INDIA DAILY

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News Roundup

Corporate

- With the exclusivity period for talks between **RCom** and South African telco **MTN** drawing to an end on Tuesday, speculation is rife that the proposed deal has been called off. (FE)
- After Tata Consultancy Services (TCS) and ABM Global Services, **Patni Computer Systems** has laid off close to 400 employees citing non-performance issues. (ET)
- The Supreme Court on Tuesday set aside **Reliance Energy's** claim that competitor **Tata Power** cannot supply electricity to small retail consumers in Mumbai. (ET)
- Drug price regulator NPPA has raised prices of 19 imported insulin-based medicines in response to requests from **Eli Lilly** and **Pfizer**. The revision covers 13 Eli Lilly and six Pfizer brands. (BS)

Economic and political

- The Left parties on Tuesday announced withdrawal of support to the ruling United Progressive Alliance (UPA) Government over the latter's move to push ahead with the Indo-US nuclear deal. (BL)
- Industry and the markets largely viewed the Left parties withdrawing support to the government with the hope that the UPA would now push through its long-pending laundry list of key economic reforms, in the short run, though, the flux could persist. (FE, see our Economy comment inside).

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

EQUITY MARKETS

	Change, %			
India	**8-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	13,350	(1.3)	(11.4)	(15.5)
Nifty	3,989	(1.0)	(11.4)	(16.0)
Global/Regional indices				
Dow Jones	11,384	1.4	(7.3)	(9.1)
FTSE	5,441	(1.3)	(7.4)	(9.1)
Nikkie	13,261	1.8	(6.5)	1.1
Hang Seng	21,741	2.5	(10.9)	(9.4)
KOSPI	1,555	1.4	(14.0)	(11.4)

Value traded - India

	Moving avg, Rs bn			
	8-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	156.6		192.2	195.3
Derivatives (NSE)	411.2		428.9	331
Deri. open interest	701.1		728	558

Forex/money market

	Change, basis points			
	8-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	43.2	0	27	322
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	7-Jul		MTD	CYTD
FIIs	(79)		-	(5,255)
MFs	(15)		-	1,660

Top movers -3mo basis

	Change, %			
Best performers	**8-Jul**	**1-day**	**1-mo**	**3-mo**
i-Flex	1,460	(1.2)	21.5	46.1
Ingersoll Rand	371	1.2	34.7	36.5
Chambal Fert	67	4.4	(10.2)	33.5
Ballarpur Ind	32	0.3	(3.3)	28.8
Glaxosmithkline	1,180	3.4	7.7	19.8
Worst performers				
Tata Motors	378	(3.8)	(27.4)	(40.2)
Acc	526	5.9	(14.2)	(35.8)
BPCL	252	5.6	(9.8)	(36.4)
Grasim	1,674	(3.5)	(24.9)	(35.1)
Wockhardt	184	0.1	(25.8)	(34.4)

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Strategy

Sector coverage view	N/A

Of cabals and kings

An election is nigh. It is moot whether this will be in October 2008 or May 2009. We thought it would be interesting to line up politicians who are likely to play a key role in determining the next government and some faces of the future. Coalition governments are a fact of Indian politics and our gallery includes several kingmakers who have control of crucial seats in a game of numbers.

Business Standard has profiled 16 key politicians in Part I of this report exclusively for Kotak Securities. *Of cabals and kings-I* features Sonia Gandhi, Lalu Prasad Yadav, Mayawati, P Chidambaram, Narendra Modi, Buddhadeb Bhattacharjee, Rahul Gandhi, Murli Deora, N Chandrababu Naidu, Vilasrao Deshmukh, Vasundhara Raje Scindia, Jyotiraditya Scindia, Y S Rajasekhara Reddy, Sheila Dikshit, Montek Singh Ahluwalia and Jairam Ramesh.

Watch this space for Part II of our election series profiling key political players in India's elections.

Strategy

Sector coverage view	N/A

June 2008 quarter results preview

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- **Earnings growth of BSE-30 Index (ex-metals) to decelerate to 5.4% yoy**
- **Yoy decline earnings for banking, cement and pharmaceuticals**
- **Earnings growth will be likely led by industrials and telecom**

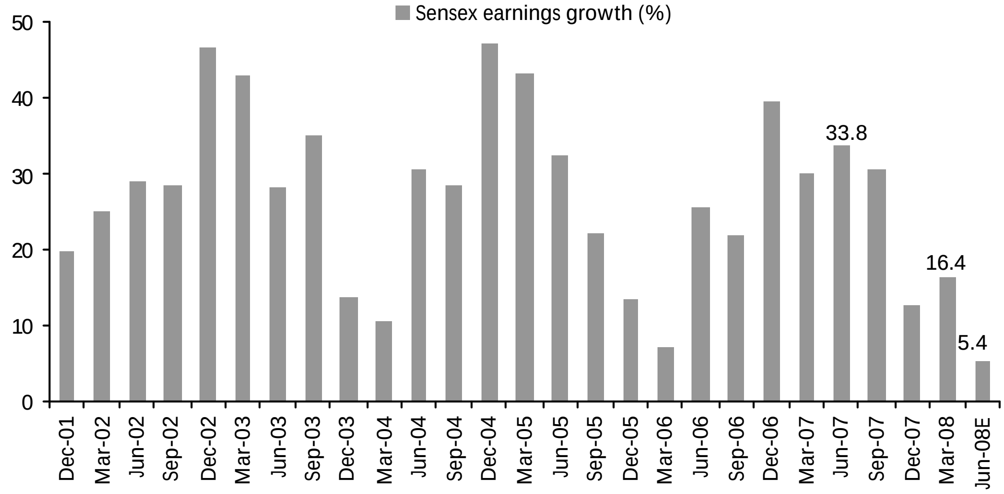
We expect earnings growth of the BSE-30 Index (ex-metals) to decelerate to 5.4% yoy led by (1) decline in earnings of pharmaceuticals, banking and cement companies and (2) the higher base of June 2007 quarter (34% yoy growth). Earnings growth will likely be led by Industrials, telecom and property companies. We expect earnings growth of our coverage universe to decelerate to 7.5% yoy.

