketing margins, March fiscal year-ends (Rs mn)

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins									
Refining margins (US$/bbl)	2.8	3.8	4.8	1.7	2.7	3.7	3.0	4.0	5.0
Net profits (Rs mn)	8,959	13,685	18,411	7,451	12,389	17,327	10,482	15,683	20,884
EPS (Rs)	24.8	37.9	50.9	20.6	34.3	47.9	29.0	43.4	57.8
% upside/(downside)	**(34.5)**		**34.5**	**(39.9)**		**39.9**	**(33.2)**		**33.2**
Marketing margins									
Auto fuels marketing margin (Rs/ton)	(8,269)	(8,119)	(7,969)	(468)	(318)	(168)	1,391	1,541	1,691
Net profits (Rs mn)	12,605	13,685	14,764	11,254	12,389	13,525	13,891	15,683	17,475
EPS (Rs)	34.9	37.9	40.8	31.1	34.3	37.4	38.4	43.4	48.3
% upside/(downside)	**(7.9)**		**7.9**	**(9.2)**		**9.2**	**(11.4)**		**11.4**

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	479,840	578,774	755,333	965,569	1,102,081	1,548,018	1,171,523	1,207,185
EBITDA	**38,686**	**26,231**	**9,407**	**35,362**	**28,472**	**44,308**	**39,743**	**49,397**
Other income	4,348	4,015	4,653	7,332	13,954	9,460	21,591	21,111
Interest	(1,447)	(1,748)	(2,474)	(4,774)	(6,725)	(22,294)	(32,290)	(34,726)
Depreciation	(6,754)	(7,130)	(7,680)	(9,041)	(10,982)	(10,743)	(10,276)	(12,023)
Pretax profits	34,833	21,368	3,906	28,879	24,719	20,732	18,769	23,758
Extraordinary items	(420)	810	176	(68)	—	—	—	—
Tax	(12,026)	(7,250)	(140)	(9,286)	(9,059)	(5,799)	(4,040)	(6,266)
Deferred taxation	(805)	(1,230)	(1,025)	(268)	(1,108)	(1,248)	(2,339)	(1,810)
Net profits	21,582	13,698	2,916	18,055	15,806	13,685	12,389	15,683
Net profits after minority interests	**19,086**	**11,334**	**2,916**	**18,055**	**15,806**	**13,685**	**12,389**	**15,683**
Earnings per share (Rs)	**64.6**	**37.2**	**7.6**	**50.1**	**43.7**	**37.9**	**34.3**	**43.4**
Balance sheet (Rs mn)								
Total equity	69,960	82,887	91,394	102,735	116,768	128,988	140,051	154,056
Deferred taxation liability	11,304	12,533	13,558	13,826	14,814	16,061	18,400	20,210
Total borrowings	32,701	46,589	83,736	108,292	150,224	349,936	372,436	403,936
Currrent liabilities	95,495	104,462	94,070	112,767	145,803	126,867	110,155	114,863
Total liabilities and equity	**209,459**	**246,472**	**282,758**	**337,620**	**427,608**	**621,853**	**641,042**	**693,064**
Cash	9,319	6,644	4,921	8,640	9,616	2,755	2,965	3,058
Current assets	97,729	130,393	128,208	127,698	187,457	204,779	171,005	174,368
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	118,334	127,354	146,254	174,008	172,574
Investments	13,927	10,893	38,774	82,949	103,182	268,064	293,064	343,064
Total assets	**209,459**	**246,472**	**282,758**	**337,621**	**427,608**	**621,853**	**641,042**	**693,064**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	30,727	21,118	9,275	29,920	22,988	16,215	3,413	8,405
Working capital	1,025	(18,393)	1,577	11,451	(25,161)	(48,411)	20,779	2,238
Capital expenditure	(17,001)	(17,120)	(19,945)	(17,908)	(20,665)	(29,643)	(38,030)	(10,588)
Investments	1,278	2,992	(28,146)	(45,481)	(21,684)	(164,882)	(25,000)	(50,000)
Other income	1,985	2,445	1,785	4,337	6,434	21,614	17,874	20,218
Free cash flow	**18,015**	**(8,957)**	**(35,455)**	**(17,682)**	**(38,088)**	**(205,108)**	**(20,964)**	**(29,728)**
Ratios (%)								
Debt/equity	40.2	48.8	91.6	105.4	128.7	271.3	265.9	262.2
Net debt/equity	28.8	41.9	86.2	97.0	120.4	269.2	263.8	260.2
RoAE	28.8	14.4	3.3	16.3	12.7	9.9	8.2	9.4
RoACE	**21.2**	**12.0**	**4.1**	**11.0**	**7.9**	**8.0**	**7.8**	**7.8**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	8.8	9.1	17.2	19.8	20.9	21.0	21.5	23.0
Effective tariff protection (%)	7.2	4.8	2.9	1.6	1.4	2.3	2.3	2.3
Net refining margin (US$/bbl)	4.2	3.8	2.1	3.1	5.6	3.8	2.7	4.0
Sales volume (mn tons)	20.9	21.5	23.3	24.5	26.7	28.7	29.8	31.0
Marketing margin (Rs/ton)	1,893	1,732	(671)	(1,140)	(3,010)	(5,535)	47	1,424
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(20,159)	(26,680)	10,187	541	2,927

Source: Kotak Institutional Equities estimates

Economy

Sector coverage view	N/A

Fuel price cuts provide illusory comfort, inflation may return after brief deflation

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- **Price cuts of Rs5/liter for petrol, Rs2/liter for diesel and Rs25 per LPG cylinder to lower their wholesale prices by 18.3%, 7.3% and 8.6%, respectively**
- **Direct impact to reduce inflation by 0.75 percentage points (ppt); total impact may be about 1.4 ppt**
- **We expect WPI inflation rate to fall to 4.2% by end-January and 1.5% by end-March**
- **Inflation may return to 7.5% by end-FY2010E after deflation during June-September 2009**

We belive the prices cuts manadated by the government of India (Rs5/litre in petrol, Rs2/liter in Diesel and Rs25 per LPG cylinder) may provide only illusory comfort on inflation. Inflation may dip temporarily, exacerbated by strong and favorable base effects. It may even drop to about (-)2.5% by July 2009 but deceive to come back in a big way in 2HFY10E. Our projected inflation path vide our Economy note of December 19, 2009 *(Risks from financial market volatility as inflation falls faster than anticipated)* more or less remains unchanged as (1) inflation may be back at about 6% by end-FY2010E simply on base effects and (2) building in moderate increases in commodity prices, our end-FY2010E projection is at 7.5% (see Exhibit 1). The fuel price cuts lower inflation temporarily but this inflation may partially come back through the fiscal route. We reiterate our view that bond rally is nearly over with the likelihood of inflation comeback in 2HFY10E given persistant large fiscal gaps.

Fuel price cuts to lower inflation but our inflation trajectory is largely unchanged

The immediate and direct static impact of cuts in petrol and diesel fuel would be to lower inflation rate by 0.75 ppt for the week-ended January 31, 2009, the data for which would be released on February 12, 2009. A second round impact may occur as lower fuel prices bring down transport costs and provide a pass-through to other commodities, especially ones which have a high share of fuels in the total input costs. We estimate the total impact of fuel prices to cuts to be an inflation reduction of about 1.4 ppt.

We had factored in a second fuel price cut in our earlier inflation projections. Considering the finer numbers of the price cut at the wholesale level, we are now more inclined to believe that inflation would be at (1) 1.5% at end-FY2009 (earlier estimate of 2%), (2) (-)2.5% in July 2009 (earlier estimate of -2%) and (3) at 7.5% by end-FY2010E (unchanged).

Increase in inflation over past two weeks an aberration

In our view, the increase in inflation to 5.64% for the week-ended January 17 (data released on January 29—the day from which the fuel price cut is effective) from 5.60% in the preceding week and 5.24% in the week before is an aberration. The marginal increase this week is on account of (1) moderate increase in prices of fuels whose prices are decontrolled (ATF prices rose by 4% and furnace oil by 1%), (2) increase in the price of manufactured products by 0.3% mainly due to a sudden jump in prices of malt liquor (25.4%) and turpentine and plastic materials (22.7%) over the week. We see the latter as an outcome of statistical reporting problems rather than a sign that manufacturing prices have ceased softening and may be headed upwards.

