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EQUITY MARKETS

India	Change %			
	17-Jun	1-day	1-mo	3-mo
Sensex	17,617	0.9	4.4	0.6
Nifty	5,275	0.8	4.1	0.6
Global/Regional indices				
Dow Jones	10,434	0.2	(0.7)	(3.2)
Nasdaq Composite	2,307	0.1	(0.4)	(3.5)
FTSE	5,254	0.3	(1.0)	(6.9)
Nikkie	9,997	(0.0)	(2.4)	(7.0)
Hang Seng	20,199	0.3	1.3	(5.3)
KOSPI	1,705	(0.2)	3.7	1.8
Value traded – India				
Cash (NSE+BSE)	187		166	175
Derivatives (NSE)	1,062		1,141	983
Deri. open interest	1,498		1,390	1,277

Forex/money market

	Change, basis points			
	17-Jun	1-day	1-mo	3-mo
Rs/US\$	46.3	(24)	68	95
10yr govt bond, %	7.6	(3)	12	(37)

Net investment (US\$mn)

	16-Jun	MTD	CYTD
FIs	185	588	5,188
MFs	(32)	161	(282)

Top movers -3mo basis

	Change, %			
	17-Jun	1-day	1-mo	3-mo
Best performers				
BJFIN IN Equity	448.8	(1.3)	(7.7)	36.2
IBULL IN Equity	139.5	5.2	(8.9)	33.0
RPWR IN Equity	176.0	0.7	24.3	24.6
BJAUT IN Equity	2290.1	0.2	4.9	24.5
UNTP IN Equity	189.5	1.9	10.1	22.0
Worst performers				
ABAN IN Equity	730.8	3.1	(5.7)	(40.6)
GRASIM IN Equity	1781.0	(0.6)	(32.7)	(38.7)
EDSL IN Equity	520.1	(1.5)	(9.5)	(32.2)
PUNJ IN Equity	126.2	0.2	(11.3)	(26.8)
NMDC IN Equity	265.2	1.3	(6.6)	(26.0)

JUNE 18, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **731**

Target price (Rs): **900**

BSE-30: **17,617**

Management meeting allaying some concerns. Our meeting with the management has allayed concerns on the issues related to payment of insurance claims arising from the sinking of Aban Pearl in May 2010. Other updates from the meeting include (1) likely finalization of contract for Aban Abraham, (2) extension of contract for Aban VII and (3) continuing negotiations with banks for debt-related issues. We maintain our ADD rating given potential upside of 23% to our target price of Rs900. Key downside risks stem from debt-repayment capability.

Company data and valuation summary

Aban Offshore

Stock data

52-week range (Rs) (high,low) 1,682-631

Market Cap. (Rs bn) 31.8

Shareholding pattern (%)

Promoters 52.9

FIs 9.6

MFs 11.8

Price performance (%)

Absolute 1M 3M 12M (7.8) (41.0) (22.2)

Rel. to BSE-30 (11.9) (41.4) (35.9)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	94.5	172.3	103.6
EPS growth (%)	(2.5)	82.3	(39.8)
P/E (X)	7.7	4.2	7.1
Sales (Rs bn)	33.6	39.4	36.9
Net profits (Rs bn)	4.1	7.8	4.6
EBITDA (Rs bn)	21.0	23.7	20.7
EV/EBITDA (X)	8.1	6.0	6.5
ROE (%)	21.7	20.8	11.1
Div. Yield (%)	0.5	0.5	0.5

QUICK NUMBERS

- Insurance claim amount likely to be received soon
- EBITDA to interest coverage ratio at 2.7X and 2.6X in FY2011E and FY2012E
- 23% upside to our fair value

Insurance claim amount could be received soon

The management indicated that it does not see risks on account of its insurance claim of US\$235 mn for Aban Pearl. It highlighted that the nature of the incident does not fall within the purview of the specific exclusions laid out in the insurance cover. The insurance claim has to be addressed within a month from the filing of the claim and the company is entitled to interest on delayed payment beyond that. Thus, we expect the insurance money to be received in 1QFY11/2QFY11.

