INDIA DAILY

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Contents

New Release

Updates

News Roundup

Corporate

- ICICI Bank has suffered marked to market losses of $264.3 million on account of exposure to overseas credit derivatives and investments in fixed income assets, it was disclosed in the Parliament on Tuesday. These losses are as on January 31, 2008. (BL)
- Real estate major Unitech Ltd has put on hold a $1.5 billion qualified institutional placement (QIP) issue planned for the first quarter of 2008 in the light of the instability in the domestic stock markets and the global liquidity crunch. (BS)
- Tata Motors Ltd said it might look at licensing the building of the Tata Nano, the world's cheapest car, if it finds itself unable to meet the demand for the much anticipated car, whose base models will sell for Rs1 lakh. It plans to have different models of the Tata Nano for India and the overseas market if it finds demand outstripping its domestic capacity.(Mint)

Economic and political

- Foreign Institutional Investors (FIIs) were not behind the recent fall in the stock market and there was no proposal to either ask them to withdraw from the Indian market or ban them, finance minister P Chidambaram said on Tuesday. "I do not think that FIIs trading in the stock market are the reason behind the volatility on certain days," he said in the Parliament. (ET)
- If the government goes ahead and implements a proposal to overhaul the foreign direct investment policy environment, only fresh FDI proposals will require approval from the Foreign Investment Promotion Board, the nodal body to clear foreign investment in India, top officials said. (BS)

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

EQUITY MARKETS

		Change, %		
India	**4-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	16,340	(2.0)	(12.4)	(16.3)
Nifty	4,864	(1.8)	(11.0)	(17.0)
Global/Regional indices				
Dow Jones	12,214	(0.4)	(3.3)	(7.8)
Nasdaq Composite	2,260	0.1	(5.1)	(13.7)
FTSE	5,768	(0.9)	(4.3)	(8.7)
Nikkie	12,985	(0.1)	(5.5)	(16.8)
Hang Seng	23,120	(2.0)	(6.8)	(21.2)
KOSPI	1,677	0.0	(1.2)	(13.5)

Value traded - India

		Moving avg, Rs bn		
	4-Mar		**1-mo**	**3-mo**
Cash (NSE+BSE)	185.6		185.9	168.9
Derivatives (NSE)	406.4		401.7	563
Deri. open interest	645.5		665	934

Forex/money market

		Change, basis points		
	4-Mar	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.3	0	76	83
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	4	5	(31)

Net investment (US$mn)

	3-Mar		MTD	CYTD
FIIs	(169)		317	(4,271)
MFs	(112)		(411)	1,923

Top movers -3mo basis

		Change, %		
Best performers	**4-Mar**	**1-day**	**1-mo**	**3-mo**
Punjab Tractors	271	2.8	1.3	23.6
NALCO	458	(1.6)	10.7	21.4
Asian Paints	1,170	1.2	(3.4)	17.4
Glaxosmithkline	1,137	1.8	23.1	17.3
Ranbaxy	450	(0.0)	16.3	14.6
Worst performers				
Neyveli Lignite	136	(3.1)	(18.4)	(48.5)
Moser Baer	154	(9.0)	(23.9)	(45.3)
Arvind Mills	44	(4.0)	(13.8)	(44.6)
Balaji Telefilms	204	(3.5)	(10.4)	(41.6)
IDBI	103	(6.1)	(16.4)	(41.0)

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

Consumer Products

JYOI.BO, Rs700	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	900
52W High -Low (Rs)	964 - 650
Market Cap (Rs bn)	10.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	3.6	4.1	4.7
Net Profit (Rs bn)	0.5	0.7	0.8
EPS (Rs)	35.6	45.1	58.3
EPS gth	*18.5*	*26.8*	*29.2*
P/E (x)	19.7	15.5	12.0
EV/EBITDA (x)	17.8	11.0	8.7
Div yield (%)	1.0	1.3	1.5

Jyothy Laboratories: Nimble-footed soldier

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231
Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

- **Nimble marketer with distribution differentiator**
- **New product launches to drive growth**
- **Target price of Rs900/share implies a P/E of 15X on FY2009E**
- **Key risks—High dependence on 'Ujala', competition, failure of new products, monsoon, taxation**

We expect Jyothy Laboratories Limited (JLL), which has a strong rural distribution reach and value-for-money products, to benefit from the buoyancy in rural income. Direct distribution reach matching HUL, a differentiated sales system and nimble marketing strategy will help enable JLL to make inroads into other product categories, in our view. We initiate coverage with a BUY rating and target price of Rs900/share.

Nimble marketer with distribution differentiator

JLL's marketing strategy is well differentiated to maximize its core strength—wide and deep reach (2.8 mn outlets). The company follows a strategy of (1) having only one launch at a time, (2) launching in a specific geography or state where JLL has a superior consumer understanding, (3) planning the launch strategy in a manner to garner market share from the unorganized segment initially and (4) launching the product directly with retailers capitalizing on its direct reach scale. Moreover, we believe that 'pull' system of sales still has huge relevance in India and JLL is well positioned to capitalize on this strength.

New product launches to drive growth

We model 13% revenue CAGR over 2007-10E led by two key products' national launches—'Stiff n Shine' fabric stiffener in FY2008 and 'Exo' dishwash in FY2009. JLL plans to leverage its extensive distribution network for 'Ujala', to drive sales growth from existing and new products. We expect the management to take modest price hikes periodically and scale down trade promotions for new products once their market share stabilizes at targeted levels.

Target price of Rs900/share implies a P/E of 15X on FY2009E

We initiate coverage of JLL with a target price of Rs900/share. We believe a P/E of 15X on FY2009E is justified for JLL, which is likely to deliver earnings CAGR of 23% during FY2008-10E. We peg JLL against Godrej Consumer (GCPL), Marico and Emami—trading at about 18X FY2009E and likely to deliver an earnings growth in the range of 13-21% during FY2008-10E. We prefer the relative valuation approach (P/E) for JLL, as a DCF-based valuation is difficult in the absence of consumption benchmarks for its niche products.

Key risks—High dependence on 'Ujala', competition, failure of new products, monsoon, taxation

The highly competitive FMCG business does not permit any laxity in product and marketing strategy. High dependence on 'Ujala', which has not seen much competition from the large FMCG companies, is the key risk for JLL. Failure of new launches, product obsolescence and dependence on monsoons also pose risks to JLL's earnings.