The sharp increase in inflation in the previous week was on account of nation-wide truckers' strike from January 7-12, 2009 that caused vegetable prices to jump 18.4% over the week. These prices remained elevated in the week-ended January 17 also but are likely to show a decline with a ratchet effect over the coming few weeks. Fuel price inflation is already negative and the latest cut would soften inflation further (see Exhibit 2).

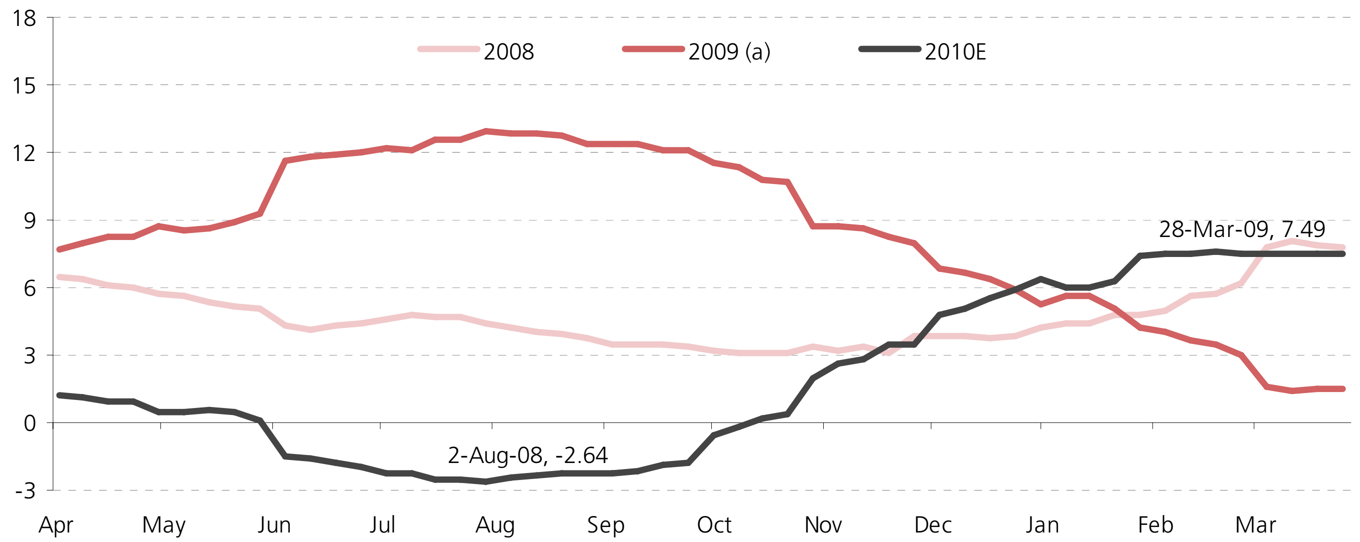
Inflation volatility may add to financial volatility

In our view, the likely inflation volatility with our projected trajectory of inflation dropping to—2.5% by July 2009, but coming back strongly to 7.5% by March 2010 is likely to add to financial volatility and requires interest rate smoothing. We also need to recognize that CPI inflation is high and may fall at best at only half the rate of WPI inflation (see Exhibit 3). It may still remain over 5% at its trough.

We view the current bond rally as very nearly over. We see a large fiscal deficit of 10% of GDP in FY2009 (our estimate: Center's on-budget deficit of at least 6%; off-budget at 1.5% and State's deficit of 2.7%) and of over 8% even in FY2010E (our estimate: Center's on-budget deficit of 4.5%; off-budget at 0.5% and State's deficit of 3.3%). We believe that the high budget deficit along with likely comeback of inflation would act as a floor to softening interest rates partially offsetting the impact of large monetary policy easing.

Exhibit 1: Inflation likely to comeback after June-September 2009 deflation

Headline inflation rate, March fiscal year-ends, 2008-2010E (%)



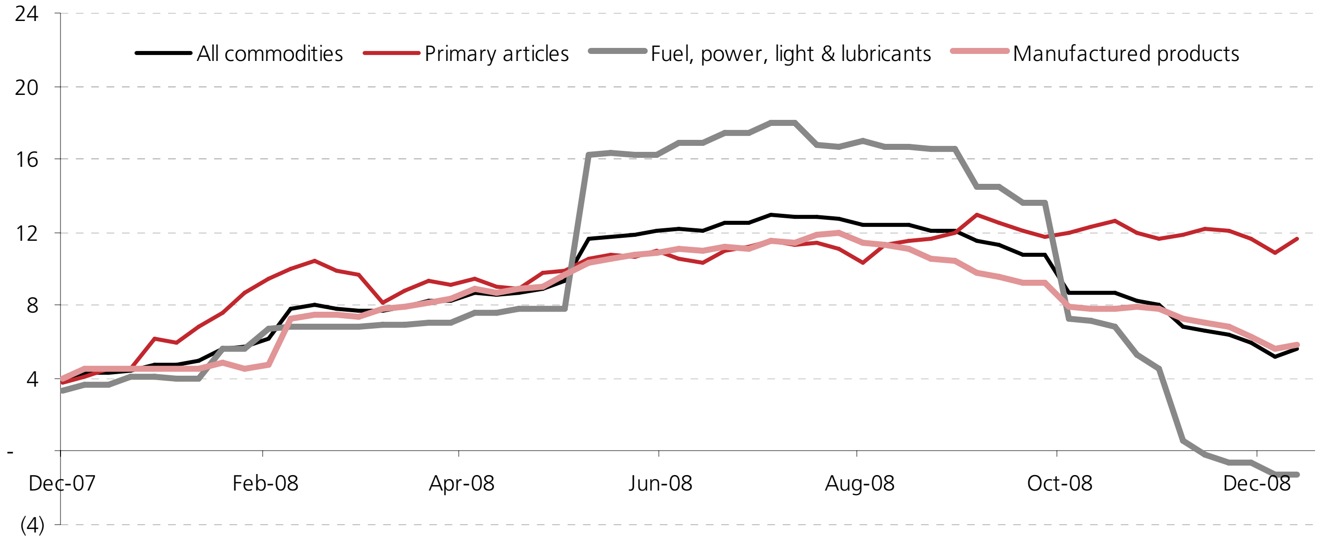
Notes:

(a) The inflation data for FY2009E is actual data till January 17, 2009 and Kotak Institutional Equities estimates thereafter.

Source: Government of India, Kotak Institutional Equities estimates

Exhibit 2: Inflation falling across all major groups except primary articles

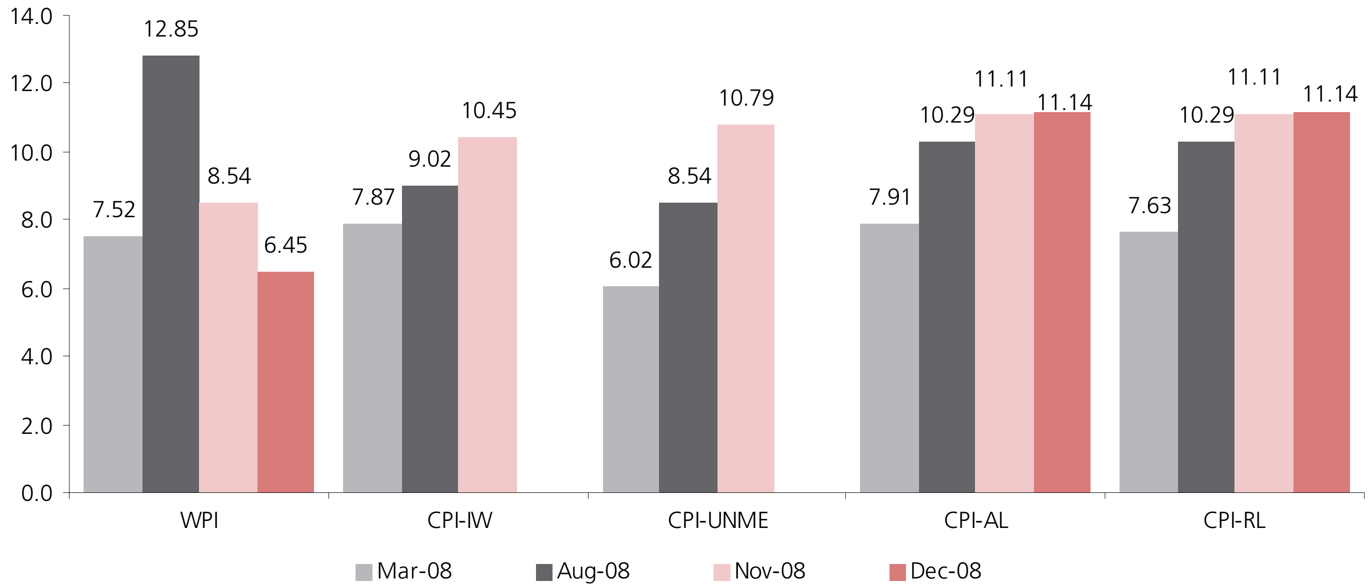
WPI yoy inflation rate for major groups (%)