Likely replacement of Aban Pearl through a chartered vessel

The management highlighted that it is not under an obligation to replace Aban Pearl as the existing contract is terminated on the sinking of the vessel. However, the company is planning to charter a vessel and replace Aban Pearl. The company plans to finalize the contract within a month. We note that neither of the existing idle vessels (Aban Abraham and Deep Venture) can be deployed to replace Aban Pearl due to different technical capabilities of the rigs.

Aban Abraham to be deployed soon, extension of contract for Aban VII

The management highlighted that it was undertaking the marketing of Aban Abraham and will likely finalize the contract within a period of 15-30 days. The contract for Aban VII has also been extended till December 2010. The earlier contract was for a period of six weeks starting April 1, 2010. The extension is on the same terms as the previous contract.

Valuations are inexpensive

We maintain our ADD rating on the stock with a DCF-based target price of Rs900. We have retained our ADD rating given (1) inexpensive valuations, (2) sharp correction by 28% since the sinking of Aban Pearl and (3) significant potential upside of 23% to our target price. We note that the valuations look attractive with the stock currently trading at 4.2X FY2011E EPS and 7.1X FY2012E EPS.

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Key risk stems from ability to repay debt

We note that a key risk to the stock stems from the ability of the company to refinance its debt. We highlight that Aban's net debt/EBITDA ratio stands at 4.8X and 5X in FY2011E and FY2012E and EBITDA to interest coverage ratio is at 2.7X and 2.6X in FY2011E and FY2012E. However, the management was confident of meeting its debt obligations and stated that it was in discussions with the lenders for the same. The company intends to raise US\$924 mn through issue of FCCB/ADR/GDR (US\$400 mn) and equity (Rs25 bn).

Deployment of idle rigs will ensure steady cash flow generation

We note that Aban's entire fleet, except Aban Abraham and Deep Venture, is either deployed or contracted. This should allay concerns with respect to the fleet being idle. Exhibit 1 details the existing and new contracts entered into in the past six months along with the contract amounts and tenure. The deployment of most of the fleet should provide some comfort to our earnings estimates for FY2011E and FY2012E. We note that we are building a sharp decline in dayrates (up to 35%) for jack-up rigs to reflect the demand-supply imbalance in the jack-up rig market. We note that the company has received US\$32 mn in May 2010 for termination of the contract for Deep Venture which represents their 50% share in the venture.

Majority of the fleet has been deployed Summary of existing and new contracts

Name	Location	Contract period		Day rates	
		Start date	End date	Currency	Amount
Fleet- Aban Offshore Ltd					
Aban-II	East coast	26-May-07	25-Sep-10	INR	3,782,466
Aban-III	Mumbai High	1-Mar-08	30-Apr-11	USD	156,600
Aban-IV	Mumbai High	30-Dec-07	31-Jan-11	USD	156,600
Aban-V	Mumbai High	1-Mar-08	31-May-11	USD	156,600
Aban-VI	Persian Gulf	1-Jan-08	31-Dec-13	EUR	62,450
FPU Tahara	East coast	1-Jan-10	31-Jan-11	USD	49,000
Aban Ice	Mumbai High	1-Jul-09	30-Sep-12	INR	6,185,700
Fleet- Aban Singapore Pte Ltd					
Aban-VII	Qatar	1-Apr-10	31-Dec-10	USD	59,524
Aban-VIII	Middle East	1-Jun-08	30-Jun-12	USD	170,000
Aban Abraham					
Aban Pearl	Venezuela	1-Oct-09	13-May-10	USD	357,500
Fleet- Sinvest					
Deep Driller 1	India	15-Jul-10	14-Jul-11	USD	117,143
Deep Driller 2	Middle East	1-Nov-09	31-Oct-12	USD	176,667
Deep Driller 3	Malaysia	15-Oct-08	30-Oct-12	USD	165,000
Deep Driller 4	Middle East	1-Nov-09	31-Oct-12	USD	176,667
Deep Driller 5	Middle East	1-Sep-09	30-Sep-12	USD	176,667
Deep Driller 6	Middle East	21-May-10	20-May-14	USD	133,571
Deep Driller 7	Mexico	1-Nov-09	31-Dec-11	USD	106,000
Deep Driller 8	Brunei	1-Sep-10	31-Aug-14	USD	113,571
Deep Venture					

