kotak® Institutional Equities

INDIA DAILY

October 27, 2008

Contents

New Release

Economy: Mid-term policy : RBI takes a breather, but more easing likely ahead as liquidity may tighten again

Results

ITC: Cigarettes continue to capture uptrading, non-cigarette businesses raise concerns about growth

Hindustan Unilever: Volume growth curve has likely peaked

Maruti Suzuki: Lower-than-expected 2Q earnings; lower earnings estimates on concerns over volume growth; cut TP to Rs650; lower rating to REDUCE

Tata Steel: Strong domestic business results, no update on Corus. Upgrade rating to ADD

ABB: Lower-than-expected margins. Retain REDUCE

Bank of Baroda: Operational performance satisfactory, retain ADD

Ambuja Cements: Earnings in line with estimates; retain REDUCE

Union Bank of India: Earnings above estimates, detailed results awaited

Colgate-Palmolive (India): 2QFY09: Higher growth fails to translate into higher margins

Bharat Electronics: Results continue to disappoint however valuations adjusted for cash, implies very low P/E multiple; reiterate ADD

Lupin: Sales in line. Margins beat estimates. Retain price target

Shriram Transport Finance: Results in line, strong growth traction continues

GSPL: Weaker-than-expected 2QFY09 results but reiterate BUY given large potential upside to target price

Dishman Pharmaceuticals: Revenues in line; margins lower due to sales deferral

Maharashtra Seamless: 2QFY09 results below estimates, but valuations attractive; reiterate BUY

Dish TV: No other way to put this - disappointing 2QFY09 results

Mahindra Lifespace Developer: 2QFY09 revenues lower on account of lower sales in Mumbai. Maintain BUY, revise target price to Rs500

PSL: Q2FY09 results disappoint, but valuations excite; reiterate BUY

Hexaware Technologies: Jammed. SELL

Change in recommendations

Reliance Industries: Reinstating coverage view with an ADD rating

Updates

Oil & Natural Gas Corporation: We don't know where oil price will be (nobody does) but think stock prices should be higher

BHEL: Strong execution with margin blips; Upgrade to BUY based on relatively protected business model, earnings visibility and valuations

Reliance Petroleum: Reduced 12-month target price to Rs100 (Rs130 earlier) and retain REDUCE rating

Glenmark Pharmaceuticals: Further trials on GRC 6211 molecule suspended, contributes Rs42 to our price target

EQUITY MARKETS

		Change, %		
India	**24-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	8,701	(11.0)	(36.5)	(41.1)
Nifty	2,584	(12.2)	(37.9)	(41.7)
Global/Regional indices				
Dow Jones	8,691	2.0	(19.7)	(23.4)
FTSE	3,798	(7.1)	(25.5)	(29.2)
Nikkie	7,649	(9.6)	(36.9)	(43.8)
Hang Seng	12,618	(8.3)	(33.5)	(45.3)
KOSPI	939	(10.6)	(37.2)	(42.3)

Value traded - India

			Moving avg, Rs bn	
	24-Oct		**1-mo**	**3-mo**
Cash (NSE+BSE)	142.6		159.9	167.7
Derivatives (NSE)	536.3		683.7	680
Deri. open interest	739.5		901	826

Forex/money market

		Change, basis points		
	24-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	50.0	16	409	796
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.5	(4)	(86)	(149)

Commodity market

		Change, %		
	24-Oct	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	690.3	(4.3)	(21.8)	(25.6)
Silver (US$/OZ)	8.9	(8.4)	(33.1)	(49.1)
Crude (US$/BBL)	60.8	(7.5)	(39.8)	(51.5)

Net investment (US$mn)

	22-Oct		MTD	CYTD
FIIs	(68)		(2,930)	(12,156)
MFs	4		199	3,409

Top movers -3mo basis

		Change, %		
Best performers	**24-Oct**	**1-day**	**1-mo**	**3-mo**
Bank Of Baroda	245	(10.4)	(18.7)	(2.8)
Union Bank Of India	123	(11.2)	(14.5)	(4.2)
Hero Honda Motors	728	(4.2)	(13.8)	(4.6)
Nestle India Limited	1,445	(4.1)	(12.2)	(7.7)
Bajaj Auto Limited	465	(12.3)	(20.0)	(10.7)
Worst performers				
Housing Developme	138	(8.9)	(34.2)	(65.0)
Unitech Limited	31	(49.7)	(74.5)	(81.4)
Ivrcl Infrastructures	67	(29.4)	(73.7)	(79.3)
Suzlon Energy Limit	47	(39.5)	(76.0)	(78.2)
Jsw Steel Limited	205	(10.7)	(64.7)	(74.3)

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

Economy

Sector coverage view	N/A

Mid-term policy: RBI takes a breather, but more easing likely ahead as liquidity may tighten again

Mridul Saggar : mridul.saggar@kotak.com, +91-22-6634-1245

- **Policy rates and reserve requirements on hold in RBI's mid-term policy**
- **No SLR cut yet, but we expect this in CY2009**
- **Real GDP projections lowered by 0.5 ppt; inflation projections unchanged; our view is different**
- **We expect liquidity to tighten again in the near term and further monetary easing to follow if liquidity stays tight post bulky government spending**

In line with our expectations, the Reserve Bank, having front-loaded monetary policy easing earlier in this month, chose to pause. RBI retained its repo rate (8%), its reverse repo rate (6%), bank rate (6%) and SLR (25%) at their current levels (see Exhibits 1 and 2). RBI lowered its real GDP projection to 7.5-8.0% from around 8.0% in the July policy. However, the central bank retained its inflation projection at 7.0%. We differ from the RBI projections and expect growth to slow down faster to about 7.0% in FY2009 and inflation to drop faster to 6% by end-March. In our view, RBI has become apprehensive with the sudden jump in credit growth over the fortnight ending October 10, 2008. This has pushed credit growth back to 29.4% yoy from 24.8% just a fortnight ago. We see tighter liquidity conditions from the next fortnight with overnight rates at 8% or more. We also see the rupee under continued pressure till mid-November with liquidity conditions tightening further on the back of forex interventions, except when the farm debt waiver money is released.

Liquidity set to tighten again due to currency crisis

RBI's mid-term policy measures may stop short of ensuring surplus liquidity and exchange rate stability. Having already cut CRR by 250 bps to 6.5% and repo rate by 100 bps to 8.0% it chose to pause. We see liquidity tightening again from present surplus mode to deficit. Overnight rates are likely to stay at 8.0% in the near term, easing somewhat when the farm debt waiver money of Rs250 bn is released but tightening again during the rest of the quarter.

With continued pressure on the rupee, the central bank is facing a severe test of managing the impossible trinity (fixed exchange rate, free capital flows and control over interest rates at the same time). The rupee breached Rs50 per US dollar intra-day – an all time low. One-year non-deliverable forwards are trading at Rs56 per US dollar. With a bunching of short-term debt of about US$89 bn this year and sustained appreciation of US dollar against global currencies, the Indian rupee is under speculative attack. Rupee has depreciated close to 20% in a little over half a year. The text book definition of a currency crisis is a 25% depreciation in a single year. While we believe that the reversal could be equally swift on the back of expected dramatic improvement in BOP closing the current account gap from 4QFY09, the risks to liquidity from rupee weakness in FY2009 are large.

Further monetary easing appears inevitable

Considering the status quo in the current policy and the likelihood of rupee depreciating in 3QFY09 before bouncing back in 4QFY09, we see liquidity conditions staying tight in spite of expected large government spending. As such, we anticipate further monetary policy easing as follows:

- Further 100 bps repo rate cut to 7.0% by end-March 2009
- Further 50 bps CRR cut to 6.0% by end-March 2009
- A 1.0 ppt SLR cut to 24% at an opportune time in CY2009

In this morning's comment, *RBI pre-policy report: Growth slowing down, inflation still high,* we had maintained that RBI will take no new measures in its mid-term review. We had added that an SLR cut was unlikely in October as we expect government to borrow an additional Rs0.5 tn (US$10 bn) over the announced net market borrowing of about Rs1 tn (about US$20 bn). Reading the October policy, our view is reinforced and we believe that SLR cut may become possible at an opportune time in CY2009 and not before that. SLR is being kept at 25% since FY1998.

Our view: RBI's growth as well as inflation projections are high

In the mid-term review, RBI has lowered its growth projections but has retained its inflation projection (see Exhibit 3). In our view, RBI's real GDP growth projections are still high as:

- Agriculture is likely to record 1-2% growth at the most
- Industrial slowdown is severe and growth in this sector could drop to 4.5-5.0%
- Services sectors, except community, social and personal services, would also see some slowdown

In contrast to RBI's view retaining its inflation projections at 7.0%, we see inflation dropping to near 6.0% by the end-year on the back of global commodity prices falling in a big way (see Exhibit 4).

Credit *chandrayan* may have scared RBI

We believe that the sharp jump in credit in the fortnight of October 10, 2008 may have scared off RBI from further immediate monetary easing of monetary policy. Credit growth has been pushed back to 29.4% yoy from 24.8% just a fortnight ago. RBI has expressed concern and called for intensified monitoring of this high credit growth. It may have fears that this credit growth could come in way of maintaining credit quality in the current financial market turmoil. The skyrocketing of credit growth in a single fortnight coinciding with India's moon mission *chandrayan* has been unprecedented and unexplained.

Structural measures may fall short in relieving stress in money and forex markets

RBI has listed the several measures it has already taken in FY2009 to liberalize forex flows and develop financial markets in general. However, the new measures have been limited, the main being:

- Enhancing the all-in-cost ceiling for trade credits less than 3 years to 6 months LIBOR *plus* 200 basis points
- Permitting domestic oil and shipping companies to hedge their freight risk with overseas exchanges/ OTC markets. In respect of other customers who are exposed to freight risk, AD banks may approach the Reserve Bank for permission on behalf of customers.

In our view, these measures are not enough in face of large bunching of outflows in near term. RBI and GOI would need to take additional forex liberalization measures to protect the slide of the rupee. RBI may also have to take further monetary measures to ease liquidity once it tightens. However, RBI has several options on both fronts and can be expected to take timely measures given its recent nimble-footed responses.

What further measures could follow?

Considering the extraordinary situation and its implications, we suggest the following measures:

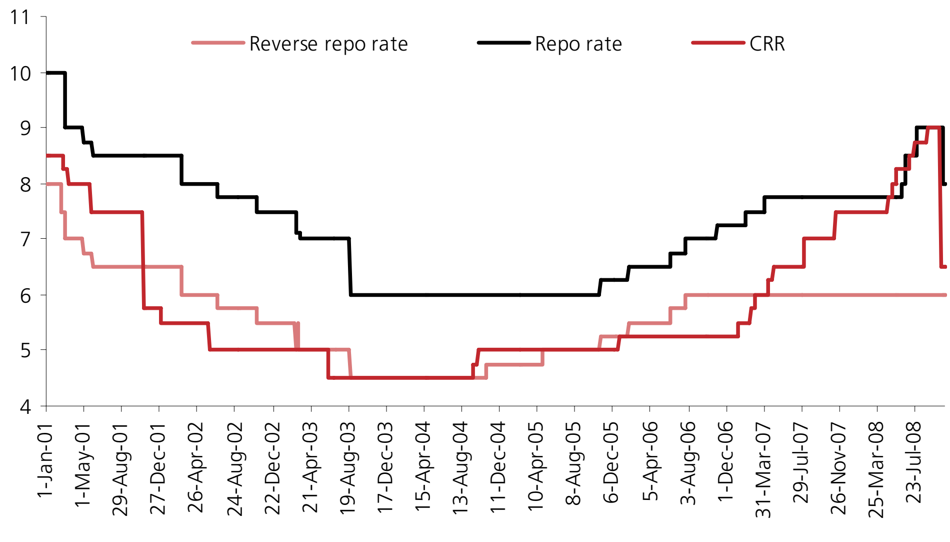
1) Increase in the limit for FII investment in corporate bond markets by a further US$4bn, while launching repo in corporate bonds at the earliest
2) Increase in the limit FII investment in G-sec by about US$6 bn before coinciding the announcement of additional market borrowing program which should be limited to Rs500 bn at most

3) Pushing for relaxing FDI in insurance and retail sectors immediately, with necessary legislative changes for the former being pushed in the current Parliamentary session itself
4) Expediting large investment projects – nuclear power plants, rail freight corridor, new road projects, etc and encouraging FDI for the same
5) A further repo rate cut of 50 bps before the January policy
6) A further 50 bps CRR cut if and when liquidity tightens excessively
7) Liberalizing norms for bank financing to NBFCs by permitting loans against NBFC lending to commercial vehicles, autos and for IPOs, etc, as also for general bridge/ interim finance
8) Liberalizing norms for secondary trading of CDs and CPs
9) Further liberalizing of spreads by 100 bps for FCNR and NRE deposits

It is necessary to reverse the current view on rupee exchange rate through decisive action on the capital account on an immediate basis. If need be, even schemes like RIBs and IMDs could be reconsidered, but as of now this may not be necessary.

Exhibit 1: U-turn in monetary policy stance, front-loaded easing

RBI's repo, reverse repo rates and cash reserve ratio (%)



Source: Reserve Bank of India

Consumer products

ITC.BO, Rs159	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	200
52W High -Low (Rs)	239 - 151
Market Cap (Rs bn)	599

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	139.5	158.9	188.9
Net Profit (Rs bn)	31.2	33.1	37.7
EPS (Rs)	8.3	8.8	10.0
EPS gth	*15.4*	*6.2*	*13.9*
P/E (x)	19.2	18.1	15.9
EV/EBITDA (x)	12.2	11.1	9.7
Div yield (%)	2.2	2.4	2.5

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	14.1	1.5	(0.5)
MFs	3.0	1.7	(0.3)
UTI	11.9	56.6	54.6
LIC	14.3	7.1	5.0

ITC: Cigarettes continue to capture uptrading, non-cigarette businesses raise concern on growth

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

- **Cigarette volumes decline only 2% during 2QFY09**
- **Other FMCG—growth rates slowing down**
- **Cut rating to ADD and target price to Rs200/share (Rs230 previously)**

As of November 1, Manoj Menon takes over as the lead analyst for the Consumer sector.

ITC reported 15% growth in net sales, 8.1% increase in EBITDA and 4.1% increase in PAT during 2QFY09 as compared to our estimate of 15.7%, 13.9% and 7.1%, respectively. Cigarette sales growth at 10.9% was marginally below our estimate of 12.5%. Volumes were lower 2% yoy for the quarter with filters growing strongly and capturing the uptrend from plains. FMCG sales grew 30% yoy incurring an EBIT loss of Rs1.2 bn during the quarter, in line with estimates. EBIT margins in paper & packaging and hotels were marginally lower than estimates. We have revised our estimates to factor in sustained investments at high level in other FMCG business and promotional spend on cigarettes. ITC has increased its promotional and distribution spends on cigarettes to facilitate uptrading from non-filters. We have revised our EPS estimates to Rs8.8 (Rs9.1 previously) for FY2009E and Rs10 (Rs10.4 previously) for FY2010E. We have cut our rating to ADD (BUY previously) with a revised target price of Rs200/share (Rs230/share previously).

Cigarette—volumes decline only 2% in 2QFY09. The uptrading from plains to filters and the inherent growth in filters resulted in only a 2% decline in volumes during 2QFY09 despite 20% volumes for ITC getting impacted by the large taxation increase on non-filter cigarettes. Volumes decline of 2% yoy is a marginal improvement from 3% yoy decline recorded in 1QFY09. Revenues growth in cigarettes at 10.9% was marginally lower than our estimated growth of 12.5%. We retain our assumption of flat volumes for full year FY09E with value growth coming in from price increases as well as change in mix to higher-realization filter category. EBIT margins improved 140 bps yoy as well as qoq. We note ITC has taken price hikes in some large brands in August and the quarter results do not fully reflect their impact in both value growth and margins expansion. While we remain confident of the resilience of the cigarette business, which has undergone two severe budgets—VAT in FY2008 and the structural shift in excise regime in FY2009—we keenly await the outcome of the recent ban on cigarette smoking in public places (w.e.f. October 2, 2008). We continue to build higher promotions and distribution expenses into FY2010 as ITC tackles the threat from illegal cigarettes, other forms of tobacco products (not impacted by ban on smoking in public places) and pictorial warnings.

'Other FMCG' growth rates slowing down. The 'Other FMCG' business grew 29.4% yoy and 9.5% qoq. With the second successive quarter where growth rate has fallen below 30%, ITC now is facing a slowdown as it becomes difficult for new product launches to impact growth rates given the large size of portfolio while growth tapers down in other mature categories. EBIT losses for the quarter were in line with estimates and management expects losses to reduce in 2HFY09. We have marginally increased our loss estimates as our feedback suggest a relatively low success of ITC's personal products range compared to its earlier launch in Foods.

Margin decline in hotels, paper and packaging. Revenues from hotels business increased 10% in the absence of new capacity addition, while EBIT margins declined 160 bps yoy to 27.6%. We note the reversal of margin expansion in hotels witnessed over the past several years and expect further margin decline as the hotels and tourism industry gets hit due to a slowdown in the economy. Management indicated that the construction of the super deluxe luxury hotels at Bangalore and Chennai is progressing as per schedule. Paper and packaging business recorded 23% sales growth and yoy margin contraction of 420 bps to 16.2%. Management attributed this in part to the commissioning of new pulp and paper mills which were in the ramp up phase while higher depreciation impacted EBIT margins.

Cut rating to ADD (BUY previously) with a revised target price of Rs200. We estimate ITC to post earnings growth of 6% during FY2009E and 13% during FY2010E. We have revised our FY09E and FY10E EPS estimates to Rs8.8 (Rs9.1 previously) and Rs10 (Rs10.4 previously) to factor in sustained higher spending on new brands and categories in FMCG and higher promotional spending in cigarettes. Our DCF-based target price of Rs200 implies a 20X P/E on FY2010E.

ITC Limited, quarterly summary, March year-ends (Rs mn)

	yoy			Kotak est.	
	2QFY09	2QFY08	% change	2QFY09	% change
Net sales	**37,633**	**32,734**	**15.0**	**37,883**	**15.7**
EBITDA	**11,160**	**10,320**	**8.1**	**11,752**	**13.9**
Depreciation	1,340	1,062		1,274	
EBIT	**9,820**	**9,258**		**10,478**	
Other income	2,098	2,083		1,562	
Net interest	28	9		14	
Pre-tax profit	11,891	11,331	4.9	12,026	6.1
Tax	3,864	3,623		3,769	
Net profit	**8,027**	**7,709**	**4.1**	**8,257**	**7.1**
Margins (%)					
EBITDA margin	29.7	31.5		31.0	
PAT margin	21.3	23.5		21.8	
Tax rate	32.5	32.0		31.3	
Costs as % of net sales					
Material costs	41.1	44.5			
Staff costs	6.3	5.3			
Other expenditure	22.9	18.6			
Segment revenue					
Cigarette	36,282	32,717	10.9	36,792	12.5
Other FMCG	7,593	5,870	29.4	7,631	30.0
Hotels	2,490	2,261	10.1	2,532	12.0
Agri Business	8,641	7,407	16.7	9,253	24.9
Paper & Packaging	7,533	6,145	22.6	7,160	16.5
TOTAL	**62,538**	**54,401**		**63,368**	
Less: Inter segment revenue	6,198	4,168			
Gross sales	56,340	50,233			
Segment EBIT					
Cigarette	10,069	8,638		9,917	
Other FMCG	(1,166)	(365)		(1,300)	
Hotels	687	660		719	
Agri Business	764	100		319	
Paper & Packaging	1,222	1,256		1,587	
TOTAL	**11,577**	**10,288**		**11,242**	
EBIT contribution of other businesses (%)	**13.0**	**16.0**			
EBIT Margin (%)					
Cigarette	27.8	26.4		27.0	
Other FMCG	(15.3)	(6.2)		(17.0)	
Hotels	27.6	29.2		28.4	
Agri Business	8.8	1.3		3.4	
Paper & Packaging	16.2	20.4		22.2	

Source: Company data, Kotak Institutional Equities

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

	FY2009E			FY2010E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	158,869	159,799	(0.6)	188,904	185,947	1.6
Operating profit	48,255	47,713	1.1	54,323	54,761	(0.8)
PBT	49,114	49,194	(0.2)	55,677	56,308	(1.1)
Net profit	33,123	34,059	(2.7)	37,738	38,927	(3.1)
EPS (Rs)	8.8	9.1	(3.4)	10.0	10.4	(3.7)
Sales growth (%)	13.9	14.1		18.9	16.4	
Operating profit growth (%)	9.3	12.8		12.6	14.8	
PAT growth (%)	6.2	13.3		13.9	14.3	
EPS growth (%)	6.2	13.3		13.9	14.3	

Source: Kotak Institutional Equities estimates.

ITC: Profit model, balance sheet, cash flow model 2006-2010E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	97,905	123,693	139,475	158,869	188,904
EBITDA	**33,274**	**39,700**	**44,165**	**48,255**	**54,323**
Other income	2,899	3,365	6,109	6,364	7,577
Interest	(158)	(169)	(173)	(130)	(130)
Depreciation	(3,323)	(3,629)	(4,385)	(5,376)	(6,093)
Pretax profits	32,692	39,267	45,717	49,114	55,677
Tax	(10,276)	(12,267)	(14,517)	(15,990)	(17,939)
Net profits	**22,416**	**27,000**	**31,200**	**33,123**	**37,738**
Extraordinary items	(63)	0	0	0	0
Earnings per share (Rs)	**6.0**	**7.2**	**8.3**	**8.8**	**10.0**
Balance sheet (Rs mn)					
Total equity	90,615	104,371	120,577	137,180	157,296
Deferred taxation liability	3,248	4,729	5,451	5,451	5,451
Total borrowings	1,197	2,009	2,144	2,144	2,144
Currrent liabilities	35,781	38,576	44,323	45,747	51,081
Total liabilities and equity	**130,840**	**149,684**	**172,495**	**190,522**	**215,973**
Cash	8,558	9,002	5,703	11,025	18,277
Current assets	43,061	53,896	64,490	71,088	81,723
Total fixed assets	44,051	56,109	72,956	79,065	86,627
Investments	35,170	30,678	29,346	29,346	29,346
Total assets	**130,840**	**149,684**	**172,495**	**190,522**	**215,973**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	25,638	31,040	36,574	38,734	44,139
Working capital	(5,469)	(8,667)	(6,634)	(2,228)	(3,166)
Capital expenditure	(6,013)	(15,702)	(21,239)	(11,491)	(13,663)
Investments	3,577	4,492	1,332	0	0
Free cash flow	**17,734**	**11,164**	**10,033**	**25,015**	**27,310**
Ratios (%)					
Net debt/equity	-34%	-24%	-15%	-17%	-20%
Return on equity	26%	28%	28%	26%	26%
RoCE	77%	57%	42%	36%	35%
Key assumptions					
Sales growth	28.2%	26.3%	12.8%	13.9%	18.9%
EBITDA margins	34.0%	32.1%	31.7%	30.4%	28.8%

Source: Kotak Institutional Equities estimates.

Consumer products

HLL.BO, Rs226	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	245
52W High -Low (Rs)	266 - 169
Market Cap (Rs bn)	493.1

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	137.2	162.5	182.2
Net Profit (Rs bn)	17.7	19.8	23.4
EPS (Rs)	8.1	9.1	10.7
EPS gth	*15.4*	*12.1*	*17.8*
P/E (x)	27.9	24.9	21.1
EV/EBITDA (x)	22.5	19.2	16.1
Div yield (%)	4.7	3.8	4.5

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	14.4	1.0	(0.3)
MFs	3.7	1.3	0.0
UTI	-	-	(1.3)
LIC	7.3	2.3	1.0

Hindustan Unilever: Volume growth curve has likely peaked

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

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

- **22% FMCG revenue growth in line with estimates; volume growth—the best is behind us**
- **Strong headwinds for stock performance (1) relative valuations (highest in a decade), (2) market share losses across categories and (3) slowdown in volume growth**
- **Limited downside (5% dividend yield), no immediate catalysts for absolute returns**
- **Revise rating to REDUCE from ADD, cut target price to Rs245 (Rs280 earlier)**

As of November 1, Manoj Menon takes over as the lead analyst for the Consumer sector.

HUL reported sales growth of 20%, adjusted EBITDA growth of 17% and adjusted PAT growth of 11% for 3QCY08. Volume growth of 6.8% (2.5% growth in base) disappointed us—consumer is rationalizing on quantum of usage; impact of pack-size reductions is visible now. Good sales growth in Foods with improvement in profitability likely indicates that 'Knorr' is in the right path to attain category captaincy in culinary products segment. Sources indicate HUL is prototyping a new formulation in soaps, about 10-15% of fatty matter to be replaced with starch. There are strong headwinds for absolute stock performance (1) in the past year, the stock has delivered absolute returns of 10%, current relative premium to Sensex P/E is the highest in a decade at 170% (2) continued huge market share losses in key categories—personal wash (290 bps), shampoo (160 bps), skin (230 bps) and toothpaste (40 bps) and (3) slowdown in volume growth. Hence, we believe the stock will likely trade closer to the lower-end of trading band. We have revised our rating to REDUCE (ADD earlier). At our target price of Rs245/share (Rs280/share previously), the stock would trade at 23XCY09E. We forecast 17% earnings growth in CY09E as the company will likely benefit from correction in crude-linked inputs in detergents and personal products. However, visibility of earnings and good dividend yield (5%) makes HUL an excellent defensive stock to own in volatile times.

FMCG sales grow 22%, volume growth curve has likely peaked

HUL reported FMCG sales growth of 22% in 3QCY08 (volume growth of 6.8%, pricing and mix contributed 14%) led by 26% growth in soaps & detergents and 18% growth in personal products. We believe the key drivers were:

1. Strong pricing-led growth in detergents (category accounts for about 26% of sales)
2. Soaps likely had a flat quarter in terms of volumes. We estimate detergents volumes for the quarter was likely in high single digits
3. Continued growth in price-pointed packs driven by addition of new consumers and increase in number of use-occasions
4. Beneficial base effect (2.5% volume growth in base)

While we expected strong sales growth in the quarter (our estimate of 19.9%, actual 19.7%), the volume growth of 6.8% (on the back of 2.5% volume growth in base) surprised us on the downside. We highlight that the volume growth trajectory is likely trending down as the full impact of aggressive price hikes (across categories to offset input-cost inflation) starts kicking in now. Higher profitability in exports masked the steep margin erosion in S&D—the segment PBIT margins in S&D declined 280 bps to 13.5% for the quarter. However, we estimate that margin pressure in the current quarter was due to timing mismatch of input-cost inflation and price increases. We model EBITDA margins will be restored in 4QCY08E as the price increases across categories in early October (about 7%) will likely mitigate cost pressures.

