

Contents

New Release

Power Finance Corporation: Bright asset growth-at a high price

Updates

Automobiles: Cutting CV industry growth estimate for FY08 to 6%; maintain OP on Tata Motors

News Roundup

Corporate

- Nine months after calling it off, Jet Airways is understood to have struck a deal to revive the takeover of Air Sahara, but at a lower price than the US\$500 mn dollar offered in January last year. The agreement, which was reached during the final arbitration hearings, valued the deal at little over Rs18 bn.(FE)
- Wind energy major Suzlon Energy has raised its bid for German wind turbine-maker REpower Systems AG to euro 150 per share from its earlier offer of euro 126 made in February this year. By increasing its offer by more than 19 per cent, Suzlon has topped the March 15 offer of euro 140 per share made by French nuclear power company Areva, which owns a 30 per cent stake in REpower. (BS)
- NTPC is open to sourcing equipment from Chinese vendors in an effort to keep project costs down for its new power stations. The Rs 300 bn utility is also looking at the possibility of tying-up with Chinese suppliers for the 4,000-MW Ultra Mega projects in the pipeline.(BL)

Economic and political

- Finance Minister P. Chidambaram on Tuesday exuded confidence that "ambitious" revised target of Rs2292.72 bn for the direct tax collections during 2006-07 fiscal would be achieved. (FE)
- Aiming for a breakthrough in the Doha Round of negotiations, trade ministers of the G-4 group of countries (India, the United States, Brazil and the European Union) will meet in Delhi on April 12. This will be the first formal meeting of the G-4 countries after seven months. (BS)

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

EQUITY MARKETS

India	Change, %			
	10-Apr	1-day	1-mo	3-mo
Sensex	13,190	0.1	2.4	(3.2)
Nifty	3,848	0.1	3.5	(2.4)
Global/Regional indices				
Dow Jones	12,574	0.0	2.4	0.5
Nasdaq Composite	2,478	0.3	3.8	(0.3)
FTSE	6,418	0.3	2.8	3.0
Nikkei	17,679	0.1	3.0	5.0
Hang Seng	20,358	0.0	6.4	5.0
KOSPI	1,518	1.3	6.7	11.2
Value traded - India				
		Moving avg, Rs bn		
	10-Apr	1-mo	3-mo	
Cash (NSE+BSE)	125.1	108.1	125.3	
Derivatives (NSE)	220.5	349.4	283.7	
Deri. open interest	474.4	543.1	552.8	

Forex/money market

	Change, basis points			
	10-Apr	1-day	1-mo	3-mo
Rs/US\$	42.8	-	(138)	(173)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	(9)	1	55

Net investment (US\$m)

	9-Apr	MTD	CYTD
FIs	129	(18)	40
MFs	11	(31)	(303)

Top movers -3mo basis

Best performers	Change, %			
	10-Apr	1-day	1-mo	3-mo
SAIL	118	(0.5)	13.3	36.5
BEL	1,678	(2.4)	11.7	31.3
Punjab Tractors	303	(0.3)	(2.2)	24.5
Bharti Tele	764	0.4	1.8	19.9
Wockhardt	411	0.2	11.1	19.2
Worst performers				
Acc	747	0.7	(4.4)	(28.9)
Tvs Motor	57	0.3	0.2	(28.6)
Ingersoll Rand	270	(0.0)	(9.1)	(28.5)
Century Tex	536	1.6	2.0	(28.4)
MRF	3,245	(0.3)	(1.2)	(23.3)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Power Finance Corporation**PWFC.BO, Rs107**

Rating	U
Sector coverage view	Neutral
Target Price (Rs)	100
52W High -Low (Rs)	N/A
Market Cap (Rs bn)	123

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	35.8	46.3	57.7
Net Profit (Rs bn)	10.1	10.9	12.3
EPS (Rs)	9.8	9.6	10.7
EPS gth	(3.2)	(2.3)	(12.0)
P/B (x)	1.3	1.2	1.2
P/E (x)	11.0	11.2	10.0
Div yield (%)	2.4	2.8	3.2

Power Finance Corporation: Bright asset growth-at a high price

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

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

We expect PFC to see strong asset growth on the back of massive investments in power over the next five years. However, lower margins will likely constrain PFC's ROE and PAT growth compared to PSU banks, making it less attractive. We initiate coverage with an Underperform rating and target price of Rs100.