Source: Company, Kotak Institutional Equities estimates

Our DCF-based valuation for Aban is Rs900 per share

Aban Offshore, DCF-based valuation, March fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Terminal value
EBITDA	21,003	23,726	20,707	20,345	20,090	20,670	21,000	22,086	22,253	22,481	22,481	22,481	
Tax expense	(4,697)	(4,725)	(3,711)	(3,910)	(3,795)	(3,921)	(4,024)	(4,335)	(4,367)	(4,438)			
Income from joint venture	1,250	1,248	100	100	100	100	100	100	100	100			
Changes in working capital	(5,943)	6,047	841	(529)	81	(377)	55	(580)	(34)	(54)			
Cash flow from operations	11,614	26,296	17,937	16,007	16,476	16,472	17,131	17,271	17,951	18,089			
Capital expenditure	10,964	(825)	(880)	(808)	(950)	(891)	(1,033)	(787)	(754)	(757)			
Cash flow from insurance of Aban Pearl		10,800											
Free cash flow to the firm	22,578	36,270	17,057	15,198	15,526	15,581	16,098	16,484	17,198	17,331	17,331	17,331	138,651
Discounted cash flow-now	22,982	32,817	13,718	10,865	9,867	8,801	8,083	7,357	6,823	6,112			
Discounted cash flow-1 year forward		36,920	15,433	12,223	11,100	9,901	9,093	8,277	7,676	6,876	6,112		
Discounted cash flow-2 year forward			17,362	13,751	12,487	11,139	10,230	9,311	8,635	7,735	6,876	6,112	
Discount rate	12.5%												
Growth from 2019 to perpetuity	0.0%												

Fiscal Year end	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19
Today	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10	25-May-10
Days left	(55)	310	675	1,040	1,405	1,770	2,135	2,500	2,865	3,230
Years left	(0.2)	0.8	1.8	2.8	3.8	4.8	5.8	6.8	7.8	8.8
Discount factor at WACC	1.02	0.90	0.80	0.71	0.64	0.56	0.50	0.45	0.40	0.35

	Now	+ 1-year
Total PV of free cash flow (a)	123,610	103,639
PV of terminal value (b)	48,894	48,894
EV (a) + (b)	172,504	152,533
Net debt	142,541	113,376
Equity value	29,963	39,157
No. of shares	43.5	43.5
Implied share price (Rs)	689	900
Exit EV/EBITDA multiple (X)	6.2	
Exit FCF multiple (X)	8.0	

Growth rate	Sensitivity of share price to WACC and growth rate (Rs)				
	WACC				
	11.5%	12.0%	12.5%	13.0%	13.5%
-1.5%	1,004	880	765	658	558
-1.0%	1,056	926	806	695	592
-0.5%	1,113	977	852	736	628
0.0%	1,174	1,031	900	779	667
0.5%	1,241	1,091	953	826	709
1.0%	1,315	1,155	1,010	877	754
1.5%	1,395	1,226	1,073	932	804