Banking

ICBK.BO, Rs972	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,200
52W High -Low (Rs)	1465 - 791
Market Cap (Rs bn)	1,075

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	134.5	166.5	220.7
Net Profit (Rs bn)	31.1	38.1	50.5
EPS (Rs)	34.6	36.7	45.7
EPS gth	*5.6*	*6.2*	*24.3*
P/E (x)	28.1	26.5	21.3
P/B (x)	4.4	2.1	2.1
Div yield (%)	0.8	0.9	1.2

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	70.3	8.9	6.3
MFs	6.0	4.5	1.9
UTI	-	-	(2.7)
LIC	7.4	5.1	2.4

ICICI Bank: ICICI Bank's MTM hit pulls down stock

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

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

- **ICICI Bank MTM hit on credit derivatives and international fixed income portfolio estimated at US$263 mn, bank has already provided for US189 mn till December 31, 2007**
- **Stock price has reacted sharply on the reported MTM losses of ICICI Bank**
- **Post the correction, stock trades at 13.8X PER and 1.4X PBR FY2009E (standalone)**

ICICI Bank's stock has fallen 20% over the past month, driven by weak market sentiment, concerns relating to farm-loan waivers and also Tuesday's news of potential MTM loss on its international investments and credit derivative products. The loss on the international book reflects fluctuations in interest rates and could reverse in case credit spreads soften. The bank has made significant provisions of US$189 mn in the 9MFY08 and is expected to make another US$74 mn of provision in the 4QFY08 based on credit spread change post December 2007. However, any further hit on its investment book is difficult to project given uncertainty in the international markets. We believe investors' concerns relating to non-disclosure of the hit on international book are justified and reflected in the stock price correction. We believe the negative news flows may keep up the pressure on the bank's stock price performance, however, the stock has corrected significantly trading at 13.8X PER and 1.4X PBR FY2009E (standalone), and does provide value.

Exposure to international corporate paper raises concerns. ICICI Bank has clarified that the losses talked about in Parliament on Tuesday pertain to the MTM hit on ICICI Bank's credit derivative and investment book—both on ICICI Bank's balance sheet and that on the book of its subsidiaries (UK and Canada). We understand the investments made by subsidiaries are in international banks and corporate bonds (and not Indian corporate paper as assumed earlier)—which is likely raising concerns on the potential hit that the company may need to take. The management has indicated that the investments are made in A-and-above rated paper and very few, if any, of these investments have been downgraded.

Most of the exposure is in the UK subsidiary. ICICI Bank's total exposure (both credit derivative and investments) is around US$6.2 bn. Of this, around US$2.2bn is credit derivatives—US$1.5 bn (Rs60 bn) is on the Indian book and US$600 mn in the Canadian subsidiary. The rest of the exposure is in bonds of international banks and corporates—US$3.5 bn held by the UK and US$0.5 bn by the Canadian subsidiary.

Large part of provisions made till December 2007. The total amount of provisions made by the bank and its subsidiaries till December 31, 2007 is US$187 mn—US$67 mn in ICICI Bank's book and US$122mn in the subsidiaries. This provision has been made both through the profit and loss account and the networth (as internationally banks can make provision on AFS portfolios through their networth). The market was aware about the US$67mn loss and has been surprised by the now disclosed provision in the subsidiaries.

Since December 2007 credit spreads have widened further and ICICI Bank and its subsidiaries will need to make an additional provisions of around US$74 mn (Rs3 bn) on its books in the 4Q, assuming credit spreads remain at current levels. Of this, a hit of around Rs2 bn will be taken by ICICI Bank in the 4Q, up from the Rs1.5 bn in 3Q, while the balance will be reflected in the Canadian subsidiary's financials.

UK subsidiary making profit even after the MTM hit. The UK subsidiary has posted a profit of US$50 mn in the first nine months of the year. The Canada subsidiary has broken even but is yet to make a profit. The total networth of both these companies stands at US$360 mn each. ICICI Bank will need to infuse capital in both these subsidiaries in case losses increase due to MTM hits.

Impact on earnings difficult to estimates. ICICI Bank (standalone) had reported treasury gains of Rs6.5 bn in the 9MFY08, post the Rs2.8 bn of the MTM hit on the credit derivative book. We are currently projecting treasury gains to fall 74% yoy in 4QFY08 to Rs1.2 bn and profit to fall 3% to Rs8 bn. A falling equity market, additional MTM hit of Rs2 bn on the credit derivative exposure and additional provisions on the domestic sub-prime book could impact our earnings estimates for the 4QFY08. It is, however, difficult to estimate the extent of the hit on earnings due to the uncertainty surrounding the income on the treasury book.

Exhibit 1: Key details of the investment book and provisions made by ICICI Bank
(US$ mn)

	ICICI Bank standalone	International bank subsidiaries	Total
Total investments as on Dec 2007	**1,500**	**4,700**	**6,200**
Credit derivative products	1,500	700	**2,200**
Investments in bonds	—	4,000	4,000
Total provisions made during Apr-Dec 2007			**189**
Credit derivative products			88
Investments in bonds			101
Total provisions lilkely to be made during Apr'07-Mar'08	**117**	**146**	**263**
Provisions till date	67	122	189
Adjusted against networth		70	70
MTM hit in the P&L account	67	52	119
Provisions expected in 4QFY08	50	24	74

Source: Company.

Exhibit 2: Financial data for key banking subsidiaries of ICICI Bank
(Rs mn)

	UK	Canada
March 2007/December 2006		
NW	7,481	3,700
Preference capital	2,174	381
Total Assets	211,619	67,215
Investments	125,319	24,842
Loans	81,413	41,134
PAT	1,719	(14)
April - December 2007		
NW	14,500	14,500
PAT	2,000	—
Total Assets	300,000	NA
Investments	152,000	20,000

Note:
(1) Canada subsidiary has a December year-end.

Source: Company, Kotak Institutional Equities.

Energy

HPCL.BO, Rs284	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	406 - 218
Market Cap (Rs bn)	96.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	890	1,035	1,020
Net Profit (Rs bn)	13.5	18.6	15.6
EPS (Rs)	40.0	55.0	46.1
EPS gth	*503.8*	*37.3*	*(16.2)*
P/E (x)	7.1	5.2	6.2
EV/EBITDA (x)	4.5	3.8	3.8
Div yield (%)	6.3	7.7	6.3

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	12.8	0.1	(0.1)
MFs	5.0	0.3	0.1
UTI	-	-	(0.2)
LIC	16.5	1.0	0.8

Energy

IOC.BO, Rs525	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	600
52W High -Low (Rs)	810 - 355
Market Cap (Rs bn)	619.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	2,149	2,615	2,555
Net Profit (Rs bn)	55.8	112.4	76.8
EPS (Rs)	46.8	94.3	64.4
EPS gth	*21.3*	*101.3*	*(31.7)*
P/E (x)	11.2	5.6	8.1
EV/EBITDA (x)	5.3	3.3	3.9
Div yield (%)	3.7	7.3	4.8

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.4	-	-
FIIs	1.9	0.2	(1.7)
MFs	1.2	0.6	(1.3)
UTI	-	-	(1.9)
LIC	2.6	1.2	(0.6)

HPCL, IOCL: Housekeeping changes to earnings models

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Revised earnings estimates for HPCL and IOCL to reflect lower benchmark refining margins but higher tariff protection (versus expectations)**
- **Valuations attractive for downstream stocks although risks to earnings are high**
- **Retain our BUY rating on HPCL and ADD rating on IOCL**

We have made housekeeping changes to our earnings models of HPCL and IOCL to factor—(1) lower benchmark refining margins and (2) higher tariff protection versus assumed previously; the FY2009 Union Budget left import tariffs unchanged versus our expectations of modest cuts in tariffs of product and crude. Our revised FY2008E, FY2009E and FY2010E EPS estimates for HPCL are Rs55, Rs46 and Rs52, respectively versus Rs59, Rs49 and Rs58, respectively previously; our revised EPS estimates for IOCL are Rs96, Rs66 and Rs68, respectively versus Rs104, Rs71 and Rs71, respectively previously. We retain our BUY rating on HPCL stock with a revised target price of Rs400 (Rs425 previously); we retain our ADD rating on IOCL stock with a revised target price of Rs600 (Rs625 previously). Our 12-month target prices are based on 20-25% discount to 5X normalized EBITDA plus value of investments. Key downside risks stem from higher-than-expected net under-recoveries.