Initiate with Underperform

We assign an Underperform rating to Power Finance Corporation (PFC) for several reasons: (1) Expensive valuations compared to PSU banks-the latter generates higher RoEs; (2) Sustainable RoE of about 12% is close to PFC's cost of equity; (3) Low profit growth of 6% in PAT CAGR (FY2006-09); (4) Possible removal of tax exemption under section 36 (1) (viii); and (5) Likely pressure on margins in excess of our estimates in a rising rate environment. However, the stock could trade at a premium to its fair value given investor interest in India's power sector and the absence of ownership restrictions on FII holdings (a problem with PSU banks).

PFC to benefit from enhanced capex spend in power

PFC is a specialized financial institution and nodal agency for India's power sector. It has considerable domain expertise and well-established mechanisms in dealing with state utilities with poor financials. The government plans to expand power generation capacity to around 200 GW by FY2012 from the current 128 GW. The Planning Commission pegs total investment in the generation as well as transmission and distribution (T&D) sectors at Rs5.5 trn during the 11th five-year plan (FY2008-12), of which PFC will likely finance close to Rs920 bn or 17% of investments.

Risks to PFC's model: Competition from banks, rising interest rates

We believe PFC's model could face challenges from (1) any slowdown in electricity sector reforms; (2) increase in competition from other financial intermediaries like banks and (3) sector trends that could limit its scope, viz (a) improving financials of state utilities, (b) increasing participation of large corporates and (c) development of more vibrant debt markets in India.

Automobiles

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		10-Apr	Target
Hero Honda	U	640	625
Bajaj Auto	OP	2,270	2,860
Tata Motors	OP	721	925
Maruti	OP	786	950
Mah & Mah	OP	730	1,000
Ashok Leyland	IL	37	40
Punjab Tractor	IL	303	215
TVS Motor	U	57	55
Bharat Forge	OP	309	390

Cutting CV industry growth estimate for FY08 to 6%; maintain OP on Tata Motors

Abhijeet Naik : abhijeet.naik@kotak.com, +91-22-6634-1220

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

- **Freight rates improve in March due to 'March effect'; we expect a decline in April**
- **We cut CV industry growth forecasts for FY08 to 6% (12% previously)**
- **Lowering EPS estimates for CV stocks; maintain OP on Tata Motors and IL on Ashok Leyland**

Freight rates in India improved in March after 4 consecutive months of declines. Our freight index is up 1.6% mom in March while our diesel adjusted freight index is up a sharp 12.1% mom in March. However, we attribute this increase to the 'March effect' when overall economic activity in the country is at its peak leading to a sharp increase in freight on roads during the months. This demand spurt typically results in freight rates moving up each year in March and the same is substantiated by our historical freight index data. We expect freight rates to weaken again in April. The sharp increase in our diesel adjusted freight index is due to impact of the diesel price cut that happened in the middle of February. Had diesel prices not been cut, our diesel adjusted freight index would have moved up by 7% mom.

Cutting CV industry growth forecasts for FY2008 to 6% (12% previously)

In our view, the weak freight rate behavior of the last few months coupled with effect of high 'base effect' following the 40% growth of FY07 will likely lead to mid single-digit growth for CVs in FY08. We lower our industry growth assumption for M&HCVs to 2.5% for FY08 (10% previously) and for LCVs to 10% (15% previously). We expect the effect of roll-out of the 'Ace' across the country to drive 10% growth for LCVs in FY08. Our talks with CV industry participants like dealers, freight operators and CV finance companies does not indicate an acute cyclical downturn in CVs in FY08, which would result in CVs showing a decline of 10%+ for the year. In overall robust demand conditions due to continued infrastructure spend and a longer capex cycle, we expect any over-supply issues to get corrected by the end of FY08 and expect the CV industry to grow 12.5% in FY09.