Earnings of Kotak coverage universe is likely to grow at 7.5% yoy
Sector-wise earnings of Kotak coverage universe

	Sales growth (%)		OPM (%)			PAT growth (%)	
	yoy	qoq	Jun-07	Mar-08	Jun-08 (E)	yoy	qoq
Automobiles	17.2	(6.6)	12.9	10.3	11.5	(2.4)	11.6
Banking	13.7	(11.0)	0.0	0.0	0.0	(23.5)	(45.5)
Cement	8.0	(3.8)	33.4	28.6	27.5	(16.3)	(9.8)
Construction	44.3	(17.7)	9.4	10.1	9.1	15.9	(36.5)
Consumers	13.5	(0.6)	22.3	18.5	22.3	14.6	19.7
Consumers (Discretionary)	23.8	17.5	20.7	15.0	16.9	(4.8)	47.3
Energy	79.7	35.8	11.3	7.8	8.7	26.9	89.0
Industrials	34.3	(31.8)	9.2	15.9	11.0	56.2	(56.8)
Media	27.8	2.3	29.3	22.6	25.3	(6.6)	8.5
Others	35.6	1.8	18.0	19.6	21.1	58.8	8.4
Pharmaceuticals	34.4	10.4	20.2	26.0	22.7	0.5	(28.2)
Property	29.2	(15.3)	63.3	59.3	58.6	23.1	(23.0)
Retail	29.9	2.4	5.1	6.0	5.2	86.6	(19.5)
Technology	27.1	4.6	22.9	23.7	22.7	8.2	(2.0)
Telecom	34.5	9.2	37.9	38.6	38.6	21.3	3.7
Transportation	35.2	(1.6)	24.1	20.8	19.7	(93.6)	(90.2)
Utilities	18.2	1.5	24.1	23.0	24.2	(9.7)	33.4
Kotak coverage (a)	**52.7**	**15.6**	**15.6**	**13.7**	**13.2**	**7.5**	**(0.4)**
Kotak coverage ex-Energy (a)	**24.2**	**(5.8)**	**20.3**	**20.0**	**20.1**	**(0.1)**	**(19.4)**
BSE 30 Universe (a)	**30.3**	**1.4**	**26.3**	**22.2**	**23.7**	**5.4**	**0.1**
BSE 30 Universe-ex-Energy (a)	**23.7**	**(6.1)**	**23.5**	**22.1**	**23.2**	**1.0**	**(13.9)**

Note:
(a) Excludes metal companies.

Source: Company, Kotak Institutional Equities estimates.


Sensex earnings growth (%)
50
40
30
20
10
0
33.8
16.4
5.4
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Jun-03
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
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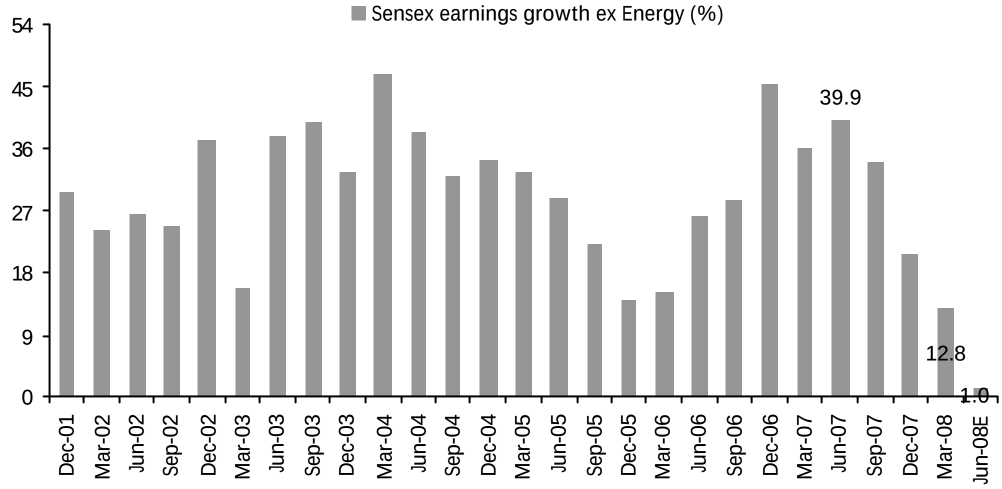
Jun-08E


Sensex earnings growth ex Energy (%)
54
45
36
27
18
9
0
39.9
12.8
1.0
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Jun-03
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
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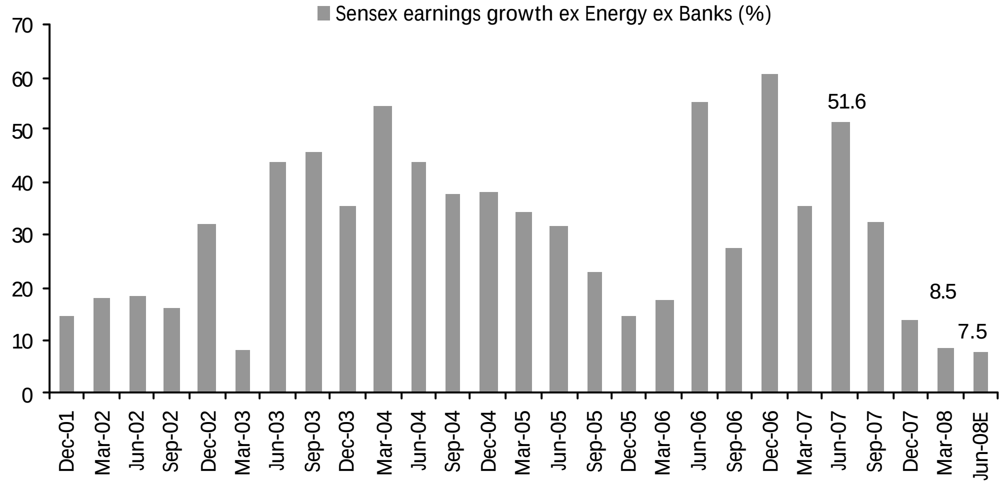
Dec-07
Mar-08
Jun-08E


