kotak® Institutional Equities

INDIA DAILY

May 21, 2008

Contents

New Release

Phoenix Mills: Shoppers' paradise

Results

Suzlon Energy: Strong results adjusted for one-offs; Maintain ADD based on favorable macro environment in-spite of commodity price headwinds

Bank of Baroda: Delivers on PAT, a mix bag—lower NII but higher other income

Updates

Economy: KIE Conference Call: Forex expert AV Rajwade believes rupee correction is largely over, expects stability to return

News Roundup

Corporate

- The government has taken back five exploration blocks in the Kerala-Konkan(KK) basin from the Reliance Industries as it failed to meet the minimum work programme. (ET)
- ACC said that it could increase prices once the three-month voluntary freeze by the industry expires. (FE)
- Airtel's move to acquire a controlling stake in South African telecom giant MTN might not be a smooth ride. Two more international players, the US$97.7 bn Deutsche Telekom and Russian telco Vimpel Communication are also likely to enter the race to acquire the telecom service provider. (FE)
- Educomp Solutions has said it has bought a majority stake in US-based Learning Company for Rs105 crore as part of its plan to diversify into higher profit margin markets. (BS)
- Orchid Chemicals and Pharmaceuticals has announced that Poonawala Group, through four companies, has picked up a 7.22% stake in the company. (FE)
- Leading wind turbine player Suzlon energy is mulling the sale of part of its stake in REpower. (FE)
- ArcelorMittal is understood to have emerged as the successful bidder for the Bulgarian steel company Kremikovtzi. (ET)

Economic and political

- In the latest round of WTO negotiations, India has threatened not to agree to any deal that does not safeguard its core national interests: protecting poor farmers as well as infant and small & medium industries. (FE)

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

EQUITY MARKETS

	Change, %			
India	**20-May**	**1-day**	**1-mo**	**3-mo**
Sensex	17,230	(1.2)	2.9	(2.8)
Nifty	5,105	(1.0)	1.3	(1.7)
Global/Regional indices				
Dow Jones	12,829	(1.5)	0.0	4.4
Nasdaq Composite	2,492	(0.9)	3.5	8.4
FTSE	6,192	(2.9)	2.3	4.4
Nikkie	13,881	(2.0)	1.3	1.4
Hang Seng	24,944	(0.9)	0.9	5.6
KOSPI	1,853	(1.1)	2.9	8.7

Value traded - India

	Moving avg, Rs bn			
	20-May		**1-mo**	**3-mo**
Cash (NSE+BSE)	193.8		199.8	193.6
Derivatives (NSE)	378.8		396.5	427
Deri. open interest	787.9		651	743

Forex/money market

	Change, basis points			
	20-May	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.7	0	285	279
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	1	(8)	40

Net investment (US$mn)

	16-May		MTD	CYTD
FIIs	181		(78)	(2,792)
MFs	73		9	1,611

Top movers -3mo basis

	Change, %			
Best performers	**20-May**	**1-day**	**1-mo**	**3-mo**
i-Flex	1,427	1.7	7.8	35.0
Shipping Corp	291	2.9	20.0	33.6
Thomas Cook	103	0.3	2.3	33.5
Nestle India	1,779	(3.3)	15.9	32.0
Tata Chem	385	3.8	4.4	28.5
Worst performers				
Reliance Cap	1,361	(1.7)	(3.4)	(32.0)
Thermax	458	0.2	(10.8)	(29.4)
Essel Propack	35	(0.3)	(19.8)	(25.7)
Siemens India	582	(0.1)	(13.0)	(25.5)
SBI	1,653	(3.1)	(5.1)	(24.1)

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Property

PHOE.BO, Rs377	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	-
52W High -Low (Rs)	560 - 325
Market Cap (Rs bn)	54.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	0.8	1.6	3.1
Net Profit (Rs bn)	0.4	0.8	1.8
EPS (Rs)	13.2	26.4	60.5
EPS gth	*(58.8)*	*100.1*	*129.4*
P/E (x)	29	14.3	6.2
EV/EBITDA (x)	127.2	47.9	20.2
Div yield (%)	-	-	-

Phoenix Mills: Shoppers' paradise

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We believe PHNX, pioneer of the large retail format, is amongst the best positioned to ride India's retail boom. Phoenix Mills, along with its associates, has a total developable land bank of 34 mn sq. ft comprising retail (25 mn sq. ft), residential (7 mn sq. ft) and hotels (2,200 keys) spread across 23 cities. We initiate coverage with an ADD rating and a target price of Rs450 based on our Mar '09 NAV.

Initiate with ADD rating; 20% potential upside

Our target price of Rs450 is based on our March '09 NAV of Rs456/share. PHNX, along with its associates, has developed land bank of 34 mn sq. ft spread over 25 malls and a few residential projects across 23 cities. We highlight that all these malls are under development and will become operational in the next 36 months, establishing PHNX as a premier mall developer. We expect PHNX group to have operational retail space of 25 mn sq. ft by FY2012E with 11.9 mn sq. ft attributable to PHNX.

Financial structuring/alliances to help in faster growth; diversify project specific risks

PHNX intends to undertake projects in metro cities in association with financial investors. The company plans to dilute its stake in various projects at a premium, thus unlocking capital to enable faster growth. Furthermore, PHNX has expanded its retail footprint through acquisitions—(1) buyout of Atlas Hospitality, (2) purchase of 42% stake in EWDPL (a Tier II cities mall developer) and (3) purchase of 70% stake in United Malls (a Tier III cities mall developer).