Key positives from the results

1. Better-than-expected pricing growth indicates a conducive growth environment and success of the internal 'T-20' sales incentive scheme. The extension of 'T-20' as 'S-20' for 2HCY08 has likely exceeded targets
2. Sustenance of high double-digit growth in detergents confirms the category is in a sweet spot for sales growth. Market share gains in detergents expected in CY09E as many smaller regional players and unorganized players have exited the market
3. Higher personal products sales augurs well for company-level mix improvement
4. Double-digit growth in tea portfolio confirming uptrading from loose tea to branded tea in a high tea commodity price scenario and benefits of pack-size reduction
5. Good sales growth in Foods with improvement in profitability indicates 'Knorr' is in the right path to attain category captaincy in the culinary products segment. Channel checks indicate 'Knorr' soups and cooking aids outsell 'Maggi' in modern retail outlets 5:1
6. Rollout of water business on track—the product is currently available in 620 towns across 20 states

However, key concern areas remain

We believe the market is underplaying the concern areas which are potentially major headwinds for the company.

1. Continued significant market share losses in key categories—personal wash (290 bps), shampoo (160 bps), skin (230 bps) and toothpaste (40 bps)
2. Single-digit volume growth in detergents and flat volumes in soaps indicate consumer is rationalizing on quantum of usage—impact of earlier pack-size reductions are visible now
3. Sources indicate ITC has about a 2% market share in soaps within a year of its launch. Moreover, Godrej Consumer is witnessing market share improvement in soaps. Both indicate modest consumer downtrading
4. Higher profitability in exports masked the steep margin erosion in S&D—the segment PBIT margins in S&D declined 280 bps to 13.5% for the quarter
5. Market sources indicate moderate success for 'Amaze' brainfood which is currently test marketed. However, given the pricing (1.4X Horlicks,1.5X brown health drinks) and positioning, the product will likely remain niche even if it is eventually successful

HUL is planning to prototype a new formulation in soaps, about 10-15% of fatty matter to be replaced with starch

Sources indicate HUL is planning to prototype a new formulation in soaps where 10-15% of fatty matter is to be replaced with starch. The company is setting up facilities at key manufacturing locations for the formulation change. Currently, the TFM (total fatty matter) in key soap brands of HUL (Lux, Lifebuoy, Hamam and Breeze and excluding Dove, Pears etc) range between 60% and 80%. We believe HUL's new technology, if successful, can likely lead to dramatic cost reduction in soap-making. Success will depend upon consumer acceptance. We estimate complete success with this move will likely result in an incremental 5% boost to annual profit growth over the next two years. Our estimates currently exclude any margin expansion due to success with such technology initiatives. We remain cautious about success of such ventures and highlight an earlier move in 2003 with 'Alphos' technology resulted in material dent to the brand equity of 'Breeze' soap.

Expect development of niche categories in Foods

We believe HUL is developing the foods business on four planks: (1) child nutrition, (2) adult nutrition, (3) cooking aids & soups and (4) vitality-based snacking (salt free/sugar free etc). While we are excited about the niches which HUL is trying to build (for example, category captaincy for 'Knorr' brand in soups/cooking aids and healthfood under the brainfood platform without taking on malted health drinks directly), we highlight it will be a slow accretive process which will likely bear fruits over 3-5 years.

Revising stock rating to REDUCE; cut target price to Rs245/share

While we are enthused by the strong pricing-led revenue performance across categories, we believe there are strong headwinds for absolute stock performance—(1) relative valuations (highest in a decade), (2) market share losses across categories and (3) slowdown in volume growth. We make nominal changes to EPS estimates (-1% for CY08E and CY09E) and forecast EPS of Rs10.7 for CY09E.

Over the past three and and past five years, the minimum, maximum and average P/E commanded by HUL stock was 22X, 41X, 28X and 19X, 41X, 27X, respectively. In the past year, the stock has delivered absolute returns of 10% (5% return plus dividend yield) and the current relative premium to Sensex P/E is the highest in a decade at 170%. We believe given the strong headwinds faced by HUL's business in CY09E, the stock will likely trade closer to the lower-end of trading band. We revise stock rating to REDUCE (from ADD earlier). At our target price of Rs245/share (Rs280/share previously), the stock would trade at 23XCY09E. We forecast 17% earnings growth in CY09E as the company will likely benefit from correction in crude-linked inputs in detergents and personal products. Moreover, we reiterate that we see oligopolistic trends in terms of pricing actions in detergents category as highlighted in our market visit update dated September 8, 2008.

However, visibility of earnings, good dividend yield (5%) and market leadership position makes HUL an excellent defensive stock to own in volatile times. We highlight that though there is limited downside, there are no immediate catalysts for absolute returns either (other than inorganic foray). Key upside risks to our estimates include (1) ability to channelize emerging cost comfort to below-the-line activities and attain higher volume growth, (2) effective price increases through pack-size reduction in HPC without significantly impacting product demand and (3) inability of ITC to gain significant market shares in HPC categories.

HUL—quarterly summary, December year-ends (Rs mn)

	yoy			Kotak est.	
	3QCY08	3QCY07	% chg	3QCY08	% chg
Net sales	**40,279**	**33,646**	**19.7**	**40,355**	**19.9**
Material cost	(21,827)	(17,857)			
Employee cost	(2,295)	(1,919)			
Other overheads	(11,394)	(9,395)			
- Advertising & Promotions	(4,043)	(3,546)			
Total expense	(35,516)	(29,170)			
EBITDA @	**4,763**	**4,476**	**6.4**	**5,311**	**18.7**
Depreciation	(393)	(353)			
EBIT	4,371	4,123			
Other income	1,239	1,059			
PBT	**5,610**	**5,114**	**9.7**	**6,168**	**20.6**
Tax	(1,231)	(1,021)		(1,270)	
PAT #	**4,379**	**4,093**	**7.0**	**4,898**	**19.7**
Extraordinary Income (loss)	1,087	(12)			
Net profit	**5,466**	**4,081**	**34.0**	**4,898**	**20.0**
EBITDA margin - reported (%)	11.8	13.3		13.2	
EBITDA margin - Including operational income (%)	13.9	14.2			
Effective tax rate (%)	21.9	20.0		20.6	
Costs as % of net sales					
Material cost	54.2	53.1			
Employee cost	5.7	5.7			
Other overheads	28.3	27.9			
- Advertising & Promotions	10.0	10.5			
Segment revenue					
- Soaps and Detergents	19,863	15,761	26.0		
- Personal Products	10,496	8,899	18.0		
- Beverages	4,422	3,917	12.9		
- Foods	1,739	1,293	34.5		
- Ice Creams	466	372	25.3		
- Exports	2,961	3,146	(5.9)		
- Others	908	553	64.2		
Segment PBIT margins (%)					
- Soaps and Detergents	13.5	16.3			
- Personal Products	24.3	23.8			
- Beverages	14.1	14.1			
- Foods	1.5	1.3			
- Ice Creams	4.5	1.4			
- Exports	10.7	2.0			
- Others	(31.8)	(59.5)			

@ Adjusting for Other operational income, EBITDA growth at 17%
 # Adjusting for tax impact of exceptional income, PAT growth at 11%

Source: Company data, Kotak Institutional Equities

Timing mismatch of cost inflation and price increases impact S&D margins for the quarter

Sales, profit growth and EBIT margins for 3QCY08

Segment	Sales growth (%)	Profit growth (%)	EBIT margin change (bps)	Remarks
Soaps and Detergents	26.0	4.5	(280)	Severe cost pressure in key inputs of LAB, CPO
Personal Products	18.0	20.8	60	Price increases ahead of cost inflation, particularly in large packs
Beverages	12.9	13.6	10	Higher tea and coffee commodity prices managed through packsize reductions
Foods	34.5	50.9	20	Higher sales of Knorr
Ice Creams	25.3	300.0	310	
Exports	(5.9)	400.5	870	Defocus on commodity exports
Others (includes Water)	64.2	(12.3)	2770	Water business expanded to 620 cities in 20 states

Source: Company data for financials, Kotak Institutional Equities for remarks.

Market shares indicates significant deterioration in leadership position

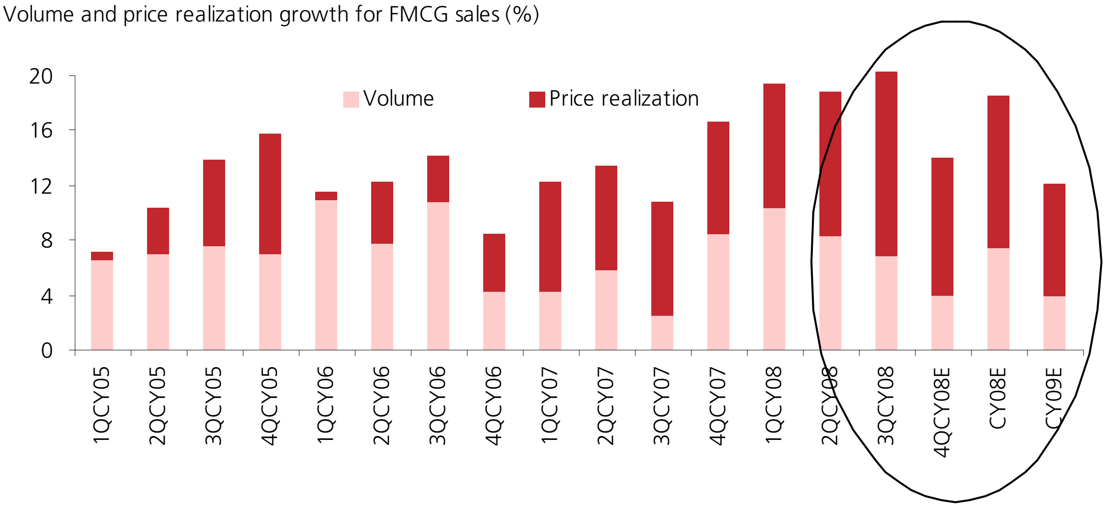
Value market shares for 3QCY08 (%), market share movements (bps)

Category	Market share	yoy	qoq	Remarks
Detergents	37.9	90	(40)	Price hikes hurting consumption
Personal Wash	50.3	(290)	(240)	Downtrading
Hair	46.1	(160)	(40)	Category getting crowded with entry of many new players and existing players getting aggressive
Skincare	52.7	(230)	(70)	Consumer fatigue in Fair and Lovely?
Toothpaste	29.6	(40)	(40)	Non-focus category with objective to maintain current position, Pepsodent 'Mahapack' helps maintain shares
Tea	23.3	(10)	10	Promotions led share gains; uptrading from loose tea benefiting HUL as well
Coffee	47.1	60	20	Both instant and conventional coffee gain, Bru getting thought leadership in the category

Source: Company data for market share, Kotak Institutional Equities.

Disappointing volume growth—7% in 3QCY08 on the back of 2.5% growth in base

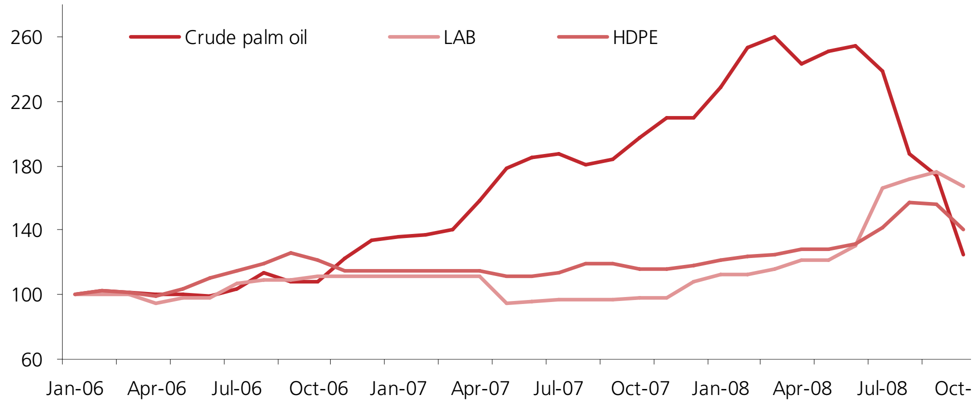
Volume and price realization growth for FMCG sales (%)



Source: Company data, Kotak Institutional Equities estimates.

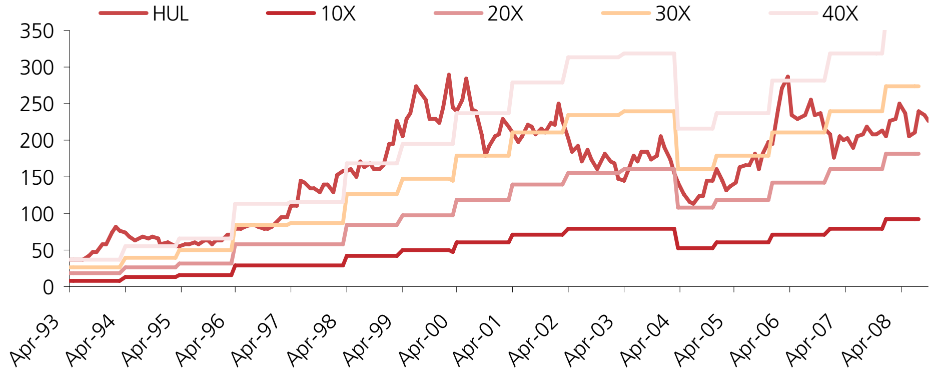
Emerging cost comfort augurs well for detergents' margin expansion in CY09E, price cuts in soaps and higher promotional spends inevitable

Key raw material price trends (January 2006 = Index 100)



Source: Bloomberg, Reliance Industries, Kotak Institutional Equities

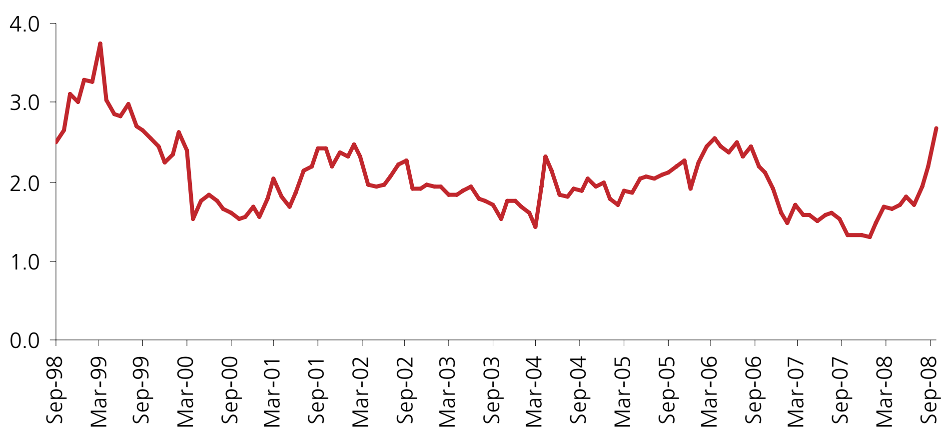
HUL—P/E bands (one-year forward)



Source: Kotak Institutional Equities

Excellent defensive characteristics demonstrated by the stock in CY2008

Relative P/E of HUL over Sensex (x)



Source : Kotak Institutional Equities

HUL, change in estimates, December fiscal year-ends (Rs mn)

	CY08E			CY09E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	162548	162860	(0.2)	182225	186989	(2.5)
EBIDTA	21018	22756	(7.6)	25656	27805	(7.7)
Net profit	19827	19981	(0.8)	23366	23554	(0.8)
EPS	9.1	9.2	(0.8)	10.7	10.8	(0.8)
Sales growth (%)	18.5	18.7		12.1	14.8	
Profit growth (%)	13.6	14.5		17.8	17.9	

Source: Kotak Institutional Equities estimates.

HUL: Profit model, balance sheet, cash model 2005-2009E, December year-ends (Rs mn)

	2005	2006	2007	2008E	2009E
Profit model (Rs mn)					
Net sales	110,605	121,034	137,178	162,548	182,225
EBITDA	**14,433**	**16,621**	**18,874**	**21,018**	**25,656**
Other income	3,048	3,545	4,627	5,669	5,705
Interest	(192)	(107)	(255)	(225)	(75)
Depreciation	(1,245)	(1,302)	(1,384)	(1,531)	(1,808)
Extraordinary items	976	3,155	1,581	0	0
Pretax profits	16,045	18,757	21,862	24,931	29,479
Tax	(2,530)	(2,950)	(3,782)	(4,175)	(4,954)
Deferred taxation	(410)	(268)	(389)	(929)	(1,159)
Net profit	**13,105**	**15,539**	**17,690**	**19,827**	**23,366**
Earnings per share (Rs)	**6.0**	**7.0**	**8.0**	**9.1**	**10.7**
Dividend per share (Rs)	**6.0**	**6.0**	**9.0**	**9.0**	**10.0**
Balance sheet (Rs mn)					
Total equity	23,056	27,235	14,392	15,465	16,729
Total borrowings	569	726	885	885	885
Currrent liabilities	41,183	45,231	51,110	56,928	63,019
Total liabilities and equity	**64,809**	**73,191**	**66,387**	**73,278**	**80,633**
Cash	3,550	4,169	2,009	1,120	2,449
Current assets	24,080	27,527	30,765	33,222	36,741
Total fixed assets	14,835	15,110	17,081	20,109	23,775
Investments	20,142	24,139	14,408	17,632	17,632
Deferred tax asset	2,201	2,245	2,124	1,195	36
Total assets	**64,809**	**73,191**	**66,387**	**73,278**	**80,633**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,908	20,209	20,860	22,362	26,415
Working capital	5,858	(471)	3,092	4,563	1,553
Capital expenditure	(904)	(1,576)	(3,355)	(4,558)	(5,474)
Investments	2,452	(4,309)	9,294	(3,224)	0
Free cash flow	**23,314**	**13,852**	**29,890**	**19,144**	**22,493**
Key assumptions					
Revenue Growth (%)	11.4	9.4	13.3	18.5	12.1
EBITDA Margin(%)	13.2	13.9	14.0	12.9	14.1
EPS Growth (%)	10.6	18.3	13.8	13.6	17.8

Source: Kotak Institutional Equities estimates.

Automobiles

MRTI.BO, Rs538	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	650
52W High -Low (Rs)	1252 - 475
Market Cap (Rs bn)	155.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	179.4	204.7	227.3
Net Profit (Rs bn)	17.3	14.5	16.6
EPS (Rs)	59.9	50.3	57.5
EPS gth	*10.8*	*(16.0)*	*14.4*
P/E (x)	9.0	10.7	9.4
EV/EBITDA (x)	5.2	5.7	4.9
Div yield (%)	0.9	0.9	0.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.2	-	-
FIIs	14.8	0.4	(0.1)
MFs	6.2	0.9	0.4
UTI	-	-	(0.5)
LIC	14.0	1.7	1.2

Maruti Suzuki: Lower-than-expected 2Q earnings; lower earnings estimates on concerns over volume growth—cut TP to Rs650, lower rating to REDUCE

Jairam Nathan : jairam.nathan@kotak.com, 66341327
Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **2QFY09 net profit at Rs2.9 bn down 36% yoy; EBITDA margin at 10.7% down 500 bps yoy on high raw material prices**
- **Lower our volume growth assumption to 4.7% and 8% for FY2009E and FY2010E, respectively, from 10% and 11% previously on account of growth concerns**
- **We lower our EPS estimates to Rs50.3 and Rs57.5 for FY2009E and FY2010E respectively**
- **We reduce our TP to Rs650/share from Rs790/share to reflect lower multiple and lower earnings – lower rating to REDUCE (ADD previously) to reflect reduced earnings visibility**

Maruti reported a lower-than-expected 2QFY09 net profit at Rs2.96 bn, driven by poor price realizations. EBITDA margin at 10.7% was down 500 bps yoy led mainly by a sharp yoy increase in raw material prices and inability of the company to pass on cost increases to the full extent. We lower our volume growth assumptions for Maruti given our concerns over growth even as finance rates remain high—we now expect Maruti's volumes to grow 4.7% and 8% in FY2009E and FY2010E respectively. We lower our EPS estimates for FY2009E and FY2010E by 16% and 12% to Rs50.3 and Rs57.5, respectively. The reduced earnings visibility has resulted in significant multiple compression—we now value Maruti at 5X FY2010 EBITDA (versus 6X previously). We lower our TP to Rs650/share from Rs790/share to reflect lower earnings estimates and a lower multiple. While the stock's valuation is attractive at 3.8X FY2010E EBITDA, we believe there could be further downside risk to earnings on account of volume and pricing pressure.

2QFY09 net profit at Rs2.96 bn down 36% yoy led mainly by higher raw materials, increase in depreciation and impact of adverse currency. Maruti reported 2QFY09 net profit at Rs2.96 bn versus our estimate of Rs3.3 bn. Net profit was lower than our expectation mainly on account of (a) higher-than-expected raw material and selling expenses and (b) lower average realization compared to our expectation. 2QFY09 EBITDA margins at 10.7% (versus our expectation of 11.7%) declined 500 bps on a yoy basis driven mainly by (a) 260 bps increase in raw material prices (b) 150 bps increase in manufacturing overheads and (c) 90 bps increase in selling expenses.

We do not expect the recent reduction in commodity prices to help Maruti's bottom-line in FY2009 as the company has already entered into contracts for 2HFY09. We believe that the current decline in commodity prices would have a positive impact only in FY2010E.

We expect demand to be sluggish after the festival season. Maruti indicated that sales in the current festival season were up on a yoy basis, but the company was cautious about sales beyond October. While the company hopes to buck the downtrend by expanding sales to rural areas and corporates, we expect 2HFY09 sales to be up only 4% yoy compared to the 6% increase we saw in 1HFY09. Restricted availability of credit, higher interest rates and muted consumer sentiment could challenge auto sales in the 2HFY09.

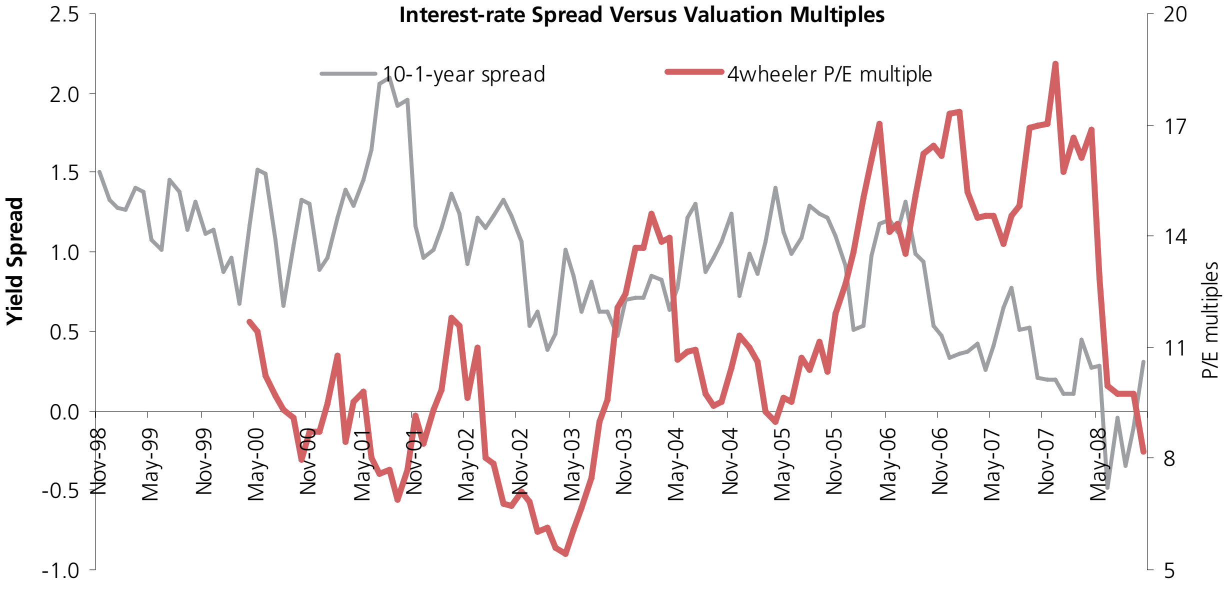
Lower input costs would help only in FY2010. We lower our raw material cost estimates for FY2010 to factor in the current decline in commodity prices especially of steel. Given Maruti's six-month contract terms for steel, the company would not benefits from the recent declines in commodity prices. We note that the management indicated that steel costs would be up 22% sequentially in 2HFY09.

We cut our EPS estimates by 16% and 12% for FY2009E and FY2010E to reflect lower volume growth. We now expect Maruti's volumes to grow 4.7% and 8% in FY2009E and FY2010E, respectively, versus our earlier growth estimate of 11% and 10%. We believe that lower realizations on account of prices cuts/discounts pose downside risks to our earnings estimates. While the company should benefit from price increases, an adverse mix could hurt average realizations.

Lower target price to Rs650/share from Rs790/share—retain ADD rating. We lower our target price to Rs650/share to factor in lower earnings estimates and a lower multiple. On current prices, Maruti's P/E multiple has declined to 10X from the 14X seen earlier in the year. On an EV/EBITDA basis, multiples have contracted to 4X from 8X seen earlier in the year. We believe that the compression in multiple is mainly on account of a reduction in earnings and volume visibility. Exhibit 1 shows valuation multiples versus the 10yr-1yr interest rate spread. The yield spread is a good proxy for expected growth in the economy and as illustrated is a leading indicator for valuation multiples. The chart would indicate that multiples have corrected to a large extent since Apr'08 and could be seen as providing some support to valuations. We are currently valuing Maruti at 5X FY2010E EBITDA estimates (versus 6X previously) implying a P/E of 11X FY2010E earnings estimate. We remain at the lower end of the valuation range as we see further risks to our earnings estimates. We lower our rating on the stock to REDUCE from ADD to reflect concerns over volume growth and reduced earnings visibility.

The 10-1 year spread is a lead indicator for P/E multiples

Interest rate spread versus 4-wheeler P/E multiple



Source: Bloomberg, Kotak Institutional Equities.

