INDIA DAILY

February 01, 2008

Contents

Results

Tata Steel: 3Q results—volumes disappoint; retain earnings estimates and REDUCE rating

IOCL: Better-than-expected results as oil bonds come to the rescue

GAIL (India): In-line 3QFY08 results but line items moderately disappointing

Tata Motors: 3Q FY2008 results: Net profit declines 3% yoy; retain BUY rating

ACC: 4QCY07: Higher other expenses impacts profitability; lower estimates for CY2008

Container Corporation: 3QFY07 results first take: Miss expectations with flat operating profits yoy and decline in margins

Indian Overseas Bank: Profit ahead of estimates, driven by treasury income, operating performance decent

Oriental Bank of Commerce: Core performance under pressure, stock will likely continue to underperform

Jubilant Organosys: Operating performance is stronger than expected

Mphasis BFL: Margins continue to disappoint; seasonality impacts revenue growth. Maintain REDUCE rating

Consolidated Construction Consortium: Miss expectations with lower-than-expected execution and margins

J&K Bank: Performance better-than-expected, retain ADD

AIA Engineering: 3QFY08 results better than expected; maintain BUY and target

Unitech: 3QFY2008 revenues in line; retain REDUCE rating

Siemens: Miss expectations with lower-than-expected execution and margins, sharp growth and margin decline in transport segment surprises

Punj Lloyd: Results first take—Miss expectations with lower-than-expected execution and margins, large one-offs dominate the result

Nagarjuna Construction: Lower-than-expected execution due to land acquisition delays in certain projects; maintain target price and rating

IVRCL Infrastructures: Results first take - Operating performance exceeds expectations

IVR Prime Urban Developers: 3QFY08 PAT in line with estimates; retain target price and rating

Updates

Tata Tea: Brewing success—reiterate BUY, target price raised to Rs1,100

Rajesh Exports: Termination of JV with Fossil and slower rollout of Shubh stores; reduce target price to Rs215, maintain BUY

EQUITY MARKETS

		Change, %		
India	**31-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	17,649	(0.6)	(13.1)	(10.5)
Nifty	5,137	(0.6)	(16.4)	(12.4)
Global/Regional indices				
Dow Jones	12,650	1.7	(4.6)	(6.8)
Nasdaq Composite	2,390	1.7	(9.9)	(14.5)
FTSE	5,880	0.7	(8.9)	(10.7)
Nikkie	13,462	(1.0)	(12.1)	(20.2)
Hang Seng	23,480	0.1	(15.6)	(25.4)
KOSPI	1,629	0.3	(14.1)	(21.0)

Value traded - India

		Moving avg, Rs bn		
	31-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	261.0		271.6	97.5
Derivatives (NSE)	787.7		461.9	711
Deri. open interest	1,013.5		1,072	848

Forex/money market

		Change, basis points		
	31-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.4	(1)	(4)	(8)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	-	(25)	(32)

Net investment (US$mn)

	30-Jan		**MTD**	**CYTD**
FIIs	(152)		1,249	(3,278)
MFs	106		(70)	1,276

Top movers -3mo basis

		Change, %		
Best performers	**31-Jan**	**1-day**	**1-mo**	**3-mo**
Rashtriya Chem	90	(0.1)	(27.6)	60.4
NALCO	429	6.2	(15.5)	38.7
Thomas Cook	78	1.3	(30.5)	33.6
Punjab Tractors	264	(0.5)	(3.3)	30.4
Gujarat Narm Vly	190	0.4	(12.8)	22.5
Worst performers				
MRF	4,861	0.5	(31.9)	(39.5)
i-Flex	969	(3.3)	(35.6)	(37.4)
Arvind Mills	47	(2.9)	(48.0)	(30.3)
Titan Inds	1,158	(0.7)	(25.0)	(29.6)
ABB India	1,120	(2.3)	(25.8)	(29.6)

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Metals

TISC.BO, Rs734	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	775
52W High -Low (Rs)	970 - 353
Market Cap (Rs bn)	630.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	175.5	199.2	220.1
Net Profit (Rs bn)	43.7	46.1	50.4
EPS (Rs)	50.9	53.6	58.6
EPS gth	*(20.9)*	*5.4*	*9.3*
P/E (x)	14.4	13.7	12.5
EV/EBITDA (x)	8.8	7.8	7.7
Div yield (%)	1.5	1.6	1.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.8	-	-
FIIs	21.4	1.1	(0.0)
MFs	3.4	1.1	(0.0)
UTI	-	-	(1.1)
LIC	10.1	3.0	1.9

Tata Steel: 3Q results—volumes disappoint; retain earnings estimates and REDUCE rating

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **3QFY08E net income of Rs10.7 bn was 15% below our estimates, as sales volumes were lower and interest costs were higher than our estimates**
- **Steel business EBIT stayed flattish on qoq basis, but improvement in other business earnings helped improve reported EBITDA margins by 225 bps on yoy basis**
- **Funding for Corus Group largely completed. We call for cleared understanding in Corus Group 'performance improvement'**
- **Retain earnings estimates and REDUCE rating**

Tata Steel, in its standalone 3QFY08 results declared a PAT of Rs10.7 bn, down 10% qoq but flattish yoy (lower by 15% than our estimates). Flatter cost controls and improved performance from other businesses helped Tata Steel report better EBITDA than expected. We retain our earnings estimates for the standalone entity and plan to make changes to our consolidated model on announcement of consolidated results. Retain REDUCE.

2QFY08E standalone operating performance was lower than our estimates by 15%. Net income at Rs10.7 bn was lower than our estimates by about 15%. Average realizations for the quarter were flattish on qoq basis as stronger rupee and lower steel prices globally would have impacted spot sales. Average realizations on yoy basis were up 9% as contract prices have been re-negotiated on annual contracts.

EBIT per ton of steel sold improved 15% yoy and was flattish on qoq basis (despite flattish realizations), as growth in costs was lower than growth in realizations. EBITDA, at Rs20.9 bn improved 4% qoq as costs were contained and other than steel businesses performed better.

Interest costs were higher resulting from (1) incremental drawdown to pay for Corus acquisition, and (2) conversion of debt in Indian currency (earlier it was in foreign currency). Higher interest costs led to flattish yoy growth in net earnings, although net earnings reduced 10% on qoq basis.

We are calling for more clarifications on the ongoing performance improvement program of Corus that the management spoke briefly about. The management expects £300 mn performance improvement in CY2008 (similar to that in CY2007), which will be driven by growth in volumes, mix changes and other performance improvement; in short, for all other improvement except for raw material price increase less that passed on to consumer through higher prices (or vice-versa).

Under extremely restrictive set of assumptions (since independent quarterly results are not declared for Corus Group for 2/3Q CY07), we are unable to reconcile the increase in costs for CY2007 if such improvement have been delivered in CY2007 as well. Our calculations show that a large part of increase in EBITDA for CY2007 is on account of increase in prices in the EU region (where Corus Group has a large proportion of sales ~60%). Assuming the performance improvements were actually delivered, costs would likely increase over £1 bn, an increase of 12%, which is difficult to reconcile given that iron ore prices just rose 19% and coking coal prices actually fell by a similar percentage. We note that average increase in costs over CY2004-06 has been £650 mn, during which period iron ore costs and coking coal costs increased 30% annually on a per ton basis (Corus Group is fully dependent on iron ore and coal supplies from third parties).

Cut another way, if increase in costs have actually been £1 bn for CY2007 (when iron ore prices increased 19% and coking coal fell by similar percentages), the increase in costs for CY2008 will indeed be much larger than we currently estimate in our model. However, we shall admit that this analysis is based on lot of assumptions (in absence of fuller disclosure), and our model will have to undergo a change if Corus Group manages to save £300 mn in costs for CY2008.

In addition, we like to assert that the saving from ongoing program at Corus is in addition to any synergy that might occur from the merger of Tata Steel with Corus Group. We separately value the PV of synergies in our model at US$1 bn.

Raw material integration is high on priority list for Tata Steel management. Tata Steel has taken a 35% stake in Riversdale Mining Limited, which proposes to mine coking coal in Mozambique. The production is expected to commence from end-CY2010 and Tata Steel will offtake 40% of coking coal on commercial terms. Without clearer sense of costs involved, we believe it is too early to give a value for such this venture. Besides this, Tata Steel has also signed JV agreement for procurement of iron ore (3-4 years before it starts) and a Limestone project in Oman.

The financing for acquisition of Corus has largely been consummated, and Tata Steel has repaid the entire bridge facility. We note the changes in financing structure of Corus at various points in recent history. The only pending issuance is the issuance of foreign equity, which the company is contemplating. We give fully diluted equity calculation under various scenarios. Our fully diluted equity estimates does not include the probable diluted from this front.

We retain our earnings estimates for the standalone entity and will review our consolidated model once the consolidated results are announced (toward end of February). We maintain that Corus Group will find it difficult to pass over the increase in raw material prices to consumers; therefore maintain that consolidated margins will reduce in FY2009. Maintain REDUCE.

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

	Quarterly results			% change			9 months			Comments
	3Q 2008	2Q 2008	3Q 2007	qoq	yoy	2008E	2008	2007	% change	
Volumes (tons)										
Production	1,245,926	1,279,672	1,289,822	(2.6)	(3.4)	4,960,949	3,590,430	3,656,158	(1.8)	qoq/yoy volume degrowth surprise us; we expected higher
Sales volumes	1,243,500	1,218,326	1,234,404	2.1	0.7	4,845,769	3,502,789	3,533,464	(0.9)	volumes in 3QFY08
Earnings drivers										
Average realization (Rs/ton) (a)	35,201	35,280	32,236	(0.2)	9.2	36,115	35,715	31,675	12.8	Realizations improved on yoy basis owing to contract revision; down marginally on qoq basis
Average steel EBIT (Rs/ton) (b)	13,693	13,810	11,946	(0.8)	14.6	13,807	13,707	11,518	19.0	qoq lower EBIT/ton surprise us; expect it to increase in 4QFY08
Implied steel costs (Rs/ton) (a-b)	21,508	21,471	20,290	0.2	6.0	22,308	22,008	20,157	9.2	Flat costs on qoq basis; higher on yoy basis following higher purchases of coke this quarter
Average US HRC prices (US$/tor	590	570	621	3.5	(5.0)		590	653	(9.6)	US HRC prices improved marginally; lag UK's by big margin
Average UK HRC prices (US$/toı	643	655	632	(1.8)	1.7		648	618	4.9	US prices though up on yoy basis, are down on qoq basis
Average INR:USD	39.4	40.5	45.9	(2.7)	(14.2)		40.4	46	(11.4)	Strong rupee hurts Indian landed costs
Interim results										
Net sales	**49,739**	**47,851**	**44,700**	3.9	11.3	**205,945**	**139,566**	**125,716**	11.0	Better revenues from other business lead to increase in revenues on qoq basis
Expenditure	**(28,773)**	**(27,597)**	**(26,864)**	4.3	7.1	**52,581**	**(81,354)**	**(75,018)**	8.4	Costs up in absolute terms on qoq basis; but flattish on per ton basis
Stock adjustment	614	159	790			(930)	1,544	1,479		
Raw materials	(10,392)	(9,070)	(9,425)			17,365	(27,757)	(26,009)		
Employee costs	(3,646)	(3,769)	(3,611)			7,535	(11,182)	(10,272)		
Power and fuel	(2,395)	(2,387)	(2,261)			4,715	(7,110)	(6,802)		
Freight and handling	(2,877)	(2,800)	(2,856)			5,261	(8,138)	(8,188)		
Other expenditure	(10,077)	(9,730)	(9,502)			18,635	(28,712)	(25,227)		
EBITDA	**20,966**	**20,254**	**17,836**	3.5	17.5	**83,002**	**58,212**	**50,697**	14.8	Flattish on qoq basis; stronger yoy realizations lead to yoy growth in EBITDA
Other income	670	943	987			4,204	3,075	3,539		
Depreciation	(2,092)	(2,050)	(1,991)			8,387	(6,255)	(5,899)		
EBIT	19,544	19,148	16,833			78,820	55,032	48,337		
Interest	(3,627)	(2,022)	(520)	79.4	597.0	6,986	(6,448)	(1,291)	399.5	Higher interest owing to (a) drawn-down of credit for acquisition of Corus and (b) conversion of debt in Indian currency
Adjusted pre-tax profits	15,918	17,126	16,313	(7.1)	(2.4)	71,834	48,584	47,046	3.3	
Unusual or infrequent items	(171)	334	(493)			3,818	3,647	(1,120)		
Reported pre-tax profits	15,747	17,460	15,820			75,652	52,231	45,927		
Tax	(5,061)	(5,558)	(5,183)			24,830	(17,423)	(14,740)		
Adjusted net earnings	**10,686**	**11,902**	**10,638**			**50,822**	**34,809**	**31,187**		
Extraordinary items	-	-	-			-	-	-		
Reported net earnings	**10,686**	**11,902**	**10,638**	(10.2)	0.5	**50,822**	**34,809**	**31,187**		
Adjusted net earnings (tax adjusted)	**10,802**	**11,674**	**10,969**	(7.5)	(1.5)	**48,257**	**32,459**	**31,948**	1.6	Flattish on yoy basis; better volumes/superior performance from other businesses drive qoq earnings growth
Segmental results										
Net revenues	**52,656**	**50,643**	**47,195**	**4.0**	**11.6**	**211,242**	**147,780**	**132,210**		
Steel business	43,772	42,983	39,792	1.8	10.0	179,573	124,922	111,989		
Other businesses	8,884	7,660	7,402	16.0	20.0	31,668	22,858	20,221		
EBIT	**19,544**	**18,518**	**16,194**	**5.5**	**20.7**	**75,439**	**53,452**	**45,555**		
Steel business	17,027	16,825	14,746	1.2	15.5	69,147	48,029	40,749		
Other businesses	2,517	1,693	1,447	48.7	73.9	6,293	5,423	4,805		FAMD division led the rise in earnings
Ratios (%)										
Total costs as % of revenue	57.8	57.7	60.1			59.7	81.2	80.5		
Raw material costs	19.7	18.6	19.3			18.6	18.8	19.5		Costs higher on qoq basis as % to revenue as realization drop, but flattish on per ton basis
EBITDA margins	42.2	42.3	39.9			40.3	41.7	40.3		
Effective tax rate	32.1	31.8	32.8			32.8	33.4	32.1		

Source: Company data; Kotak Institutional Equities estimates.

Clarity required on 'performance improvements' guidance in 2008; similar calculaton for CY2007 yields awkward results

KIE calculations of performance improvements, December fiscal year-ends (£ mn)

		Remarks
CY2006 EBITDA	**766**	Pre-aluminium business losses
CY2007E EBITDA	**1,324**	
1QCY07 reported	254	reported numbers; transaction costs added back
2QCY07 implied	387	implied from consolidated Tata Steel results
3QCY07 implied	323	implied from consolidated Tata Steel results
4QCY07 estimated	360	mgmt. though, has guided for weaker numbers
Incremental EBITDA	**558**	CY2007 over CY2006
On performance improvement account	**300**	emcompasses growth in volumes and cost changes (other than raw mat costs)
1. Volume growth	**61**	
CY2007 volumes growth (mn tons)	1.0	assumed by KIE
CY2007 EBITDA/ton (£/ton)	61	
2. Other factors	**239**	What besides volumes growth gets reported as performance improvement is not known; mgmt guided for £300 mn of performance improvement in CY2007
On pricing/cost account		encompasses change in pricing less change in costs (largely raw material costs)
1. Pricing related growth on old volumes	**844**	
CY2006 volumes (mn tons)	21	
Assumed change in realization (£/ton)	40	assumed to be in line with change in prices
2. Pricing related growth on incremental volumes	**434**	
CY2006 volumes (mn tons)	1	
Realiztion less EBITDA (£/ton)	434	
3. Assumed change in costs	**1,019**	**balancing figure**
CY2006 total costs (£ mn)	8,755	
Average increase in costs (%)	11.6	looks extremely high considering that iron up went up just 19% and coal prices were lower by 20%
Average annual increase in costs (CY2004-06) (£ mn)	650	Over this period, iron ore and coking coal has increased by 30% average

Source: Corus Group annual reports, Kotak Institutional Equities estimates.

Tata Steel, SOTP valuation, March fiscal year-ends, 2009E basis (Rs mn)

	EBITDA		Multiple	Enterprise value		EV	Vauation basis
	(Rs mn)	(£ mn)	(X)	(Rs mn)	(USD mn)	(Rs/share) (a)	
Tata Steel standalone	87,058	-	7.0	609,404	14,838	709	Valued on FY2009E EBITDA
Corus Group standalone (b)	68,214	825	6.5	443,388	10,796	516	Valued on CY2008E EBITDA
Present value of synergies				42,431	1,033	49	Probability adjusted
Total Enterprise Value				**1,095,223**	**26,667**	**1,274**	
Tata Steel standalone net debt				57,243			FY2009E, adjusted for cash and marketable securities
Corus Group standalone net debt				54,583			December 2008E, adjusted for cash and marketable securities
Borrowings in Tata Steel Asia Holdings' account				45,177			
Borrowings in Tulip UK's account				24,642			
Senior debt at Tata Steel UK's account (d)				164,280			
Mezannine debt at Tata Steel UK's account (d)				127,317			
Total borrowings				**473,242**	**11,523**	**550**	
Arrived market capitalization				**621,981**	**15,144**	**723**	
Value of investments				**36,114**	**879**	**42**	
Market capitalization (including Investments)						**765**	
Target price (Rs)						**775**	

Notes:

(a) Based on fully diluted number of shares.

(b) Based on 2007 December-ended forecasted EBITDA.

(c) Currency conversion from GBP and USD into INR is based on current exchange rates.

(d) Refinanced by US$6.2 bn by way of non-recourse debt, of which US$3.3 bn is five year amortizing loan and balance is 7 year amortizing loan.

Source: Company, Kotak Institutional Equities estimates.

Announcement for offer of rights and CCPS made; foreign offering pending yet

Details of funding plan for Corus and changes in it over time, March fiscal year-ends (Rs mn)

Instrument	Details	Original plan	As on 1Q 2008 results	At time of CARS offer	As on 3Q 2008 results	Comments
Equity contribution by Tata Steel		**4.1**	**4.8**	**5.7**	**6.3**	
New equity related issues		3.0	3.7	3.7	3.7	
o/w preferntial allot to Tata Sons, already done		0.7	0.7	0.7	0.7	
o/w rights isssue in ratio of 1:5	Priced at Rs300/share	0.9	0.9	0.9	0.9	Offering concluded
o/w rights issue of CCPS in ratio of 1:7	Convertible at Rs600/share, mandatary conversion	1.0	1.4	1.4	1.4	Offering concluded
o/w foreign issue of equity related instrument		0.5	0.8	0.8	0.8	Offer pending; Tata Steel still contemplating the issue
Internal cash generation		0.7	0.7	0.7	1.3	Change assumed in absence of information
External commercial borrowings at TS's end		0.4	0.4	0.4	0.4	
Convertible Alternative Reference Securities	Convertible at Rs877/share	-	-	0.9	0.9	Already issued
Bridge loans		**2.7**	**2.7**	**1.8**	**-**	All bridge loans repaid
Long term funding at TSAH's end	Bridge financed	1.4	1.4	1.4	-	
Quasi-equity instrument at TSAH's end	Bridge financed	1.3	1.3	0.4	-	
Long term debt at TSUK's end		**6.1**	**6.1**	**6.1**	**7.3**	Syndication now completed
Total funding required		**12.9**	**13.6**	**13.6**	**13.6**	

Legends

(a) TSAH is Tata Steel Asia Holdings, a 100% subsidiary of Tata Steel

(b) TSUK is Tata Steel UK Holdings, a company controlled 100% by Tata Steel

Source: Company data, Kotak Institutional Equities estimates.

Tata Steel, fully-diluted shares, March fiscal year-end (Rs mn)

Shares as of Mar-07 (mn)	**553.0**					
Confirmed issuance (mn shares)	**312.8**		**Comment**			
Preferential allotment to Tata Sons	27.0					
Warrants issued to Tata Sons	28.5		Yet to be fully converted into equity			
Rights issuance	121.8		Offerred at Rs300/share; oversubscribed			
CARS (a)	44.1		Convertible at Rs877/share			
CCPS (b)	91.4		Convertible at Rs600/share			
				If issued at (Rs/share)		
Issuances where pricing yet to be decided		Amount (US$ mn)	**Comment**	**800**	**1,000**	**1,200**
Foreign issue in Tata Steel's books		800	Company declines to comment on exact	43.0	34.4	28.7
Probable issue of shares (mn)			timing/details of the probable issue	**43.0**	**34.4**	**28.7**
Range of fully-diluted number of shares (mn)				**908.8**	**900.2**	**894.4**
Dilution based on Mar-07 number of shares (%)				64.3	62.8	61.7

Notes:

(a) CARS stands for Cumulative Alternative Reference Securities

(b) CCPS is Cumulative Convertible Preference Shares

Source: Company data, Kotak Institutional Equities estimates.

Energy

IOC.BO, Rs481	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	550
52W High -Low (Rs)	810 - 355
Market Cap (Rs bn)	566.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	2,149	2,483	2,448
Net Profit (Rs bn)	55.8	91.3	67.9
EPS (Rs)	46.8	76.6	56.9
EPS gth	*21.3*	*63.6*	*(25.7)*
P/E (x)	10.3	6.3	8.4
EV/EBITDA (x)	4.9	3.5	3.8
Div yield (%)	4.0	4.2	3.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.4	-	-
FIIs	1.9	0.1	(1.3)
MFs	1.0	0.4	(1.0)
UTI	-	-	(1.4)
LIC	2.6	0.9	(0.5)

IOCL: Better-than-expected results as oil bonds come to the rescue

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Stronger-than-expected results helped by oil bonds, strong refining margins**
- **Government has increased the amount of oil bonds; appears keen to protect profits at a certain level**
- **Fine-tuned estimates and upgraded to REDUCE with revised 12-month TP of Rs550 (Rs500 previously)**

IOCL reported 3QFY08 standalone net income at Rs20.9 bn compared to net income of Rs38.2 bn in 2QFY08 and our estimated net loss of 629 mn. The variance versus our estimate was primarily due to (1) Rs51 bn of oil bonds versus Rs33.2 bn of oil bonds assumed by us, (2) probably higher refining margins (US$10.4/bbl on reported basis), (3) forex gain of Rs10.4 bn, and (4) inventory gains of Rs7.4 bn versus Rs14 bn assumed by us. We have revised our FY2008E, FY2009E and FY2010E consolidated EPS estimates to Rs78.7, Rs58.9 and Rs56.1, respectively versus Rs67.5, Rs46.8 and Rs48.6, respectively. However, we note that the earnings forecast and valuations remain somewhat academic in light of the current difficult operating environment. We have upgraded the stock to REDUCE from SELL previously; our 12-month fair valuation for the stock based on 30% discount to fair value (5X normalized EBITDA plus value of investments) is Rs550 versus Rs500 previously. Key downside risk stems from higher-than-expected subsidy losses.

Higher amount of oil bonds give some respite. IOCL reported 3QFY08 EBITDA at Rs29.7 bn versus our estimate of Rs10.4 bn. We do not attach much significance to quarterly results given the large volatility in quarterly results due to (1) timing of receipt of oil bonds, (2) inventory gains/losses, and (3) large forex-related gains/losses on IOCL's large forex position (both payables and FC loans). IOCL received oil bonds of Rs51 bn for 3QFY08 against Rs63.6 bn of oil bonds in 2QFY08 (which represented compensation for 1HFY08) and our estimate of Rs33.2 bn. The government has increased the amount of oil bonds to be issued to the downstream oil companies for FY2008E. It will likely bear 42.7% of the gross under-recoveries through issue of oil bonds to the downstream oil companies.

The government has issued oil bonds of Rs203 bn in 9MFY08 to the downstream companies; IOCL has received oil bonds of Rs114.6 bn for 9MFY08. We model IOCL's FY2008E standalone net income at Rs89.7 bn (Rs75.2 EPS) based on (1) receipt of Rs180 bn of oil bonds and (2) discount of Rs117 bn from the upstream companies. If the share of the upstream companies of gross under-recoveries were to increase to 40% versus 33% assumed by us, IOCL's FY2008E standalone net income would increase to Rs105 bn (Rs88.1 EPS). We note that the share of under-recoveries of the upstream companies in FY2007 was 41.5%.

IOCL's gross under-recovery for 3QFY08 was higher at Rs121 bn (+61% qoq and +57% yoy) reflecting steep increase in crude oil prices and stagnant retail selling prices for regulated products (diesel, gasoline, kerosene, LPG). 9MFY08 gross under-recovery was Rs269 bn and net under-recovery was Rs65 bn.

Operating details of 3QFY08

IOCL processed 12.1 mn tons of crude in 3QFY08 higher than 11 mn tons in 2QFY08; the higher crude throughput qoq reflects maintenance shutdown in the previous quarter at Mathura refinery (July 2007) and some units at Koyali refinery (August 2007). IOCL sold 16.2 mn tons (including exports) of refined products up from 15.2 mn tons in 3QFY07. 3QFY08 pipeline throughput increased 12.5% yoy and 6.4% qoq to 14.3 mn tons. IOCL's 3QFY08 refining margin was US$10.4/bbl versus US$6.0/bbl in 2QFY08 and -US$0.3/bbl in 3QFY07. In 3QFY08, forex gains were Rs10.4 bn and inventory gains were Rs7.4 bn.

Earnings revisions. We have made several revisions to our standalone earnings model—(1) higher subsidy losses on account of recent surge in crude prices, (2) higher oil bonds from the government, (3) moderately higher refining margins and (4) stronger rupee. Exhibit 4 gives the key financials for IOCL.

FY2008. We have raised our FY2008E EPS modestly to Rs75.2 from Rs64.7 previously. The upward revision primarily reflects (1) receipt of oil bonds worth Rs180 bn compared to Rs133 bn assumed previously, (2) moderately higher refining margins at US$6.9/bbl versus US$6.0/bbl previously, and (3) higher crude throughput at 47.2 mn tons versus 46.7 mn tons previously.

FY2009. We have fine-tuned our FY2009E EPS to Rs57.7 from Rs46.0 previously. The 23% yoy decline in EPS reflects lower other income (forex gains of Rs2.5 bn versus Rs11 bn in FY2008E) and lower refining margins. We model standalone refining margin at US$6.1/bbl in FY2009E against US$6.9/bbl in FY2008E due to (1) likely weakening of global refining margins and (2) lower tariff protection in FY2009E versus in FY2008E (tariff differential of 0.7% versus 1.7% in FY2008E). We assume that IOCL will receive oil bonds of Rs170 bn in FY2009E based on issue of oil bonds of Rs300 bn to downstream companies by the government.

FY2010. We have revised our FY2010E EPS to Rs55.6 from Rs48.9 previously. We assume that IOCL will receive oil bonds of Rs85 bn in FY2010E based on issue of Rs150 bn oil bonds to downstream companies by the government and IOCL's share at 56.4%.

Performance of subsidiaries

CPCL. Chennai Petroleum (CPCL) reported 3QFY08 net income at Rs2.3 bn versus Rs2.3 bn in 2QFY08 and Rs243 mn in 3QFY07 as lower throughput at 2.2 mn tons (2.7 mn tons in 2QFY08 and 2.6 mn tons in 3QFY07) compensated for higher refining margins at US$8.8/bbl (+US$2/bbl qoq and +US$6.1/bbl yoy). Our EPS estimates for CPCL for FY2008E, FY2009E and FY2010E are Rs63.6, Rs47.8 and Rs44.6, respectively. The decline in earnings in FY2009E and FY2010E reflects lower tariff protection, moderately lower underlying refining margins and stronger rupee. We assume that standalone refining companies such as CPCL will not bear any portion of subsidy losses.

BRPL. Bongaigaon Refineries and Petrochemicals (BRPL) reported 3QFY08 net income at Rs849 mn versus Rs1.1 bn in 2QFY08 and Rs349 mn in 3QFY07. As usual, BRPL's results include excise concessions (Rs1.22 bn in 3QFY08), without which BRPL would have had a marginal EBITDA of Rs123 mn. We model BRPL's FY2008E, FY2009E and FY2010E EPS (without excise concessions) at –Rs1.2, –Rs7.5 and –Rs19.4, respectively. The steep erosion of earnings over the next two years reflects lower tariff protection and lower underlying global margins and thus, weaker refining margins.

Interim results of Indian Oil Corp., March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg	3Q 2008	3Q 2007	% chg	9M 2008	9M 2007	% chg
Net sales (a)	2,482,674	640,585	561,487	14	640,585	556,472	15	1,730,692	1,063,301	63
Total expenditure	(2,363,571)	(610,911)	(510,274)	20	(610,911)	(531,267)	15	(1,635,618)	(1,037,198)	58
Increase/(Decrease) in stocks		(14,975)	16,292		(14,975)	(7,931)				
Purchase of products/crude for resale	(1,130,513)	(301,254)	(269,770)	12	(301,254)	(263,690)	14	(831,377)	(538,372)	54
Consumption of raw materials	(1,163,533)	(262,522)	(224,399)	17	(262,522)	(234,099)	12	(717,659)	(450,661)	59
Staff cost	(28,043)	(6,954)	(7,502)	(7)	(6,954)	(5,388)	29	(21,295)	(11,780)	81
Other expenditure (a)	(41,481)	(25,205)	(24,895)	1	(25,205)	(20,160)	25	(73,712)	(46,767)	58
EBITDA	**119,103**	**29,675**	**51,213**	***(42)***	**29,675**	**25,205**	***18***	**95,074**	**26,103**	***264***
Other income	53,589	13,463	12,698	6	13,463	7,910	70	43,072	9,468	355
Interest	(13,603)	(3,880)	(3,335)	16	(3,880)	(3,963)	(2)	(10,589)	(7,145)	48
Depreciation	(27,898)	(6,663)	(6,765)	(2)	(6,663)	(6,597)	1	(20,175)	(12,583)	60
Pretax profits	**131,191**	**32,595**	**53,811**	***(39)***	**32,595**	**22,555**	***45***	**107,381**	**15,844**	***578***
Previous years arrears/extraordinary income	—	—	85		—	—		118	32,037	
Tax	(39,379)	(12,458)	(13,914)		(12,458)	3,419		(32,441)	(5,826)	
Deferred tax	(2,153)	770	(1,804)		770	(8,060)		(1,290)	—	
Net income	**89,658**	**20,907**	**38,178**	***(45)***	**20,907**	**17,914**	***17***	**73,768**	**42,054**	***75***
Tax rate (%)	31.7	35.9	29.2		35.9	20.6				
Volume data										
Crude throughput (mn tons)		12.1	11.0	9	12.1	10.5	15	35.1	32.2	9
Domestic sales (mn tons)		15.4	13.4	15	15.4	14.3	7	43.4	26.3	65
Export sales (mn tons)		0.8	0.9	(11)	0.8	0.9	(10)	2.6	1.6	64
Pipelines throughput (mn tons)		14.3	13.4	6	14.3	12.7	13	42.3	37.9	12
Refining margin (US$/bbl)		10.4	6.0		10.4	(0.3)		9.1	3.6	
Inventory gain/(loss)-products (Rs mn)		7,390	(520)		7,390	1,210		13,010	(4,580)	
Inventory gain/(loss)-crude (Rs mn)		—	—		—	(21,870)		—	—	
Receipt from upstream companies (Rs mn)		39,806	25,261		39,806	30,840		89,467	76,400	
Receipt from standalone refiners		—	—		—	—		—	(460)	
Oil bonds from government (Rs mn)		50,985	63,623		50,985	71,680		114,607	108,720	
Subsidy gain/(loss) (Rs mn)		(120,863)	(75,166)	61	(120,863)	(76,960)	57	(269,224)	(222,359)	21

(a) Reported sales and other expenditure include freight costs and local taxes. Our estimates are without the same.

Source: Kotak Institutional Equities estimates.

Normalized earnings forecasts are significantly higher versus actual forecasts

Comparison of normalized marketing margins with FY2009 estimates (Rs/ton)

	2009E	Normalized
LPG	(14,000)	1,500
Naphtha	2,500	1,000
Gasoline	(5,000)	2,000
Jet fuel	2,000	1,700
Kerosene	(18,000)	600
Diesel	(3,500)	1,800
Light diesel oil	2,200	1,000
Low sulphur heavy stock	2,800	1,000
Fuel oil	2,800	1,000
Bitumen	3,200	1,600
EPS (Rs)	**58.4**	**70.5**
EBITDA (Rs bn)	**117.3**	**140.7**
EV (5X normalised EBITDA) (Rs bn)		703
Value of investments (Rs bn)		385
Net debt (Rs bn)		172
Equity value (Rs/share)		769
Equity value at 30% discount (Rs/share)		**538**

Note:

(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2009.