Revenues to grow strongly over FY2009-11E

We model revenues attributable to PHNX to grow to Rs19.4 bn by FY2012E from Rs0.9 bn in FY2008. Revenue growth over FY2009-10E will be driven primarily by High Street Phoenix, Mumbai. We expect other projects to start contributing to revenues in FY2011E. We believe PHNX has shown capability to add on to its portfolio and is evaluating opportunities for the same.

Key risks: Execution, real estate financing, economic growth, land purchase

(1) We expect the area under retail lease to increase to 25 mn sq. ft by FY2012E; any delay will result in lower valuations, (2) inability to raise finances will limit expansion plans, (3) any unexpected slowdown in the economic growth in India may result in lower-than-expected demand for real estate and (4) PHNX may not be able to acquire land at reasonable prices in the future because of increased competition from other developers.

Industrials

SUZL.BO, Rs318	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	350
52W High -Low (Rs)	460 - 220
Market Cap (Rs bn)	498.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	128.9	204.2	275.3
Net Profit (Rs bn)	8.0	18.0	26.6
EPS (Rs)	5.1	11.5	17.0
EPS gth	*(15.2)*	*126.1*	*47.7*
P/E (x)	62.5	28	18.7
EV/EBITDA (x)	28.8	18.4	13.9
Div yield (%)	0.3	0.3	0.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	65.9	-	-
FIIs	22.5	0.2	0.0
MFs	3.5	0.2	(0.0)
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Suzlon Energy: Strong results adjusted for one-offs; Maintain ADD based on favorable macro environment despite commodity price headwinds

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- **Strong performance adjusted for derivative and FCCB-related losses in the quarter**
- **Order inflows surprise; order backlog dominated by the US geography with 55% share**
- **Commodity price increases to impact margins, negate operating leverage gains**
- **Revise estimates downwards to reflect lower margins led by inadequate protection against commodity price increases**
- **Retain target price at Rs350 and ADD rating led by favorable macro environment even though headwinds continue**

Suzlon has reported 4QFY08 consolidated revenues of Rs49.2 bn (up 69% yoy), operating profit of Rs7.2 bn (up 46%) and PAT of Rs4.6 bn (up 30% yoy). Consolidated EBITDA margins in 4QFY08 were 14.7%, down 230 bps yoy and up 240 bps qoq. Adjusted for derivative MTM and FCCB losses, Suzlon would have reported operating profit of Rs7,831 mn (versus our expectation of Rs7,572 mn) for 4QFY08 and an operating margin of 15.9% (versus our expectation of 15.7%). Other positives from the results were (a) order inflows were strong during the quarter with total intake of about 860 MW (Suzlon's order book stands at Rs183 bn and 3,454 MW), and (b) capacity expansion plans remain on track with moderate delays and (c) retrofit program (for strengthening of cracked blades of S-88 turbines) is being implemented on schedule. We believe that despite of management confidence commodity price increases would impact margins, completely negate operating leverage gains in our view. We believe that Suzlon will likely purchase Areva's stake in Repower given that (1) it has about Rs60 bn of cash in its books and (2) Areva will likely pursue its offshore plans through its recent acquisition, Multibrid. We revise our earnings estimates for FY2009E and FY2010E to Rs11.5 and Rs17.0 versus Rs13.2 and Rs18.1 earlier to reflect lower margins versus earlier expectations. We retain our target price of Rs350 and ADD rating led by favorable macro environment, which is also reflected in the run up in wind power equipment stocks recently. Key downside risks come from (1) execution hiccups, (2) commodity price increases, (3) unfavorable currency movement, (4) delays in implementation of capex plan and (5) potentially increasing competition.

Strong performance adjusted for derivative and FCCB related losses in the quarter

Suzlon has reported 4QFY08 consolidated revenues of Rs49.2 bn (up 69% yoy), operating profit of Rs7.2 bn (up 46%) and PAT of Rs4.6 bn (up 30% yoy) (Exhibit 1). 765 MW was executed during the quarter with 341 MW for the domestic market and 424 MW for the international markets (Exhibit 2). Consolidated EBITDA margins in 4QFY08 were 14.7%, down 230 bps yoy and up 240 bps qoq. Exceptional items during the quarter include (1) MTM losses arising from derivative contracts of Rs230 mn, (2) forex losses of Rs445 mn (including notional loss of Rs353 mn on outstanding FCCBs) and (3) provision for blade retrofit program amounting to Rs1.2 bn. Adjusted for derivative MTM and FCCB losses, Suzlon would have reported operating profit of Rs7,831 mn (versus our expectation of Rs7,572 mn) for 4QFY08 and an operating margin of 15.9% (versus our expectation of 15.7%). For the full year FY2008, revenues have increased 71% yoy to Rs136.8 bn, operating profit has increased 49%

yoy to Rs19.2 bn and PAT has increased 19% yoy to Rs10.3 bn. Operating margins in FY2008 have decreased by 210 bps yoy to 14.1% (from 16.2% earlier) led by the steep increase in raw material cost ratio that has expanded by 450 bps yoy. This is likely led by (a) aggressive pricing for entering new geographies while ramping up the exports business, (b) import duty on nacelles in the US, (c) unfavorable exchange rate movement. We highlight that the decrease in margins is despite operating leverage benefits as staff cost ratio has decreased by 50 bps yoy and other expenditure cost ratio has contracted by 190 bps yoy. PAT growth at 19% (assuming exceptional items to negate the effect of higher other income) in FY2008 has lagged revenue growth of 71% led by (1) decline in margins, (2) increase in interest (up 111% yoy) and depreciation (up 67% yoy) costs due to the capacity expansion program and (3) increase in effective tax rate to 14.6% (from 10.7% earlier). Margin decline has been led by the wind business (290 bps yoy), while the decline in Hansen's (30 bps yoy) has been moderate (Exhibit 3).