Tata Motors: Lowering estimates but maintain OP

We lower our consolidated EPS estimates for Tata Motors 1% for FY07 to Rs54.4 (Rs55.1 previously), 13% for FY08 to Rs59.3 (Rs68.5 previously) and 9% for FY09 to Rs69.2 (Rs76.0 previously).

Our revised estimates for Tata Motors factor in the following changes:

1. FY08 domestic growth of 2.5% for M&HCVs (10% previously) and 10% for LCVs (15% previously) in-line with our industry growth assumptions
2. FY08 domestic growth of 7.5% for cars and UVs (10% previously). We had recently lowered our industry growth estimate for cars to 8-10% for FY08 (12-14% previously) due to impact of rising finance rates. We expect Tata Motors' car sales to grow slower than industry due to impact of Maruti's launch of diesel 'Swift'.

<http://deapresident.blogspot.com>

3. Margin drop of 20 bps in FY08 due to impact of increase in steel prices and operating leverage impact of setting up of Uttaranchal plant for 'Ace' in mid FY08.
4. Higher interest rates over FY08-09 on account of the recent sharp rise in interest rates in India
5. We now do not factor in any volumes of the Rs100,000 car in FY09 for Tata Motors. We understand that the car will be launched towards the end of FY09 versus our earlier expectation of an early FY09 launch. In our view, the ongoing problems related to land acquisition in West Bengal will likely ensure that the launch will take place only by end FY09.

Our revised target price for Tata Motors is Rs925 (Rs1055 previously). This is based on Rs716 for the core business at 8.5X FY08 EV/EBITDA and 14.2X FY08 P/E and Rs209 for value in subsidiaries and listed equity investments. While we accept that our target multiple is on the higher side given rising risks to growth, we note that our target valuation looks reasonable on an FY09 perspective. Our core business value implies 7.2X FY09 EV/EBITDA and 12.3X FY09 P/E. We expect market attention to start moving towards FY09 by 1QFY08. Our target price provides 28% from current levels. In our view, Tata Motors' stock price currently reflects a 10% CV industry decline in FY08, which we think is unlikely. We expect the stock to rebound once confidence in positive industry growth in FY08 rises.

In our view, Tata Motors will see several structural improvements and positive news-flow coming into play in FY09 in both its CV and car divisions. These include:

- a) Launch of the new car platform to replace/supplement the 'Indica'
- b) Launch of the new 'World truck' platform in both domestic and export markets
- c) Launch of new cars from the Tata-Fiat joint venture
- d) Launch of a new pick-up truck in Thailand by Tata Motors' 70% JV in that country
- e) Export of CVs in Latin America and Europe using IVECO's distribution network.

We see these launches providing upside risk to our FY09 estimates for the company and expect Tata Motors' to see a substantial de-risking in both its car and CV divisions in that year. We view the current weakness in the stock due to near-term growth concerns as an excellent opportunity to buy the stock from a one-year perspective or more. We maintain our Outperform rating on Tata Motors.

Ashok Leyland: Lowering estimates, maintain In-Line rating

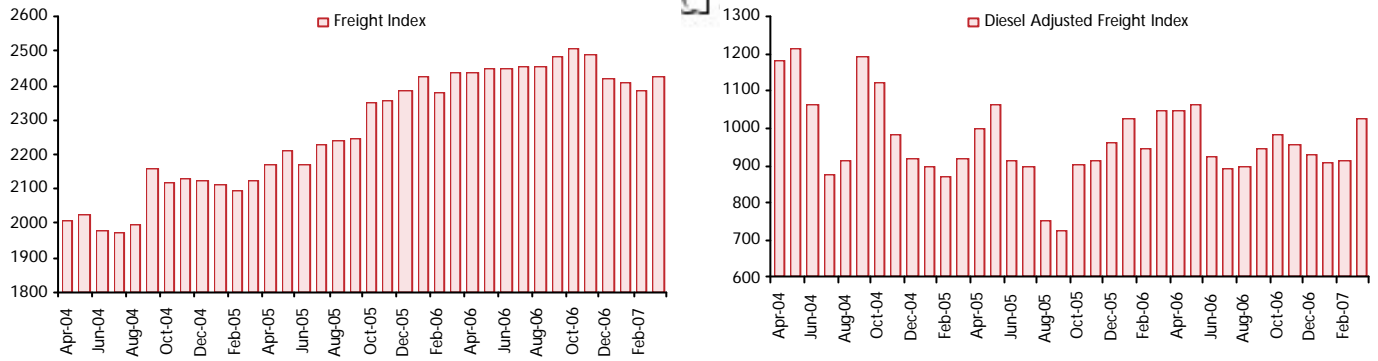
We lower our EPS estimates for Ashok Leyland 9% for FY08 to Rs3.5 (Rs3.8 previously) and 14% for FY09 to Rs3.8 (Rs4.4 previously). We increase our FY07 EPS estimate 3% to Rs3.2 (Rs3.1 previously) after factoring actual sales for the year.