Source: Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India

Exhibit 3: Consumer price inflation remains in double-digits even as WPI inflation is receding

CPI inflation for industrial workers (IW), urban non-manual employess (UNME), agricultural labor (AL) and rural labor (RL) (%)



Source: CSO

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	29-Jan-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	478	REDUCE	69,094	1,410	145	59.3	62.1	67.9	(53.4)	4.7	9.3	8.0	7.7	7.0	5.8	5.7	4.9	4.3	3.5	2.9	4.2	4.2	4.2	21.0	40.1	36.4	375	(21.5)	—
Hero Honda	884	REDUCE	176,585	3,605	200	48.5	60.2	74.4	12.8	24.3	23.5	18.2	14.7	11.9	11.5	9.7	8.1	5.7	4.6	3.6	2.1	2.3	2.3	34.0	34.8	34.3	890	0.7	8.9
Mahindra & Mahindra	294	ADD	75,985	1,551	258	38.1	18.2	17.6	(2.0)	(52.2)	(3.3)	7.7	16.2	16.7	6.2	11.9	9.9	1.7	1.5	1.3	3.7	3.1	3.3	27.8	13.5	11.3	365	24.0	4.9
Maruti Suzuki	544	SELL	157,346	3,212	289	59.9	45.0	50.5	10.8	(24.9)	12.4	9.1	12.1	10.8	5.2	6.5	5.7	1.8	1.6	1.4	0.9	0.9	0.9	22.2	14.2	14.0	435	(20.1)	15.8
Tata Motors	152	SELL	84,606	1,727	556	36.5	25.0	19.5	(22.4)	(31.4)	(21.8)	4.2	6.1	7.8	3.5	6.5	6.4	1.0	0.5	0.6	6.8	9.1	9.1	24.7	12.4	7.9	120	(21.1)	10.1
Automobiles		**Cautious**	**563,615**	**11,505**					**(0.8)**	**(19.5)**	**4.0**	**8.6**	**10.7**	**10.3**	5.7	7.5	6.7	**2.1**	**1.7**	**1.5**	**3.0**	**3.3**	**3.3**	**24.6**	**15.5**	**14.3**			
Banks/Financial Institutions																													
Andhra Bank	55	ADD	26,748	546	485	11.9	12.2	11.3	7.0	3.2	(7.6)	4.6	4.5	4.9	—	—	—	0.9	0.8	0.8	7.3	5.5	5.1	18.0	17.2	14.2	75	36.0	0.5
Axis Bank	436	ADD	155,836	3,181	358	32.2	47.0	53.9	37.7	46.0	14.6	13.5	9.3	8.1	—	—	—	1.9	1.7	1.5	1.3	2.1	2.4	17.6	17.9	17.8	750	72.2	41.0
Bank of Baroda	255	ADD	93,045	1,899	366	39.3	52.4	51.9	39.8	33.5	(0.9)	6.5	4.9	4.9	—	—	—	1.1	0.9	0.9	3.1	4.2	4.2	14.6	16.4	14.6	330	29.6	6.6
Bank of India	241	ADD	126,640	2,585	526	40.6	54.4	51.3	76.6	33.9	(5.8)	5.9	4.4	4.7	—	—	—	1.6	1.2	1.1	1.7	2.4	2.2	27.6	28.4	21.5	330	37.0	14.7
Canara Bank	177	REDUCE	72,488	1,480	410	38.2	45.9	38.6	10.1	20.3	(15.9)	4.6	3.8	4.6	—	—	—	1.0	0.8	0.8	4.5	3.4	3.4	15.0	16.7	12.5	220	24.4	5.0
Central Bank of India	39	SELL	15,681	320	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	3.3	4.1	2.3	—	—	—	0.8	0.5	0.4	5.2	—	—	15.3	11.6	16.7	55	41.8	0.5
Corporation Bank	179	BUY	25,661	524	143	51.3	62.9	57.1	37.2	22.7	(9.3)	3.5	2.8	3.1	—	—	—	0.6	0.5	0.5	5.9	7.2	6.5	18.4	19.7	15.7	310	73.3	0.6
Federal Bank	137	BUY	23,380	477	171	34.4	31.7	32.3	0.5	(7.7)	1.8	4.0	4.3	4.2	—	—	—	0.6	0.5	0.5	2.9	4.3	4.4	13.6	13.1	12.1	280	104.8	1.5
Future Capital Holdings	141	BUY	8,924	182	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(31.3)	31.7	4.9	—	—	—	1.2	1.2	1.0	—	—	—	(6.7)	3.8	21.4	440	211.7	0.4
HDFC	1,530	ADD	439,213	8,965	287	85.8	75.0	85.8	38.2	(12.6)	14.5	17.8	20.4	17.8	—	—	—	3.7	3.2	2.9	1.6	1.5	1.7	27.8	16.7	16.9	1,700	11.1	71.4
HDFC Bank	923	BUY	390,885	7,979	423	46.0	53.5	67.1	28.7	16.4	25.4	20.1	17.2	13.8	—	—	—	3.4	2.7	2.3	0.8	1.0	1.2	17.7	17.3	17.9	1,350	46.2	44.7
ICICI Bank	410	ADD	456,309	9,314	1,113	39.9	34.3	34.7	15.4	(14.0)	1.1	10.3	11.9	11.8	—	—	—	1.0	0.9	0.9	2.7	2.5	2.4	11.7	8.0	7.7	500	21.9	114.2
IDFC	56	ADD	73,063	1,491	1,294	5.7	6.4	7.2	3.0	13.3	11.8	9.9	8.8	7.8	—	—	—	1.3	1.2	1.0	2.1	2.0	2.2	17.6	14.2	14.2	85	50.6	16.2
India Infoline	42	ADD	12,185	249	287	5.6	4.9	4.3	85.6	(12.0)	(12.5)	7.6	8.6	9.8	-	-	-	1.0	1.0	0.9	2.8	6.6	5.9	20.7	11.5	9.8	60	41.5	3.7
Indian Bank	125	BUY	53,657	1,095	430	22.5	27.4	28.5	33.9	21.4	4.1	5.5	4.6	4.4	—	—	—	1.2	1.0	0.9	2.4	2.8	2.9	23.4	22.1	19.4	195	56.2	1.4
Indian Overseas Bank	61	BUY	33,260	679	545	22.1	23.4	24.0	19.2	5.9	2.9	2.8	2.6	2.5	—	—	—	0.7	0.6	0.5	6.1	8.1	9.0	27.2	23.8	20.6	130	112.9	1.1
J&K Bank	293	ADD	14,201	290	48	74.2	82.7	72.3	31.2	11.4	(12.6)	3.9	3.5	4.1	—	—	—	0.7	0.6	0.6	5.3	5.9	5.1	16.8	16.5	12.9	480	63.9	0.1
LIC Housing Finance	233	ADD	19,813	404	85	45.5	58.1	58.5	38.7	27.6	0.8	5.1	4.0	4.0	—	—	—	1.1	0.9	0.8	4.3	5.5	5.5	—	—	—	330	41.6	5.1
Mahindra & Mahindra Financial	194	SELL	18,531	378	95	20.8	18.5	22.6	32.6	(11.2)	22.0	9.3	10.5	8.6	—	—	—	1.5	1.3	1.2	2.4	2.4	2.9	16.9	12.8	14.2	190	(2.3)	0.2
Oriental Bank of Commerce	140	ADD	35,138	717	251	23.9	36.0	31.2	(27.6)	50.9	(13.3)	5.9	3.9	4.5	—	—	—	0.7	0.6	0.6	3.4	5.1	4.5	6.2	14.7	11.6	215	53.3	2.7
PFC	137	ADD	156,900	3,203	1,148	11.4	12.2	15.8	2.4	7.4	29.8	12.0	11.2	8.6	—	—	—	1.6	1.4	1.3	2.6	2.8	3.5	13.5	13.6	15.5	145	6.1	1.8
Punjab National Bank	390	BUY	122,968	2,510	315	65.0	82.3	87.1	33.0	26.6	5.8	6.0	4.7	4.5	—	—	—	1.3	1.1	1.0	3.3	4.2	4.5	18.0	19.6	18.2	685	75.6	10.4
Shriram Transport	187	REDUCE	37,966	775	203	19.2	28.6	27.0	85.7	49.0	(5.6)	9.7	6.5	6.9	—	—	—	2.2	1.8	1.6	2.7	4.6	4.5	26.9	28.8	23.6	215	15.0	1.3
SREI	35	BUY	4,018	82	116	11.4	7.6	7.6	57.4	(33.5)	(0.2)	3.0	4.5	4.6	—	—	—	0.6	0.4	0.3	3.5	6.7	8.1	23.1	13.9	12.8	100	189.4	0.3
State Bank of India	1,099	BUY	694,144	14,169	631	106.6	137.1	130.3	23.5	28.7	(4.9)	10.3	8.0	8.4	—	—	—	1.6	1.4	1.4	2.0	2.0	2.0	16.8	16.5	13.9	1,600	45.6	114.0
Union Bank	147	BUY	74,252	1,516	505	27.5	34.7	33.8	64.0	26.2	(2.4)	5.4	4.2	4.3	—	—	—	1.0	0.9	0.7	2.7	3.5	3.5	26.8	27.6	22.0	220	49.7	4.4
Banks/Financial Institutions		**Attractive**	**3,184,907**	**65,011**					**36.9**	**20.6**	**2.9**	**9.7**	**8.0**	**7.8**	**—**	**—**	**—**	**1.5**	**1.3**	**1.2**	**2.2**	**2.4**	**2.5**	**15.4**	**16.1**	**15.4**			