Order inflows surprise; order backlog dominated by the US geography with 55% share

Suzlon's order book stands at Rs183 bn and 3,454 MW as of 19 May 08 (Exhibit 4). Order inflows were strong during the quarter with total order intake of about 860 MW. Suzlon has been targeting new markets like Spain, Turkey etc to expand its geographical scope of operations. A large number of orders are repeat orders, highlighting existing customer's confidence in Suzlon's execution capabilities (Exhibit 5). The US geography continues to dominate the order book, comprising 55% of the order book. China has become the second most important market for Suzlon in terms of the current order book with 17% of the outstanding order book being from China. Indian order backlog is however low at 160 MW. Though the fourth quarter is usually weak in terms of order domestic intake and Suzlon has achieved strong domestic execution in 4Q08, we highlight that the domestic order backlog is lowest for the past few quarters. This may possibly be due to problems confronted by Suzlon at its wind-farm sites of Dhule and Sangli.

Capacity expansion program broadly on track with slight delays

Suzlon's total capacity expansion program of 3,000 MW (current consolidated capacity of wind business is 2,700 MW) has been delayed by about a month. Commencement of forging and foundry capacities is also delayed by a quarter and it is now likely to start in 3QFY09. Hansen's capacity has been expanded to 7,300 MW in Belgium. Additional capacities of 5,000 MW in India and 3,000 MW in China of Hansen are being constructed at a total capex of US$650 mn (funded through the recent IPO and long term debt). Total capacity of Hansen in FY2012 is expected to be 14,300 MW and an additional 1,000 MW for spare parts (in Belgium). Management stated that it may further double capacity in China in future, depending on market dynamics. It already manufactures/assembles nacelles, generators and controls, amonst other products, in China and may also become a component supplier to other players.

Commodity price increases to impact margins, negating operating leverage gains, in our view

We believe that given the sharp increase in input prices in recent times, especially for steel (as also for copper) that contributes a significant proportion of a WTG's cost, Suzlon may have to take a significant hit on its margins. Management has not been clear on the proportion of order book that may allow escalations and to what extent. However the management believes that protection is available to the extent of 60% and 40% impact of raw material price increases may have to be absorbed by Suzlon. The impact on margins due to input price increase may be mitigated to some extent by (1) operating leverage, (2) better product pricing, (3) local sourcing of components in countries like China and (4) in-house manufacturing of components (including forging and foundry components starting in FY2009E). On the domestic market front, even though contracts are fixed price in nature, this does not impact margins since these contracts usually have an execution cycle of six months.

Retrofit program and Repower stake purchase plan on track as per management

Management highlighted that the retrofit program (for strengthening of cracked blades of S-88 turbines) is being implemented as per schedule and no delays or additional provisions are anticipated. We highlight that the successful implementation of this program is critical in enabling Suzlon to partake of the strong international growth as its reputation as a reliable supplier is at stake (S-88 is currently Suzlon's highest MW-class turbine and the international market primarily comprises of MW-class requirements). Management reiterated its stance that it does not expect additional funding for purchasing Areva's stake in Repower. Independent valuation of Repower will be done for purchase of Areva's stake and it has no linkage to Repower's market price (which has been rising in recent times). Areva has a put option on its stake in Repower for a period of one year, starting from May 24, 2008. We believe that Suzlon will likely purchase Areva's stake in Repower given that (1) it has about Rs70 bn of cash in its books at the end of 4QFY08 (we believe that part of this cash chest is led by drawdown of debt from the debt syndicated for Repower's acquisition) and (2) Areva will likely pursue its offshore plans through its recent acquisition, Multibrid.

Reduction in net working capital employed partially addresses cash flow concerns

Suzlon has reported net working capital of Rs32 bn which implies a sharp reduction to about 100 days of sales versus 140 no of days of sales at the end of FY2007. We believe that part of this improvement is resulting from (a) strong growth in Hansen Transmission as Hansen is structurally a lower working capital business, (b) lower domestic volumes as proportion of total sales where working capital cycle is potentially longer. Improvement in working capital levels versus exceptionally high levels at the end of FY2006 and FY2007 would improve cash flow generating capabilities of the wind power equipment business for Suzlon.

Revise estimates downwards to reflect lower margins led by inadequate protection against commodity price increases

We have revised our earnings estimates for Suzlon for FY2009E and FY2010E to Rs11.5 and Rs16.7 versus Rs13.2 and Rs18.1 earlier. Revision in earnings estimates is led by (1) lower margins expectations of 14.3% and 15.1% for FY2009E and FY2010E versus 15.6% and 17.2% earlier (primarily led by commodity price pressures), (2) lower execution of 3,390 MW in FY2009E versus 3,538 MW earlier (led by lower-than-expected execution in FY2008 as well as lower order book visibility at about 1,700 MW currently for FY2009E execution) and higher execution of 4,361 MW in FY2010E versus 4,141 MW earlier (led by strong global market growth as reflected in recent upwards revision in BTM projections and visibility on Suzlon's enhanced capacities) (Exhibit 6), (3) higher realization per MW of Rs51.3 mn (from Rs47.4 mn earlier) and Rs52.5 (from Rs47.3 mn earlier) for FY2009E and FY2010E, respectively (led by pricing and scope improvements), and (4) higher effective tax rate of 16.0% (from 14.3% earlier) and 14.4% (from 13.9% earlier) for FY2009E and FY2010E, respectively. We highlight that our estimates assume an increase in Suzlon's market share over the years in a rapidly growing wind power equipment market (Exhibit 7).