Maruti Suzuki India, quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	2Q 2009	1Q 2009	Change (%)	2Q 2009	2Q 2008	Change (%)
Net Sales	**48,303**	**47,536**	**1.6**	**48,303**	**45,474**	**6.2**
Expenditure	(44,779)	(42,899)	4.4	(44,779)	(39,496)	13.4
(Increase)/decrease in stocks	(561)	(334)		(561)	435	
Consumption of Raw materials	(37,540)	(36,567)	2.7	(37,540)	(35,155)	6.8
Staff cost	(1,165)	(1,112)	4.8	(1,165)	(909)	28.1
Other expenditure	(5,514)	(4,887)	12.8	(5,514)	(3,866)	42.6
Operating other income	1,634	1,052	55.3	1,634	1,105	47.9
EBITDA	**5,157**	**5,688**	**(9.3)**	**5,157**	**7,083**	**(27.2)**
Other income	960	2,236	(57.0)	960	780	23.1
Interest (net)	(208)	(168)	23.4	(208)	(140)	48.0
Depreciation	(1,658)	(1,661)	(0.1)	(1,658)	(881)	88.2
Profit before extra-ordinary items	**4,252**	**6,095**	**(30.2)**	**4,252**	**6,841**	**(37.9)**
Extra-ordinary items	-	-		-	-	
Profit before tax	**4,252**	**6,095**	**(30.2)**	**4,252**	**6,841**	**(37.9)**
Tax	1,290	1,437	(10.2)	1,290	2,176	(40.7)
Profit after tax	**2,961**	**4,659**	**(36.4)**	**2,961**	**4,665**	**(36.5)**
Adjusted PAT	**2,961**	**4,659**	**(36.4)**	**2,961**	**4,665**	**(36.5)**
Volumes	**189,451**	**192,584**	**(1.6)**	**189,451**	**191,325**	**(1.0)**
Average realisation	**293,402**	**283,464**	**3.5**	**293,402**	**279,079**	**5.1**
Margins (%)						
EBITDA margin	10.7	12.0	(1.29)	10.7	15.6	(4.90)
Net profit margin	6.1	9.8	(3.67)	6.1	10.3	(4.13)
Key ratios						
RM costs (% of net sales)	77.7	76.9	0.79	77.7	77.3	0.41
Staff costs (% of net sales)	2.4	2.3	0.07	2.4	2.0	0.41
Effective tax rate (%)	30.3	23.6	6.77	30.3	31.8	(1.46)
EPS (Rs/share)	10.2	16.1		10.2	16.1	

Source: Company data, Kotak Institutional Equities estimates.

Maruti, Valuation details, March fiscal year-ends, FY2010E basis

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2009E	28,214	5.0	141,069	488	Based on Maruti's historical average EBITDA multiple and FY2010E EBITDA
Less: net debt			(45,262)	(157)	FY2010E net debt
Market capitalisation			**186,331**	**645**	
Target price				**650**	

Source: Company, Kotak Institutional Equities estimates.

Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-10E (# vehicles)

Segment-wise sales (no of vehicles)	2007	2008	2009E	2010E
Entry (A) segment	79,245	69,553	55,000	48,000
Van-Segment	83,091	89,729	81,000	75,000
Compact (B) segment	440,375	499,280	540,000	596,000
Mid-size (C) segment	29,697	49,335	55,000	67,500
MUV	3,221	3,921	5,000	5,500
Domestic	**635,629**	**711,818**	**736,000**	**792,000**
Exports	39,295	53,024	65,000	75,000
Total	**674,924**	**764,842**	**801,000**	**867,000**
Segment-wise sales growth(yoy %)				
Entry (A) segment	(11.0)	(12.2)	(20.9)	(12.7)
Van-Segment	24.0	8.0	(9.7)	(7.4)
Compact (B) segment	31.5	13.4	8.2	10.4
Mid-size (C) segment	(7.3)	66.1	11.5	22.7
MUV	(19.5)	21.7	27.5	10.0
Domestic	**20.6**	**12.0**	**3.4**	**7.6**
Exports	13.0	34.9	22.6	15.4
Total	**20.1**	**13.3**	**4.7**	**8.2**

Source: SIAM, Kotak Institutional Equities estimates.

Maruti Suzuki, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)					
Net sales	120,522	146,539	179,362	204,660	227,273
EBITDA	**18,669**	**22,862**	**26,524**	**23,686**	**28,214**
Other income	1,889	3,026	4,784	4,726	4,830
Interest	(204)	(376)	(596)	(900)	(945)
Depreciaiton	(2,854)	(2,714)	(5,682)	(6,751)	(8,357)
Profit before tax	**17,500**	**22,798**	**25,030**	**20,761**	**23,742**
Current tax	5,930	6,281	7,696	5,813	6,648
Deferred tax	(321)	897	26	415	475
Net profit	**11,891**	**15,620**	**17,308**	**14,533**	**16,619**
Earnings per share (Rs)	**41.1**	**54.0**	**59.9**	**50.3**	**57.5**
Balance sheet (Rs mn)					
Equity	54,526	68,539	84,154	96,996	111,925
Deferred tax liability	779	1,675	1,701	2,116	2,591
Total Borrowings	717	6,308	9,002	9,002	9,002
Current liabilities	19,771	25,015	28,187	29,505	30,513
Total liabilities	**75,793**	**101,537**	**123,044**	**137,619**	**154,031**
Net fixed assets	17,872	29,104	40,328	53,577	65,221
Investments	20,512	34,092	51,807	51,807	51,807
Cash	14,016	14,228	3,240	1,436	2,457
Other current assets	23,393	24,113	27,669	30,799	34,547
Miscellaneous expenditure	-	-	-	-	-
Total assets	**75,793**	**101,537**	**123,044**	**137,619**	**154,031**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	12,226	20,398	18,304	16,061	18,826
Working capital changes	(815)	4,410	(83)	(1,812)	(2,740)
Capital expenditure	(1,788)	(13,950)	(16,930)	(20,000)	(20,000)
Free cash flow	**9,623**	**10,858**	**1,291**	**(5,751)**	**(3,913)**
Ratios					
Operating margin (%)	15.5	15.6	14.8	11.6	12.4
PAT margin (%)	9.9	10.7	9.6	7.1	7.3
Debt/equity (X)	0.0	0.1	0.1	0.1	0.1
Net debt/equity (X)	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)
Book Value (Rs/share)	191.4	243.0	297.1	342.9	396.2
RoAE (%)	23.7	24.9	22.2	15.7	15.6
RoACE (%)	**23.1**	**24.0**	**20.7**	**14.9**	**14.9**

Source: Company, Kotak Institutional Equities estimates.

Metals

TISC.BO, Rs178	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	285
52W High -Low (Rs)	970 - 173
Market Cap (Rs bn)	146.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,315	1,584	1,534
Net Profit (Rs bn)	62.3	73.8	61.3
EPS (Rs)	75.7	89.7	74.6
EPS gth	*43.8*	*18.5*	*(16.9)*
P/E (x)	2.4	2.0	2.4
EV/EBITDA (x)	3.6	3.8	4.0
Div yield (%)	8.1	7.2	7.3

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	33.9	-	-
FIIs	19.8	1.6	0.0
MFs	5.0	2.2	0.6
UTI	-	-	(1.5)
LIC	10.3	3.8	2.3

Tata Steel: Strong domestic business results, no update on Corus. Upgrade rating to ADD

Rahul Jain : rahulk.jain@kotak.com, +91-22-6634-1318

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

- **Strong domestic results driven purely by realizations, better than expected**
- **No details provided on Corus**
- **Stock currently trading below 60% of replacement value, upgrade rating from REDUCE to ADD with a target of Rs285/share**

Tata Steel reported a strong domestic 2QFY2009 net income at Rs17.9 bn growing 50% yoy and 20 qoq driven by a 36.8% yoy growth in average realizations on flat volumes. Higher raw material costs of imported coking coal (up 210% yoy) contained EBITDA margins at 46.5% compared to 41.2% yoy and 49.1% qoq. Current steel pricing is under severe pressure, to which Tata Steel is not immune. However, Tata Steel's positioning as a long-term contract player would postpone the impact of the recent price corrections. Despite repeated requests for update on Corus operations during the earnings concall, the management provided only cursory details, maintaining that it would provide the same only at the time of release of consolidated results by the end of next month. Following the recent sharp decline in the stock price, we note that the stock is now trading at a significant discount to its replacement cost. We upgrade our rating on the stock from REDUCE to ADD with a target of Rs285/share at 4.5X FY2010E EBITDA.

Results driven by realizations. A strong 36.8% yoy jump in average steel realizations on flat volumes 5 resulted in overall topline increase of 43.1% yoy and 11% qoq to Rs68.bn. EBITDA increased by a strong 68.3% yoy and 30.1% qoq to Rs31.8 bn driven by both steel and ferro alloy prices. EBITDA margins increased from 41.2% yoy to 46.5% and were down from 49.1% qoq due to impact of contract coking coal prices, which were higher by 210% yoy. Tata Steel procures 60% of its coking coal from Australian coal miners and rest is from captive mines.

Steel markets continue to struggle–scrap prices drop 70% to US$219. Steel prices have seen an unprecedented fall in the past few months. Steel scrap prices have fallen sharply by 70% over the past three months to as low as US$219 to a 3-year low from a recent high of US$700 in July 2008. Steel prices have also followed scrap in the same fashion and now hot rolled coil prices in China are quoting at US $550 levels down by 50% from July. However, a spate of production cuts across the globe could set a floor for the steel prices which have fallen very sharply in the recent months.

Going forward we see limited downside to prices. The World Steel Association reported a 9.1% yoy drop in Chinese output in October implying a significant proportion of Chinese mills are already under significant stress. We believe next years iron ore prices would be lower by 20% which is evident from the current price prevailing in the spot markets and coking coal would be lower by 30%. With last months average prices at US$600 resulting in 9% drop in monthly production and prices falling further to US$550 we believe another round of production cuts are evident. With the marginal cost producers operating at US$585-$625 range, the floor for steel prices is near.

No meaningful update on Corus. Despite repeated requests during the earnings concall the management has only provided cursory details regarding the current operational performance of its Corus operations and said it would share more details along with consolidated results to be declared by the end of November. However, the management did state that out of the four markets for Corus—auto, yellow goods, packaging and construction—only the property segment of the construction markets has seen a demand slowdown. The management believes that the significant cuts ranging between 15-20% announced across Europe would align supply to demand and bring about stability in the markets.

What does the current stock price imply? Even if one were to strip off Corus from Tata Steel and assume a total standstill of operations at Corus and since there is non recourse to Tata Steel for debts assumed to takeover Corus, Tata Steel India (at the Chinese marginal cost of production at US$600 for the whole of FY2010) would still generate an EBITDA of Rs78 bn and a PAT of Rs42 bn. This implies that the stock is trading at 4.7X EBITDA and a PE of 3.5X FY2010 of just standalone India business earnings.

Valuations – Upgrade to ADD from REDUCE earlier. While Tata Steel's domestic results have been ahead of expectations, it is the consolidated results where the maximum concerns lie. Also worrying is the high leverage of US$13 bn (2.1X net debt/equity) and questions about its ability to service the same—also reflected in the recent downgrading by Moody's. However, at CMP of Rs178/share, we believe most of these concerns are priced in.

We have arrived at the replacement cost after considering a cost of US$800 mn for each million ton of capacity for 26 mn tons in case of Tata Steel consolidated and reduced that with the consolidated debt (which we have pegged at US$13 bn assuming a current exchange rate of Rs50/US$).

We are revising our rating on the stock to ADD from REDUCE earlier with a target of Rs285/share based on 4.5X EBITDA FY2010E. We appreciate that the current environment is bleak and beset with production cuts being, sharp dip in prices etc and very low earnings visibility, especially on account of Corus. However, at current valuations of 62% discount to replacement value, we see limited downside.

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

	Quarterly results			% change	
	2Q 2009	**1Q 2009**	**2Q 2008**	**qoq**	**yoy**
Volumes (tons)					
Production	1,329,565	1,186,873	1,279,672	12.0	3.9
Sales volumes	1,220,050	1,159,495	1,218,326	5.2	0.1
Earnings drivers					
Average realization (Rs/ton) (a)	48,286	45,737	35,287	5.6	36.8
Average steel EBIT (Rs/ton) (b)	19,879	20,367	13,810	(2.4)	44.0
Implied steel costs (Rs/ton) (a-b)	28,407	25,370	21,477	12.0	32.3
Average US HRC prices (US$/ton)	1,077	762	610	41.3	76.6
Average UK HRC prices (US$/ton)	827	692	645	19.5	28.2
Average INR:USD	41.65	39.79	41.26	4.7	1.0
Interim results					
Net sales	**68,507**	**61,650**	**47,859**	11.1	43.1
Expenditure	**(36,677)**	**(31,405)**	**(28,159)**	16.8	30.2
Stock adjustment	3,844	2,018	159		
Raw materials	(15,023)	(11,548)	(8,928)	30.1	68.3
Employee costs	(5,985)	(4,719)	(4,334)	26.8	38.1
Power and fuel	(2,781)	(2,619)	(2,387)	6.2	16.5
Freight and handling	(3,315)	(2,938)	(2,907)	12.8	14.0
Other expenditure	(13,418)	(11,599)	(9,763)	15.7	37.4
EBITDA	**31,830**	**30,246**	**19,700**	5.2	61.6
Other income	2,384	122	805	1,850.7	196.1
Depreciation	(2,488)	(2,168)	(2,050)	14.8	21.4
EBIT	31,725	28,200	18,455	12.5	71.9
Interest	(2,548)	(2,417)	(1,892)	5.4	34.7
Adjusted pre-tax profits	29,177	25,783	16,563	13.2	76.2
Unusual or infrequent items	(3,454)	(3,034)	903	13.8	(482.5)
Reported pre-tax profits	25,723	22,749	17,466	13.1	47.3
Tax	(7,845)	(7,865)	(5,558)	(0.3)	41.1
Reported net earnings	**17,878**	**14,884**	**11,908**	20.1	50.1
Segmental results					
Net revenues	**73,424**	**65,565**	**50,651**	**12.0**	**45.0**
Steel business	58,912	53,032	42,991	11.1	37.0
Other businesses	14,512	12,533	7,660	15.8	89.5
EBIT	**30,122**	**28,753**	**18,518**	**4.8**	**62.7**
Steel business	24,254	23,615	16,825	2.7	44.2
Other businesses	5,868	5,138	1,693	14.2	246.5
Ratios (%)					
Total costs as % of revenue	53.5	50.9	58.8		
Raw material costs	16.0	15.5	18.3		
EBITDA margins	46.5	49.1	41.2		
Effective tax rate	34.6	34.6	31.8		

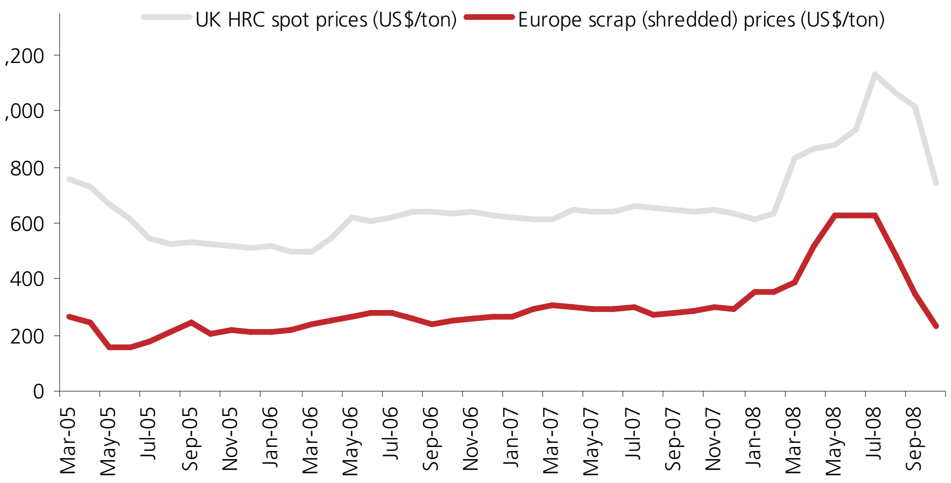
Source: Company data; Kotak Institutional Equities estimates.

We value Tata Steel at Rs285/share based on 4.5X FY2010E EV/EBITDA
Tata Steel, valuation, March fiscal year-ends, 2010E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn) (e)	EV (Rs/share)	Comments
Consolidated group EBITDA	167,479	4.5	753,654	917	Valued on FY2010E EBITDA
Total Enterprise Value			**753,654**	**917**	
Total borrowings			**519,923**	**633**	FY2010E, adjusted for cash and marketable securities
Arrived market capitalization			**233,732**	**284**	Based on fully diluted equity
Target price (Rs)				**285**	

Source: Kotak Institutional Equities estimates.

Spot HRC prices have corrected significantly over the last few months
UK HRC spot prices (US$/ton)



Source: CRU data

Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2010E (Rs mn)

	2007	2008	2009E	2010E
Profit model (Rs mn)				
Net sales	252,124	1,315,359	1,584,304	1,534,195
EBITDA	**70,966**	**174,454**	**176,541**	**167,479**
Other income	4,381	5,742	4,968	5,355
Interest	(4,112)	(41,838)	(48,311)	(50,761)
Depreciaiton	(10,110)	(41,370)	(41,834)	(47,312)
Extraordinaries	2,006	66,722	3,206	3,206
Profit before tax	**63,130**	**163,711**	**94,570**	**77,966**
Current tax	(21,629)	(33,747)	(19,495)	(16,072)
Deferred tax	155	(6,746)	(3,897)	(3,213)
PAT before minority interest	**41,656**	**123,218**	**71,179**	**58,682**
Minority interest	(675)	(1,399)	(1,539)	(1,693)
Share of profits from associates	792	1,682	1,850	2,035
Net Profit	**41,773**	**123,500**	**71,489**	**59,023**
Adjusted net profit	**42,782**	**77,404**	**73,199**	**60,733**
Fully diluted EPS (Rs)	**52.0**	**94.2**	**89.1**	**73.9**
Balance sheet (Rs mn)				
Equity	146,222	341,740	398,352	442,209
Deferred tax liability	7,859	24,544	28,441	31,654
Total Borrowings	249,255	535,928	635,928	685,928
Current liabilities	86,595	339,490	390,141	377,848
Minority interest	5,984	8,327	9,866	11,560
Total liabilities	**495,916**	**1,250,029**	**1,462,728**	**1,549,197**
Net fixed assets	142,205	419,631	464,823	525,694
Goodwill	2,197	180,500	180,500	180,500
Investments	164,975	33,674	33,674	33,674
Cash	108,880	42,316	107,965	154,888
Other current assets	75,562	572,351	674,210	652,885
Miscellaneous expenditure	2,098	1,556	1,556	1,556
Total assets	**495,916**	**1,250,029**	**1,462,728**	**1,549,197**
Free cash flow (Rs mn)				
Operating cash flow excl. working capital	52,489	153,978	160,253	154,613
Working capital changes	2,541	(19,777)	(48,937)	11,303
Capital expenditure	(29,318)	(79,935)	(89,927)	(111,084)
Free cash flow	**25,712**	**54,266**	**21,389**	**54,831**
Ratios				
Debt/equity (X)	1.7	2.9	2.6	2.4
Net debt/equity (X)	0.9	2.6	2.1	1.8
RoAE (%)	28.6	46.3	29.9	22.6
RoACE (%)	**8.0**	**13.5**	**11.7**	**10.0**

Source: Company, Kotak Institutional Equities estimates.

Industrials

ABB.BO, Rs488	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	550
52W High -Low (Rs)	1744 - 460
Market Cap (Rs bn)	103.3

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	59.3	68.4	83.9
Net Profit (Rs bn)	4.9	5.5	6.6
EPS (Rs)	23.2	25.9	31.1
EPS gth	*44.5*	*11.5*	*20.2*
P/E (x)	21.0	18.9	15.7
EV/EBITDA (x)	12.1	10.7	8.6
Div yield (%)	0.5	0.6	0.7

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	14.4	0.4	(0.1)
MFs	3.5	0.5	(0.0)
UTI	-	-	(0.5)
LIC	10.5	1.2	0.8

ABB: Lower-than-expected margins. Retain REDUCE

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496
Supriya Subramanian : supriya.subramanian@kotak.com, +91-22-6634-3383

- **Misses expectations with lower-than-expected revenue and margins**
- **Rupee depreciation, SAP implementation and unabsorbed employee costs may have contributed to margin pressures**
- **Order booking facing pressure of industrial capex slowdown; keeps the sliding trend**
- **Retain REDUCE on (1) potential of negative surprises and (2) high valuation in spite of significant correction**

ABB reported net revenues of Rs15.2 bn in 3QCY08, up 10.3% yoy, versus our expectation of Rs17.1 bn. Operating profit for the quarter was down 21.8% yoy to Rs1.3 resulting in an operating profit margin of 8.9% (down 360 bps yoy from 12.5% the previous year). We highlight that results may have been affected by (1) expenses related to all India SAP rollout and (2) Rupee depreciation (ABB being a net importing company). The order backlog stood at 71.5% (up 45.1% yoy) providing a visibility of about 10 months based on forward four quarter revenues. Order booking momentum continued to decline in this quarter as well growing at only 13.2% yoy to Rs18.9 bn versus a growth of 22.8% in 3QCY07. However, the company believes the slowdown is temporary and keeps the capital expenditure for capacity expansion on track so far. We have reduced our earnings estimates to Rs25.9 (Rs28.6 earlier) and Rs31.1 (Rs35.4 earlier) for calendar y/e 2008E and 2009E, respectively, based on reduction in revenue estimates. We retain our REDUCE rating with a revised target price of Rs550 (Rs875 earlier) led by (1) potential of negative surprises in earnings led by both execution as well as margins and (2) high valuation in spite of significant correction.

Misses expectations led by lower-than-expected execution and margins

ABB reported net revenues of Rs15.2 bn in 3QCY08, up 10.3% yoy, versus our expectation of Rs17.1 bn (Exhibit 1). Operating profit reported for the quarter was down 21.8% yoy to Rs1.3 resulting in an operating profit margin of 8.9% (down 360 bps yoy from 12.5% the previous year) versus our expectation of 12.3% margin. EBIT margins in all segments, except Power Systems, declined yoy for the quarter. Margins have dipped significantly in both the product segments of automation as well as power. Net income was down 9.4% yoy to Rs1.05 bn versus our expectation of Rs1.5 bn.

Revenue growth has been affected by lower-than-expected execution in the power systems segment which has reported flat revenues in this segment. The lower-than-expected revenue growth could probably be led by shift of revenues towards longer execution cycle projects leading to lower-than-expected revenue booking in the near term. For the nine month period ending September 2008, revenues for the company grew 14% to Rs46.7 bn.

Rupee depreciation, SAP implementation and unabsorbed employee costs may have contributed to margin pressures

We highlight that results may have been affected by (1) expenses related to SAP installation (un-quantified-but may be as high as Rs0.3-0.5 bn considering it was an all-India installation along with regional integration completed in 3QCY08E) and (b) Rupee depreciation. ABB is a net importing company (usually about 10%) and 8-10% average-to-average Rupee depreciation between 2QFY08 and 2QFY09 may have affected margins by 80 bps or so. ABB believed that in this quarter mix of business has been such that its import content may have been higher. We highlight that ABB has reported a net gain of Rs185 mn related to foreign exchange and we believe that corresponding offset of this would have reflected in lower operational EBITDA as ABB hedges underlying transactions. If we adjust for this effect then the operational margin would have been 10.1%, still 240 bps lower on a yoy basis.

Strong 30% growth in employee cost led by salary increases as well as ongoing capacity expansion that has not been fully absorbed because of lower-than-expected revenue growth has also led to negative operating leverage of 100 bps on EBITDA margins.

Order book facing pressure of industrial capital expenditure slowdown; keeps the sliding trend on an ongoing moving average basis

Order booking momentum continued to decline in this quarter as well growing at only 13.2% yoy to Rs18.9 bn versus a growth of 22.8% in 3QCY07. ABB's order booking is likely to be under effect of industrial capital expenditure slowdown as the company highlighted there is slight indication of delay/elongation of closure cycle in tying up new orders. For the 9MCY08, ABB believes it is on track with about 20% order booking growth rate. We highlight that the 12-month moving average curve for the growth in order booking has been declining almost continuously for the past six quarters from 1QFY07 potentially highlighting slowdown in investment momentum across the country (see Exhibit 4). The order backlog stood at Rs71.5 bn (up 45.1% yoy) providing a visibility of about 10 months based on forward four quarter revenues (see Exhibit 3).

ABB remains steadfast on capital expenditure; believes the slowdown is temporary

ABB believes slowdown may be temporary and keeps the capital expenditure for capacity expansion on track so far. The company still maintains a positive view for the medium to long-term picture.

ABB still trading at a higher-than-average P/E premium versus Sensex; significant incremental underperformance is possible

Based on our analysis we highlight that ABB could have further underperformance of as much as 25% if P/E premium of ABB over Sensex reverts back to the average that it has traded during April 2004 to April 2007. We also highlight that ABB has been trading at an average premium of 49% over Sensex P/E during the 36 month period between April 2004 and April 2007, while the currently prevailing P/E in spite of significant correction, is still implying 80.4% premium over the Sensex, leaving scope for incremental underperformance (see Exhibits 6 and 7). We highlight that earnings growth expectation for ABB over the next two years is significantly lower versus the earnings growth expectations in the past and thus historical premium may not sustain. We also highlight that P/E premium over Sensex that we are using has been established in the up-cycle of capital expenditure and thus has potential to correct further. Increasing concerns on revenue growth led by the macro-scenario can lead to significant underperformance of the stock.

Revise earnings estimates downwards based on lower-than-expected execution; reiterate REDUCE rating

We have reduced our earnings estimates to Rs25.9 (Rs28.6 earlier) and Rs31.1 (Rs35.4 earlier) for calendar y/e 2008E and 2009E, respectively, based on reduction in revenue estimates. We have revised our revenue estimates downwards from Rs68.4 bn and Rs84 bn for CY2008E and CY2009E, respectively, from Rs71.4 and Rs88 bn earlier.

We have revised our DCF-based target price to Rs550 (from Rs875 earlier, Exhibit 5) based on earnings revision as well as reduction in implied multiple. Our target price implies a P/E of 17.5X and EV/EBITDA of 11X based on December 2009 earnings (see Exhibit 5). We reiterate our REDUCE rating led by (1) potential of negative surprises in earnings led by both execution as well as margins and (2) high valuation in-spite of significant correction.

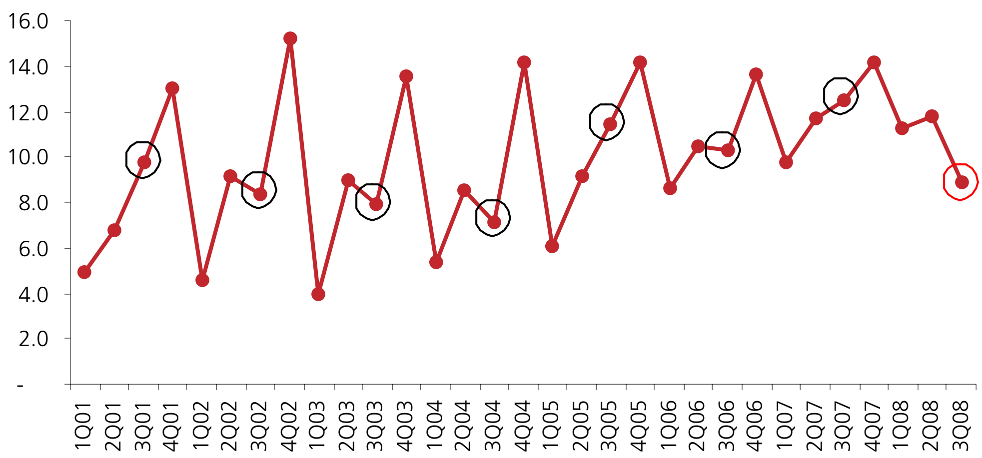
Key catalysts for the stock include (1) higher-than-expected execution and margins and (2) strong order flows from Power Grid and industrial and private sector orders.