Sensex earnings growth ex Energy ex Banks (%)
70
60
50
40
30
20
10
0
51.6
8.5
7.5
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Jun-03
Sep-03
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08E

Source:

Diversified

JAIA.BO, Rs158	
Rating	BUY
Sector coverage view	-
Target Price (Rs)	255
52W High -Low (Rs)	510 - 129
Market Cap (Rs bn)	195.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	41.9	72.0	92.7
Net Profit (Rs bn)	6.1	9.4	14.4
EPS (Rs)	4.9	7.6	11.6
EPS gth	*6.5*	*54.7*	*53.5*
P/E (x)	32.2	21	13.5
EV/EBITDA (x)	17.4	12.1	11.2
Div yield (%)	0.0	0.0	0.0

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	44.5	-	-
FIIs	25.5	0.9	0.2
MFs	9.2	1.7	1.0
UTI	-	-	(0.7)
LIC	1.9	0.3	(0.4)

Jaiprakash Associates: Debt financing arranged for Yamuna expressway, revise estimates and target price on higher interest rate assumption

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- **Yamuna Expressway (erstwhile Taj Expressway) makes progress on land acquisition, debt financing**
- **Factor in lower realizations and higher fuel and freight costs for cement business**
- **Retain BUY rating with target price of Rs255/share (Rs310 previously)**

We note that Jaiprakash Associates Ltd (JAL) has made satisfactory progress in each of its business divisions as the company has commissioned two grinding units in its cement business and has completed land acquisition and financial closure of its prestigious Yamuna Expressway (erstwhile Taj Expressway) project. We have revised our earnings estimates and target price for JAL to factor in higher interest cost and cost of equity. Our revised earnings and valuations now factor in (1) lower realizations and higher fuel and freight costs for the cement business, (2) phasing out of sale of commercial real estate and higher WACC assumption for the real estate development, (3) higher cost of equity for power projects under operation (12%) and development (15%) and higher interest rates for all power projects. We have revised our earnings estimates to Rs7.6 (Rs8.8 previously) for FY2009E and Rs11.6 (Rs13.9 previously) for FY2010E. We retain our BUY rating with a target price of Rs255 (Rs310 previously).

Yamuna Expressway (erstwhile Taj Expressway) makes progress on land acquisition, debt financing

Land acquisition. The management has indicated that the entire 165 km of land required for construction of the expressway between Noida and Agra has been transferred to Jaypee Infratech Limited (JIL) in April 2008. All requisite sanctions and approvals including the environment clearance for the project are in place. The construction works for the project is being done by JAL. At present, construction work is in progress on approximately 70 km of the expressway.

Project financing. JIL has also achieved financial closure for the project, which has now been renamed the Yamuna Expressway (Taj Expressway earliesr). ICICI Bank has arranged financing of Rs32 bn (US$745 mn) by way of subscription to 10 mn equity shares of Rs 10 each (representing 1% of the paid up share capital), for cash aggregating to Rs2.5 bn (US$58 mn) and the balance Rs29.5 bn (US$686 mn) as rupee term loan to JIL. JAL has also infused Rs9.5 bn of equity capital in JIL.

Progress in land acquisition as well financial closure increases our confidence on timely completion of the project. We highlight that the total project cost of construction of the expressway is Rs60 bn, to be incurred over the next three years. Balance construction cost will likely be funded by sale of real estate on projects along the expressway. The initial launch of real estate project at Noida has seen good response with sale of 2.6 mn sq. ft amounting to more than Rs10 bn.

Revisit assumptions based on higher borrowing costs, cost of equity

We have revised the earnings and fair value of JIL to factor in (1) lower residential real estate volumes on account of higher rates for housing finance, (2) higher construction costs to account for increased steel and labour cost (3) higher cost-of-capital in an increased interest rate environment. As a result, our revenue estimates for the real estate business have been revised to Rs11.9 bn in FY2009E (Rs15.2 bn previously) and Rs17.2 bn (Rs22.8 bn previously) in FY2010E.

We note that the real estate business is showing progress with 2.7 mn sq. ft sold in Jaypee Greens, Greater Noida and 2.6 mn sq. ft in Noida (Yamuna Expressway project). We also expect JAL to sell another 2.5 mn sq. ft in FY2009E in the Yamuna expressway project.

As a result of the changes in cost of equity as well as higher cost of construction, our NAV for Jaypee Infratech is revised to Rs126 bn (Rs159 bn previously) or Rs101/share (Rs128 previously).

Commissioning of cement capacities aids volume growth. JAL has already commissioned two grinding units – Panipat (1.5 mn tpa) and Chunar (0.5 mn tpa) out of estimated addition of 8 mn tpa during the current fiscal. The commissioning of the first two units has resulted in 15% YTD growth in cement volumes upto May 2008. Management has indicated that capacity addition at various sites is on schedule.

Factor in lower realizations and higher fuel and freight costs for cement business. We now factor in a 2-3% decline in FY2009 realizations, followed by another 5% decline in FY2010 cement realizations for JAL. Higher fuel and freight costs in the near term will further dampen EBITDA margins. We note that JAL's cement division will be hedged against long-term increases in coal costs due to allotment of Mandla coal block with estimated reserves of 195 mn tons. We value the cement business at Rs98 bn (Rs79/share) — 7X on FY2010E EBITDA implying EV/ton of US$119 on FY2010 capacity. Large cement companies are currently trading at 5.2X FY2010 EV/ EBITDA implying an EV/ton of US$110/ton on FY2010 capacity. We ascribe a premium to JAL's cement business compared to industry peers to factor significantly higher growth.