Retain target price at Rs350 and ADD rating led by favorable macro environment, also reflected in the run up in wind power equipment stocks recently

We retain our target price of Rs350/share implying a P/E multiple of 30X and 20X our FY2009E and FY2010E EPS estimates respectively. There has been sharp expansion in P/E multiple for wind power equipment stocks probably led by higher prices of conventional fuels which makes wind energy more competitive apart from addressing energy security and environmental concerns. On a consolidated basis Suzlon is currently trading lower than its global comparables, that are trading at an average of 32X and 23X based on FY2009E and FY2010E EPS respectively (consensus bloomberg estimates, Exhibit 9). We highlight that Suzlon's wind business (adjusted for Hansen's estimated profits and its attributable market capitalization) is currently trading at a P/E multiple of 23X based on our FY2009E EPS estimate (Exhibit 8).

Key upside risks arise from stronger-than-expected execution in FY2010E by Suzlon arising from (1) global momentum in wind power equipment demand, (2) strong platform of Suzlon in terms of breadth and depth of manufacturing, marketing and R&D capabilities and (3) significant expansion in vertically integrated capacity that creates opportunities for Suzlon to gain market share in a strong growth market. We are expecting Suzlon to execute about 4,319 MW in FY2010E, however considering that it would have the effective capacity to deliver about 5,700 MW of wind power equipment in that year, Suzlon may surpass our execution estimates considerably.

Several risks would have to be confronted leading to potentially volatile operating performance in the near-term

Key downside risks for Suzlon arise from (1) hiccups in execution, (2) commodity price increases, (3) unfavorable currency movement, (4) delays in implementation of large capacity expansion plans, across Suzlon, Hansen and Repower, (5) emergence of competitors (attracted by the high equity returns), especially from low-cost manufacturing countries like China and (6) new technologies, like gearless wind-turbines, becoming more competitive.

Exhibit 1. Suzlon Energy - 4QFY08 consolidated results (Rs mn)

	yoy			qoq			yoy		
	4QFY08	4QFY07	*% change*	4QFY08	3QFY08	*% change*	FY2008	FY2007	*% change*
Income from operations	**49,238**	**29,159**	***68.9***	**49,238**	**31,698**	***55.3***	**136,794**	**79,858**	***71.3***
Total Expenditure	(41,991)	(24,206)	*73.5*	(41,991)	(27,809)	*51.0*	(117,550)	(66,898)	*75.7*
(Increase) / Decrease in stock in trade	6,385	3,890	*64.1*	6,385	812	*686.1*	6,680	3,936	*69.7*
Raw material consumption	(37,867)	(21,749)	*74.1*	(37,867)	(21,919)	*72.8*	(95,381)	(52,054)	*83.2*
Staff cost	(2,942)	(1,838)	*60.1*	(2,942)	(2,460)	*19.6*	(10,430)	(6,501)	*60.4*
Other expenditure	(7,567)	(4,510)	*67.8*	(7,567)	(4,242)	*78.4*	(18,418)	(12,280)	*50.0*
Operating profit	**7,246**	**4,954**	***46.3***	**7,246**	**3,889**	***86.3***	**19,245**	**12,960**	***48.5***
Other income	959	463	*107.0*	959	725	*32.2*	2,646	967	*173.5*
EBIDTA	8,205	5,417	*51.5*	8,205	4,614	*77.8*	21,890	13,927	*57.2*
Interest	(1,290)	(972)	*32.8*	(1,290)	(1,565)	*(17.6)*	(5,320)	(2,520)	*111.2*
Depreciation	(978)	(600)	*63.0*	(978)	(747)	*30.8*	(2,894)	(1,733)	*67.0*
Profit before tax	5,938	3,846	*54.4*	5,938	2,302	*158.0*	13,676	9,675	*41.4*
Tax	(543)	(256)	*112.4*	(543)	(873)	*(37.8)*	(1,993)	(1,035)	*92.6*
Net profit	**5,395**	**3,590**	***50.3***	**5,395**	**1,428**	***277.7***	**11,683**	**8,641**	***35.2***
One-time items included in PAT	(830)	-	*N.A.*	(830)	89	*N.A.*	(1,512)	-	*N.A.*
Associates/Minority interest	83	-	*N.A.*	83	-	*N.A.*	130	-	*N.A.*
Reported profit	**4,648**	**3,590**	***29.5***	**4,648**	**1,517**	***206.4***	**10,301**	**8,641**	***19.2***
Key ratios									
Material cost	63.9	61.2		63.9	66.6		64.8	60.3	
Staff cost	6.0	6.3		6.0	7.8		7.6	8.1	
Other expenditure	15.4	15.5		15.4	13.4		13.5	15.4	
OPM	**14.7**	**17.0**		**14.7**	**12.3**		**14.1**	**16.2**	
EBIDTA margin	16.7	18.6		16.7	14.6		16.0	17.4	
Pre-tax margin	12.1	13.2		12.1	7.3		10.0	12.1	
Tax rate	9.1	6.6		9.1	37.9		14.6	10.7	
PAT margin	11.0	12.3		11.0	4.5		8.5	10.8	

Source: Company data, Kotak institutional equities estimates.