Exhibit 1. ABB - 3QCY08 - key numbers (Rs mn)

	yoy			qoq			yoy		
	3QCY08	3QCY07	% change	3QCY08	2QCY08	% change	9MCY08	9MCY07	% change
Sales	**15,191**	**13,775**	***10.3***	**15,191**	**16,163**	***(6.0)***	**46,707**	**40,909**	***14.2***
Expenses	(13,843)	(12,051)	*14.9*	(13,843)	(14,261)	*(2.9)*	(41,729)	(36,265)	*15.1*
Stock	489	6		489	198		805	254	
RM	(11,599)	(9,937)	*16.7*	(11,599)	(11,736)	*(1.2)*	(34,482)	(29,932)	*15.2*
Employee	(1,018)	(788)	*29.2*	(1,018)	(1,015)	*0.3*	(3,003)	(2,276)	*31.9*
Other Exp	(1,715)	(1,333)	*28.6*	(1,715)	(1,708)	*0.4*	(5,050)	(4,312)	*17.1*
Operating profit	**1,348**	**1,724**	***(21.8)***	**1,348**	**1,902**	***(29.1)***	**4,977**	**4,644**	***7.2***
Other income	399	158	*153.1*	399	213	*87.2*	798	457	*74.6*
EBIDT	1,747	1,882	*(7.1)*	1,747	2,115	*(17.4)*	5,775	5,101	*13.2*
Interest	(67)	(16)	*329.6*	(67)	(8)	*708.2*	(103)	(48)	*113.5*
Depreciation	(92)	(79)	*16.4*	(92)	(88)	*4.8*	(264)	(242)	*8.8*
PBT	**1,588**	**1,787**	***(11.1)***	**1,588**	**2,019**	***(21.3)***	**5,408**	**4,810**	***12.4***
Tax	(540)	(630)	*(14.2)*	(540)	(701)	*(22.9)*	(1,865)	(1,701)	*9.6*
Net profit	**1,048**	**1,157**	***(9.4)***	**1,048**	**1,318**	***(20.5)***	**3,543**	**3,109**	***14.0***
Key ratios (%)									
RM / Sales	*73.1*	*72.1*	*1.05*	*73.1*	*71.4*		*72.1*	*72.5*	
Empl / Sales	*6.7*	*5.7*	*0.98*	*6.7*	*6.3*		*6.4*	*5.6*	
OE / Sales	*11.3*	*9.7*	*1.61*	*11.3*	*10.6*		*10.8*	*10.5*	
OPM	***8.9***	***12.5***	***(3.64)***	***8.9***	***11.8***		***10.7***	***11.4***	
EBIDT Margin	*11.5*	*13.7*		*11.5*	*13.1*		*12.4*	*12.5*	
PBT Margin	*10.5*	*13.0*		*10.5*	*12.5*		*11.6*	*11.8*	
Tax rate	*34.0*	*35.3*		*34.0*	*34.7*		*34.5*	*35.4*	
PAT Margin	*6.9*	*8.4*		*6.9*	*8.2*		*2.2*	*7.6*	
Order inflow & backlog									
Order booking	18,891	16,683	*13.2*	18,891	22,086	*(14.5)*	67,931	56,649	*19.9*
Order backlog	71,469	49,270	*45.1*	71,469	67,769	*5.5*	71,469	49,270	*45.1*
Segment results									
Revenues									
Power Products	4,920	3,617	*36.0*	4,920	5,130	*(4.1)*	14,313	11,451	*25.0*
Power Systems	5,109	5,135	*(0.5)*	5,109	5,321	*(4.0)*	15,552	14,725	*5.6*
Automation Products	4,169	3,283	*27.0*	4,169	3,953	*5.5*	12,072	8,922	*35.3*
Process Automation	2,474	2,496	*(0.9)*	2,474	2,844	*(13.0)*	8,271	8,177	*1.1*
Others	218	59	*269.8*	218	275	*(21.0)*	604	186	*224.6*
Revenue mix (%)									
Power Products	*29.1*	*24.1*		*29.1*	*29.3*		*28.2*	*26.3*	
Power Systems	*30.3*	*34.3*		*30.3*	*30.4*		*30.6*	*33.9*	
Automation Products	*24.7*	*21.9*		*24.7*	*22.6*		*23.8*	*20.5*	
Process Automation	*14.6*	*16.7*		*14.6*	*16.2*		*16.3*	*18.8*	
Others	*1.3*	*0.4*		*1.3*	*1.6*		*1.2*	*0.4*	
EBIT Margin (%)									
Power Products	*9.2*	*11.3*		*9.2*	*12.1*		*11.4*	*11.3*	
Power Systems	*10.1*	*9.6*		*10.1*	*6.4*		*8.5*	*9.2*	
Automation Products	*7.3*	*14.4*		*7.3*	*14.8*		*10.6*	*13.0*	
Process Automation	*12.2*	*13.2*		*12.2*	*11.0*		*12.6*	*10.8*	
Others	*5.1*	*5.2*		*5.1*	*6.8*		*6.5*	*1.4*	

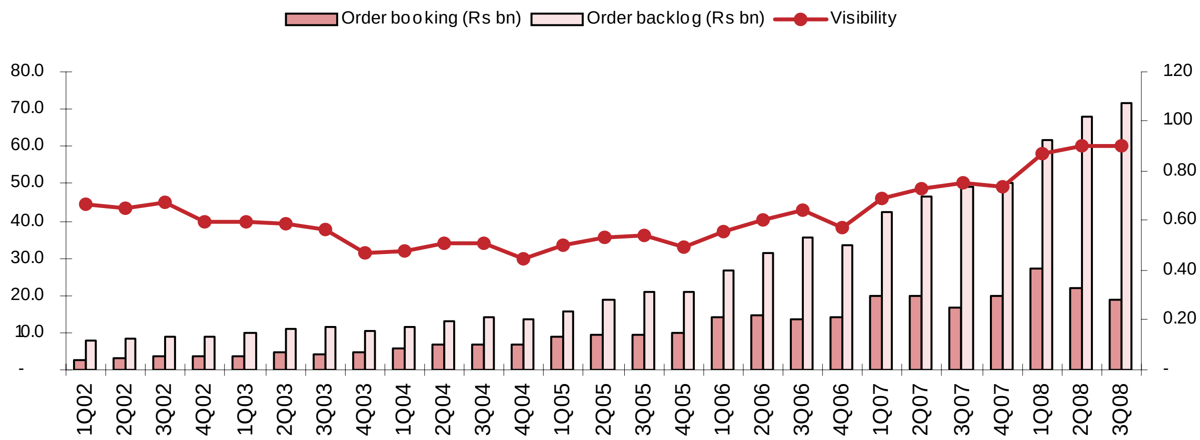
Source: Company, Kotak Institutional Equities

Exhibit 2. Quarterly margin pattern for ABB for last six years



Source: Company, Kotak Institutional Equities

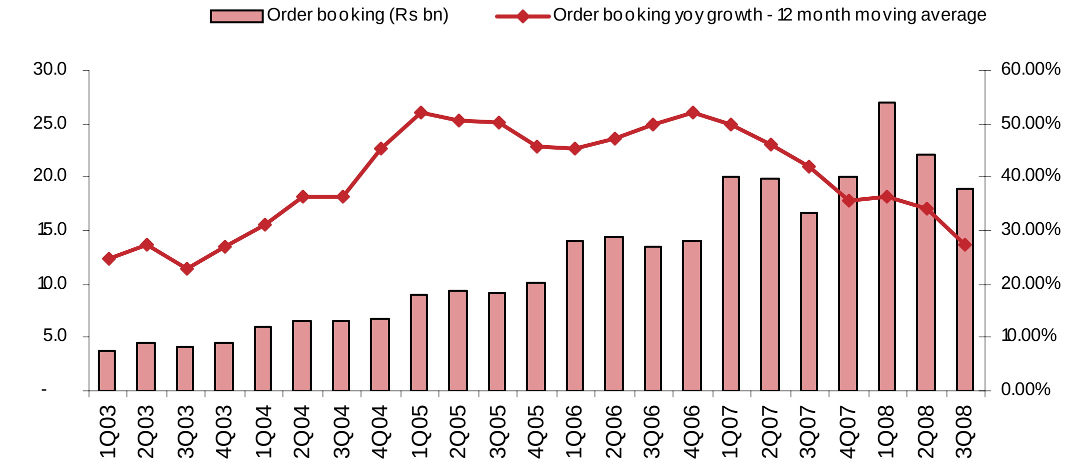
Exhibit 3: Visibility, based on forward four quarter revenues, at the end of 3QCY08 has been maintained at levels of the past few years
Order booking, Order backlog & visibility trend for ABB for last five years



Source: Company, Kotak Institutional Equities estimates

Exhibit 4: The one year moving average of yoy order inflow growth has been slowing down from 1QFY07

Order booking & moving average of order booking growth trend for ABB for last five years



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Our DCF-based target price is Rs550/share

DCF valuation for ABB, December calendar year-ends, 2008E-2019E, (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**68,402**	**83,943**	**104,845**	**125,240**	**144,026**	**165,629**	**190,474**	**214,283**	**241,069**	**271,202**	**298,322**	**328,155**
Growth (%)	15.3	22.7	24.9	19.5	15.0	15.0	15.0	12.5	12.5	12.5	10.0	10.0
EBIT (excl finl income)	7,643	9,275	11,365	13,439	15,483	17,805	20,476	23,035	25,915	29,154	32,070	35,277
Growth (%)	10.4	21.4	22.5	18.3	15.2	15.0	15.0	12.5	12.5	12.5	10.0	10.0
EBIT Margins	11.2	11.0	10.8	10.7	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Effective tax rate	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5
EBIT*(1-tax rate)	**4,930**	**5,982**	**7,330**	**8,668**	**9,986**	**11,484**	**13,207**	**14,858**	**16,715**	**18,804**	**20,685**	**22,753**
Growth (%)	10.4	21.4	22.5	18.3	15.2	15.0	15.0	12.5	12.5	12.5	10.0	10.0
Depreciation	370	567	665	779	881	986	1,109	1,253	1,372	1,509	1,667	1,777
Change in Working Capital	(3,806)	(2,076)	(2,831)	(2,744)	(1,287)	(3,241)	(3,727)	(3,571)	(4,018)	(4,520)	(4,068)	(4,475)
Capital Expenditure	(1,191)	(1,500)	(1,750)	(1,750)	(1,879)	(2,160)	(2,484)	(2,381)	(2,679)	(3,013)	(2,712)	(2,983)
Free Cash Flows	**303**	**2,973**	**3,414**	**4,953**	**7,702**	**7,069**	**8,105**	**10,159**	**11,391**	**12,780**	**15,572**	**17,072**
Growth (%)	(75.8)	882.6	14.8	45.1	55.5	(8.2)	14.7	25.3	12.1	12.2	21.8	9.6
Years discounted	0	0	1	2	3	4	5	6	7	8	9	10
Discount factor	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Discounted cash flow	**303**	**2,973**	**3,008**	**3,845**	**5,268**	**4,260**	**4,303**	**4,752**	**4,694**	**4,641**	**4,982**	**4,812**

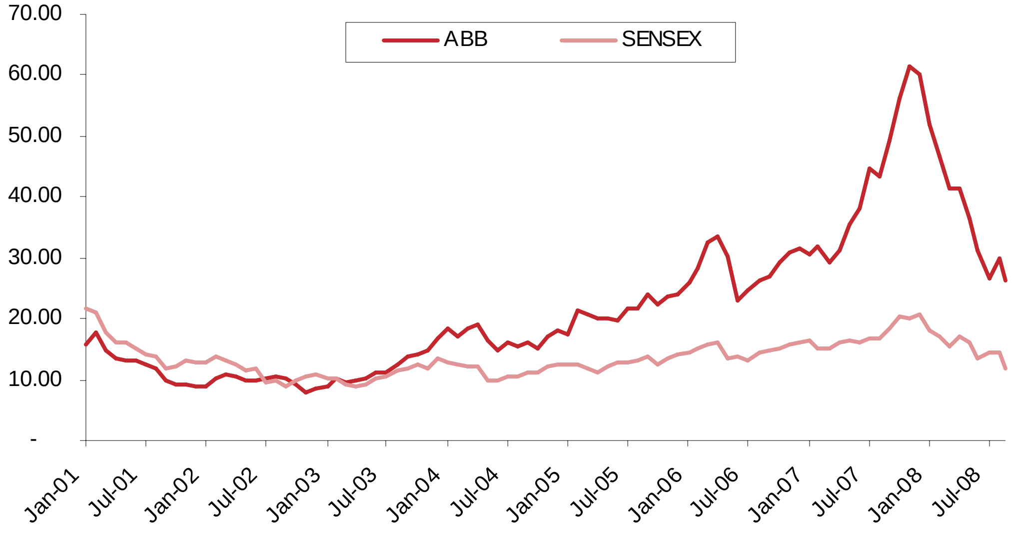
WACC calculation	
Risk-free rate (Rf)	8.5%
Beta (B)	100.0%
Equity risk premium	5.0%
Expected market Return (Rm)	13.5%
Cost of Equity (Ke)	13.5%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC used	**13.5%**

Terminal value Calc	**Year-forward**
Cash flow in terminal year	17,072
g	5.0%
Capitalisation rate	8.5%
Terminal value	210,890
Discount period (years)	10
Discount factor	28.2%
Discounted value	59,442

NPV Calc	**NPV**
Sum of free cash flow	47,537
Terminal value	59,442
Enterprise value	106,979
Add Investments	705
Net debt	(6,492)
Net present value-equity	114,177
Shares o/s	212
NPV /share(Rs)	**539**

Source: Company, Kotak Institutional Equities estimates

Exhibit 6. PE Chart of Sensex and ABB based on 12-month rolling forward EPS, CY2001-Oct 2008



Source: Bloomberg, Kotak Institutional Equities

Exhibit 7. Stock still trades at a higher than average P/E multiple as well P/E premium over Sensex

Comparison of rolling one year forward P/E for ABB as well as premium versus Sensex

	ABB	SENSEX
P/E comparison		
Peak P/E (X)	61.6	20.7
Bottom P/E (X)	14.8	7.9
P/E correction from peak (%)	73.8	61.9
Average P/E between April 04 to April, 07 (X)	19.9	13.4
Current P/E (X)	16.1	7.9
P/E premium over Sensex comparison		
P/E premium at peak (%)	208.5	N.A.
Average premium over sensex P/E between April04 to April07 (%)	49.2	N.A.
Current P/E premium (%)	104.2	
Downside if P/E premium shrinks to historical average (%)	**27.0**	

Source: Kotak Institutional Equities

Banking

BOB.BO, Rs245	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	330
52W High -Low (Rs)	501 - 188
Market Cap (Rs bn)	89.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	61.8	70.0	77.9
Net Profit (Rs bn)	14.4	14.9	16.0
EPS (Rs)	39.3	40.9	43.7
EPS gth	*39.8*	*4.1*	*6.8*
P/E (x)	6.2	6.0	5.6
P/B (x)	1.0	0.9	0.8
Div yield (%)	3.3	3.4	3.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.8	-	-
FIIs	19.6	0.2	0.0
MFs	11.0	0.7	0.5
UTI	-	-	(0.2)
LIC	5.4	0.3	0.1

Bank of Baroda: Operational performance satisfactory, retain ADD

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240
Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

- **BOB reported PAT of Rs3.9 bn, up 21% yoy and 4% above estimates**
- **Key highlights: stable NIMs, strong fee income, steady asset quality**
- **Loan growth moderated but remains higher than industry**
- **Higher provisions on proposed wage hike and international book dent earnings**
- **We revise estimates, rollover price target to Rs330, retain ADD recommendation**

Bank of Baroda (BoB) reported a PAT of Rs3.9 bn in 2QFY09 —growth of 21% yoy and in line with our estimates. Key highlights of the current quarter were (1) strong operational performance, (2) steady asset quality, (3) higher provisions on international investment book and ad-hoc provisions for the likely wage liabilities. We have revised our estimates upwards by 4% for FY2009E and marginally reduced estimates by 2-3% for FY2010-FY2011E. We retain our ADD rating on the stock with a target price of Rs330 (based on FY2010E estimates) from Rs310 (FY2009E). The stock currently trades at 5.6X PER and 0.8X PBR FY2010E.

Core operations of the company remain healthy. BoB's operations continue to remain healthy with the core profits (PBT- treasury + provisions) in 2QFY09 growing by an impressive 39% yoy and in line with our estimates. The company's domestic loan growth has moderated down to 32% yoy as of 2QFY09, down from the 36% yoy reported as of 1QFY09—a positive in our view. The company had a CASA ratio (domestic deposits) at 36% as of September 2008, marginally lower than the 37% in 1QFY09. The relatively higher proportion of low-cost deposits should help BoB manage its cost of funds. The company has been steadily improving its NIM over the past few quarters aided by the improved pricing environment and steady CASA ratio.

Non-interest income (ex-treasury) increased by 17% yoy and more important, a large part of these revenues were driven by core fees (up 34% yoy). The better pricing of its services and higher proportion of operations on the core banking platform are the likely reasons for the buoyancy in revenues.

Depreciation losses on international investment book result in higher provisions. BoB made Rs1.5 bn of provisions in 2QFY09 for mark-to-market losses on its international investment book, while there was a reversal of Rs319 mn of depreciation provisions on its domestic investment book. The company's international investment book (US$822 mn) as of September 2008 consisted of US$313 mn of CLN exposure (underlying is Indian corporates), US$183 mn of government securities and US$325 mn of corporate bonds. The exposure to Lehman group was around US$10 mn and the provision made against them was to the tune of US$5 mn.

BoB also made Rs600 mn of provisions for its likely wage hike liabilities on account of the negotiations that are currently under way between the employee unions and IBA. The company had provided Rs1 bn in FY2008 and Rs600 mn in 1QFY09 for this likely liability. This was included as a provision expense by the company, while we model this as employee expense in our model.

Steady asset quality is a positive. BoB had a gross NPL ratio of 1.6% and net NPL ratio of 0.4% as of September 2008, which is amongst the lowest for companies of similar asset size. The company had exposure of about Rs30 bn to property developers as of 2QFY09 (32% of FY2009E net worth)—the management stated all of these have been disbursed to large well rated entities and there have been no discrepancies in their repayment behaviour to date.

Bank of Baroda, Quarterly results, (Rs mn)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg	2QFY09KS	Actual Vs KS
Interest income	29,491	30,768	33,850	34,080	36,900	25.1		
Interest on advances	20,525	21,631	23,267	23,897	26,892	31.0		
Income from invts	7,468	7,857	8,221	9,054	8,655	15.9		
Bal with RBI	1,499	1,280	2,363	1,129	1,353	(9.7)		
Interest expenses	18,983	20,047	23,026	22,368	24,172	27.3		
Net interest income	**10,508**	**10,721**	**10,825**	**11,712**	**12,728**	**21.1**	**11,559**	**10.1**
NII post invt amortization	**9,969**	**10,183**	**9,875**	**11,170**	**11,338**	**13.7**	**11,019**	**2.9**
Non-interest income	4,541	6,180	5,546	5,126	4,759	4.8	3,439	38.4
Other income (excluding treasury)	3,273	4,241	4,734	4,236	3,837	17.2	3,439	11.6
Fee income	1,216	1,367	1,742	1,555	1,632	34.2	1,456	12.1
Forex income	663	633	862	942	551	(17.0)	800	(31.2)
Treasury income	1,268	1,939	813	890	923	(27.2)	-	
Total income	**15,049**	**16,901**	**16,371**	**16,837**	**17,487**	**16.2**	**14,998**	**16.6**
Operating expenses	7,983	7,281	7,687	7,694	8,250	3.4	7,400	11.5
Employee expenses	5,367	4,409	4,212	5,227	5,244	(2.3)	4,700	11.6
Other operating expenses	2,616	2,872	3,475	2,467	3,006	14.9	2,700	11.3
Operating profit	7,066	9,620	8,684	9,144	9,237	30.7	7,598	21.6
Provisions	1,674	1,866	4,790	3,345	3,200	91.1	1,740	83.9
Loan loss	1,100	1,350	2,478	581	620	(43.6)	1,200	(48.3)
Invt. Depreciation	(237)	(45)	614	2,788	1,189	(602.9)	-	
Invt. Amortization	539	538	540	542	1,390	158.1	540	157.4
PBT	5,392	7,754	3,895	5,799	6,037	12.0	5,858	3.1
Taxation	2,120	2,744	1,131	2,090	2,084	(1.7)	2,050	1.7
Net profit	**3,272**	**5,011**	**2,764**	**3,709**	**3,953**	**20.8**	**3,807**	**3.8**
PBT-invt gains/losses	3,888	5,771	3,696	7,697	6,304	62.2	5,858	7.6
PBT-invt gains + provisions	4,988	7,121	6,174	8,278	6,924	38.8	7,058	(1.9)
Tax rate	39.3	35.4	29.0	36.0	34.5		35.0	
Key balance sheet items (Rs bn)								
Deposits	1,314	1,369	1,520	1,549	1,611	22.6		
Domestic	1,061	1,124	1,225	1,238	1,310	23.5		
CASA (%)	37.5	37.3	36.0	36.9	35.9			
Foreign	253	245	296	311	301	18.8		
Advances	902	955	1,067	1,112	1,195	32.4		
Domestic	693	746	845	853	913	31.9		
Retail loans	145	154	169	167	177	22.7		
Home loans	63	67	73	73	76	20.4		
SME	102	107	117	NA	127	24.1		
Farm credit	114	121	131	137	149	31.1		
Foreign	210	209	222	259	282	34.4		
Investments	NA	NA	NA	466	405	NA		
AFS	NA	NA	NA	149	125	NA		
Duration (years)	NA	NA	2.6	1.9	1.8	NA		
Yield management measures (%)								
Average cost of deposits	5.5	5.6	5.7	5.6	5.6			
Avg. on deposits (domestic)	5.6	5.8	5.9	6.1	6.1			
Avg. on deposits (international)	4.8	4.8	4.8	3.4	3.4			
Yield on advances (total)	9.6	9.6	9.5	9.1	9.4			
Yield on advances (domestic)	10.5	10.5	10.5	10.3	10.7			
Yield on advances (international)	6.3	6.3	6.2	4.9	NA			
Yield on investments (total)	NA	6.91	6.55	7.22	NA			
Yield on investments (domestic)	NA	6.95	NA	NA	NA			
Yield on investments (international)	NA	6.53	NA	NA	NA			
NIM	3.11	3.00	2.90	2.89	2.77			
Asset quality details								
Gross NPLs (Rs bn)	21.3	20.4	19.8	20.9	19.5	(8.2)		
Gross NPLs (%)	2.3	2.1	1.8	1.9	1.6			
Net NPLs (Rs bn)	5.0	5.2	4.9	5.8	5.0	1.2		
Net NPLs (%)	0.6	0.5	0.5	0.5	0.4			
Capital adequacy details (%)								
CAR	12.9	13.5	12.9	13.0	12.9			
Tier I	8.8	9.1	7.6	7.9	7.8			
Tier II	4.1	4.5	5.3	5.2	5.1			

Source: Company, Kotak Institutional Equities estimates.

Bank of Baroda -- old and new estimates

March year-ends, 2009E-2011E(Rs mn)

	Old Estimates			New Estimates			% change		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
NII	48,048	59,012	70,890	49,860	57,028	68,433	3.8	-3.4	-3.5
Loan growth	24.1	17.0	15.9	26.2	17.0	15.9			
NIM	2.54	2.63	2.71	2.64	2.54	2.61			
Non-treasury other inc	15,764	16,842	18,316	17,777	18,909	20,532	12.8	12.3	12.1
Fee income	6,752	7,562	8,470	7,292	8,167	9,147	8.0	8.0	8.0
Operating expenses	33,251	38,123	41,972	33,583	38,506	42,385	1.0	1.0	1.0
Employee expenses	20,743	23,855	25,763	21,076	24,237	26,176	1.6	1.6	1.6
Provisions and contingencies									
Loan loss prov	7,175	12,933	18,402	7,240	13,145	18,704	0.9	1.6	1.6
Investment dep./amort	2,164	1,731	0	6,142	1,731	0	183.8	0.0	
PBT	**22,113**	**25,066**	**30,832**	**22,985**	**24,555**	**29,877**	**3.9**	**-2.0**	**-3.1**
PAT	**14,373**	**16,293**	**20,041**	**14,940**	**15,961**	**19,420**	**3.9**	**-2.0**	**-3.1**
PBT- invt gains + provisions	**28,397**	**36,000**	**47,234**	**31,890**	**35,700**	**46,581**	**12.3**	**-0.8**	**-1.4**

Source: Company, Kotak Institutional Equties estimates.

Cement

ABUJ.BO, Rs45	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	60
52W High -Low (Rs)	161 - 43
Market Cap (Rs bn)	68.4

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	55.3	60.5	61.9
Net Profit (Rs bn)	11.5	11.8	8.3
EPS (Rs)	7.6	7.8	5.4
EPS gth	*(11.2)*	*2.8*	*(30.0)*
P/E (x)	5.9	5.8	8.2
EV/EBITDA (x)	3.0	2.9	3.8
Div yield (%)	5.8	6.7	4.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.5	-	-
FIIs	24.9	0.4	0.1
MFs	0.5	0.0	(0.3)
UTI	-	-	(0.3)
LIC	10.9	0.9	0.5

Ambuja Cements: Earnings in line with estimates; retain REDUCE

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

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

- **Revenues grow 7% yoy, EBITDA declines 9%**
- **Targeting capacity additions of 6.5 mn tpa**
- **Retain REDUCE with a target price of Rs60 (5X CY2009E EV/EBITDA)**

Ambuja Cements Limited (ACL) reported 7% yoy increase in net revenues at Rs13.8 bn (our estimate Rs14.2 bn), 9% yoy decline in EBITDA at Rs3.9 bn (our estimate Rs4 bn) and net profit at Rs2.5 bn (our estimate Rs2.5 bn) during 3QCY08. Reported profits were lower by Rs80 mn on account of forex losses. EBITDA margins continue to remain under pressure due to rising costs of domestic and imported coal. We estimate volumes growth of 11% for CY2008E and 8.5% for CY2009E. We have revised our earnings estimates to Rs7.8 (Rs8 previously) for CY2008E and Rs5.4 (Rs6.6 previously) for CY2009E. Our earnings estimates factor in lower volumes growth and higher power and fuels costs. We retain our REDUCE rating with a reduced target price of Rs60 (Rs95 previously). Our target price implies EV/ton of US$98/ton on CY2009E production and EV/EBITDA of 5X on CY2009E.

Impact of rising fuel costs partially abated by lower cost of raw materials. ACL reported 7% yoy growth in revenues during 3QCY08, aided by 5% yoy improvement in realizations and 2% yoy growth in volumes. EBITDA margins continue to deteriorate sequentially (200 bps during the quarter) mainly on account of higher power and fuel costs. Higher fuel and freight costs were partially compensated by lower raw material costs. We note that quarter-on-quarter variations in raw material costs is typical for cement companies due to development costs incurred on new limestone mines. Commissioning of clinker capacities at Bhatapara during 1HCY09 could help reduce dependence on purchased clinker.