Our revised estimates for Ashok Leyland factor in the following changes:

1. Total volume growth of 2.5% for FY08 (10% previously) and 12.5% for FY09 (10% previously).
2. Higher capex over FY08-09 of Rs23 bn based on company's announced plans, resulting in higher depreciation and interest expenses over the period.

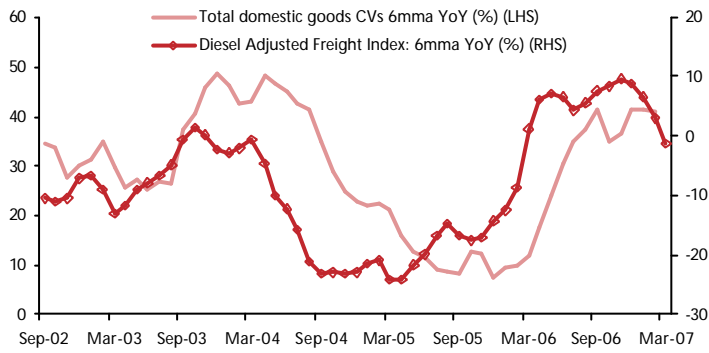
Our revised target price for Ashok Leyland is Rs40 (Rs47 previously) at 7.7X FY08 EV/EBITDA — a 10% discount to Tata Motors and 11.4X FY08 P/E. Our target price implies 7.3X FY09 EV/EBITDA and 10.5X FY09 P/E. We maintain our In-Line rating on the stock given the modest 8% upside from current levels.

Our freight index is up 1.6% mom while diesel adjusted freight index is up 12.1% mom in March



Source: Kotak Institutional Equities

Our diesel adjusted freight index has historically been a good leading indicator for the CV cycle



Source: SIAM, Kotak Institutional Equities

<http://deadpresident.blogspot.com>

Our SOTP target price for Tata Motors is Rs925

Value assigned to Tata Motors stand-alone at 8.5X FY2008 EV/EBITDA & 14.2X FY08 P/E equivalent to 7.2X FY09 EV/EBITDA & 12.3X FY09 P/E (Rs)	716	810
Value assigned to subsidiaries (Rs)	127	161
Embedded value in Tata Sons and Tata Steel	82	84
SOTP target price (Rs)	925	1,055