Earnings revisions. We have revised our EPS estimates for HPCL and IOCL to factor the impact of the following:

1. **Lower benchmark refining margins.** We observe that benchmark refining margins have fallen sharply in the recent quarter led by flat fuel oil prices compared to rise in crude prices (Exhibit 1). Also, we have built lower margins to factor for likely lower-than-expected demand for oil. Our global supply-demand balance for refining shows that incremental refining capacity additions plus NGL supply will exceed incremental demand. Exhibit 2-3 gives a sensitivity of HPCL's and IOCL's earnings to key variables (refining margins, tariff protection and marketing margins).

2. **Higher tariff protection.** We have adjusted import tariffs in line with the government's decision to leave import tariffs on all oil and gas products and crude oil unchanged in the FY2009 Union Budget. We compute tariff differential between products (6.05% weighted average) and crude oil (5.15%) at 0.9% marginally lower versus 1.1% in FY2007 (see Exhibit 4). IOCL will also benefit from higher tariff protection on chemical products versus our previous expectations.

FY2008—lower earnings on lower refining margins. We have revised our FY2008E EPS for HPCL to Rs55 from Rs59 and for IOCL to Rs96 from Rs104 previously to reflect (1) lower refining margins and (2) moderately higher marketing losses. We model FY2008E refining margin for HPCL at US$4.4/bbl versus US$4.6/bbl assumed previously; our revised refining margin for IOCL is US$6.8/bbl versus US$6.9/bbl assumed previously. The downward revision to refining margins reflect (1) a more conservative view of global refining margins and (2) higher tariff protection versus that assumed previously, which partly offsets the impact of lower global refining margins.

FY2009—higher earnings on higher tariff protection. We have revised our FY2008E EPS for HPCL to Rs46 from Rs49 and for IOCL to Rs66 from Rs71 previously to reflect (1) lower benchmark refining margins, (2) higher import tariff protection for refining versus assumed previously and (3) other minor changes to prices and tariffs of LOBS and other minor products. We model FY2009E refining margin for HPCL at US$4.0/bbl versus US$4.4/bll previously; our revised refining margin for IOCL is US$5.9/bbl versus US$6.1/bbl assumed previously.

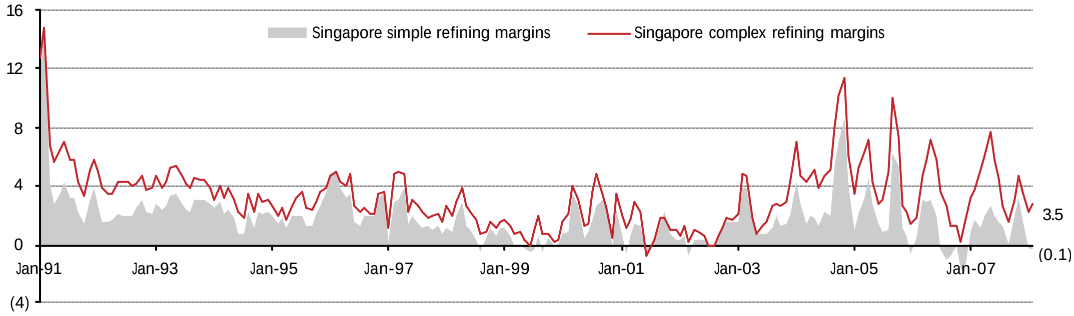
For FY2009E, we have modeled marketing losses for kerosene and LPG at similar levels as in FY2008E and modestly lower marketing losses versus FY2008 for diesel and gasoline noting the price increase in February 2008 on auto fuels. Our modeling implicitly assumes largely flat crude oil prices in FY2009E (around US$80/bbl Dated Brent) versus FY2008. However, current high crude oil prices provide high upside risk to our estimates of gross under-recoveries. Exhibit 5 shows our computation for gross under-recoveries in FY2009E.

The amount of net under-recoveries and hence, earnings of the downstream R&M companies would depend on the quantum of oil bonds to be given by the government in FY2009E. The government has taken a large share of gross under-recoveries in FY2008 at 42.7%. However, it may have to bear a higher share of gross under-recoveries in FY2009E if it wants to protect the profits of the R&M companies at FY2008E levels. We note that the R&M companies have no offset against higher crude prices unlike upstream oil companies, which benefit from higher crude prices. We model R&M companies receiving oil bonds of Rs380 bn in FY2009E versus Rs402 bn in FY2008E.

FY2010—higher earnings on higher tariff protection. We have revised our FY2010E EPS for HPCL to Rs52 from Rs58 and for IOCL to Rs68 from Rs71 previously on account of the reasons mentioned above. We model FY2008E refining margin for HPCL at US$3.3/bbl versus US$3.7/bbl assumed previously; our revised refining margin for IOCL is US$5.4/bbl versus US$5.8/bbl assumed previously. The yoy decline in refining margins reflects likely decline in global refining margins due to significant refining capacity additions from CY2009 onwards (Exhibit 6).

Valuations of integrated R&M stocks have suddenly become very compelling. We believe that the valuations of downstream companies are very attractive. Exhibit 7 gives valuations of oil and gas stocks under our coverage. We use a 20-25% discount to our normalized valuation based on 5X normalized EBITDA plus value of investments to set our target prices for the downstream R&M companies. Exhibits 8 and 9 are our revised summary models for HPCL and IOCL. Exhibit 10 shows that the downstream stocks continue to be inexpensive on P/B and EV/GCI. HPCL and IOCL are trading at 0.8X and 1.3X FY2008E book. We have temporarily suspended our rating and target price of BPCL stock as an affiliate of Kotak Securities is providing investment banking services to BPCL.

Refining margins have declined in the recent quarter led by high crude prices
Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	1.69	(0.32)	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25
2Q	0.14	(0.08)	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99
3Q	0.94	0.14	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32
4Q	0.62	1.86	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	**(0.29)**
Average	**0.85**	**0.40**	**1.43**	**0.50**	**1.20**	**1.67**	**3.34**	**2.28**	**0.45**	**1.45**

Complex refining margins, March fiscal year-ends (US$/bbl)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	2.89	0.43	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58
2Q	1.14	1.19	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91
3Q	1.42	0.41	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91
4Q	1.28	2.64	1.60	0.65	3.70	5.44	5.02	2.77	4.11	**2.44**
Average	**1.68**	**1.17**	**2.42**	**0.95**	**1.55**	**3.06**	**6.10**	**4.44**	**3.45**	**4.09**

Weekly margins (simple)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(0.09)	0.51	(0.85)	(1.01)	(0.99)

Weekly margins (complex)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
3.48	3.60	1.93	2.05	1.75

Singapore refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.09

Source: Bloomberg, Kotak Institutional Equities.