Multiples contract as we stare into a down-cycle. We have revised our target price to Rs60/share implying an EV/EBITDA of 5X and EV/ton of US$100/ton on CY2009E. Cement companies trade at-or-below replacement cost (US$110-120/ton) during the down-cycle. We expect bunching of large cement capacities commissioning during the next two years along with a likely slowdown in consumption (we factor in 8.5% consumption growth) to change the demand-supply against cement manufacturers resulting in lower realizations and profitability. Exhibits 4 and 5 give the historical EV/ton and EV/EBITDA multiple for ACL.

Targeting capacity addition of 6.5 mn tpa by CY2010. ACL is targeting capacity addition of 6.5 mn tpa (extant capacity of 18.5 mn tpa) by CY2010 at a capital cost of Rs31 bn (EV/ton of US$119/ton) inclusive of requisite captive power plants. In CY2008, ACL will likely commission a 1 mn tpa grinding unit at Surat. Exhibit 2 gives details of capacity additions planned by ACL over the next three years. During the quarter ACL commissioned an 18.7 MW captive power plant at Rabriyawas, Rajasthan. ACL has also set aside an incremental capex of Rs2.5 bn for purchase of vessels and development of bulk terminal facilities. ACL plans to increase sea-based despatches, in an effort to counter rising cost of road freight.

Retain REDUCE rating with a target price of Rs60/share. We have revised our earnings estimates to Rs7.8 (Rs8 previously) for CY2008E and Rs5.4 (Rs6.6 previously) for CY2009E. We retain our REDUCE rating with a reduced target price of Rs60 (Rs95 previously). Our earnings estimates factor in lower volumes growth and higher power and fuels costs. Our target price implies EV/ton of US$98/ton on CY2009E production and EV/EBITDA of 5X on CY2009E. Volume growth from grinding capacities at Farakka and Roorkee (dependent on purchased clinker) would come at the cost of deteriorating margins.

Exhibit 1: Quarterly results for Ambuja Cements, December year-ends (Rs mn)

			yoy		qoq	
	CY2008E	Sep 2008	Sep 2007	(% chg)	June 2008	(% chg)
Sales	**62,265**	**13,873**	**12,999**	***6.7***	**15,698**	***(12)***
Operating costs						
Raw materials	(5,229)	(738)	(770)	*(4)*	(1,150)	*(36)*
Employee costs	(2,587)	(648)	(615)	*5*	(644)	*1*
Freight costs	(12,950)	(2,936)	(2,671)	*10*	(3,249)	*(10)*
Power & fuel costs	(12,794)	(3,140)	(2,399)	*31*	(3,197)	*(2)*
Other costs	(10,456)	(2,466)	(2,212)	*11*	(2,715)	*(9)*
Total operating costs	(44,017)	(9,928)	(8,668)		(10,955)	
EBITDA	**18,248**	**3,945**	**4,332**	***(9)***	**4,743**	***(17)***
EBITDA margin (%)	29.3	28.4	33.3		30.2	
Other income	1,911	559	184		350	
Interest	(233)	(59)	156		(57)	
Depreciation	(2,572)	(654)	(584)		(616)	
PBT	**17,354**	**3,791**	**4,088**	***(7)***	**4,420**	***(14)***
Current tax (expense)/income	(5,210)	(1,210)	(1,012)		(1,300)	
Deferred tax (liability)/asset	(303)	-	57		(91)	
Net income	**11,841**	**2,581**	**3,133**	***(18)***	**3,029**	***(15)***
Extraordinaries	0	(80)	(209)		2,741	
Reported net income	**11,841**	**2,501**	**2,924**		**5,770**	
Per ton analysis						
Despatches, '000 tons	**17,837**	**3,900**	**3,829**	***1.9***	**4,376**	***(11)***
Realization (Rs/ton)	**3,491**	**3,557**	**3,395**	***4.8***	**3,587**	***(1)***
Operating cost (Rs/ton)	2,468	2,546	2,264	*12*	2,503	*2*
Raw materials	293	189	201	*(6)*	263	*(28)*
Employee costs	145	166	161	*3*	147	*13*
Freight costs	726	753	698	*8*	742	*1*
Power & fuel costs	717	805	627	*28*	731	*10*
Other costs	586	632	578	*9*	620	*2*
Profitability (Rs/ton)	**1,023**	**1,011**	**1,131**	***(11)***	**1,084**	***(7)***

Source: Company data, Kotak Institutional Equities.

Exhibit 2: ACL will likely add 6.5 mn tpa of cement capacity by CY2010

Details of capacity additions by ACL (mn tpa)

	mn tpa		
Location	**Grinding**	**Clinker**	**Commissioning**
Surat	1		1HCY2008
Bhatapara		2.2	1HCY2009
Ahmedabad	1.5		2HCY2009
Rauri		2.2	2HCY2009
Dadri	1.5		2HCY2009
Nalagarh	1.5		1HCY2010
Barh	1		2HCY2010
Total	**6.5**	**4.4**	

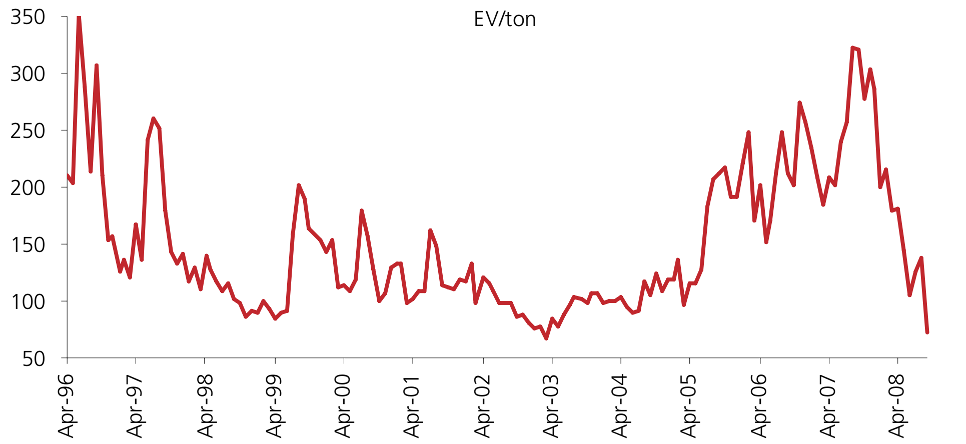
Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: Change in estimates for Ambuja Cements, December fiscal year-ends, 2009-10E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2009E	61,262	60,515	(1.2)	20,269	20,159	(0.5)	12,253	11,841	(3.4)
2010E	66,535	61,928	(6.9)	18,542	16,090	(13.2)	10,110	8,293	(18.0)

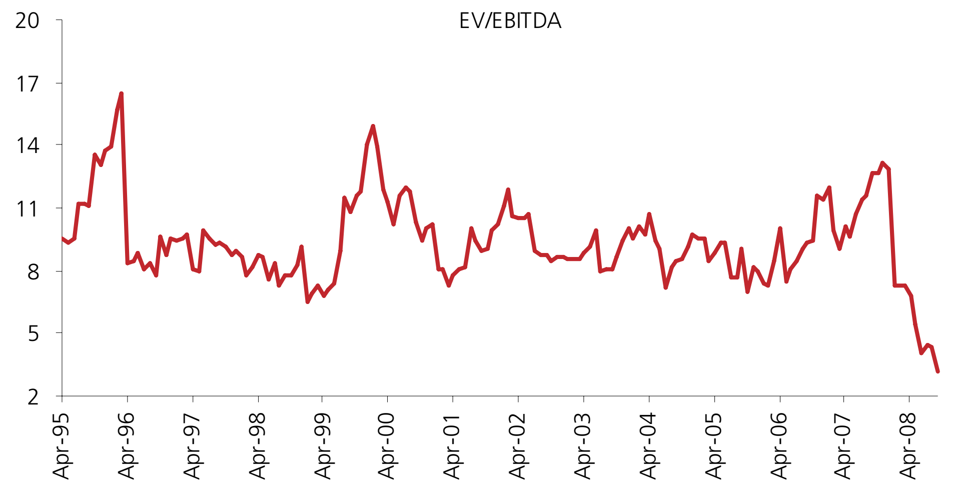
Source: Kotak Institutional Equities estimates.

Exhibit 4: Historical EV/ton for Ambuja Cements (US$/ton)



Source: CMA, Bloomberg, Kotak Institutional Equities.

Exhibit 5: Historical EV/EBITDA (X) multiple for Ambuja Cements



Source: CMA, Bloomberg, Kotak Institutional Equities.

Exhibit 6: Calculation of target price using our multi-stage valuation process

	Ambuja Cements
Dec 2009 CROGCI/WACC (X)	0.99
Assigned premium of EV/GCI to CROGCI/WACC (%)	(18)
Assigned EV/GCI (X)	0.8
GCI (Rs bn)	101
EV (Rs bn)	82
Net debt (Rs bn)	(10.1)
Mkt cap (Rs bn)	92
No. of shares (fully diluted)	1,522
Value of cement business (Rs)	**60**

Source: Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model of Ambuja Cement, December fiscal year-ends, 2006-9E (Rs mn)

	2006	2007	2008E	2009E
Profit model (Rs mn)				
Net sales	48,479	55,303	60,515	61,928
EBITDA	**17,608**	**18,706**	**16,498**	**12,812**
Other income	766	3,345	3,660	3,278
Interest	(377)	(759)	(233)	(160)
Depreciation	(2,269)	(2,363)	(2,572)	(3,519)
Pretax profits	15,727	18,929	17,354	12,412
Tax	(2,760)	(7,413)	(5,513)	(4,120)
Net profits	**12,968**	**11,517**	**11,841**	**8,293**
Earnings per share (Rs)	**8.5**	**7.6**	**7.8**	**5.4**
Balance sheet (Rs mn)				
Total equity	38,756	50,396	62,798	68,148
Total borrowings	8,654	3,304	3,648	3,648
Currrent liabilities	7,016	11,691	12,323	12,083
Total liabilities and equity	**54,426**	**65,391**	**78,769**	**83,880**
Cash	3,781	6,508	13,478	11,008
Current assets	7,995	9,365	11,514	12,026
Total fixed assets	31,241	36,567	45,931	58,001
Investments	11,331	12,889	7,783	2,783
Deferred Expenditure	77	62	62	62
Total assets	**54,426**	**65,391**	**78,769**	**83,880**
Free cash flow (Rs mn)				
Operating cash flow, excl. working capital	15,504	14,332	14,879	13,448
Working capital	76	3,305	(1,517)	(751)
Capital expenditure	(7,954)	(7,504)	(11,937)	(15,589)
Investments		(1,558)	5,107	5,000
Free cash flow	**7,626**	**8,574**	**6,532**	**2,108**

Source: Kotak Institutional Equities estimates.

Banking

UNBK.BO, Rs123	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	200
52W High -Low (Rs)	250 - 96
Market Cap (Rs bn)	62.4

Financials

May y/e	2008	2009E	2010E
Sales (Rs bn)	43.2	45.0	54.4
Net Profit (Rs bn)	13.9	13.3	15.5
EPS (Rs)	27.5	26.3	30.8
EPS gth	*2.0*	*(4.2)*	*17.0*
P/E (x)	4.5	4.7	4.0
P/B (x)	0.8	0.7	0.7
Div yield (%)	3.2	3.2	3.7

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.4	-	-
FIIs	18.7	0.2	(0.0)
MFs	8.6	0.4	0.2
UTI	-	-	(0.2)
LIC	1.9	0.1	(0.1)

Union Bank of India: Earnings above estimates, detailed results awaited

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

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

- **Union Bank reported PAT for 2QFY09 of Rs3.6 bn, up 31% yoy and 21% above estimates**
- **Net interest income of Rs9.75 bn, 9% above estimates; provisions 20% below estimates**
- **We will revise our estimates after the company's meeting with analysts today**

Union Bank of India reported PAT of Rs3.6 bn which was up 31% yoy and 21% above estimates. Growth in net interest income was strong at 45%, 9% higher than expectations. Non-interest income (Rs2.8 bn) was down 8% yoy, 26% above estimates. A detailed break-up of non-interest income is not available to us. However, the decline may be likely due to the large base of treasury gains that were booked in 2QFY08. The company made a provision for wage revision of Rs600 mn, excluding which, operating expenses were in line with our estimates. We will revisit our estimate after today's analyst meet.

Union Bank of India, Quarterly results, Rs mn

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	% chg	2QFY09KS	Actual Vs KS
Interest income	22,548	24,586	26,024	25,651	28,313	25.6		
Loans	16,261	17,562	18,135	18,414	21,410	31.7		
Investments	5,852	6,718	6,832	7,141	6,724	14.9		
Balances with RBI	172	140	104	84	167	(2.7)		
Others	263	166	953	11	12	(95.4)		
Interest expense	15,820	16,705	17,685	17,232	18,560	17.3		
Net interest income	**6,728**	**7,881**	**8,339**	**8,419**	**9,753**	**45.0**	**8,937**	**9**
Non-int.income	3,078	3,835	3,467	2,217	2,833	(8.0)	2,242	26
core fees	890	990	940	791	NA		1,000	
exchange income	610	690	760	584	NA		500	
sale of invts.	810	1,560	400	80	NA			
Non-int income excl treasury	2,268	2,275	3,067	2,137	2,833	24.9	2,242	26
Total income	9,806	11,715	11,806	10,635	12,586	28.3	9,979	26
Op. expenses	4,153	4,997	2,539	4,157	5,589	34.6	4,350	28
Employee cost	2,546	2,794	571	2,247	2,916	14.6	2,350	24
Other cost	1,607	2,203	1,968	1,910	2,672	66.3	2,000	34
Operating profit	5,653	6,719	9,267	6,479	6,997	23.8	5,629	24
Provisions and cont.	1,346	1,468	4,012	3,276	2,033	51.1	2,560	(21)
Investment amortization	370	360	360	318	NA		360	(100)
Investment Depreciation	40	(640)	1,100	3,390	NA		0	
NPLs	1,290	1,520	2,560	(510)	NA		2,200	(100)
Other provisions	(354)	239	(140)	77	600			
PBT	4,308	5,250	5,255	3,203	4,965	15.2	4,269	16
Tax	1,550	1,600	44	920	1,350	(12.9)	1,281	5
Net profit	**2,758**	**3,650**	**5,211**	**2,283**	**3,615**	**31.1**	**2,988**	**21**
Tax rate (%)	36	30	1	29	27		30	
Capital adequacy details (%)								
CAR	11.6	13.0	12.5	12.2	12.5			
Tier I	7	7.8	7.5	7.5	NA			
Tier II	4	5.3	5.1	4.7	NA			
Asset quality details								
Gross NPLs (Rs bn)	16.6	15.6	16.6	15.8	16.7	0.9		
Gross NPLs (%)	2.4	2.1	2.2	2.1	1.9	NA		
Net NPLs (Rs bn)	4.4	2.6	1.3	1.1	1.2	(73.4)		
Net NPLs (%)	0.7	0.4	0.2	0.2	0.1	NA		

Source: Company.

Pharmaceuticals

LUPN.BO, Rs627	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	950
52W High -Low (Rs)	782 - 425
Market Cap (Rs bn)	55.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	27.1	36.4	40.6
Net Profit (Rs bn)	4.1	4.3	5.3
EPS (Rs)	49.8	48.9	59.7
EPS gth	*30.2*	*(1.9)*	*22.2*
P/E (x)	12.6	12.8	10.5
EV/EBITDA (x)	14.9	10.5	8.6
Div yield (%)	1.5	1.5	1.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	12.4	0.1	(0.1)
MFs	10.7	0.5	0.3
UTI	1.3	0.5	0.3
LIC	2.7	0.1	(0.1)

Lupin: Sales in line. Margins beat estimates. Retain price target

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127
Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **2QFY09 revenues in line with KIE at Rs9.2 bn**
- **EBITDA margins ex R&D, VRS expense at 27%, 3% above KIE**
- **PAT at Rs1.1 bn, in line with KIE, FY2009E now includes VRS costs**
- **Maintain BUY with SOTP-based target price unchanged at Rs950**

Lupin reported a 5% qoq and 36% yoy increase in revenues. API revenues from India and finished dosages from advanced and developing markets beat KIE forecasts. India finished dosage sales continued to show strong growth with 19% yoy growth at the net sales level. Adjusted EBITDA margin ex R&D, VRS charge (Rs297 mn) was 27%, 3% above KIE. PAT at Rs1.1 bn was in line with KIE despite the VRS charge due to higher other income from licensing fees, however, interest costs were higher than KIE. FY2009E PAT revised downwards by 5% to reflect VRS charge, FY2010-11E PAT estimates left unchanged. The stock trades at 10.5X FY2010E and 9X FY2011E earnings. Maintain BUY rating with an SOTP-based target price of Rs950.

2QFY09 revenues broadly in line with KIE at Rs9.2 bn. Drivers:

1) **India finished dosages continued to show strong yoy growth at 19% at the net sales level.** Due to the change in excise rates this year, we look at the net sales rather than gross sales. This growth was driven by strong performance in therapeutic segments of CVS, diabetes, CNS, Asthma. In asthma, Lupin enjoys double digit market share. The company has started two new divisions—oncology and women's healthcare—and so far six products have been in-licensed for the Indian market.

2) **Finished dosage revenues from US** at US$58 mn beat KIE US$56 mn. Lupin currently markets 20 products in the US, maintaining that it is in the top 3 by market share in 16 of them, and the market leader in 7 of the 16 products. Lupin also launched Divalproex this quarter and claims to have a 10% market share in a seven player market.

   Lupin also started marketing Aerochamber Plus in a co-promotion agreement with Forest Laboratories, thereby extending its presence to the respiratory segment and capitalizing on the franchise it has built with pediatricians through Suprax. Forest had not promoted this product for the past eight years. The Aerochamber Plus is the most widely prescribed holding chamber in the US. Management expects strong growth in the next few years from this product as its market share in the inhaler segment is relatively small.

3) Revenues in Europe at Rs197 mn were lower than KIE Rs264 mn as there were no additional products launched this quarter. Lupin will be participating in the AOK contract in Germany through the recently acquired company, Hormosan. Management believes that pricing decline may not be as severe as anticipated due to the scope of differential pricing across the five regions as there are five regional tenders rather than a single tender. The company is confident of making profits at likely prices post the tender as (1) it will be supplying the APIs from India to the manufacturer in Germany (currently Hormosan outsources production) and (2) it believes prices are still attractive since they are higher than in its other European markets such as the UK.

4) Revenues from Kyowa, Japan were at Rs1 bn this quarter, 9% above KIE. In two key products in this market—Amlodipine and Risperidone—Lupin maintains that it is the market leader in the latter.

EBITDA margins ex R&D, VRS expense at 27%, 3% above KIE. Margins were up 3% qoq and beat forecasts due to lower materials cost at 39% of sales vs KIE 43%. Staff costs at 11% of sales was 30 bps lower than KIE while other expenses at 26.5% were higher than KIE due to the VRS charge of Rs297 mn. The company reduced its workforce at its Aurangabad plant and going forward expects savings of Rs60 mn per annum on this account. This was one of Lupin's oldest plants and was labour intensive with many workers having been with there for long. Lupin has now automated this plant and expects to service the anti AIDS segment from here.

PAT at Rs1.1 bn, in line with KIE. Despite the one-time VRS charge, PAT was in line with KIE due to higher other income from licensing fees at Rs273 mn vs KIE Rs130 mn. Interest costs at Rs127 mn was higher than KIE Rs110 mn. Tax rate at 21% was in line with KIE.

Maintain BUY rating with an SOTP-based target price of Rs950. FY2009E PAT revised downwards by 5% to reflect VRS charge, FY2010-11E PAT estimates left unchanged. Maintain BUY rating with SOTP-based target price of Rs950.

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

	2QFY08	1QFY09	2QFY09	2QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KIE)
Gross revenues	**6,756**	**8,792**	**9,221**	**9,441**	**36**	**5**	(2)
Excise duty	166	169	138	184	(17)	(18)	(25)
Net sales	**6,590**	**8,624**	**9,083**	**9,258**	**38**	**5**	(2)
Net material cost	3,042	3,720	3,555	3,981	17	(4)	(11)
Personnel cost	770	1,014	992	1,050	29	(2)	(6)
R&D	315	409	604	555	92	48	9
Other expenses	1,338	1,954	2,106	2,037	57	8	3
Total expenditure	5,464	7,097	7,257	7,623	33	2	(5)
EBITDA	**1,126**	**1,527**	**1,529**	**1,635**	**36**	**0**	**(6)**
Other income	188	202	273	130	45	35	110
Interest expense	80	102	127	110	59	25	16
Depreciation	140	193	201	200	44	4	0
PBT	**1,094**	**1,433**	**1,473**	**1,455**	**35**	**3**	**1**
Tax	338	313	312	291	(8)	(0)	7
Minority interest	(1)	(1)	2	—	NM	NM	NM
PAT	**756**	**1,121**	**1,160**	**1,164**	**53**	**3**	**(0)**
Share of associate	—	—	4	—	NM	NM	NM
Reported PAT	**756**	**1,121**	**1,156**	**1,164**	**53**	**3**	**(1)**
API	**2,348**	**1,914**	**1,765**	**2,236**	**(25)**	**(8)**	**(21)**
India	693	560	739	659	7	32	12
Developing markets	1,465	1,153	981	1,314	(33)	(15)	(25)
Advanced markets	190	201	45	263	(76)	(78)	(83)
Finished dosages	**4,408**	**5,817**	**6,194**	**6,146**	**41**	**6**	**1**
India	2,602	2,926	3,033	3,018	17	4	0
Developing markets	236	361	442	394	87	22	12
Advanced markets	1,389	2,324	2,522	2,470	82	9	2
Others	**—**	**1,061**	**1,262**	**1,059**	**NM**	**19**	**19**
Novodigm (CMO in India)	—	82	160	131	NM	95	22
Kyowa (Japan)	—	920	1,013	928	NM	10	9
others	—	59	89	—	NM	51	NM
Total	**6,756**	**8,792**	**9,221**	**9,441**	**36**	**5**	**(2)**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-20110E (Rs mn)

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs)	(%)	(%)	(X)
2007	20,137	18.8	4,281	28.2	3,086	78.4	38.2	14.9	41.2	16.4
2008	27,064	34.4	6,015	40.5	4,082	32.3	49.8	17.6	37.9	12.6
2009E	36,368	34.4	8,307	38.1	4,328	6.0	48.9	19.0	26.5	12.8
2010E	40,574	11.6	9,845	18.5	5,288	22.2	59.7	20.1	24.2	10.5
2011E	45,929	13.2	11,290	14.7	6,027	14.0	68.0	20.7	23.0	9.2

Source: Company, Kotak Institutional Equities estimates.

Consumer products

COLG.BO, Rs382	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	400
52W High -Low (Rs)	525 - 316
Market Cap (Rs bn)	51.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	14.7	16.9	19.1
Net Profit (Rs bn)	2.3	2.6	3.0
EPS (Rs)	17.1	19.1	21.7
EPS gth	*16.8*	*11.7*	*13.8*
P/E (x)	22.3	20.0	17.6
EV/EBITDA (x)	18.5	16.3	13.9
Div yield (%)	3.4	4.3	4.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.0	-	-
FIIs	7.9	0.1	(0.1)
MFs	5.1	0.2	0.1
UTI	-	-	(0.1)
LIC	6.1	0.2	0.1

Colgate-Palmolive (India): High volume growth fails to translate into high margins

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

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

- **Toothpaste volume growth robust, lack of pricing power evident**
- **Third consecutive quarter of flat or declining EBITDA, higher maintenance adspends and promotional spends indicate tough competition**
- **Retain REDUCE rating, stock has delivered 6% absolute returns over past year, absolute stock performance is likely capped from current levels**
- **Key upside risk is acceleration in earnings growth driven by price increases**

Colgate reported yoy sales growth of 14%, flat EBITDA and PAT growth of 16% for 2QFY09. Higher advertisement and promotion costs (up 240 bps to 20.6% of sales) impacted EBITDA; significantly lower tax rate (12%) boosted PAT. Colgate has taken a price increase of 2.5% in 1HFY09, lower than the average annual increase of 6% over the last few years—likely suggesting a mix deterioration and risk of downtrading. Margin pressure due to rupee depreciation (about 30% of raw materials are imported) is a key worry. Market share ambitions of key competitors—HUL and Dabur likely limit pricing power as well. We marginally tweak estimates as we model higher adspends and lower tax rates—EPS estimates remain largely unchanged at Rs19.1 (Rs19.2 previously) for FY09E and Rs21.7 (Rs21.9 previously) for FY10E. Over the past year, the stock has delivered absolute return of 6% (2% stock return plus dividend yield). We retain our REDUCE rating with a revised target price of Rs400/share (Rs420/share previously) as we believe that absolute stock performance is likely capped from the current market price of Rs382/share (20XFY09E). At the target price, the stock would trade at 18XFY10E (14% earnings growth estimates for FY10E). However, stability of earnings, good dividend yield (5%) and market leadership position make Colgate an excellent defensive stock to own in volatile times.

Toothpaste volume growth robust, lack of pricing power evident

Colgate achieved an overall volume growth of 11% in 2QFY09—7% in toothpaste (our estimates) and 41% in toothbrush categories. Toothpaste volume growth is likely to remain robust at about 8% for the next one year, likely driven by continued rural uptick and increase in consumer upgradation. However, we reiterate that inadequate market development spends by Colgate and HUL (combined market share of 80%) is resulting in lack of pricing power for Colgate. The company has effected a price increase of 2.5% in 1HFY09, lower than the average annual increase of 6% over the last few years—likely indicates mix deterioration and risk of downtrading. Market share gains by 'Cibaca' possibly indicate two scenarios—(1) higher consumer recruitment into toothpaste category as it is an entry-level brand, (2) potential downtrading within toothpaste category to lower value products (it is positioned as value-for-money).

Third consecutive quarter of flat or declining EBITDA

Company reported flat EBITDA for 2QFY09 on the back of modest declines in the previous two quarters. Raw material costs (as a percentage of sales) for the quarter increased 120 bps to 43.8% likely due to (1) rupee depreciation and hence higher import costs (about 30% of raw materials are imported) and (2) higher packing material costs (HDPE and LDPE prices were up 29% yoy for the quarter). Higher advertisement and promotion costs (up 240 bps to 20.6% of sales) also impacted EBITDA growth for the quarter. Colgate's product portfolio is relatively better insulated from crude-led cost impact. However, the company will likely be left out of any margin upside in case crude-led cost inflation of the last few years reverses.

Higher maintenance adspends indicate tough competition

A&P spends for the quarter topped 20% of sales—highest in over six years. We attribute this to three factors (1) structurally, Colgate will have to spend higher on advertisements to match HUL's SOV/SOM as HUL has scale benefits on media buying (2) lack of adequate market development investments earlier on, leading to requirement of higher maintenance spends now and (3) likelihood of higher promotional spends currently to boost toothpaste volumes (for example, toothbrush free with toothpaste or a banded pack of toothbrush and toothpaste wherein toothbrush price is cross-subsidized by toothpaste).