Higher costs of equity and interest rates factored in power projects. We have revised our valuation for JAL's portfolio of power projects from Rs95 bn (Rs114 bn previously). We have increased our cost of equity for operating power projects to 12% (from 11% previously). We now use 12.5% and 15% cost of equity for power projects under construction and development, respectively. A higher interest rate assumption (increased to 11.75%) will impact the profitability and cash flows from merchant sale, though regulated power projects will be able to recover the increase in interest costs through higher tariffs.

Retain BUY rating with target price of Rs255/share. We retain our BUY rating with a target price of Rs255/share. We value the cement business at 7X EV/EBITDA on FY2010E— Rs98 bn (Rs103 bn previously) and construction business at 8X EV/EBITDA on FY2010E—Rs41 bn (Rs51 bn previously). Real estate and power valuations are based on one-year forward NAVs of Rs126 bn (Rs159 bn previously) and Rs95 bn (Rs114 bn previously) respectively. Upside risks to our target price emanate from (1) higher realizations and early development of land parcels located near proposed airport at Jewar, (2) higher utilization from expanded cement capacities, and (3) possible upsides from the Ganga Expressway and Formula 1 racetrack projects.

Change in estimates for Jaiprakash Associates Ltd, March fiscal year-ends (Rs mn)

	Revenues			EBITDA			Net profit		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
2009E	72,016	73,001	(1.3)	26,340	28,183	(6.5)	9,410	10,979	(14.3)
2010E	92,677	95,966	(3.4)	33,365	37,211	(10.3)	14,444	17,208	(16.1)

Source: Kotak Institutional Equities estimates.

SOTP-based valuation of Jaiprakash Associates Ltd

Business	Methodology	Comments	Revised value (Rs bn)	Revised value (Rs/share)	Old value (Rs bn)	Old value (Rs/share)
Cement	EV/EBITDA (X)	7X FY2010E EBITDA; JAL proposes to increase capacity to 23 mn tpa by FY2010 from the current 7 mn tpa	98	79	103	83
Construction	EV/EBITDA (X)	8X FY2010E EBITDA on an order book of US$2.8 bn	41	33	51	41
Real estate	NAV	Base case assumption of flat prices till FY2010 and 5% growth in realisation beyond that for 25 mn sq. ft of ribbon development along Taj Expressway and 8 mn sq. ft at Jaypee Greens	126	101	159	128
Power	DCF-to-equity	4,721 MW of attributable power portfolio, of which 501 MW is already under operation	95	77	114	92
Hotels	Market value	20% holding company discount on JAL's 72% stake in Jaypee Hotels	3	2	5	4
Net debt	Book value	Net debt for cement, construction and real estate business	(49)	(39)	(47)	(38)
Total			**314**	**253**	**386**	**310**

Source: Kotak Institutional Equities estimates.

NAV-based valuation of real estate business

	March '09 based NAV — Growth rate in selling prices 0%	3%	5%	10%
Valuation (Rs bn)	**85.7**	**135.4**	**178.9**	**294.8**
Less: Taj Expressway construction	(30)	(30)	(30)	(30)
Less: PV of land cost to be paid	(23)	(23)	(23)	(23)
NAV	**32**	**82**	**126**	**242**
Total no. of shares(mn)				1,242
NAV/share				**101**

Source:Kotak Institutional Equities estimates.

Valuation of power project portfolio of Jaiprakash Associates Ltd

Project	Type	Capacity (MW)	Cost (Rs bn)	Cost (Rs mn / MW)	Equity Investment (%)	Equity Investment (Rs bn)	P/B (X)	JAL's share (%)	Value (Rs bn)
Vishnuprayag	Hydro	400	17	42	30	5.0	3.2	81	13.2
Karcham Wangtoo	Hydro	1,000	56	56	30	16.8	1.8	91	28.3
Jaypee Powergrid	Transmission	NA	10	NA	30	3.0	1.1	63	2.1
Jaypee Nigrie	Thermal	1,320	53	40	30	15.8	3.2	81	41.4
Lower Siang	Hydro	2,025	110	54	30	33.0	1.8	72	41.6
Hirong	Hydro	500	30	60	30	9.0	1.5	72	10.0
Kynshi II	Hydro	450	27	60	30	8.1	1.5	60	7.5
Umngot	Hydro	270	16	60	30	4.9	1.6	60	4.7
Baspa II	Hydro	300	15	50	30	4.5	2.5	63	7.0
Total		**6,265**	**334**	**52**			**2.1**		**155.8**
Less : Equity to be invested									(60)
Net Value									**95.5**

Source: Kotak Institutional Equities estimates.

Division-wise breakup of Jaiprakash's (consolidated) key financials, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Sales							
Cement	12,206	18,314	19,504	29,426	39,852	46,999	55,607
Construction	16,754	14,329	11,486	22,050	27,222	43,493	40,789
Real estate	—	—	2,560	11,973	17,238	26,732	45,009
Power	2,732	5,497	6,845	7,174	7,072	7,062	21,174
Hotel	1,109	1,367	1,593	1,593	1,593	1,593	1,593
Total	32,801	39,507	41,988	72,216	92,977	125,879	164,172
less inter-div transfer	(91)	(180)	(116)	(200)	(300)	(325)	(375)
Reported total	**32,711**	**39,328**	**41,872**	**72,016**	**92,677**	**125,554**	**163,797**
EBITDA							
Cement	2,751	6,625	7,974	10,868	14,017	16,851	20,957
Construction	5,379	4,166	4,407	4,564	5,091	8,133	7,628
Real estate	—	—	810	5,752	9,238	13,827	20,008
Power	2,700	5,373	6,504	6,814	6,693	6,665	19,974
Hotel	513	592	691	691	691	691	691
Total	11,343	16,756	20,385	28,690	35,730	46,167	69,258
Others	(2,758)	(2,164)	(3,567)	(2,350)	(2,365)	(2,380)	(2,470)
Reported total	**8,585**	**14,592**	**16,819**	**26,340**	**33,365**	**43,787**	**66,788**

Source: Company data, Kotak Instittuional Equities estimates.