Cement																													
ACC	504	REDUCE	95,065	1,941	189	64.1	56.2	43.4	13.0	(12.3)	(22.6)	7.9	9.0	11.6	4.0	4.2	5.7	2.1	1.9	1.7	4.6	4.6	4.6	33.3	23.5	16.4	550	9.1	5.5
Ambuja Cements	68	REDUCE	103,369	2,110	1,522	7.6	7.8	5.4	(11.2)	2.8	(30.5)	9.0	8.7	12.6	4.1	4.3	5.8	2.1	1.6	1.5	3.8	4.4	3.1	26.6	21.0	12.7	60	(11.6)	2.8
Grasim Industries	1,181	ADD	108,272	2,210	92	284.6	220.9	176.1	32.6	(22.4)	(20.3)	4.1	5.3	6.7	2.9	3.5	3.7	1.2	1.0	0.9	2.6	2.8	2.8	33.1	20.3	14.1	1,400	18.6	6.0
India Cements	100	ADD	28,285	577	282	24.5	18.8	19.8	n/a	(23.0)	4.9	4.1	5.3	5.1	3.7	4.0	3.7	0.8	0.7	0.7	1.8	2.1	2.1	25.8	15.7	14.7	130	29.5	2.6
Shree Cement	499	BUY	17,391	355	35	90.2	129.9	72.5	99.5	44.0	(44.2)	5.5	3.8	6.9	2.3	2.3	2.8	2.7	1.7	1.4	1.6	1.6	1.6	56.9	53.2	21.7	850	70.3	0.2
UltraTech Cement	415	BUY	52,008	1,062	125	81.4	73.0	54.2	28.5	(10.3)	(25.7)	5.1	5.7	7.7	3.7	4.1	4.6	1.6	1.2	1.1	1.8	2.0	2.0	45.2	29.5	17.9	525	26.4	1.4
Cement		**Cautious**	**404,391**	**8,255**					**19.3**	**(11.7)**	**(23.0)**	**5.8**	**6.6**	**8.5**	**3.4**	**3.8**	**4.4**	**1.6**	**1.3**	**1.2**	**3.2**	**3.4**	**3.1**	**26.8**	**19.7**	**13.6**			
Consumer (Discretionary)																													
Radico Khaitan	71	REDUCE	7,254	148	102	2.2	1.7	3.3	(41.4)	(24.7)	93.1	31.6	41.9	21.7	11.8	12.7	10.3	2.9	2.7	2.4	0.8	—	—	11.7	6.7	11.7	65	(8.2)	0.3
United Breweries	74	REDUCE	17,752	362	240	2.1	1.9	2.4	(2.2)	(11.4)	31.0	35.1	39.6	30.2	11.5	9.0	6.8	2.9	1.7	1.6	—	—	—	8.0	3.6	5.4	85	14.9	0.1
United Spirits	526	BUY	49,562	1,012	94	28.9	32.7	48.0	(52.0)	13.2	46.9	18.2	16.1	11.0	9.6	9.4	8.0	2.2	2.1	1.6	0.3	0.3	0.4	14.0	13.5	16.8	900	71.0	16.6
Consumer (Discretionary)		**Neutral**	**74,568**	**1,522**					**(3.6)**	**12.8**	**43.8**	**21.9**	**19.4**	**13.5**	**10.0**	**9.5**	**8.0**	**2.4**	**1.9**	**1.7**	**0.3**	**0.2**	**0.3**	**10.9**	**9.7**	**12.3**			
Consumer products																													
Asian Paints	750	REDUCE	71,921	1,468	96	39.3	35.7	44.3	40.4	(9.2)	24.3	19.1	21.0	16.9	11.5	12.5	9.7	7.5	6.5	5.5	2.3	2.3	2.7	45.0	34.2	36.2	800	6.7	1.1
Colgate-Palmolive (India)	418	REDUCE	56,886	1,161	136	17.1	19.1	21.7	16.8	11.7	13.8	24.5	21.9	19.2	20.3	18.0	15.3	31.1	30.7	30.4	3.1	3.9	4.4	100.4	141.4	159.6	400	(4.4)	0.8
GlaxoSmithkline Consumer (a)	594	ADD	24,970	510	42	38.7	44.4	49.3	26.9	14.7	11.2	15.4	13.4	12.0	7.8	7.1	6.0	3.8	3.2	2.8	2.0	2.5	2.7	27.4	26.5	25.1	700	17.9	0.1
Godrej Consumer Products	132	ADD	34,019	694	258	7.1	6.7	8.7	18.7	(5.5)	31.2	18.7	19.8	15.1	16.2	17.5	12.2	19.2	5.2	4.4	2.7	3.0	3.0	109.6	42.1	43.1	160	21.4	0.3
Hindustan Unilever	257	REDUCE	560,231	11,436	2,179	8.1	9.2	10.7	15.4	12.9	17.0	31.6	28.0	23.9	25.7	22.4	18.4	38.9	36.2	33.5	4.2	3.4	4.0	85.2	134.3	145.7	245	(4.7)	20.3
ITC	175	ADD	661,203	13,497	3,769	8.3	8.7	9.8	15.4	4.6	12.8	21.2	20.3	18.0	13.5	12.4	11.0	5.2	4.6	4.1	2.0	2.1	2.3	27.7	25.4	25.2	200	14.0	20.0
Jyothy Laboratories	52	ADD	3,806	78	73	6.5	7.2	10.6	(8.6)	10.2	47.3	8.0	7.3	4.9	4.5	4.0	2.6	1.1	1.0	0.8	4.4	4.5	5.6	13.5	13.0	16.5	127	142.1	
Nestle India (a)	1,479	ADD	142,589	2,911	96	44.5	56.4	68.1	31.3	26.8	20.7	33.2	26.2	21.7	20.0	16.5	13.9	27.6	21.2	16.5	1.8	2.3	2.8	94.8	91.4	85.4	1,740	17.7	1.0
Tata Tea	627	BUY	38,755	791	62	54.2	64.3	68.7	3.9	18.7	6.8	11.6	9.7	9.1	5.1	4.9	4.3	0.9	0.8	0.7	5.6	3.0	3.2	11.9	11.0	10.9	1,100	75.5	0.9
Consumer products		**Cautious**	**1,594,380**	**32,545**					**17.2**	**8.8**	**15.5**	**24.0**	**22.1**	**19.1**	**15.8**	**14.6**	**12.5**	**7.5**	**6.5**	**5.8**	**2.9**	**2.7**	**3.1**	**31.0**	**29.6**	**30.3**			
Constructions																													
Consolidated Construction Co.	143	ADD	5,301	108	37	24.0	26.9	33.6	67.6	11.9	24.8	6.0	5.3	4.3	4.1	3.3	2.7	1.2	1.0	0.8	1.7	2.7	3.4	27.7	20.1	21.1	290	102.2	0.1
IVRCL	106	BUY	14,327	292	135	15.5	16.4	18.2	27.2	5.3	11.3	6.8	6.5	5.8	6.6	5.7	4.8	0.9	0.8	0.7	1.4	0.7	0.7	14.4	13.0	12.8	230	117.3	14.8
Nagarjuna Construction Co.	52	BUY	11,947	244	229	7.2	7.3	8.8	14.5	2.5	19.7	7.3	7.1	5.9	5.2	5.5	4.9	0.8	1.4	0.6	2.1	2.6	3.1	12.6	10.3	11.3	100	91.8	3.2
Punj Lloyd	94	REDUCE	30,339	619	323	10.0	9.6	16.4	323.5	(4.0)	71.5	9.4	9.8	5.7	5.7	7.0	4.3	1.1	0.9	0.9	0.4	0.4	0.8	16.8	10.8	16.3	105	11.9	28.4
Sadbhav Engineering	334	BUY	4,375	89	13	40.5	62.6	78.1	68.2	54.4	24.8	8.2	5.3	4.3	5.4	3.0	2.0	1.5	1.0	0.9	1.1	1.5	1.8	16.3	19.6	20.5	820	145.5	0.1
Construction		**Attractive**	**66,290**	**1,353**					**94.7**	**5.2**	**37.3**	**7.9**	**7.5**	**5.5**	**5.6**	**5.8**	**4.3**	**1.0**	**0.9**	**0.8**	**1.1**	**1.1**	**1.5**	**12.5**	**11.8**	**14.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	29-Jan-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	390	REDUCE	127,703	2,607	328	41.1	37.9	34.3	(21.6)	(7.9)	(9.5)	9.5	10.3	11.4	4.3	4.2	3.6	1.0	1.0	0.8	1.1	1.0	0.9	11.8	9.7	8.0	400	2.7	6.2
Cairn india	160	BUY	299,903	6,122	1,871	(0.1)	4.2	5.0	(105)	(3,619)	20	(1,345)	38	32.0	37.0	21.9	15.7	1.0	0.9	0.9	—	—	—	(0.1)	2.5	2.8	225	40.4	15.7
Castrol India (a)	331	ADD	40,906	835	124	20.1	23.1	25.2	64.6	15.1	8.8	16.5	14.3	13.1	9.5	8.1	7.5	9.9	9.5	9.1	4.2	5.4	6.0	59.5	67.8	70.7	380	14.9	0.3
GAIL (India)	197	REDUCE	249,890	5,101	1,268	20.4	22.9	24.0	21.0	12.2	4.8	9.7	8.6	8.2	4.7	5.0	6.2	1.7	1.6	1.4	3.4	4.1	4.1	18.1	18.0	16.7	210	6.6	10.7