Earnings sensitivity of HPCL 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)	3.4	4.4	5.4	3.0	4.0	5.0	2.3	3.3	4.3
Net profits (Rs mn)	15,334	18,636	21,937	12,111	15,616	19,122	13,852	17,474	21,095
EPS (Rs)	45.2	55.0	64.7	35.7	46.1	56.4	40.9	51.6	62.2
% upside/(downside)	**(17.7)**		**17.7**	**(22.4)**		**22.4**	**(20.7)**		**20.7**
Import tariffs									
Tariff protection	0.7	1.2	1.7	0.7	1.2	1.7	0.7	1.2	1.7
Net profits (Rs mn)	17,817	18,636	19,455	14,710	15,616	16,522	16,514	17,474	18,433
EPS (Rs)	52.6	55.0	57.4	43.4	46.1	48.7	48.7	51.6	54.4
% upside/(downside)	**(4.4)**		**4.4**	**(5.8)**		**5.8**	**(5.5)**		**5.5**
Marketing margins									
Transportation fuels margins (Rs/ton)	(4,894)	(4,744)	(4,594)	(3,694)	(3,544)	(3,394)	(150)	—	150
Net profits (Rs mn)	17,918	18,636	19,353	14,859	15,616	16,373	16,677	17,474	18,668
EPS (Rs)	52.9	55.0	57.1	43.8	46.1	48.3	49.2	51.6	55.1
% upside/(downside)	**(3.9)**		**3.9**	**(4.8)**		**4.8**	**(4.6)**		**6.8**

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)	5.8	6.8	7.8	4.9	5.9	6.9	4.4	5.4	6.4
Net profits (Rs mn)	101,328	110,760	120,192	68,453	77,703	86,953	72,119	81,441	90,763
EPS (Rs)	85.0	92.9	100.8	57.4	65.2	72.9	60.5	68.3	76.1
% upside/(downside)	**(8.5)**		**8.5**	**(11.9)**		**11.9**	**(11.4)**		**11.4**
Import tariffs									
Tariff differential	1.2	1.7	2.2	1.2	1.7	2.2	1.2	1.7	2.2
Net profits (Rs mn)	108,313	110,760	113,208	75,280	77,703	80,126	78,974	81,441	83,908
EPS (Rs)	90.8	92.9	94.9	63.1	65.2	67.2	66.2	68.3	70.4
% upside/(downside)	**(2.2)**		**2.2**	**(3.1)**		**3.1**	**(3.0)**		**3.0**
Marketing margins									
Transportation fuels margins (Rs/ton)	(3977)	(3827)	(3677)	(3227)	(3077)	(2927)	350	500	650
Net profits (Rs mn)	108,905	110,760	112,616	75,749	77,703	79,657	78,355	81,441	84,527
EPS (Rs)	91.3	92.9	94.4	63.5	65.2	66.8	65.7	68.3	70.9
% upside/(downside)	**(1.7)**		**1.7**	**(2.5)**		**2.5**	**(3.8)**		**3.8**

Source: Kotak Institutional Equities estimates.

No change in import tariffs on crude and products in Union Budget 2009

Import tariffs on oil products, March fiscal year-ends, 2005-2009E (%)

	2005	2006	Mar-07	2007	2008	2009E
LPG	6.6	—	—	—	—	—
Gasoline	16.7	10.2	7.7	8.1	7.7	7.7
Naphtha	7.6	4.7	—	—	—	—
Kerosene	6.6	—	—	—	—	—
ATF	19.4	10.2	10.3	10.2	10.3	10.3
Diesel	16.7	10.2	7.7	8.1	7.7	7.7
FO	19.4	10.2	10.3	10.2	10.3	10.3
Bitumen	19.4	10.2	10.3	10.2	10.3	10.3
Weighted average import duty	**14.5**	**7.9**	**6.1**	**6.2**	**6.1**	**6.1**
Duty on crude	10.2	5.1	5.2	5.1	5.2	5.2
Tariff differential	**4.4**	**2.8**	**0.9**	**1.1**	**0.9**	**0.9**

Note:
(a) Import duty on naphtha utilised by petrochemical industry has been increased to 5.15%

Source: Kotak Institutional Equities estimates.

Gross under-recoveries will likely remain high in FY2009E

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

	2006	2007	2008E	2009E		yoy 9M 2008	9M 2007	% chg
Dated Brent crude oil price (US$/bbl)	57	65	79	80	95	74	67	*11*
Subsidy loss	**400**	**494**	**745**	**630**	**1,159**	**479**	**405**	***18***
Payment by government (oil bonds)	**115**	**241**	**425**	**359**	**660**	**203**	**192**	***6***
Share of BPCL	22	53	96	82	82	46	43	*6*
Share of HPCL	23	49	89	75	75	43	39	*8*
Share of IOCL	70	138	239	202	202	115	109	*5*
Net under-recovery of oil companies	**285**	**253**	**320**	**271**	**498**	**275**	**214**	***29***
Share of refining companies	27	—	—	—	—	—	3	—
Share of upstream companies	**140**	**205**	**248**	**210**	**386**	**160**	**149**	***7***
Share of ONGC	120	170	210	178	327	135	124	*9*
Share of GAIL	11	15	14	12	22	9.3	9.9	*(6)*
Share of Oil India	10	20	23	20	36	15	16	*(5)*
Net under-recovery of R&M companies (I	**118**	**48**	**72**	**61**	**112**	**116**	**64**	***80***
Pre-tax profits of R&M companies	**74**	**96**				**139**	**66**	

Note:

(a) Share of oil bonds assumed at 57%.

(b) We use US$80/bbl Dated Brent (average for FY2008 YTD) and US$ 94.8 (avewrage for February 2008) to show the under-recoveries for FY2009E; our official crude forecast is US$75/bbl.

Source: Kotak Institutional Equities estimates.

We expect significant refining capacity additions from CY2009 onwards

World refinery capacity additions ('000 b/d)

	2007E	2008E	2009E	2010E	2011E	2012E	Total
Refinery capacity additions							
OECD North America	240	—	285	325	45	140	**1035**
OECD Europe	—	—	180	—	—	—	**180**
OECD Pacific	—	—	35	—	—	—	**35**
FSU	—	84	40	60	—	—	**184**
Non-OECD Europe	—	—	—	—	—	—	—
China	—	800	176	—	—	—	**976**
Other Asia	315	185	980	160	860	630	**3129**
Latin America	—	—	18	300	435	478	**1231**
Middle East	77	226	20	635	790	650	**2398**
Africa	—	6	100	200	—	—	**306**
Total World	**632**	**1,300**	**1,834**	**1,680**	**2,130**	**1,898**	**9,079**

Source: Oil & Gas journal, Kotak Institutional Equities estimates.