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model (consolidated) for Aban Offshore, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010E	2011E	2012E
Profit model					
Total income	20,211	30,501	33,587	39,361	36,914
EBITDA	12,691	17,638	21,003	23,726	20,707
Interest (expense)/income	(6,533)	(8,725)	(9,768)	(8,632)	(8,076)
Depreciation	(2,549)	(4,414)	(4,616)	(5,570)	(5,611)
Other income	733	224	219	309	296
Pretax profits	4,342	4,722	6,838	9,832	7,317
Extra ordinary items	(2,536)	2,080	(2,408)	10,800	—
Reported PBT	1,807	6,802	4,430	20,632	7,317
Tax	(1,514)	(2,646)	(2,651)	(3,331)	(2,806)
Deferred taxation	84	138	80	23	—
Profit after tax	377	4,294	1,860	17,324	4,511
Joint venture/ minority	853	1,113	1,250	1,248	100
Reported consolidated net profit	1,230	5,407	3,110	18,572	4,611
Adjusted net profit	2,954	3,951	4,121	7,772	4,611
Diluted earnings per share (Rs)	70.8	96.9	88.3	172.3	103.6
Balance sheet					
Total equity	5,063	14,188	18,546	36,999	40,978
Preference capital	3,060	3,260	3,260	3,260	1,250
Deferred taxation liability	654	516	436	412	412
Total borrowings	130,434	166,355	141,641	122,512	111,102
Current liabilities	7,517	14,090	9,342	13,206	13,137
Total liabilities and equity	146,727	198,408	173,224	176,389	166,879
Cash	6,453	5,948	2,360	12,395	8,010
Other current assets	7,637	11,106	12,269	10,088	9,363
Goodwill	44,289	55,991	49,612	49,667	49,998
Tangible fixed assets	81,958	119,612	104,033	99,288	94,558
Investments	6,391	5,751	4,951	4,951	4,951
Total assets	146,727	198,408	173,225	176,389	166,879
Ratios (%)					
EBITDA margin	62.8	57.8	62.5	60.3	56.1
Debt/equity	2,335	1,154	763	336	271.4
Net debt/equity	2,143	1,113	751	303	252.1
RoAE	51.7	26.9	21.7	20.8	11.1
RoACE	3.4	5.9	4.7	9.2	6.1

Source: Company, Kotak Institutional Equities estimates

JUNE 17, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **570**

Target price (Rs): **550**

BSE-30: **17,617**

UID project win – a big boost. Mindtree has won the application development contract for the prestigious UID project. Mindtree has won this contract against stiff competition from Indian and global majors and it reaffirms the deep technical and solution capabilities of the firm. As highlighted in earlier notes, we like Mindtree's positioning in the services business and believe that it can deliver ahead-of-industry growth rates. However, the solid services story is diluted by high-risk product diversification. Maintain REDUCE rating.

Company data and valuation summary

Mindtree

Stock data

52-week range (Rs) (high,low) 747-407

Market Cap. (Rs bn) 23.5

Shareholding pattern (%)

Promoters 32.5

FIIs 15.8

MFs 11.6

Price performance (%)

Absolute 1M 3M 12M

0.9 0.4 38.4

Rel. to BSE-30 (3.6) (0.4) 14.1

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	52.2	38.9	51.6
EPS growth (%)	294.3	(25.5)	32.6
P/E (X)	10.9	14.7	11.0
Sales (Rs bn)	13.0	15.4	18.7
Net profits (Rs bn)	2.1	1.6	2.1
EBITDA (Rs bn)	2.5	2.4	3.3
EV/EBITDA (X)	9.4	9.0	6.4
ROE (%)	35.2	21.4	23.1
Div. Yield (%)	0.4	0.7	0.9

Application development contract for the UID project – a big opportunity

Mindtree has secured the application development contract for the UID project. Mindtree will be responsible for delivering services across the entire application lifecycle, i.e. from design, develop and test to support. The UID project win is the single largest software development project for Mindtree. The development cycle of the project would be approximately one year, after which the contract will move to the maintenance phase. The company has started work on this project in April and is ramping-up the project significantly to deliver the first set of UID numbers by July 2010. The company indicated that this project would lead to further downstream opportunities.

UID project demonstrates Mindtree's deep technical expertise

This project elicited strong interest with more than 20 global and India majors participating in the RFP. Newspaper reports indicate that three companies were shortlisted on the basis of technical evaluation, with IBM being one of the finalists. Commercial bids were invited after the technical evaluation. Mindtree's win against the strong competitive sets highlights its deep technical skills and solutions capabilities.

Project win emphasizes strength of core business, product investments drive REDUCE rating

We continue to like the services business where Mindtree is well-positioned and we expect a 20%+ revenue growth (US\$ terms) in FY2011E for the core business led by rebound in discretionary spending and growth from high quality accounts won in FY2010. We also believe that the company may manage margins. However, we are concerned on product diversification, which drives our REDUCE rating.