Exhibit 2. Suzlon sales and order book data in MW and Rs mn

			1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08
Order book	Physical MW	Domestic	207	206	372	267	315	369	441	160
		Export	610	1,237	1,271	1,692	2,567	2,882	2,916	3,294
		Total	**817**	**1,443**	**1,643**	**1,958**	**2,882**	**3,251**	**3,357**	**3,454**
	Rs mn	Domestic	8,000	8,242	15,443	14,083	17,100	19,889	24,040	8,865
		Export	29,590	58,137	61,719	80,780	117,900	143,392	147,030	174,221
		Total	**37,590**	**66,379**	**77,162**	**94,863**	**135,000**	**163,280**	**171,070**	**183,086**
Sales	Physical MW	Domestic	171	216	190	379	125	238	270	341
		Export	25	172	149	154	192	445	275	424
		Total	**196**	**388**	**339**	**533**	**317**	**683**	**545**	**765**

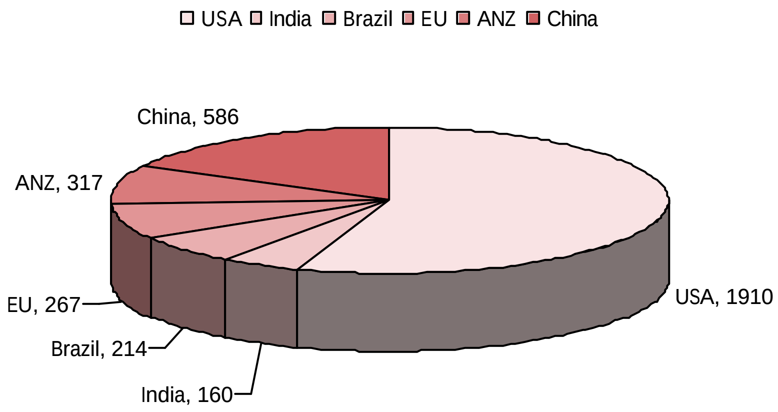
Source: Company data, Kotak Institutional Equities.

Exhibit 3. Segmental numbers for Suzlon Energy Ltd. (Rs mn)

	4QFY08	4QFY07	*% change yoy*	FY2007	FY2008	FY2009E	FY2010E
Wind business							
MW sales	**766**	**533**	***43.7***	**1,456**	**2,311**	**3,391**	**4,319**
Domestic	343	378	*(9.3)*	955	976	1,030	1,122
Export	423	155	*172.9*	501	1,335	2,361	3,197
Sales	40,849	22,650	*80.4*	61,300	112,639	173,898	226,589
EBITDA	5,087	3,600	*41.3*	10,210	15,563	24,634	33,706
EBITDA margin	***12.5***	***15.9***		***16.7***	***13.8***	***14.2***	***14.9***
Realisation per MW	*53.3*	*42.5*	*25.5*	*42.1*	*48.7*	*51.3*	*52.5*
EBITDA per MW	*6.6*	*6.8*	*(1.7)*	*7.0*	*6.7*	*7.3*	*7.8*
Hansen Transmission							
Sales	8,652	6,510	*32.9*	18,560	24,048	30,332	48,752
EBITDA	1,618	1,370	*18.1*	2,770	3,511	4,702	7,800
EBITDA margin (%)	***18.7***	***21.0***		***14.9***	***14.6***	***15.5***	***16.0***
Consolidated							
Sales	49,238	29,160	*68.9*	79,860	136,794	204,230	275,342
EBITDA	7,246	4,970	*45.8*	12,980	19,245	29,335	41,506
EBITDA margin (%)	***14.7***	***17.0***		***16.3***	***14.1***	***14.4***	***15.1***

Source: Company data, Kotak Insttutional Equities estimates.

Exhibit 4. Order book is dominated by the US geography
Geographical break-up of order book



Source: Company data.

Exhibit 5. Order inflows have remained strong for Suzlon
Major orders booked by the Suzlon group from FY2007 so far

Announcement date	Customer	Country	Product Configuration	Capacity	Delivery schedule (MW)			
			MW	MW	CY07	CY08	CY09	CY10
7-Feb-08	Spanish Saving Bank Unicaja, Spain	Spain	2.1	102.9		52.9	50.0	
5-Feb-08	Pacific Hydro Ltd, Australia	Australia	2.1	56.7				56.7
9-Jan-08	Jingneng Group, China	China	1.25	100.0		100.0		
7-Jan-08	Eolia Renovables SRC S.A, Spain	Spain	1.25	42.5		42.5		
24-Dec-07	ONGC, Gujarat	India	1.5	51.0				
19-Nov-07	AGL Energy, Australia	Australia	1.5	34.0			34.0	
19-Nov-07	Sydney's Renewable Power Ventures, Australia	Australia	1.5	132.0			132.0	
8-Oct-07	Horizon Wind of Houston, Texas, USA	USA	2.1	400.0	-	200.0	200.0	
5-Oct-07	Servtec Instalacoses E Sistemas Integrados Ltda, Brazil	Brazil	1.25	155.0	-	155.0	-	
3-Oct-07	DLF Limited, India	India	1.5	150.0	-	150.0	-	
27-Sep-07	Ayen Enerji Co. Inc, Turkey	Turkey	2.1	31.5	-	31.5	-	
29-Jun-07	PPM Energy of Portland, Oregon, USA	USA	2.1	300.0	-	-	300.0	
6-Jun-07	Edison Mission Group of Irvine, California, USA	USA	2.1	630.0	-	315.0	315.0	
3-May-07	PPM Energy of Portland, Oregon, USA	USA	2.1	400.0	-	300.0	100.0	
10-Apr-07	Tierra Energy of Austin, Texas, USA	USA	2.1	88.2	-	88.2	-	-
6-Mar-07	Reliance Energy Limited, India	India	1.5	150.0	112.5	37.5	-	-
29-Jan-07	British Petroleum	India	1.25	40.0	40.0	-	-	-
29-Jan-07	Snowtown Wind Farm Pty Ltd, Australia	Australia	2.1	88.2	88.2	-	-	-
27-Oct-06	China	China	1.25	50.0	50.0	-	-	-
13-Oct-06	SIIF Energies do Brasil Ltda, Brazil	Brazil	1.5	225.0	150.0	75.0	-	-
18-Sep-06	John Deere Wind Energy, USA	USA	2.1	247.0	247.0	-	-	-
4-Sep-06	Edison Mission Group of Irvine, California, USA	USA	2.1	105.0	52.5	52.5	-	-
23-Aug-06	Maestrale Green Energy, Italy	Italy	2.1	21.0	21.0	-	-	-
23-Aug-06	Tecneira - Technologias Energeticas SA, Portugal	Portugal	2.1	39.9	39.9	-	-	-
18-Jul-06	Edison Mission Group of Irvine, California, USA	USA	2.1	105.0	52.5	52.5	-	-
18-Jul-06	Datang International	China	2.1	40.0	40.0	-	-	-
	Total large order booking from FY2007 so far			**3,784.9**	**893.6**	**1,652.6**	**1,131.0**	**56.7**