Indian energy companies valuation analysis, March fiscal year-ends, 2005-2009E

	Price (Rs)	Target price	P/E (X)					P/CEPS (X)				
	4-Mar-08	(Rs)	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Cairn India	218	160	121.1	94.9	479.1	115.9	14.5	20.7	10.4	(11.9)	78.7	13.3
Castrol	273	290	23.1	22.4	15.5	14.1	13.1	21.9	24.1	16.8	15.1	14.0
GAIL (India)	398	400	14.6	14.1	12.9	12.9	12.4	13.4	14.1	11.8	12.6	13.2
Gujarat State Petronet	63	65	53.7	38.3	37.2	12.9	11.2	16.7	29.5	27.6	6.9	6.5
Hindustan Petroleum Corp.	284	400	42.9	7.1	5.2	6.2	5.5	9.5	4.0	6.2	5.4	5.0
Indian Oil Corp. (cons.)	525	600	13.5	10.0	5.5	8.0	7.7	(54.3)	(13.1)	6.6	8.5	6.8
Oil and Natural Gas Corp. (cons.)	959	1,325	13.0	11.6	9.4	8.8	8.3	9.3	10.3	8.5	8.1	7.8
Petronet LNG	69	65	28.4	16.6	11.2	12.9	12.1	14.8	10.6	8.2	10.6	8.0
Reliance Industries	2,242	—	35.5	27.7	22.9	20.6	12.9	26.1	19.8	14.7	15.9	9.7
Reliance Petroleum	161	175	—	—	—	35.9	8.3	—	—	—	28.9	7.1

	KS	Market cap.	EV/EBITDA (X)					EV/DACF (X)				
	rating	(US$ mn)	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Cairn India	SELL	847	71.2	62.2	55.8	39.8	9.5	77.1	90.9	64.1	49.5	10.8
Castrol	REDUCE	8,355	15.3	14.8	9.8	8.8	8.2	22.8	25.0	15.9	14.2	13.1
GAIL (India)	REDUCE	2,391	8.3	10.3	8.4	7.8	7.2	11.4	12.5	10.9	10.7	10.3
Gujarat State Petronet	SELL	837	19.3	15.3	12.2	6.7	5.1	16.4	28.1	24.9	7.7	6.8
Hindustan Petroleum Corp.	BUY	3,550	10.7	7.2	4.7	6.0	5.2	17.8	8.0	6.8	5.7	5.8
Indian Oil Corp. (cons.)	ADD	50,863	10.4	6.9	4.6	5.9	5.2	13.8	9.1	6.9	8.5	7.3
Oil and Natural Gas Corp. (cons.)	ADD	69,741	6.2	5.5	4.2	3.7	3.3	7.8	7.5	5.8	5.1	4.6
Petronet LNG	SELL	17,949	12.9	9.2	7.0	8.8	7.5	13.9	9.2	8.1	11.1	8.7
Reliance Industries	RS	-	24.7	17.9	16.6	13.6	8.1	26.7	19.7	19.0	15.0	8.5
Reliance Petroleum	ADD	9,559	—	—	—	29.3	7.1	—	—	—	29.9	7.3

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	597,020	708,609	889,959	1,034,993	1,019,515	1,024,096	1,040,529
EBITDA	**20,511**	**8,056**	**24,036**	**32,507**	**31,729**	**34,815**	**44,592**
Other income	3,295	3,285	6,845	11,088	10,216	8,814	6,625
Interest	(816)	(1,587)	(4,230)	(7,145)	(8,044)	(7,332)	(5,976)
Depreciation	(6,584)	(6,902)	(7,040)	(8,218)	(10,245)	(9,826)	(10,555)
Pretax profits	16,406	2,851	19,611	28,232	23,657	26,471	34,687
Extraordinary items	1,471	2,201	3,030	—	—	—	—
Tax	(5,897)	(898)	(6,625)	(7,462)	(4,108)	(7,547)	(10,196)
Deferred taxation	793	(97)	(365)	(2,134)	(3,933)	(1,450)	(1,594)
Prior period adjustment	—	—	61	—	—	—	—
Net profits	**12,773**	**4,056**	**15,712**	**18,636**	**15,616**	**17,474**	**22,897**
Earnings per share (Rs)	**34.8**	**6.6**	**40.0**	**55.0**	**46.1**	**51.6**	**67.6**
Balance sheet (Rs mn)							
Total equity	84,409	87,357	95,987	105,898	114,376	123,863	136,294
Deferred tax liability	13,748	13,844	14,209	16,343	20,276	21,726	23,320
Total borrowings	21,854	66,638	105,175	146,675	125,175	105,175	80,675
Currrent liabilities	69,887	79,549	101,195	91,733	95,704	98,661	99,092
Total liabilities and equity	**189,896**	**247,389**	**316,566**	**360,649**	**355,531**	**349,425**	**339,381**
Cash	2,016	426	868	508	789	405	431
Current assets	93,007	109,674	113,779	129,716	130,403	131,476	131,387
Total fixed assets	77,305	97,013	130,644	145,127	154,041	162,247	167,266
Investments	17,568	40,276	71,275	85,298	70,298	55,298	40,298
Total assets	**189,896**	**247,389**	**316,566**	**360,649**	**355,532**	**349,425**	**339,382**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	15,977	10,126	23,966	15,508	17,815	19,313	28,421
Working capital changes	(3,614)	(5,351)	8,936	(22,791)	5,061	2,863	520
Capital expenditure	(12,849)	(25,298)	(38,510)	(20,309)	(17,397)	(17,409)	(15,574)
Investments	2,995	(22,884)	(31,704)	(14,023)	15,000	15,000	15,000
Other income	800	941	2,067	8,480	8,439	7,836	6,625
Free cash flow	**3,310**	**(42,466)**	**(35,246)**	**(33,136)**	**28,919**	**27,603**	**34,992**
Ratios (%)							
Debt/equity	22.3	65.8	95.4	120.0	93.0	72.2	50.5
Net debt/equity	20.2	65.4	94.7	119.6	92.4	72.0	50.3
RoAE	13.4	4.1	14.9	16.0	12.2	12.5	15.0
RoACE	**10.1**	**2.5**	**8.8**	**10.7**	**9.9**	**9.5**	**11.7**
Key assumptions							
Crude throughput (mn tons)	13.9	14.0	16.7	16.5	18.3	19.3	19.3
Effective tariff protection (%)	5.6	3.1	1.4	1.2	1.2	1.2	1.1
Net refining margin (US$/bbl)	4.5	3.9	4.3	4.4	4.0	3.3	3.8
Sales volume (mn tons)	20.6	20.1	23.4	24.2	25.0	25.8	26.6
Marketing margin (Rs/ton)	1,688	(463)	(710)	(2,306)	(1,650)	527	1,397
Subsidy under-recoveries (Rs mn)	(26,708)	(29,671)	(18,899)	(16,199)	(15,547)	(11,518)	(7,203)