Source: Kotak Institutional Equities

Volume assumptions for Tata Motors, YE March 31

	2005	2006	2007	2008E	2009E
Volumes (units)					
M&HCVs -domestic	129,256	127,696	172,900	177,223	199,376
M&HCVs -exports	5,931	8,249	11,136	13,363	16,036
M&HCVs-total	135,187	135,945	184,037	190,586	215,412
LCVs -domestic	60,757	87,226	125,780	138,358	155,653
LCVs -exports	13,478	21,383	24,163	26,579	29,237
LCVs-total	74,235	108,609	149,943	164,937	184,890
UVs -domestic	34,249	37,902	46,998	50,523	55,576
UVs -exports	2,783	1,881	2,633	2,897	3,186
UVs-total	37,032	39,783	49,632	53,420	58,762
Passenger cars	144,831	150,953	173,143	186,129	209,395
Passenger cars-exports	7,810	18,531	22,237	24,461	26,907
PVs-total	152,641	169,484	195,380	210,590	236,302
Total domestic sales	369,093	403,777	518,822	552,233	619,999
Total exports	30,002	50,044	60,170	67,300	75,366
Total vehicle sales	399,095	453,821	578,991	619,533	695,365
YoY growth (%)					
M&HCVs -domestic	25.2	(1.2)	35.4	2.5	12.5
M&HCVs -exports	31.7	39.1	35.0	20.0	20.0
M&HCVs-total	25.5	0.6	35.4	3.6	13.0
LCVs -domestic	23.9	43.6	44.2	10.0	12.5
LCVs -exports	112.9	58.7	13.0	10.0	10.0
LCVs-total	34.1	46.3	38.1	10.0	12.1
UVs -domestic	7.5	10.7	24.0	7.5	10.0
UVs -exports	25.1	(32.4)	40.0	10.0	10.0
UVs-total	8.7	7.4	24.8	7.6	10.0
Passenger cars	33.9	4.2	14.7	7.5	12.5
Passenger cars-exports	(12.2)	137.3	20.0	10.0	10.0
PVs-total	30.4	11.0	15.3	7.8	12.2
Total domestic sales	26.3	9.4	28.5	6.4	12.3
Total exports	36.7	66.8	20.2	11.9	12.0
Total vehicle sales	27.0	13.7	27.6	7.0	12.2

Source: Company data, Kotak Institutional Equities estimates

<http://deadpresident.blogspot.com>

Tata Motors: Profit model, March Fiscal Yearends, 2005-2009E

(Rs million)

	2005	2006	2007E	2008E	2009E
Net sales	173,135	204,702	274,452	305,184	356,586
Inc/(dec) in stock	1,440	2,569	4,832	1,562	2,955
Raw materials	(112,644)	(132,651)	(195,658)	(214,378)	(253,046)
Employee costs	(10,393)	(11,431)	(13,647)	(15,637)	(17,889)
Other manufacturing	(20,665)	(23,480)	(25,999)	(28,794)	(33,344)
Purchase for sale	(6,651)	(9,987)	(6,991)	(7,341)	(7,708)
SG&A	(7,159)	(8,974)	(10,310)	(11,490)	(13,356)
Expenses capitalized	2,824	3,089	4,324	4,756	5,232
EBIDTA	19,886	23,836	31,003	33,862	39,431
Other income	2,718	2,569	3,832	4,516	5,303
Gross Profit	22,604	26,404	34,835	38,379	44,734
Interest	(1,542)	(2,264)	(3,476)	(3,835)	(4,387)
Depreciation & Amortization	(4,502)	(5,209)	(5,782)	(7,093)	(8,623)
Pretax profits	16,561	18,931	25,577	27,451	31,724
Extraordinaries	(42)	1,603	(33)	-	-
Tax	(4,150)	(5,245)	(6,583)	(7,059)	(8,160)
Net profits (reported)	12,370	15,289	18,961	20,391	23,564
EPS (Rs)					
Primary	34.4	36.0	46.8	50.3	58.2
Consolidated EPS	34.8	44.7	54.4	59.3	69.2
Fully diluted shares outstanding (mn)	359	390	405	405	405
DPS (Rs)	12.5	13.0	15.0	15.0	15.0
Dividend pay-out ratio (%)	42	37	34	32	28
Tax rate (%)	25.1	25.5	25.7	25.7	25.7

<http://deadpresident.blogspot.com>

Tata Motors: Balance sheet, March Fiscal Yearends, 2005-2009E

(Rs million)