GSPL	28	BUY	15,786	322	563	1.8	2.7	3.7	10.1	47.6	37.7	15.6	10.5	7.7	5.8	5.6	4.1	1.3	1.2	1.0	1.8	2.6	3.6	8.8	11.5	14.2	60	113.9	1.6
Hindustan Petroleum	277	REDUCE	93,974	1,918	339	33.5	14.7	32.0	(16.4)	(56.1)	118.1	8.3	18.9	8.7	7.3	6.1	3.6	0.8	0.7	0.7	1.1	0.5	1.0	9.6	3.9	7.9	285	2.8	8.0
Indian Oil Corporation	434	REDUCE	512,356	10,458	1,179	61.3	32.4	53.8	31.0	(47.2)	66.0	7.1	13.4	8.1	4.3	8.4	6.6	1.1	1.1	0.9	1.3	0.7	1.3	17.4	8.1	12.1	450	3.6	3.7
Oil & Natural Gas Corporation	639	BUY	1,366,963	27,903	2,139	92.7	102.0	107.2	9.1	10.0	5.1	6.9	6.3	6.0	2.4	2.1	1.8	1.4	1.2	1.1	5.0	5.3	5.9	19.6	19.2	17.8	900	40.8	39.5
Petronet LNG	37	ADD	27,413	560	750	6.3	5.5	5.9	—	(12.6)	6.6	5.8	6.6	6.2	3.9	5.9	4.6	1.5	1.2	1.0	4.1	4.1	4.1	26.7	19.2	17.2	52	42.3	1.7
Reliance Industries	1,270	ADD	1,743,847	35,596	1,373	105.0	97.7	115.7	25.5	(6.9)	18.4	12.1	13.0	11.0	8.2	7.5	4.9	2.0	1.6	1.3	0.9	1.1	1.3	19.0	14.3	14.6	1,400	10.2	237.5
Reliance Petroleum	84	REDUCE	376,650	7,688	4,500	-	(0.0)	7.1	n/a	n/a	n/a	n/a	n/a	11.8	n/a	n/a	9.1	2.8	2.8	2.4	—	—	2.4	-	(0.0)	22.0	85	1.6	35.5
Energy		**Neutral**	**4,855,390**	**99,110**					**12.9**	**(2.2)**	**24.2**	**10.2**	**10.4**	**8.4**	**5.2**	**5.4**	**4.3**	**1.5**	**1.3**	**1.2**	**2.2**	**2.3**	**2.8**	**14.9**	**12.4**	**13.9**			
Industrials																													
ABB	470	REDUCE	99,576	2,033	212	23.2	25.5	29.8	44.5	10.0	16.6	20.3	18.4	15.8	11.6	10.4	8.6	6.1	4.8	3.8	0.5	0.6	0.7	34.8	29.2	26.9	500	6.4	4.9
BGR Energy Systems	146	REDUCE	10,534	215	72	12.1	15.3	20.7	(67.4)	26.1	35.4	12.1	9.6	7.1	7.1	5.5	4.8	2.2	1.9	1.5	1.4	1.7	2.3	31.4	21.3	23.9	165	12.8	0.8
Bharat Electronics	806	ADD	64,456	1,316	80	102.0	105.5	111.8	11.2	3.4	6.0	7.9	7.6	7.2	3.1	2.5	2.2	1.9	1.6	1.4	2.6	3.1	3.1	27.7	23.1	20.8	950	17.9	1.0
Bharat Heavy Electricals	1,358	BUY	664,891	13,572	490	58.4	72.2	98.0	22.9	23.7	35.6	23.3	18.8	13.9	12.2	9.6	7.2	6.2	5.0	3.9	1.1	1.1	1.5	29.2	29.2	31.5	1,475	8.6	59.2
Larsen & Toubro	661	REDUCE	391,804	7,998	593	37.9	50.7	58.5	20.8	33.5	15.4	17.4	13.0	11.3	12.1	8.7	7.7	3.3	2.5	2.1	1.3	3.0	3.0	22.7	21.8	20.2	840	27.1	64.4
Maharashtra Seamless	125	BUY	8,844	181	71	29.4	37.4	37.9	(23.5)	27.6	1.2	4.3	3.3	3.3	2.5	2.0	1.9	0.8	0.6	0.6	4.0	4.5	4.5	19.7	21.1	18.0	250	99.4	0.3
Siemens	197	REDUCE	66,404	1,355	337	18.2	14.2	17.2	60.4	(22.2)	21.6	10.8	13.9	11.4	5.7	5.6	5.5	3.6	2.9	2.5	1.2	1.8	2.3	39.9	23.1	23.2	270	37.1	5.9
Suzlon Energy	45	BUY	70,121	1,431	1,567	6.6	7.1	10.2	9.5	8.4	42.9	6.8	6.3	4.4	4.4	6.8	5.3	0.8	0.7	0.6	2.1	2.2	2.2	16.3	11.8	14.9	125	179.3	59.1
Industrials		**Neutral**	**1,376,629**	**28,100**					**24.6**	**18.6**	**25.4**	**16.5**	**13.9**	**11.1**	**9.5**	**8.0**	**6.6**	**3.4**	**2.8**	**2.3**	**1.3**	**1.8**	**2.1**	**20.8**	**20.1**	**20.8**			
Infrastructure																													
IRB Infrastructure	112	ADD	37,058	756	332	3.4	6.6	13.9	150.9	92.3	111.2	32.5	16.9	8.0	12.2	10.6	5.4	2.2	2.0	1.5	—	—	—	10.7	12.4	21.4	130	16.6	0.3
Media																													
DishTV	20	REDUCE	12,979	265	644	(9.6)	(7.4)	(4.1)	n/a	(23.1)	(44.2)	(2.1)	(2.7)	(4.9)	(7.9)	(10.6)	(49.0)	(2.9)	(2.0)	(6.1)	—	—	—	167.9	86.7	NA	22	9.2	1.0
HT Media	54	BUY	12,685	259	234	4.3	3.1	4.8	4.7	(28.5)	53.7	12.5	17.5	11.4	6.8	8.0	5.2	1.5	1.4	1.3	0.7	0.7	1.5	12.2	8.2	11.8	115	112.4	0.1
Jagran Prakashan	44	BUY	13,387	273	301	3.3	2.9	4.1	33.5	(9.7)	38.7	13.6	15.1	10.9	7.3	8.3	5.9	2.5	2.3	2.1	4.5	3.3	4.6	18.7	15.9	20.4	75	68.7	0.0
Sun TV Network	162	BUY	63,999	1,306	394	8.3	9.3	11.4	30.7	12.0	23.0	19.6	17.5	14.2	10.4	9.2	7.6	4.2	3.8	3.4	1.5	2.5	3.7	24.8	23.6	25.8	215	32.4	2.6
Zee Entertainment Enterprises	107	BUY	46,543	950	434	8.9	8.2	9.3	62.6	(7.5)	13.7	12.1	13.1	11.5	9.0	9.4	8.3	1.6	1.4	1.3	1.9	2.2	2.5	14.2	11.8	12.2	145	35.1	5.4
Zee News	32	BUY	7,660	156	240	1.5	1.9	2.1	396.2	24.0	6.9	20.7	16.7	15.6	11.2	9.3	8.3	3.6	3.1	2.7	1.3	1.3	1.6	19.2	20.5	18.9	38	18.9	0.2
Media		**Attractive**	**157,253**	**3,210**					**30.8**	**(17.1)**	**68.2**	**29.3**	**35.4**	**21.0**	**12.0**	**11.8**	**8.4**	**2.8**	**2.6**	**2.2**	**1.7**	**2.0**	**2.8**	**9.5**	**7.3**	**10.5**			
Metals																													
Hindalco Industries	46	SELL	80,708	1,647	1,753	13.8	9.5	7.3	(10.0)	(30.9)	(23.8)	3.3	4.8	6.3	5.5	4.9	5.3	0.4	0.2	0.3	—	—	—	14.4	10.6	7.1	40	(13.1)	13.4
National Aluminium Co.	197	SELL	126,607	2,584	644	25.3	19.7	10.3	(31.5)	(22.2)	(47.8)	7.8	10.0	19.1	3.3	4.6	5.8	1.3	1.2	1.2	3.1	1.8	1.0	18.3	12.7	6.2	135	(31.3)	3.3
Jindal Steel and Power	917	BUY	141,113	2,880	154	101.8	92.4	78.9	123.0	(9.2)	(14.6)	9.0	9.9	11.6	7.6	6.9	7.6	3.3	2.4	2.0	0.5	0.6	0.8	43.8	28.3	18.9	1,250	36.4	15.4
JSW Steel	208	SELL	38,813	792	187	86.1	8.7	21.5	16.1	(89.9)	146.2	2.4	23.7	9.6	4.5	7.0	7.1	0.4	0.4	0.3	6.7	1.0	1.0	20.7	10.2	3.9	185	(10.8)	6.1
Hindustan Zinc	342	BUY	144,569	2,951	423	104.0	66.5	59.0	(1.0)	(36.1)	(11.2)	3.3	5.1	5.8	1.3	1.8	1.9	1.2	1.0	0.8	1.5	2.2	2.9	43.6	20.8	15.7	470	37.4	2.2
Sesa Goa	81	BUY	64,003	1,306	787	19.0	23.2	18.3	146.0	22.6	(21.3)	4.3	3.5	4.4	2.0	1.9	1.7	2.2	1.5	1.2	3.2	4.3	4.3	67.8	50.5	28.9	115	41.5	11.8
Sterlite Industries	267	BUY	188,920	3,856	708	64.3	49.1	40.5	(22.6)	(23.8)	(17.5)	4.1	5.4	6.6	3.4	5.2	6.6	0.8	0.7	0.7	—	—	—	26.1	14.0	10.6	365	36.9	22.4
Tata Steel	184	BUY	151,000	3,082	822	75.7	107.1	69.8	43.8	41.4	(34.8)	2.4	1.7	2.6	3.6	3.1	3.8	0.4	0.3	0.3	7.9	7.0	7.1	46.3	33.7	20.2	300	63.3	50.6