Though oral care is a non-focus category for parent Unilever, it contributes significantly to HUL. We believe that HUL will be uncomfortable with its market share below 30% and is expected to look at various options to prevent market share loss. Channel sources indicate moderate success for 'Pepsodent Mahapack'—flow wrapped toothpaste of 30 gms priced at Rs6. However, any likely pack size change in this pack by HUL (for example, rollback of grammage to 25 gms from 30 gms) augurs well for Colgate.

Retain REDUCE rating, absolute stock performance is likely capped from current levels

We marginally tweak estimates as we model higher adspends and lower tax rates—EPS estimates remain largely unchanged at Rs19.1 (Rs19.2 previously) for FY09E and Rs21.7 (Rs21.9 previously) for FY10E. Over the past year, the stock has delivered absolute return of 6% (2% stock return plus dividend yield) and the relative premium to Sensex P/E is at an 8-year high at 150%. Retain REDUCE rating with a revised target price of Rs400/share (Rs420/share previously) as we believe that absolute stock performance is likely capped from the current market price of Rs382/share (currently trading at 20XFY09E). At our target price, the stock would trade at 18XFY10E (14% earnings growth estimates for FY10E). However, stability of earnings, good dividend yield (5%) and market leadership position make Colgate an excellent defensive stock to own in volatile times.

Downside risks to our rating are (1) any unprecedented competitive activity by HUL for aggressive market share gains, (2) emergence of price-based competition and (3) higher-than-expected down trading in the category. Key upside risk is acceleration in earnings growth driven by price increases or lower adspends.

Colgate Palmolive - Quarterly summary, March yearends (Rs mn)

	2QFY09	2QFY08	yoy % chg
Net income	**4,302**	**3,768**	**14.2**
Material cost	(1,807)	(1,552)	
Employee cost	(320)	(308)	
Other expenditure	(637)	(556)	
Advertising & promotions	(850)	(662)	
Total expense	(3,614)	(3,077)	
EBITDA	**688**	**690**	**(0.3)**
Depreciation	(56)	(49)	
EBIT	632	641	
Other income	93	70	
Net interest	(5)	(6)	
PBT	**721**	**705**	**2.2**
Tax	(86)	(158)	
PAT	**635**	**547**	**16.0**
Extraordinary income (loss)	-	-	
Reported net profit	**635**	**547**	**16.0**
EBITDA margin (%)	16.0	18.3	
Effective tax rate (%)	11.9	22.4	
Costs as % of net sales			
Material cost	42.0	41.2	
Employee cost	7.4	8.2	
Other expenditure	14.8	14.7	
Advertising & promotions	20.6	18.2	

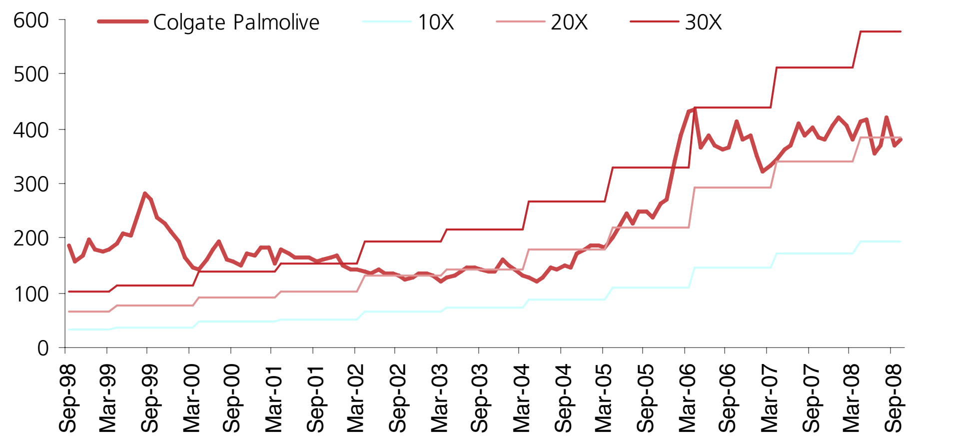
Source: Company data, Kotak Institutional Equities.

Consumer sector stocks have outperformed Sensex by 31% over the last one year

Company	Price (Rs)	Mkt Cap (Rs mn)	Absolute Change, % 1-mo	6-mo	1-Year	Relative Change, % 1-mo	6-mo	1-Year	52 Week High	Low
Hindustan Unilever	226	493,086	(9)	(9)	5	20	26	38	266	169
ITC	159	594,526	(18)	(24)	(14)	14	16	26	239	151
Nestle India	1,445	139,350	(12)	(9)	12	18	26	43	1,880	1,200
Colgate-Palmolive	382	51,888	(4)	(5)	2	24	29	36	525	316
Godrej Consumer Products	103	26,701	(13)	(19)	(10)	17	20	28	158	87
GlaxoSmithkline Consumer	598	25,128	(2)	(3)	(11)	25	31	28	799	489
Asian Paints	956	91,685	(20)	(22)	(6)	12	18	31	1,334	875
Jyothy Laboratories	240	3,483	(38)	(63)	NM	(1)	(10)	NM	964	220
Tata Tea	534	32,995	(22)	(38)	(32)	10	7	14	1,015	527
Consumer Products		**1,458,843**	**(14)**	**(17)**	**(5)**	**16**	**21**	**31**		
Sensex	**8,701**		**(36)**	**(48)**	**(53)**					

Source : Kotak Institutional Equities

Colgate-Palmolive - P/E bands



Source: Kotak Institutional Equities estimates

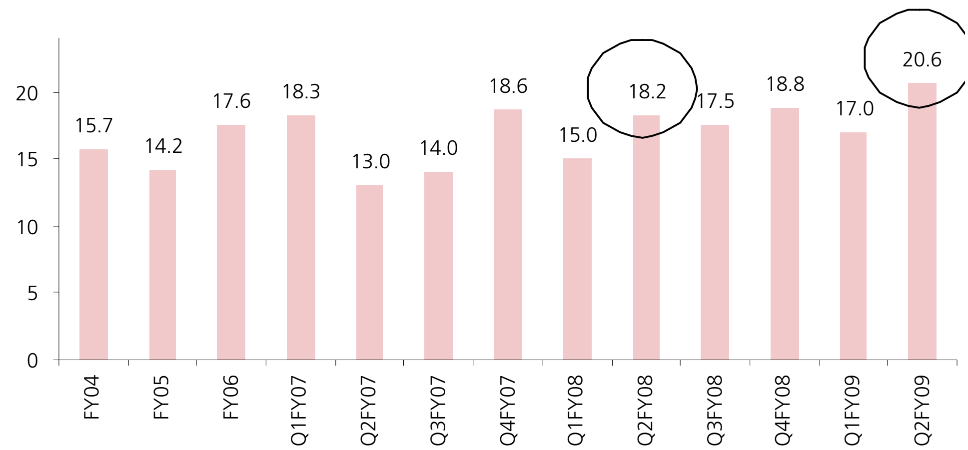
Excellent defensive characteristics demonstrated by the stock in CY2008

Relative P/E of Colgate over Sensex (x)

Source : Kotak Institutional Equities

Colgate will have to spend higher on A&P to match HUL in terms of share of voice

Advertising and promotion as a % of sales



Source: Company data, Kotak Institutional Equities.

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

	FY2009E			FY2010E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	16,883	16,883	0	19,111	19,111	0
EBIDTA	2,607	2,821	(8)	3,072	3,320	(7)
Net profit	2,596	2,615	(1)	2,956	2,975	(1)
EPS (Rs)	19.1	19.2	(1)	21.7	21.9	(1)
Sales growth (%)	15.1	15.1		13.2	13.2	
Profit growth (%)	11.7	12.4		13.8	13.8	

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	**11,239**	**12,892**	**14,665**	**16,883**	**19,111**
EBITDA	**2,018**	**2,089**	**2,301**	**2,607**	**3,072**
Other income	196	670	773	772	818
Interest	(6)	(10)	(13)	(10)	(10)
Depreciation	(149)	(153)	(197)	(197)	(217)
Extraordinary items	(125)	(389)	(10)	0	0
Pretax profits	1,934	2,208	2,854	3,172	3,664
Tax	(558)	(606)	(538)	(576)	(708)
Net profits	**1,376**	**1,602**	**2,316**	**2,596**	**2,956**
Earnings per share (Rs)	**11.0**	**14.6**	**17.1**	**19.1**	**21.7**
Dividend per share (Rs)	**7.5**	**9.5**	**13.0**	**16.2**	**18.5**
Balance sheet (Rs mn)					
Total equity	2,711	2,805	1,832	1,851	1,873
Total borrowings	44	43	44	44	44
Currrent liabilities	3,511	4,226	4,718	5,392	5,944
Total liabilities and equity	**6,265**	**7,074**	**6,593**	**7,287**	**7,861**
Cash	880	1,117	227	218	176
Current assets	2,135	2,447	2,740	3,283	3,713
Total fixed assets	1,691	1,920	2,036	2,196	2,381
Investments	1,559	1,590	1,590	1,590	1,590
Total assets	**6,265**	**7,074**	**6,593**	**7,287**	**7,861**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	1,348	1,411	2,211	2,425	2,759
Working capital	427	71	75	19	38
Capital expenditure	(332)	(600)	(312)	(357)	(402)
Investments	124	150	0	0	0
Free cash flow	**1,567**	**1,033**	**1,974**	**2,087**	**2,394**
Key assumptions					
Revenue growth (%)	17.0%	14.7%	13.8%	15.1%	13.2%
EBITDA margin(%)	18.0%	16.2%	15.7%	15.4%	16.1%

Source: Kotak Institutional Equities estimates.

Industrials

BAJE.BO, Rs600	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	950
52W High -Low (Rs)	2180 - 582
Market Cap (Rs bn)	48.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	42.1	48.9	55.0
Net Profit (Rs bn)	8.4	8.4	8.9
EPS (Rs)	102.0	105.5	111.8
EPS gth	*11.2*	*3.4*	*6.0*
P/E (x)	5.9	5.7	5.4
EV/EBITDA (x)	1.8	1.3	1.0
Div yield (%)	3.5	4.2	4.2

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.9	-	-
FIIs	8.8	0.1	(0.1)
MFs	6.8	0.5	0.2
UTI	-	-	(0.2)
LIC	3.4	0.2	(0.0)

Bharat Electronics: Results continue to disappoint; however, valuations adjusted for cash imply very low P/E multiple; reiterate ADD

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

Supriya Subramanian : supriya.subramanian@kotak.com, +91-22-6634-3383

- **Revenues disappoint led by lower execution; however marginal positive surprise on margins**
- **Current market value, adjusted for cash, ascribes P/E multiple of 3.1X FY2010E to BEL and 4.5X free cash generation in FY2008**
- **Highlight downside risk to earnings due to potential higher wage provisioning requirement for BEL**
- **Maintain our earnings estimate; change target price to Rs950 from Rs1,200 earlier and reiterate ADD rating**

Bharat electronics reported 2QFY09 net revenues of Rs7.9bn versus our expectation of Rs8.5 bn. Operating margins declined to 21.5% (down 10 bps yoy) versus our expectation of 20%. Higher employee costs were offset by a reduction in material costs and other expenses as a percentage of sales. However potential higher employee wage provisioning requirements is a downside risk to our estimates. Profit after tax reported was Rs1.3 bn below our expectation of Rs1.4 bn mainly due to significant increase in interest costs of Rs70 mn in 2QFY09 versus Rs0.4 mn in the last year. We highlight that the current market value when adjusted for cash assigns a low P/E multiple of only Rs3.3X FY2009E and 3.3X FY2010E to BEL. We maintain our earnings estimate of Rs104.4 and Rs111.1 for FY2009E and FY2010E respectively. We change our DCF-based target price to Rs950 from Rs1,200 earlier; reiterate ADD rating.

Revenues disappoint led by lower execution; however, margins better than expected

BEL reported 2QFY09 net revenues of Rs7.9 bn (up 11.1% yoy), below our expectation of Rs8.5 bn, led by lower execution (Exhibit 1). Operating profit margins declined by 10 bps yoy to 21.5% versus our expectation of a 160 bps margin decline to 20%. Profit after tax reported was Rs1.3 bn (up 6.4% yoy), about 8.7% below our estimate of Rs1.4 bn.

For the half year ending September 2008, BEL reported revenues of Rs11.7 bn (up 5.2% yoy) from Rs11.1 bn in 1HFY08. Operating profit margin for 1HFY09 declined by 170 bps yoy to 11.7% versus 13.4% for the same period last year. Profit after tax reported was Rs1.3 bn (down 10.6% yoy) mainly due to exceptionally low PAT of Rs25 mn in the previous quarter.

BEL reported operating profit margin decline of only 10 bps yoy to 21.5% versus our estimates of a 160 bps dip in margin. Employee costs as a percentage of sales increased by 525 bps yoy driven by (1) merging of Dearness Allowance with basic salary for BEL employees and (2) higher provisions for employee wage revisions. This sharp rise in employee cost was offset by a 250 bps yoy decline in raw material cost and other expenses as a percentage of sales. The resulting operating profit of Rs1.7 bn was in line with our estimates. However, the profit after tax reported by the company was Rs1.3 bn (up 6.4% yoy), about 8.7% below our estimates of Rs1.4 bn. The lower-than-expected PAT was mainly driven by a significant increase in interest cost from Rs0.4 mn in 2QFY08 to Rs70 mn in this quarter.

Current market value, adjusted for cash, ascribes low P/E multiple of 3.1X FY2010E to BEL

We highlight that the current market value when adjusted for cash assigns a low P/E multiple of only Rs3.3X FY2009E and 3.3X FY2010E to BEL. Cash on books for BEL (as of March 31, 2008) was about 51% of current market capitalization of the company. The company generated Rs5.1 bn of free cash flow in FY2008 (post meeting capital expenditure commitments). Thus, residual market capitalization adjusted for existing cash is only 4.6X FY2008 free cash.

Note the downside risk to earnings due to potential higher wage provisioning requirement

We highlight that BEL may be required to make additional provisions for employee costs (higher than our estimates for FY2009). BEL is making provisions at a rate of Rs110 mn per quarter for employee cost hikes related to the sixth pay commission. However, we would like to also highlight that BEL's rate of provisioning need not be the same as BHEL, since BEL is A rated while BHEL is an A+ rated organization (reflected by the fact that average cost per employee is higher by 33% for BHEL). Last year, the average salary per employee in BHEL was Rs5,59,221 and that in BEL was Rs4,20,001.

Maintain earnings estimates; change target price to Rs950 from Rs1,200 earlier and reiterate ADD rating

We maintain our earnings estimate of Rs104.4 and Rs111.1 for FY2009E and FY2010E, respectively. We highlight that even though BEL has missed our revenue expectations, it has executed about 25% of our estimated revenues for FY2009E so far versus an execution of 27% of total FY2008 revenues in 1HFY08. Hence, we believe that our near-term earnings forecast has potential inherent risks. We change our DCF-based target price to Rs950 from Rs1,200 earlier based on lower earnings and margin assumptions in the long term (Exhibit 2).

Despite cheap valuations, we desist from upgrading our rating to BUY, preferring to retain our ADD rating due to low near-term visibility. We highlight key risks arising from (1) potential long-term increase in competition given that several firms may be awarded the Raksha Udyog Ratna status, (2) lack of publicly available data points/news flows to justify more optimism and (3) infrequent investor communication and disclosures. Key upside risks arise from (a) non-defense/overseas orders, (b) strong execution over the next few quarters.

Exhibit 1: BEL - key numbers - 2QFY09 (Rs mn)

		yoy			qoq			yoy	
	2QFY09	2QFY08	*% change*	2QFY09	1QFY09	*% change*	1HFY09	1HFY08	*% change*
Net Sales	**7,877**	**7,089**	**11.1**	**7,877**	**40,603**	**(80.6)**	**11,716**	**11,133**	**5.2**
Raw Material Consumed	(5,021)	(4,414)	13.7	(5,021)	(20,638)	(75.7)	(7,847)	(6,771)	15.9
Stock Adjustment	1,234	826	49.3	1,234	88	1,298.0	2,037	894	127.9
Employee Expenses	(1,832)	(1,277)	43.5	(1,832)	(6,592)	(72.2)	(3,424)	(2,726)	25.6
Other Expenses	(562)	(691)	(18.7)	(562)	(3,414)	(83.6)	(1,111)	(1,043)	6.6
Total Expenditure	**(6,181)**	**(5,556)**	**11.3**	**(6,181)**	**(30,556)**	**(79.8)**	**(10,345)**	**(9,646)**	**7.3**
EBITDA	**1,696**	**1,534**	**10.6**	**1,696**	**10,047**	**(83.1)**	**1,370**	**1,487**	**(7.9)**
Other Income	532	497	7.1	532	2,389	(77.7)	1,144	1,153	(0.8)
PBIDT	**2,228**	**2,031**	**9.7**	**2,228**	**12,435**	**(82.1)**	**2,515**	**2,641**	**(4.8)**
Interest	(71)	(0)	17,557.5	(71)	(2)	2,782.9	(71)	(2)	4,343.1
PBDT	2,158	2,030	6.3	2,158	12,433	(82.6)	2,444	2,639	(7.4)
Depreciation	(256)	(221)	15.8	(256)	(926)	(72.4)	(496)	(432)	14.9
PBT	**1,902**	**1,809**	**5.1**	**1,902**	**11,506**	**(83.5)**	**1,947**	**2,207**	**(11.8)**
Tax	(594)	(581)	2.3	(594)	(3,446)	(82.8)	(615)	(716)	(14.1)
PAT	**1,308**	**1,228**	**6.4**	**1,308**	**8,061**	**(83.8)**	**1,333**	**1,491**	**(10.6)**
Extraordinaries	-	-		-	207		-	-	
Reported PAT	**1,308**	**1,228**	**6.4**	**1,308**	**8,267**	**(84.2)**	**1,333**	**1,491**	**(10.6)**
Key ratios (%)									
Material cost ratio	48.1	50.6		48.1	50.6		49.6	52.8	
Employee cost ratio	23.3	18.0		23.3	16.2		29.2	24.5	
Other exps ratio	7.1	9.7		7.1	8.4		9.5	9.4	
EBITDA margin	**21.5**	**21.6**		**21.5**	**24.7**		**11.7**	**13.4**	
PBIDT margin	28.3	28.6		28.3	30.6		21.5	23.7	
PBT margin	24.1	25.5		24.1	28.3		16.6	19.8	
Effective tax rate	31.2	32.1		31.2	29.4		31.6	32.4	
PAT margin	16.6	17.3		16.6	20.4		11.4	13.4	

Source: Company, Kotak Institutional Equities

Exhibit 2: DCF for BEL, March fiscal year ends 2009E-2020E, (Rs mn)

Year	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Revenues	48,923	55,007	57,757	60,645	63,677	66,861	70,204	73,714	77,400	80,496	83,716	87,064
Growth (%)	16.3	12.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.0
EBIT (excl finl income)	10,544	11,178	8,664	9,097	9,552	10,029	8,424	8,846	9,288	9,659	10,046	10,448
Growth (%)	5.8	6.0	(22.5)	5.0	5.0	5.0	(16.0)	5.0	5.0	4.0	4.0	4.0
EBIT Margins	22	20	15	15	15	15	12	12	12	12	12	12
Effective tax rate	32.4	32.3	32.3	32.3	32.3	32.3	32.3	32.3	32.3	32.3	32.3	32.3
EBIT*(1-tax rate)	**7,133**	**7,564**	**5,862**	**6,155**	**6,463**	**6,786**	**5,701**	**5,986**	**6,285**	**6,536**	**6,798**	**7,070**
Growth (%)	2.3	6.0	(22.5)	5.0	5.0	5.0	(16.0)	5.0	5.0	4.0	4.0	4.0
Depreciation / Amortisation	1,087	1,154	1,154	1,250	1,350	1,450	1,600	1,650	1,800	1,950	2,050	2,051
Change in Working Capital	(561)	(4,894)	(825)	(866)	(910)	(955)	(1,003)	(1,053)	(1,106)	(929)	(966)	(1,005)
Capital Expenditure	(1,000)	(1,000)	(1,250)	(1,500)	(1,750)	(2,000)	(2,250)	(2,500)	(2,750)	(3,000)	(3,000)	(3,000)
Free Cash Flows	**6,658**	**2,824**	**4,941**	**5,039**	**5,154**	**5,281**	**4,048**	**4,083**	**4,229**	**4,558**	**4,882**	**5,116**
Growth (%)	58.4	(57.6)	75.0	2.0	2.3	2.5	(23.4)	0.9	3.6	7.8	7.1	4.8
Years discounted	-	-	1	2	3	4	5	6	7	8	9	10
Discount factor	1	1.00	0.88	0.78	0.68	0.60	0.53	0.47	0.41	0.36	0.32	0.28
Discounted cash flow	**6,658**	**2,824**	**4,354**	**3,912**	**3,525**	**3,182**	**2,149**	**1,910**	**1,743**	**1,655**	**1,562**	**1,442**

WACC calculation	
Risk-free rate (Rf)	8.5%
Beta (B)	1.0
Equity risk premium	5.0%
Expected market Return (Rm)	13.5%
Cost of Equity (Ke)	13.5%
Cost of Debt (Kd) (Post-tax)	8.0%
WACC (Beta implied)	13.5%
WACC assumed	**13.5%**

Terminal value calculation	
Cash flow in terminal year	5,116
g	4.0%
Capitalisation rate	9.5%
Terminal value	56,008
Discount period (years)	10
Discount factor	0.3
Discounted value	15,787

NPV calculation	**Rs mn**
Sum of free cash flow	34,915
Terminal value	15,787
Enterprise value	50,701
Add Investments	-
Net debt	(24,595)
Net present value-equity	75,296
Shares o/s	80.0
NPV /share(Rs)	**941**

Source: Company, Kotak Institutional Equities estimates

Banking

SRTR.BO, Rs210	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	320
52W High -Low (Rs)	472 - 199
Market Cap (Rs bn)	42.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	12.0	17.4	21.8
Net Profit (Rs bn)	3.9	5.5	6.6
EPS (Rs)	19.2	26.8	31.1
EPS gth	*86*	*39.9*	*15.9*
P/E (x)	11.0	7.8	6.8
P/B (x)	2.4	2.1	1.7
Div yield (%)	2.4	3.8	4.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	42.0	-	-
FIIs	14.8	0.1	(0.0)
MFs	2.3	0.1	(0.1)
UTI	-	-	(0.2)
LIC	-	-	(0.2)

STFC: Results in line, strong growth traction continues amidst concerns on slippages

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588
Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **STFC reported PAT (2QFY09) of Rs1.65 bn, up 73% yoy and 17% above estimates**
- **Strong loan growth (52%) has driven growth in net operational income (60%)**
- **Provisions have been lower (17% below expectations) as NPL ratio remained stable**
- **We will revise estimates after today's conference call**

Shriram Transport Finance's (STFC) core income (PBT excluding extraordinary items) was up 46% yoy, 2% above estimates primarily driven by significant (37%) growth in disbursements and marginal increase in NIMs. The company made lower-than-expected provisions which resulted in higher 73% yoy growth in net profit. While its reported NPL position appears stable (gross NPLs at 1.7%), strong growth could increase delinquencies in later stages of the credit cycle. We will revise our estimates after today's conference call.

Key highlights

Strong traction in growth. STFC reported disbursements of Rs36 bn (up 37% yoy) mainly driven by used vehicles (Rs29 bn, up 44% yoy). Consequently, truck assets were up 52% yoy to Rs225 bn.

Marginal rise in NIMs. STFC's NIMs (based on our calculations) have improved marginally to 8.1% in 2QFY09 from 7.9% in 2QFY08. While reported spreads have reduced yoy by 0.4%, the increase in NIMs is likely due to higher lower leverage post its capital issuance in 3QFY08.

Significant increase in employees. In order to support the growth in business, STFC added 1,893 employees during the quarter resulting in an employee base of 12,612. This was likely the reason for 101% rise in employee expenses.

Lower tax rate in 2Q09.STFC's tax rate reduced to 30% for 2QFY09 from 35%. This was likely due to the write-back of tax provisions that were made in preceding quarters.

Shriram Transport Finance - Quarterly results

In Rs mn	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	YoY(%)	2Q09E	Actual vs KS (%)
Total operational income	4,636	5,603	6,602	7,630	8,353	9,053	62		
Income on securitised loans	255	300	346	510	825	710	137		
Total interest expense	2,306	2,869	3,681	3,934	4,287	4,683	63		
Net operational income (before provisions)	**2,329**	**2,734**	**2,920**	**3,696**	**4,067**	**4,369**	**60**	**4,212**	**4**
Provision and credit costs	569	630	526	667	632	680	8	818	(17)
Net operational income after provisions	**1,761**	**2,105**	**2,395**	**3,030**	**3,435**	**3,689**	**75**	**3,393**	**9**
Other income	76	92	6	15	2	6	(94)	15	(61)
Total income	**2,405**	**2,826**	**2,926**	**3,711**	**4,068**	**4,375**	**55**	**4,227**	**4**
Operating expenses	**697**	**726**	**784**	**1,272**	**1,220**	**1,314**	**81**	**1,229**	**7**
Employee expenses	254	260	285	402	480	522	101	493	6
Other expenses	401	412	449	664	641	723	76	641	13
Depreciation	42	54	50	206	99	70	28	95	(27)
Pretax income	**1,140**	**1,471**	**1,617**	**1,773**	**2,217**	**2,380**	**62**	**2,179**	**9**
Tax provisions	398	511	547	654	781	723	41	763	(5)
Net Profit	**750**	**959**	**1,070**	**1,118**	**1,436**	**1,657**	**73**	**1,416**	**17**
PBT (excl provisions and extraordinaties)	**1,708**	**2,100**	**2,143**	**2,439**	**2,849**	**3,061**	**46**	**2,998**	**2**
Tax rate (%)	35	35	34	37	35	30		35	
Other details									
Disbursements (Rs mn)	20,116	26,760	30,540	38,480	28,250	36,539	37	36,000	1
Pre-owned	14,468	20,270	22,003	26,200	22,415	29,211	44		
New	5,648	6,490	8,537	12,280	5,835	7,328	13		
Total truck assets under management (Rs mn)	129,326	148,250	166,670	195,200	206,780	225,500	52	218,780	3
O/s Truck assets (Rs mn)	95,846	118,790	118,004	151,190	164,280	180,379			
Off balance sheet truck assets (Rs mn)	33,480	29,460	48,666	44,010	42,500	45,121			
Used vehicle / total assets under management (%)	71	71	71	NA	72	70			
New vehicle / total assets under management (%)	29	29	29	NA	28	30			
Yield on assets (%)	17.1	17.8	17.4	17.5	17.2	17.6			
Cost of funds (%)	10.0	11.1	11.3	10.8	11.1	11.2			
Difference (%)	7.2	6.7	6.2	6.7	6.1	6.4			
RoA (%)		2.94	2.81	2.57	3.13	3.36			
RoE (%)		29.67	27.46	24.76	30.41	32.38			
Gross NPLs(%)	1.97	1.9	1.6	1.6	1.7	1.7			
Net NPLs(%)	1.19	1.0	1.0	0.9	0.9	0.9			
Debt equity ratio (X)		8.6	7.6	8.1	7.6	8.0			
Balance Sheet (Rs mn)									
Fixed assets		1,641.6	1,602.9	1,426.4	1,336	1,270	(23)		
Loans and advances		472.4	673.8	688.6	810	821	74		
Cash and bank		12,261.6	23,548.0	12,502.6	14,650	16,751	37		
Investments		2,158.0	7,363.8	13,851.2	3,564	7,273	237		
Truck receivables		118,820.7	130,294.1	151,191.3	163,050	180,379	52		
Current assets		2,171.6	3,515.1	1,784.4	1,646	2,249	4		
Total		137,526	166,998	181,445	185,057	208,742	52		
Shareholders funds		13,255.8	17,946	18,164	19,619	21,298	61		
Equity capital		1,911.3	2,031.4	2,031.6	2,033	2,035	6		
Reserves		11,344.5	15,915.0	16,132.0	17,586	19,263	70		
Loans		114,280.1	137,227.2	147,863.5	148,845	171,058	50		
Current liabilities		9,123.8	10,957.6	15,058.1	16,409	16,202	78		
Deferred tax liabilities		866.2	866.2	359.2	184	184	(79)		
Total		137,526	166,997	181,444	185,057	208,742	52		

Source: Company, Kotak instutional equities estimates.