Source: Company, Kotak Institutional equities estimates.

Exhibit 6. Suzlon - product sales assumptions

	2005	2006	2007	2008E	2009E	2010E
Product sales (MW)						
India	507	882	990	981	1,030	1,122
USA	0	100	249	602	917	1,253
China	0	0	133	155	541	666
Australia / others	0	0	30	569	903	1,278
Total	**507**	**982**	**1,402**	**2,307**	**3,391**	**4,319**
Domestic (%)	100	90	71	42	30	26
Export (%)	0	10	29	58	70	74

Source: Company data, Kotak Insttutional Equities estimates

Exhibit 7. We assume Suzlon's market share to improve over the years

Suzlon's market share in the wind business, FY2008-10E

	2008	2009E	2010E
Expected capacity addition	19,791	26,565	32,295
Suzlon's sales	2,311	3,391	4,319
Market share (%)	*11.7*	*12.8*	*13.4*

Note:

Capacity addition taken from BTM Consult ApS Wind market report, 2008

Source: Company data, Kotak Insttutional Equities estimates

Exhibit 8: Suzlon's wind business (excluding Hansen) is currently trading at about 15X

Derivation of Suzlon's P/E multiple ex-Hansen, based on FY2009

Share Price in London market (GBP)	2.79
No of shares (mn)	670.1
Market Capitalisation (bn GBP)	1.87
GBP per $	1.97
Post-issue Hansen valuation (in US$ bn)	3.7
Market cap of Hansen (Rs mn)	157,122
Suzlon's stake in Hansen's post IPO (%)	72
Contribution of Hansen market cap to Suzlon (Rs mn)	112,813
Suzlon's share price in India (Rs)	318
Suzlon's no of shares	1,496
Suzlon's market capitalisation	475,642
Estimated market cap of Suzlon's wind business	362,829
Suzlon's estimated profit after tax without hansen (Rs mn)	14,483
Implied earnings multiple for Suzlon's wind business	25

Source: Kotak Institutional Equities estimates

Exhibit 9. Comparison of wind power companies (Euro)

Company	Price (Euro)	Mcap (Mn Euro)	Sales (Mn Euro)	EPS (Euro)			PER (X)			EV/EBIDTA (X)		
			2008	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Vestas	82.8	15,326	3,854	1.6	2.5	3.3	52.7	32.5	24.9	27.9	18.4	14.0
Gamesa	32.2	6,241	2,390	0.9	1.2	1.4	35.8	27.6	22.3	19.4	12.2	9.7
Nordex	30.9	1,838	514	0.2	1.0	1.4	147.3	30.5	22.9	30.3	16.7	10.8
RePower	232.9	2,094	459	2.4	6.1	9.2	95.8	38.3	25.3	57.4	16.0	10.4
Suzlon	**320.0**	**7,165**	**1,195**	**5.1**	**11.5**	**17.0**	**62.8**	**27.8**	**18.8**	**31.4**	**19.2**	**13.8**

Note: Suzlon's market price and EPS are in INR, while mkt cap and sales are converted into Euros

Source: Bloomberg, Kotak Insttutional Equities estimates.

Banking

BOB.BO, Rs292	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	400
52W High -Low (Rs)	501 - 227
Market Cap (Rs bn)	107

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	62	63	75
Net Profit (Rs bn)	14.4	13.1	15.7
EPS (Rs)	39.3	35.8	42.9
EPS gth	*39.8*	*(8.9)*	*19.9*
P/E (x)	7.4	8	6.8
P/B (x)	1.2	1.0	0.9
Div yield (%)	2.7	2.5	3.0

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.8	-	-
FIIs	19.8	0.3	(0.0)
MFs	11.8	1.1	0.8
UTI	-	-	(0.3)
LIC	4.1	0.3	0.0

Bank of Baroda: Delivers on PAT, a mix bag—lower NII but higher other income

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- **BoB's profit for 4QFY08 was Rs2.8 bn (up 12.5% yoy) despite margin pressure**
- **Strong fee income growth, ad-hoc provisions for the impending wage hike and stable asset quality were the key highlights of the 4QFY08 results**
- **Retain ADD rating with a target price of Rs400**

BoB's profit for 4QFY08 was Rs2.8 bn (up 12.5% yoy), in line with our estimate. However, the company reported a 7% decline in NII as margin came under pressure on PLR reduction. The other numbers were encouraging as the bank reported strong growth in fees and NPL recovery while making provision of Rs1 bn for expected wage hike provision. NPLs also remained under control, falling marginally yoy and qoq with net NPL at 0.47%. Post results, we are marginally tweaking up our earnings estimates by 2% for FY2009 and FY2010 and retaining our ADD recommendation and target price of Rs400 per share.