Metals		**Neutral**	**935,732**	**19,100**					**12.7**	**(6.3)**	**(27.6)**	**3.9**	**4.2**	**5.8**	**3.8**	**4.0**	**4.7**	**0.8**	**0.7**	**0.6**	**2.5**	**2.1**	**2.2**	**19.9**	**15.5**	**10.2**			
Pharmaceutical																													
Biocon	100	BUY	19,980	408	200	23.3	5.0	14.5	126.0	(78.4)	186.6	4.3	19.8	6.9	5.3	8.2	4.2	1.4	1.3	1.1	0.1	0.1	0.1	17.6	6.6	17.3	230	130.2	0.5
Cipla	191	REDUCE	148,463	3,030	777	9.0	9.6	12.4	4.9	6.4	28.8	21.2	19.9	15.5	15.6	14.4	11.3	4.0	3.5	3.0	1.0	1.3	1.6	20.1	18.6	20.8	220	15.2	5.7
Dishman Pharma & chemicals	105	BUY	8,507	174	81	14.7	15.4	28.1	30.5	4.6	82.8	7.1	6.8	3.7	7.3	7.0	4.3	1.5	1.2	1.0	0.0	0.0	0.0	26.8	19.9	29.0	400	282.4	0.3
Divi's Laboratories	870	BUY	56,142	1,146	65	53.2	65.3	72.2	85.8	22.6	10.5	16.3	13.3	12.1	13.3	10.3	8.6	6.6	4.5	3.4	0.1	0.1	0.1	49.8	40.4	32.2	1,300	49.5	5.2
Dr Reddy's Laboratories	453	BUY	76,652	1,565	169	26.1	28.7	37.8	(57.2)	10.0	31.7	17.4	15.8	12.0	8.5	7.1	5.8	1.7	1.6	1.4	0.8	0.9	0.9	10.3	10.3	12.2	675	49.0	4.3
Glenmark Pharmaceuticals	138	BUY	36,608	747	266	25.8	16.3	17.4	98.4	(37.1)	6.8	5.3	8.5	7.9	5.3	6.2	5.7	2.4	1.6	1.4	0.1	0.1	0.1	57.4	22.4	18.9	390	183.2	6.8
Jubilant Organosys	118	BUY	21,145	432	179	22.4	(3.9)	21.7	72.3	(117.4)	####	5.3	(30.4)	5.4	6.2	22.8	6.7	1.7	1.5	1.4	1.0	1.4	1.7	37.0	(5.8)	29.8	300	153.5	0.4
Lupin	562	BUY	49,757	1,016	89	49.8	49.6	59.5	30.2	(0.4)	20.0	11.3	11.3	9.4	13.5	10.3	8.2	3.9	2.4	2.1	1.7	1.7	2.0	37.9	26.9	24.0	950	69.1	1.6
Piramal Healthcare	213	BUY	44,507	908	209	17.7	15.6	20.3	66.8	(12.0)	30.3	12.0	13.6	10.5	9.2	10.2	7.5	4.1	3.4	2.7	2.0	1.9	2.1	30.9	26.0	28.9	340	59.7	0.5
Ranbaxy Laboratories	211	ADD	88,382	1,804	419	23.3	(8.1)	13.0	70.4	NA	NA	9.0	NA	16.2	8.5	(125.5)	6.4	2.9	1.7	1.0	3.6	4.9	5.7	32.3	(8.8)	8.4	340	61.2	9.0
Sun Pharmaceuticals	1,146	BUY	237,376	4,845	207	74.7	89.0	79.8	78.9	19.2	(10.4)	15.4	12.9	14.4	12.9	9.8	10.2	4.6	3.4	2.8	0.9	1.0	1.2	38.3	31.8	22.7	1,765	54.0	16.7
Pharmaceuticals		**Attractive**	**787,518**	**16,075**					**34.1**	**(24.9)**	**46.6**	**13.1**	**17.5**	**11.9**	**10.1**	**11.5**	**7.8**	**3.2**	**2.5**	**2.0**	**1.2**	**1.4**	**1.7**	**24.5**	**14.4**	**16.4**			
Property																													
DLF	164	ADD	279,672	5,709	1,705	46.1	34.1	27.2	263.2	(26.1)	(20.3)	3.6	4.8	6.0	3.9	5.2	5.7	1.4	1.1	1.0	2.4	2.4	2.4	66.5	26.2	17.4	235	43.2	88.3
Housing Development & Infrastruc	94	REDUCE	25,759	526	275	51.2	30.6	19.8	118.6	(40.1)	(35.3)	1.8	3.1	4.7	3.2	6.5	7.3	0.7	0.6	0.5	4.1	5.3	6.4	64.5	21.2	12.1	120	28.3	55.7
Indiabulls Real Estate	111	ADD	28,469	581	258	16.4	4.0	5.1	2,383.9	(75.4)	25.8	6.7	27.4	21.8	(792.5)	25.3	(3.5)	0.5	0.4	0.4	0.3	0.0	0.0	10.6	1.7	2.0	180	62.9	36.4
IVR Prime Urban Developers	32	BUY	2,030	41	64	27.0	2.9	7.8	552.8	(89.4)	171.9	1.2	11.0	4.1	0.0	15.8	7.8	0.2	0.2	0.2	12.6	15.8	22.1	31.9	1.9	5.1	120	279.1	0.1
Mahindra Life Space Developer	129	BUY	5,421	111	42	16.8	10.2	10.8	307.7	(39.2)	5.3	7.7	12.6	12.0	13.9	18.2	9.8	0.6	0.6	0.6	2.1	3.0	3.0	8.4	4.8	4.9	410	218.1	0.2
Phoenix Mills	65	BUY	9,415	192	145	12.4	5.4	8.7	89.5	(56.7)	62.3	5.2	12.1	7.4	6.5	12.8	5.4	0.7	0.6	0.6	1.5	2—	2—	22.1	5.3	8.1	210	223.1	0.1
Puravankara Projects	39	ADD	8,409	172	213	11.2	9.3	9.9	67.3	(17.1)	5.8	3.5	4.2	4.0	6.9	9.5	8.9	0.7	0.6	0.6	5.1	5.1	7.6	34.2	15.8	15.0	90	128.4	0.3
Sobha	87	REDUCE	6,335	129	73	31.7	26.8	25.7	42.9	(15.6)	(4.2)	2.7	3.2	3.4	6.4	5.7	6.4	0.6	0.5	0.5	7.5	4.6	4.6	25.3	17.9	15.0	105	20.8	0.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	29-Jan-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Property		**Cautious**	**416,321**	**8,498**					**193.3**	**(31.2)**	**(19.0)**	**3.4**	**5.0**	**6.1**	**4.3**	**5.8**	**6.4**	**1.1**	**0.9**	**0.8**	**2.3**	**2.3**	**2.4**	**32.1**	**18.1**	**13.1**			
Retail																													
Pantaloon Retail	168	REDUCE	28,838	589	172	7.9	11.9	17.8	90.0	49.9	49.9	21.2	14.1	9.4	10.8	7.9	6.5	1.6	1.1	1.0	0.4	0.5	0.6	8.2	8.8	10.7	165	(1.6)	1.1
Titan Industries	942	BUY	41,808	853	44	35.1	48.5	54.7	55.2	38.4	12.8	26.9	19.4	17.2	18.2	12.3	10.5	8.9	6.4	5.0	0.8	1.0	1.2	37.7	38.5	32.6	1,280	35.9	2.9
Vishal Retail	55	ADD	1,233	25	22	18.1	14.9	20.6	37.2	(17.6)	38.4	3.0	3.7	2.7	4.8	4.3	3.2	0.5	0.4	0.4	—	—	—	20.2	11.5	14.0	125	127.1	0.2
Retail			**71,879**	**1,467**					**31.9**	**40.5**	**31.4**	**22.3**	**15.9**	**12.1**	**12.1**	**8.6**	**7.0**	**2.8**	**2.0**	**1.8**	**0.7**	**0.8**	**0.9**	**12.4**	**12.7**	**14.6**			
Technology																													
HCL Technologies	109	REDUCE	75,859	1,548	695	15.3	18.7	17.3	(19.0)	22.4	(7.7)	7.1	5.8	6.3	3.3	4.0	3.7	1.5	1.2	1.1	7.3	11.0	11.0	21.4	21.3	18.1	140	28.3	4.1
Hexaware Technologies	20	SELL	2,857	58	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.6	7.0	5.3	(0.3)	0.9	0.6	0.4	0.4	0.4	4.5	8.0	8.0	15.1	5.8	7.4	25	24.4	0.1
Infosys Technologies	1,310	BUY	752,026	15,351	574	79.1	101.6	107.7	18.0	28.5	5.9	16.6	12.9	12.2	12.8	9.1	8.2	5.5	4.2	3.3	2.5	1.9	2.0	36.1	36.6	30.5	1,500	14.5	58.3
Mphasis BFL	149	REDUCE	31,138	636	208	12.2	22.3	23.4	67.6	81.7	5.0	12.2	6.7	6.4	7.2	4.2	3.4	2.7	0.3	1.6	2.3	2.7	3.0	23.6	34.6	28.4	190	27.2	0.7
Mindtree	210	BUY	8,293	169	40	26.7	21.0	37.1	12.3	(21.6)	76.9	7.8	10.0	5.7	6.9	3.1	2.9	1.6	1.3	1.1	1.2	—	—	21.3	11.9	17.8	400	90.5	0.1
Patni Computer Systems	122	SELL	15,659	320	129	33.2	26.3	30.8	29.2	(20.8)	16.9	3.7	4.6	4.0	0.5	0.6	(0.4)	0.6	0.5	0.5	1.8	2.2	2.5	19.2	14.1	12.0	160	31.4	0.3