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	1,173,450	1,379,018	1,729,474	2,149,428	2,482,674	2,448,174	2,453,130
EBITDA	**114,303**	**86,765**	**82,044**	**110,451**	**133,429**	**117,279**	**112,784**
Other income	17,565	16,138	21,310	27,451	55,209	32,828	26,189
Interest	(5,043)	(7,433)	(12,101)	(17,058)	(15,240)	(12,401)	(6,484)
Depreciation	(20,626)	(23,140)	(24,711)	(28,686)	(30,706)	(32,152)	(33,947)
Pretax profits	106,199	72,330	66,542	92,157	142,693	105,553	98,541
Extraordinary items	3,553	4,283	5,590	24,757	5,588	5,504	5,428
Tax	(25,966)	(13,658)	(19,975)	(25,834)	(45,081)	(34,599)	(30,254)
Deferred taxation	(5,157)	(2,335)	(1,282)	(8,040)	(2,391)	(405)	(2,450)
Net profits	79,052	59,475	51,125	82,729	100,808	76,053	71,265
Net profits after minority interests	**73,298**	**52,666**	**45,362**	**62,469**	**93,094**	**69,688**	**66,004**
Earnings per share (Rs)	**62.8**	**45.1**	**38.8**	**52.4**	**78.1**	**58.4**	**55.4**
Balance sheet (Rs mn)							
Total equity	233,386	271,302	317,977	378,117	446,909	499,794	549,068
Deferred tax liability	47,934	50,367	50,602	59,859	62,250	62,655	65,105
Total borrowings	146,147	197,809	292,395	290,215	263,438	181,557	102,135
Currrent liabilities	219,522	266,430	286,716	330,791	378,356	380,698	386,802
Total liabilities and equity	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,150,953**	**1,124,705**	**1,103,109**
Cash	13,777	13,356	8,080	9,385	6,430	9,918	13,233
Current assets	278,550	368,158	413,904	437,178	557,698	550,016	550,322
Total fixed assets	320,647	370,003	383,717	415,014	420,717	438,662	453,446
Investments	34,013	34,391	141,990	197,403	166,108	126,108	86,108
Total assets	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,150,953**	**1,124,704**	**1,103,109**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	(44,660)	70,770	70,240	84,167
Working capital changes	1,710	(33,421)	(8,136)	2,237	(52,114)	16,201	520
Capital expenditure	(47,179)	(73,626)	(49,042)	(50,969)	(38,117)	(51,096)	(44,236)
Investments	(509)	(1,172)	(17,778)	99,768	31,295	40,115	40,000
Other income	5,826	7,814	10,317	13,582	27,519	24,700	23,433
Free cash flow	**53,560**	**(28,641)**	**(74,973)**	**19,958**	**39,353**	**100,160**	**103,884**
Ratios (%)							
Debt/equity	52.0	61.5	79.3	66.3	51.7	32.3	16.6
Net debt/equity	47.1	57.3	77.1	64.1	50.5	30.5	14.5
RoAE	30.0	18.3	13.7	16.1	20.4	13.5	11.6
RoACE	**20.4**	**13.7**	**9.3**	**11.3**	**14.4**	**10.5**	**10.0**
Key assumptions (IOC standalone)							
Crude throughput (mn tons)	37.7	36.6	38.5	44.0	47.2	48.2	49.7
Effective tariff protection (%)	7.9	5.8	3.3	1.9	1.7	0.7	1.0
Net refining margin (US$/bbl)	5.4	6.2	4.8	4.9	6.9	6.1	5.8
Sales volume (mn tons)	47.1	48.2	50.4	53.4	55.7	57.8	59.7
Marketing margin (Rs/ton)	2,092	1,982	26	(633)	(1,531)	(737)	1,884
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(53,137)	(34,640)	(32,160)

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of IOC (standalone) to refining margins, import duties and marketing margins (Rs mn)

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Refining margins									
Refining margins (US$/bbl)	5.9	6.9	7.9	5.1	6.1	7.1	4.8	5.8	6.8
Net profits (Rs mn)	80,310	89,658	99,006	59,555	68,750	77,945	57,087	66,274	75,461
EPS (Rs)	67.4	75.2	83.0	49.9	57.7	65.4	47.9	55.6	63.3
% upside/(downside)	**(10.4)**		**10.4**	**(13.4)**		**13.4**	**(13.9)**		**13.9**
Import tariffs									
Tariff differential	1.2	1.7	2.2	0.2	0.7	1.2	0.5	1.0	1.5
Net profits (Rs mn)	87,324	89,658	91,993	66,413	68,750	71,087	63,895	66,274	68,652
EPS (Rs)	73.2	75.2	77.2	55.7	57.7	59.6	53.6	55.6	57.6
% upside/(downside)	**(2.6)**		**2.6**	**(3.4)**		**3.4**	**(3.6)**		**3.6**
Marketing margins									
Transportation fuels margins (Rs/ton)	(3876)	(3726)	(3576)	(2380)	(2230)	(2080)	1681	1831	1981
Net profits (Rs mn)	87,803	89,658	91,514	66,796	68,750	70,704	63,187	66,274	69,360
EPS (Rs)	73.6	75.2	76.7	56.0	57.7	59.3	53.0	55.6	58.2
% upside/(downside)	**(2.1)**		**2.1**	**(2.8)**		**2.8**	**(4.7)**		**4.7**

Source: Kotak Institutional Equities estimates.

Energy

GAIL.BO, Rs416	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	555 - 254
Market Cap (Rs bn)	352.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	160.5	210.9	225.7
Net Profit (Rs bn)	21.4	26.0	26.1
EPS (Rs)	25.3	30.8	30.9
EPS gth	*(9.5)*	*21.8*	*0.2*
P/E (x)	16.5	13.5	13.5
EV/EBITDA (x)	9.6	7.9	7.3
Div yield (%)	2.4	2.4	2.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.3	-	-
FIIs	22.0	0.8	0.0
MFs	1.6	0.4	(0.4)
UTI	-	-	(0.8)
LIC	6.2	1.3	0.5

GAIL (India): In-line 3QFY08 results but line items moderately disappointing

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **In-line results with lower expenditure compensating for lower subsidy losses versus expectations**
- **GAIL's share of upstream losses has declined versus FY2007**
- **Revised rating to REDUCE with revised 12-month SOTP-based target price of Rs400 (Rs380 previously)**

GAIL (India) reported 3QFY08 net income at Rs6.2 bn in line with our expected Rs6.2 bn and Rs6.7 bn in 3QFY07. GAIL's 3QFY08 EBITDA was Rs8.7 bn versus our expected Rs9.2 bn and Rs8.6 bn in 3QFY07. Revenues were below expectations by Rs1.7 bn but lower other expenditure and lower-than-expected subsidy loss (Rs3.68 bn versus our assumed Rs5.2 bn) supported EBITDA. We have revised our FY2008E, FY2009E and FY2010E EPS estimates to Rs30.8, Rs30.9 and Rs32.1, respectively from Rs Rs28.6, Rs29.4 and Rs29, respectively. We have revised our rating to REDUCE from SELL previously with 12-month SOTP-based target price of Rs400 (Rs380 previously) to reflect higher EBITDA and higher prices of investments (particularly 51 mn shares of ONGC) (see Exhibit 1). Key downside risks stem from higher-than-expected subsidy losses, weaker-than-expected commodity prices and imminent regulations.

3QFY08 results—lower share of subsidy loss for GAIL saved the day. Exhibit 2 gives details of GAIL's 3QFY08 and 9MFY08 results.

1. **Subsidy loss increased sharply qoq and yoy but share of losses lower, which is a positive.** GAIL's 3QFY08 subsidy amount increased 28% qoq and 16.7% yoy to Rs3.68 bn. However, the amount is significantly lower versus our expectations of Rs5.2 bn in the context of increase in industry gross under-recoveries on higher crude prices. We note that gross under-recoveries of the three downstream companies have jumped 62% qoq. It appears that GAIL's share of losses of upstream companies is lower in FY2008E (see Exhibit 3). We compute that GAIL's share of gross under-recoveries of upstream companies has declined in 9MFY08 (5.8%) compared to 9MFY07 (7.3%). This is corroborated by the fact that GAIL's 9MFY08 subsidy loss is Rs9.3 bn versus 9.9 bn in 9MFY07 despite a sharp jump (18%) in gross under-recoveries for the industry.

2. **Lower other expenditure qoq due to lower E&P expenditure.** GAIL's other expenditure declined 35% qoq and 25% yoy to Rs3.8 bn. We attribute the decline to lower write-offs of dry wells in the quarter. GAIL's expenditure relating to dry wells in 3QFY08 was Rs140 mn only compared to Rs1.76 bn in 3QFY07 and Rs2.57 bn in 1HFY08 (2QFY08 data not available). GAIL's accounting policy of "Successful Efforts Method" makes this line item volatile. GAIL wrote off Rs2.8 bn of survey and dry well expenses in FY2007 and has already written off Rs2.7 bn in 9MFY09.

3. **Petrochemicals segment's EBIT declined 28% qoq (Rs907 mn) to Rs2.3 bn** led by lower sales volumes (-15.6%) and lower sales (-16%). On a yoy basis, EBIT declined 17.5% yoy (Rs486 mn), sales 26.4% and sales volume 16.5%. The steep reduction in sales reflects a shutdown at GAIL's plant at Auraiya in the month of October. This impacted LPG volumes also, whose production and sales volumes declined 15% qoq and 12% yoy to 237,000 tons.

Earnings revisions. We have made minor revisions to our earnings model—(1) lower subsidy losses, (2) stronger rupee and (3) other minor changes. Exhibit 4 gives our key assumptions and Exhibit 5 gives key financials.

FY2008. We have raised FY2008E EPS to Rs30.8 from Rs28.6 previously to reflect (1) lower subsidy burden at Rs13 bn compared to Rs13.5 bn previously, and (2) higher LPG prices based on higher crude prices (US$79/bbl versus US$72/bbl previously). 9MFY08 subsidy loss was Rs9.3 bn and 3QFY08 figure Rs3.7 bn; we expect 4QFY08E loss to be same as 3QFY08 loss. We have reduced polymer sales to 385,000 tons from 410,000 tons looking at 3QFY08 sales volumes and 9MFY08 sales volume of 282,000 tons.

FY2009. We have revised FY2009E EPS to Rs30.9 from Rs29.4 based on the same factors discussed above for FY2008E. We model rupee-dollar exchange rate at Rs38.5/ US$ versus Rs39/US$ previously, which partly offsets the impact of higher crude and hence, LPG prices. Our subsidy loss assumption of Rs12 bn is unchanged.

FY2010. We have revised FY2010E EPS to Rs32.1 from Rs29 to reflect (1) lower subsidy loss (Rs11 bn compared to Rs12 bn previously), and (2) higher product (LPG, polyethylene) prices to factor in higher crude prices (US$75/bbl versus US$70/bbl). However, we have assumed stronger rupee at Rs37.5/US$ versus Rs38/US$ previously.

Key to stock price performance—volumes versus regulations, government policies

1. **Likely strong volume growth in gas transportation volumes beyond FY2010E.** We expect GAIL's gas transportation volumes to increase significantly beyond FY2010E propelled by a steep increase in domestic gas volumes. GAIL is in the process of augmenting its extant pipeline network. However, we believe GAIL's proposed pipeline network will take time to develop. We give details of its proposed expansion plans in Exhibit 6 and our expected schedules for the pipelines. GAIL has proposed to build 5,052 kms of pipelines (eight new ones) at a cost of Rs180 bn. However, we believe it may construct five pipelines by CY2010-2011 and the balance three will not start before CY2011-2012 and will depend on several currently unfathomable factors—(1) construction of LNG terminals, (2) availability of competitively-priced LNG, and (3) development plans of Reliance and other operators for their offshore Orissa/West Bengal fields.
2. **Nature of regulations—may result in declining tariffs, profits from extant pipelines.** New regulations for gas transmission networks to be decided by the Petroleum and Natural Gas Regulatory Board (PNGRB) will influence GAIL's future profits from its key gas transmission business. The key variables that will have an impact on GSPL's earnings will be (1) reasonable rate of return (RROR), and (2) total capital employed (or return-earning asset) on which the RROR will apply. However, there is no clarity on the asset base to be used for GAIL's extant and largely depreciated pipelines. We assume some of these pipelines have largely recouped their original investments.

As per the PNGRB's draft regulations, capital employed has been defined as gross fixed assets less depreciation plus normative working capital. The tariff for a transmission/ city gas distribution network would be computed using discounted cash flow methodology. The cash inflows computed using RORR and capital employed and cash outflows using capex and operating costs will be discounted using the project's reasonable rate of return. The NPV of cash flows divided by assumed volumes assumed will be the tariff for the period. The tariff will remain constant over the economic life of the pipeline will be subject to review for each tariff period.

Exhibit 7 gives our computation of GAIL's ROCE for its various segments based on FY2007 and 9MFY08 data. The pipeline segment shows a ROCE of 19.3% for 9MFY08 and 25.7% for FY2007. The decline in 9MFY08 reflects addition of new assets but limited revenues and profits on those assets. We clarify that the computed ROCE is on the current capital employed (end-9MFY08), which may or may not be the base for computation of regulated tariffs. The regulator may decide to use a different capital employed (total investment in pipeline and associated infrastructure since inception of a pipeline [GCI] or replacement value).

3. **Subsidy burden remains an issue but government seems to have things under 'control'**. We believe that high crude prices will continue to create uncertainty about GAIL's subsidy burden and earnings without a proper compensation and subsidy-sharing system. However, the government seems to have devised a system to manage the subsidy burden between the government and the oil companies. The government will bear 42.7% of gross under-recoveries. It has allotted Rs203 bn in 9MFY08 to the downstream oil companies compared to its initial figure of Rs235 bn for FY2008 and Rs192 bn in 9MFY07. We are hopeful that the government will not change the formula now and keep the share of the upstream companies at 33%.

4. **Pricing of gas.** We have assumed that GAIL will continue to pay normal price of gas (gas price as fixed by the government for non-power, non-fertilizer users) and not be forced to pay higher prices linked to crude oil. We note that GAIL enjoys the difference between (1) the price of products such as LPG and petrochemicals, whose prices depend on global crude prices largely, and (2) government-fixed price for gas, used as raw material for the production of the aforementioned products.

We value GAIL stock at Rs400 per share

Sum-of-the-parts valuation of GAIL, FY2009 basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		
	Replacement cost	EBITDA	EV/RC	EV/EBITDA	Replacement cost basis	EBITDA basis	EV (Rs/share)
Natural gas/LPG transportation		19		6.0		114	135
LPG production		23		4.0		93	110
Petrochemicals		5		4.0		20	24
Oil and gas upstream	17		1.00		17		21
Subsidy sharing scheme		(12)		1.0		(12)	(14)
Investments	94		0.80		75		89
ONGC shares	68		0.80		54		64
Others	26		0.80		20		24
Total		**35**				**215**	**363**
Net debt/(cash)					(30)	(30)	(35)
Implied value of share (Rs/share)							**398**

Source: Kotak Institutional Equities estimates.

GAIL interim results, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	3Q 2008	2Q 2008	% chg	3Q 2008	3Q 2007	% chg	9M 2008	9M 2007	% chg
Sales (a)	210,944	42,983	45,289	(5.1)	42,983	43,784		130,729	121,638	
Total expenditure	173,290	34,261	36,506	(6.2)	34,261	35,142	(2.5)	102,836	97,689	5.3
(Inc)/dec in stock	—	547	(56)		547	588		523	(469)	
Purchase	133,112	24,190	25,398	(4.8)	24,190	23,290	3.9	73,116	68,897	6.1
Raw material	19,631	4,725	4,503	4.9	4,725	5,559	(15.0)	13,541	15,473	(12.5)
Staff cost	3,280	985	824	19.6	985	651	51.4	2,497	2,107	18.5
Other expenditure	17,267	3,814	5,838	(34.7)	3,814	5,055	(24.5)	13,159	11,681	12.7
EBITDA	**37,654**	**8,723**	**8,783**	**(0.7)**	**8,723**	**8,641**	**0.9**	**27,893**	**23,949**	**16.5**
Other income	5,796	1,848	1,806	2.3	1,848	1,846	0.1	4,567	4,321	5.7
Interest	796	196	201	(2.7)	196	271	(27.7)	600	850	(29.3)
Depreciation	5,894	1,387	1,492	(7.0)	1,387	1,439	(3.6)	4,286	4,283	0.1
Pretax profits	**36,760**	**8,988**	**8,897**	1.0	**8,988**	**8,778**	2.4	**27,574**	**23,137**	19.2
Tax	8,368	2,429	3,003	(19.1)	2,429	2,158	12.6	8,197	6,162	33.0
Deferred	2,344	346	168	105.6	346	(34)	(1,118.5)	586	(84)	(797.9)
Prior period adjust.	—	—	—		—	—		—	—	
Net income	**26,048**	**6,213**	**5,725**	8.5	**6,213**	**6,655**	(6.6)	**18,791**	**17,059**	10.1
Tax rate (%)	29.1	30.9	35.6		30.9	24.2		31.9	26.3	
Volume data										
Gas sales (mcm/d)		**69.1**	**70.4**	(1.9)	69.1	69.7	(0.9)	69.2	67.5	2.5
Gas transmission (mcm/d)		85.3	82.2	3.8	85.3	80.4	6.2	82.1	76.5	7.3
LPG transported ('000 tons)		710	640	10.9	710	728	(2.5)	1,971	1,832	7.6
LPG production ('000 tons)		237	279	(15.1)	237	269	(11.9)	790	768	2.9
LPG sales ('000 tons)		237	279	(15.1)	237	269	(11.9)	789	778	1.4
Other liquids prodn ('000 tons)		70	76	(7.9)	70	80	(12.5)	227	234	(3.0)
Other liquids sales ('000 tons)		72	78	(7.7)	72	80	(10.0)	231	233	(0.9)
Polymers ('000 tons)-prodn		77	97	(20.6)	77	94	(18.1)	277	255	8.6
Polymers ('000 tons)-sales		81	96	(15.6)	**81**	**97**	(16.5)	282	248	13.7
Subsidy payment		(3,675)	(2,870)	28.0	(3,675)	(3,150)	16.7	(9,265)	(9,860)	(6.0)
Segment revenue (Sales/Income)										
Transmission services										
(1) Natural gas		6,022	5,683	6.0	6,022	6,413	(6.1)	17,103	17,383	(1.6)
(2) LPG		996	896	11.1	996	994	0.2	2,814	2,525	11.5
Natural gas trading		31,120	32,093	(3.0)	31,120	31,494	(1.2)	92,776	90,508	2.5
Petrochemicals		5,378	6,402	(16.0)	5,378	7,306	(26.4)	18,445	18,264	1.0
LPG and liquid hydrocarbons		5,278	7,033	(25.0)	5,278	6,261	(15.7)	18,716	16,886	10.8
Telecom		70	76	(8.0)	70	71	(0.6)	214	184	16.1
Unallocated		1,571	1,636	(4.0)	1,571	1,764	(10.9)	4,009	4,113	(2.5)
Total		50,435	53,820	(6.3)	50,435	54,302	(7.1)	154,076	149,863	2.8
Less: Inter-segment revenue		5,604	6,725	(16.7)	5,604	7,279	(23.0)	18,780	20,311	(7.5)
Sales/Income from operations		**44,832**	**47,095**	**(4.8)**	**44,832**	**47,024**	**(4.7)**	**135,296**	**129,552**	**4.4**
Segment results (Profit before tax and interest)										
Transmission services										
(1) Natural gas		**4,141**	**3,955**	4.7	4,141	4,548	(8.9)	11,615	12,386	(6.2)
(2) LPG		565	521	8.3	565	603	(6.3)	1,631	1,420	14.9
Natural gas trading		402	704	0.0	402	563	(28.6)	1,353	1,450	(6.7)
Petrochemicals		2,288	3,195	(28.4)	**2,288**	**2,775**	(17.5)	8,914	6,538	36.4
LPG and liquid hydrocarbons		1,252	2,234	(44.0)	1,252	905	38.4	5,471	1,753	212.0
Telecom		8	14	(40.6)	8	1	1,540.0	27	4	530.2
Total		8,656	10,623	(18.5)	8,656	9,394	(7.8)	29,010	23,551	23.2
Less: Interest		196	201	(2.7)	196	271	(27.7)	600	850	(29.3)
Less: Other unallocable exp (net)		(528)	1,525	(134.6)	(528)	345	(253.1)	1,001	(435)	(329.9)
Total PBT		**8,988**	**8,897**	**1.0**	**8,988**	**8,778**	**2.4**	**27,409**	**23,137**	**18.5**
Capital employed										
Transmission services										
(1) Natural gas		52,395	52,028		52,395	35,682		52,395	35,682	
(2) LPG		9,967	10,109		9,967	10,672		9,967	10,672	
Petrochemicals		20,331	18,312		20,331	19,070		20,331	19,070	
LPG and liquid hydrocarbons		9,357	10,804		9,357	10,218		9,357	10,218	
Telecom		407	434		407	293		407	293	
Total		**92,456**	**91,687**		**92,456**	**75,936**		**92,456**	**75,936**	

Source: Kotak Institutional Equities estimates, company reports.

GAIL's share of upstream losses has declined in 9MFY08 versus 9MFY07

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2009E (Rs bn)

	2006	2007	2008E	2009E	9M 2008	9M 2007	yoy % chg
Dated Brent crude oil price (US$/bbl)	57	65	79	92	74	67	*11*
Subsidy loss	**400**	**494**	**735**	**1,092**	**479**	**405**	***18***
Payment by government (oil bonds)	**115**	**241**	**314**	**467**	**203**	**192**	***6***
Share of BPCL	22	53	71	105	46	43	*6*
Share of HPCL	23	49	66	98	43	39	*8*
Share of IOCL	70	138	177	264	115	109	*5*
Net under-recovery of oil companies	**285**	**253**	**421**	**625**	**275**	**214**	***29***
Share of refining companies	27	—	—	—	—	3	—
Share of upstream companies	**140**	**205**	**245**	**364**	**160**	**149**	***7***
Share of ONGC	120	170	208	309	135	124	*9*
Share of GAIL	11	15	14	21	9.3	9.9	*(6)*
Share of Oil India	10	20	23	34	15	16	*(5)*
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**176**	**261**	**116**	**64**	***80***
Pre-tax profits of R&M companies	**74**	**96**			**139**	**66**	

Note:

(a) Share of oil bonds assumed at 42.7% based on actual under-recoveries and oil bonds issued for 9M 2008.

(b) We use US$91.5/bbl Dated Brent (December 2007 average) to compute under-recoveries for FY2009E; our official crude forecast is US$75/bbl.

Source: Kotak Institutional Equities estimates.

We model strong increase in gas volumes between FY2007 and FY2010

Key assumptions behind GAIL model, March fiscal year-ends, 2004-2010E

	2004	2005	2006	2007	2008E	2009E	2010E
Volumes							
Natural gas transportation, gross (mcm/day)							
HBJ pipeline	32	32	32	32	32	32	32
Other pipelines	31	36	36	39	40	42	48
Regassified LNG							
Dahej-Vijaipur pipeline (transmitted and sold)		2	7	6	9	9	9
Dahej-Vijaipur pipeline (transmitted)		1	4	4	6	6	6
Dahej-Uran pipeline					6	12	12
Panvel-Dabhol pipeline					4	6	8
Elimination of double-counted volumes (a)			(1)	(3)	(7)	(9)	(11)
Total gas transmission	**63**	**72**	**79**	**77**	**90**	**98**	**104**
LPG (000 tons)							
Sold	1,089	1,089	1,039	1,037	1,070	1,100	1,100
Transported	1,841	2,138	2,228	2,490	2,700	2,800	2,800
Petrochemicals (000 tons)							
Polyethylene							
Domestic sales	225	279	271	337	375	420	420
Exports	40	40	40	10	10	—	—
Total petrochemicals	**265**	**319**	**311**	**347**	**385**	**420**	**420**
Prices							
Natural gas (Rs/cubic meter)							
Natural gas ceiling price	2.85	2.85	3.52	4.21	5.24	5.83	6.42
Regassified LNG including transportation	6.61	6.50	6.47	6.93	6.40	5.12	6.46
Transmission plus marketing charges							
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	1.15	1.15	0.99	0.96	0.96	0.97
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.67	0.69	0.99	1.03	1.04	1.04
Other pipelines	0.40	0.41	0.42	0.40	0.42	0.44	0.46
LPG							
LPG (US$/ton)	319	399	510	531	683	650	650
Transmission charges (Rs/ton)							
Jamnagar-Loni	1,436	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions							
Polyethylene, HDPE (US$/ton)	680	990	1,055	1,315	1,380	1,305	1,255
Import tariff, Polyethylene	28%	17%	10%	5%	5%	4%	4%
Import tariff, LPG	10%	7%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	46.0	45.0	44.3	45.3	40.0	38.5	37.5
Subsidy losses	4,280	11,380	10,640	14,880	13,000	12,000	11,000

Note:

(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates.

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL 2004-2010E, March fiscal year-ends (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	116,395	135,914	163,513	160,472	210,944	225,688	265,016
EBITDA	**30,667**	**36,040**	**35,731**	**29,896**	**37,654**	**37,455**	**37,110**
Other income	2,440	3,491	4,555	5,450	5,796	6,596	8,556
Interest	(1,380)	(1,341)	(1,174)	(1,071)	(796)	(725)	(656)
Depreciation	(6,640)	(9,467)	(5,595)	(5,754)	(5,894)	(6,326)	(6,366)
Pretax profits	25,088	28,723	33,518	28,521	36,760	37,000	38,644
Tax	(8,373)	(8,898)	(9,221)	(7,941)	(8,368)	(9,916)	(11,023)
Deferred taxation	(1,078)	(277)	(445)	(190)	(2,344)	(985)	(511)
Net profits	**18,693**	**19,539**	**23,101**	**23,867**	**26,048**	**26,099**	**27,110**
Earnings per share (Rs)	**22.1**	**23.1**	**27.3**	**28.2**	**30.8**	**30.9**	**32.1**
Balance sheet (Rs mn)							
Total equity	74,452	86,261	99,733	113,929	130,084	145,300	160,537
Deferred taxation liability	12,276	12,552	12,997	13,187	15,531	16,516	17,027
Total borrowings	21,335	19,974	19,166	13,379	13,316	11,000	11,000
Current liabilities	30,302	34,742	37,522	45,512	47,328	49,689	55,716
Total liabilities and equity	**138,364**	**153,529**	**169,418**	**186,007**	**206,259**	**222,504**	**244,280**
Cash	15,680	34,468	44,959	26,604	19,901	41,310	66,662
Other current assets	25,391	29,671	28,309	50,851	61,381	60,732	61,713
Total fixed assets	89,574	81,550	81,716	93,913	110,339	105,823	101,267
Investments	7,720	7,840	14,434	14,638	14,638	14,638	14,638
Total assets	**138,364**	**153,529**	**169,418**	**186,007**	**206,259**	**222,504**	**244,280**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	23,954	26,912	25,165	23,920	28,490	26,814	25,431
Working capital changes	580	49	5,950	(10,151)	(8,714)	3,009	5,047
Capital expenditure	(26,924)	(1,472)	(5,811)	(20,449)	(22,320)	(1,810)	(1,810)
Investments	(841)	(120)	(6,462)	(205)	—	—	—
Other income	1,826	2,416	3,995	3,884	5,796	6,596	8,556
Free cash flow	**(1,405)**	**27,787**	**22,837**	**(3,002)**	**3,253**	**34,609**	**37,224**
Ratios (%)							
Debt/equity	24.6	20.2	17.0	10.5	9.1	6.8	6.2
Net debt/equity	6.5	(14.7)	(22.9)	(10.4)	(4.5)	(18.7)	(31.3)
ROAE (%)	23.2	21.1	21.8	19.9	19.1	17.0	16.0
ROACE (%)	**16.2**	**18.0**	**19.7**	**15.5**	**17.8**	**16.0**	**15.3**

Source: Kotak Institutional Equities estimates.

GAIL's proposed augmentation of pipeline network will take time to develop

Proposed capital expenditure plan, March fiscal year-ends, 2008E-2012E (Rs mn)

Natural gas pipelines	Project cost (Rs mn)	Length (Kms)	Comments
Dadri-Bawana-Nangal pipeline	25,000	610	
Chainsa-Gurgaon-Jhajar-Hissar	10,000	310	
Jagdishpur-Haldia	20,000	876	Unlikely before CY2011; contingent on Reliance group's Kakinada-Haldia pipeline
Dabhol-Bangalore	25,000	730	Contingent on development of Dabhol LNG terminal and availability of surplus LNG
Kochi-Kanjirrkod-Bangalore/Mangalore	25,000	840	Unlikely before CY2011; contingent on start of Petronet LNG's Kochi terminal
Dahej-Vijapur expansion	25,000	610	
Vijaipur-Dadri	25,000	505	
Vijaipur-Auraiya-Jagdishpur	25,000	571	
Total	**180,000**	**5,052**	

Source: Kotak Institutional Equities estimates.

GAIL's earnings may be at risk if impending regulations are less favorable versus street expectations

Return on capital employed for various segments of GAIL

	Transmission	Petrochemicals	LPG and liquid HCs
FY2007			
EBIT (Rs mn)	17,060	9,545	1,022
EBIT * (1-t)	12,215	6,834	731
Capital employed (Rs mn)	47,521	19,128	8,970
ROCE (%)	**25.7**	**35.7**	**8.2**
9M FY08			
Annualized EBIT (Rs mn)	17,660	11,885	7,295
EBIT * (1-t)	12,026	8,094	4,968
Capital employed (Rs mn)	62,361	20,331	9,357
ROCE (%)	**19.3**	**39.8**	**53.1**

Source: Company, Kotak Institutional Equities.

Automobiles

TAMO.BO, Rs706	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	915
52W High -Low (Rs)	927 - 535
Market Cap (Rs bn)	302.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	272.0	285.6	328.8
Net Profit (Rs bn)	19.1	20.4	23.1
EPS (Rs)	47.0	47.7	54.0
EPS gth	*20.0*	*1.4*	*13.3*
P/E (x)	15.0	14.8	13.1
EV/EBITDA (x)	9.6	9.2	8.2
Div yield (%)	1.9	1.9	1.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.4	-	-
FIIs	30.2	1.0	0.3
MFs	3.6	0.8	0.0
UTI	-	-	(0.8)
LIC	7.9	1.6	0.8

Tata Motors: 3Q FY2008 results: Net profit declines 3% yoy; retain BUY rating

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **3QFY2008 net profit at Rs5 bn declines 3% yoy and 5% qoq**
- **3Q EBITDA margin at 11.5 % was lower 50 bps on a yoy basis despite increase in average realizations on account of higher input costs**
- **Likely upturn in CV cycle and launch of new models in the CV and passenger car segment to drive earnings growth**
- **Maintain BUY rating and SOTP based target price of Rs915/share**

Tata Motors reported 3QFY2008 net profit at Rs5 bn (we estimated 5.3 bn)—down 3% yoy and 5% qoq. EBITDA margin at 11.5% was lower 50 bps yoy as increase in average realizations were offset by higher raw material costs. We believe the pressure on margins is likely to continue on account of rising input costs. We believe the CV cycle is likely to upturn in FY2009E. This along with intended new launches in the CV segment and the passenger car segment is likely to drive earnings growth in FY2009. We maintain our BUY rating and target price of Rs915/share.

3Q net profit at Rs5 bn declines 3% yoy and 5% qoq

Net profit at Rs5 bn was down 3% yoy. Other income grew substantially as the company sold 11% stake in its subsidiary HV Axles Ltd (100% subsidiary previously) recording a gain of Rs650 mn. Adjusting for this, net profit for 3Q would have declined 15% yoy. Net profit was also impacted by 8% higher interest cost on account of increase in borrowings to fund its capex program.

EBITDA margin at 11.5% was lower 50 bps yoy as higher realizations was offset by higher input costs

EBITDA margin was lower 50 bps yoy despite a 4% increase in average realizations. Realizations were higher as the company effected a price hike across various models in the M&HCV segment. Increase in realizations were offset by higher input costs mainly metal costs. We believe pressure on margins is likely to continue on account of higher input costs and rising employee costs. However, the launch of new models especially higher-end CVs would likely improve margins.

We expect the CV cycle to turn positive in FY2009; to drive CV volume growth

We believe CV volumes would pick up in FY2009 led by an upturn in the CV cycle. Our lead-indicators suggest the freight rates have remained robust over the past couple of months. Our Diesel-Adjusted-Freight-Index (DAFI) has grown 6.5% mom in Dec 2007 while it has risen by a sharp 21% since its bottom in Sep 2007. We believe CV growth which typically follows DAFI will turn positive in a couple of months.