Profit model, balance sheet, cash model of Jaiprakash Associates Ltd, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Net revenues	32,711	39,328	41,872	72,016	92,677	125,554	163,797
EBITDA	**8,585**	**14,592**	**16,819**	**26,340**	**33,365**	**43,787**	**66,788**
Other income	944	987	2,195	1,668	1,954	1,536	1,188
Interest (expense)/income	(3,424)	(4,587)	(5,579)	(8,210)	(9,161)	(9,371)	(15,435)
Depreciation	(2,149)	(2,596)	(3,188)	(3,233)	(3,439)	(3,553)	(5,569)
Pretax profits	**3,955**	**8,395**	**10,247**	**16,564**	**22,720**	**32,399**	**46,972**
Tax	(1,449)	(2,408)	(2,200)	(5,857)	(6,149)	(8,394)	(11,137)
Deferred taxation	(53)	(65)	(762)	(232)	(1,027)	(959)	(363)
Minority interest	(607)	(882)	(1,202)	(1,065)	(1,100)	(1,169)	(3,876)
Net income	**1,847**	**5,040**	**6,084**	**9,410**	**14,444**	**21,877**	**31,597**
Extraordinary items	4,500	492	684	—	—	—	—
Reported profit	6,347	5,532	6,768	9,410	14,444	21,877	31,597
Earnings per share (Rs)	**1.7**	**4.6**	**4.9**	**7.6**	**11.6**	**17.6**	**25.4**
Balance sheet							
Paid-up common stock	2,151	2,192	2,343	2,343	2,343	2,343	2,343
Total shareholders' equity	26,058	29,286	49,772	57,596	70,190	89,952	119,170
Deferred taxation liability	4,827	5,445	6,582	6,814	7,841	8,800	9,163
Minority interest	3,771	4,591	7,025	8,534	12,060	16,527	23,502
Total borrowings	63,777	81,062	114,872	156,201	196,848	247,782	287,710
Total liabilities and equity	**98,432**	**120,383**	**178,250**	**229,145**	**286,939**	**363,061**	**439,546**
Net fixed assets	42,601	61,172	69,388	91,090	104,361	175,195	206,786
Capital work-in progress	23,114	27,390	62,250	73,572	121,243	133,102	163,130
Investments	46	77	1,203	1,203	1,203	1,203	1,203
Cash	18,470	18,230	24,622	40,733	30,946	12,495	17,815
Net current assets (excl. cash)	14,201	13,514	20,788	22,546	29,186	41,066	50,611
Net current assets (incl. cash)	32,672	31,743	45,409	63,279	60,132	53,561	68,426
Total assets	**98,432**	**120,383**	**178,250**	**229,145**	**286,939**	**363,061**	**439,546**
Free cash flow							
Operating cash flow, excl. working capital	13,410	5,532	9,905	12,272	18,055	26,022	40,216
Working capital changes	(6,291)	688	(7,274)	(1,758)	(6,640)	(11,879)	(9,545)
Capital expenditure	(16,552)	(24,654)	(45,993)	(36,258)	(64,380)	(86,246)	(67,189)
Free cash flow	**(9,433)**	**(18,435)**	**(43,362)**	**(25,743)**	**(52,965)**	**(72,104)**	**(36,518)**
Ratios							
Net debt/equity (%)	145	181	161	181	214	239	211
Return on equity (%)	7.7	15.3	13.4	15.7	20.4	24.9	27.9
Book value per share (Rs)	29.1	31.6	47.7	54.6	66.2	83.9	109.2
ROCE (%)	**5.9**	**8.8**	**7.9**	**8.0**	**8.7**	**9.4**	**12.0**

Source: Company data, Kotak Institutional Equities estimates.

Pipes

JIND.BO, Rs500	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,080
52W High -Low (Rs)	1225 - 450
Market Cap (Rs bn)	28.0

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	47.1	79.5	87.2
Net Profit (Rs bn)	3.9	6.6	7.4
EPS (Rs)	71.7	115.9	130.8
EPS gth	*(38.2)*	*61.7*	*12.9*
P/E (x)	7.0	4.3	3.8
EV/EBITDA (x)	4.1	2.5	1.9
Div yield (%)	1.7	2.8	3.2

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.8	-	-
FIIs	17.1	0.1	(0.0)
MFs	17.2	0.4	0.3
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Jindal Saw: Delay in dispatches could lead to muted 2QCY08 performance; maintain BUY and TP

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- **Temporary imposition of export duty may keep 2QCY08 volumes lower, with 2HCY08 contributing most of the growth**
- **Tweak estimates marginally for exchange rate assumptions and higher interest rates**
- **Revise WACC to 13% from 12.5%, maintain BUY and target price of Rs1,080**

We expect 2QCY08 results for JSAW to be weak due to lower volumes. Dispatches during the quarter were postponed due to the temporary imposition of export duty on pipes. We estimate total linepipe volumes in 2Q to be 82,000 tons versus 98,500 tons in 1QCY08. We believe the postponed deliveries will be made in 3QCY08 as the export duty was subsequently removed; however the company bearing a cost of about Rs80 mn for exports during the period. We marginally tweak estimates for exchange rate assumptions and higher interest rates. We revise our revenue estimates for CY2008E and CY2009E upwards by 1.2% and 3%, respectively and PAT estimates for the same years upwards by 0.3% and 1.4%, respectively. We increase our WACC assumption to 13% from 12.5% earlier to account for higher cost of equity and higher interest rates. We maintain our BUY rating and SOTP-based target price of Rs1,080.