Polaris Software Lab	47	SELL	4,596	94	98	7.4	14.9	12.7	(27.6)	100.0	(14.9)	6.3	3.1	3.7	2.3	0.9	0.8	0.7	0.6	0.5	3.7	3.7	3.7	11.7	20.4	15.0	50	7.0	1.2
TCS	509	REDUCE	498,504	10,176	979	51.3	53.9	55.7	21.5	5.1	3.3	9.9	9.4	9.1	7.9	6.6	6.3	4.0	3.2	2.7	2.7	3.7	4.4	47.0	37.8	32.1	550	8.0	22.8
Tech Mahindra	230	BUY	28,701	586	125	59.1	67.6	58.7	25.7	14.5	(13.2)	3.9	3.4	3.9	3.4	2.0	1.8	2.3	1.4	1.0	2.3	2.6	2.7	70.7	53.1	31.6	320	38.9	2.2
Wipro	227	ADD	332,240	6,782	1,462	22.2	25.1	26.2	12.6	12.8	4.3	10.2	9.1	8.7	8.1	6.2	5.5	2.6	2.1	1.8	2.8	3.3	3.5	27.9	25.7	22.6	280	23.2	12.0
Technology		**Cautious**	**1,749,872**	**35,719**					**15.7**	**16.7**	**3.4**	**11.2**	**9.6**	**9.3**	**8.3**	**6.4**	**5.9**	**3.4**	**2.7**	**2.3**	**2.8**	**3.1**	**3.4**	**30.3**	**28.1**	**24.4**			
Telecom																													
Bharti Airtel Ltd	627	BUY	1,190,742	24,306	1,898	35.3	44.2	52.1	65.0	25.1	18.0	17.8	14.2	12.0	10.8	8.2	6.9	5.3	3.9	2.9	—	0.6	1.0	39.1	31.4	27.5	725	15.6	73.6
IDEA	45	REDUCE	146,931	2,999	3,236	3.9	2.6	2.8	78.5	(33.2)	6.0	11.5	17.2	16.2	9.0	6.0	5.6	4.1	1.1	1.0	—	—	—	36.4	10.1	6.7	55	21.1	5.2
MTNL	73	REDUCE	45,801	935	630	7.1	5.1	5.5	(11.0)	(28.4)	7.6	10.2	14.2	13.2	1.7	2.5	2.2	0.4	0.4	0.4	5.5	8.3	8.3	3.5	2.2	2.4	80	10.0	1.4
Reliance Communications	162	SELL	334,062	6,819	2,064	26.5	26.7	22.2	86.4	0.7	(16.5)	6.1	6.1	7.3	5.8	6.6	6.2	1.2	1.0	0.9	0.5	—	—	16.8	18.4	12.9	200	23.6	65.2
Tata Communications	457	REDUCE	130,188	2,657	285	10.9	13.6	14.0	(36.3)	24.0	3.2	41.7	33.6	32.6	17.4	14.4	13.0	2.0	1.9	1.8	1.0	1.1	1.4	4.4	5.4	5.2	400	(12.4)	4.1
Telecom		**Cautious**	**1,847,724**	**37,716**					**65.7**	**13.2**	**3.3**	**12.8**	**11.3**	**10.9**	**8.8**	**7.5**	**6.6**	**2.5**	**1.9**	**1.6**	**0.5**	**0.8**	**0.9**	**19.6**	**16.8**	**14.9**			
Transportation																													
Container Corporation	720	REDUCE	93,573	1,910	130	57.7	68.3	72.9	7.8	18.3	6.8	12.5	10.5	9.9	8.5	7.0	6.3	2.9	2.4	2.1	1.8	2.1	2.3	25.8	25.3	22.6	800	11.1	0.7
Transportation		**Cautious**	**93,573**	**1,910**					**7.8**	**18.3**	**6.8**	**12.5**	**10.5**	**9.9**	**8.5**	**7.0**	**6.3**	**2.9**	**2.4**	**2.1**	**1.8**	**2.1**	**2.3**	**23.6**	**23.1**	**20.9**			
Utilities																													
CESC	226	BUY	28,248	577	125	27.8	31.9	36.9	(23.3)	14.9	15.8	8.1	7.1	6.1	4.2	3.9	5.0	0.9	0.8	0.7	1.8	2.0	2.4	12.5	11.7	11.9	385	70.3	0.7
Lanco Infratech	111	BUY	24,653	503	222	14.8	17.5	26.0	75.2	18.2	48.3	7.5	6.3	4.3	7.8	11.4	9.9	1.3	1.1	0.9	—	—	—	19.7	19.2	23.0	370	233.6	9.1
NTPC	190	REDUCE	1,568,700	32,021	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	20.4	21.1	19.5	14.2	15.2	14.3	2.9	2.7	2.5	1.8	1.8	1.9	14.9	13.2	13.1	160	(15.9)	30.5
Reliance Infrastructure	556	BUY	128,351	2,620	231	37.6	59.9	56.2	13.9	59.4	(6.2)	14.8	9.3	9.9	10.4	10.0	10.1	0.8	0.8	0.7	1.2	1.3	1.5	4.3	6.2	6.7	970	74.5	81.6
Reliance Power	105	REDUCE	250,461	5,112	2,397	0.4	1.3	2.5	—	252.9	82.7	274.8	77.9	42.6	—	—	—	1.9	1.8	1.7	—	—	—	1.3	2.3	4.2	120	14.8	14.2
Tata Power	762	BUY	169,574	3,461	223	31.8	65.8	95.2	19.5	106.7	44.5	23.9	11.6	8.0	11.6	8.9	8.4	2.0	1.6	1.4	1.4	1.4	1.6	9.6	15.4	18.8	1,140	49.6	13.1
Utilities		**Attractive**	**2,169,987**	**44,294**					**12.2**	**13.7**	**14.6**	**21.6**	**19.0**	**16.6**	**13.6**	**14.1**	**13.9**	**2.2**	**2.1**	**1.9**	**1.5**	**1.5**	**1.6**	**10.3**	**10.8**	**11.4**			
Others																													
Aban Offshore	456	BUY	17,254	352	38	72.3	147.5	410.7	(1,066)	104.0	178.5	6.3	3.1	1.1	11.1	6.9	3.8	2.0	1.1	0.6	0.8	1.1	1.8	51.7	47.1	57.4	1,100	141.5	11.6
Educomp Solutions	1,806	BUY	34,357	701	19	35.2	64.2	108.1	114	82.7	68.3	51.4	28.1	16.7	27.4	12.3	7.5	11.2	4.7	3.8	0.1	0.3	0.5	33.5	23.4	24.3	2,550	41.2	68.7
Havells India	114	BUY	6,923	141	61	26.6	19.7	34.5	40	(25.9)	75.1	4.3	5.8	3.3	5.0	5.0	3.4	1.0	0.9	0.6	2.1	2.8	3.6	33.7	16.5	22.2	365	219.1	0.2
Jaiprakash Associates	70	BUY	97,751	1,995	1,403	4.9	5.3	7.1	7	8.6	33.4	14.2	13.1	9.8	11.6	10.1	8.7	2.0	1.7	1.5	0.0	0.0	0.0	15.4	13.9	16.3	105	50.8	42.1
Jindal Saw	191	BUY	11,742	240	61	66.6	86.9	82.9	(43)	30.6	(4.7)	2.9	2.2	2.3	2.7	1.3	1.0	0.4	0.3	0.3	3.8	6.8	7.8	12.5	14.4	12.3	500	161.2	0.5
PSL	71	BUY	3,096	63	44	21.1	43.5	58.3	4	106.2	34.1	3.4	1.6	1.2	3.2	2.8	1.9	0.6	0.4	0.3	7.2	8.4	10.6	11.3	14.9	17.5	280	294.1	0.2
Welspun Gujarat Stahl Rohren	75	BUY	14,083	287	189	20.6	25.9	36.6	94	25.9	41.6	3.6	2.9	2.0	5.6	3.4	2.2	0.8	0.6	0.5	2.5	5.0	5.3	27.1	23.9	26.6	220	194.9	3.2
Others			**185,206**	**3,780**					**24.3**	**65.3**	**54.0**	**10.7**	**6.5**	**4.2**	**9.0**	**6.5**	**4.8**	**1.5**	**1.2**	**1.0**	**0.7**	**1.2**	**1.5**	**14.5**	**18.7**	**22.7**			
KS universe (b)			**20,572,290**	**419,928**					**25.9**	**3.2**	**7.4**	**10.5**	**10.2**	**9.5**	**6.8**	**6.9**	**6.1**	**1.9**	**1.6**	**1.4**	**2.0**	**2.1**	**2.4**	**18.0**	**15.6**	**15.0**			
KS universe (b) ex-Energy			**15,716,900**	**320,819**					**30.7**	**5.0**	**2.3**	**10.6**	**10.1**	**9.9**	**7.6**	**7.6**	**7.3**	**2.0**	**1.7**	**1.5**	**1.9**	**2.1**	**2.3**	**19.3**	**17.0**	**15.4**			
KS universe (d) ex-Energy & ex-Commodities			**14,376,778**	**293,464**					**35.9**	**8.3**	**8.8**	**12.3**	**11.3**	**10.4**	**9.5**	**9.0**	**8.0**	**2.3**	**1.9**	**1.7**	**1.9**	**2.1**	**2.2**	**18.9**	**17.1**	**16.5**			

