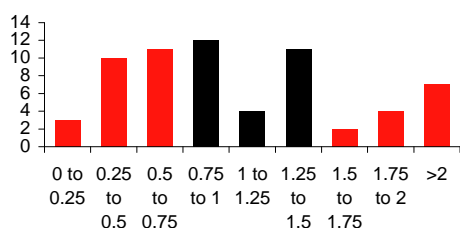


## INDIA

# India strategy

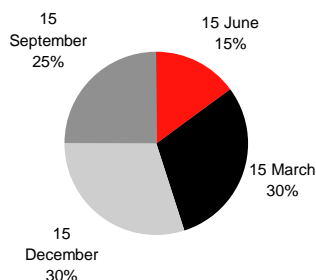
15 September 2008

### Advance tax/ actual tax- distribution of observation



Source: Media releases, Macquarie Research, September 2008

### Seasonal distribution of advance tax



Source: Macquarie Research, September 2008

## Ignore the advance tax numbers

### Event

- Quarterly advance tax payments made by Indian companies are selectively reported in the media. We looked at possible correlations with underlying profitability – and found none.

### Impact

- No correlation to profitability.** Our analysis shows that advance taxes paid in a quarter by a company have no correlation. We looked at the distribution of advance tax paid/accounting tax declared by ten companies across seven quarters (64 data points). Seventy-five percent of the time the advance tax paid in a particular quarter is different from the accounting tax by more than 25%. There is absolutely no pattern – not even a normal distribution, not even a systemic understatement. We have looked at the data on a company basis and a quarterly basis, but there are no patterns there either.
- Several possible reasons.** This lack of a correlation, in our view, can be explained by many reasons.
  - ⇒ These are 'cash' taxes – companies report total taxes including deferred taxes, which are more reflective of underlying earnings.
  - ⇒ Tax payments tend to be sensitive to when capacities are commissioned. So, eg, if a company commissions a plant on 30 September, it claims the full year's depreciation plant (at WDV) on the entire capacity for cash taxes. It does not reflect at all in earnings since depreciation for the reported P&L would be just for six months at SLM, while the difference in taxes is accounted for as a deferred tax payment.
  - ⇒ The relationship between advance taxes and quarterly profits is also impacted by seasonality. The company has to estimate its full-year tax liability and then for each advance tax instalment it has to pay a fixed percentage of the full-year taxes. So if the companies' business and profit seasonality is different from this, then taxes paid would not reflect the profits for that particular quarter.

### Outlook

- We suggest investors ignore the advance tax numbers released in the press. Their predictions on underlying profitability are so weak in our view that it is difficult to draw meaningful inferences from movement in these numbers.

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Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)  
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

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 Underperform – expected return <-10%

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**Macquarie - USA**

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**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Volatility index definition\***

This is calculated from the volatility of historic price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ stocks only

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 30 June 2008**

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	41.88%	66.96%	66.13%	50.82%	71.01%	43.00%
Neutral	42.96%	16.30%	22.58%	44.26%	24.64%	48.00%
Underperform	15.16%	16.74%	11.29%	4.92%	4.35%	9.00%

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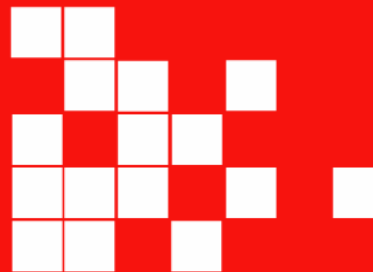
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