2QCY08—expect a weak quarter due to lower volumes

We expect a weak second quarter with revenues of Rs9.3 bn (-2.2% qoq) and adjusted PAT of Rs775 mn (-9% qoq) mainly on account of lower volumes. We highlight that volumes in the quarter are expected to be low as dispatches were delayed pending clarity on the export duty imposition leading to high inventory build up. We expect the deliveries to be made in 3QCY08 resulting in strong revenue growth in the second half of the year. We estimate total export duty paid by the company for dispatches made during the quarter to be around Rs80 mn which we consider as extraordinary and irrecoverable item.

Domestic seamless realization cap—waiting for further clarity

Press reports indicate that steel pipe and tube manufacturers have agreed to government's demand to cap domestic seamless tube and ERW pipe prices at Rs48,000/ton. However, according to management, the cap is not applicable to seamless pipes and therefore the company is not affected by the same. We currently do not model any changes to our pricing assumptions awaiting further clarity on the applicability of realization cap on seamless pipes.

Marginally tweak estimates for rupee depreciation and higher interest rates

We marginally tweak our estimates for changes in exchange rate assumptions and increase interest rates by 50 bps for recent increase in interest rates. We revise our revenue estimates for CY2008E and CY2009E higher by 1.2% and 3%, respectively, and PAT estimates for the same years upwards by 0.3% and 1.4%, respectively.

Valuations—increase WACC assumption to 13%; maintain BUY and target price of Rs1,080

We increase our WACC assumption to 13% from 12.5% earlier to account for higher cost of equity and higher interest rates. We maintain our SOTP-based target price of Rs1,080 and BUY rating on the stock. We find the stock very attractive at current valuations. It is currently trading at 4.3X CY09 P/E and 2.5X CY09 EV/EBITDA.

Exhibit 1: Forecasts and valuation (consolidated)

December year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006 (1)	38,731	4,066	1,563	29.5	15.3	17.0	8.7
2007 (2)	66,957	8,371	5,745	105.2	23.3	4.8	3.5
2008E	47,691	7,236	3,930	68.8	14.0	7.3	4.1
2009E	81,821	11,860	6,663	117.6	20.4	4.3	2.5
2010E	91,415	13,065	7,658	135.8	19.8	3.7	1.9

Note:
(1) September fiscal year-ends.
(2) 15 month period ending December 2007.

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Jindal Saw Ltd., change in estimates, December year-ends, (Rs mn)

	2008E			2009E			2010E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Financials									
Revenue	47,691	47,124	1.2	81,821	79,457	3.0	91,415	87,190	4.8
EBITDA	7,236	7,153	1.2	11,860	11,647	1.8	13,065	12,593	3.7
EBITDA margin (%)	15.2	15.2	—	14.5	14.7	—	14.3	14.4	—
Adjusted net profit	3,930	3,918	0.3	6,663	6,568	1.4	7,658	7,382	3.7
Diluted EPS	68.8	68.6	0.3	117.6	115.9	1.5	135.8	130.8	3.8

Source: Kotak Institutional Equities estimates.

Exhibit 3: Quarterly break up of CY08 estimates for JSAW

	1QCY08	2QCY08E	1HCY08E	2HCY08E	CY08E
Financials (Rs mn)					
Revenues	9,521	9,314	18,836	28,856	47,691
EBITDA	1,466	1,406	2,872	4,364	7,236
EBITDA margin (%)	15.4	15.1	15.2	15.1	15.2
PAT	854	775	1,629	2,277	3,906
Volumes (tons)					
HSAW	83,000	70,000	153,000	207,000	360,000
LSAW	15,500	12,000	27,500	72,500	100,000
DI	60,600	60,000	120,600	100,400	221,000
Seamless	15,400	17,500	32,900	63,350	96,250

Source: Kotak Institutional Equities estimates.

Exhibit 4: Our 12-month target price for JSAW is Rs1,080

	Rs/share
DCF-based business value	881
Value of quoted investments	199
Total equity value	1,080
Target price	**1,080**

Source: Kotak Institutional Equities estimates.

Exhibit 5: Jindal SAW, DCF valuation, December year-ends, (Rs mn)

DCF valuation of Jindal Saw, December fiscal year-ends

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal Value
EBITDA	7,236	11,860	13,065	12,613	12,312	11,256	10,999	11,024	11,049	11,075	11,101	
Tax expense	(1,774)	(3,353)	(3,969)	(3,858)	(3,973)	(3,689)	(3,600)	(3,509)	(3,417)	(3,428)	(3,416)	
Changes in working capital	2,047	(7,286)	(2,203)	(788)	(126)	1,307	887	(13)	(13)	(13)	(14)	
Cash flow from operations	**7,509**	**1,222**	**6,893**	**7,967**	**8,213**	**8,874**	**8,286**	**7,502**	**7,619**	**7,633**	**7,671**	
Capital expenditure	(5,840)	(337)	(456)	(581)	(596)	(611)	(626)	(642)	(658)	(1,214)	(1,268)	
Free cash flow to the firm	**1,669**	**885**	**6,437**	**7,385**	**7,617**	**8,263**	**7,660**	**6,860**	**6,961**	**6,419**	**6,403**	**56,514**
Dicounted cash flow-now	1,574	738	4,754	4,827	4,406	4,230	3,470	2,750	2,469	2,015	1,779	
Discounted cash flow-1 year forward		834	5,372	5,455	4,979	4,779	3,921	3,108	2,790	2,277	2,010	
Discounted cash flow-2 year forward			6,070	6,164	5,626	5,401	4,430	3,512	3,153	2,573	2,271	
Discount rate	13.0%											
Growth from 2017 to perpetuity	1.5%											
Discount factor at WACC	**0.94**	**0.83**	**0.74**	**0.65**	**0.58**	**0.51**	**0.45**	**0.40**	**0.35**	**0.31**	**0.28**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**35,525**	**69%**	**39,201**	**69%**
PV of terminal value (b)	15,701	31%	17,742	31%
EV (a) + (b)	51,226		56,943	
EV (US$ mn)	**1,265**		**1,406**	
Net debt	1,877		2,121	
Equity value	**49,349**		**54,821**	
No. of shares	56.0		56.0	
Implied share price (Rs)	**881**		**979**	
Exit EV/EBITDA multiple (X)	5.1			
Exit FCF multiple (X)	**8.8**			

Sensitivity of share price to WACC and growth rate (Rs)

		WACC				
		12.0%	**12.5%**	**13.0%**	**13.5%**	**14.0%**
Growth Rate	**0.0%**	918	880	845	813	783
	0.5%	932	893	856	823	792
	1.0%	947	906	868	833	801
	1.5%	964	921	**881**	845	811
	2.0%	983	937	895	857	822
	2.5%	1,003	955	911	871	834
	3.0%	1,026	975	928	886	847

Source: Company, Kotak Institutional Equities estimates.