Note:

(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.

(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(c) Rupee-US Dollar exchange rate (Rs/US$)= 48.99

659

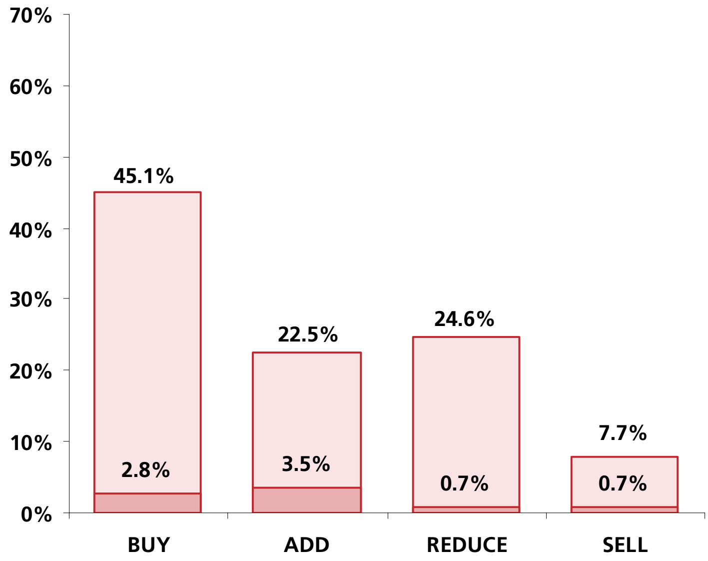
63.7

Source: Company, Bloomberg, 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: Sanjeev Prasad, Jairam Nathan, Rahul Jain, Manish Karwa, Prashant Vaishampayan, Lokesh Garg, Puneet Jain, Mridul Saggar."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: 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 Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/12/2008 Kotak Institutional Equities Investment Research had investment ratings on 142 equity securities.

Source: Kotak Institutional Equities

As of December 31, 2008

Ratings and other definitions/identifiers

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.

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

Other definitions

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Other ratings/identifiers

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