We expect strong volume growth in CVs in FY2009E

We believe CV volumes would pick up in FY2009 led by an upturn in the CV cycle. We estimate M&HCV volumes to grow 9.4% and 7.6% in FY2009E and FY2010 respectively while we expect LCV volumes to grow 13% in FY2009E as well as FY2010E. Launch of new models—49-tonne truck, higher tonnage trucks, tippers and a new version of the ACE—will likely boost volumes. Tata Motors reported a 2% yoy drop in 3Q volumes. While 3Q M&HCV and passenger car volumes declined 2% and 8% respectively; this was offset by a 19% increase in LCV volumes. Volume growth in 3Q was lower on account of the high base of the previous year.

Nano to likely create a new segment for itself; new car launches to boost passenger car growth

We believe that the launch of the small car "Nano" will likely be a huge positive for Tata Motors as the Nano will likely create a new segment for itself. We believe the car would neither hurt 2-wheeler demand too much nor the entry level passenger cars (especially Maruti 800). Tata Motors will likely launch Nano by 3QFY2009. We expect the car to have a strong demand. Tata Motors has indicated that it would launch the "new Indica", a new version of the Indigo and a compact car in FY2009. We believe these new launches will boost volumes in the passenger car segment.

Maintain BUY rating and SOTP based target price of Rs915/share

We value Tata Motors standalone auto business at Rs683/share based on 9X FY2009E EV/EBITDA. We have marginally tweaked our model to reflect marginally higher input costs. We now factor in 89% stake in HV Axles on account of the recent 11% stake sale by Tata Motors. We value Tata Motors' stake in its various subsidiaries at Rs199/ share. We maintain our SOTP based target price of Rs915/share—reiterate our BUY rating on the stock.

Tata Motors, quarterly results, March fiscal year-ends (Rs mn)

		qoq			yoy			9 months		
	2008E	3Q 2008	2Q 2008	Change (%)	3Q 2008	3Q 2007	Change (%)	2008	2007	Change (%)
Net Sales	**285,585**	**72,518**	**66,727**	**8.7**	**72,518**	**68,252**	**6.3**	**199,813**	**191,906**	**4.1**
Expenditure	(253,414)	(64,193)	(58,659)	9.4	(64,193)	(60,046)	6.9	(176,091)	(168,412)	4.6
(Increase)/decrease in stocks	2,273	1,398	(718)		1,398	1,355		2,053	6,433	(68.1)
Consumption of Raw materials	(185,356)	(51,820)	(41,549)		(51,820)	(48,976)		(136,948)	(138,131)	(0.9)
Staff cost	(15,492)	(4,078)	(3,694)		(4,078)	(3,581)		(11,291)	(10,032)	12.5
Other expenditure	(54,839)	(9,693)	(12,698)		(9,693)	(8,845)		(29,906)	(26,682)	12.1
EBITDA	**32,171**	**8,326**	**8,068**	**3.2**	**8,326**	**8,206**	**1.5**	**23,722**	**23,494**	**1.0**
Other income	6,365	918	707	29.9	918	143	541.1	2,488	1,851	34.4
Interest (net)	(4,240)	(918)	(965)		(918)	(852)		(2,698)	(2,533)	6.5
Depreciation	(7,106)	(1,675)	(1,597)		(1,675)	(1,722)		(4,747)	(4,845)	(2.0)
Profit before extra-ordinary items	**27,191**	**6,651**	**6,212**		**6,651**	**5,776**		**18,765**	**17,966**	**4.4**
Extra-ordinary items	-	-	-		-	1,312		20	(33)	
Profit before tax	**27,191**	**6,651**	**6,212**	**7.1**	**6,651**	**7,087**	**(6.2)**	**18,784**	**17,934**	**4.7**
Tax	(6,798)	(1,661)	(944)		(1,661)	(1,956)		(3,858)	(4,566)	(15.5)
Profit after tax	**20,393**	**4,991**	**5,268**	**(5.3)**	**4,991**	**5,132**	**(2.8)**	**14,927**	**13,367**	**11.7**
Adjusted PAT		**4,991**	**5,268**		**4,991**	**4,279**		**14,914**	**13,389**	**11.4**
Volumes	**583,150**	**143,979**	**135,589**	**6.2**	**143,979**	**141,393**	**1.8**	**406,929**	**406,909**	**0.0**
Average realisation	**567,274**	**580,944**	**565,548**	**2.7**	**580,944**	**559,844**	**3.8**	**565,188**	**545,794**	**3.6**
Margins (%)										
EBITDA margin	11.3	11.5	12.1		11.5	12.0		11.9	12.2	
Net profit margin	7.1	6.9	7.9		6.9	7.5		7.5	7.0	
Key ratios										
RM costs (% of net sales)	64.9	71.5	62.3		71.5	71.8		68.5	72.0	
Staff costs (% of net sales)	5.4	5.6	5.5		5.6	5.2		5.7	5.2	
Effective tax rate (%)	25.0	25.0	15.2		25.0	27.6		20.5	25.5	
EPS (Rs/share)	47.7	11.7	12.3		11.7	12.0		34.9	31.2	

Source: Company data, Kotak Institutional Equities estimates.

Tata Motors, SOTP-based valuation, FY2009E basis (Rs mn)

	EBITDA	Multiple	Value	Value per share	
	Rs mn	(X)	Rs mn	Rs	Comments
Tata Motors standalone	38,451	9.0	346,060	809	Based on 9X FY2009E EBITDA
Less: Net debt			53,882	126	
Total				**683**	
Value of subsidiaries				199	
Embedded value of investments				35	Value of investments in Tata Steel at CMP
SOTP-based value				**917**	
Target price				**915**	

Notes:
(1) We have valued the subsidiaries and the investments in Tata Steel after considering 20% holding company discount.

Tata Motors, volume assumptions, March fiscal year-ends, 2006-10E

	2006	2007	2008E	2009E	2010E
M&HCVs	**136,871**	**184,997**	**175,937**	**192,551**	**207,116**
M&HCVs-domestic	128,610	172,842	160,743	172,799	181,439
M&HCVs-exports	8,261	12,155	15,194	19,752	25,677
LCVs	**108,151**	**149,241**	**168,484**	**190,220**	**214,774**
LCVs-domestic	86,226	125,744	141,462	159,145	179,038
LCVs-exports	21,925	23,497	27,022	31,075	35,736
UVs	**39,791**	**49,306**	**52,408**	**55,558**	**57,705**
UVs-domestic	37,910	47,892	50,287	52,801	54,121
UVs-exports	1,881	1,414	2,121	2,757	3,584
Passenger vehicles	**169,280**	**196,736**	**186,323**	**246,254**	**415,879**
Passenger vehicles-domestic	151,160	180,328	174,017	182,717	200,989
Passenger vehicles-exports	18,120	16,408	12,306	13,537	14,890
Small car	-	-	-	50,000	200,000
Total domestic sales	403,906	526,806	526,508	617,462	815,587
Total export sales	50,187	53,474	56,642	67,121	79,888
Total vehicle sales	**454,093**	**580,280**	**583,150**	**684,582**	**895,475**
Volume growth (yoy %)					
M&HCVs	**1.2**	**35.2**	**(4.9)**	**9.4**	**7.6**
M&HCVs-domestic	(0.5)	34.4	(7.0)	7.5	5.0
M&HCVs-exports	39.3	47.1	25.0	30.0	30.0
LCVs	**45.7**	**38.0**	**12.9**	**12.9**	**12.9**
LCVs-domestic	41.9	45.8	12.5	12.5	12.5
LCVs-exports	62.7	7.2	15.0	15.0	15.0
UVs	**7.5**	**23.9**	**6.3**	**6.0**	**3.9**
UVs-domestic	10.7	26.3	5.0	5.0	2.5
UVs-exports	(32.4)	(24.8)	50.0	30.0	30.0
Passenger vehicles	**10.9**	**16.2**	**(5.3)**	**32.2**	**68.9**
Passenger vehicles-domestic	4.4	19.3	(3.5)	5.0	10.0
Passenger vehicles-exports	132.0	(9.4)	(25.0)	10.0	10.0
Small car	-	-	-	-	300
Total domestic sales	9.4	30.4	(0.1)	17.3	32.1
Total export sales	67.3	6.5	5.9	18.5	19.0
Total vehicle sales	**13.8**	**27.8**	**0.5**	**17.4**	**30.8**

Source: Company data, Kotak Institutional Equities estimates.

Tata Motors, change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Net sales	285,585	328,778	387,436	284,953	328,773	388,238	0.2	0.0	(0.2)
EBITDA	32,171	38,451	39,173	31,054	38,077	39,236	3.6	1.0	(0.2)
PAT	20,393	23,096	22,092	19,539	22,771	22,080	4.4	1.4	0.1
EPS (Rs/share)	47.7	54.0	51.6	45.7	53.2	51.6	4.4	1.4	0.1
Sales volume (vehicles sold)	583,150	684,582	895,475	583,150	684,582	895,475	-	-	-

Source: Kotak Institutional Equities estimates.

Cement

ACC.BO, Rs783	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	800
52W High -Low (Rs)	1315 - 615
Market Cap (Rs bn)	147.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	57.5	69.4	75.9
Net Profit (Rs bn)	10.7	12.3	13.0
EPS (Rs)	56.7	65.1	68.8
EPS gth	*93.7*	*14.9*	*5.7*
P/E (x)	13.8	12.0	11.4
EV/EBITDA (x)	8.2	6.6	6.3
Div yield (%)	2.2	3.0	3.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.0	-	-
FIIs	19.3	0.5	(0.1)
MFs	1.8	0.3	(0.3)
UTI	-	-	(0.6)
LIC	12.8	1.9	1.3

ACC: 4QCY07: Higher other expenses impacts profitability; lower estimates for CY2008

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **Unexciting volumes growth, disappointing on margins**
- **Targeting installed capacity of 30.5 mn tpa**
- **Absence of pricing power—key risks to earnings estimates**
- **Revise rating to REDUCE with target price of Rs800/share**

ACC reported 10% yoy increase in net revenues at Rs17.8 bn (our estimate of Rs19.9 bn), 11% yoy decline in EBITDA at Rs4.2 bn (our estimate of Rs5.4 bn) and 29% yoy decline in net profits at Rs2.3 bn (our estimate of Rs3.5 bn) for 4QCY07. While freight/ fuel costs moved in line with expectations, ACC booked higher other expenditure pertaining to ERP implementation and consultation charges. Reported income for the quarter (Rs4.3 bn) was higher on account of sale of land at Surajpur in Haryana for a consideration of Rs2 bn. Sales for the full year ended December 2007 increased 21% yoy to Rs70 bn aided by 14% yoy increase in realizations and 5% yoy increase in volumes. We note that volumes growth for ACC was below the industry growth. ACC's EBITDA and PAT growth lagged its sales growth rate for CY2007. We have revised our EPS estimates to Rs65.1 (Rs72.7 previously) for CY2008 and Rs68.8 (Rs77.2 previously) for CY2009 respectively. The revision in estimates factors in higher costs for freight and fuel & power. We revise our rating to REDUCE (from SELL previously) with target price of Rs800/share (Rs900/share previously). Our target price implies EV/tonne of US$162/tonne and EV/EBITDA of 6.4X on CY2008E.

Unexciting volumes growth, disappointing on margins. ACC's volumes growth during 4QCY07 (2.3%) as well as CY2007 (6%) lagged the industry despatch growth. ACC reported a 13% qoq and yoy decline in EBITDA/ton during 4QCY07. While the increase in freight and fuel costs were in line with expectations, ACC booked higher expenses for ERP implementation and consultancy. EBITDA declined by 11% yoy largely led by these one-off costs. ACC also took a higher depreciation charge of Rs382.9 mn during the quarter for change in methodology of depreciation.

Targeting installed capacity of 30.5 mn tpa. ACC is working on several projects spread across its manufacturing facilities to increase the production capacity to 30.5 mn tpa. During the current year the company has completed the augmentation of capacities at Tiakria (0.34 mn tpa), Kymore (0.5 mn tpa) and Lakheri (0.9 mntpa) along with a 25 MW captive power plant. Volumes growth in CY2008 will be partially aided by expansion of the Bargarh plant by 1.2 mn tpa and augmentation at Madukkarai by 0.22 mn tpa. ACC has commenced work on the expansion plan at Wadi (3 mn tpa), which will likely be commissioned by end-CY2009. The board has further approved setting up of a new clinker line (7,000 tpd equivalent to 3 mn tpa) along with a 25 MW captive power plant at an estimated cost of Rs14 bn (US$120/ tonne inclusive of captive plant) to be completed by CY2010.

Absence of pricing power—key risk to earning estimates. We expect earnings growth for ACC during CY2008 to be muted in the absence of significant price increases and moderate volumes growth (8-9%). We expect capacity addition during CY2008 to be ahead of incremental cement demand. After the sharp price increases during the last 18 months, which have buoyed the sales of cement manufacturers, we expect prices to stabilize in CY2008 as new capacities come on stream. Government intervention to stabilize cement prices through fiscal and regulatory measures could further weigh on realizations. Exhibit 4 highlights the sensitivity of retail cement prices to our earnings estimates and target price.

Revise rating to REDUCE with target price of Rs800/share. We have revised our EPS estimates to Rs65.1 (Rs72.7 previously) for CY2008 and Rs68.8 (Rs77.2 previously) for CY2009 respectively. We have fine-tuned our earnings estimates to factor in (1) higher freight costs—domestic fuel prices could see a hike, and (2) higher cost of power and fuel due to the firm price trend of imported coal and reduced allocation of domestic coal at regulated prices. Our revised target price of Rs800/share implies EV/tonne of US$162/tonne and EV/EBITDA of 6.4X on CY2008E. The stock is trading below our target price, we revise our rating to REDUCE (from SELL previously). While the stock is trading below its historic average EV/EBITDA, we note that there is a significant downside risk to our flat pricing assumption for CY2008 as consumption growth trend has failed to move into double-digits while large cement capacities are expected to commission during CY2008 and CY2009.

Quarterly results for ACC Limited (Standalone), December yearends (Rs mn)

		yoy			yoy		Our estimates	
	CY 2007	**CY2006**	***(% chg)***	**Dec 2007**	**Dec 2006**	***(% chg)***	**Dec 2007**	***(% chg)***
Sales	**70,072**	**58,035**	***21***	**17,856**	**16,199**	***10***	**19,965**	***23***
Raw material costs	(9,390)	(7,001)	*34*	(2,442)	(2,031)	*20*	(2,601)	
Employee costs	(3,527)	(3,180)	*11*	(795)	(1,054)	*(25)*	(1,021)	
Freight costs	(9,442)	(8,188)	*15*	(2,162)	(1,995)	*8*	(3,961)	
Power costs	(11,946)	(9,727)	*23*	(3,158)	(2,661)	*19*	(3,223)	
Purchased cement	(933)	(534)	*75*	(293)	(138)	*112*	(156)	
Other expenditure	(15,659)	(13,172)	*19*	(4,834)	(4,740)	*2*	(3,630)	
Total operating costs	(50,898)	(41,802)	*22*	(13,683)	(12,619)	*8*	(14,591)	
EBITDA	**19,174**	**16,233**	***18***	**4,173**	**3,580**	***17***	**5,373**	***50***
EBITDA margin (%)	27.4	28.0		23.4	22.1		26.9	
Other income	1,215	1,407		364	444		315	
Interest	(240)	(752)		(231)	(41)		(421)	
Depreciation	(3,051)	(2,543)		(1,089)	(771)		(645)	
PBT	**17,099**	**14,346**	***19***	**3,216**	**3,212**	***0***	**4,622**	***44***
Current tax (expense)/income	(4,730)	(3,825)		(871)	(1,021)		(1,034)	
Net income	**12,368**	**10,469**	***18***	**2,346**	**2,191**	***7***	**3,589**	***64***
Extraordinaries	**2,018**	**1,850**		**1,966**	**289**		**-**	
Reported net income	**14,386**	**12,319**		**4,312**	**2,479**		**3,589**	
Sales, mn tonnes	**20.0**	**18.9**	***5.5***	**5.0**	**4.9**	***2.3***	**5.5**	***11.7***
Realization (Rs/tonne)	**3,508**	**3,065**	***14***	**3,555**	**3,301**	***7.7***	**3,641**	***10.3***
Operating costs (Rs/tonne)								
Raw materials	470	370	*27*	486	414	*17*		
Employee costs	177	168	*5*	158	215	*(26)*		
Freight costs	473	432	*9*	430	406	*6*		
Power & fuel costs	598	514	*16*	629	542	*16*		
Purchased cement	47	28	*66*	58	28	*107*		
Other expenditure	784	696	*13*	962	966	*(0)*		
Profitability (Rs/tonne)	**960**	**857**	***12***	**831**	**729**	***14***	**980**	***34***

Source: Company data, Kotak Institutional Equities estimates.

ACC: Profit model, balance sheet, cash model 2006-2010E, December fiscal year-ends (Rs mn)

	CY2006	CY2007	CY2008E	CY2009E
Profit model (Rs mn)				
Net sales	57,468	69,355	75,875	81,472
EBITDA	**15,666**	**18,457**	**19,521**	**19,022**
Other income	1,973	1,932	2,248	2,321
Interest	(752)	(240)	(200)	(222)
Depreciation	(2,543)	(3,051)	(3,453)	(4,098)
Extraordinary items	1,850	2,018	0	0
Pretax profits	16,195	19,116	18,115	17,023
Tax	(3,877)	(4,730)	(5,268)	(5,154)
Share in associates	231	(80)	140	152
Net profits	**12,550**	**14,306**	**12,988**	**12,020**
Earnings per share (Rs)	**56.7**	**65.1**	**68.8**	**63.7**
Balance sheet (Rs mn)				
Total equity	34,636	44,631	53,415	61,407
Total borrowings	7,712	3,712	3,712	3,712
Currrent liabilities	16,718	18,976	19,460	19,939
Total liabilities and equity	**59,066**	**67,319**	**76,587**	**85,057**
Cash	6,202	11,128	10,644	10,115
Current assets	13,861	15,473	16,607	17,886
Total fixed assets	33,959	35,859	44,477	52,199
Investments	5,035	5,035	5,035	5,035
Deferred Expenditure	9	(177)	(177)	(177)
Total assets	**59,066**	**67,319**	**76,587**	**85,057**
Free cash flow (Rs mn)				
Operating cash flow, excl. working capital	13,614	15,592	16,787	16,645
Working capital	319	646	(650)	(800)
Capital expenditure	(5,366)	(9,000)	(12,000)	(12,000)
Investments	(1,939)	0	0	0
Free cash flow	**6,627**	**7,238**	**4,137**	**3,844**

Source: Kotak Institutional Equities estimates.

Calculation of target prices using our multi-stage valuation process

	ACC
Dec 2008 CROGCI/WACC (X)	1.83
Assigned premium of EV/GCI to CROGCI/WACC (%)	14
Assigned EV/GCI (X)	2.07
GCI (Rs bn)	66.9
EV (Rs bn)	138.6
Net debt (Rs bn)	(11.6)
Market cap (Rs bn)	150
No. of shares (fully diluted)	189
Implied price (Rs)	796
Target price (Rs)	**800**

Source: Kotak Institutional Equities estimates.

Earnings sensitivity to cement prices

	FY2009E		
	- Rs5/bag	Base case	+ Rs5/bag
Cement prices (Rs/bag)	**221**	**226**	**231**
EBITDA (Rs mn)	20,177	21,769	23,361
Net profits (Rs mn)	11,939	12,988	14,037
EPS (Rs)	**63.3**	**68.8**	**74.4**
% upside/(downside)	(8.1)		8.1
Target price	**746**	**800**	**854**
% upside/(downside)	(6.8)		6.8

Source: Kotak Institutional Equities estimates.

Transportation

CCRI.BO, Rs1771	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	2,200
52W High -Low (Rs)	2444 - 1530
Market Cap (Rs bn)	115.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	30.5	35.3	38.7
Net Profit (Rs bn)	6.9	8.2	9.3
EPS (Rs)	106.3	126.6	143.7
EPS gth	*32.8*	*19.7*	*13.9*
P/E (x)	16.7	14.0	12.3
EV/EBITDA (x)	11.4	9.5	8.4
Div yield (%)	1.0	1.1	1.3

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.1	-	-
FIIs	27.1	0.4	0.1
MFs	4.7	0.5	0.1
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Container Corporation: 3QFY07 results first take: Miss expectations with flat operating profits yoy and decline in margins

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Results miss expectations, almost flat operating profit yoy with sedate revenue growth and decline in margins**
- **Margin decline probably led by increased empty haulage and discounts in the domestic segment**
- **Concor maintains trend of low revenue growth with decline in margins probably led by competition from road, other operators and slowdown in exports**
- **Maintain estimates and REDUCE rating**

Concor has reported revenues of Rs8.4 bn (up 13% yoy), operating profit of Rs2.3 bn (up 3.5% yoy) and PAT of Rs1.93 bn (up 16.4% yoy) versus our expectation of revenues of Rs8.5 bn, operating profit of Rs2.43 bn and PAT of Rs1.94 bn. In 3QFY08 operating margin for Concor was 27.3% versus our expectation of 28.7%. Margin decline is probably led by increased empty haulage and discounts in the domestic segment. Concor has maintained the trend of low revenue growth with decline in margins probably led by (a) competition from road, (b) other operators, (c) discounts and (d) slowdown in exports. We maintain our estimates and target price (Rs2,200/share) reiterate REDUCE rating.

Results miss expectations, almost flat operating profit yoy with sedate revenue growth and decline in margins

Concor has reported revenues of Rs8.4 bn (up 13% yoy), operating profit of Rs2.3 bn (up 3.5% yoy) and PAT of Rs1.93 bn (up 16.4% yoy) versus our expectation of revenues of Rs8.5 bn, operating profit of Rs2.4 bn and PAT of Rs1.94 bn. In 3QFY08 operating margin for Concor was 27.3% versus our expectation of 28.7%. Strong 103% yoy growth in other income growth to Rs417 from Rs205 and lower effective tax rate of 21% for 3QFY08 versus 24% last year has helped meet expectations.

Margin decline probably led by increased empty haulage and discounts in the domestic segment

Margins have declined significantly by 700 bps in the domestic segment, probably led by increased proportion of empty haulage of containers and discounts in the domestic segment. We believe this reflect in (a) low yoy growth (5.6%) in domestic segment sales, (b) higher rail freight expenses as a % of sales (57.9% versus 56.6% last year) and (c) lower EBIT margin in the domestic segment (14% in 3QFY08 versus 23% last year)

Concor maintain trend of low revenue growth with decline in margins probably led by competition from road, other operators and slowdown in exports

Concor has maintained the trend of low volume growth probably led by (a) loss of market share to roads probably led by steep hike in rail freight charges has led to erosion in competitiveness, (b) several other private players have started rail-based container freight operations such as Adani, Gateway, JM Baxi etc and they may have started to chip away at the market share, (c) partial slowdown in exports. Concor has reported revenue growth of only 9% in 9MFY08, 3% decline in operating profit, and sedate 6.3% growth in PAT contributed by other income and lower effective tax rates.

Maintain estimates and rating for now; reiterate REDUCE rating

We maintain our estimates and target price (Rs2,200/share) reiterate REDUCE rating.

The company is holding an earnings conference call on January 31st , at 11:00 AM wherein we expect clarity on volumes, pricing, tax effects and potential competition.

Exhibit 1: Concor - 3QFY08 - key numbers (Rs mn)

			yoy			qoq			yoy		
	FY2007	FY2008E	3QFY08	3QFY07	*% change*	3QFY08	2QFY08	*%change*	9mFY08	9mFY07	*% change*
Net Sales	**30,460**	**35,252**	**8,432**	**7,472**	***12.9***	**8,432**	**8,188**	***3.0***	**24,379**	**22,379**	***8.9***
Staff cost	(352)	(445)	(142)	(83)	*70.0*	(142)	(110)	*28.6*	(362)	(252)	*43.8*
Rail freight exp	(17,290)	(20,308)	(4,880)	(4,226)	*15.5*	(4,880)	(4,949)	*(1.4)*	(14,222)	(12,549)	*13.3*
Others	(3,709)	(4,082)	(1,110)	(939)	*18.2*	(1,110)	(1,006)	*10.3*	(3,090)	(2,671)	*15.7*
Total exp	**(21,351)**	**(24,835)**	**(6,131)**	**(5,248)**	***16.8***	**(6,131)**	**(6,065)**	***1.1***	**(17,674)**	**(15,472)**	***14.2***
Operating profit	**9,109**	**10,417**	**2,301**	**2,224**	***3.5***	**2,301**	**2,123**	***8.4***	**6,705**	**6,907**	***(2.9)***
Other Income	684	1,234	417	205	*103.1*	417	325	*28.4*	1,092	536	*103.6*
EBIDTA	**9,794**	**11,651**	**2,718**	**2,429**	***11.9***	**2,718**	**2,447**	***11.0***	**7,797**	**7,443**	***4.8***
Interest	-	-	-	-		-	-		-	-	
Depreciation	(919)	(1,208)	(275)	(242)	*13.9*	(275)	(260)	*5.7*	(794)	(697)	*13.9*
PBT	**8,874**	**10,443**	**2,442**	**2,187**	***11.7***	**2,442**	**2,187**	***11.7***	**7,003**	**6,746**	***3.8***
Tax	(1,965)	(2,216)	(512)	(530)	*(3.4)*	(512)	(445)	*15.1*	(1,460)	(1,530)	*(4.6)*
Prior period			(1)	-		(1)	-		(1)	(2)	
PAT	**6,906**	**8,227**	**1,929**	**1,657**	***16.4***	**1,929**	**1,742**	***10.8***	**5,542**	**5,214**	***6.3***
Key ratios (%)											
Rail freight exps / sales	56.8	57.6	57.9	56.6		57.9	60.4		58.3	56.1	
Other exp / Sales	12.2	11.6	13.2	12.6		13.2	12.3		12.7	11.9	
Operating profit margin	29.9	29.5	27.3	29.8		27.3	25.9		27.5	30.9	
Effective tax rate	22.1	21.2	21.0	24.2		21.0	20.3		20.8	22.7	
Segmental analysis											
SALES (Rs mn)											
Exim	24,435.2	28,149.7	6,676.5	5,808.6	*14.9*	6,676.5	6,558.7	*1.8*	19,338.8	17,971.6	*7.6*
%	80.2	79.9	79.2	77.7		79.2	80.1		79.3	80.3	
Domestic	6,007.2	7,102.1	1,755.8	1,663.4	*5.6*	1,755.8	1,629.0	*7.8*	5,040.5	4,389.6	*14.8*
%	19.7	20.1	20.8	22.3		20.8	19.9		20.7	19.6	
PBIT margin (%)											
Exim	30.4	28.3	28.6	28.8		28.6	26.8		28.2	31.1	
Domestic	17.2	17.6	14.0	23.0		14.0	10.9		14.8	18.6	

Source: Company data, Kotak Institutional Equities estimates.

Banking

IOBK.BO, Rs162	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	229 - 89
Market Cap (Rs bn)	88.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	34.2	37.2	40.4
Net Profit (Rs bn)	10.1	12.2	12.4
EPS (Rs)	18.5	22.3	22.7
EPS gth	*29.6*	*21.3*	*1.8*
P/E (x)	8.8	7.3	7.1
P/B (x)	2.2	1.9	1.6
Div yield (%)	2.2	2.8	3.1

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.2	-	-
FIIs	18.6	0.2	(0.0)
MFs	3.1	0.2	(0.0)
UTI	-	-	(0.2)
LIC	2.1	0.1	(0.1)

Indian Overseas Bank: Profit ahead of estimates, driven by treasury income, operating performance decent

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **IOB reported net profit of Rs3.1 bn, a yoy growth of 25% and 11% ahead of our estimates**
- **NIM continued to be under pressure, while other operational performance was healthy**
- **Retain our ADD rating on the stock with target price of Rs150**

IOB reported net profit of Rs3.1 bn, a yoy growth of 25% and 11% ahead of our estimates. A large part of the difference was due to treasury income. NII growth was in line, though we are disappointed with the continued pressure on NIM and decline in CASA ratio. The positives in the current quarter are robust growth in non-fund based income, healthy asset quality and provisions towards transitional liability under the revised AS-15 guidelines. We have very marginally tweaked our earnings estimates for the next two years and retain our ADD rating on the stock with target price of Rs150 and Rs200 based on FY2009 and FY2010 estimates.

NII growth moderate, while NIM continues to be under pressure. IOB's net interest income in 3QFY08 was Rs6.6 bn, which was a growth of 8% yoy and marginally ahead of estimates. IOB's NIM continues to be under pressure and declined to 3.11% in 3QFY08 from 3.39% in 1HFY08. The proportion of low cost deposits to overall deposits has declined to 30.9% as of December 2007. We are however encouraged by the slowdown in asset growth, deposits remained virtually flat at Rs788 bn as of December 2007 compared to Rs783 bn as of September 2007. The management has been indicating that it would be reducing its bulk deposits and reducing its cost of funds. We have currently modeled a NIM of 2.7% and 2.9% in FY2009 and FY2010, which is similar to our previous estimates.

Non-interest income continues to remain robust. IOB booked non-interest income of Rs2.8 bn in 3QFY08—a growth of 41%yoy and 33% ahead of estimates. The company booked treasury gains (adjusted for investment amortization) of Rs1.4 bn likely benefiting from buoyant capital markets. The company has reported Rs720 mn of income from sale of third party products compared to Rs440 mn in the corresponding period previous year. The company has an available-for-sale investment portfolio of Rs289 bn with a duration of 4.4 years as of December 2007. Given the softening of Gsec yields over the past two weeks, the company could book significant capital gains.

Provisions towards meeting the transitional liability under AS-15 guidelines, remains a positive. IOB has decided to amortize its transitional liabilities arising out of the defined pension scheme of its employees over a five year-period. The company in its release to the stock exchange has indicated that it has a transitional liability of Rs5.5 bn. Consequently, it has incurred an expense of Rs963 mn over the first nine months of FY2008, which is recognized in the employee expenses line.

Overall provision burden was low aided by write-back in investment depreciation expenses. IOB had an investment write-back of Rs300 mn aided by the softening of Gsec yields. The healthy asset quality gross NPLs of Rs10.2 bn (1.9% gross NPL ratio) as of December 2007 also helped the company have lower credit provisions of Rs590 mn in the current quarter.

Indian Overseas Bank, Quarterly results (Rs mn)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3QFY08KS	Actual Vs KS
Interest income	12,409	13,721	14,737	17,454	18,462	19,303	20,759	40.9		
Interest on advances	8,337	9,392	9,924	11,358	12,890	13,059	14,279	43.9		
Income from invts	3,880	3,945	4,362	4,846	4,944	5,675	5,938	36.1		
Bal with RBI	192	384	451	1,250	628	570	542	20.0		
Interest expenses	6,653	7,602	8,686	9,771	11,372	12,982	14,199	63.5		
Net interest income	**5,755**	**6,119**	**6,051**	**7,682**	**7,090**	**6,321**	**6,560**	**8.4**	**6,414**	**2.3**
Non-interest income	2,511	1,520	1,980	2,555	1,616	2,405	2,795	41.1	2,100	33.1
Treasury income	1,345	100	1,042	1,170	130	1,205	1,420	36.3	200	
Other income (excluding treası	1,166	1,420	938	1,385	1,486	1,200	1,375	46.5	1,900	
Total income	8,267	7,639	8,031	10,237	8,706	8,726	9,355	16.5	8,514	9.9
Operating expenses	3,302	3,491	3,116	3,970	3,614	3,486	3,824	22.7	3,500	9.2
Employee	2,342	2,413	2,133	2,423	2,431	2,239	2,598	21.8	2,300	13.0
Others	960	1,078	982	1,547	1,183	1,247	1,226	24.8	1,200	2.1
Operating profit	4,965	4,148	4,916	6,267	5,092	5,240	5,531	12.5	5,014	10.3
Provisions	2,299	541	1,251	2,470	1,620	743	967	(22.7)	1,150	(15.9)
Loan loss	154	460	520	1,025	776	208	590		500	
Invt. Depreciation	1,219	-350	8	1,050	-70	17	-300		0	
PBT	2,666	3,607	3,665	3,798	3,472	4,497	4,564	24.5	3,864	18.1
Taxation	445	1,108	1,197	900	787	1,300	1,482	23.9	1,082	37.0
Net profit	**2,220**	**2,499**	**2,468**	**2,898**	**2,685**	**3,197**	**3,082**	**24.9**	**2,782**	**10.8**
Tax rate	17	31	33	24	23	29	32		28	
Key balance sheet items (Rs bn)										
Deposits	532	570	592	687	702	783	788	33.1		
CASA ratio (%)	38.2	37.7	36.0	34.9	32.8	31.8	30.9			
Advances	379	411	441	479	486	513	546	23.9		
Asset quality details										
Gross NPA (Rs bn)	11.9	12.2	11.2	11.2	11.4	10.8	10.2	(9.0)		
Gross NPLs (%)	3.1	3.0	2.5	2.3	2.3	2.1	1.9			
Net NPA (Rs bn)	1.8	2.2	2.1	2.6	2.4	1.8	1.9	(6.2)		
Net NPLs (%)	0.5	0.6	0.5	0.6	0.5	0.4	0.4			
Yield management measures (%)										
Yield on advances	9.05	9.49	9.46	9.58	10.49	10.50	10.83			
Yield on investments	8.41	8.33	8.17	8.13	8.00	7.95	NA			
Yield on funds	8.67	0.00	0.00	0.00	9.66	NA	9.86			
NIM	4.01	4.01	3.72	4.16	3.71	3.39	3.30			
Cost of deposits	4.78	4.99	5.34	5.24	5.93	6.43	6.68			
Cost of funds	0.00	0.00	0.00	0.00	6.11	6.47	6.75			
Capital adequacy details (%)										
CAR (%)	13.37	14.66	13.95	13.21	13.31	13.31	12.95			
Tier I	9.14	8.90	NA	8.20	NA	NA	8.49			

Source: Company, Kotak Institutional Equities estimates.