We assume US\$10-12 mn as recurring product expenses in our valuation model and do not build any revenue against this investment. Our FY2011E EPS stands as Rs38.9 and FY2012E EPS at Rs51.6. Our DCF-based target price is based on 20% discount to fair value noting uncertainty around the quantum of investment (losses) in the product business.

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Exhibit 1: MindTree Limited, Condensed consolidated financials, 2008-2012E, March fiscal year ends (Rs mn)

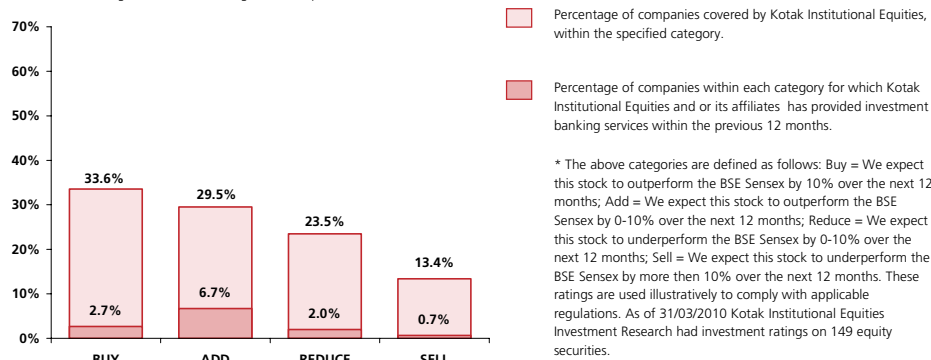
	2008	2009	2010	2011E	2012E
Profit model					
Revenues	7,398	12,375	12,960	15,360	18,699
EBITDA	1,254	3,309	2,456	2,445	3,292
Interest (expense)/income	(59)	(162)	(27)	-	-
Depreciation	(356)	(570)	(652)	(683)	(781)
Other income	279	(1,974)	770	146	209
Pretax profits	1,118	604	2,547	1,908	2,721
Tax	(85)	(67)	(398)	(306)	(597)
Profit after tax	1,033	537	2,148	1,601	2,124
Diluted earnings per share (Rs)	26.1	13.2	52.2	38.9	51.6
Balance sheet					
Total equity	5,331	5,513	6,706	8,246	10,121
Deferred taxation liability	(90)	(190)	(214)	(214)	(214)
Total borrowings	919	1,394	31	—	—
Minority interest	—	328	—	—	—
Current liabilities	1,392	3,082	2,604	3,077	3,723
Total liabilities and equity	7,553	10,126	9,127	11,109	13,632
Cash	553	488	523	1,360	2,392
Other current assets	2,765	4,203	4,318	5,179	6,379
Goodwill	214	1,460	154	154	154
Tangible fixed assets	2,625	2,962	2,859	3,144	3,433
Investments	1,395	1,013	1,272	1,272	1,272
Total assets	7,553	10,126	9,127	11,109	13,631
Free cash flow					
Operating cash flow, excl. working capital	1,398	1,889	2,638	2,445	3,292
Tax paid	(188)	(287)	(685)	(306)	(597)
Working capital changes	(408)	251	(593)	(387)	(554)
Capital expenditure	(2,176)	(369)	(473)	(968)	(1,070)
Investment changes/acquisition	491	(2,538)	(552)	—	—
Free cash flow	(883)	(1,053)	335	784	1,072
Ratios (%)					
EBITDA margin	16.9	26.7	18.9	15.9	17.6
EBIT margin	12.1	22.1	13.9	11.5	13.4
Debt/equity	0.2	—	—	—	—
Net debt/equity	(0.2)	(0.0)	(0.3)	(0.3)	(0.4)
RoAE	21.3	5.5	35.2	21.4	23.1
RoACE	16.5	32.2	25.8	23.5	27.4

Source: Company, Kotak Institutional Equities estimates

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2010

Ratings and other definitions/identifiers

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 Sensex by more than 10% over the next 12 months.

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

Other definitions

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