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	2,614,895	2,554,551	2,587,310
EBITDA	**114,303**	**86,765**	**82,044**	**110,451**	**169,548**	**126,917**	**134,007**
Other income	17,565	16,138	21,310	27,451	51,396	37,422	28,718
Interest	(5,043)	(7,433)	(12,101)	(17,058)	(15,577)	(13,070)	(7,258)
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	174,661	119,117	121,519
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)	(55,947)	(39,209)	(38,064)
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	121,910	85,006	86,433
Net profits after minority interests	**73,298**	**52,666**	**45,362**	**62,469**	**114,220**	**78,649**	**81,205**
Earnings per share (Rs)	**62.8**	**45.1**	**38.8**	**52.4**	**95.8**	**66.0**	**68.1**
Balance sheet (Rs mn)							
Total equity	233,386	271,302	317,977	378,117	442,900	490,789	537,095
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	276,903	195,864	118,264
Currrent liabilities	219,522	266,430	286,716	330,791	386,596	389,225	396,860
Total liabilities and equity	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,168,650**	**1,138,534**	**1,117,323**
Cash	13,777	13,356	8,080	9,385	5,537	5,798	6,041
Current assets	278,550	368,158	413,904	437,178	576,287	567,966	571,728
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**	**1,168,649**	**1,138,534**	**1,117,323**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	(44,660)	95,685	74,598	96,805
Working capital changes	1,710	(33,421)	(8,136)	2,237	(64,812)	19,680	444
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**	**51,571**	**107,997**	**116,447**
Ratios (%)							
Debt/equity	52.0	61.5	79.3	66.3	54.8	35.4	19.6
Net debt/equity	47.1	57.3	77.1	64.1	53.7	34.3	18.6
RoAE	30.0	18.3	13.7	16.1	25.1	15.4	14.6
RoACE	**20.4**	**13.7**	**9.3**	**11.3**	**17.1**	**11.6**	**12.0**
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	1.7	1.7
Net refining margin (US$/bbl)	5.4	6.2	4.8	4.9	6.8	5.9	5.4
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)	(1,598)	(1,297)	996
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(15,039)	(20,088)	(15,994)

Source: Kotak Institutional Equities estimates.

Indian downstream oil stocks are inexpensive on long-term valuations
P/B and EV/GCI for HPCL and IOC

	2007		2008E		2009E	
	HPCL	IOCL	HPCL	IOCL	HPCL	IOCL
Stock price (Rs)	284	525	284	525	284	525
Year-end book value (Rs)	325	355	361	408	397	447
P/B (X)	**0.9**	**1.5**	**0.8**	**1.3**	**0.7**	**1.2**
ROAE (%)	14.9	16.1	16.0	25.1	12.2	15.4
EV (Rs bn)	129	720	157	735	150	696
Gross cash invested (Rs bn)	211	761	260	881	275	920
EV/GCI (X)	**0.6**	**0.9**	**0.6**	**0.8**	**0.5**	**0.8**
Cash returns (Rs bn)	16	80	23	109	26	83
CROCI (%)	7.7	10.5	8.9	12.3	9.5	9.1

Note:
(a) IOCL's book value does not include unrealized gain from investments in ONGC, GAIL amounting to Rs95/share.
(b) Book value of Indian R&M stocks may be depressed due to full depreciation of certain assets (old refineries, LPG cylinders).

Source: Kotak Institutional Equities estimates.

Industrials

SUZL.BO, Rs241	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	350
52W High -Low (Rs)	460 - 186
Market Cap (Rs bn)	377.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	79.9	135.5	197.9
Net Profit (Rs bn)	8.6	9.5	20.7
EPS (Rs)	6.0	6.1	13.2
EPS gth	*14.2*	*1.0*	*118.0*
P/E (x)	40.1	39.7	18.2
EV/EBITDA (x)	29.2	21.6	13.8
Div yield (%)	0.4	0.4	0.4

Shareholding, December 2007

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

Suzlon Energy: Preventive program announced for resolving blade cracking issue; highlight importance of successful implementation to growth plans

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

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

- **Suzlon to strengthen blades for 417 S-88 turbine sets to resolve the blade-cracking issue; Provision of Rs1.2 bn in 4QFY08 for a retrofit program**
- **Retrofit program formulated as a preventive measure for quick problem resolution**
- **Management does not anticipate any adverse impact on orders, execution or margins in future**
- **Highlight importance of successful implementation of retrofit program to Suzlon's growth plans**
- **Reduce target price to Rs350 (from Rs400 earlier), maintain ADD rating**

Suzlon will strengthen blades of 417 turbine-sets (S-88, 2.1 MW) across the US and Europe/Brazil markets, to resolve the blade-cracking issue (that had surfaced in the past quarter in the US geography). Rs1.2 bn is being provided in 4QFY08 as estimated costs for this retrofit program. It seems Suzlon is taking a pro-active measure to strengthen blades before the cracking issue becomes a wide-spread problem, affecting its reputation as a high-quality supplier globally. No adverse impact on existing/future orders is anticipated by Suzlon's management as the retrofit program has been framed post discussions with customers. Successful implementation of the retrofit program is crucial for Suzlon's global growth plans as S-88 is Suzlon's highest capacity turbine, is supplied to key markets like the US and Europe and forms a substantial portion of the order book. We revise our target price to Rs350 (from Rs400 earlier) and maintain our ADD rating.

Suzlon to strengthen blades for 417 S-88 turbine sets to resolve the blade-cracking issue; Provision of Rs1 bn in 4QFY08 for a retrofit program

Suzlon will strengthen blades of 417 turbine-sets (S-88, 2.1 MW) across US (314 turbine-sets) and Europe/Brazil (103 turbine-sets) markets, to resolve the blade-cracking issue (that had surfaced in the past quarter in the US). 45 turbine-sets, in which blade-cracking has been reported, will have blade replacements (of one blade each; the remaining two blades would be repaired; there are three blades per set). The balance 372 turbine-sets will undergo blade strengthening as a preventive measure. Rs1.2 bn is being provided in 4QFY08 as estimated costs for this retrofit program. Blades have suffered cracks in a specific localized area in the outer shell, due to blade design-related issues and site-specific wind conditions, as highlighted by the management in a conference call. Extra lamination/coating of fibre glass in that specific area will provide additional required strength to the blade, as concluded by Suzlon's technical team and third-party engineering companies.

Retrofit program formulated as a preventive and quick problem resolution measure

It seems Suzlon is taking a pro-active measure to strengthen blades before the cracking issue becomes a wide-spread problem, affecting its reputation as a high-quality supplier globally. In 3QFY08 when the cracking issue first emerged, 34 turbine-sets were reportedly affected (Rs190 mn was provided for the same). It increased to a total of 45 turbine-sets by February 2008. Having identified the problem and having formulated a solution, Suzlon has decided to replace/repair blades in these 45 turbine-sets and strengthen blades in another 372 turbine-sets (to pre-empt a similar blade-cracking problem). It has formulated this retrofit program such as to quickly resolve the issue. It will carry out the repair/strengthening exercise on-site (so that blades are not required to be taken back to the factory) and maintain a rolling stock of 20 blade-sets (so that machine remains operational while repairs are being carried out). These steps will minimize downtime for operational turbines as an average of 1-2 days is expected to be required for strengthening blades for each machine. The entire program is expected to be completed in six months.