Exhibit 6: Profit model, balance sheet, cash model for Jindal Saw, September fiscal year-ends, 2005-2006, December fiscal year-ends, 2007E-2010E (Rs mn)

	2005	2006	2007(1)	2008E	2009E	2010E
Profit model						
Net revenues	23,138	38,731	66,957	47,691	81,821	91,415
EBITDA	**2,802**	**4,066**	**8,371**	**7,236**	**11,860**	**13,065**
Other income	105	144	112	100	100	100
Interest (expense)/income	(985)	(1,290)	(1,684)	(775)	(818)	(381)
Depreciation	(365)	(537)	(773)	(1,001)	(1,315)	(1,317)
Amortization	—	—	—	—	—	—
Pretax profits	**1,558**	**2,383**	**6,026**	**5,560**	**9,827**	**11,467**
Tax	(374)	(704)	(2,777)	(1,575)	(3,116)	(3,866)
Deferred taxation	(133)	(164)	(63)	(56)	(49)	57
Minority intt	—	2	56	—	—	—
Adjusted consolidated net income	**1,032**	**1,563**	**5,745**	**3,930**	**6,663**	**7,658**
Diluted earnings per share (Rs)	**21.3**	**29.5**	**105.2**	**68.8**	**117.6**	**135.8**
Balance sheet						
Total equity	6,922	8,631	22,750	28,887	34,498	41,001
Deferred taxation liability	599	763	826	881	931	873
Total borrowings	12,979	17,217	13,455	7,750	5,500	3,200
Minority Interest	—	151	95	95	95	95
Current liabilities	5,012	12,303	10,429	13,820	23,072	25,704
Total liabilities and equity	**25,512**	**39,066**	**47,555**	**51,433**	**64,096**	**70,874**
Cash	1,526	3,922	6,586	4,967	2,973	5,922
Other current assets	15,256	24,055	25,496	26,598	42,776	47,507
Total fixed assets	7,862	10,254	13,380	18,176	17,155	16,252
Miscl. Exps. not w/o	1	—	—	—	—	—
Investments	868	836	2,093	1,772	1,272	1,272
Total assets	**25,512**	**39,066**	**47,555**	**51,513**	**64,176**	**70,953**
Free cash flow						
Operating cash flow, excl working capital	1,371	2,375	14,450	4,887	7,927	8,817
Working capital changes	(6,135)	(2,231)	(4,635)	2,047	(7,286)	(2,203)
Capital expenditure	(2,108)	(2,815)	(3,909)	(5,840)	(337)	(456)
Investments	(94)	345	(718)	320	500	—
Other income	177	351	311	100	100	100
Free cash flow	**(6,872)**	**(2,671)**	**5,906**	**1,094**	**305**	**6,158**
Ratios (%)						
EBITDA margin (%)	12.1	10.5	12.5	15.2	14.5	14.3
Debt/equity		172.6	106.8	39.8	26.4	15.8
Net debt/equity		152.3	76.5	10.0	6.3	6.0
RoAE		18.1	15.3	23.3	14.0	20.4
RoACE		**10.5**	**10.2**	**22.3**	**12.0**	**18.3**

Note: (1) 15 months period ended December 2007.

Source: Company, Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

Coalition government minus the Left likely to be a plus for disinvestment

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- **UPA government likely to survive after the Left parties announce withdrawal of support**
- **Coalition rejig by UPA with the support of the Samajwadi Party (SP) likely to help revive disinvestment plans**
- **FDI liberalization in insurance may be taken up again, but unlikely to get support**
- **Another fuel price hike likely to remain on the backburner**

We believe that the changes in composition of the ruling coalition government currently underway is likely to open a window of opportunity to revive the disinvestment in public sector undertakings (PSUs) and for further selective liberalization of foreign direct investment (FDI). Major probable candidates for disinvestment include Tata Communications (VSNL), NTPC and Air India. The government may, however, find it difficult to push for liberalization of FDI in the insurance sector. The new political equations may enable the government to proceed with pending economic reforms, albeit at a slow pace. However, the Samajwadi Party (SP) may extract a heavy political price for facilitating these moves and may well oppose some of them. It is likely to block any further fuel price hike.

The Left parties on July 8, 2008 announced their decision to withdraw parliamentary support to the United Progressive Alliance (UPA) government led by Dr. Manmohan Singh. The decision came as the Prime Minister announced his decision to approach the International Atomic Energy Agency (IAEA) over the 123 nuclear deal with the United States. The Samajwadi party is likely to step in with outside support to fill in the void created by the Left parties in the number game.

UPA government likely to survive

- CPI(M)-led Left Front has 59 MPs in the Parliament. The SP has 39 MPs, of which one has defected to the BSP (see Exhibit). The withdrawal of the outside support by the Left and the provision of a similar support by SP, therefore, leaves the UPA government worse off by 20 MPs.
- The government is likely to seek a vote of confidence in a special session expected to be convened shortly.
- We believe that the Congress-led UPA government would be able to garner the support of small groups and independents to get to the magic 272 number. The Congress has got assurances from Ajit Singh's RLD and Maharashtra's RPI on the support to the government.
- The possibility of further bargaining by the SP with the Congress or a few of its MPs, who are against this alliance, revolting and joining Mayawati's BSP cannot be ruled out. However, the odds are very much in favor of UPA being able to muster the required strength.