	2005	2006	2007E	2008E	2009E
Equity					
Share capital	3,618	3,829	3,829	3,829	3,829
Reserves and surplus	37,496	51,542	64,014	77,916	94,990
Deferred tax liability	5,653	6,225	6,433	6,840	7,449
Total equity	46,767	61,596	74,276	88,584	106,268
Liabilities					
Secured loans	3,792	7,361	7,678	7,128	6,423
Unsecured loans	21,162	22,007	13,641	28,641	28,641
Total borrowings	24,954	29,368	21,318	35,768	35,063
Total capital	71,721	90,965	95,594	124,352	141,331
Current Assets					
Cash	20,050	11,194	5,434	3,505	7,451
Receivables	8,113	7,158	9,465	10,525	12,298
Inventory	16,014	20,122	27,953	30,723	36,106
Advances & Loans	27,224	58,077	58,077	58,077	58,077
Other current assets	61	62	62	62	62
Total Current Assets	51,412	85,419	95,557	99,387	106,543
Current Liabilities					
Sundry creditors	22,697	28,385	41,867	45,873	54,147
Acceptance	28,073	26,974	26,974	26,974	26,974
Advance against orders	3,716	3,341	3,341	3,341	3,341
Provision for taxation	634	698	3,250	3,528	4,425
Dividend payable	4,522	4,979	6,490	6,490	6,490
Other provisions	6,366	6,776	6,776	6,776	6,776
Total Current Liabilities	66,008	71,154	88,698	92,981	102,153
Net Current Assets	5,454	25,459	12,293	9,911	11,841
Fixed Assets					
Gross block	66,120	79,716	95,716	120,716	145,716
Less: accumulated depreciation	34,543	44,015	50,719	58,919	68,870
Net fixed assets	31,577	35,700	44,997	61,797	76,846
Capital work-in-progress	5,388	9,512	15,512	21,512	21,512
Total fixed assets	36,965	45,212	60,508	83,309	98,358
Investments	29,121	20,152	22,652	30,992	30,992
Technical Know-how	182	141	141	141	141
Deferred tax asset	-	-	-	-	-
Total assets	71,721	90,964	95,594	124,352	141,331

<http://deadpresident.blogspot.com>

Tata Motors: Cash Flow, March Fiscal Yearends, 2005-2009E

(Rs million)	2005	2006	2007E	2008E	2009E
Operating					
EBT	16,519	20,534	25,545	27,451	31,724
DD&A	4,502	5,209	5,782	7,093	8,623
Taxes paid	(3,638)	(3,824)	(6,376)	(6,653)	(7,551)
Interest paid (net of discounting charges)	(2,208)	(2,965)	(4,001)	(4,225)	(4,706)
Interest/dividend (net)	1,542	2,264	3,476	3,835	4,387
Non-operating income	(2,718)	(2,569)	(3,832)	(4,516)	(5,303)
Amortization	671	738	922	1,107	1,328
Working capital (a)	(2,700)	(28,862)	7,406	453	2,016
Total operating	11,970	(9,474)	28,922	24,543	30,518
Operating, excl. working capital (b)	14,670	19,388	21,516	24,090	28,502
Investing					
Capital expenditure (c)	(8,793)	(17,720)	(22,000)	(31,000)	(25,000)
Investments sold/(purchased) (d)	1,447	8,969	(2,500)	(8,340)	0
Interest/dividend received	666	701	526	391	320
Other income	2,718	2,569	3,832	4,516	5,303
Total investing	(3,962)	(5,481)	(20,143)	(34,433)	(19,377)
Financing					
Share issuance	2,980	11,529	-	-	-
Loans (net)	12,357	4,414	(8,050)	14,450	(705)
Dividends (e)	(5,156)	(5,678)	(6,490)	(6,490)	(6,490)
Misc expenditure not written off	(5,842)	(4,167)	-	-	-
Total financing	4,338	6,099	(14,540)	7,960	(7,195)
Net change in cash	12,346	(8,856)	(5,760)	(1,929)	3,946
Opening cash	7,705	20,050	11,194	5,434	3,505
Closing cash	20,050	11,194	5,434	3,505	7,451
	0	(0)	0	0	0
Gross cash flow (b)	14,670	19,388	21,516	24,090	28,502
Free cash flow (b)+(a)+(c) +(d)	3,177	(27,194)	6,922	(6,457)	5,518
Excess cash flow (b)+(a)+(c)+ (d)+(e)	(1,980)	(32,872)	433	(12,946)	(972)

Volume assumptions for Ashok Leyland

	2005	2006	2007E	2008E	2009E
Total CVs	54,740	61,626	83,133	85,212	95,863
YoY growth (%)					
Total CVs	12.5	12.6	34.9	2.5	12.5