Indian Overseas Bank earnings estimates (Rs mn)

March fiscal year-ends, 2008E-2010E

	Old Estimates			New Estimates			% chg		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	28,131	32,622	37,957	28,150	32,540	38,825	0.1	(0.3)	2.3
Advances	581,195	685,810	788,681	581,195	685,810	788,681	-	-	-
Spread (%)	2.77	2.76	2.83	2.75	2.74	2.89			
Loan loss provisions	2,104	4,435	7,372	2,629	3,801	6,635	25.0	(14.3)	(10.0)
Other income	8,221	8,526	9,362	9,073	7,873	8,639	10.4	(7.7)	(7.7)
Fee income	4,659	5,357	6,000	4,270	4,911	5,500	(8.3)	(8.3)	(8.3)
Treasury income	1,000	500	500	3,200	1,200	1,200			
Operating expenses	15,121	17,212	19,532	15,121	17,212	19,532	-	-	-
Employee expenses	9,869	11,350	13,052	9,869	11,350	13,052	-	-	-
Investment amortization	2,400	1,920	1,344	2,450	1,960	1,372	2.1	2.1	2.1
PBT	16,780	17,583	19,070	17,149	17,441	19,924	2.2	(0.8)	4.5
Net profit	**12,082**	**12,659**	**13,730**	**12,176**	**12,383**	**14,146**	**0.8**	**(2.2)**	**3.0**
Profit bef. treasury and investment	15,727	17,083	18,570	13,599	16,241	18,724	(13.5)	(4.9)	0.8
+ NPL provisions	17,831	21,517	25,942	16,229	20,042	25,359	(9.0)	(6.9)	(2.2)

Source: Kotak Institutional Equities estimates.

Banking

ORBC.BO, Rs254	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	240
52W High -Low (Rs)	321 - 157
Market Cap (Rs bn)	63.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	22.6	22.9	26.1
Net Profit (Rs bn)	5.8	5.9	6.2
EPS (Rs)	33.0	33.4	34.5
EPS gth	*2.9*	*1.3*	*3.3*
P/E (x)	7.7	7.6	7.4
P/B (x)	1.4	1.2	1.1
Div yield (%)	1.9	1.9	2.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	18.9	0.1	(0.0)
MFs	5.0	0.2	0.1
UTI	-	-	(0.2)
LIC	13.8	0.5	0.4

Oriental Bank of Commerce: Core performance under pressure, stock will likely continue to underperform

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **Poor operational performance resulted in PAT declining by 18% yoy to Rs2 bn**
- **Higher treasury gains and lower provisions were the prime drivers of earnings for the company**
- **We retain our SELL recommendation on the stock with target price of Rs240**

OBC's operational performance in 3QFY08 was under pressure, which resulted in the company reporting a 18% yoy decline in PAT to Rs2 bn. OBC disappointed once again with a decline of 5% in net interest income, while non-interest income (ex-treasury) remained sluggish at 5% yoy. Higher treasury gains and lower provisions were the prime drivers of earnings for the company. Net profit growth was also adversely impacted by an increase in effective tax rate in 3QFY08 compared to 3QFY07. We have marginally tweaked our estimates. While the company may continue to show lower NII growth for another two quarters, lower provisions will likely offset this. We retain our SELL recommendation on the stock and believe the underperformance will likely sustain till the company reverses this adverse trend. Our target price based on FY2009 stands at Rs240.

Core earnings continue to be under pressure. Oriental Bank of Commerce's net interest income declined 5% yoy in 3QFY08 to Rs4 bn, this was the second consecutive quarter of decline in NII at the company. Further, growth in non-interest income (ex-treasury) was also sluggish and increased by 5% yoy to Rs1.1 bn in 3QFY08.

The asset growth continues to remain rather strong with (1) deposits increasing by 22% yoy to Rs742 bn, (2) advances increasing by 24% yoy to Rs512 bn as of December 2007. Consequently, the incremental growth in deposits and advances in 3QFY08 were Rs50 bn and Rs44 bn – highest in the past six quarters. The management has indicated that its enhanced deposit mobilization efforts over the last two quarters will enable it to reduce redeem Rs50 bn of high cost deposits in 4QFY08 and improve its margin.

Softer interest rates and stable asset quality imply lower provision burden. OBC had an available-for-sale investment book of Rs134 bn with a duration of 3.2 years. The softening of Gsec yields led to the company writing back investment depreciation expenses to the tune of Rs322 mn. The company's asset quality remained healthy at a gross NPL ratio of 2.7% and net NPL ratio of 0.7% as of December 2007 and helped reduce its provision burden.

Higher effective tax rate also impacted profits. OBC reported an effective tax rate of 26% in 3QFY08 compared to 18% reported in 3QFY07, which also had an adverse impact on profits. We remain unclear of the reasons for the increase in effective tax rate at the company.

OBC, Quarterly results, (Rs mn)	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3Q08KS	Actual Vs KS
Interest income	11,353	12,822	13,136	14,336	15,341	16,457	17,479	33.1		
Loans	7,169	7,823	8,474	9,528	11,039	11,586	12,391	46.2		
Investments	3,899	4,320	3,891	3,876	3,985	4,495	4,723	21.4		
Balance with RBI & banks	269	421	771	865	317	272	350	(54.6)		
Others	17	259	0	67	1	103	14			
Interest expense	7,244	8,695	8,924	9,874	10,910	12,462	13,456	50.8		
Net interest income	**4,110**	**4,128**	**4,212**	**4,462**	**4,431**	**3,995**	**4,024**	**(4.5)**	**4,150**	**(3.0)**
Non-int.income	**1,687**	**1,579**	**1,330**	**1,437**	**1,512**	**1,425**	**1,674**	**25.9**	**1,700**	**(1.5)**
Other income excluding treasury	1211	950	1,037	950	1,356	959	1,086	4.7	1,200	(9.5)
Sale of invts.	476	629	293	487	156	466	588	100.6	500	17.7
Total income	**5,797**	**5,707**	**5,542**	**5,899**	**5,943**	**5,420**	**5,697**	**2.8**	**5,850**	**(2.6)**
Op. expenses	**2,287**	**2,566**	**2,476**	**2,650**	**2,642**	**2,698**	**2,730**	**10.2**	**2,750**	**(0.7)**
Employee cost	1,332	1,313	1,304	1,261	1,440	1,446	1,518	16.5	1,450	4.7
Other cost	955	1,253	1,173	1,390	1,202	1,253	1,212	3.3	1,300	(6.8)
Operating profit	3,510	3,141	3,066	3,249	3,301	2,722	2,967	(3.2)	3,100	(4.3)
Provisions and cont.	1,477	(737)	81	1,616	556	(191)	258	219.1		
Investment Depreciation	2,096	(640)	150	1,900	790	(53)	(322)	(314.9)		
NPLs	(620)	(357)	(65)	(237)	(251)	(388)	390	(700.0)		
PBT	**2,033**	**3,878**	**2,985**	**1,633**	**2,745**	**2,913**	**2,710**	**(9.2)**	**3,100**	**(12.6)**
Tax	481	771	550	462	741	551	713	29.7	775	(8.1)
Net profit	**1,553**	**3,108**	**2,436**	**1,171**	**2,004**	**2,362**	**1,997**	**(18.0)**	**2,325**	**(14.1)**
Tax rate (%)	23.6	19.9	18.4	28.3	27.0	18.9	26.3		25.0	
Extraordinary items	612	612	612	623	612	612	612		612	
Profit after ext items	**940**	**2,495**	**1,823**	**549**	**1,392**	**1,750**	**1,385**	**(24.0)**	**1,713**	**(19.1)**
PBT-invt gains+extra. item	**3,653**	**2,610**	**2,842**	**3,046**	**3,379**	**2,394**	**1,799**	**(36.7)**	**2,600**	**(30.8)**
Key balance sheet items (Rs bn)										
Deposits	545	598	607	640	645	692	742	22.2	8	
CASA	167	182	183	193	181	187	195	6.8		
CASA ratio (%)	30.6	30.4	30.1	30.1	28.0	27.0	26.3			
Advances	364	387	415	454	451	469	512	23.5	38	
Total retail loans	67	71	69	75	NA	NA	NA	NA		
Housing	51	54	53	58	NA	NA	NA	NA		
Retail to total loans	18.5	18.5	16.6	16.4						
Investments	199	200	199	200	203	NA	245	23.1		
Asset quality details										
Gross NPLs (Rs bn)	20.5	18.5	17.5	14.5	14.9	13.9	14.0	(20.1)		
Gross NPLs (%)	5.6	4.8	4.2	3.2	3.3	3.0	2.7			
Net NPLs (Rs bn)	1.6	1.7	1.8	2.2	2.8	2.9	3.3	86.6		
Net NPLs (%)	0.5	0.5	0.5	0.5	0.7	0.6	0.7			
Yield management measures (%)										
Yield on advances	8.1	8.5	8.5	8.8	10.0	10.1	10.2			
Yield on investments	8.2	8.1	8.0	8.0	7.9	8.1	8.0			
Cost of deposits	5.3	5.60	5.7	6.1	6.60	6.9	7.0			
Net interest margin	2.60	2.54	2.80	2.70	2.70	2.42	2.40			
Capital adequacy details (%)										
CAR	12.1	13.3	13.08	12.5	13.9	13.59	12.67			
Tier I	10.4	NA	10.57	10.1	10.5	10.38	9.73			
Tier II	1.7	NA	2.51	2.5	3.4	3.21	2.94			

Source: Company, Kotak Institutional Equities estimates.

OBC (Old and new estimates) (Rsmn)

	Old Estimates			New Estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	17,268	20,098	23,686	16,640	19,987	24,992	(3.6)	(0.6)	5.5
Advances (Rs bn)	535	642	762	540	647	768	0.8	0.8	0.8
NIM (%)	2.23	2.21	2.21	2.14	2.18	2.30			
Loan loss provisions	488	2,943	5,616	245	1,780	5,663	(49.8)	(39.5)	0.8
Other income	6,542	6,796	7,412	6,302	6,110	6,664	(3.7)	(10.1)	(10.1)
Fee income	3,639	4,185	4,687	3,245	3,634	4,070	(10.8)	(13.2)	(13.2)
Treasury income	1,200	800	800	1,600	800	800			
Operating expenses	11,142	12,742	14,443	11,123	12,689	14,390	(0.2)	(0.4)	(0.4)
Employee expenses	5,815	6,788	7,747	5,974	6,973	7,958	2.7	2.7	2.7
Investment dep/amortization	1,611	60	51	415	60	51	(74.3)	-	-
PBT	**8,110**	**8,689**	**10,989**	**8,698**	**9,107**	**11,552**	**7.3**	**4.8**	**5.1**
Net profit	**5,677**	**6,082**	**7,692**	**5,915**	**6,192**	**7,855**	**4.2**	**1.8**	**2.1**
PBT before adjustment for GTB losses	10,558	11,137	13,437	11,146	11,555	14,000	5.6	3.7	4.2
Net profit pre GTB loss amortization	**8,125**	**8,530**	**10,140**	**8,363**	**8,640**	**10,303**	**2.9**	**1.3**	**1.6**

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

JUBO.BO, Rs321	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	460
52W High -Low (Rs)	378 - 227
Market Cap (Rs bn)	56.3

Financials

March y/e	2006	2007E	2008E
Sales (Rs bn)	18.1	24.2	29.4
Net Profit (Rs bn)	2.3	4.2	3.8
EPS (Rs)	13.0	23.7	21.5
EPS gth	*52.6*	*82.4*	*(9.5)*
P/E (x)	24.7	13.5	15.0
EV/EBITDA (x)	17.0	9.8	9.6
Div yield (%)	0.3	0.5	0.7

Jubilant Organosys: Operating performance is stronger than expected

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127

Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **3QFY08 revenues, 3% above KSE at Rs6.4 bn driven by CRAMS revenue growth**
- **EBITDA margins at 20% vs. KSE 18%, driven by CRAMS segment**
- **PAT at Rs894 mn, 18% above KSE due to higher other income**
- **Company reiterates FY2008 sales growth guidance of 35%**
- **Maintain BUY rating with a SOTP-based target price of Rs460**

Jubilant reported revenues at Rs6.4 bn, 3% above expectations driven CRAMS and injectable business revenue expansion. Operating leverage and forex gains relating to bonds helped Jubilant report PAT and EBITDA 18% and 17% above KSE. The stock trades at 13.2X FY2008E and 14.7X FY2009E earnings. Maintain BUY rating with a SOTP-based target price of Rs460. FY2009E and FY2010E estimates are unchanged. FY2008E PAT increased to reflect YTD performance.

3QFY08 revenues, 3% above expectations at Rs6.4 bn driven by CRAMS. Revenue growth was driven by CRAMS (Contract research and manufacturing) segment, 24% above KSE. Hollister-Stier reported revenues of Rs811 mn, 27% above KSE boosting segment revenue to Rs3.4 bn vs. KSE Rs2.7 bn. Excluding Hollister, CRAMS revenues was 23% above KSE. APIs registered sales of Rs570 mn, 36% above KSE on the back of increased sales from products including Oxcarbazepine (generic Trileptal in USA) sales. 5 generic companies have filed ANDAs based on Jubilant API while two have started buying material from them.

EBITDA margins at 20% vs. KSE 18% driven by CRAMS segment. Margins were higher due to higher proportion of better margin CRAMS segment at 62% of total sales (56% KSE). Pharma and life science segment (PLSPS) which includes CRAMS (86% of PLSPS sales) reported EBIT margin of 22% vs. KSE 20% while industrial segment (38% of sales) reported margin of 15% against 18% KSE. Performance chemical segment was impacted by high material prices while industrial product segment improved margin due to low molasses prices.

PAT at Rs894 mn, 18% above KSE due to higher other income. PAT was higher due to higher other income of Rs231 mn vs. KSE Rs94 mn. This included Rs133 mn of forex gain. However, tax rate at 21% was higher than KSE 14%. Effective tax rate for the previous two quarters was 16% and 7%.

4QFY08E estimates. We expect 4QFY08E revenues to grow 34% yoy to Rs6.2 bn and EBITDA margins to expand to 18%. We expect pharma and life science revenues of US$94 mn vs. US$100 mn this quarter. EBITDA margin is lower QoQ due to lower sales forecast. We continue to forecast forex gains and other income of Rs150 mn on a conservative basis. We assume a tax rate of 17% for the remaining quarter in line with guidance of 15% for FY08E. As a result, we expect PAT of Rs740 mn for 4QFY08E.

Company reiterates full year sales growth guidance of 35%. For FY2008E, Jubilant expects sales growth of 35%. We have modeled revenue growth of 34% for FY2008E and 21% for FY2009E when revenue growth will be driven by (1) 40% sales growth at Hollister on the back of increased capacities (from 48 to 120 mn vials per annum) which is expected to come on stream in 4QFY08E, (2) increase in services business on account of strong product pipeline (13 in phase III, 19 in phase II and 21 in phase I), and (3) strong pipeline of APIs and new launches. Jubilant filed 24 DMFs this year with 5 being filed in this quarter and has more than 19 products in the pipeline.

Forecasts and valuation, March fiscal year-ends, 2006-2010E

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	14,990	28.1	2,170	4.5	1,297	8.8	8.5	13.7	19.5	37.1
2007	18,097	20.7	3,194	47.2	2,280	75.8	13.0	12.5	26.3	24.3
2008E	24,264	34.1	4,493	40.7	4,183	83.5	23.9	12.7	31.6	13.2
2009E	29,440	21.3	5,502	22.5	3,763	(10.0)	21.5	14.0	19.8	14.7
2010E	35,946	22.1	7,058	28.3	4,706	25.1	26.9	16.5	20.7	11.8

Source: Company data, Kotak Institutional Equities.

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

	3QFY07	2QFY08	3QFY08	3QFY08 KSE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KSE)
Net sales	**4,693**	**6,183**	**6,416**	**6,235**	**37**	**4**	**3**
Change in stock	(173)	132	(202)	125	NM	NM	NM
Cost of trading goods sold	129	117	113	112	(12)	(3)	1
RM consumed	2,245	2,057	2,505	2,120	12	22	18
Stores, spares	284	466	442	449	56	(5)	(2)
Mfg exp	463	543	614	542	33	13	13
Staff cost	581	1,029	1,033	1,076	78	0	(4)
Selling exp	470	706	616	705	31	(13)	(13)
Total Expenditure	**3,999**	**5,050**	**5,121**	**5,130**	**28**	**1**	**(0)**
EBITDA	**694**	**1,133**	**1,295**	**1,106**	**87**	**14**	**17**
Other income	388	385	231	94	(40)	(40)	147
Interest	49	109	123	104	151	13	**19**
Depreciation	158	237	247	222	56	4	11
PBT	**875**	**1,172**	**1,156**	**874**	**32**	**(1)**	**32**
Tax	236	76	244	121	3	221	102
PAT	**639**	**1,096**	**912**	**753**	**43**	**(17)**	**21**
Minority interest	(14)	(4)	(7)	(7)	NM	NM	NM
Exceptional item	(16)	—	(25)	—	NM	NM	NM
PAT	**637**	**1,100**	**894**	**760**	**40**	**(19)**	**18**
Pharmaceutical and life science	2,348	3,682	3,978	3,512	69	8	13
CRAMS	1,733	3,116	3,428	2,767	98	10	24
Proprietary intermediates		1,737	1,842	1,541	NM	6	20
Custom synthesis		193	205	171	NM	6	20
API		426	570	418	NM	34	36
Hollister		760	811	637	NM	7	27
Drugs discovery & development		414	379	478	NM	(9)	(21)
Dosage forms		152	171	267	NM	13	(36)
Industrial and performance polymers	2,345	2,501	2,438	2,724	4	(3)	(10)
Total	**4,693**	**6,183**	**6,416**	**6,235**	**37**	**4**	**3**

Source: Company data, Kotak Institutional Equities.

Technology

MBFL.BO, Rs225	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	250
52W High -Low (Rs)	340 - 200
Market Cap (Rs bn)	47.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	12.0	24.4	33.3
Net Profit (Rs bn)	1.2	2.6	3.5
EPS (Rs)	7.3	12.5	16.8
EPS gth	*(21.5)*	*70.6*	*35.1*
P/E (x)	30.9	18.1	13.4
EV/EBITDA (x)	22.3	10.4	8.0
Div yield (%)	1.0	1.6	1.8

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.9	-	-
FIIs	9.6	0.1	(0.1)
MFs	8.6	0.4	0.2
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Mphasis BFL: Margins continue to disappoint; seasonality impacts revenue growth. Maintain REDUCE rating

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **3QFY08 results—negative surprises on OPM continue**
- **Traction in EDS channel continues**
- **EPS growth will be a function of improvement in margins; recent performance lends little confidence on this front**
- **Maintain REDUCE rating**

Mphasis' reported 3QFY08 revenues at Rs6.32 bn and net income at Rs663 mn were below our expectations. Revenues grew 7% in US$ terms to US$161 mn and 5.3% in Re terms to Rs6.32 bn), robust but marginally below expectations. However, Mphasis' margin performance continued to disappoint; EBITDA margins declined 40bps qoq (our expectation was a 30bps improvement) despite 130bps positive impact of SG&A efficiencies. Margins were impacted by rupee appreciation and a sharp dip in utilization rates and perhaps lower number of billing days in the quarter. We continue to remain positive on the growth momentum of the company (on the back of sustained strength from the EDS channel) but remain concerned about the company's ability to expand margins. We have fine-tuned our model to reflect our revised margin assumptions. Our revised FY2009E and FY2010E EPS estimates stand at Rs16.8 (Rs17.9 earlier) and Rs18 (Rs19.2 earlier), respectively. Valuations at 13.8xFY2009E are trending towards attractive but it still expensive rating relative to the sector. Maintain REDUCE with end-March 2009 DCF-based target price of Rs250/share (Rs290/share earlier).

3QFY08 results—negative surprises on OPM continue: Mphasis reported revenues of Rs6.32 bn in 3QFY08, up 5.3% qoq in Re terms. Growth was moderate in both IT services (including ITO) and BPO businesses. The company attributed the deceleration in revenue growth to the lower number of billing days in the quarter (IT services volumes growth was a modest 5%) and certain projects coming to a closure. The key negative surprise was in the form of another quarter of decline in margins (EBITDA margins were down 40 bps on a qoq and 190 bps on a yoy basis) despite 130 bps positive impact of lower SG&A expenses. The sharp decline in margins was primarily on account of the dip in utilization (to 68% from 73% in 2QFY08) and impact of appreciation in the rupee. Lower SG&A expenses likely reflect a higher proportion of revenues from EDS' internal work and through other EDS channels. The company now derives 54% of its revenues from various EDS channels as opposed to 49% in the previous quarter. This implies a 5.3% decline in non-EDS channel revenues, an area of concern in our view. Net income improved remained flat qoq, 14% lower than our estimates on account of lower-than-expected margins and higher forex losses.

Expect revenue momentum from EDS channel to continue; the company needs to invest in S&M to grow the non-EDS channel: We believe that EDS parentage will likely help Mphasis sustain the strong growth momentum it has displayed over the past two quarters. We note that a bulk of incremental revenues for Mphasis are coming from various EDS channels—in fact, EDS channel revenues made up for the qoq revenue decline of 5.3% from the non-EDS channel in 3QFY08. Also, 11 out of 18 new clients added by Mphasis in the quarter came through the EDS route. We believe that EDS parentage provides Mphasis significant opportunities to drive revenue growth through (a) further penetration of EDS' current client base (b) joint go-to-market with EDS and (c) incremental internal EDS work. However, solid execution and continuous investments in ramping capabilities remains the key, in our view. In addition, we believe that the company needs to increase investments in sales and marketing to revive growth in the non-EDS channel.

EPS growth will be a function of improvement in margins; recent performance lends little confidence on this front: We remain concerned about Mphasis' ability to deliver significant improvement in its operating margins in the near-term. We expect margin improvement in the coming quarters to be capped given (1) the company needs to make further investments in facilities and training infrastructure; the company indicates that it will accelerate its fresher hiring program over the next two years to broaden the pyramid, (2) investments in BPO transformation continues; non-voice revenue within the BPO business are now at 48%, (3) ceiling on realization improvements given the cost-plus nature of internal work done for EDS; and (4) little scope to gain further SG&A efficiencies; Mphasis' SG&A as % of revenues in 2QFY08 stood at 10.1%, lowest in the industry; we do not see further potential on this lever. In fact, Mphasis will likely have to increase its sales and marketing spend which has been declining on an absolute basis for the past few quarters (Selling expenses down 4.2% yoy). We model 12% EBIT margins for the company in FY2009E and 11.7% in FY2010E.

Other key metrics and hiring guidance for CY2008: We highlight some of the other key aspects of the 3QFY08 results—(1) client metrics continued to improve with the number of US$1 mn clients improving to 89 from 86 in the previous quarter; number of US$20mn clients also increased to 8 from 7 at end-2QFY08, (2) The company recruited 2,158 employees during the quarter, ending CY2008 with net hiring of 9,205 employees. The company has guided for a net hiring of 8,000-10,000 in CY2008, conservative in our view and likely reflective of the management's focus on improving utilization rates, (3) Tax rates continued to be low; Mphasis' effective tax rate in 9MFY08 has been 6.2%, significantly below our expectations.

Revising estimates, maintain REDUCE rating: We have revised our EPS estimates downwards to reflect our revised margin assumptions. Our revised EPS estimates for FY2009E and FY2010E now stand at Rs16.8 and Rs17.9 versus Rs18 and Rs19.2 earlier, respectively. The stock is currently trading at 14xFY2009E EPS, similar to some of the larger peers like Satyam. Maintain REDUCE with a revised end-March 2009 DCF-based target price of Rs250/share (Rs290/share earlier).

Key changes to FY2008-10 estimates

	New			Old			Change (%)		
Rs mn	FY2008	FY2009	FY2010	FY2008	FY2009	FY2010	FY2008	FY2009	FY2010
Revenues	**24,423**	**33,266**	**41,848**	**24,635**	**33,788**	**42,782**	**(0.9)**	**(1.5)**	**(2.2)**
EBITDA	4,341	5,738	6,927	4,532	6,080	7,415	(4.2)	(5.6)	(6.6)
Depreciation	(1,409)	(1,745)	(2,051)	(1,315)	(1,809)	(2,231)	7.2	(3.5)	(8.1)
EBIT	2,932	3,993	4,876	3,217	4,271	5,184	(8.9)	(6.5)	(6.0)
Net Profit	**2,599**	**3,511**	**3,760**	**2,876**	**3,735**	**3,997**	**(9.6)**	**(6.0)**	**(5.9)**
EPS (Rs/ share)	**12.5**	**16.8**	**18.0**	**13.8**	**17.9**	**19.2**	**(9.6)**	**(6.0)**	**(5.9)**
Margins (%)									
EBITDA	17.8	17.2	16.6	18.4	18.0	17.3			
EBIT	12.0	12.0	11.7	13.1	12.6	12.1			
EPS	**12.5**	**16.8**	**18.0**	**13.8**	**17.9**	**19.2**	**(9.6)**	**(6.0)**	**(5.9)**
Re/US$ rate	39.8	38.5	37.5	39.9	38.5	37.5	**(0.1)**	**(0.0)**	**0.0**

Source: Kotak Institutional Equities estimates.

MphasiS BFL Interim Results (Rs mn)

				% chg.		Kotak Estimates		
Consolidated figures	**3QFY07**	**2QFY08**	**3QFY08**	**qoq**	**yoy**	**3QFY08**	**% deviation**	**Comments**
IT services revenues	3,516	4,702	4,953	*5.3*	*40.9*	4,987	*(0.7)*	
ITES revenues	1,031	1,314	1,369	*4.2*	*32.8*	1,382	*(0.9)*	
Total revenues	**4,547**	**6,017**	**6,323**	***5.1***	***39.1***	**6,370**	***(0.7)***	**Revenue growth marginally below expectations in both IT services as well as BPO business. Impacted by lower number of billing days in the quarter.**
Cost of revenues	(3,354)	(4,590)	(4,951)	*7.9*	*47.6*	(4,841)	*2.3*	Gross margins substantially below expectations on account of sharp dip in utilization and rupee appreciation during the quarter
Gross profit	**1,193**	**1,427**	**1,371**	***-3.9***	***14.9***	**1,529**	***(10.3)***	
Selling expenses	(217)	(251)	(208)	*-17.3*	*-4.2*	(256)	*(19.0)*	SG&A efficiencies coming through on the back of synergies with EDS India
G&A	(371)	(425)	(424)	*-0.2*	*14.3*	(443)	*(4.2)*	
ESOP amort//bad debts	(4)	(12)	(9)	*-25.5*	*134.4*	(12)	*(27.2)*	
EBIT (a)	**601**	**739**	**730**	***-1.2***	***21.5***	**817**	***(10.6)***	**EBIT margins declined 80bps qoq versus our expectation of a 50bps improvement**
Depreciation (b)	282	340	374	*10.0*	*32.7*	340	*10.1*	
EBITDA (a+b)	**883**	**1,079**	**1,104**	***2.3***	***25.1***	**1,157**	***(4.5)***	
Non-operating income	(100)	(37)	(44)	*19.4*	*-56.0*	5	*(1,013.6)*	Forex losses of Rs44 mn in 3QFY08
Interest income	15	22	16	*-26.7*	*5.6*	26	*(38.5)*	
PBT	**516**	**724**	**702**	***-3.0***	***36.0***	**848**	***(17.2)***	
Tax	(36)	(61)	(40)	*-34.8*	*11.2*	(80)	*(50.2)*	
Reported PAT	481	663	663	*-0.1*	*37.9*	768	*(13.8)*	
Net income	**481**	**663**	**663**	***-0.1***	***37.9***	**768.2**	***(13.8)***	**Net income below expectations due to higher cost of revenues and forex losses**
EPS (Rs)	2.2	3.2	3.2	*-0.1*	*43.9*	3.7	*(13.8)*	
Margins (%)								
Gross Profit Margin	26.2	23.7	21.7			24.0		
EBITDA margin	19.4	17.9	17.5			18.2		
EBIT margin	13.2	12.3	11.5			12.8		

Source: Company, Kotak Institutional Equities estimates.

Construction

CCCL.BO, Rs1050	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	1,150
52W High -Low (Rs)	1220 - 510
Market Cap (Rs bn)	38.8

Financials

March y/e	2027	2028E	2029E
Sales (Rs bn)	8.6	17.1	24.1
Net Profit (Rs bn)	0.5	1.2	1.8
EPS (Rs)	14.3	32.6	48.1
EPS gth	*125.0*	*127.3*	*47.6*
P/E (x)	73.2	32.2	21.8
EV/EBITDA (x)	53.4	21.6	14.9
Div yield (%)	0.1	0.4	0.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	-	-	-
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Consolidated Construction Consortium: Miss expectations with lower-than-expected execution and margins

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **CCCL numbers missed expectations led by project specific execution issues and lower-than-expected margins**
- **Revise earnings estimates downwards as we build in lower execution and margins**
- **Revise target price to Rs1050/share, maintain REDUCE rating**
- **Highlight superior execution capabilities in a strong demand environment that provides company with an advantageous position**

In 9MFY08 CCCL has reported revenues of Rs9.8 bn, operating profit of Rs790 mn and PAT at Rs513 mn. Our full year expectations were revenues of Rs17.2 bn, operating profit of Rs1,736 mn and PAT of Rs1,205 mn. CCCL has reported operating margins at 8.0% for 9MFY08 versus our expectation of 10.1% for the full year. Execution has been lower-than-expected probably led by (a) project specific issues such as unavailability of statutory clearances etc. Margins have been partially affected by idling of equipment on project sites where execution could not pick up as desired. We have revised our EPS estimates for FY2008E to Rs27.5 (from Rs33.4 earlier) and FY2009E to Rs41.6 versus Rs48.1 earlier based on lower execution and margin expectations and revise our target price downwards to Rs1,050 per share (from Rs1,150/share earlier). We maintain our reduce rating on the stock at the stock trades at rich P/E multiple of 28.4X and 20X for FY2009E and FY2010E earnings, adjusted for full tax.

CCCL numbers miss expectations led by project specific execution issues and lower-than-expected margins

CCCL has reported revenues of Rs3.3 bn, operating profit of Rs240 mn and PAT of Rs192 mn for 3QFY08. In 9MFY08 CCCL has reported revenues of Rs9.8 bn, operating profit of Rs790 mn and PAT at Rs513 mn. Our full year expectations were revenues of Rs17.2 bn, operating profit of Rs1,736 mn and PAT of Rs1,205 mn. CCCL has reported operating margins at 8.0% for 9MFY08 versus our expectation of 10.1% for the full year.

We believe execution has been lower-than-expected in 9MFY08 probably led by (a) project specific execution issues related to unavailability of statutory clearances to proceed with construction work on some of the orders, and (b) seasonal factors. Margins have been partially affected probably by idling of equipment on project sites where execution could not pick up as desired.

Revise earnings estimates as we build in lower execution and margins, revise target price to Rs1050/share, maintain REDUCE rating

We have revised our EPS estimates for FY2008E to Rs27.5 (from Rs33.4 earlier) and FY2009E to Rs41.6 versus Rs48.1 earlier. Our earnings revision is based on (a) lower execution of Rs15 bn and Rs21.4 bn for FY2008E and FY2009E respectively versus earlier expectation of Rs17.1 bn and Rs24.1 bn of execution during FY2008E and FY2009E and (b) lower margin expectation of 8.7% now for FY2008E versus our earlier estimate of about 10.1% (based on achievement of EBITDA margin of 8% in 9MFY08) and 9.7% for FY2009E versus 10.4% earlier. We revise our target price downwards to Rs1,050 per share (from Rs1,150/share earlier) based on reduction in revenues and earnings estimates in the near-term. We maintain our reduce rating on the stock at the stock trades at rich P/E multiple of 28.4X and 20X for FY2009E and FY2010E earnings, adjusted for full tax. We highlight that CCCL does not recognize current taxes on retention money held by the clients and thus its effective tax rate is lower than rest of the construction universe.