GSPT.BO, Rs33	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	65
52W High -Low (Rs)	114 - 31
Market Cap (Rs bn)	18.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.2	5.9	9.0
Net Profit (Rs bn)	1.0	1.7	2.4
EPS (Rs)	1.8	3.0	4.2
EPS gth	*10.1*	*66.1*	*39.9*
P/E (x)	18.6	11.2	8.0
EV/EBITDA (x)	6.6	5.8	4.2
Div yield (%)	1.5	2.5	3.5

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	37.8	-	-
FIIs	16.3	0.1	(0.0)
MFs	4.8	0.1	0.0
UTI	-	-	(0.1)
LIC	1.0	0.0	(0.1)

GSPL: Weaker-than-expected 2QFY09 results but reiterate BUY given large potential upside to target price

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

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

- **Reiterate positive view given favorable risk-reward balance; potential upside (79%) from current levels**
- **Concerns on profit sharing with Gujarat government and inimical regulations may be overdone**
- **Retain BUY with 12-month DCF-based target price of Rs60 (Rs65 previously)**

GSPL reported 2QFY09 net income at Rs283 mn (-13.2% qoq, +74% yoy) versus our estimate of Rs329 mn. 2QFY09 EBITDA at Rs1.02 bn (-4.8% qoq, +26.4% yoy) was marginally below our estimated Rs1.04 bn. We have revised FY2009E, FY2010E and FY2011E EPS to Rs2.7, Rs3.7 and Rs4.3, respectively, from Rs3, Rs4.2 and Rs5.1 to reflect lower gas transportation volumes. We expect GSPL's earnings to grow strongly over the next few years led by a likely steep increase in gas supply in India. We believe that the recent correction in the stock price factors in the street's concerns on (1) likely sharing of 30% of pre-tax profits with Gujarat government for socio-economic development and (2) likely negative impact of impending regulations. We retain our BUY rating with a 12-month DCF-based target price of Rs60. Key downside risks stem from lower-than-expected gas supply.

2QFY09 results highlights—flat revenues despite lower volumes qoq in 2QFY09. GSPL's reported 2QFY09 revenues at Rs1.2 bn (-1% qoq and +24% yoy), which was in line with our estimate. Revenues were flat qoq as higher transmission charge (Rs0.83/cu m compared to Rs0.73/cu m in 1QFY09) compensated for a sharp decline in gas transportation volumes (1.43 bcm versus 1.64 bcm in 1QFY09). We await the management's explanation on this divergent trend but believe company's 'take or pay' arrangement with its customers may have led to flat revenues despite lower qoq transmission volumes. Under this arrangement, the amount receivable from a customer gets accounted in revenues even if it does not take its contracted quantity of gas. We attribute the qoq decline in volumes to lower imports of spot LNG given the very high price of spot LNG in 2QFY09, which would have precluded use of LNG by several customers.

GSPL's reported 2QFY09 EBITDA was lower at Rs1.02 bn (-4.8% qoq and +26.4% yoy) versus our expected Rs1.04 bn due to gas transportation charges of Rs19 mn (versus nil in 1QFY09). Net income was lower qoq at Rs283 mn versus Rs326 mn in 1QFY09 due to (1) higher interest expense at Rs231 mn (+5.9% qoq) and (2) higher tax.

Valuations look reasonable. At 1.38X P/B (FY2009E book) and 12.6X FY2009E EPS, GSPL's valuations are reasonable in the context of its accounting policy (high upfront depreciation of pipelines). We focus on cash flow-based valuation parameters (P/CEPS or DCF) and find the valuations attractive with the stock currently trading at 0.95X FY2009E GCI (EV/GCI) and 0.83X FY2010E GCI.

Stock price seems to factoring key concerns and more. We believe that GSPL's current stock price is already discounting (1) high probability of sharing of 30% of pre-tax profits with the Gujarat government for a socio-economic development fund and (2) large negative impact from impending regulations. Our DCF value would decline to Rs42 if we assume that GSPL contributes 30% of its PBT to the Gujarat government in perpetuity. We note that GSPL is not directly owned by the Gujarat government but by a government-owned company (GSPC). However, this need not preclude GSPL from the ambit of the profit-sharing proposal of the government.

We do not see downside risks to our earnings estimate for GSPL if the regulator allows 12% post-tax ROCE or 18.18% pre-tax ROCE. On a capital employed base of Rs32 bn for FY2009E (gross block plus working capital), we compute GSPL's EBIT at Rs5.9 bn, which is significantly higher than our FY2009E and FY2010E EBIT of Rs2.5 bn and Rs4.3 bn. Even if the capital employed used by the regulator factors in reasonable depreciation (GSPL has an aggressive depreciation policy with a rate of 8.33%), we compute that the 'allowed' EBIT will likely be higher versus our estimates.

Earnings revision

We have revised FY2009E, FY2010E and FY2011E EPS to Rs2.7, Rs3.7 and Rs4.3 from Rs3, Rs4.2 and Rs5.1 to reflect lower gas transportation volumes. We expect gas transmission volumes for FY2009E-12E to increase to 21.8 mcm/d, 44.1 mcm/d, 59.6 mcm/d and 73.6 mcm/d, respectively versus 16.8 mcm/d in FY2008.

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

		qoq			yoy			yoy		
	2009E	**2Q 2009**	**1Q 2009**	***(% chg.)***	**2Q 2009**	**2Q 2008**	***(% chg.)***	**1H 2009**	**1H 2008**	***(% chg.)***
Net sales	**5,402**	**1,185**	**1,195**	***(0.8)***	**1,185**	**954**	***24.3***	**2,380**	**1,912**	***24.5***
Total expenditure	(703)	(162)	(119)	*35.5*	(162)	(144)	*12.3*	(281)	(268)	*4.8*
Inc/(Dec) in stock	—	—	—	—	—	—	—	—	—	—
Operating costs	(345)	—	—	—	—	—	—	—	—	—
Gas transportation charges	—	(19)	—	—	(19)	(6)	*200.2*	(19)	(14)	*33.4*
Connectivity charges	—	(30)	(32)	*(5.1)*	(30)	(29)	*5.5*	(63)	(61)	*3.3*
Staff cost	(76)	(20)	(19)	*5.2*	(20)	(15)	*31.8*	(39)	(28)	*37.7*
Other expenditure	(282)	(92)	(68)	*34.9*	(92)	(94)	*(1.6)*	(161)	(165)	*(2.7)*
EBITDA	**4,699**	**1,024**	**1,076**	***(4.8)***	**1,024**	**810**	***26.4***	**2,099**	**1,644**	***27.7***
OPM (%)	**87.0**	**86.4**	**90.0**		**86.4**	**84.9**		**88.2**	**86.0**	
Other income	272	72	68	*6.4*	72	56	*28.3*	140	110	*28.0*
Interest	(970)	(231)	(218)	*5.9*	(231)	(207)	*11.8*	(449)	(405)	*11.0*
Depreciation	(2,157)	(423)	(415)	*2.0*	(423)	(407)	*3.9*	(837)	(805)	*4.0*
Pretax profits	**1,844**	**442**	**511**	***(13.4)***	**442**	**253**	***75.2***	**953**	**544**	***75.3***
Tax	(209)	(143)	(164)	—	(143)	(52)	—	(307)	(126)	*144.5*
Deferred taxation	(138)	(16)	(20)	*(20.8)*	(16)	(38)	*(57.7)*	(36)	(77)	*(52.4)*
Net income	**1,498**	**283**	**326**	***(13.2)***	**283**	**163**	***73.9***	**610**	**342**	***78.5***
Adjusted profits	**1,498**	**283**	**326**	***(13.2)***	**283**	**163**	***73.9***	**610**	**342**	***78.5***
Income tax rate (%)	*18.8*	*36.0*	*33.0*		*36.0*	*35.5*		*36.1*	*37.2*	
Pipline volumes										
Pipeline volumes (mcm)	7,957	1,430	1,639	*(12.7)*	1,430	1,372	*4.2*	3,069	2,908	*5.6*
Gas transmission charge (Rs/cu m)	0.68	0.83	0.73	*13.6*	0.83	0.69	*19.3*	0.78	0.66	*18.0*

Source: Company, Kotak Institutional Equities estimates.

DCF valuation of GSPL (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	4,699	7,347	8,507	9,794	10,205	10,119	10,099	10,078	10,056	10,033	10,033	10,033
Adjusted tax expense	(319)	(827)	(1,579)	(2,283)	(2,616)	(2,737)	(2,847)	(2,936)	(2,995)	(3,039)		
Change in working capital	1,087	(2,092)	(3,087)	(79)	(26)	4—	—	—	—	—		
Operating cash flow	**5,467**	**4,429**	**3,842**	**7,432**	**7,564**	**7,386**	**7,252**	**7,142**	**7,061**	**6,994**		
Capital expenditure	(9,131)	(5,675)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,679)		
Free cash flow	**(3,664)**	**(1,247)**	**3,592**	**7,182**	**7,314**	**7,136**	**7,002**	**6,892**	**6,811**	**5,315**	**5,315**	**5,315**
Discounted cash flow	**(3,485)**	**(1,054)**	**2,699**	**4,796**	**4,342**	**3,766**	**3,284**	**2,872**	**2,523**	**1,750**		
Discounted cash flow-1 year forward		(1,186)	3,037	5,397	4,884	4,236	3,695	3,233	2,839	1,750	1,556	
Discounted cash flow-2 year forward			3,416	6,072	5,497	4,766	4,156	3,637	3,195	2,215	1,969	1,750

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5	12.5	12.5
Total PV of free cash flow	21,494	29,441	36,673
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	5,315	5,315	5,315
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.2	4.2	4.2
Terminal value	42,519	42,519	42,519
PV of terminal value	15,753	15,753	15,753
Total company value	**37,247**	**45,194**	**52,426**
Net debt	7,091	11,985	14,957
Equity value	30,155	33,209	37,469
Shares outstanding (mn)	562	562	563
Estimated share price using DCF	**53.7**	**59.0**	**66.6**

Fiscal Year end (March 31, XXXX)	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08	27-Oct-08
Days left	155	520	885	1,251	1,616	1,981	2,346	2,712	3,077	3,442	3,807	4,173
Years left	0.42	1.42	2.42	3.43	4.43	5.43	6.43	7.43	8.43	9.43	10.43	11.43
Discount factor at WACC	**0.95**	**0.85**	**0.75**	**0.67**	**0.59**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**	**0.29**	**0.26**

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	2,035	2,635	3,176	4,179	5,402	8,323	9,645
EBITDA	**1,293**	**1,942**	**2,677**	**3,645**	**4,699**	**7,347**	**8,507**
Other income	20	45	175	294	272	153	151
Interest	(363)	(413)	(457)	(815)	(970)	(1,347)	(1,559)
Depreciation	(656)	(791)	(1,026)	(1,632)	(2,157)	(3,029)	(3,407)
Pretax profits	293	783	1,369	1,491	1,844	3,125	3,693
Tax	(15)	(2)	(70)	(389)	(209)	(578)	(1,110)
Deferred taxation	(119)	(315)	(409)	(82)	(138)	(484)	(145)
Net profits	**160**	**467**	**894**	**999**	**1,498**	**2,063**	**2,438**
Earnings per share (Rs)	**0.6**	**1.2**	**1.6**	**1.8**	**2.7**	**3.7**	**4.3**
Balance sheet (Rs mn)							
Total equity	4,037	9,075	9,659	11,410	12,427	13,826	13,412
Deferred tax liability	193	508	917	999	1,137	1,621	1,766
Total borrowings	4,436	5,786	8,638	9,660	14,150	16,650	16,150
Currrent liabilities	571	1,771	1,845	5,106	6,077	4,147	1,134
Total liabilities and equity	**9,237**	**17,140**	**21,059**	**27,175**	**33,791**	**36,245**	**32,462**
Cash	426	2,372	1,811	2,569	2,165	1,693	994
Current assets	408	995	2,126	2,928	2,812	2,974	3,047
Total fixed assets	8,392	13,651	17,029	21,259	28,395	31,159	28,002
Investments	—	—	—	356	356	356	356
Deferred expenditure	11	123	93	63	63	63	63
Total assets	**9,237**	**17,140**	**21,059**	**27,175**	**33,791**	**36,245**	**32,462**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	844	1,562	2,212	2,743	3,359	5,306	5,838
Working capital changes	(193)	471	(1,058)	2,460	1,087	(2,092)	(3,087)
Capital expenditure	(1,799)	(6,049)	(4,404)	(5,863)	(9,131)	(5,675)	(250)
Investments	—	—	—	(356)	—	—	—
Other income	10	40	146	—	272	153	151
Free cash flow	**(1,138)**	**(3,976)**	**(3,103)**	**(659)**	**(4,414)**	**(2,308)**	**2,653**
Ratios (%)							
Debt/equity	104.9	60.4	81.7	77.9	104.3	107.8	106.4
Net debt/equity	51.2	37.6	45.0	43.8	51.1	51.9	51.6
RoAE	4.6	6.8	8.8	8.8	11.5	14.2	15.9
RoACE	**8.0**	**9.9**	**10.0**	**8.2**	**10.0**	**12.2**	**11.6**
CROCI	**13**	**13**	**13**	**13**	**13**	**16**	**16**
Key assumptions							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.7	15.0	18.0	22.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.1	6.8	26.1	37.6
Volumes (mcm/d)	**8.3**	**10.5**	**14.3**	**16.8**	**21.8**	**44.1**	**59.6**

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

DISH.BO, Rs205	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	400
52W High -Low (Rs)	455 - 197
Market Cap (Rs bn)	16.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	8.0	11.5	14.5
Net Profit (Rs bn)	1.2	1.2	2.3
EPS (Rs)	14.7	15.2	27.9
EPS gth	*30.5*	*3.5*	*83.2*
P/E (x)	14.0	13.5	7.4
EV/EBITDA (x)	11.4	10.6	6.5
Div yield (%)	0.0	0.0	0.0

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.7	-	-
FIIs	11.8	0.0	0.0
MFs	18.4	0.4	0.4
UTI	-	-	-
LIC	-	-	-

Dishman Pharmaceuticals: Revenues in line; margins lower due to sales deferral

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127
Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **2QFY09 revenues, 8% below KIE estimate of Rs2.5 bn**
- **EBITDA margins before forex at 20%, KIE estimate 30%**
- **PAT at Rs30 mn, below KIE Rs366 mn**
- **Dishman expects strong growth in 2HFY09; FY2009E guidance before forex losses unchanged**
- **Maintain BUY and lower target price to Rs400 (from Rs515) due to lower PE multiples used for valuation**

Dishman reported revenues at Rs2.5 bn, 8% below KIE due to lower sales from CRAMS segment (US$41 mn vs KIE US$50 mn). However, Marketable Molecules (MM) segment beat forecast (US$15 mn vs U$10 mn) due to higher revenues from India. EBITDA margins before forex at 20%, was significantly lower than 1QFY09 below KIE's 30% due to higher materials cost and other expenses. Performance of Carbogen was impacted by one-time maintenance costs and bad debts. PAT was impacted by forex loss of Rs300 mn vs KIE Rs175 mn. FY2009E KIE PAT revised downwards to reflect YTD forex loss (Rs465 mn) and 1HFY09 performance. There are no significant changes in FY2010E earnings estimates. The stock trades at 7X FY2010E and 6X FY2011E earnings. We maintain our BUY rating with an SOTP-based target price of Rs400 (from Rs515). We lower the target price multiples used in our SOTP-based valuation.

2QFY09 revenues, 8% below KIE at Rs2.5 bn. Revenues grew 35% yoy in rupee terms to touch Rs2.5 bn, 8% below KIE due to

1) Lower revenues from CRAMS India. (Rs700 mn vs KIE Rs 1 bn). Carbogen Amcis reported revenues at Rs1 bn, in line with KIE.

2) However, MM segment revenues (30% of sales) was up 40% qoq at Rs745 mn due to increased revenues from India (Rs490 mn vs KIE Rs263 mn). The company has revived the production of certain products in India this quarter which led to the qoq increase in revenues. We think prices in this segment were boosted by the weaker Indian Rupee and supply constraints for Chinese supplies.

EBITDA margins before forex at 20%. Margins at 20% were lower 8% qoq and significantly below KIE 30%. CRAMS segment (70% of sales) PBIT margins dipped this quarter to 14.6% vs 16% in the last quarter while MM PBIT margins increased to 18% from 13% in the last quarter. This was led by

1) Lower margins in Carbogen Amcis due to certain one-time expenses and reduction of staff. Carbogen Amcis EBITDA margins before forex dipped this quarter to 15.3% from 20% in 1QFY09.

2) Dishman Netherlands maintained margins at 11% this quarter, similar to 1QFY09.

3) A higher proportion of sales from India in the MM segment led to margin increase for this segment. We expect margins for this segment to improve in 2H due to renewed management focus to drive revenues from India.

4) Material cost at 34% of sales shot up this quarter and was higher than KIE's 25% estimate. Other expenses at 21% of sales was also higher than KIE's 18%. However, personnel costs at 25% of sales were lower than KIE 27%.

PAT at Rs30 mn was below KIE estimates due to lower operating income and higher forex loss of Rs 300 mn. Dishman reported forex loss of Rs300 mn this quarter vs KIE Rs175 mn. These were largely translational losses on forex loans and current assets, liabilities. The tax rate at 20% this quarter was higher than KIE 8% and last quarter's 3%.

Update on new businesses

1) **Astrazeneca contract.** Dishman has entered into a new contract with Astrazeneca for 14 API's with revenue potential of US$10 mn in FY2009E and US$25 mn in FY2010E according to the management. This is not included in our forecasts so far. According to Mr. Vyas, Astrazeneca is outsourcing these products due to closure of its facilities in UK, France. Since these API's were manufactured in-house till now, they are strategically important for Astrazeneca.

2) **Chinese business.** The company had changed its earlier strategy and will now offer its Chinese facility to global CMO customers as they look to diversify across manufacturing locations in order to mitigate risks. The management highlighted that negotiations are on with GSK, Astrazeneca and Dishman will be offering one of their sites for dedicated manufacturing. Our estimates include US$10 mn in FY2010E and expect the company to enjoy similar margins as in its India business. We will review this once the contracts are signed and details shared by Dishman.

3) **Facility for high-potency products (**Unit 9 at Bavla) is expected to be commissioned by June 2009. According to the management, revenue potential from this facility is US$20-25 mn in FY2011E.This facility is being developed at an investment of Rs450 mn as a high potency unit for catering to Carbogen Amcis orders and for manufacturing generic anti cancer products for other clients. We do not factor in any revenues from this facility in our estimates and wait for commissioning of this site.

   Anti-cancer products comprised the largest therapeutic category with worldwide sales of US$41 bn in 2007 with 6% market share according to IMS. Dishman's strategy is in line with other CMO's which have been increasing capacity in high-potency manufacturing to meet strong demand for cytotoxic and other potent drugs. Its competitors AMRI, Lonza, SAFC Pharma and Piramal Healthcare have all invested in expansion of high potency products.

4) **US business.** The company has started focusing in a big way in the US. According to Mr. Vyas, the contribution from US is expected to reach 15% of revenues in 2-3 years from 3% currently and the company is looking at top line growth of 10-12% from this market. Dishman has traditionally been focused on catering to clients in Europe (80% of revenues) due to its historic association with Solvay. However increasing revenues from clients in US will lead to revenue diversification and will reduce client concentration risk. This would offer upside to our FY2010E and FY2011E estimates.

5) **Disinfectants business.** The company expects Rs200 mn from this business in FY2010E. However, the business plans are still under development and Dishman expects to work as a CMO for a large multinational in this segment. The hiring of senior management staff for this segment is likely in 2HFY09E.

Company maintains FY2009E PAT guidance of Rs 1.5 bn before forex. For FY2009E, Dishman maintains PAT of Rs1.5 bn (before forex) and sales of Rs10.5 bn (YTD Rs4.8 bn). The management has guided towards a stronger 2HFY09 in terms of sales growth and EBITDA margin. We think the sales growth guidance is conservative given the favourable impact of Rupee depreciation and estimate 44% sales growth for FY2009E with sales at Rs11.5 bn. We estimate PAT of Rs1.2 bn vs company guidance of Rs1.5 bn for FY2009E. Our forecast, excluding forex losses, is higher than management since we estimate higher sales for the company with EBITDA margins at 23% for FY2009E. We include forex related loss incurred YTD (Rs465 mn) in our PAT estimate while the management does not include it.

Maintain BUY rating with an SOTP-based target price of Rs400. We revise target price multiples used in our SOTP-based valuation. We revise multiples used for the CRAMS segment downwards by 35% to 13X. This is due to the expected slowdown in biotech outsourcing and lower PE multiples across the stock market. There is no major change in FY2010-11E estimates. Due to the revision of target price multiples, we revise our price target downwards to Rs400. (from Rs515).

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

	2QFY08	1QFY09	2QFY09	2QFY09 KIE	Growth (%, yoy)	Growth (%, qoq)	Chg (% vs. KIE)
Net sales	**1,866**	**2,359**	**2,520**	**2,726**	**35**	**7**	**(8)**
Change in stock	(119)	(107)	91	—	NM	NM	NM
Consumption of raw ma	783	697	765	681	(2)	10	12
Personnel cost	462	671	646	736	40	(4)	(12)
Other expenses	335	435	519	491	55	20	6
Total Expenditure	**1,461**	**1,696**	**2,022**	**1,908**	**38**	**19**	**6**
EBITDA	**405**	**663**	**498**	**818**	**23**	**(25)**	**(39)**
Other income	91	(141)	(235)	(175)	NM	NM	NM
Interest	72	93	87	90	21	(6)	(3)
Depreciation	111	144	139	155	26	(4)	(10)
PBT	**314**	**285**	**37**	**398**	**(88)**	**(87)**	(91)
Tax	32	8	7	32	(77)	(3)	(77)
PAT	**282**	**277**	**30**	**366**	**(89)**	**(89)**	**(92)**
CRAMS	1,403	1,825	1,775	2,199	**27**	**(3)**	**(19)**
Marketable molecules	463	534	745	527	61	40	41
Others	—	—	—	—	NM	NM	NM
Total	**1,866**	**2,359**	**2,520**	**2,726**	**35**	**7**	**(8)**

Source: Company data, Kotak Institutional Equities.

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	5,786	108.5	1,151	77.6	917	80.4	11.3	12.7	36.2	18.2
2008	8,031	38.8	1,529	32.8	1,197	30.5	14.7	10.0	26.8	14.0
2009E	11,530	43.6	2,680	75.3	1,252	4.6	15.4	15.1	19.9	13.3
2010E	14,583	26.5	3,742	39.6	2,289	82.8	28.1	18.4	29.0	7.3
2011E	17,340	18.9	4,511	20.6	2,849	24.5	35.0	20.1	27.8	5.9

Source: Company data, Kotak Institutional Equities.

Industrials

MHSM.BO, Rs150	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	250
52W High -Low (Rs)	660 - 150
Market Cap (Rs bn)	10.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	15.0	20.1	20.1
Net Profit (Rs bn)	2.1	2.6	2.7
EPS (Rs)	29.4	37.4	37.9
EPS gth	*(23.5)*	*27.6*	*1.2*
P/E (x)	5.1	4.0	4.0
EV/EBITDA (x)	3.0	2.5	2.4
Div yield (%)	3.3	3.7	3.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	46.3	-	-
FIIs	13.2	0.0	0.0
MFs	12.7	0.2	0.2
UTI	-	-	-
LIC	-	-	-

MHS: 2QFY09 results below estimates, but valuations attractive; reiterate BUY

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

- **2QFY09 results below expectation—lower margins and cautious guidance indicate demand slowdown**
- **Current valuation of 2.4X FY2009E EBITDA lower than last five-year average multiple of 5X**
- **Reduce volume and steel price estimates, revise TP to Rs250 (65% upside); reiterate BUY**

MHS' 2QFY09 results—PAT of Rs639 mn (up 6% qoq and 10% yoy) was lower than our estimate of Rs724 mn. Revenues at Rs6 bn (up 71% qoq and 56% yoy) were in line with our estimate of Rs5.9 bn. Higher-than-expected realization was offset by sharp decline in ERW volumes. EBITDA margin at 14.7% was lower than our estimate of 17.6%, mainly on account of lower seamless margins (Rs12,378/ton versus estimated Rs13,600/ton). We highlight that EBITDA margins exclude the forex benefit on export realization amounting to Rs2,015/ton which is included under other income. We reduce our revenue estimates for FY2009E and FY2010E by 7% and 16%, respectively, to factor in lower volumes and lower steel price. We reduce our EPS estimate for FY2009E and FY2010E by 2.7% and 11.8% to Rs37.4 and Rs37.9, respectively. We highlight that the current valuation of 2.4X FY2009E EBITDA is much below the company's last five-year average EBITDA multiple of around 5X. We have reduced our target price to Rs250 (from Rs350) on account of lower EBITDA multiple of 4X (5X previously). We believe the current valuation of global peers at 2.7X one-year forward EBITDA reflects undue impact of a global slowdown and does not provide a fair benchmark, hence our higher target multiple.