Source: Company data, Kotak Institutional Equities

<http://deadpresident.blogspot.com>

Ashok Leyland: Profit model, March Fiscal Yearends, 2005-2009E

(Rs million)

	2005	2006	2007E	2008E	2009E
Net sales	41,824	52,477	71,324	76,973	88,124
Inc/(dec) in stock	182	3,006	2,282	570	1,315
Raw materials	(30,020)	(40,646)	(55,802)	(57,681)	(66,831)
Employee costs	(3,540)	(4,039)	(4,841)	(5,325)	(5,857)
Other manufacturing	(1,172)	(1,210)	(1,558)	(1,775)	(2,161)
Purchase for sale	(717)	(992)	(941)	(1,129)	(1,354)
SG&A	(2,540)	(3,497)	(3,531)	(3,883)	(4,271)
Operating profits	4,016	5,099	6,934	7,751	8,964
Other income	750	631	639	682	730
EBITD	4,766	5,730	7,573	8,433	9,693
Interest	(28)	(165)	(62)	(211)	(332)
Depreciation	(1,092)	(1,260)	(1,397)	(1,722)	(2,232)
Extra-ordinary expenses w/o	(96)	217	(99)	0	0
Pretax profits	3,550	4,523	6,015	6,500	7,129
Tax	(836)	(1,250)	(1,743)	(1,888)	(2,077)
Net profits	2,714	3,273	4,272	4,611	5,052
EPS (Rs)					
Primary	2.3	2.7	3.2	3.5	3.8
Fully diluted	2.1	2.5	3.2	3.5	3.8
Fully diluted shares outstanding (mn)	1,321	1,332	1,332	1,332	1,332
DPS (Rs)	1.0	1.2	1.3	1.5	1.5
Dividend pay-out ratio (%)	50	56	42	45	41
Tax rate (%)	23.5	27.6	29.0	29.1	29.1

Ashok Leyland: Balance sheet, March Fiscal Yearends, 2005-2009E

(Rs million)

	2005	2006	2007E	2008E	2009E
Equity					
Share capital	1,189	1,222	1,222	1,222	1,222
Reserves and surplus	10,489	12,903	15,384	17,928	20,913
Deferred tax	1,708	1,797	1,730	1,754	1,927
Total equity	13,387	15,921	18,335	20,904	24,062
Liabilities					
Secured loans	2,635	1,847	734	734	7
Unsecured loans	6,169	5,072	4,072	14,072	20,572
Total borrowings	8,804	6,919	4,806	14,806	20,579
Current liabilities	11,657	14,085	17,669	18,431	20,785
Total capital	33,848	36,926	40,810	54,141	65,427
Assets					
Cash	7,967	6,029	2,765	4,044	4,319
Current assets	13,606	16,295	21,255	22,429	25,321
Gross block	20,023	21,385	24,385	31,885	41,885
Less: accumulated depreciation	11,084	11,952	13,349	15,071	17,303
Net fixed assets	8,938	9,433	11,035	16,814	24,582
Capital work-in-progress	852	1,414	2,000	7,000	7,000
Total fixed assets	9,790	10,847	13,035	23,814	31,582
Investments	2,292	3,682	3,682	3,682	3,682
Technical Know-how	193	73	73	73	73
Total assets	33,848	36,926	40,810	54,041	64,977