Highlight superior execution capabilities in a strong demand environment that provides company with an advantageous position

We maintain that strong real estate development activity places CCCL, a company with strong execution capabilities in an advantageous position while its better working capital management compared to peers enables strong cash flow generation.

Exhibit 1. CCCL - 3QFY08 - Key nos (Rs mn)

	FY2007A	FY2008E	3QFY08	2Q08A	9mFY08
Sales	**8,633.7**	**15,087.6**	**3,315.6**	**3,830.6**	**9,831.1**
Expenses	**(7,901.7)**	**(13,768.0)**	**(3,075.5)**	**(3,498.2)**	**(9,041.5)**
Operating expenses	(7,131.2)	(12,450.9)	(2,732.6)	(3,172.0)	(8,118.2)
Employee expenses	(402.0)	(666.2)	(198.4)	(159.3)	(480.7)
Administration and sellir	(368.6)	(650.9)	(144.5)	(166.9)	(442.6)
Operating profit	**732.0**	**1,319.6**	**240.1**	**332.4**	**789.6**
Other income	50.3	99.5	21.6	20.2	53.0
EBIDTA	782.3	1,419.1	261.7	352.7	842.6
Interest	(104.0)	(77.8)	(2.4)	(37.3)	(64.9)
Depreciation	(36.3)	(56.6)	(15.6)	(11.9)	(39.5)
PBT	**641.9**	**1,284.7**	**243.8**	**303.5**	**738.1**
Tax	**(164.8)**	**(292.6)**	**(52.2)**	**-**	**(224.9)**
Current	(77.6)	(232.3)	(43.1)	-	(132.9)
Deferred	(87.3)	(60.2)	(7.1)	-	(86.0)
Net profit	**477.1**	**992.1**	**191.6**	**303.5**	**513.2**
Key ratios (%)					
RM / Sales	82.6	82.5	82.4	82.8	82.6
Employee exp/Sales	4.7	4.4	6.0	4.2	4.9
Other exp/Sales	4.3	4.3	4.4	4.4	4.5
OPM	8.5	8.7	7.2	8.7	8.0
PBT Margin	7.4	8.5	7.4	7.9	7.5
Tax rate	12.1	22.8	17.7	0.0	29.7

Source: Company data, Kotak Institutional Equities.

Exhibit 2. CCCL - DCF model, March fiscal year-ends 2008E-2018E (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	**15,088**	**21,370**	**28,573**	**34,174**	**42,135**	**51,852**	**62,420**	**73,468**	**84,488**	**97,161**	**111,735**
Revenue growth (%)	*74.8*	*41.6*	*33.7*	*19.6*	*23.3*	*23.1*	*20.4*	*17.7*	*15.0*	*15.0*	*15.0*
EBITDA	**1,320**	**2,083**	**2,966**	**3,694**	**4,597**	**5,682**	**6,852**	**8,078**	**9,716**	**11,174**	**12,850**
EBITDA margin (%)	*8.7*	*9.7*	*10.4*	*10.8*	*10.9*	*11.0*	*11.0*	*11.0*	*11.5*	*11.5*	*11.5*
Depreciation	(57)	(97)	(133)	(156)	(176)	(205)	(237)	(273)	(273)	(273)	(273)
EBIT	**1,263**	**1,986**	**2,833**	**3,538**	**4,421**	**5,477**	**6,615**	**7,805**	**9,443**	**10,901**	**12,577**
Tax	(218)	(375)	(558)	(1,172)	(1,466)	(1,818)	(2,196)	(2,592)	(3,136)	(3,620)	(4,177)
Change in net working capital	(845)	(1,079)	(1,238)	(1,129)	(1,408)	(1,720)	(1,873)	(1,957)	(2,251)	(2,588)	(2,976)
Capex	(105)	(375)	(248)	(280)	(280)	(350)	(400)	(450)	(518)	(595)	(684)
Free cash flow	**151**	**254**	**923**	**1,113**	**1,442**	**1,794**	**2,383**	**3,079**	**3,812**	**4,370**	**5,012**
PV of each cash flow	151	254	820	880	1,013	1,120	1,322	1,519	1,671	1,703	1,736
EBITDA (%)	**8.7**	**9.7**	**10.38**	**10.81**	**10.91**	**10.96**	**10.98**	**11.00**	**11.50**	**11.50**	**11.50**
Capex (% of sales)	*0.70*	*1.75*	*0.87*	*0.82*	*0.66*	*0.67*	*0.64*	*0.61*	*0.61*	*0.61*	*0.61*

PV of cash flows	12,039	33%
PV of terminal value	24,309	67%
EV	36,348	100%
Debt	(1,540)	
Equity value	37,888	
Shares outstanding (mn)	37	
Equity value (Rs/share)	**1,025**	
Exit FCF multiple (X)	14.0	

FCF in terminal year (Rs mn)	5,012
Exit FCF multiple: (1+g)/(WACC-g)	14.0
Terminal value of FCF (Rs mn)	70,168
Exit EBITDA multiple	5.5

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.0
Market risk premium—(Rm-Rf) (%)	5.5
Beta (x)	1.1
Cost of equity-Ke (%)	14.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	34.0
Debt/Capital (%)	27.8
Equity/Capital (%)	72.2
WACC (%)	12.3
Used WACC (%)	12.5

Sensitivity of DCF value to WACC, Terminal Growth rate

		WACC (%)				
		11.5	12.0	12.5	13.0	13.5
Terminal Growth rate (%)	4.0	1,090	1,011	942	881	827
	5.0	1,207	1,109	**1,025**	952	888
	6.0	1,365	1,240	1,134	1,043	965
	7.0	1,595	1,422	1,282	1,165	1,066
	8.0	1,955	1,696	1,495	1,335	1,204

Base case

Source: Kotak Institutional Equities estimates.

Banking

JKBK.BO, Rs765	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	850
52W High -Low (Rs)	970 - 580
Market Cap (Rs bn)	37.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	9.5	10.3	11.9
Net Profit (Rs bn)	2.7	3.6	3.6
EPS (Rs)	56.6	73.3	74.6
EPS gth	*55.2*	*29.5*	*1.8*
P/E (x)	13.5	10.4	10.2
P/B (x)	2.1	1.8	1.5
Div yield (%)	1.5	1.9	2.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.2	-	-
FIIs	34.3	0.2	0.1
MFs	1.5	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

J&K Bank: Performance better-than-expected, retain ADD

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **J&K Bank reported a PAT of Rs1.1 bn, a growth of 30% yoy and 15% ahead of our estimates**
- **Higher non-interest income and lower provisions were the key drivers of earnings in 3QFY08**
- **We retain our ADD rating on the stock with target price of Rs850**

Jammu and Kashmir Bank (J&K Bank) reported a PAT of Rs1.1 bn, a growth of 30% yoy and 15% ahead of our estimates. Net interest income (NII) growth remained sluggish as expected, but strong growth in non-interest income and lower provisions drove profit at the bank. On positive front margin remained stable qoq and we believe will likely expand going forward as bank sheds bulk deposits. J&K Bank also reported improvement in asset quality with both the gross and net NPLs declining on a sequential basis. We have revised up our earnings estimates for FY2008 by 11% and by a nominal 3-4% for FY009 and FY2010. We retain our ADD rating on the stock with target price of Rs850.

NII growth was in line with expectations. J&K Bank's NII in 3QFY08 was Rs2 bn (3% yoy growth) and in line with our estimates. While overall balance sheet growth was likely strong at around 25% yoy, lower margins yoy led to lower NII growth. J&K Bank's NIM in the current quarter was 3.0% and same as in 2QFY08, but much lower than the 3.56% in 3QFY07. We believe the bank may now be going slow on growth to protect and improve its margin.

Non-interest income continues to be a key driver of earnings. J&K Bank had a non-interest income (adjusted for investment amortization) of Rs765 mn (up 102% yoy). The non-fund based revenues were driven by strong growth in fee income of 52% yoy (Rs321 mn) apart from a treasury income growth of 191% yoy (Rs290 mn).

Operating expenses were inflated by AS-15 provisions. J&K Bank has a transitional pension liability gap of Rs1.5 bn as of March 2007 under the revised AS-15 accounting norms. The company has decided to amortize the same over a five year period and has made the necessary provision in the current quarter. These provisions were recorded as an employee expense by the company in the current quarter.

Asset quality improves on a sequential basis. J&K Bank's net NPLs reduced to Rs1.5 bn (0.8%) as of December 2007 compared to Rs1.7 bn (0.9%) as of September 2007. This is third consecutive quarter of absolute decline in net NPLs at the company. It is to be noted that there was sharp rise in reported NPLs at the company in 4QFY07.

J&K Bank quarterly performance, Rs mn

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3Q08KS	Actual Vs KS
Interest income	4,547	4,621	4,631	5,210	5,751	5,967	6,183	33.5		
Loans	3,141	3,257	3,393	3,754	4,402	4,600	4,810	41.8		
Investments	1,286	1,281	1,146	1,368	1,266	1,325	1,364	19.1		
Balance with RBI & banks	119	84	93	88	82	42	8	(91.1)		
Interest expense	2,760	2,688	2,680	3,187	3,854	4,016	4,169	55.6		
Net interest income	**1,786**	**1,933**	**1,951**	**2,024**	**1,896**	**1,951**	**2,013**	**3.2**	**2,000**	**0.7**
Non-int.income	**272**	**404**	**379**	**760**	**418**	**641**	**765**	**102.0**	**500**	**53.0**
Other income exld treasury	245	330	279	683	398	466	475	70.3	400	18.8
Treasury income	28	74	100	77	21	175	290	190.6	100	189.7
Total income	**2,058**	**2,337**	**2,329**	**2,784**	**2,314**	**2,592**	**2,778**	**19.3**	**2,500**	**11.1**
Operating expenses	829	908	888	1,094	943	1,034	1,039	17.0	1,045	(0.6)
Employee cost	524	552	522	599	610	599	613	17.5	620	(1.1)
Other cost	305	356	366	495	333	436	426	16.3	425	0.2
Operating profit pre provisions	**1,229**	**1,429**	**1,442**	**1,690**	**1,372**	**1,558**	**1,739**	**20.7**	**1,455**	**19.5**
Provisions and cont.	346	249	353	680	250	100	148	(58.1)	100	47.7
Investment Depreciation	91	(50)	-	145	-	-	-			
Credit provisions	200	200	300	454	190	40	86	(71.3)	40	115.3
Standard asset provisions	50	-	50	334	90	40	80	60.0	-	
PBT	884	1,180	1,089	1,010	1,122	1,458	1,592	46.2	1,355	17.5
Tax	260	340	250	557	289	380	500	100.0	407	23.0
Net profit	**624**	**840**	**839**	**453**	**832**	**1,078**	**1,092**	**30.1**	**949**	**15.1**
Tax rate (%)	29.4	28.8	23.0	55.2	25.8	26.1	31.4		25	
PBT-invt gains+ Prov	**1,147**	**1,299**	**1,290**	**1,554**	**1,291**	**1,323**	**1,390**	**7.7**	**1,365**	**1.8**
Key balance sheet items (Rs bn)										
Total Deposits	207	204	203	252	247	260	265	30.7		
Savings deposits	51	53	54	58	59	60	61	13.1		
Current deposits	25	31	28	35	30	32	34	22.8		
Term deposits	130	120	121	159	159	168	170	40.4		
CASA ratio (%)	37.0	40.9	40.4	37.0	35.8	35.2	36.0			
Advances	131	140	148	171	174	181	183	23.3		
Investments	82	75	70	74	77	80	82	17.0		
AFS	31	23	18	NA	22	21	19	7.3		
HTM	51	51	52	NA	56	58	62	20.3		
Assets	238	233	240	286	282	293	301	25.2		
Asset quality details										
Gross NPLs (Rs mn)	3,458	3,760	4,051	5,018	4,872	4,778	4,686	15.7		
Gross NPL ratio (%)	2.6	2.6	2.7	2.9	2.8	2.6	2.5			
Net NPLs (Rs mn)	945	1,050	1,088	1,936	1,693	1,652	1,502	38.0		
Net NPL ratio (%)	0.7	0.8	0.7	1.1	1.0	0.9	0.8			
Yield management measures (%)										
Cost of Deposits (Annualised)	4.89	5.17	5.04	5.58	5.93	6.14	6.19			
Yield on Advances (Annualised)	9.10	9.57	9.41	9.40	10.23	10.38	10.58			
Yield on Investments (Annualised)	5.99	6.55	6.34	6.20	6.71	6.75	6.75			
Net Interest Margins (Annualised)	2.93	3.34	3.56	3.23	2.90	2.97	2.98			
Capital adequacy details (%)										
CAR	12.99	13.20	14.57	13.24	13.01	12.86	13.82			
Tier I	12.57	12.79	14.10	12.60	12.37	12.19	13.12			
Tier II	0.42	0.41	0.47	0.64	0.64	0.67	0.70			
Balance sheet snapshot (Rs mn)										
Capital	485	485	485	485	485	485	485	-		
Reserves and surplus	17,510	17,510	19,802	19,602	19,602	19,602	22,604	14.2		
Deposits	206,996	203,920	202,958	251,943	247,437	259,539	265,270	30.7		
Borrowings	2,615	3,188	8,479	6,202	6,902	4,131	4,187	(50.6)		
Other liabilities and provisions	10,394	8,270	8,218	8,233	7,484	9,379	7,961	(3.1)		
Total	**237,999**	**233,373**	**239,942**	**286,465**	**281,910**	**293,136**	**300,507**	**25.2**		
Cash and balance with RBI	11,088	8,604	14,559	18,548	15,377	21,785	17,128	17.6		
Balance with banks etc	6,340	4,765	1,389	17,590	10,121	3,856	11,706	742.7		
Investments	81,742	74,647	69,901	73,922	77,042	79,895	81,770	17.0		
Advances	131,294	140,199	148,312	170,799	173,512	181,019	182,867	23.3		
Fixed assets	1,903	1,876	1,834	1,834	1,844	1,897	1,950	6.3		
Other assets	5,633	3,283	3,947	3,772	4,014	4,685	5,086	28.9		
Total	**237,999**	**233,373**	**239,942**	**286,465**	**281,910**	**293,136**	**300,507**	**25.2**		

Source:Company, Kotak Institutional Equities estimates.

J&K Bank old and new estimates (Rs mn)

March fiscal year-ends, 2008E-2010E

	Old estimates			New estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net Interest income	7,909	9,701	12,402	8,017	9,764	12,313	1.4	0.6	(0.7)
NIM (%)	2.53	2.57	2.83	2.56	2.60	2.83			
Loan (Rs bn)	219	260	303	209	249	290	(4.2)	(4.2)	(4.2)
Other income	1,906	1,983	2,174	2,316	2,108	2,315	21.5	6.3	6.5
Fee	1,006	1,127	1,262	1,078	1,207	1,352	7.1	7.1	7.1
Treasury	250	150	150	550	150	150			
Total income	9,815	11,684	14,576	10,333	11,872	14,628	5.3	1.6	0.4
Operating expense	4,284	4,970	5,621	4,296	4,982	5,633	0.3	0.2	0.2
Employee expense	2,504	2,920	3,256	2,515	2,933	3,271	0.5	0.5	0.5
Other expense	1,780	2,050	2,365	1,780	2,048	2,362	0.0	(0.1)	(0.1)
Provisions	824	1,628	2,969	810	1,568	2,851	(1.7)	(3.7)	(4.0)
NPLs	584	1,436	2,815	570	1,376	2,698	(2.3)	(4.2)	(4.2)
Invt depreciation	-	-	-	-	-	-			
Invt amortization	240	192	154	240	192	154			
PBT	4,706	5,086	5,987	5,226	5,322	6,144	11.0	4.6	2.6
Tax	1,506	1,627	1,916	1,672	1,703	1,966	11.0	4.6	2.6
PAT	**3,200**	**3,458**	**4,071**	**3,554**	**3,619**	**4,178**	**11.0**	**4.6**	**2.6**
PBT - treasury + provisions	5,041	6,372	8,652	5,247	6,548	8,691	4.1	2.8	0.5

Source: Kotak Institutional Equities estimates.

Industrials

AIAE.BO, Rs1489	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,750
52W High -Low (Rs)	1819 - 1044
Market Cap (Rs bn)	28

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	5.2	7.0	10.2
Net Profit (Rs bn)	1.0	1.3	1.7
EPS (Rs)	51.4	69.1	92.2
EPS gth	*74.4*	*34.5*	*33.5*
P/E (x)	29.0	21.6	16.2
EV/EBITDA (x)	20.6	15.1	10.5
Div yield (%)	0.2	0.4	0.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.6	-	-
FIIs	5.8	0.0	0.0
MFs	18.0	0.3	0.3
UTI	-	-	-
LIC	-	-	-

AIA Engineering: 3QFY08 results better than expected; maintain BUY and target

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1395

Augustya Somani : augustya.somani@kotak.com, +91-22-6634-1328

- **3QFY08 results—better-than-expected EBITDA margins and net earnings; revenues and net earnings up 53% and 62% yoy, respectively**
- **Revise upwards FY2008E estimates by 7%, but reduce our net earnings estimates for FY2009E by 6% as we reduce volumes by 11%**
- **Company becomes an approved supplier of grinding media to global mining major— CVRD**
- **Maintain BUY rating and target price of Rs1,750**

AIA reported 3QFY08 performance much better than expected—revenues up 53% yoy to Rs1.9 bn and net earnings up 62% yoy to Rs405 mn. EBITDA margin for 3QFY08 increased to 27.8% from 25.6% in 3QFY08 as realisations jumped sharply (up 29% yoy to Rs80/kg). EBITDA margins improved qoq as well by 540 bps as company was able to pass on the pricing lost due to adverse currency movement and increase in raw material prices. Management guides towards 24-25% EBITDA margins for FY2009E. We expect EBITDA margins to be around 24% and could be better with the better capacity utilizations. We reduce our capacity utilization estimates but increase our pricing assumptions to factor in change in the quality of the product. Revenues during 9MFY08 increased by 32% yoy to Rs4.9 bn and net earnings during the same period increased 30% yoy to Rs1 bn. We revise our volume estimates downward by 11% for FY2009E and net earnings estimates by 6%. We revise our EBITDA margins higher estimates higher for FY2008E and FY2009E to 24.3% and 24.2% from 22.8% and 23.8%, respectively. Our revised EPS for FY2008, FY2009 and FY2010 is Rs69.1, Rs92.2 and Rs117.3, respectively. We maintain ourBUY rating on the stock and maintain our 12-month DCF-based target price of Rs1.750.

3QFY08—performance better than expected

AIA reported 3QFY08 performance better than expected—revenues up 53% yoy to RsRs1.9 bn and net earnings up 62% yoy to Rs405 mn. EBITDA margin for 3QFY08 increased to 27.8% from 25.6% last year as realisations jumped 29%. Moreover, on a qoq the EBITDA margin improvement was much sharp as company was able to increase its pricing for passing on increase in raw material prices and adverse impact of currency. We expect EBITDA margins to stabilize over the next quarter and decline marginally on account of mining sales. Revenues during 9MFY08 increased by 32% yoy to Rs4.9 bn and net earnings during the same period increased by 30% yoy to Rs1 bn. Production volumes during the quarter increased 35% yoy to 23,550 tons and sales volumes increased by 41% to 23,600 tons.

Revise FY2008 estimates upward for higher EBITDA margins despite lower volumes

We revise our volume estimates downward by 5.9%, revenue estimates by 2.5% and net earnings estimates upwards by 8.1%. We revise our EBITDA margins estimates upward to 24.3% for FY2008 from 22.8% earlier. We revise our volumes estimates lower for next two years on account of slower execution of new capacities. We increase our realisation estimates as company indicates shift in the product to higher quality. We model 15% lower realisation for global mining volumes which will begin in 1QFY09. Our revised EPS for FY2008, FY2009 and FY2010 is Rs69.1, Rs92.2 and Rs117.3, respectively.

Maintain BUY rating and target price of Rs1,750

Despite revising our earnings estimates lower for FY2009E and FY2010E, we maintain our BUY rating and target of RS1,750 on the stock. Better-than-expected execution of new capacities and higher margins provide upside risk.

AIA Engineering, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Volumes (tons)	90,378	132,832	184,379	95,997	153,420	222,963	(5.9)	(13.4)	(17.3)
Revenue	7,029	10,239	13,961	7,209	11,180	15,816	(2.5)	(8.4)	(11.7)
EBITDA	1,708	2,478	3,379	1,643	2,661	3,780	4.0	(6.9)	(10.6)
EBITDA margin (%)	24.3	24.2	24.2	22.8	23.8	23.9	—	—	—
Net profit	1,307	1,742	2,213	1,209	1,850	2,499	8.1	(5.8)	(11.4)
Diluted EPS	69.1	92.2	117.3	64.3	98.4	134.2	7.4	(6.3)	(12.6)

Source: Kotak Institutional Equities estimates.

Consolidated interim results of AIA Engineering, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy	
	3Q 2008	2Q 2008	*(% chg)*	3Q 2008	3Q 2007	*(% chg)*	9M 2008	9M 2007	*(% chg)*
Net sales	**1,888**	**1,616**	***16.8***	**1,888**	**1,235**	***52.9***	**4,876**	**3,704**	***31.6***
Total expenditure	(1,364)	(1,255)	*8.7*	(1,364)	(920)	*48.3*	(3,718)	(2,774)	*34.0*
Inc/(Dec) in stock	85	54	*55.2*	85	68	*24.3*	115	82	*40.1*
Raw materials	(894)	(824)	*8.5*	(894)	(643)	*39.0*	(2,413)	(1,702)	*41.8*
Purchase of traded goods	-	(7)		-	-		(7)	(57)	*(88.1)*
Staff cost	(86)	(83)	*3.1*	(86)	(61)	*41.5*	(241)	(181)	*32.9*
Other expenditure	(469)	(395)	*18.6*	(469)	(284)	*65.2*	(1,172)	(915)	*28.0*
EBITDA	**524**	**362**	***44.9***	**524**	**316**	***66.1***	**1,158**	**930**	***24.5***
OPM (%)	**27.8**	**22.4**		**27.8**	**25.6**		**23.8**	**25.1**	
Other income	71	60	*17.8*	71	52	*36.2*	180	116	*55.1*
Interest	(4)	(4)	*5.1*	(4)	(5)	*(21.1)*	(12)	(20)	*(38.3)*
Depreciation	(37)	(33)	*12.0*	(37)	(22)	*67.7*	(91)	(58)	*58.0*
Pretax profits (before EO)	**554**	**385**	***30.6***	**554**	**341**	***18.4***	**1,234**	**968**	***8.4***
EO									
Pretax profits	**554**	**385**	***30.6***	**554**	**341**	***18.4***	**1,234**	**968**	***8.4***
Tax	(136)	(101)	*34.7*	(136)	(86)	*59.5*	(168)	(165)	*2.3*
Deferred taxation	(12)	(8)	*42.5*	(12)	(3)	*267.3*	(16)	5	*(395.2)*
FBT	(1)	(1)	*32.5*	(1)	(0)	*128.6*	(2)	(2)	*7.4*
Net income	**405**	**275**	***47.4***	**405**	**251**	***61.1***	**1,048**	**807**	***29.8***
Adjusted profits	**405**	**275**	***47.4***	**405**	**251**	***61.1***	**1,048**	**807**	***29.8***
Income tax rate (%)	*26.7*	*28.4*		*26.7*	*26.0*		*14.9*	*16.5*	
Minority interest	(2)	(2)		(2)	(3)		(5)	(4)	
Consolidated net income	**403**	**273**	***47.8***	**403**	**249**	***61.9***	**1,043**	**803**	***30.0***
Adjusted consolidated net income	**403**	**273**		**403**	**249**		**1,043**	**803**	***30.0***
As a %age of sales									
Raw materials	42.9	48.0		42.9	46.6		47.3	45.3	
Staff cost	4.5	5.1		4.5	4.9		4.9	4.9	
Other expenditure	24.8	24.5		24.8	23.0		24.0	24.7	
Equity share capital	**188.0**	**188.0**		**188.0**	**188.0**		**188.0**	**177.8**	
Adj. EPS	**21.4**	**14.5**		**21.4**	**13.2**		**55.5**	**45.1**	
Consolidated production	23,550	22,485	*4.7*	23,550	17,512	*34.5*	63,751	51,353	*24.1*
Consolidated sales volumes	23,300	20,650	*12.8*	23,600	16,705	*41.3*	62,950	49,905	*26.1*
Avg realisation on sales	81.1	78.3	*3.5*	80.0	62.0	*29.1*	77.5	70.2	*10.3*

Consolidated Profit model, March fiscal year -ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Net sales	**2,937**	**4,070**	**5,230**	**7,029**	**10,239**	**13,961**
Operating costs	(2,057)	(2,593)	(3,279)	(4,428)	(6,420)	(8,782)
Employee costs	(157)	(226)	(222)	(340)	(440)	(572)
S&A costs	(334)	(436)	(456)	(552)	(901)	(1,229)
EBITDA	**389**	**815**	**1,274**	**1,708**	**2,478**	**3,379**
Other income	80	104	164	250	120	80
Interest	(28)	(53)	(24)	(16)	(15)	(15)
Depreciation	(33)	(71)	(82)	(142)	(207)	(276)
Pretax profits	**407**	**795**	**1,331**	**1,800**	**2,376**	**3,167**
Extraordinaries	-	-	(30)	-	-	-
Tax	(137)	(257)	(346)	(457)	(586)	(764)
Deferred taxation	(2)	5	1	(36)	(48)	(190)
Reported net profits	**269**	**543**	**956**	**1,307**	**1,742**	**2,213**
Adjusted net profits	**269**	**543**	**978**	**1,307**	**1,742**	**2,213**
Minority interest	**(3)**	**(20)**	**(12)**	**(9)**	**(9)**	**(9)**
Reported consolidated net profits	**266**	**524**	**943**	**1,298**	**1,733**	**2,204**
Adjusted consolidated net profits	**266**	**524**	**965**	**1,298**	**1,733**	**2,204**
Shares outstanding (net) (mn)						
Year end	13.1	17.8	18.8	18.8	18.8	18.8
Primary weighted average	13.1	14.6	18.1	18.8	18.8	18.8
Fully diluted	13.1	17.8	18.8	18.8	18.8	18.8
Adjusted EPS (Rs)						
Primary	20.3	35.9	53.4	69.1	92.2	117.3
Fully diluted	**20.3**	**29.5**	**51.4**	**69.1**	**92.2**	**117.3**
CEPS (Rs)						
Primary	23.1	40.5	57.9	78.5	105.8	142.1
Fully diluted	23.1	33.2	55.7	78.5	105.8	142.1
Growth (%)						
Revenues		39	29	34	46	36
EBITDA		110	56	34	45	36
Net profits		97	84	35	33	27
EPS		45	74	35	33	27
EBITDA margin (%)	13.2	20.0	24.3	24.3	24.2	24.2
Cash tax rate (%)	33.5	32.3	26.0	25.4	24.7	24.1
Effective tax rate (%)	34.0	31.7	26.0	27.4	26.7	30.1
DPS (Rs)		2.5	3.5	5.9	9.3	12.1
Dividend pay-out ratio (%)		9.6	8.0	10.0	11.8	12.1

Source: Kotak Institutional Equities estimates

Consolidated Cash flow model, March fiscal year-ends, 2005-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Operating					
Profit before tax	795	1,331	1,800	2,376	3,167
DD&A	71	82	142	207	276
Taxes	(581)	(254)	(457)	(586)	(764)
Interest expenses	53	24	16	15	15
Interest paid	(53)	(24)	(16)	(15)	(15)
Other income	(19)	(83)	(250)	(120)	(80)
Extraordinaries/others	2	(28)	-	-	-
Working capital (a)	(10)	(332)	(61)	(1,305)	(1,290)
Total operating	**258**	**717**	**1,175**	**572**	**1,310**
Operating, excl. working capital (b)	**268**	**1,049**	**1,235**	**1,877**	**2,600**
Investing					
Capital expenditure (c)	(414)	(890)	(880)	(760)	(760)
Investments	(1,083)	(498)	-	-	-
Advances to subsidiaries	-	-	-	-	-
Asset sales	-	-	-	-	-
Interest/dividends received (d)	19	83	250	120	80
Total investing	**(1,478)**	**(1,306)**	**(630)**	**(640)**	**(680)**
Financing					
Share issuance	1,405	1,225	-	-	-
Loans (net)	(70)	(320)	-	-	-
Dividends (e)	(54)	(52)	(78)	(130)	(205)
Others	-	-	-	-	-
Total financing	**1,281**	**853**	**(78)**	**(130)**	**(205)**
Net change in cash	**61**	**264**	**466**	**(198)**	**426**
Opening cash	123	185	449	915	717
Closing cash	**185**	**449**	**915**	**717**	**1,142**
Gross cash flow (b)	268	1,049	1,235	1,877	2,600
Free cash flow (b)+(a)+(c)+(d)	**(137)**	**(90)**	**544**	**(68)**	**630**
Excess cash flow (b)+(a)+(c)+(d)+(e)	(191)	(143)	466	(198)	426

Source: Kotak Institutional Equities estimates

Consolidated Balance Sheet, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Equity						
Share capital-equity	131	178	188	188	188	188
Reserves and surplus	745	2,563	4,730	5,898	7,427	9,364
Total equity	**876**	**2,741**	**4,918**	**6,086**	**7,615**	**9,552**
Deferred taxation liability	21	20	19	55	103	293
Minority Interest	32	70	82	91	100	109
Liabilities						
Long term borrowings	310	133	-	-	-	-
Short term borrowings	246	352	285	85	85	85
Total borrowings	**555**	**485**	**285**	**85**	**85**	**85**
Current liabilities	401	1,112	1,780	1,932	2,268	2,717
Total capital	**1,884**	**4,428**	**7,083**	**8,249**	**10,170**	**12,756**
Assets						
Cash	**123**	**185**	**449**	**915**	**717**	**1,142**
Current assets	1,448	2,705	3,587	3,749	5,316	6,992
Gross block	532	940	1,371	2,558	3,218	4,358
Less: acumulated depreciation	252	436	516	658	865	1,141
Net fixed assets	**279**	**504**	**855**	**1,901**	**2,353**	**3,217**
Capital work-in-progress	20	68	607	300	400	20
Total fixed assets	299	571	1,462	2,201	2,753	3,237
Investments	14	967	1,465	1,465	1,465	1,465
Total assets	**1,884**	**4,428**	**6,963**	**8,330**	**10,251**	**12,836**
Leverage ratios (%)						
Debt/equity		28.8	10.1	3.4	1.2	1.0
Debt/capitalization		16.5	6.7	2.4	0.9	0.7
Net debt/equity		(6.9)	(30.0)	(35.7)	(32.1)	(26.9)
Net debt/capitalization		(3.9)	(19.9)	(25.6)	(23.8)	(20.1)
RoAE		**29.0**	**25.1**	**23.4**	**25.0**	**25.1**
RoACE		**35.3**	**22.6**	**23.5**	**25.1**	**26.7**

Source: Kotak Institutional Equities estimates

UNTE.BO, Rs379	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	335
52W High -Low (Rs)	547 - 160
Market Cap (Rs bn)	614.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	32.9	47.2	62.3
Net Profit (Rs bn)	13.1	18.1	24.5
EPS (Rs)	8.0	11.1	15.1
EPS gth	*1,389*	*38.4*	*35.8*
P/E (x)	47	34.0	25.1
EV/EBITDA (x)	32.2	24.7	18.2
Div yield (%)	-	0.3	0.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.6	-	-
FIIs	6.8	0.4	(0.9)
MFs	0.1	0.0	(1.2)
UTI	-	-	(1.3)
LIC	1.0	0.3	(0.9)

Unitech: 3QFY2008 revenues in line; retain REDUCE rating

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **3QFY2008 revenues in line our estimates; grow 14% on a y-o-y basis**
- **Land bank increases to 13,758 acres from 10,700 acres in 2QFY08**
- **We observe significant delay in project execution on both commercial as well as residential projects**
- **Retain REDUCE rating with a revised target price of Rs365/share**

Unitech reported operating revenues of Rs11.4 bn (v/s our expectation of Rs11.7 bn) and PAT of Rs5.3 bn (v/s our expectation of Rs4.5 bn) for 3QFY2008. Operating margins of 64% was higher than our expectation of 54% mainly on account of change in product mix towards sale of plots. We believe Unitech booked large revenues from plot sales in Mohali, wherein margins are upwards of 80%. Unitech has made significant additions to land bank in the recent past particularly in Mumbai, Kolkata, Chennai, Hyderabad and Goa, taking its land bank to 13,758 acres from 10,700 acres at the end of 2QFY08. We also observe delay in project launches in its commercial as well as residential projects and incorporate the same into our model. As a result we revise our revenue estimates to Rs47.2 bn for FY2008 (Rs49.4 bn earlier) and Rs62.3 bn for FY2009 (Rs63.7 bn earlier). We revise out PAT estimates to Rs18 bn in FY2008 (Rs18 bn earlier) and Rs24.5 bn in FY2009 (Rs27.0 bn earlier). We assign a terminal value of Rs60/ share based on 1X FY2011E P/B discounted back to March 2009 basically to account for future investments into new businesses like telecom and the ability to expand further into cities like Mumbai. Based on revised land banks and changes to our financial model our March 2009 based NAV is revised to Rs306/share (Rs291 earlier). As a result, our target price is revised Rs365/share (Rs335 earlier) based on March 2009E NAV of Rs306/ share (Rs291 earlier) and terminal value of Rs60/share.