Management does not anticipate any adverse impact on orders, execution or margins in future

No adverse impact on existing/future orders is anticipated by Suzlon's management as the retrofit program has been framed post discussions with customers and their technical teams. Order execution is not likely to be affected by the manufacturing of 20 sets of extra blades for rolling stock as it is well-within existing capacities. Blade manufacturing costs will increase by 1% (due to the additional coating for strengthening) and thus will have no material impact on margins. No extra provision on warranties is anticipated as the retrofit program is expected to be completed in 1-2 days and Suzlon typically guarantees 95% machine availability (we highlight that Suzlon typically provides warranties for 1-2 years on various aspects like Machine-Availability, O&M, Liquidated Damages etc, though customer has as option to purchase warranties up to five years). Hence this retrofit provision is one-time and no such further requirement is anticipated beyond FY2008. The provision amount includes (1) material, labor and equipment cost for replacement/repair/strengthening, (2) logistics cost and (3) interest cost on replacement stock. We highlight that before installation these blades pass a number of stress tests and certifications.

Highlight importance of successful implementation of retrofit program to Suzlon's growth plans

Successful implementation of the retrofit program is crucial for Suzlon's global growth plans. The blade-cracking issue is specific to the S-88 turbine which is Suzlon's highest capacity turbine (2.1 MW; others are 1.5 MW, 1.25 MW, 600 KW and 350 KW), supplied to key global markets like the US and Europe (as against the lower-capacity turbines supplied typically to Indian markets) and comprises a major portion of the order book. Out of a total major order-booking of 3,785 MW from FY2007 onwards, 2,655.4 MW is for the 2.1 MW machine we believe. We highlight that Suzlon had exports of about 907 MW in 9mFY08 and it seems that most of these recently-installed machines will be part of the retrofit program (417 turbine-sets or about 875.7 MW). Some of the likely-affected orders are highlighted in Exhibit 1. Some customers, like the Edison Mission Group, have placed repeat orders on Suzlon and they would keenly be examining the resolution of this issue (we highlight that management does not expect any order cancellations; orders typically allow cancellations by customers though with penalties). If replacement/repair/strengthening of installed turbines (310 sets of 417 sets) takes more than anticipated time, it may expose Suzlon to warranty charges (if availability criteria are not met). It would be easier to strengthen the 107 sets that are in inventory or in transit, we believe (this also needs to be achieved without delaying deliveries). Non-recurrence of the cracking issue in future is also important as turbines typically are designed for a life of 20 years (and customers may take warranties/O&M contracts on Suzlon). We highlight that wind-power equipment (including blades) pass various pre and post installation checks, tests (including stress tests) and certifications. Hence the equipment would be required to meet general industry-wide norms before it is allowed to generate power.

Reduce target price to Rs350/share, maintain ADD rating

We revise our EPS estimate for FY2008E to Rs6.1 (from Rs6.8 earlier) to factor in the provision for the retrofit program. We maintain our FY2009E EPS estimate at Rs13.2.

We reduce our target price to Rs350/share (from Rs400 earlier), implying a P/E multiple of 26.5X based on FY2009 earnings (14% discount to the implied P/E multiple for our industrial sector coverage universe). We maintain our ADD rating on the stock. We highlight that Suzlon is trading at a P/E multiple of about 18X based on our FY2009 EPS estimates. After adjusting for Hansen, Suzlon (wind business) is trading at a P/E multiple of about 15X based on FY20009 earnings (Exhibit 2). We highlight that Suzlon's global peers are trading at higher multiples, though Suzlon has higher growth prospects. We expect Suzlon to benefit over the medium term from (1) global momentum in wind power equipment demand, (2) strong platform in terms of breadth and depth of manufacturing, marketing and R&D capabilities and (3) significant expansion in vertically integrated capacity that creates opportunities for Suzlon to gain market share in a strong growth market.

Key downside risks arise from (1) rupee appreciation, (2) supply chain constraints (that continue to confront the industry globally) hindering execution, (3) delays in execution of the large capacity expansion plans, across Suzlon, Hansen and Repower, (4) emergence of competitors (attracted by the high equity returns), especially from low-cost manufacturing countries like China and (5) new technologies, like gearless wind-turbines, becoming more competitive.

Exhibit 1. S-88 turbines comprise a major portion of the order inflows
Major orders booked by the Suzlon group from FY2007 so far

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

Source: Company, Kotak Institutional equities estimates.

Exhibit 2: SOTP Valuation for Suzlon
Computation of Suzlon's SOTP

Share Price in London market (GBP)	2.27
No of shares (mn)	670.1
Market Capitalisation (bn GBP)	1.52
GBP per $	1.99
Post-issue Hansen valuation (in US$ bn)	3.0
Market cap of Hansen (Rs mn)	119,430
Suzlon's stake in Hansen's post IPO (%)	73
Contribution of Hansen market cap to Suzlon (Rs mn)	87,064
Suzlon's share price in India (Rs)	241
Suzlon's no of shares	1,496
Suzlon's market capitalisation	360,471
Estimated market cap of Suzlon's wind business	273,406
Suzlon's estimated profit after tax without hansen (Rs mn)	18,617
Implied earnings multiple for Suzlon's wind business	15

Source: Kotak Institutional Equities estimates

Exhibit 3. Comparison of wind power companies (Euro)

Company	Price (Euro)	Mcap (Mn Euro)	Sales (Mn Euro)	EPS (Euro)			PER (X)			EV/EBIDTA (X)		
			2007E	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
Vestas	69.2	12,807	3,854	0.6	1.4	2.5	113.4	48.2	27.7	43.7	22.5	15.0
Gamesa	26.3	6,241	2,390	1.3	0.9	1.2	20.4	29.9	22.1	16.9	15.1	11.8
Nordex	22.5	1,838	514	0.2	0.6	1.0	107.1	36.9	22.0	56.5	30.3	16.9
RePower	148.8	1,338	459	0.9	2.2	4.7	159.9	67.5	31.8	74.8	32.8	16.9
Suzlon	**241.0**	**6,056**	**1,342**	**6.0**	**6.2**	**13.2**	**40.1**	**39.0**	**18.2**	**30.0**	**22.9**	**14.1**

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

Source: Bloomberg, Kotak Insttutional Equities estimates.

Automobiles

Sector coverage view			Attractive

		Price, Rs	
Company	**Rating**	**4-Mar**	**Target**
Bajaj Auto	BUY	2,200	2,865
Tata Motors	BUY	702	940
Maruti Suzuki	BUY	906	1,240
Mah & Mah	BUY	705	915

Feb '08 sales: M&HCV volumes start picking up; M&M records strong UV growth

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

- **TVS Motors: The slide continues**
- **Tata Motors: M&HCV volumes start picking up; LCV growth continues to be strong**
- **Mahindra & Mahindra: UV growth strong while tractors continue to disappoint**

TVS Motors: The slide continues

TVS Motors reported a 33.6% yoy decline in volumes in Feb '08 while overall 2-wheeler sales declined 20.7% yoy. Scooty sales too declined 29% yoy in Feb '08. We expect the downward trend in TVS volumes to continue. TVS has been ordered by the High Court to stop production and sales of its 125 cc "Flame". Meanwhile, TVS has decided to re-launch the bike with a different engine. We believe despite this the company would continue to disappoint in terms of volume growth. We expect Bajaj Auto and Hero Honda to take advantage of the recent excise cut while TVS would continue to be a laggard.