NII falls as bank reduces BPLR

- BoB reported a 6.3% decline yoy in NII in 4QFY2008 to Rs9.9 bn (post investment amortization and excluding extraordinary item). This was in line with our estimate.
- We believe this was likely due to a reduction in PLR, (reflected in 8 bps lower yields qoq to 9.53%) and higher cost of deposits (up 9 bps qoq to 5.69%) as CASA ratio declined to 36% from 37.3% in 3QFY08 and 38.7% in FY2008.
- NIM for FY2008 at 2.9% (including investment amortization) was 30 bps lower than FY2007.
- The bank advances increased 27.6% yoy and 11.7% qoq, while deposit growth was 21.7% yoy and 11.1% qoq, respectively.

Other income better than expected

- BoB's other income increased 24% yoy and was 45% ahead of our estimate.
- The bank reported treasury income of Rs813 mn, as against our status quo estimate.
- Even fee income growth was strong at 21.6% to Rs1.74 bn, 6.4% ahead of our estimate.
- The bank continues to show strong recoveries and gained Rs1.1 bn on account of NPL provision write-back v/s Rs894 mn last year.
- Despite lower NII, the strong other income stream enabled BoB to report higher total income at Rs16.4 bn versus our estimate of Rs15.2 bn.

Made provision for employee wage hike

- Unlike most large banks, BoB has decided to make the transitional liability provisions for employee benefits under the revised AS-15 norms through the profit and loss account. The bank needs to make a provision of Rs9 bn and is making provision of around Rs450 mn per quarter.
- In addition, BoB has made a provision of Rs1 bn for the expected wage hike and for this, it is assuming a 14% wage hike, vis-a-vis our estimate of 15% hike.

Quality of assets stable

- BoB reported gross NPLs at Rs19.8 bn as of FY2008, 5.3% lower than last year and 2.9% lower than 3QFY08. Similarly, net NPLs stood at Rs4.9 bn down 1.6% yoy and 4.6% qoq.
- The gross and net NPL ratio is amongst the lowest in the industry at 1.84% and 0.47%.
- The bank maintained an aggressive write-off policy, writing off close to Rs3.9 bn of loans in FY2008. The new slippages for the year were Rs9 bn or a ratio of 1.1% on a one-year lagged basis.

Bank of Baroda, Quarterly results, (Rs mn)

	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	% chg	4Q2008KS	Actual v/s KS (%)
Interest income	26,721	27,516	29,491	30,768	33,850	26.7	32,266	4.9
Interest on advances	17,905	18,706	20,525	21,631	23,267	29.9	24,529	(5.1)
Income from invts	7,205	7,319	7,468	7,857	8,221	14.1	6,340	29.7
Bal with RBI	1,611	1,491	1,499	1,280	2,363	46.7	1,396	69.2
Interest expenses	15,674	16,961	18,983	20,047	23,026	46.9	21,735	5.9
Net interest income	**11,046**	**10,556**	**10,508**	**10,721**	**10,825**	**(2.0)**	**11,330**	**(4.5)**
NII post invt amortization	**10,535**	**10,014**	**9,969**	**10,183**	**9,875**	**(6.3)**	**9,989**	**(1.1)**
Non-interest income	4,489	4,244	4,541	6,180	5,546	23.6	3,838	44.5
Other income (excluding treasury)	4,214	2,941	3,273	4,241	4,734	12.3	3,847	23.0
fee income	1,436	1,077	1,213	1,367	1,745	21.6	1,639	6.4
Treasury income	275	1,302	1,268	1,939	813	195.4	(9)	
Total income	**15,535**	**14,799**	**15,049**	**16,901**	**16,371**	**5.4**	**15,168**	**7.9**
Operating expenses	7,584	6,843	7,983	7,281	7,687	1.4	8,302	(7.4)
Employee	4,418	4,500	5,367	4,409	4,212	(4.7)	4,959	(15.1)
Others	3,166	2,343	2,616	2,872	3,475	9.8	3,342	4.0
Operating profit	7,951	7,956	7,066	9,620	8,684	9.2	6,866	26.5
Provisions	3,629	2,926	1,674	1,866	4,790	32.0	2,626	82.4
Loan loss	328	1,079	611	1,350	2,478	655.4	1,623	52.7
Invt. Depreciation	1,635	1,265	221	(45)	614	(62.4)	-	
Invt. Amortization	511	542	539	538	540	5.7	541	(0.3)
PBT	4,323	5,030	5,392	7,754	3,895	(9.9)	4,240	(8.1)
Taxation	1,866	1,722	2,120	2,744	1,131	(39.4)	1,484	(23.8)
Net profit	**2,457**	**3,308**	**3,272**	**5,011**	**2,764**	**12.5**	**2,756**	**0.3**
PBT-invt gains/losses	5,682	4,993	4,345	5,771	3,696	(35.0)	4,249	(13.0)
PBT-invt gains + provisions	6,010	6,072	4,956	7,121	6,174	2.7	5,872	5.1
Tax rate	43.2	34.2	39.3	35.4	29.0		35.0	
Key balance sheet items (Rs bn)								
Deposits	1,249	1,225	1,314	1,369	1,520	21.7		
Domestic	997	989	1,061	1,124	1,225	22.8		
CASA (%)	38.7	38.8	37.5	37.3	36.0			
Foreign	252	236	253	245	296	17.3		
Advances	836	783	902	955	1,067	27.6		
Domestic	673	628	693	746	845	25.6		
Retail loans	143	142	145	154	169	18.0		
Home loans	61	63	63	67	73	19.7		
SME	89	101	102	107	117	31.6		
Farm credit	102	105	114	121	131	28.6		
Foreign	164	154	210	209	222	35.7		
Yield management measures (%)								
Average cost of deposits	4.77	5.42	5.51	5.60	5.69			
Avg. on deposits (domestic)	4.85	NA	5.56	5.77	5.91			
Avg. on deposits (international)	4.42	NA	4.82	4.84	4.76			
Yield on advances (total)	8.37	9.51	9.61	9.61	9.53			
Yield on advances (domestic)	8.88	NA	10.49	10.51	10.46			
Yield on advances (international)	6.17	NA	6.25	6.31	6.17			
Yield on investments (total)	8.32	6.90	NA	6.91	6.55			
Yield on investments (domestic)	NA	NA	NA	6.95	-			
Yield on investments (international)	NA	NA	NA	6.53	-			
NIM	3.42	3.20	3.11	3.00	2.90			
Asset quality details								
Gross NPLs (Rs bn)	20.9	22.1	21.3	20.4	19.8	(5.3)		
Gross NPLs (%)	2.5	2.8	2.3	2.1	1.8			
Net NPLs (Rs bn)	5.0	5.2	5.0	5.2	4.9	(1.6)		
Net NPLs (%)	0.6	0.7	0.6	0.5	0.5			
Capital adequacy details (%)								
CAR	11.8	14.3	12.9	13.5	12.9			
Tier I	8.7	9.7	8.8	9.1	7.6			
Tier II	3.1	4.6	4.1	4.5	5.3			