Large number of projects of Unitech have been delayed

We observe large quantum of delay in both residential and commercial projects being undertaken by Unitech. Exhibit 3 highlights expected delay in commercial projects as compared to initial expectations of the management. We note that delay in couple of projects in more than 30 months—which is quite steep, in our view. We highlight that in couple of projects Phase I will likely get completed at a date later than earlier estimated completion date of the entire project. Furthermore, as per "Unitech Corporate Parks Interim Report 2007" report, progress on leasing remains extremely slow. We highlight, that at the end of December 2007, Unitech had managed to lease 1.7 mn sq. ft against total project size of 21.1 mn sq. ft.

Even on the residential front, there have been large delays compared to earlier management guidance in October 2006. Most of the projects that had to become operational in the last 18 months are yet to start like Faridabad (earlier expected start Apr 2007), Chennai (November 2006 and June 2007), Kochi (February 2007, September 2007 and December 2007), Bangalore (January 2007 and September 2007), Hyderabad (December 2006, February 2007 and October 2007).

We incorporate delays on residential as well as commercial projects into our estimates. As a result, we lower our revenue expectations to Rs62.3 bn in FY2009E (Rs63.7 bn earlier) and Rs87.7 bn in FY2010E (Rs99.6 bn earlier). We also incorporate selling price corrections of 15-20% that we have observed in the NCR market over the past 12 months. We will closely need to monitor launch schedule of the projects as we are still building in significant ramp up in execution for Unitech over the next 3-4 years

3QFY08 revenues in line with estimates; Customer advances increase

Unitech reported 3QFY08 revenues of Rs11.4 bn (growth of 14% yoy) in line with our expectation of Rs11.7 bn and PAT of Rs5.3 bn (growth of 16% yoy) above our expectation of Rs4.5 bn. The higher operating margins of 64% were mainly on account of significant booking from the Mohali plotted development project as sale of plots yield higher margins.

Unitech has launched four properties in FY2008–two in Kolkata, one in Noida and one in Noida. Currently, Unitech has close to 30-mn sq. ft under construction in residential real estate. Customer advances have increased to Rs58 bn compared to Rs40 bn at the end of 2QFY08 and Rs34 bn at the end of FY2007 indicating good responses to its launches. High customer advances provide greater revenue visibility to revenues in the near term.

Land bank increases significantly – entry into Mumbai

As indicated by Unitech in its press releases (dated 23rd Nov, 2007 and 8th Jan, 2008), Unitech has been continuously acquiring land parcels across new and existing geographies. Unitech's land bank has increased to 13,758 acres from 10,700 acres in 2QFY08. We briefly describe the new land bank additions below.

- **Mumbai.** Unitech has gained entry into Mumbai through slum rehabilitation (SRA) project. Unitech has tied up with Rohan Developers to undertake a 97 acre SRA project near Bandra Kurla complex (BKC). We have assumed a saleable area of 4 mn sq. ft from the project with selling prices of Rs18,000/ sq. ft.
- **Vishakapatnam.** Unitech has been awarded the 1,750 acre 'Knowledge City' project by Andhra Pradesh government. We have assumed a phased development of 100 mn sq. ft to be completed by 2023. We have taken selling price assumptions of Rs2,300/ sq. ft for FY2008.
- **Kolkata.** Unitech has added 1,353 acres of land in Kolkata in addition to the existing 5,198 acres. Unitech plans to build an SEZ and mixed residential development in the area.
- Unitech has increased its presence in South India further by adding land bank in Chennai and Hyderabad. Exhibit 5 shows that Unitech has added 6 mn sq. ft in Chennai and 23 mn sq. ft in Hyderabad near the Shamshabad airport. Unitech also plans to build a 1 mn sq. ft hotel property in Goa.

Exhibit 5 highlights that major land bank additions have been in locations like Kolkata, Hyderabad and NCR where Unitech already had large parcels of land. Hence we believe the new additions would have a long gestation period leading to lower NAV accretion. We estimate an addition of Rs50/ share for the additional land bank. Currently, Unitech has a debt of Rs70 bn, an increase of nearly Rs13 bn since 2QFY08 and Rs33 bn since March 2007, which has been used to acquire lands.

We increase our Mar'09 based target price to Rs365/share; retain REDUCE rating

Our NAV is increased to Rs306/share (Rs291 earlier) mainly because of (1) an increase of Rs50/ share in NAV from increase in land bank from 10,700 acres to 13,758 acres, (2) a reduction of Rs35/share due to delay in project launches and reduction in selling price estimates for NCR by 15-20%. We assign a terminal value of Rs60/share based on 1X FY2011E P/B discounted back to March 2009 basically to account for future investments into new businesses like telecom and the ability to expand further into cities like Mumbai. Our revised target price of Rs365/share provides limited upside from current levels and we retain our REDUCE rating.

3QFY08 results of Unitech (Rs mn)

		qoq			yoy			Kotak estimates	
	FY2008E	3QFY2008	2QFY2008	% chg	3QFY2008	3QFY2007	% chg	3QFY2008E	% chg
Net sales	**47,246**	**11,421**	**10,135**	***13***	**11,421**	**10,027**	***14***	**11,869**	***(4)***
(Increase) / Decrease in Stock in Trade	—	21	1	*2,538*	21				
Real estate, construction and other expenditure		(3,865)	(4,829)	*(20)*	(3,865)				
Staff Cost		(234)	(236)	*(1)*	(234)				
EBITDA	**26,356**	**7,344**	**5,071**	***45***	**7,344**	**6,950**	***6***	**6,397**	***15***
Other income	1,560	230	308	*(25)*	230	139	*66*	534	*(57)*
Interest costs	(4,454)	(980)	(790)	*24*	(980)	(495)	*98*	(878)	*12*
Depreciation	(371)	(55)	(30)	*83*	(55)	(13)	*309*	(36)	*54*
Pretax profits	**23,091**	**6,539**	**4,559**	***43***	**6,539**	**6,580**	***(1)***	**6,017**	***9***
Extraordinaries	—	—	200	*(100)*	—	—	—	—	—
Tax	(5,009)	(1,307)	(640)	*104*	(1,307)	(2,057)	*(36)*	(1,504)	*(13)*
Deferred tax	(16)	—	(19)	*(100)*	—	—	—	—	—
Net income	**18,067**	**5,232**	**4,099**	***28***	**5,232**	**4,524**	***16***	**4,513**	***16***
Adjusted net income	**18,067**	**5,258**	**4,101**	***28***	**5,258**	**4,524**	***16***	**4,513**	***17***
Key ratios									
EBITDA margin (%)	55.8	64.3	50.0	*28.5*	64.3	69.3	*(7.2)*	53.9	*19.3*
PAT margin (%)	38.2	45.8	40.4	*13.3*	45.8	45.1	*1.5*	38.0	*20.5*
Effective tax rate (%)	21.7	20.0	14.0	*42.3*	20.0	31.3	*(36.0)*	25.0	*(20.1)*

Source: Company, Kotak Institutional Equities estimates.

Segment-wise results for the quarter and half year ended September 30, 2007, March fiscal year ends

	qoq			yoy			yoy		
	3QFY2008	2QFY2008	% chg	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Segment revenue									
Real estate	10,173	8,303	*23*	10,173	8,508	*20*	26,086	13,927	*87*
Construction	595	518	*15*	595	696	*(14)*	1,488	1,805	*(18)*
Consultancy	308	772	*(60)*	308	98	*216*	1,360	212	*541*
Hospitality	33	26	*31*	33	27	*24*	84	66	*27*
Electrical	75	140	*(46)*	75	179	*(58)*	369	597	*(38)*
Others	236	377	*(37)*	236	115	*105*	878	363	*142*
Segment EBIT									
Real estate	7,661	4,978	*54*	7,661	6,512	*18*	17,675	8,846	*100*
Construction	48	15	*216*	48	45	*7*	69	179	*(61)*
Consultancy	126	374	*(66)*	126	98	*29*	804	212	*279*
Hospitality	8	3	*138*	8	5	*80*	14	8	*79*
Electrical	(15)	8	*(286)*	(15)	(4)	*(331)*	(16)	(3)	*(406)*
Others	130	53	*146*	130	(1)	*16,288*	198	*21*	*831*
Segment EBIT margins (%)									
Real estate	75	60	*15*	75	77	*(2)*	68	64	*7*
Construction	8	3	*5*	8	6	*25*	5	10	*(53)*
Consultancy	41	48	*(8)*	41	100	*(59)*	59	100	*(41)*
Hospitality	24	13	*11*	24	17	*45*	17	12	*41*
Electrical	(20)	6	*(26)*	(20)	(2)	*(935)*	(4)	(1)	*720*
Others	55	*14*	*41*	55	(1)	*7,995*	23	6	*285*

Source: Company, Kotak Institutional Equities.

We observe large delays in expected completion of commercial projects
Current status of various projects as part of Unitech Corporate Parks

	Saleable area (mn sq. ft)			Expected completion date		Delay		
	Commercial	Retail	Start Date	Initial	Current	(months)	Leasing status	Others
G1 – ITC (Gurgaon)	3.2	0.05	Feb' 07	Jul'09	Nov'11	30	Not entered into committed leases	1st phase of 1.1 mn sq. ft likely to be completed by May 2010
G2 –IST (Gurgaon)	3.7	0.05	Oct'05	Mar'09	July'10	16	Lease signed for 0.74 mn sq. ft	As at December 2007, completed area amounts to 0.5 mn sq. ft
N1 (Noida)	2.0	0.06	Jul'06	Dec'08	Oct'09	10	Not entered into committed leases	1st phase of 0.3 mn sq. ft likely to be completed by July 2008
N2 (Noida)	3.1	0.06	Jan'07	Jun'09	Feb'11	20	Not entered into committed leases	1st phase of 0.3 mn sq. ft likely to be completed by August 2009
N3 (Greater Noida)	4.9	0.10	Jan'07	Jun'09	Mar'12	33	Not entered into committed leases	1st phase of 1.7 mn sq. ft likely to be completed by March
K1 (Kolkata)	4.3	0.10	Dec'05	Apr'10	Oct'10	6	Lease signed for 0.96 mn sq. ft	
	21.1	**0.42**						

Source: Unitech Corporate Parks Interim Report 2007

Fewer project launches because of delays
Project launches during the first nine months of FY 2008

	Area		
	acres	**(mn sq. ft)**	**No of apartments**
Noida/Greater Noida			
The Grande	40	1.7	670
Capella (Phase 1, Uniworld city)	100	1.0	
Worlds of Wonder, Entertainment City		1.0	
Kolkata			
The Gateway	35	2.7	
Harmony (Phase 8, Uniworld city)		1.0	
Mohali			
Plotted development		5.0	
Total		**12.3**	

Source: Company data, Kotak Institutional equities.

Land bank has increased considerably

Key land bank additions in Kolkata, Mumbai, Hyderabad, NCR, Chennai and Goa

	As of 8th Jan, 2008			As of 23rd Nov, 2007				
		Estimated saleable area			Estimated saleable area			
	Total Land area	Mixed	Plots	Total Land area	Mixed	Plots	Net additions	
City/Region	(acres)	(mn sq. qft)	(mn sq. ft)	(acres)	(mn sq. qft)	(mn sq. ft)	(acres)	(mn sq. ft)
NCR	2,706	137	7	2,565	116	11	141	16
Chennai	2,155	111	13	2,085	105	13	70	6
Kolkata	6,551	285	43	5,198	167	43	1353	118
Kochi	673	38	4	673	38	4	—	—
Hyderabad	709	42	4	359	19	4	350	23
Bangalore	103	10	—	103	10	—	—	—
Mumbai	97	8	—	—	—	—	97	8
Mohali, Chandigarh	423	13	3	423	13	3	—	—
Agra	1,500	31	12	1,500	31	12	—	—
Varanasi	1,500	34	14	1,500	34	14	—	—
Siliguri	232	13	—	232	13	0	—	—
Bhubneshwar	11	1	—	—	—	—	11	1
Goa	103	1	—	—	—	—	103	1
Vishakapatnam	1,750	100	—	1,750	100	—	—	—
Total	**18,513**	**823**	**99**	**16,388**	**646**	**103**	**2,125**	**173**
Unitech's share	**13,758**			**12,450**				

Source: Company, Kotak Institutional Equities.

Unitech's March' 09 based NAV is Rs306/ share

	March '09 based NAV			
	Growth rate in selling prices per annum			
	0%	3%	5%	10%
Valuation of land reserves	**312.7**	**426.2**	**512.4**	**774.1**
Residential projects	180.6	260.2	321.8	513.7
Commercial projects	66.6	86.4	100.9	142.2
Retail projects	65.6	79.6	89.7	118.2
Add: Hotel business	15	15	15	15
Add: Construction business	10	10	10	10
Add: Investments as on March 31, 2008	15	15	15	15
Add: Consultancy fees received from Unitech Corporate Parks, JVs	10	10	10	10
Less: Net debt as on March 31, 2008	(35)	(35)	(35)	(35)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
NAV	**298**	**411**	**497**	**759**
Total no. of shares (mn)				1,624
NAV/share (Rs)				**306**

Source: Kotak Instutuional Equities.

Profit model of Unitech Ltd, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Total revenues	**6,573**	**9,412**	**32,883**	**47,246**	**62,304**	**87,728**
Land costs	(1,626)	(1,971)	-	(2,549)	(3,512)	(5,760)
Construction costs	(3,116)	(4,165)	(11,167)	(15,510)	(19,425)	(28,432)
Employee costs	(249)	(366)	(568)	(941)	(1,468)	(1,909)
SG&A costs	(734)	(1,077)	(1,129)	(1,890)	(2,648)	(3,728)
EBITDA	**848**	**1,834**	**20,018**	**26,356**	**35,251**	**47,899**
Other income	76	133	1,000	1,560	1,680	1,812
Interest	(246)	(465)	(3,020)	(4,454)	(4,454)	(3,812)
Depreciation	(113)	(112)	(80)	(371)	(524)	(737)
Pretax profits	**564**	**1,390**	**17,919**	**23,091**	**31,952**	**45,162**
Extraordinary items	—	—	—	—	—	—
Current tax	(220)	(521)	(4,864)	(5,009)	(7,403)	(11,123)
Deferred tax	4	8	—	(16)	(14)	(73)
Net income	**348**	**874**	**13,055**	**18,067**	**24,535**	**33,966**
Adjusted net income	**348**	**874**	**13,055**	**18,067**	**24,535**	**33,966**
EPS (Rs)						
Primary	0.2	0.5	8.0	11.1	15	21
Fully diluted	0.2	0.5	8.0	11.1	15	21
Shares outstanding (mn)						
Year end	1,623	1,623	1,623	1,623	1,623	1,623
Primary	1,623	1,623	1,623	1,623	1,623	1,623
Fully diluted	1,623	1,623	1,623	1,623	1,623	1,623
Cash flow per share (Rs)						
Primary	0	1	11	10	14	20
Fully diluted	0	1	11	10	14	20
Growth (%)						
Net income (adjusted)		151	1,394	38	36	38
EPS (adjusted)		151	1,394	38	36	38
DCF/share		151	1,217	(3)	38	41
Cash tax rate (%)	39	38	27	22	23	25
Effective tax rate (%)	38	37	27	22	23	25

Source: Kotak Institutional Equities estimates.

Industrials

SIEM.BO, Rs1674	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	1,850
52W High -Low (Rs)	2250 - 968
Market Cap (Rs bn)	282.2

Financials

September y/e	2006	2007	2008E
Sales (Rs bn)	60.6	94.2	119.6
Net Profit (Rs bn)	3.8	5.3	7.5
EPS (Rs)	22.7	31.3	44.3
EPS gth	*31.3*	*38.0*	*41.2*
P/E (x)	73.7	53.4	37.8
EV/EBITDA (x)	41.8	30.1	20.5
Div yield (%)	0.2	0.3	0.3

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.2	-	-
FIIs	8.3	0.2	(0.4)
MFs	8.4	1.4	0.8
UTI	-	-	(0.6)
LIC	7.8	1.2	0.6

Siemens: Miss expectations with lower-than-expected execution and margins, sharp growth and margin decline in transport segment surprises

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Miss expectations with lower-than-expected execution and margins**
- **Significant shift in the growth mix ' power segment reports sedate growth while transport, automation and industrial services segment lead growth**
- **Surprising margin decline in transport segment, while margins for other segments improve moderately**
- **Sedate order inflows result in declining order backlog for four quarters in a row**
- **Maintain earnings estimate, reiterate REDUCE rating with a revised target price of Rs1,700 (Rs1,850 earlier)**

Siemens has reported revenues of Rs19.1 bn (up 17% yoy), operating profit of Rs1.5 bn (up 21.6%), and PAT (adjusted for tax on exceptional item) of Rs1.0 bn (up 2.3% yoy) versus our expectation of revenues of Rs21.6bn, operating profit of Rs1.9 bn and PAT of Rs1.3 bn. Growth in execution is led by transport segment with 2.5X execution while we are surprised by reported margins of -9.5% in the transport segment. If transport segment could have reported regular operating margin of 9.5% (same as 1Q last year) Siemens could have reported corporate operating margin of 9.3% (versus 7.8%) for the quarter, ahead of our expectation of 8.6%. Sedate order inflows result in declining order backlog for four quarters in a row with visibility declining to 0.8X years. We maintain our full year earnings estimate for year ended September 2008E and 2009E and retain our REDUCE rating on the stock with a revised DCF-based target price of Rs1,700 (Rs1,850/share earlier). Our REDUCE rating is based on (a) likelihood that margins pressures could persist, (b) IT subsidiary SISL, which may be facing the pressure because of Rupee appreciation and (c) dependence on unpredictable large orders that potentially yield lower margins.

Miss expectations with lower-than-expected execution and margins

Siemens has reported revenues of Rs19.1 bn (up 17% yoy), operating profit of Rs1.5 bn (up 21.6%), and PAT (adjusted for tax on exceptional item) of Rs1.0 bn (up 2.3% yoy) versus our expectation of revenues of Rs21.6bn, operating profit of Rs1.9 bn and PAT of Rs1.3 bn. Siemens has reported operating margin expansion of 30 bps versus to 7.8% from 7.5% in 1Q last year versus our expectation of operating margins of 8.6%. Adjusted for discontinued operations Siemens revenues have grown by 24%.

Significant shift in the growth mix – power segment reports sedate growth while transport, automation and industrial services segment lead growth

Growth in execution is led by transport segment with 2.5X execution on a yoy basis, while both automation and drives and industrial solution and services have reported about 40% growth. Power segment that led the growth in year ended September 2007 with 117% growth reported sedate growth of 9.5%. We believe that growth in power segment has been sedate because of declining order book (Rs93.7 bn versus Rs110 bn last year). Transport segment has picked up probably led by strong execution of about Rs9.3 bn order that Siemens received from Mumbai Rail Vikas Corporation to provide Mumbai suburban railway system with advanced rail traction system.

Surprising margin decline in transport segment, while margins for other segments improve moderately

We are surprised by reported margins of -9.5% in the transport segment concomitant with 145% revenue growth in that segment which ideally should have led to operating leverage. We believe that large contracts (such as MRVC contract) are being executed at much lower margins. MRVC order was won in May, 2005 while execution may have come in full swing only now. Long gap may have resulted in cost escalations for which contract may not have offered full protection. If transport segment could have reported regular operating margin of 9.5% (same as 1Q last year) Siemens could have reported operating margin of 9.3% for the quarter, ahead of our expectation f 8.6%.

Sedate order inflows result in declining order backlog for four quarters in a row

The company has reported an order backlog of Rs93.7 bn, compared to Rs110.4 bn at the end of 1Q07. New orders at Rs19.2 bn grew 25% adjusted for large order of Rs36 bn from Qatar. Visibility (measured as a ratio of following four quarter revenues), an indicator of near term growth prospects has declined to 0.8X from 1.4X at the end of 1Q07.

Maintain earnings estimate, reiterate REDUCE rating with a revised target price of Rs1,700 (Rs1,850 earlier)

We maintain our full year earnings estimate for year ended September 2008E and 2009E and retain our REDUCE rating on the stock based on (a) likelihood that margin pressures would persist, (b) About 30% of consolidated earnings and value come from the IT subsidiary SISL, which may be facing the pressure because of Rupee appreciation, (c) preponderance of very large orders in the order book that potentially yield lower margins and are less likely to be repeatable. We reduce our Mar'09 DCF target price to Rs1,700 as lower visibility reduces medium-term growth prospects. Upside risk arise from better than expected margins as well as order inflow announcements.

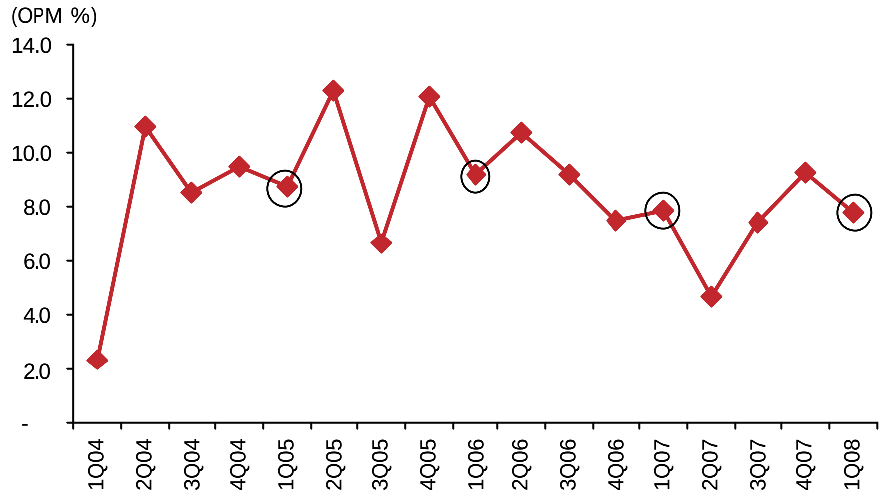
Exhibit 1. Siemens (standalone) - 1Q08 - key numbers, year ending September 30, 2008 (Rs mn)

	yoy			qoq		
	1Q08	1Q07	% change	1Q07	4Q07	% change
Sales	**19,144**	**16,331**	***17.2***	**19,144**	**21,885**	***(12.5)***
Expenses	(17,647)	(15,100)	*16.9*	(17,647)	(19,764)	*(10.7)*
Stock	78	1,431	*(94.6)*	78	181	*(57.0)*
Raw material	(15,587)	(14,696)	*6.1*	(15,587)	(16,178)	*(3.6)*
Employee	(968)	(850)	*13.8*	(968)	(1,221)	*(20.7)*
Other expenses	(1,170)	(984)	*18.8*	(1,170)	(2,546)	*(54.1)*
Operating profit	**1,497**	**1,231**	***21.6***	**1,497**	**2,120**	***(29.4)***
Other income	66	152	*(56.5)*	66	540	*(87.8)*
EBIDT	1,563	1,383	*13.0*	1,563	2,660	*(41.2)*
Interest	131	126	*3.5*	131	90	*45.5*
Depreciation	(151)	(103)	*46.5*	(151)	(160)	*(6.1)*
PBT	**1,543**	**1,406**	***9.7***	**1,543**	**2,590**	***(40.4)***
Tax	(540)	(426)	*26.9*	(540)	(1,313)	*(58.8)*
Net profit	**1,003**	**981**	***2.3***	**1,003**	**1,277**	***(21.4)***
Extraordinary items	967	0		967	1,809	
RPAT	1,971	981	*100.9*	1,971	3,086	*(36.2)*
Key ratios (%)						
Raw material / Sales	81.0	81.2		81.0	73.1	
Employee expenses / Sales	5.1	5.2		5.1	5.6	
Other expenses / Sales	6.1	6.0		6.1	11.6	
Operating profit margin	**7.8**	**7.5**		**7.8**	**9.7**	
PBT Margin	8.1	8.6		8.1	11.8	
Tax rate	35.0	30.3		35.0	50.7	
PAT margin	5.2	6.0		5.2	5.8	
Order booking and order backlog						
Order booking	19,120	51,275	*(62.7)*	19,120	12,782	*49.6*
Order backlog	93,686	110,404	*(15.1)*	93,686	94,074	*(0.4)*
Segment results						
Revenues						
Information & Communication	0	352	*(100.0)*	0	184	*(100.0)*
Automation & Drives	4,417	3,164	*39.6*	4,417	5,301	*(16.7)*
Industrial Solution and Services	2,271	1,638	*38.7*	2,271	2,809	*(19.1)*
Power	10,825	9,888	*9.5*	10,825	11,431	*(5.3)*
Transport	1,452	584	*148.4*	1,452	1,298	*11.9*
Healthcare & other services	1,102	766	*43.8*	1,102	1,695	*(35.0)*
Building Technologies	0	248	*(100.0)*	0	290	*(100.0)*
Automotive	232	289	*(19.8)*	232	337	*(31.2)*
Real estate	133	113	*18.3*	133	162	*(17.8)*
Revenue mix (%)						
Information & Communication	0.0	2.1		0.0	0.8	
Automation & Drives	21.6	18.6		21.6	22.6	
Industrial Solution and Services	11.1	9.6		11.1	11.9	
Power	**53.0**	**58.0**		**53.0**	**48.6**	
Transport	7.1	3.4		7.1	5.5	
Healthcare & other services	5.4	4.5		5.4	7.2	
Building Technologies	0.0	1.5		0.0	1.2	
Automotive	1.1	1.7		1.1	1.4	
Real estate	0.7	0.7		0.7	0.7	
EBIT Margin (%)						
Information & Communication	N.A.	7.1		N.A.	6.1	
Automation & Drives	6.1	4.4		6.1	7.3	
Industrial Solution and Services	11.4	11.3		11.4	8.6	
Power	**8.5**	**7.2**		**8.5**	**9.9**	
Transport	(9.6)	9.5		(9.6)	5.6	
Healthcare & other services	(0.6)	(8.7)		(0.6)	4.6	
Building Technologies	N.A.	4.8		N.A.	14.7	
Automotive	3.6	(0.4)		3.6	21.7	
Real estate	65.8	64.1		65.8	59.3	

Source: Company data, Kotak Institutional Equities estimates

Exhibit 2: 1Q08 margins are marginally higher than that of last year

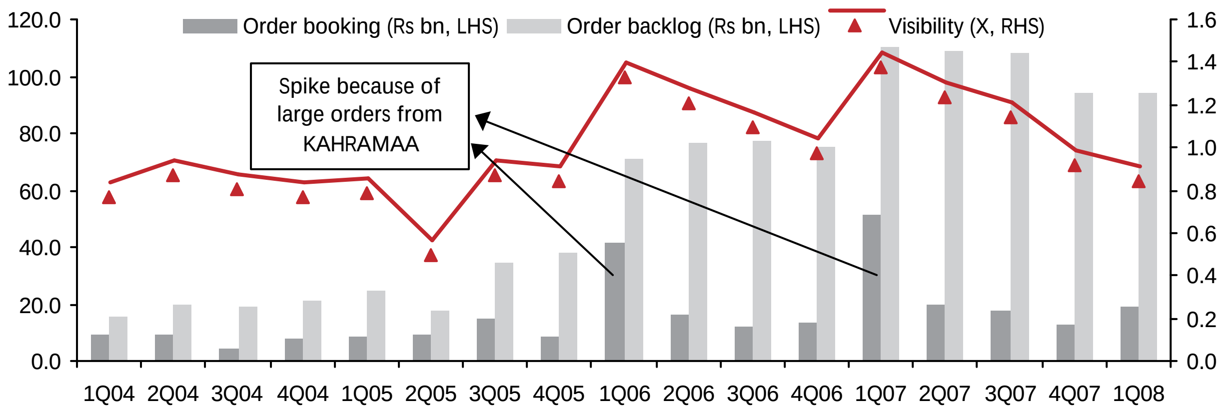
Quarterly margin trend for Siemens, year-ending September 30



Source: Company data, Kotak Institutional equities estimates.

Exhibit 3. Visibility declines to 0.8 years at the end of September 2008, from 1.0 years a year ago

Order booking, order backlog & visibility trend for Siemens, September fiscal year-ends



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: Segmental revenues and margins of Siemens (Consolidated), September year-ends, FY2006-10E (Rs mn)

	2006	2007	2008E	2009E	2010E
Reveneus					
Information technology services	9,604	11,246	14,569	18,085	21,557
Automation & Drives	12,210	16,555	21,522	26,903	32,283
Industrial Solution and Services	5,463	10,038	12,522	15,561	18,606
Power	19,782	43,008	64,512	80,640	96,768
Transport	2,483	3,467	5,028	7,039	8,799
Healthcare & other services	4,138	5,247	6,559	8,198	9,838
Building Technologies	756	1,020	1,325	1,723	2,154
Real Estate	421	496	545	600	660
EBIT Margins					
Information technology services	20.5	17.3	18.2	19.8	21.5
Automation & Drives	8.6	6.9	8.5	9.0	9.5
Industrial Solution and Services	10.9	10.2	11.1	11.6	12.1
Power	6.2	6.0	7.5	8.0	8.5
Transport	8.3	6.5	8.0	9.5	10.0
Healthcare & other services	2.4	2.2	4.0	5.0	5.0
Building Technologies	5.4	9.1	10.0	11.0	11.5
Real Estate	58.8	65.6	70.0	70.0	70.0
Segmental EBIT					
Information technology services	1,967	1,950	2,646	3,577	4,633
Automation & Drives	1,052	1,147	1,829	2,421	3,067
Industrial Solution and Services	598	1,026	1,387	1,800	2,244
Power	1,228	3,884	4,838	6,451	8,225
Transport	206	226	402	669	880
Healthcare & other services	100	113	262	410	492
Building Technologies	41	93	133	190	248
Real Estate	248	325	382	420	462
Revenue Mix (as % of total sales)					
Information technology services	15.9	11.9	12.2	12.1	12.0
Automation & Drives	20.2	17.6	18.0	18.0	17.9
Industrial Solution and Services	9.0	10.7	10.5	10.4	10.3
Power	32.7	45.7	54.0	53.8	53.8
Transport	4.1	3.7	4.2	4.7	4.9
Healthcare & other services	6.8	5.6	5.5	5.5	5.5
Building Technologies	1.2	1.1	1.1	1.1	1.2
Real Estate	0.7	0.5	0.5	0.4	0.4

Source: Company data, Kotak Institutional Equities estimates

Exhibit 5. Siemens - DCF model, September fiscal year-ends (Rs mn)

	Sep-08	Sep-09	Sep-10	Sep-11	Sep-12	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17	Sep-18
Revenues	119,566	149,868	179,938	212,248	243,896	280,480	322,552	361,259	404,610	445,071	489,578
Growth (%)	27.0	25.3	20.1	18.0	14.9	15.0	15.0	12.0	12.0	10.0	10.0
EBIT (excl finl income)	10,644	14,279	18,145	22,319	25,702	28,048	32,255	36,126	40,461	44,507	48,958
Growth (%)	48.9	34.2	27.1	23.0	15.2	9.1	15.0	12.0	12.0	10.0	10.0
EBIT Margins	8.9	9.5	10.1	10.5	10.5	10.0	10.0	10.0	10.0	10.0	10.0
Effective tax rate	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2	35.2
EBIT*(1-tax rate)	**6,901.1**	**9,256.3**	**11,754.1**	**14,457.7**	**16,654.9**	**18,175.1**	**20,901.4**	**23,409.5**	**26,218.7**	**28,840.5**	**31,724.6**
Growth (%)	43.5	34.1	27.0	23.0	15.2	9.1	15.0	12.0	12.0	10.0	10.0
Depreciation / Amortisation	1,492	1,605	1,431	1,527	1,634	1,750	1,750	1,750	1,750	1,750	1,750
Change in Working Capital	3,225	1,357	(138)	(1,553)	(3,113)	(1,829)	(2,104)	(1,935)	(2,168)	(2,023)	(2,225)
Capital Expenditure	(2,208)	(2,374)	(1,788)	(1,935)	(2,107)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Free Cash Flows	**9,410**	**9,844**	**11,259**	**12,496**	**13,069**	**16,096**	**18,548**	**21,224**	**23,801**	**26,567**	**29,249**
Growth (%)	(12.4)	4.6	14.4	11.0	4.6	23.2	15.2	14.4	12.1	11.6	10.1
Years discounted	-	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Discount factor	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.4
Discounted cash flow	**9,410**	**9,844**	**10,030**	**9,917**	**9,240**	**10,138**	**10,408**	**10,610**	**10,600**	**10,540**	**10,338**

WACC calculation		
Risk-free rate (Rf)	6.00%	
Beta (B)	0.97	
Equity risk premium	6.50%	
Expected market Return (Rm)	12.50%	
Cost of Equity (Ke)	12.31%	Ke = Rf + B * (Rm-Rf)
Cost of Debt (Kd) (Post-tax)	8.00%	Estimated gross cost of debt
WACC	12.25%	
Calculated WACC	12.01%	

Terminal value Calc	**NPV**
Cash flow in terminal year	29,249
g	5.0%
Capitalisation rate	7.3%
Terminal value	403,438
Discount period (years)	8.5
Discount factor	0.3745
Discounted value	151,075

NPV Calc		
	NPV	**% of val**
Sum of free cash flow	95,083	33.7
Terminal value	151,075	53.5
Enterprise value	246,158	87.2
Add Investments	2,138	0.8
Net debt	(34,114)	12.1
Net present value-equity	282,409	
Shares o/s	169	
NPV /share(Rs)	**1,675**	

Source: Kotak Institutional Equities estimates.