Tata Motors: M&HCV volumes start picking up; LCV growth continues to be strong

Tata Motors reported M&HCV volume growth of 3.6% yoy and 8% on a mom basis. Meanwhile the LCV growth at 25% yoy continues to be strong. CV exports have grown 16.4% yoy. While the UV volumes grew marginally in Feb '08, passenger car volumes declined 19.4% yoy. We expect the M&HCV volumes to pick up in the coming months in line with positive freight rate data. We believe the demand for CVs will go up in the coming months and M&HCV volumes will record positive growth. We expect LCV growth to remain strong driven by the success of ACE while the newly launched "Sumo Grande" will likely lead to higher UV growth.

Mahindra & Mahindra: Strong growth in UVs while tractors continue to disappoint

M&M UV volumes increased a sharp 32.4% yoy in Feb '08. Meanwhile, Logan sales increased 20% on a mom basis. However, tractor volumes continued to disappoint—volumes declined 7% yoy and 19% mom. We expect tractor sales to continue their declining trend. Meanwhile we believe that UV volumes will likely grow strongly as we expect the demand to pick up led by rising disposable incomes.

Reported monthly sales of top two-wheeler companies - Feb 2008

	Feb-08	Feb-07	yoy %	Jan-08	mom %	YTD, FY2008	YTD, FY2007	yoy %
Bajaj Auto								
Geared Scooters	-	-		-		-	5,254	-100.0%
Ungeared Scooters	846	2,440	-65.3%	1,100	-23.1%	20,254	11,764	72.2%
Step thrus	-	-		-		-	-	
Motorcycles	158,662	171,780	-7.6%	166,492	-4.7%	1,984,859	2,210,995	-10.2%
Total 2-Wheelers	**159,508**	**174,220**	**-8.4%**	**167,592**	**-4.8%**	**2,005,113**	**2,228,013**	**-10.0%**
3 Wheelers	24,299	27,992	-13.2%	24,601	-1.2%	269,536	297,220	-9.3%
TVS Motor								
Motorcycles	46,565	70,155	-33.6%	38,961	19.5%	556,832	851,884	-34.6%
Scooty	14,126	19,937	-29.1%	18,594	-24.0%	191,738	238,670	-19.7%
Moped	34,544	30,018	15.1%	35,830	-3.6%	300,522	309,342	-2.9%
Total 2-Wheelers	**95,235**	**120,110**	**-20.7%**	**93,385**	**2.0%**	**1,171,928**	**1,399,896**	**-16.3%**
Hero Honda								
Total 2-Wheelers	265,431	280,515	-5.4%	298,050	-10.9%	3,016,548	3,058,841	-1.4%

Source: Company, Kotak Institutional Equities.

4-wheelers Feb 2008 sales performance

	Feb-08	Feb-07	yoy %	Jan-08	mom %	YTD, FY2008	YTD, FY2007	yoy %
Tata Motors								
M&HCV	16,894	16,306	3.6%	15,633	8.1%	145,398	155,216	-6.3%
LCV	14,424	11,553	24.9%	14,897	-3.2%	131,980	112,745	17.1%
Domestic CV sales	31,318	27,859	12.4%	30,530	2.6%	277,378	267,961	3.5%
CV Exports	3,122	2,682	16.4%	3,082	1.3%	34,750	30,738	13.1%
Total CV	**34,440**	**30,541**	**12.8%**	**33,612**	**2.5%**	**312,128**	**298,699**	**4.5%**
UV	5,399	5,364	0.7%	5,076	6.4%	43,682	43,080	1.4%
Passenger Cars	14,342	17,802	-19.4%	16,108	-11.0%	160,096	173,934	-8.0%
Total	**54,181**	**53,707**	**0.9%**	**54,796**	**-1.1%**	**515,906**	**515,713**	**0.0%**
Mahindra & Mahindra								
UVs	12,563	9,486	32.4%	15,070	-16.6%	133,393	112,647	18.4%
LCVs	719	739	-2.7%	688	4.5%	9,311	7,641	21.9%
Logan	2,751			2,301	19.6%	22,833	-	
Tractors	6,522	7,003	-6.9%	8,053	-19.0%	90,307	94,731	-4.7%
3 Wheelers	2,347	3,041	-22.8%	2,825	-16.9%	30,324	30,052	0.9%
Total	**24,902**	**20,269**	**22.9%**	**28,937**	**-13.9%**	**286,168**	**245,071**	**16.8%**
Maruti Udyog						-	-	
Entry (A) segment	5,745	5,955	-3.5%	5,470	5.0%	63,200	73,104	-13.5%
Van-segment	7,268	8,069	-9.9%	8,861	-18.0%	81,688	74,430	9.8%
Compact (B) segment	44,059	42,913	2.7%	45,957	-4.1%	457,411	393,307	16.3%
Mid-size (C) segment	1,958	1,798	8.9%	2,939	-33.4%	41,799	27,283	53.2%
MUV	281	360	-21.9%	232	21.1%	3,305	2,949	12.1%
Domestic	**59,311**	**59,095**	**0.4%**	**63,459**	**-6.5%**	**647,403**	**571,073**	**13.4%**
Exports	4,511	3,904	15.5%	4,648	-2.9%	47,149	32,079	47.0%
Total	**63,822**	**62,999**	**1.3%**	**68,107**	**-6.3%**	**694,552**	**603,152**	**15.2%**

Source: Company, Kotak Institutional Equities.

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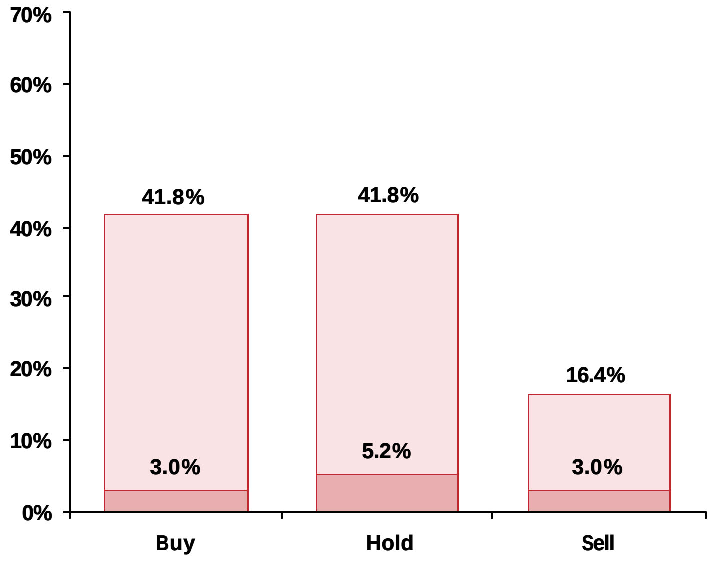

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Source: Kotak Institutional Equities. As of September 30, 2007

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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

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