Source: Company, Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

KIE Conference Call: Forex expert AV Rajwade believes rupee correction is largely over, expects stability to return

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- **Forex expert AV Rajwade sees current slide in rupee as a correction for 17-18% overvaluation in terms of neutral REER**
- **Mounting oil subsidies in face of rising global crude prices likely to prompt RBI to defend rupee**
- **Expects rupee to broadly hold at current levels for the rest of FY2009**
- **1QFY09 corporate results may be affected by translation losses**

In view of the sharp 5.7% depreciation in the rupee in FY2009, Kotak Institutional Equities (KIE) organized a conference call on the issue with leading forex and treasury management consultant AV Rajwade on May 20, 2008. Mr. Rajwade expressed the view that (1) the correction in rupee during May was desirable, (2) RBI has not lost control over the rupee, (3) rising oil subsidies would prompt it to defend the rupee at more or less its current level, (4) inflation could stay very near its current high levels and (5) 1QFY09 corporate results could be impacted by unhedged FX exposures. We summarize the highlights of Mr. Rajwade's views below.

Rupee depreciation a correction for overvaluation

Over the past five years, the rupee had appreciated around 20% in nominal terms. Considering consistently higher inflation, in real terms, the rise against the dollar has been in the region of 30-35%. Trade deficit on a BOP basis is likely to be about US$90-100 bn in FY2008E. Both oil and non-oil imports had increased about 25% in FY2008. REER indices showed 17-18% overvaluation before the correction set in.

Deteriorating fiscal position may prompt RBI to hold rupee

Rising global crude prices and their impact on oil subsidies are likely to prompt RBI to hold the rupee at current levels. Mr. Rajwade expects the combined fiscal deficit of the centre and states to rise to very close to 10% of GDP. According to his estimates, when oil was at about US$100 per barrel and the rupee a little less than 40 versus the US dollar, the marketing companies were incurring daily losses of about Rs4bn per day. With oil having crossed US$120 a barrel and the rupee having flipped about 7%, daily losses could be probably Rs5 bn a day,

RBI has not lost control of the rupee

RBI has not lost control over the rupee. Concerns about liquidity tightening may not be holding it from defending rupee and reasons may be elsewhere. RBI has enough mechanisms at its disposal to ensure liquidity and it can even cut SLR if warranted.

Inflation likely to stay high

Broadly speaking, inflation might be a little lower than the current level but not significantly. Any attempt to curb inflation through much tighter monetary policies could be much more deflationary than it has already been.

1QFY09 corporate results may be impacted by unhedged positions

The slide of the rupee in the current quarter would mean that 1QFY09 results would also get affected by many companies, incurring translation losses. Translation gains as part of the other income have been bolstering corporate profitability and this could reverse. Risk to corporate profitability, high inflation, higher real interest rates, a non-competitive currency are therefore signs of slower growth

(For a full transcript of the call, please contact Dr. Mridul Saggar on mridul. saggar@kotak.com on 91-22-66341245)

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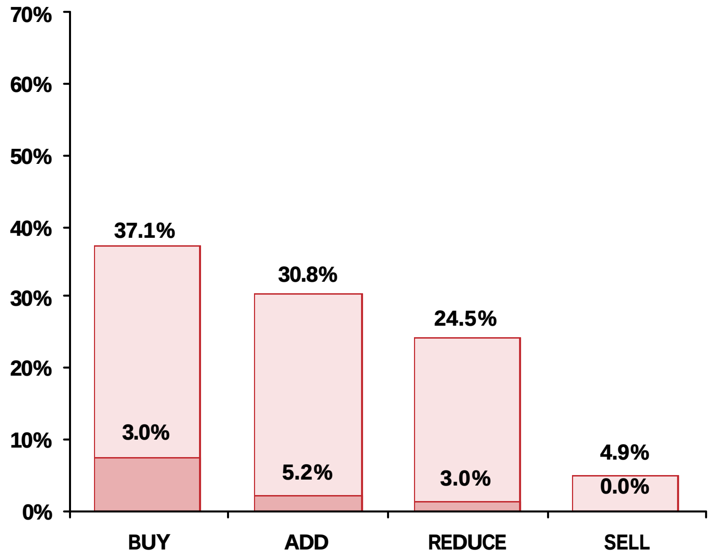

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Source: Kotak Institutional Equities.

As of March 31, 2008

Ratings and other definitions/identifiers

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SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Old rating system

Definitions of ratings

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