Construction

PUJL.BO, Rs442	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	589 - 142
Market Cap (Rs bn)	141.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	44.3	89.0	121.5
Net Profit (Rs bn)	2.3	4.2	6.3
EPS (Rs)	8.9	13.2	19.6
EPS gth	*331.0*	*48.3*	*48.0*
P/E (x)	49.5	33.4	22.6
EV/EBITDA (x)	29.5	18.5	13.2
Div yield (%)	0.1	0.2	0.4

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	47.5	-	-
FIIs	27.3	0.3	0.1
MFs	11.2	0.7	0.5
UTI	-	-	(0.2)
LIC	-	-	(0.2)

Punj Lloyd: Results first take—Miss expectations with lower-than-expected execution and margins, large one-offs dominate the result

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Miss expectations with lower-than-expected execution and margins, one-offs in Sembawang dominate the result**
- **Strong order backlog of Rs160 bn highlights growth visibility for the future**
- **High other income of Rs459 mn also boosts profit**
- **Maintain target price of Rs500/share and BUY rating**

Punj Lloyd has reported 3QFY08 consolidated revenues of Rs21.2 bn (up 48% yoy) and operating profit of Rs1045 mn (up 26% yoy) versus our expectation of Rs24.0 bn and operating profit of Rs2.0 bn respectively. Large one-offs dominate the result (a) losses of Rs679.6 mn recorded on execution of legacy orders in Sembawang E&C, (b) exceptional gain of Rs371.2 mn in Sembawang E&C related to earnings from disposal of real estate. Adjusted for one-offs losses in Sembawang, Punj Lloyd would have reported an EBITDA margin of 8.5% for the 9MFY08 versus 5.9% last year and we believe that full EBITDA margin expectation of 9.2% could be achievable. Punj Lloyd has reported an order backlog of Rs160 bn at the end of January 2008 with majority of order wins in 3QFY08 being contributed by Sembawang Singapore. We maintain our target price of Rs500/share and our BUY rating on the stock. We will revisit our estimates post the management conference call on Friday.

Miss expectations with lower-than-exected execution and margins, one-offs in Sembawang dominate the result

Punj Lloyd has reported 3QFY08 consolidated revenues of Rs21.2 bn (up 48% yoy) and operating profit of Rs1045 mn (up 26% yoy) versus our expectation of Rs24.0 bn and operating profit of Rs2.0 bn respectively. The strong revenue growth is led by 91% growth in revenues of the standalone entity (3QFY08 revenues of Rs12.4 bn versus Rs6.5 bn in 3QFY07). Standalone EBITDA margin for 3QFY08 has improved by about 100 bps to 8.5% led by operating leverage resulting from strong growth. Punj Lloyd has reported revenues from subsidiary at Rs8.7 bn however EBITDA contribution is a loss of Rs13 mn led by (a) losses of Rs679.6 mn recorded on execution of legacy orders in Sembawang E&C, (b) exceptional gain of Rs371.2 mn in Sembawang E&C related to earnings from disposal of real estate. Adjusted for losses of Sembawang related to execution of legacy orders, consolidated operating margins would have been 8.1% (up 230 bps yoy) versus our expectation of 8.5%. Adjusted for one-offs losses in Sembawang, Punj Lloyd would have reported an EBITDA margin of 8.5% for the 9MFY08 versus 5.9% last year and we believe that full EBITDA margin expectation of 9.2% could be achievable. Other income at a consolidated level in 3QFY08 has increased to Rs459 mn (up 52% yoy). Other income for the standalone entity is Rs145 mn (down 23% yoy).

Strong order backlog of Rs160 bn highlights growth visibility for the future

Punj Lloyd has reported an order backlog of Rs160 bn at the end of January 2008. Order booking for the quarter has been Rs40.2 bn with major order wins in Sembawang such as (a) Rs17.7 bn mega aromatics complex at Juron island Singapore, (b) Rs12.7 bn Marina Bayfront MRT station in Singapore and (c) Rs5.9 bn order for delayed coker unit for Indian Oil Corporation.

Maintain target price of Rs500/share and BUY rating

We maintain our target price of Rs500/share and our BUY rating. We will revisit our estimates post the management conference call on Friday, in which we expect to receive details on (1) one-off losses, (2) components of other income and (3) working capital levels.

Exhibit 1. Punj Lloyd (standalone) - 3QFY08 - key numbers (Rs mn)

		yoy			qoq			yoy		
	FY2007	3QFY08	3QFY07	*(% chg)*	3QFY08	2QFY08	*(% chg)*	9mFY08	9mFY07	*(% chg)*
Net sales	**22,397**	**12,438**	**6,507**	***91.1***	**12,438**	**10,386**	***19.8***	**29,892**	**14,414**	***107.4***
Operating costs	**(20,544)**	**(11,380)**	**(6,020)**	***89.0***	**(11,380)**	**(9,446)**	***20.5***	**(27,168)**	**(13,281)**	***104.6***
Material consumed and cost of goods sold	(5,902)	(4,355)	(1,380)	*215.5*	(4,355)	(4,445)	*(2.0)*	(11,300)	(3,295)	*242.9*
Contractor charges	(4,960)	(3,509)	(1,533)	*128.9*	(3,509)	(2,177)	*61.2*	(7,124)	(3,293)	*116.3*
Staff Cost	(2,366)	(928)	(659)	*40.8*	(928)	(790)	*17.5*	(2,376)	(1,631)	*45.6*
Other Expenditure	(7,317)	(2,588)	(2,448)	*5.7*	(2,588)	(2,034)	*27.2*	(6,368)	(5,061)	*25.8*
EBITDA	**1,853**	**1,058**	**487**	***117.2***	**1,058**	**940**	***12.6***	**2,724**	**1,134**	***140.2***
Other income	658	145	187	*(22.7)*	145	161	*(10.0)*	460	447	*2.8*
Interest costs	(692)	(239)	(201)	*18.7*	(239)	(323)	*(26.0)*	(832)	(432)	*92.7*
Depreciation	(845)	(294)	(237)	*24.1*	(294)	(269)	*9.4*	(816)	(603)	*35.4*
PBT	**973**	**669**	**235**	***184.1***	**669**	**508**	***31.7***	**1,536**	**547**	***180.9***
Taxes	(357)	(277)	(45)	*515.2*	(277)	(194)	*42.8*	(618)	(162)	*280.6*
PAT	**616**	**392**	**190**	***105.7***	**392**	**314**	***24.8***	**917**	**384**	***138.8***
Key ratios										
Material consumed and cost of goods sold	26.4	35.0	21.2		35.0	42.8		37.8	22.9	
Contractor charges	22.1	28.2	23.6		28.2	21.0		23.8	22.8	
Staff Cost	10.6	7.5	10.1		7.5	7.6		7.9	11.3	
Other Expenditure	32.7	20.8	37.6		20.8	19.6		21.3	35.1	
EBITDA margin (%)	8.3	8.5	7.5		8.5	9.1		9.1	7.9	
PAT margin (%)	2.8	3.1	2.9		3.1	3.0		3.1	2.7	
Effective tax rate (%)	36.7	41.5	19.1		41.5	38.2		40.3	29.7	

Source: Company data, Kotak Institutional Equities.

Exhibit 2. Punj Lloyd (consolidated) - 3QFY08 - key numbers (Rs mn)

			yoy			qoq			yoy		
(in Rs mn)	FY2007	FY2008E	3QFY08	3QFY07	*(% chg)*	3QFY08	2QFY08	*(% chg)*	9mFY08	9mFY07	*(% chg)*
Net sales	**51,266**	**88,977**	**21,170**	**14,333**	***47.7***	**21,170**	**18,942**	***11.8***	**54,062**	**34,230**	***57.9***
Operating costs	**(47,523)**	**(80,785)**	**(20,126)**	**(13,502)**	***49.1***	**(20,126)**	**(17,277)**	***16.5***	**(50,138)**	**(32,194)**	***55.7***
Material consumed and cost of goods sold	(16,370)		(7,614)	(5,123)	*48.6*	(7,614)	(7,996)	*(4.8)*	(20,806)	(13,381)	*55.5*
Contractor charges	(14,181)		(6,747)	(3,610)	*86.9*	(6,747)	(5,034)	*34.0*	(15,373)	(7,720)	*99.1*
Staff Cost	(6,369)		(2,392)	(1,954)	*22.4*	(2,392)	(1,998)	*19.7*	(6,036)	(4,350)	*38.7*
Other Expenditure	(10,602)		(3,373)	(2,816)	*19.8*	(3,373)	(2,248)	*50.0*	(7,923)	(6,742)	*17.5*
EBITDA	**3,743**	**8,192**	**1,045**	**831**	***25.7***	**1,045**	**1,666**	***(37.3)***	**3,924**	**2,037**	***92.7***
Other income	794	951	459	302	*52.0*	459	305	*50.5*	994	630	*57.6*
Interest costs	(825)	(1,828)	(284)	(279)	*1.8*	(284)	(394)	*(27.8)*	(967)	(568)	*70.3*
Depreciation	(1,062)	(1,482)	(365)	(296)	*23.4*	(365)	(334)	*9.5*	(1,053)	(732)	*43.8*
PBT	**2,650**	**5,833**	**854**	**557**	***53.2***	**854**	**1,243**	***(31.3)***	**2,898**	**1,367**	***112.0***
Taxes	(690)	(1,586)	(308)	(80)	*284.2*	(308)	(349)	*(11.7)*	(864)	(291)	*196.4*
PAT	**1,960**	**4,247**	**546**	**477**	***14.3***	**894**	**894**	***-***	**2,035**	**1,076**	***89.2***
Exceptional item			371	-		371	-		371	-	
Reported PAT			**917**	**477**	***92.1***	**917**	**894**	***2.5***	**2,405**	**1,076**	***123.7***
Key ratios											
Material consumed and cost of goods sold	31.9		36.0	35.7		36.0	42.2		38.5	39.1	
Contractor charges	27.7		31.9	25.2		31.9	26.6		28.4	22.6	
Staff Cost	12.4		11.3	13.6		11.3	10.5		11.2	12.7	
Other Expenditure	20.7		15.9	19.6		15.9	11.9		14.7	19.7	
EBITDA margin (%)	7.3	9.2	4.9	5.8		4.9	8.8		7.3	5.9	
PAT margin (%)	3.8	4.8	2.6	3.3		4.2	4.7		3.8	3.1	
Effective tax rate (%)	26.0	27.2	36.1	14.4		36.1	28.1		29.8	21.3	

Source: Company data, Kotak Institutional Equities estimates.

Construction

NGCN.BO, Rs266	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	365
52W High -Low (Rs)	373 - 139
Market Cap (Rs bn)	61.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	28.7	36.0	49.0
Net Profit (Rs bn)	1.6	2.1	3.1
EPS (Rs)	6.5	9.2	12.7
EPS gth	*7.4*	*40.6*	*38.6*
P/E (x)	40.8	29.0	20.9
EV/EBITDA (x)	26.2	16.4	12.6
Div yield (%)	0.4	0.5	0.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	24.3	-	-
FIIs	34.9	0.2	0.1
MFs	17.6	0.7	0.5
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Nagarjuna Construction: Lower-than-expected execution due to land acquisition delays in certain projects; maintain target price and rating

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Land acquisition delays in certain projects affects execution; margins contract due to negative operating leverage**
- **Order book more diversified across sectors compared to last year; provides visibility of about 2.1 years**
- **Maintain earning estimates; highlight strong margin expansion achieved in nine-month period**
- **Maintain target price of Rs365, reiterate BUY rating**

Nagarjuna Construction reported a low 11% yoy growth in revenues in 3QFY08 due to land acquisition delays in some projects. Operating margins declined by 40bps to 11.1% in 3QFY08 and PAT declined by 12% yoy to Rs396 mn. Nagarjuna's order book has diversified over the past year with inclusion of new segments. We expect Nagarjuna to build traction in these new high-growth segments. We maintain our earning estimates for FY2008E as project specific issues that affected execution in 3QFY08 have likely been resolved. We highlight Nagarjuna Construction has delivered a strong margin expansion of 150bps yoy in 9mFY08. We had expected Nagarjuna Construction to achieve strong margins in FY2008 and we continue to believe that with the potential pick-up in execution in the fourth quarter, it will likely meet our estimates. We maintain our target price of Rs365 and reiterate our BUY rating.

Land acquisition delays in certain projects affects execution; margins contract due to negative operating leverage

Nagarjuna Construction reported 3QFY08 revenues of Rs7.8 bn in 3QFY08 (up 11% yoy) and PAT of Rs396 mn (down 12% yoy) versus our expectation of Rs8.6 bn and Rs471 mn respectively. Operating profit margin in 3QFY08 declined by 40bps yoy to 11.1% versus our expectation of 11.5%. The lower revenue growth is due to certain project specific execution issues (1) delays in land acquisition by NHAI for Nagarjuana Construction's two road projects in UP and (2) delays in handing over land by State Government of Karnataka for a university campus construction project. We highlight that the land acquisition issue for the BOT projects in UP had affected performance in the last quarter also. Management estimates that about Rs300 mn of turnover was lost in 9mFY08 due to the delays. The margins declined due to negative operating leverage, because of lower execution, as evident from the increase in other expenditure and staff cost (though staff cost increase is primarily attributable to wage revision) as percentage of sales. Interest costs have declined yoy (10%) and qoq (29%) as Nagarjuna Construction repaid its loans partly from funds received from the recent private equity investment. Depreciation costs have increased by 62% yoy as Nagarjuna has invested significantly in capital equipment over the last few quarters (Exhibit 1).

Order book more diversified across sectors compared to last year; provides visibility of about 2.1 years

The order book of Nagarjuna Construction has diversified over the last year with the addition of new segments like power, oil and gas and metals. The distribution across sectors is more balanced compared to concentration in the roads/transportation sector previously (Exhibit 2). We expect Nagarjuna Construction to continue to build traction in several of these new and high-growth segments with (1) likely scale-up in the metallurgy sector with pre-qualifications gained with the existing order and similar technological tie-ups, (2) possible tie-up with a Chinese company for doing complete Balance of Plant work for power plants (moving up the value chain to include mechanical and electrical segments as against only civil currently) and (3) potential to construct other airport and port projects with expertise gained through the two airport projects in Karnataka and the Machilipatnam port. The order backlog is about Rs98 bn at the end of 3QFY08 and provides visibility of about 2.1 years of revenues based on forward four quarter revenue estimates (Exhibit 3).

Maintain earning estimates; highlight strong margin expansion achieved in nine-month period

We maintain our earnings estimates – EPS of Rs9.2 for FY2008E and Rs12.7 for FY2009E. We believe that Nagarjuna Construction may meet our FY2008E estimates as the land acquisition issues in both the projects have likely been resolved and execution in both projects will potentially pick-up in the fourth quarter. We highlight that in 9mFY08 Nagarjuna Construction has delivered operating margins of 11.3% versus 9.8% a year ago – a strong expansion of 150bps. This margin expansion has been achieved inspite of certain project level issues in the previous two quarters. We had expected Nagarjuna Construction to achieve such strong margins and continue to believe that margins would expand further in the fourth quarter with higher execution.

Maintain target price of Rs365, reiterate BUY rating

We maintain our target price of Rs365 (Exhibits 3 and 4). We highlight that the core construction business of Nagarjuna is trading at a P/E multiple of 14X based on our estimated FY2009 earning estimates (the construction universe under our coverage is currently trading at an average of about 18X, Exhibit 5). We estimate an EPS growth for Nagarjuna of about 40% in FY2009 to Rs12.7 from Rs9.2 in FY2008E (the estimated growth in FY2008 is 26%. EPS growth achieved in FY2007 and FY2006 is 43% and 41% respectively). We reiterate our BUY rating based on (1) strong macro outlook for infrastructural investments providing opportunities as construction contractors as well as developers, (2) large capacity expansion plans across sectors like cement, metals, etc, (3) potential ramp-up of real estate business, (4) better working capital management than peers, (5) recent demonstration of ability to form project specific alliances to add on additional segments of business with large potential such as power, oil & gas and metallurgy.

Exhibit 1. Nagarjuna Construction - 3QFY08 - key numbers (Rs mn)

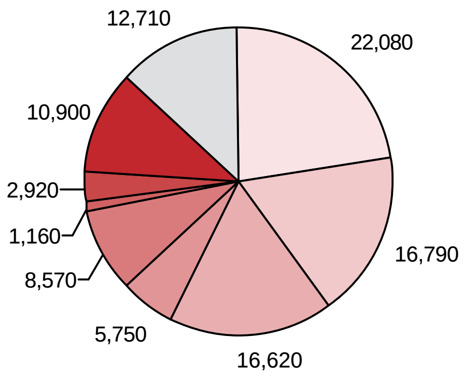
			yoy			qoq			qoq		
(in Rs mn)	FY2007	FY2008E	3QFY08	3QFY07	*% chg*	3QFY08	2QFY08	*% chg*	9mFY08	9mFY07	*% chg*
Net sales	**28,710**	**35,959**	**7,795**	**6,998**	***11.4***	**7,795**	**6,772**	***15.1***	**22,189**	**20,032**	***10.8***
Operating costs	**(26,013)**	**(31,750)**	**(6,933)**	**(6,196)**	***11.9***	**(6,933)**	**(5,923)**	***17.0***	**(19,685)**	**(18,062)**	***9.0***
Raw materials	(9,544)	-	(1,952)	(2,097)	*(6.9)*	(1,952)	(2,139)	*(8.8)*	(6,649)	(7,110)	*(6.5)*
Other construction expenses	(12,129)	(29,846)	(3,646)	(3,044)	*19.8*	(3,646)	(2,600)	*40.2*	(9,390)	(7,834)	*19.9*
Labour	(2,899)	-	(369)	(659)	*(44.0)*	(369)	(659)	*(44.0)*	(1,691)	(2,075)	*(18.5)*
Staff cost	(844)	(1,149)	(767)	(225)	*241.1*	(767)	(343)	*123.7*	(1,413)	(585)	*141.6*
Other expenditure	(597)	(755)	(199)	(171)	*16.1*	(199)	(182)	*9.1*	(542)	(458)	*18.3*
Operating profit	**2,697**	**4,209**	**862**	**802**	***7.5***	**862**	**848**	***1.7***	**2,504**	**1,970**	***27.1***
Other income	292	158	11	5	*123.1*	11	4	*184.2*	18	22	*(17.8)*
Interest cost	(504)	(766)	(167)	(185)	*(9.8)*	(167)	(233)	*(28.5)*	(545)	(338)	*61.4*
Depreciation	(299)	(432)	(123)	(76)	*61.7*	(123)	(117)	*4.7*	(344)	(203)	*69.7*
Profit before tax	**2,187**	**3,169**	**584**	**546**	***6.9***	**584**	**502**	***16.4***	**1,633**	**1,451**	***12.5***
Tax	(667)	(1,046)	(187)	(97)	*93.1*	(187)	(165)	*13.4*	(540)	(225)	*140.1*
Profit after tax	**1,519**	**2,123**	**396**	**449**	***(11.7)***	**396**	**337**	***17.8***	**1,093**	**1,227**	***(10.9)***
Key ratios											
Raw material, labour and other const. expenses	85.6		76.6	82.9		76.6	79.7		79.9	85.0	
Staff cost	2.9		9.8	3.2		9.8	5.1		6.4	2.9	
Other expenditure	2.1		2.5	2.4		2.5	2.7		2.4	2.3	
Operating profit margin (%)	**9.4**	**11.7**	**11.1**	**11.5**		**11.1**	**12.5**		**11.3**	**9.8**	
PAT margin (%)	5.3	5.9	5.1	6.4		5.1	5.0		4.9	6.1	
Effective tax rate (%)	30.5	33.0	32.1	17.7		32.1	32.9		33.0	15.5	

Source: Company data, Kotak Institutional Equities.

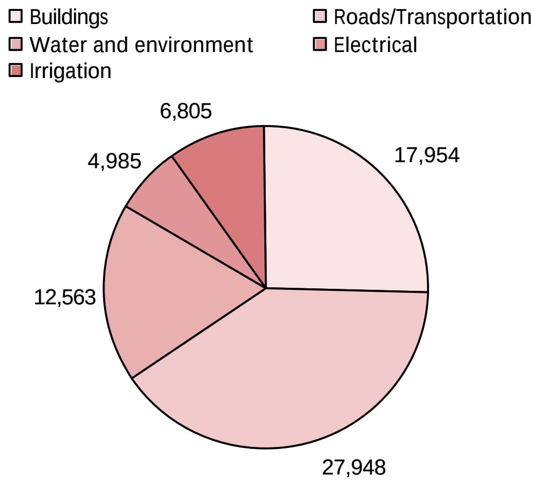
Exhibit 2. Nagarjuna Construction's order book has diversified with the addition of new segments

Nagarjuna Construction's order backlog at the end of 9mFY07 and 9mFY08 (Rs mn)

3QFY08

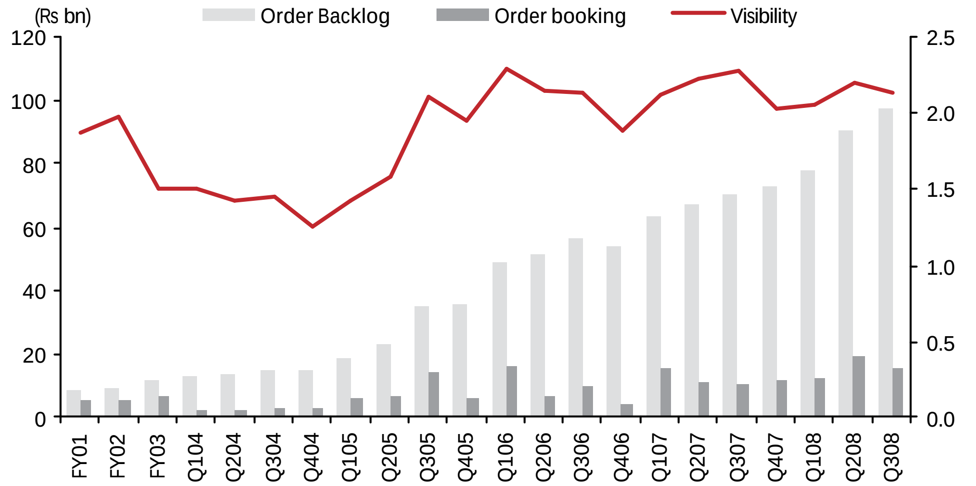


3QFY07



Source: Company data.

Exhibit 3. Nagarjuna Construction has visibility of 2.1 years based on forward four quarter revenues
Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Kotak Institutional Equities.

Exhibit 4. Nagarjuna Construction - DCF model, March fiscal year-ends 2008E-2018E (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	**35,959**	**49,008**	**66,122**	**82,091**	**99,010**	**117,685**	**137,415**	**158,481**	**182,254**	**209,592**	**230,551**
Revenue growth rate (%)	25	36	35	24	21	19	17	15	15	15	10
EBITDA	**4,209**	**5,644**	**7,552**	**9,376**	**11,309**	**12,854**	**15,008**	**17,309**	**20,777**	**23,893**	**26,283**
EBITDA margin (%)	11.7	11.5	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
Depreciation	(432)	(556)	(698)	(848)	(1,017)	(1,223)	(1,448)	(1,692)	(1,692)	(1,692)	(1,692)
EBIT	**3,789**	**5,100**	**6,866**	**8,540**	**10,304**	**11,642**	**13,572**	**15,629**	**19,097**	**22,213**	**24,602**
Tax	(1,191)	(1,640)	(2,228)	(2,790)	(3,382)	(3,837)	(4,449)	(5,100)	(6,302)	(7,330)	(8,119)
Change in net working capital	(1,676)	(1,604)	(3,028)	(3,085)	(3,079)	(3,502)	(3,717)	(3,926)	(3,926)	(3,926)	(3,926)
Capex	(1,500)	(1,800)	(2,000)	(2,000)	(2,500)	(3,000)	(3,000)	(3,500)	(2,734)	(3,144)	(3,458)
Free cash flow	**(158)**	**600**	**296**	**1,501**	**2,348**	**2,515**	**3,843**	**4,783**	**7,815**	**9,493**	**10,780**
PV of each cash flow	(158)	534	234	1,055	1,466	1,396	1,896	2,097	3,046	3,289	3,320

PV of cash flows	18,173
PV of terminal value	50,940
EV	69,113
Debt	3,936
Cash infusion from equity placement	6,629
Equity value	71,806
Fully diluted shares outstanding (mn)	240.6
Equity value (Rs/share)	298.4

FCF in terminal year (Rs mn)	10,780
Exit FCF multiple: (1+g)/(WACC-g)	14.0
Terminal value of FCF (Rs mn)	150,914
Exit EBITDA multiple	5.7

Exit FCF multiple (X)	14.0
Exit EBITDA multiple (X)	5.7

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.0
Market risk premium—(Rm-Rf) (%)	5.5
Beta (x)	1.1
Cost of equity-Ke (%)	14.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	33.6
Debt/Capital (%)	42.4
Equity/Capital (%)	57.6
WACC (%)	11.5
Used WACC (%)	12.5

Sensitivity of DCF value to WACC, Terminal Growth rate

	WACC (%)					
		11.5	**12.0**	**12.5**	**13.0**	**14.0**
Terminal Growth rate (%)	**4.0**	301	286	272	259	237
	5.0	336	316	**298**	283	256
	6.0	383	356	333	313	280
	7.0	451	413	381	354	311
	9.0	751	639	558	496	410

Source: Kotak Institutional Equities estimates.

Exhibit 5. Derivation of SOTP based target price for NCCL

	Equity commitment (Rs mn)	P/B multiple (X)	Rs/share
BOT Projects	**2,773**	**0.7**	**8.7**
Roads			
Brindavan Infrastructure Co. Ltd.	150	0.4	0.2
Bangalore elevated Corridor Project	637	1.0	2.6
Western UP Tollway Ltd.	239	1.0	1.0
Orai - Bhognipur	832	0.4	1.4
Pondicherry-Tindivanam section	375	0.5	0.8
Power			
Gautami Power	420	0.8	1.4
Hydropower project in Himachal Pradesh	495	0.6	1.2
Housing projects			**16.4**
National Games Housing Complex, Ranchi	500	1.0	2.1
AP Housing Board project, Vishakapatnam	445	1.0	1.8
ICICI venture/Tishman Speyer/Nagarjuna project	1,000	3.0	12.5
Book value of investments			**19.8**
Value of core construction business			**298.4**
Value of land bank			**39.0**
Total			**382**

Source: Kotak Institutional Equities estimates.

Exhibit 6: Construction stocks are trading at an average P/E of 18X and EV/EBITDA of 12X based on FY2009E earnings

Comparison of valuation of various construction companies in India, March fiscal year-ends 2007-2009E (Rs bn)

	Revenues (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			P/E (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
Nagarjuna Construction Company	28.7	36.0	49.0	2.7	4.2	5.6	7.3	9.2	12.7	26.5	21.0	15.2	19.9	12.3	9.6	1.9	1.4	1.1
Punj Lloyd Ltd.	51.3	89.0	121.5	3.7	8.2	12.1	6.1	13.2	19.6	68.2	31.6	21.4	37.7	17.6	12.6	2.8	1.6	1.3
IVRCL Infrastructure	23.1	35.1	49.0	2.3	3.6	5.2	10.5	13.5	20.4	22.0	17.2	11.3	17.4	10.7	7.8	1.7	1.1	0.8
Larsen & Toubro standalone	176.1	237.2	322.2	17.8	28.4	39.9	49.5	72.9	99.2	53.3	36.2	26.6	43.3	27.5	19.8	4.4	3.3	2.5
Sadbhav Engineering	4.9	8.7	13.3	0.6	1.1	1.7	23.7	43.9	69.5	38.5	20.8	13.1	21.9	11.3	7.2	2.6	1.4	0.9
Consolidated Construction Consortium Limited	8.6	17.1	24.1	0.7	1.7	2.5	12.9	32.5	48.1	79.4	31.5	21.3	52.1	21.1	14.5	4.4	2.1	1.5
Average										**48.0**	**26.4**	**18.2**	**32.1**	**16.7**	**11.9**	**3.0**	**1.8**	**1.3**

Note:

(1) We have subtracted estimated value for BOT assets and land banks of construction companies to arrive at residual value of core construction business.

(2) For Nagarjuna - we have adjusted value of land bank (about Rs39/share), other BOT projects (Rs25/share) and investments (Rs20/share) for a total of Rs84/share.

(3) For Punj Lloyd estimates are based on consolidated estimates as the company does not have any BOT projects.

(4) For IVRCL we have adjusted value of IVR Prime (Rs160/share) and other BOT projects for a total adjustment of Rs217/share.

(5) For L&T we have deducted Rs900 per share as the value of subsdiaries/associates/JVs.

(6) For Sadbhav Engineering we have deducted Rs385 per share (the value of BOT projects).

Source: Bloomberg, Kotak Institutional Equities.

Construction

IVRC.BO, Rs452	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	570
52W High -Low (Rs)	575 - 241
Market Cap (Rs bn)	60.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	23.1	35.1	49.0
Net Profit (Rs bn)	1.4	1.8	2.7
EPS (Rs)	12.4	13.5	20.4
EPS gth	*58.5*	*8.3*	*51.6*
P/E (x)	36.4	33.6	22.1
EV/EBITDA (x)	27.9	17.4	12.7
Div yield (%)	0.2	0.2	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	9.9	-	-
FIIs	62.5	0.4	0.3
MFs	12.9	0.5	0.4
UTI	-	-	(0.1)
LIC	-	-	(0.1)

IVRCL Infrastructures: Results first take—Operating performance exceeds expectations

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Operating performance exceeds expectations led by strong execution**
- **Margins expand significantly led by operating leverage**
- **Maintain estimates, target price of Rs570/share and BUY rating**

IVRCL reported 3QFY08 revenues of Rs9.9 bn (up 87% yoy) and EBITDA of Rs1.1 bn (up 100% yoy) versus our expectation of Rs7.8 bn and Rs0.83 bn respectively. Margins have expanded by 70 bps as staff cost and other expenses combined as a % of sales have come down by 110 bps while contract related expenses have gone up by 30 bps. We maintain our estimates and SOTP-based target price of Rs570. Reiterate BUY.

Operating performance exceeds expectations led by strong execution

IVRCL reported 3QFY08 revenues of Rs9.9 bn (up 87% yoy) and EBITDA of Rs1.1 bn (up 100% yoy) versus our expectation of Rs7.8 bn and Rs0.83 bn respectively. Yoy revenue growth at 87% was higher than our expectation, while operating margins at 11.4% were significantly higher than our expectation of 10.85%. PAT at Rs641 mn (up 99.4% yoy) was higher than our estimate of Rs416 mn.

Margins expand significantly led by operating leverage

Margins have expanded by 70 bps as staff cost and other expenses combined as a % of sales have come down by 110 bps while contract related expenses have gone up by 30 bps.