Government likely to push disinvestment program

The government faces a huge fiscal gap in the face of a mounting subsidies bill. In this backdrop, without the Left parties, the government is better placed to push through with its disinvestment program. In our assessment, major candidates for the disinvestment are the following:

1. **Tata Communications (earlier VSNL):** GOI likely to divest its residual 26.12% stake

   GOI is likely to push quickly for the sale of 773 acres of surplus land, with proceeds which could be of about US$1.8 bn being shared between the GOI and the minority shareholders (GOI owns slightly above half of the land bank). The GOI may, thereafter, go for divesting its residual stake of 26.12%.

   In 2002, the government disinvested 25% of the puc in Videsh Sanchar Nagar Limited (VSNL) through a strategic sale to the Tata group, reducing its share to 27.97%, of which 1.85% was sold to VSNL employees.

2. **NTPC:** GOI may reconsider 4.75% equity divestment through FPO

   In the face of the Left's opposition to disinvestment, the NTPC proposal for divestment of 4.75% equity from the government's shareholding through a follow-on public offer (FPO), was earlier stopped on the grounds that the company was a "Navratna" company. The present disinvestment policy does not envisage the government's equity dilution in Navratnas. The government might review the policy.

3. **Air India (AI):** GOI likely to divest 15% of its holding

   Faced with cash constraints in face of mounting ATF prices and increasing competition, the government is likely to push for 15% divestment equity through an IPO at an early date. The government is also likely to earmark a small portion of this issue by way of employee stock options.

GOI may still find it difficult to increase FDI cap in the insurance sector

In our assessment, GOI is also likely to explore the possibility of increasing the current cap of 26% on FDI in insurance sector. However, this is likely to meet stiff resistance from the Left parties. In the present political climate, SP is unlikely to lend support to the move in order to keep its political options open.

India's FDI policy is fairly liberal, with 100% FDI already permitted in NBFCs, oil exploration, petroleum refining, petro product marketing, coal and lignite mining, power, drugs and pharmaceuticals, hotels & tourism, advertising, films, pollution control, SEZs, housing & real estate, roads, highways and ports, among other sectors.

- Further liberalization, if any, may come in the form of making the automatic route somewhat more attractive.
- Cap on investment in banking sector is likely to remain at 74%, though foreign banks access may be improved marginally through more liberal branch licensing policy.
- Telecom sector FDI cap of 49% (74% for ISP with gateways & 100% for ISP without gateways) may not be changed in near future.
- GOI may also look at FDI in air transport, where upto 100% investment is allowed in case of NRIs but only 49% in case of others. It is likely to be more open to strategic partnerships with foreign investments in this area.

Some key economic reforms may get pushed forward

We highlight two key economic legislations that may now be pushed forward by the government (once the majority is ensured). However, other important economic reforms may have to await the new government. Meanwhile, the government may begin work on some of these, for instance, the new comprehensive Company Law taking into account the recommendations of the expert committee headed by Dr. J.J. Irani. We expect near-term action on:

1. **Banking Regulation (Amendment) Bill, 2005**. This would, inter alia, make the voting rights of shareholders in private sector banks equal to their voting shares. Currently, voting rights of the shareholders are capped at 10%, irrespective of their actual holding.
2. **The Pension Fund Regulatory and Development Authority (PFRDA) Bill** could also be pushed through in the Parliament. The draft legislation already has the approval of the Standing Committee on Finance.

Support from SP will result in Congress alliance six seats short of majority
Seats in Lok Sabha

Strength of Lok Sabha (lower house of Indian parliament)	**543**

Will support governemnt		Will not support governemnt	
INC & allies	**265**	**BJP & allies**	**176**
INC	153	BJP	130
RJD	24	SHS	12
DMK	16	BJD	11
NCP	11	SAD	8
PMK	6	JD (U)	8
JMM	5	TDP	5
MDMK	4	AITC	1
LJSP	4	MNF	1
JKPDP	1	**Left Front**	**59**
RPI (A)	1	CPM	43
MUL	1	CPI	10
SP	39	RSP	3
		AIFB	3
		Others	**20**
		BSP	17
		TRS	3
		Total	**255**

Others		
JD (S)	3	Likely to support INC
RLD	3	Likely to support INC
IND	6	
AGP	2	
JKN	2	
IFDP	1	
KEC	2	
AIMIM	1	
BNP	1	
NLP	1	
SDF	1	
Total	**23**	

Source: Parliament website, Kotak Institutional Equities

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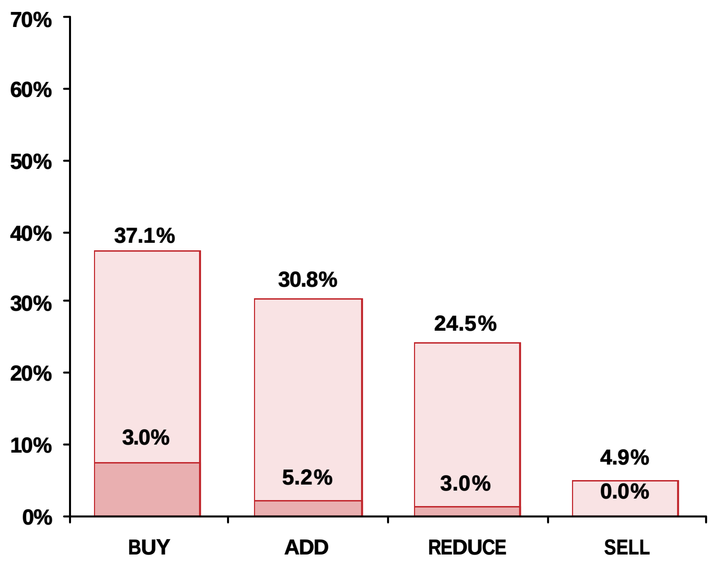

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Source: Kotak Institutional Equities. As of March 31, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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