<http://deadpresident.blogspot.com>

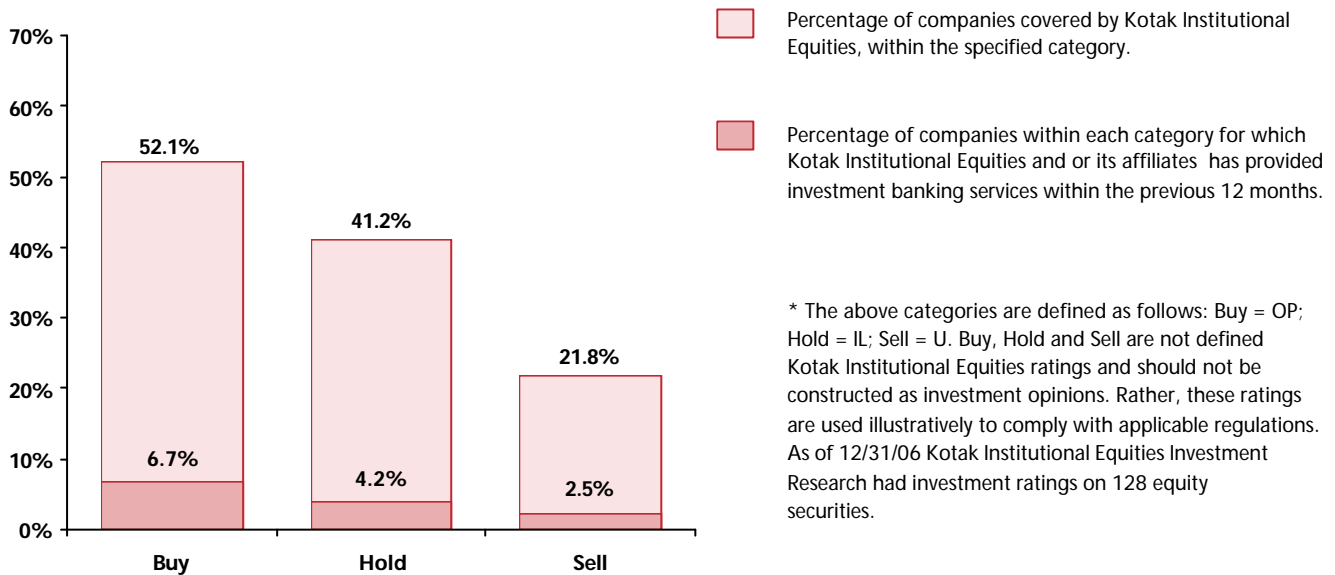
Ashok Leyland: Cash Flow, March Fiscal Yearends, 2005-2009E

(Rs million)	2005	2006	2007E	2008E	2009E
Operating					
EBT	3,550	4,523	6,015	6,500	7,129
DD&A	1,092	1,260	1,397	1,722	2,232
Taxes paid	(895)	(1,178)	(1,810)	(1,864)	(1,904)
Interest expensed	304	384	286	379	514
Interest paid (net of discounting charges)	(304)	(384)	(286)	(479)	(864)
Interest/dividend (net)	(1,026)	(850)	(863)	(849)	(911)
Working capital (a)	1,111	(261)	(1,376)	(412)	(538)
Total operating	3,832	3,494	3,364	4,996	5,658
Operating, excl. working capital (b)	2,721	3,755	4,739	5,408	6,196
Investing					
Capital expenditure (c)	(1,655)	(1,925)	(3,586)	(12,500)	(10,000)
Investments sold/(purchased) (d)	(826)	(1,390)	-	-	-
Interest/dividend received	1,026	850	863	849	911
Changes in misc. expenditure	130	120	0	0	0
Total investing	(1,461)	(2,727)	(2,723)	(11,651)	(9,089)
Financing					
Share issuance	(111)	1,001	-	-	-
Loans (net)	3,815	(1,885)	(2,113)	10,000	5,773
Dividends (e)	(1,358)	(1,822)	(1,791)	(2,067)	(2,067)
Total financing	2,346	(2,706)	(3,904)	7,933	3,706
Net change in cash	4,717	(1,938)	(3,263)	1,278	276
Opening cash	3,250	7,967	6,029	2,765	4,044
Closing cash	7,967	6,029	2,765	4,044	4,319
Gross cash flow (b)	2,721	3,755	4,739	5,408	6,196
Free cash flow (b)+(a)+(c) +(d)	2,177	1,569	(2,222)	(7,504)	(4,342)
Excess cash flow (b)+(a)+(c)+ (d)+(e)	819	(253)	(4,014)	(9,571)	(6,409)

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Nischint Chawathe, Shilpa Krishnan, Abhijeet Naik."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of March 31, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.

IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

<http://deadpresident.blogspot.com>

**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, Portsocken 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

Copyright 2007 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

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

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

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

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

Kotak Securities Ltd.

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453