Maintain estimates, target price of Rs570/share and BUY rating

We maintain our earnings estimates. Given the strong order backlog and a typical skew of higher execution in the fourth quarter of the year, we expect IVRCL to exceed our full year revenue and margin estimates. We maintain our SOTP-based target price of Rs570 comprised of (a) core business valuation of Rs365/share, (b) IVR Prime's contribution of Rs160/share, (c) incremental value from infrastructure projects worth Rs24/share and (d) Rs15/share contribution from Hindustan Dorr Oliver. We rate IVRCL Infrastructure as BUY based on (a) strong likely earnings growth led by execution as well as margin expansion, and (b) strong outlook for infrastructure and industrial investments.

Exhibit 1. IVRCL - 3QFY08 - key numbers (Rs mn)

			yoy			qoq			qoq		
	FY2007	FY2008E	3QFY08	3QFY07	*% chg*	3QFY08	2QFY08	*% chg*	9mFY08	9mFY07	*% chg*
Net sales	**23,059**	**38,364**	**9,749**	**5,223**	***86.6***	**9,749**	**6,885**	***41.6***	**23,406**	**13,133**	***78.2***
Operating costs	**(20,757)**	**(34,336)**	**(8,634)**	**(4,667)**	***85.0***	**(8,634)**	**(6,331)**	***36.4***	**(21,139)**	**(11,911)**	***77.5***
Construction, stores & spares	(9,308)	(31,362)	(2,843)	(2,312)	*22.9*	(2,843)	(2,765)	*2.8*	(8,567)	(5,443)	*57.4*
Subcontracting expenditure	(5,257)		(3,501)	(1,113)	*214.6*	(3,501)	(1,658)	*111.2*	(6,468)	(2,821)	*129.3*
Masonry and other labour	(4,192)		(1,563)	(793)	*97.1*	(1,563)	(1,215)	*28.6*	(4,062)	(2,359)	*72.2*
Staff cost	(854)	(1,343)	(282)	(218)	*29.4*	(282)	(353)	*(19.9)*	(953)	(548)	*73.8*
Other expenditure	(1,147)	(1,630)	(445)	(230)	*93.2*	(445)	(340)	*30.8*	(1,089)	(739)	*47.2*
EBITDA	**2,301**	**4,028**	**1,114**	**556**	***100.3***	**1,114**	**553**	***101.4***	**2,267**	**1,222**	***85.5***
Other income	74	83	8	18	*(55.1)*	8	16	*(49.9)*	34	89	*(61.9)*
Interest cost	(308)	(597)	(177)	(98)	*80.3*	(177)	(76)	*132.6*	(310)	(283)	*9.2*
Depreciation	(216)	(322)	(87)	(60)	*44.0*	(87)	(76)	*13.4*	(229)	(147)	*55.8*
Profit before tax	**1,851**	**3,193**	**859**	**416**	***106.6***	**859**	**416**	***106.2***	**1,763**	**881**	***100.1***
Tax	(436)	(1,054)	(218)	(94)	*131.0*	(218)	(64)	*241.2*	(390)	(186)	*109.3*
Profit after tax	**1,415**	**2,139**	**641**	**321**	***99.4***	**641**	**353**	***81.7***	**1,373**	**694**	***97.7***
Key ratios											
Construction, stores & spares	40.4	81.8	29.2	44.3		29.2	40.2		36.6	41.4	
Subcontracting expenditure	22.8		35.9	21.3		35.9	24.1		27.6	21.5	
Masonry and other labour	18.2		16.0	15.2		16.0	17.7		17.4	18.0	
Staff cost	3.7	3.5	2.9	4.2		2.9	5.1		4.1	4.2	
Other expenditure	5.0	4.3	4.6	4.4		4.6	4.9		4.7	5.6	
EBITDA margin (%)	**10.0**	**10.5**	**11.4**	**10.7**		**11.4**	**8.0**		**9.7**	9.3	
PAT margin (%)	6.1	5.6	6.6	6.2		6.6	5.1		5.9	5.3	
Effective tax rate (%)	23.6	33.0	25.4	22.7		25.4	15.3		22.1	21.2	

Source: Company data, Kotak Institutional Equities.

Exhibit 2. Derivation of SOTP based target price for IVRCL

	Equity commitment (Rs mn)	P/B Multiple (X)	Contribution per share (Rs)
Value of core construction business			349.4
Roads			
Jallandhar- Amristar Tollways	400	1.0	3.0
Salem - Kumarapalayam	760	1.0	5.6
Sumarapalayam Chenagmpalli	1,290	1.0	9.6
Water			
Chennai Water	713	1.0	5.3
Infrastructure holdings	1,825	Book value	13.5
Value of Hindustan Dorr Oliver		Market Price	20.0
Value of IVRCL Prime Developers limited		Discount to NAV	160.3
Total			**566.7**

Source: Kotak Institutional Equities estimates.

Construction stocks are trading at an average P/E of 18X and EV/EBITDA of 12X based on FY2009E earnings

Comparison of valuation of various construction companies in India, March fiscal year-ends 2007-2009E (Rs bn)

	Revenues (Rs bn)			EBITDA (Rs bn)			EPS (Rs)			P/E (X)			EV/EBITDA (X)			EV/Sales (X)		
Company	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
Nagarjuna Construction Company	28.7	36.0	49.0	2.7	4.2	5.6	7.3	9.2	12.7	26.5	21.0	15.2	19.9	12.3	9.6	1.9	1.4	1.1
Punj Lloyd Ltd.	51.3	89.0	121.5	3.7	8.2	12.1	6.1	13.2	19.6	68.2	31.6	21.4	37.7	17.6	12.6	2.8	1.6	1.3
IVRCL Infrastructure	23.1	35.1	49.0	2.3	3.6	5.2	10.5	13.5	20.4	22.0	17.2	11.3	17.4	10.7	7.8	1.7	1.1	0.8
Larsen & Toubro standalone	176.1	237.2	322.2	17.8	28.4	39.9	49.5	72.9	99.2	53.3	36.2	26.6	43.3	27.5	19.8	4.4	3.3	2.5
Sadbhav Engineering	4.9	8.7	13.3	0.6	1.1	1.7	23.7	43.9	69.5	38.5	20.8	13.1	21.9	11.3	7.2	2.6	1.4	0.9
Consolidated Construction Consortium Limited	8.6	17.1	24.1	0.7	1.7	2.5	12.9	32.5	48.1	79.4	31.5	21.3	52.1	21.1	14.5	4.4	2.1	1.5
Average										**48.0**	**26.4**	**18.2**	**32.1**	**16.7**	**11.9**	**3.0**	**1.8**	**1.3**

Note:

(1) We have subtracted estimated value for BOT assets and land banks of construction companies to arrive at residual value of core construction business.

(2) For Nagarjuna - we have adjusted value of land bank (about Rs39/share), other BOT projects (Rs25/share) and investments (Rs20/share) for a total of Rs84/share.

(3) For Punj Lloyd estimates are based on consolidated estimates as the company does not have any BOT projects.

(4) For IVRCL we have adjusted value of IVR Prime (Rs160/share) and other BOT projects for a total adjustment of Rs217/share.

(5) For L&T we have deducted Rs900 per share as the value of subsdiaries/associates/JVs.

(6) For Sadbhav Engineering we have deducted Rs385 per share (the value of BOT projects).

Source: Bloomberg, Kotak Institutional Equities.

Property

IVR.BO, Rs285	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	600
52W High -Low (Rs)	550 - 165
Market Cap (Rs bn)	16.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.5	1.5	6.1
Net Profit (Rs bn)	0.2	0.3	1.6
EPS (Rs)	4.1	4.6	25.1
EPS gth	*1.0*	*11.8*	*443.2*
P/E (x)	68.9	61.6	11.3
EV/EBITDA (x)	69.7	45.9	9.7
Div yield (%)	0.3	1.2	3.2

IVR Prime Urban Developers: 3QFY08 PAT in line with estimates; retain target price and rating

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Large revenue booking from a private equity deal with Kotak Realty Fund**
- **We expect IVR Prime to launch six projects in the next six months expanding presence to five cities**
- **Retain BUY rating with target price of Rs600**

IVR Prime Urban Developers Limited (PUDL) reported PAT of Rs1.2 bn (v/s our expectation of Rs1.1 bn), which largely came from a project specific deal with Kotak Realty Fund. The deal has been executed in two steps'(1) transfer of development rights for the project to PUDL's subsidiary, (2) sale of stake in the subsidiary to Kotak Realty. We believe that large parts of revenues (>90%) in 3QFY08 were contributed on account of deal with Kotak Realty. We will incorporate this deal into financials as we get more clarity on the same during the conference call. Our target price of Rs600 provides large upside to current market price and we retain our BUY rating.

PUDL likely to establish presence in five cities over the next six months

Exhibit 2 highlights likely new launch schedule of PUDL over the next six months. We highlight the fact that already two residential projects have been launched—one each in Bangalore and Noida. PUDL is currently in the process of launching a project in Vishakapatnam and North Chennai.

Launches as mentioned above will likely be followed by launch of a large township in Sriperumbudur. We highlight that Sriperumbudur is emerging as an industrial location and will likely result in employment potential of 200,000 people over the next five years. We believe that PUDL will be amongst the early entrants in this region.

We retain our target price of Rs600; BUY rating

Our target price of Rs600/ share is based on March 2009 NAV of Rs610/share. This implies a 110% upside from the current stock price of Rs285/share and we re-iterate our BUY rating. Key regions that contribute significantly to PUDL’s NAV are as below.

Chennai: Almost 90% of the total 47.7 mn sq. ft of land bank in Chennai is located in Sriperumbudur. Exhibit 4 shows that Sriperumbudur contributes 45% to PUDL’s NAV. We have assumed selling price assumptions of Rs2,000/sq. ft for the residential development and Rs2,625/sq. ft for commercial development in the Sriperumbudur region. In our view these assumptions have limited downside risks considering that the nearest residential project (around 8-10 kms from Sriperumbudur) ‘Palace Gardens’ launched by Hirco is quoting at Rs3,100/sq. ft.

Hyderabad. PUDL is setting up a 2.1 mn sq. ft IT Park cum mall project is Gacchibowli. This project contributes 15% to PUDL’s NAV.

Noida. PUDL has two residential projects in Sectors 119, 121 and two commercial projects in Noida in Sector 144, which form part of a special economic zone.

3QFY08 results of IVR Prime (Rs mn)

		qoq		Kotak estimates				
	3QFY08	2QFY08	*% chg*	3QFY08	% deviation	FY07	FY08E	*% chg*
Net sales	**2,959**	**456**	***549***	**384**	***670.8***	**1,478**	**1,536**	***4***
Construction cost	(1,463)	(235)	*521*					
Staff cost	(20)	(21)	*(5)*					
Other expenditure	(10)	(12)	*(16)*					
EBITDA	**1,467**	**188**	***679***	**84**	***1,648***	**375**	**423**	***13***
Other income	71	43	*67*	40		1	109	*16,682*
Interest costs	(7)	(10)	*(32)*	(10)		(57)	(68)	*20*
Depreciation	(2)	(2)	*6*	(1)		(4)	(14)	*252*
Pretax profits	**1,529**	**219**	***598***	**113**	***1254.7***	**315**	**450**	***43***
Extraordinaries	—	—	—	1,000		—	—	
Tax	(366)	(60)	*512*	(20)		(108)	(153)	*41*
Deferred tax								
Net income	**1,163**	**159**	***630***	**1,093**	***6.4***	**207**	**297**	***43***
Adjusted net income	**1,163**	**159**	***630***	**1,093**		**207**	**297**	***43***
Key ratios								
EBITDA margin (%)	49.6	41.2	*20.1*	21.9		25.4	27.5	*(7.8)*
PAT margin (%)	39.3	34.9	*12.5*	284.7		14.0	19.3	*(27.6)*
Effective tax rate (%)	24.0	27.3	*(12.3)*	17.7		34.3	34.0	*1.0*

Source: Company, Kotak Institutional Equities estimates.

IVR has lined up launch of 13 mn sq. ft over the next six months

Details of residential projects, area

		Area		Selling price	Current status
Location	**Residential**	**(mn sq. ft)**	**(acres)**	**(Rs/sq. ft)**	
Bangalore	Jigni (JDA)	0.4	6	2,200	Launched
Noida	Noida	0.8	9	3,500	Launched
Vishakapatnam	Veduravada	4.7	74	2,000	Launch in 4QFY08
Chennai	Minjur	3.8	278	1,800	Launch in 4QFY08
Bangalore	Hosur	1.8	21	3,400	Launch in 1HFY09
Hyderabad	Hitech City (JDA)	0.3	2	4,000	Launch in 1HFY09
Noida	Noida	1.1	13	3,500	Launch in 1HFY09
Bangalore	Kudlu	0.6	15	3,500	Launch in 1HFY09
		13.4	**418**		

Source: Kotak Institutional Equities

We estimate March '09 based NAV for IVR at Rs610/share

NAV sensitivity for different growth rate in selling prices

	March '09 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**29.6**	**36.1**	**40.6**	**53.5**
Less: Land payments outstanding	(1.6)	(1.6)	(1.6)	(1.6)
Less: land payments outstanding for NOIDA	(4.0)	(4.0)	(4.0)	(4.0)
Add: Net Cash	4.1	4.1	4.1	4.1
NAV (Rs bn)	**28.1**	**34.6**	**39.1**	**51.9**
Number of shares				
Total no of shares				64.2
Price/share (Rs/share)				610

Source: Kotak Institutional Equities

Three regions contribute 75% to PUDL's NAV

PUDL's NAV from key projects

	NAV	Area	
	(Rs mn)	(mn sq. ft)	(acres)
Chennai-Sriperumbudur	18,021	43.1	1,075
Hyderabad-Mall cum IT Park	6,270	2.1	12
NOIDA	8,200	6.7	80
Others	8,157	23.7	1,312
	40,648	**75.6**	**2,479**

Source: Kotak Institutional Equities.

Consumer Products

TTTE.BO, Rs837	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,100
52W High -Low (Rs)	1014 - 558
Market Cap (Rs bn)	52

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	41.0	42.7	43.9
Net Profit (Rs bn)	5.2	3.1	3.7
EPS (Rs)	91.2	50.8	59.8
EPS gth	*75.3*	*(44.3)*	*17.6*
P/E (x)	9.2	16.5	14.0
EV/EBITDA (x)	13.1	12.8	12.2
Div yield (%)	1.4	1.4	1.4

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.4	-	-
FIIs	12.7	0.1	(0.1)
MFs	10.4	0.4	0.2
UTI	-	-	(0.1)
LIC	12.0	0.4	0.3

Tata Tea: Brewing success—reiterate BUY, target price raised to Rs1,100

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

- **Clear volume market leader in India**
- **Tetley performance good, severe price based competition in UK market**
- **Glaceau profits help Tata Tea turn near debt free**
- **Retain focus on water business**
- **Earnings revision, reiterate BUY, target price increased to Rs1,100/share**

We believe the strong performance by the company in the Indian market coupled with early signs of turnaround in international portfolio augurs very well. We have revised our estimates to primarily account for the cash inflow (profits from Glaceau stake sale is estimate at Rs357/share), debt repayment and rolling over of estimates. We estimate EPS of Rs54.1 (Rs46.2 previously) for FY2008 and Rs63.3 (Rs58.8 previously) for FY2009 and a 10% earnings growth over next two years. We reiterate BUY with an increased target price of Rs1,100/share (Rs992 previously). Our valuation captures the DCF value of the core business plus 50% value of the investment portfolio (Rs91/share). Tata Tea has investments in group companies like Rallis, Tata Consultancy Services, Tata Chemicals, Tata Sons. Our target price implies a P/E of 17X on FY2009E and offers an upside of 30% over the current market price.

Clear volume market leader in India

Tata Tea continues to be the volume market leader in Indian tea market (~ 21% share for Tata Tea vs. ~19% share for Hindustan Unilever). The company's topline registered 18% growth in the past three quarters aided by a strong 15% volume growth. We believe that the current 'Jaago re' marketing campaign is a success and is providing the vital fillip to Tata Tea brands. The market share gains by Tata Tea need to be seen in the context of significant lower spending by the company in comparison with the nearest competitor. We are fairly confident of sustained good growth in domestic markets and build in a 7% growth for FY2009 and FY2010.

Tetley performance good, severe price based competition in UK market

Tata Tea reported a modest 2% growth in the Tetley sales for the past three quarters. However, adjusting for currency translation losses (GBP to INR), we estimate the underlying growth at ~8% (organic + inorganic). The consistent growth of ~8% for the third consecutive quarter in the international tea portfolio is heartening and augurs well. We believe the company's strategy of focusing on new markets and new initiatives in tea (aggressive push of herbal and green tea) is paying off well. We believe initial success of integration of various recent acquisitions is visible. We note that higher volumes, realizations and tea costs contributed significantly to the operating profit growth. However, Tetley is facing heightened competitive activity in the key UK market where brands like Typhoo (about 8% market share) is currently having a 'Buy one get three free' offer. We model 3% growth for Tetley's global operations for FY2009 and FY2010.

Glaceau profits help Tata Tea turn near debt free

The Glaceau stake sale resulted in a pre-tax saving of US$415 mn for the group and US$323 mn for Tata Tea (Rs357/share). The proceeds of the sale were used to repay the debt raised to fund the acquisition of Glaceau thereby reducing the large interest burden. Moreover, the company is in the process of renegotiating the interest rates and other terms on the existing loans taken for Eight O' Clock coffee acquisition. We believe that better terms for these loans would also help the company reduce the interest outgo. We expect Tata Tea to announce further inorganic growth plans in the near term. We highlight that given the heightened volatility in international markets; Tata Tea could possibly get a finer price for the inorganic forays.

Retain focus on water business

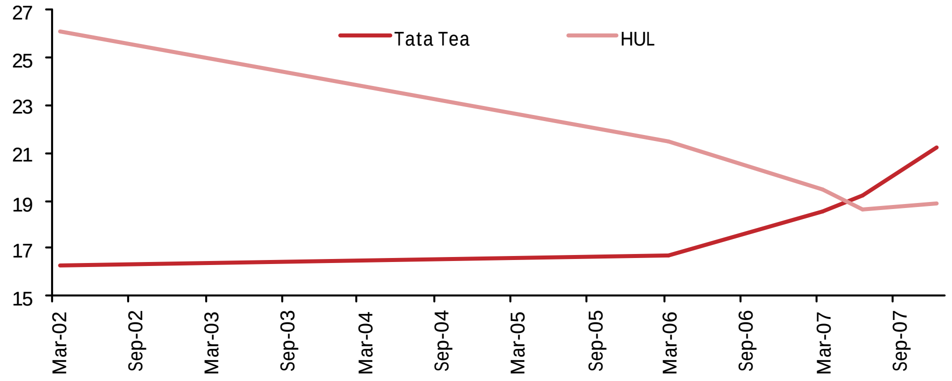
Post the acquisition of stake from promoters and open offer, Tata Tea currently holds about 32% in Mount Everest Mineral Water Limited (MEMW), owners of Himalayan brand of bottled water. We expect significant traction to accrue to the company in leveraging the MEMW brand by expanding the product reach in India as well as by riding on the distribution channel of Tata Tea and associates globally. Considering the high acquisition valuation paid, we believe that Tata Tea needs to complete the integration and ramp up very fast to derive planned benefits. We recall that MEMW was bought at an EV of Rs3.97 bn, EV/EBITDA of 171X and EV/Sales of 17.3X.

Earnings revision, reiterate BUY, target price increased to Rs1100/share

We believe that the strong performance by the company in the Indian market coupled with early signs of turnaround in international portfolio augurs very well. We have revised our estimates to primarily account for the cash inflow (profits from Glaceau stake sale is estimate at Rs357/share), debt repayment and rolling over of estimates. We estimate EPS of Rs54.1 (Rs46.2 previously) for FY2008 and Rs63.3 (Rs58.8 previously) for FY2009 and a 10% earnings growth over next two years. We reiterate BUY with an increased target price of Rs1100/share (Rs992 previously). Our valuation captures the DCF value of the core business plus 50% value of the investment portfolio (Rs91/share). Tata Tea has investments in group companies like Rallis, Tata Consultancy Services, Tata Chemicals, Tata Sons. Our target price implies a P/E of 17X on FY2009E and offers an upside of 30% over the current market price.

Exhibit: Tata Tea taking over volume market leadership in Indian Market

Volume market shares in percentage



Source: Company, Kotak Institutional Equities.

Improving market share positions albiet marginally augurs well

Market share as of September 2007 in key geographies where Tata Tea operates in

	Market share %			
	Volume	**Change in bps yoy**	**Value**	**Change in bps yoy**
Great Britain	29	100	26	(40)
Australia	20	(150)	13	(90)
Canada	41	180	37	150
France	11	50	10	50
US	8	20	6	(10)

Source: Company.

Tata Tea, change in estimates, March fiscal year-ends (Rs mn)

Revisions	New 2008E	Old 2008E	% change	New 2009E	Old 2009E	% change
Sales	45,263	41,013	10.4	46,679	42,328	10.3
Operating profit	8,122	7,342	10.6	8,358	7,579	10.3
PBT	5,214	3,683	41.6	6,533	4,289	52.3
Net profit	3,343	2,859	16.9	3,917	3,633	7.8
EPS	54.1	46.2	16.9	63.3	58.8	7.8

Source: Kotak Institutional Equities

Retail

REXP.BO, Rs158	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	215
52W High -Low (Rs)	170 - 55
Market Cap (Rs bn)	46.0

Financials

June y/e	2007	2008E	2009E
Sales (Rs bn)	68.9	82.4	85.7
Net Profit (Rs bn)	1.0	2.2	3.0
EPS (Rs)	13.7	7.6	10.5
EPS gth	*48.7*	*(46.1)*	*39.6*
P/E (x)	11.6	20.9	15.1
EV/EBITDA (x)	21.1	9.1	7.5
Div yield (%)	0.2	1.4	1.6

Rajesh Exports: Termination of JV with Fossil and slower rollout of Shubh stores; reduce target price to Rs215, maintain BUY

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1395

Augustya Somani : augustya.somani@kotak.com, +91-22-6634-1328

- **Media reports indicate termination of Rajesh's JV with Fossil; Rajesh confirms the development but indicates continuity of business relationship with Fossil**
- **We revise our estimates downwards—exclude revenues from Oyzterbay stores pending demonstration of concrete plans, reduce assumption for 'Shubh' store rollout for FY2008E and FY2009E**
- **Revise downwards our FY2008E, FY2009E and FY2010E net earnings estimates by 0.5%, 3.4% and 3.5%, respectively**
- **Revise our SOTP-based target price to Rs215 from Rs235 earlier and maintain BUY**

Recent media reports indicate that US fashion giant Fossil Inc. has decided to enter the Indian retail sector alone after dissolution of the proposed JV with Rajesh. The JV was formed to set up the 'Oyzterbay' outlets for retailing fashion jewelry and other accessories. Rajesh has confirmed the development, however, as per management the earlier arrangement would now be carried out directly by Rajesh Exports instead of routing through a JV. We believe termination of JV raises execution risks about the Oyzterbay store rollout; hence we do not include any revenues from the same pending demonstration of concrete plans by the company. We revise downwards our assumption for 'Shubh' on account of slower-than-expected rollout of 'Shubh' stores. We marginally revise our estimates for FY2008E-2010E by 0.5-4% on account of slower rollout of 'Shubh' stores and termination of Fossil JV; revise target price to Rs215 per share from Rs235 earlier (adjusted for split and bonus) and maintain BUY rating.

Fossil JV discontinued—we exclude Oyzterbay revenue estimates pending concrete alternate plans

As per recent media reports, Fossil Inc. has terminated its JV with Rajesh Exports. The JV was formed to set up the 'Oyzterbay' chain of outlets to retail fashion jewelry and other fashion accessories through shop-in-shop format. As per the company, the dissolution was done as Fossil was facing regulatory hurdles in entering into multi-brand retailing in India. As per management, Rajesh will continue to enjoy all the benefit of the earlier arrangement through indirect business relationship. We believe there is significant execution risk in forming any such arrangement and do not include any revenues from the 'Oyzterbay' format pending demonstration of concrete plans or action by the company. Earlier, we had estimated revenues of Rs438 mn and Rs1,492 mn and EBITDA of Rs46 mn and Rs164 mn for FY2009E and FY2010E, respectively from the Oyzterbay format.

'Shubh' store rollout slow—revising downward our store rollout assumptions

The rollout of 'Shubh' stores has been slower than expected. We believe delays in store rollout may impact revenues and earnings. We have revised our store assumptions downwards for FY2008E and FY2009E to 20 and 70 stores from 50 and 80 earlier. We revise our revenue estimates from the 'Shubh' format for FY2008E, FY2009E and FY2010E downwards by 60%, 31.3% and 5.4%, respectively.

Revise estimates downwards to account for termination of JV and slower rollout of 'Shubh' stores

FY2008E—revenues lower by 0.4%, EBITDA down by 0.4%, PAT reduced by 0.5%
FY2009E—revenues lower by 2.9%, EBITDA down by 3.3%, PAT reduced by 3.4%
FY2010E—revenues lower by 2.3%, EBITDA down by 3.8%, PAT reduced by 3.5%

Revise target price to Rs215 from Rs235 earlier and maintain BUY rating

We revise our 12-month SOTP-based target price downwards to Rs215 from Rs235 earlier for the impact of revised estimates on account of termination of Fossil JV and slower rollout of 'Shubh' stores. We maintain our BUY rating on the stock.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	54,459	1,119	665	9.3	28.3	17.1	9.3
2007	68,930	2,142	1,013	13.7	32.9	11.6	5.1
2008E	82,440	4,079	2,201	7.6	19.9	21.0	9.2
2009E	85,728	4,695	3,048	10.5	23.0	15.2	7.5
2010E	87,849	5,098	3,619	12.4	22.7	12.8	6.4

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Rajesh Exports, SOTP valuation

	Current valuation	
	(Rs mn)	(Rs/share)
Export business	27,380	94
Retail business	21,309	73
Real estate	2,500	9
Total enterprise value	**51,188**	**176**
Net debt/(cash) - FY2009E	(10,954)	(38)
Equity value	**62,142**	**214**

Note:
(1) Net cash is adjusted for net operating working capital

Source: Kotak Institutional Equities estimates.

Exhibit 3: Change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Difference (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Revenue	82,440	85,728	87,849	82,812	88,249	89,919	(0.4)	(2.9)	(2.3)
EBITDA	4,079	4,695	5,098	4,097	4,855	5,297	(0.4)	(3.3)	(3.8)
EBITDA margin (%)	4.9	5.5	5.8	4.9	5.5	5.9	—	—	—
Adjusted net profit	2,201	3,048	3,619	2,213	3,154	3,750	(0.5)	(3.4)	(3.5)
Diluted EPS (Rs)	7.6	10.5	12.4	7.6	10.9	12.9	(0.6)	(3.4)	(3.5)

Source: Kotak Institutional Equities estimates.

Exhibit 4: Financial assumptions, March fiscal year-ends, 2007-10E

	2007	2008E	2009E	2010E
Volumes sold				
Bulk exports (kg)	67,850	75,992	68,393	61,553
Revenues (Rs mn)	**68,932**	**82,440**	**85,728**	**87,849**
Shubh (a)	—	248	4,567	10,071
Laabh (b)	—	2,464	2,649	3,602
Oyzterbay (c)	—	—	—	—
Total retailing (a)+(b)+(c)	—	2,711	7,216	13,674
White label jewelry	—	3,646	4,260	5,230
Diamond jewelry	—	412	3,390	3,915
Bulk exports	68,932	75,671	70,862	65,031
EBITDA (Rs mn)	**2,142**	**4,079**	**4,695**	**5,098**
Shubh (a)	—	12	251	604
Laabh (b)	—	246	265	378
Oyzterbay (c)	—	—	—	—
Total retailing (a)+(b)+(c)	—	259	516	983
White label jewelry	—	602	703	889
Diamond jewelry	—	62	614	824
Bulk exports	2,142	3,157	2,862	2,403
EBITDA margins (%)	**3.1**	**4.9**	**5.5**	**5.8**
Shubh (a)	—	5.0	5.5	6.0
Laabh (b)	—	10.0	10.0	10.5
Oyzterbay (c)	—	—	—	—
Total retailing (a)+(b)+(c)	—	9.5	7.2	7.2
White label jewelry	—	16.5	16.5	17.0
Diamond jewelry	—	14.9	18.1	21.0
Bulk exports	3.1	4.2	4.0	3.7
Retailing assumptions				
Stores (numbers)				
Shubh		20	70	120
Laabh		30	30	50
Oyzterbay		—	—	—
Average sales/store per month (Rs mn)				
Shubh		8.3	8.5	8.8
Laabh		6.8	7.4	7.5
Oyzterbay		—	—	—

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Rajesh Exports, 2006-2010E, March fiscal year-ends (Rs mn)

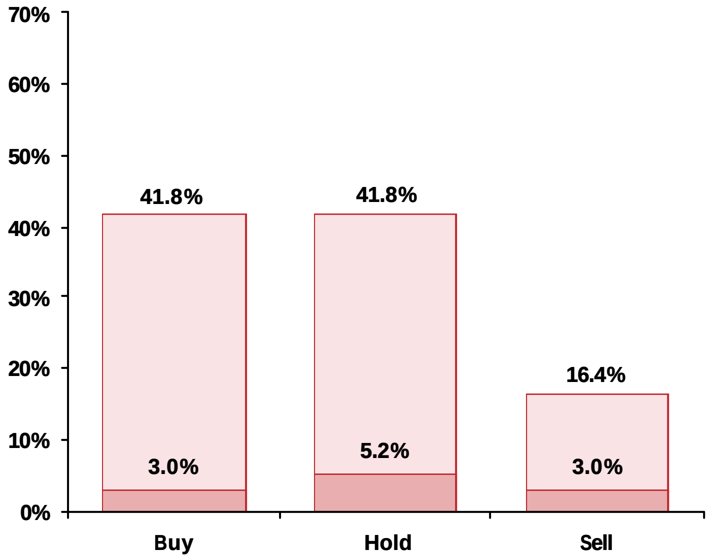
	2006	2007	2008E	2009E	2010E
Profit model					
Total income	54,459	68,930	82,440	85,728	87,849
EBITDA	**1,119**	**2,142**	**4,079**	**4,695**	**5,098**
Interest (expense)/income	(417)	(1,086)	(1,706)	(1,312)	(956)
Depreciation	(14)	(15)	(19)	(21)	(23)
Other income	13	—	—	—	—
Pretax profits	**702**	**1,042**	**2,354**	**3,362**	**4,119**
Tax	(36)	(30)	(152)	(313)	(500)
Deferred taxation	—	—	—	—	—
Adjusted net income	**665**	**1,013**	**2,201**	**3,048**	**3,619**
Diluted earnings per share (Rs)	**9.3**	**13.7**	**7.6**	**10.5**	**12.4**
Balance sheet					
Total equity	2,363	3,091	11,044	13,242	15,926
Total borrowings	13,443	33,234	28,094	20,743	18,028
Current liabilities	24,924	33,429	37,927	36,684	35,629
Total liabilities and equity	**40,729**	**69,754**	**77,065**	**70,668**	**69,583**
Cash	34,104	57,647	62,579	55,988	53,683
Other current assets	6,069	11,499	13,822	13,967	15,165
Deferred taxation asset	8	8	8	8	8
Total fixed assets	500	537	593	642	664
Investments	49	63	63	63	63
Total assets	**40,729**	**69,754**	**77,065**	**70,669**	**69,583**
Free cash flow					
Operating cash flow, excl. working capital	(971)	(2,373)	2,220	3,069	3,642
Working capital changes	1,226	3,531	1,483	(1,474)	(2,337)
Capital expenditure	(31)	(52)	(75)	(70)	(45)
Investments	7	(14)	—	—	—
Other income	1,462	2,945	—	—	—
Free cash flow	**224**	**1,106**	**3,628**	**1,526**	**1,260**
Ratios (%)					
Debt/equity	570.9	1,078.2	254.6	156.7	113.3
Net debt/equity	(877.5)	(792.0)	(312.5)	(266.3)	(224.0)
RoAE	28.3	32.9	19.9	23.0	22.7
RoACE	**8.9**	**7.9**	**10.1**	**11.6**	**13.1**

Source: Company data, 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: Jigar Mistry, Sanjeev Prasad, Amit Agarwal, Aman Batra, Lokesh Garg, Tabassum Inamdar, Prashant Vaishampayan, Kawaljeet Saluja, Nitin Bhasin."

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 = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

New 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.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
NC = Not Covered. Kotak Securities does not cover this company.
RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office
Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices
Kotak Mahindra (UK) Ltd.
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.