2QFY09—lower margins result in lower-than-expected PAT

- **PAT below estimates, however, revenues in line.** PAT of Rs639 mn (up 6% qoq and 10% yoy) was lower than our estimate of Rs724 mn. Revenues at Rs6 bn (up 71% qoq and 56% yoy) were in line with our estimate of Rs5.9 bn. Higher-than-expected realization was offset by lower ERW volumes.
- **Margins below estimates.** Seamless margins at Rs12,378/ton (Rs13,445 in 1QFY09 and Rs12,081 in 2QFY08) was lower than our estimate of Rs13,600/ ton. ERW margin of Rs5,069/ton (Rs5,687/ton in 1QFY09 and Rs2,534/ton in 2QFY08) was higher than our estimate of Rs2,800/ton). Seamless margins were lower due to higher exports; the export benefits of the same amounting to Rs125 mn (Rs2,015/ton) is included under other income.
- **Low ERW volumes.** ERW volumes of 18,840 ton (down 10% qoq and 33% yoy) were much lower than our estimate of 30,000 tons. Management indicated that it is focusing on the oil and gas sector, which provides higher margins, and is not focusing on other sectors.

Reduce estimates for lower volume and pricing assumptions

We have reduced our revenue estimates for FY2009E and FY2010E by 7% and 16% to factor in lower assumptions for volumes and steel prices. We lower our seamless tube assumptions for FY2009E and FY2010E by 2.7% and 6.3%, and ERW volume assumptions by 27% and 29%, respectively (see Exhibit 2). We believe demand for steel tubes and pipes may soften in the near term on account of sharp decline in price of crude oil and steel. Global economic conditions may also impact demand growth with projects getting postponed or delayed. Based on our lower revenue estimates we reduce our FY2009E and FY2010E EPS estimate to Rs37.4 and Rs37.9 from Rs38.5 and Rs43.

Reduce target price to Rs250, however maintain BUY as valuations are attractive

We have cut our target price to Rs250 (from Rs350) on account of lower earnings and lower target multiple (4X versus 5X earlier) (see Exhibit 3). We highlight that MHS has historically traded in the range of 4-5X one-year forward rolling EBITDA multiple (see Exhibit 4). We use a higher multiple than those of global peers as we believe the current stock price reflects undue impact of a global demand slowdown and does not provide a fair benchmark. We use a discount to the historical average multiple to reflect potential weak demand conditions.

Exhibit 1: Maharashtra Seamless, Interim results, March fiscal year-ends (Rs mn)

				% change		
	2Q FY09	**1Q FY09**	**2Q FY08**	**qoq**	**yoy**	**Comments**
Quantitative data (tons)						
Seamless tube despatch	62,028	52,057	61,272	19.2	1.2	ERW volumes were low as the company was suplying only to the oil and gas sector
ERW tube despatch	18,840	20,838	28,058	(9.6)	(32.9)	
Operating matrix (Rs/ton)						
Seamless net realizations	74,952	47,625	45,938	57.4	63.2	Realisations were higher in line with steel prices
ERW net realizations	53,546	42,101	32,750	27.2	63.5	Realisations were higher in line with steel prices
Billet costs	48,342	31,423	23,873	53.8	102.5	
Coil costs	42,364	34,713	27,045	22.0	56.6	
Quarterly results						
Net revenues	**6,022**	**3,517**	**3,856**	71.2	56.2	
Expenditure	**(5,136)**	**(2,687)**	**(3,022)**			
Stock adjustment	(248)	636	(145)	(139.0)	70.8	
Raw materials	(3,858)	(2,691)	(2,228)	43.4	73.2	
Employee cost	(51)	(50)	(49)	1.8	4.5	
Other costs	(979)	(582)	(601)	68.2	63.0	Increase in power and freight costs
EBITDA	**886**	**830**	**834**	**6.8**	**6.2**	
Other income	161	122	58	32.1	177.3	Includes Rs125 mn forex gain in Q2FY09
Depreciation	(46)	(45)	(44)	2.7	3.4	
EBIT	**1,002**	**907**	**848**	**10.4**	**18.1**	
Interest	(48)	(12)	(6)	315.7	753.6	Interest on buyers credit for raw material increased the finance cost
PBT	**954**	**896**	**842**	**6.5**	**13.2**	
Taxes	(315)	(293)	(261)	7.4	20.7	
PAT	**639**	**603**	**582**	**6.0**	**9.9**	
Ratios						
Material cost/ sales (%)	68.2	58.4	61.5			
EBITDA margin (%)	14.7	23.6	21.6			
ETR (%)	33.0	32.7	30.9			
EPS (Rs/share)	9.1	8.5	8.2			
EBITDA per ton (Rs)						
Seamless	12,378	13,445	12,081			Margins lower as forex gain on realisation is included under other income
ERW	5,069	5,687	2,534			

Source:, Company, Kotak Institutional Equities.

Exhibit 2: Operating assumptions for Maharashtra Seamless, March fiscal year-ends, 2008-2011E

	New estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Financials									
Revenues	20,085	20,118	23,296	21,613	24,068	27,809	(7.1)	(16.4)	(16.2)
EBITDA	3,715	3,911	4,415	4,021	4,579	5,282	(7.6)	(14.6)	(16.4)
EBITDA (%)	18.5	19.4	19.0	18.6	19.0	19.0	-	-	-
PAT	2,641	2,674	2,913	2,717	3,036	3,483	(2.8)	(11.9)	(16.4)
Diluted EPS	37.4	37.9	41.3	38.5	43.0	49.4	(2.7)	(11.8)	(16.4)
Despatch (tons)									
Seamless	251,085	300,000	357,500	258,057	320,000	397,500	(2.7)	(6.3)	(10.1)
ERW	83,678	96,000	115,000	113,838	135,000	140,000	(26.5)	(28.9)	(17.9)
Average realisation (Rs/ton)									
Seamless	67,435	57,994	56,254	67,359	60,623	58,805	0.1	(4.3)	(4.3)
ERW	52,084	45,834	45,376	51,563	50,274	49,771	1.0	(8.8)	(8.8)
Raw material cost (Rs/ton)									
Billets	39,324	32,639	31,823	38,171	33,591	32,751	3.0	(2.8)	(2.8)
HR Coil	37,601	33,841	33,503	36,116	35,033	34,682	4.1	(3.4)	(3.4)

Source: Company, Kotak Institutional Equities estimates.

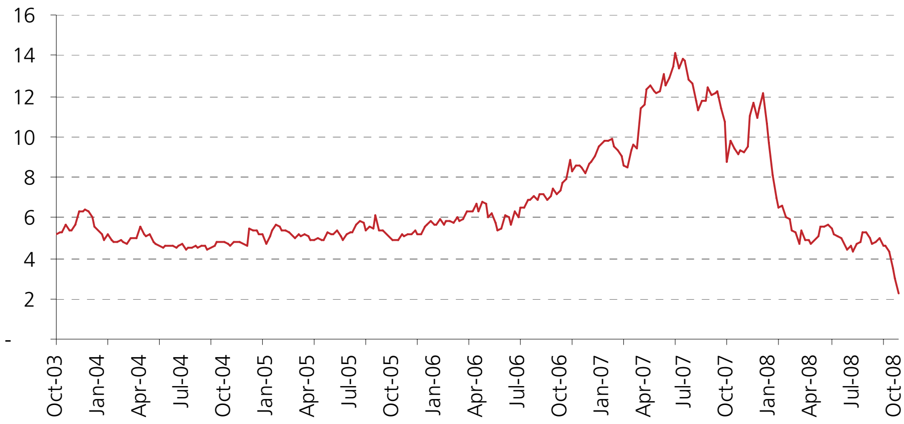
Exhibit 3: We value Maharashtra Seamless at Rs250/share.

FY2010E EBITDA	**3,911**
EV/EBITDA (X)	4.0
EV	**15,644**
Net debt	(2,051)
Equity value	**17,695**
No. of shares (mn)	71
Value per share (Rs)	251
Target price (Rs/share)	**251**

Source: Kotak Institutional Equities estimates.

Exhibit 4: MHS currently trading below its long term average EV/EBITDA multiple of 5X

MHS, rolling one year forward EV/EBITDA (X)



Source: Bloomberg.

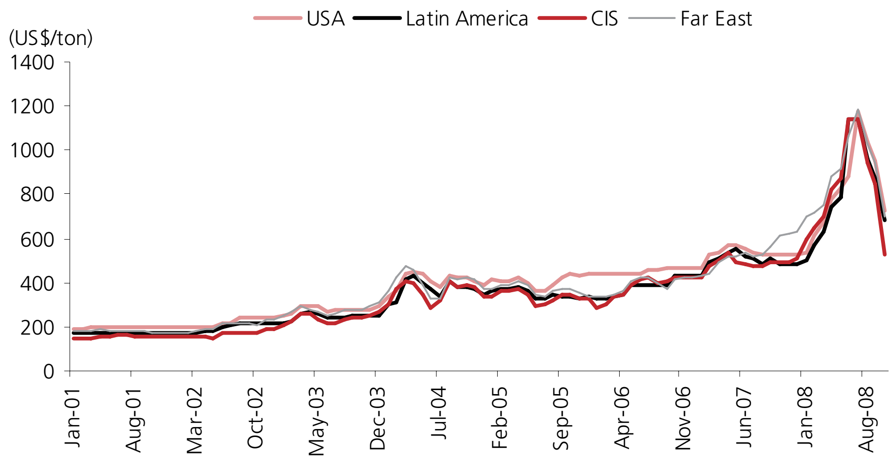
Exhibit 5: Comparative valuation of global seamless tube companies

	24-Oct-08			Mkt Cap.	EV/EBITDA (X)			PER (X)			P/B (X)		
Company	**Price (local)**	**Currency**	**Year-end**	**(US$ mn)**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**
Tenaris	7	EUR	Dec	6,529	3.6	3.3	2.8	4.4	3.8	3.1	1.0	1.0	0.8
Vallourec	70	EUR	Dec	2,940	2.5	2.7	2.6	3.7	4.1	3.8	1.3	1.2	1.0
Maharashtra Seamless	152	INR	Mar	212	3.0	2.5	2.4	5.1	4.0	4.0	0.9	0.8	0.7
Ratnamani Metals & Tubes	271	INR	Mar	49	1.9	1.6	1.4	2.7	2.0	1.7	1.1	0.7	0.5

Source: Bloomberg, Kotak Institutional Equities estimates for Maharashtra Seamless.

Exhibit 6: Billet prices have corrected sharply

Steel billet price (US$/ton)



Source: CRU.

Exhibit 7: Order book break up

MHS, order book break up

Product	**Amount (Rs mn)**	**Tons**	
Seamless	4,500	67,000	Includes Rs2,750 mn of export orders
ERW	1,500	32,000	
Total	**6,000**	**99,000**	To be executed by 3QFY09

Source: Company.

Exhibit 8: Profit model, balance sheet, cash model for Maharashtra Seamless 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Net revenues	9,662	13,900	14,976	20,085	20,118	23,296
EBITDA	**2,082**	**3,416**	**2,976**	**3,715**	**3,911**	**4,415**
Other income	182	314	437	507	323	269
Interest (expense)/income	(48)	(35)	(38)	(91)	(24)	(24)
Depreciation	(146)	(163)	(174)	(188)	(220)	(312)
Adjusted pretax profits	**2,070**	**3,532**	**3,202**	**3,942**	**3,990**	**4,348**
Tax	(627)	(1,166)	(1,059)	(1,261)	(1,197)	(1,131)
Deferred taxation	(46)	(23)	(8)	(39)	(120)	(304)
Adjusted consolidated net income	**1,398**	**2,344**	**2,135**	**2,641**	**2,674**	**2,913**
Diluted Earnings per share (Rs)	**24.1**	**38.4**	**29.4**	**37.4**	**37.9**	**41.3**
Balance sheet						
Total equity	4,139	9,241	10,934	13,179	15,452	17,840
Deferred taxation liability	388	411	420	459	579	883
Total borrowings	4,930	1,082	1,022	1,022	1,022	1,022
Current liabilities	1,211	797	1,924	1,887	1,798	2,011
Total liabilities and equity	**10,668**	**11,531**	**14,300**	**16,547**	**18,850**	**21,757**
Cash	3,192	3,232	2,549	2,278	2,288	3,687
Other current assets	4,464	4,903	7,483	8,689	8,702	9,920
Total fixed assets	2,807	2,858	3,375	4,686	6,966	7,255
Investments	205	538	894	894	894	894
Total assets	**10,668**	**11,531**	**14,300**	**16,547**	**18,850**	**21,756**
Free cash flow						
Operating cash flow, excl working capital	1,403	2,374	1,893	2,362	2,690	3,260
Working capital changes	(1,583)	(859)	(1,732)	(1,243)	(102)	(1,006)
Capital expenditure	(254)	(213)	(691)	(1,500)	(2,500)	(600)
Investments	4	(325)	(342)	-	-	-
Other income	54	249	231	507	323	269
Free cash flow	**(375)**	**1,226**	**(640)**	**125**	**411**	**1,923**
Ratios (%)						
EBITDA margin (%)	21.5	24.6	19.9	18.5	19.4	19.0
Debt/equity	119.1	11.7	9.3	7.8	6.6	5.7
Net debt/equity	42.0	(23.3)	(14.0)	(9.5)	(8.2)	(14.9)
RoAE	34.8	33.0	19.7	21.1	18.0	16.8
RoACE	**20.3**	**23.4**	**18.1**	**20.0**	**17.0**	**15.9**

Source: Company, Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs14	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	18
52W High -Low (Rs)	106 - 13
Market Cap (Rs bn)	9.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.1	7.5	11.5
Net Profit (Rs bn)	(4.1)	(4.7)	(3.7)
EPS (Rs)	(9.6)	(7.3)	(3.9)
EPS gth	-	-	-
P/E (x)	(1)	(1.9)	(3.6)
EV/EBITDA (x)	(6.1)	(3.4)	(15.0)
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	12.7	0.0	(0.0)
MFs	3.2	0.0	(0.0)
UTI	-	-	(0.0)
LIC	2.9	0.0	(0.0)

No other way to put this—disappointing 2QFY09 results

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392
Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

- **1QFY09 revenue at Rs1.7 bn much below our Rs2 bn estimate, ARPUs decline qoq**
- **Robust subscriber addition but competition remains an overhang on ARPUs**
- **Downgrade rating to REDUCE; 12-month DCF based TP of Rs18 (Rs32 previously)**

Dish TV reported disappointing 2QFY09 results with net loss increasing 23% qoq to Rs1.35 bn (excluding extraordinary items of Rs194 mn), much above our Rs1.1 bn estimate. More important, Dish TV's DTH ARPUs declined to Rs170 in 2QFY09 versus Rs188 in 1QFY09 due to (1) higher subsidies on schemes for new subscribers and (2) new low-value packages for existing subscribers. We downgrade the stock to REDUCE (BUY previously) with our 12-month DCF-based TP at Rs18 (Rs32 previously) to factor in (1) reduced ARPUs and (2) higher SG&A expenses supported by lower content costs. In our view, the whole industry would need to work together to increase ARPUs to avert large-scale bleeding of cash flows for the next several years and avoid bankruptcies. Dish would require another Rs12-14 bn of capital to sustain operations before it starts generating FCF; this is in addition to Rs11 bn through a proposed rights issue.

2QFY09 results analysis

Robust subscriber addition but significant decline in ARPUs. Dish TV's 2QFY09 DTH revenues grew only 5% qoq to Rs1.7 bn (our estimate of Rs2.0 bn) despite 16.7% growth in net paying subs base (3.38 mn by end-2QFY09); Dish TV continues with its aggressive subscriber acquisition strategy adding 0.48 mn subscribers in 2QFY09 but acquisition and retention of subscribers has become prohibitively expensive with rising competitive intensity.

Dish TV reported subscriber addition of 0.53 mn gross subscribers and 0.48 paying subscribers in 1QFY09 (excluding churn out of 0.05 mn subscribers), considerably higher than 0.4 mn gross and net additions in 1QFY09. We note that subscriber addition numbers have sustained (monthly run rate of 0.15-0.18 mn) even after the entry of strong competition in the market. Dish TV has maintained its subscriber addition momentum through aggressive marketing and promotion.

However, subscriber addition has come at a significant cost—(1) higher subsidies to add new subscribers and (2) lower realizations to retain existing subscribers—that resulted in a sharp 9.7% qoq decline in DTH ARPUs to Rs170 in 2QFY09 from Rs188 in 1QFY09. We highlight the sensitivity of Dish TV valuation to ARPUs (see Exhibit 2). We had expected a 4% increase in DTH ARPUs to Rs198 led by (1) conversion of hitherto 'free' subs under the various discount schemes into paying subs and (2) change in accounting policy (booking part of the initial deposit by the subscriber as subscriber income).

Higher-than-expected EBITDA losses. (1) Lower-than-expected revenues and (2) higher SG&A expenses at Rs684 mn versus our expectation of Rs575 mn resulted in Dish TV's 2QFY09 EBITDA loss (excluding extraordinary items) increasing to Rs680 mn from Rs605 mn in 1QFY09, much above our Rs450 mn expectation. Dish TV's 2QFY09 SG&A expenses increased due to strong subscriber addition during the period, which resulted in higher commission payouts to the dealer and distributer base of the company.

Dish TV's 2QFY09 COGS at Rs1.4 bn was below our estimate of Rs1.5 bn, which reflects the leverage it is starting to gain with broadcasters given its largest primary C&S subscriber base in India. However, the savings in content and other direct costs were not enough to prevent the fall in EBITDA margin (see Exhibit 3).

Extraordinary item of Rs194 mn on account of MTM forex losses. We note that Dish TV imports its requirement of set-top boxes (STBs) and issues foreign exchange letters of credit (LOCs) to its suppliers. There is a 60-120 days gap between the issue of letters of credit and the actual payments; the sharp depreciation of the rupee versus the dollar over the past few months led to the Dish TV booking notional losses on the LOCs in 2QFY09.

Earnings revisions

Revised earnings estimates to factor in 2QFY09 results and increasing competition. We have revised our FY2009E, FY2010E and FY2010E net loss estimates (see Exhibit 4) to Rs4.7 bn (Rs4.0 bn previously), Rs3.7 bn (Rs2.6 bn) and Rs3.2 bn (Rs1.1 bn), respectively.

1. **Reduction in ARPUs.** We have reduced our expected ARPUs for Dish TV for FY2009E, FY2010E and FY2011E to Rs160 (Rs200 previously), Rs173 (Rs220) and Rs186 (Rs240), factoring in increasing competitive intensity in the market resulting in higher subsidies for new subscribers and lower realizations from existing subscribers.
2. **Increase in subscriber base.** We see a strong momentum in Dish TV's subscriber additions driven by new schemes and higher subsidies. Thus, we have increased Dish TV's gross subscriber additions in FY2009E, FY2010E and FY2011E to 1.7 mn (1.6 mn previously), 1.3 mn (1.2 mn) and 1.1 mn (1.0 mn).
3. **Moderate decline in content costs.** We have reduced our content costs estimates for Dish TV moderately given (1) more low-value packages with less number of channels resulting in lower payout to broadcasters and (2) more discounts for pay-channels (popular content) with growing primary subscriber base going forward.
4. **Higher SG&A expenses.** We note that Dish TV has plans to spend heavily on marketing and distribution to maintain its pace of subscriber additions; thus, we have increased Dish TV's FY2009E, FY2010E and FY2011E SG&A and other expenditure to Rs2.8 bn (Rs2.7 bn previously), Rs3.3 bn (Rs3.0 bn) and Rs3.7 bn (Rs3.3 bn), respectively.

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

		qoq			yoy			yoy		
	FY2009E	2QFY09	1QFY09	% chg.	2QFY09	2QFY08	% chg.	1HFY09	1HFY08	% chg.
Net sales	**7,478**	**1,733**	**1,645**	**5**	**1,733**	**850**	**104**	**3,377**	**1,648**	**105**
DTH services	6,804	1,604	1,526	5	1,604	810	98	3,130	1,556	101
Trading	150	12	61	(81)	12	12	(4)	73	38	94
Teleport services	123	32	32	1	32	27	19	64	54	20
Total expenditure	**(9,875)**	**(2,413)**	**(2,250)**	**7**	**(2,413)**	**(1,322)**	**82**	**(4,663)**	**(2,610)**	**79**
Cost of goods and services	(5,965)	(1,404)	(1,366)	3	(1,404)	(761)	84	(2,770)	(1,459)	90
Advertisement expenses	(1,072)	(198)	(261)	(24)	(198)	(198)	(0)	(460)	(460)	(0)
Staff cost	(464)	(127)	(109)	17	(127)	(72)	77	(236)	(142)	67
Administrative & other costs	(2,374)	(194)	(127)	53	(194)	(86)	126	(321)	(137)	134
Selling and distribution expenditure	—	(489)	(387)	27	(489)	(205)	138	(876)	(412)	112
EBITDA	**(2,397)**	**(680)**	**(605)**	**12**	**(680)**	**(472)**	**44**	**(1,285)**	**(962)**	**34**
EBITDA margin (%)	**(32.1)**	**(39.2)**	**(36.8)**		**(39.2)**	**(55.6)**		**(38.1)**	**(58.4)**	
Other income	162	1	2	(71)	1	20	(98)	2	21	(89)
Interest	(579)	(171)	(143)	20	(171)	(110)	56	(313)	(189)	66
Depreciation and amortisation	(1,954)	(495)	(446)	11	(495)	(357)	39	(940)	(685)	37
Pretax profits	**(4,769)**	**(1,345)**	**(1,192)**	**13**	**(1,345)**	**(918)**	**46**	**(2,537)**	**(1,815)**	**40**
Extraordinaries	—	(194)	(61)		(194)	—		(255)	—	
Current tax	—	(2)	(2)	25	(2)	(1)	115	(4)	(2)	108
Deferred tax	38	—	—	—	—	—	—	—	—	—
Net income	**(4,731)**	**(1,541)**	**(1,254)**	**23**	**(1,541)**	**(919)**	**68**	**(2,795)**	**(1,817)**	**54**
Tax rate (%)	0.8	(0.1)	(0.1)	—	(0.1)	(0.1)	—	(0.1)	(0.1)	—
# of net paying subs (mn)	4.0	3.4	2.9	17	3.4	1.8	84	3.4	2.1	64
Net ARPU (Rs/sub/month)	174	170	189	(10)	170	141	21	177	139	28

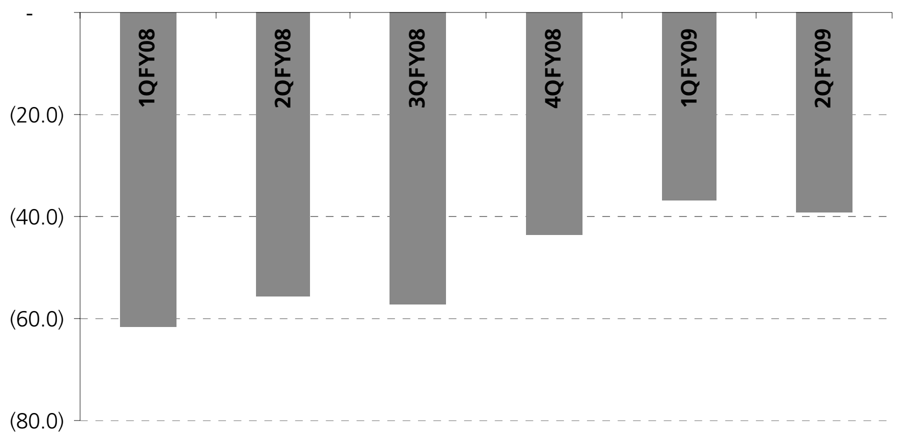
Source: Company, Kotak Insitutional Equities estimates

Sensitivity of Dish TV's valuation to number of subscribers, ARPUs and content costs

	DCF value (Rs/share)	Change from base case (%)
Change in monthly subscription fees (%)		
10%	35	97
5%	26	49
Base case	**18**	
-5%	9	(49)
Change in average content costs (%)		
-10%	28	59
-5%	23	29
Base case	**18**	
5%	12	(30)
10%	7	(60)
Change in # of paying subscribers (%)		
20%	20	13
10%	19	6
Base case	**18**	
-10%	17	(6)
-20%	16	(13)

Source: Kotak Institutional Equities estimates

Trend in EBITDA margin of Dish TV over the last few quarters (%)



Note:

(a) Dish TV's EBITDA margin decline in 3QFY08 over 2QFY08 reflects incremental payments for Star Cricket, an expensive pay-channel.

Source: Company, compiled by Kotak Institutional Equities

Revised and previous earnings estimates for Dish TV, March fiscal year-ends, 2009E-2011E (Rs mn)

	Revised estimates			Previous estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Subscription revenues	5,953	9,317	12,256	7,085	10,999	14,649	(16.0)	(15.3)	(16.3)
Other revenues	1,524	2,160	2,159	1,558	1,804	2,113	(2.2)	19.8	2.2
Total revenues	**7,478**	**11,478**	**14,415**	**8,644**	**12,803**	**16,762**	**(13.5)**	**(10.4)**	**(14.0)**
Operating cost	(5,965)	(7,843)	(9,425)	(6,476)	(8,626)	(10,488)	(7.9)	(9.1)	(10.1)
Advertising cost	(1,072)	(1,118)	(1,103)	(1,293)	(1,265)	(1,135)	(17.1)	(11.6)	(2.8)
Other expenses	(2,839)	(3,312)	(3,696)	(2,669)	(3,039)	(3,344)	6.4	9.0	10.5
Total expenditure	**(9,875)**	**(12,274)**	**(14,223)**	**(10,437)**	**(12,929)**	**(14,967)**	**(5.4)**	**(5.1)**	**(5.0)**
EBITDA	**(2,397)**	**(796)**	**192**	**(1,794)**	**(126)**	**1,795**	**(33.6)**	**(531.5)**	**(89.3)**
Depreciation	(1,954)	(2,612)	(3,012)	(1,931)	(2,541)	(2,897)	1.2	2.8	4.0
Operating Income	**(4,352)**	**(3,408)**	**(2,820)**	**(3,724)**	**(2,668)**	**(1,102)**	**(16.8)**	**(27.8)**	**(155.9)**

Source: Kotak Institutional Equities estimates

Key financial and operating data of Dish TV, March fiscal year-ends, 2007-2018E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues (Rs bn)	1.9	4.1	7.5	11.5	14.4	17.1	19.2	21.2	23.4	25.4	27.3	29.3
EBITDA (Rs bn)	(1.9)	(2.2)	(2.4)	(0.8)	0.2	1.5	2.2	2.8	3.6	4.4	5.0	5.7
EBITDA margin (%)	**(97.0)**	**(52.1)**	**(32.1)**	**(6.9)**	**1.3**	**8.5**	**11.3**	**13.3**	**15.3**	**17.2**	**18.2**	**19.5**
Year-end # of paying subscribers (mn)	**1.6**	**2.5**	**4.0**	**5.1**	**5.8**	**6.3**	**6.6**	**7.0**	**7.3**	**7.5**	**7.6**	**7.8**
Increase/(decrease) in # of paying subs (mn)	0.9	0.9	1.5	1.0	0.7	0.5	0.4	0.3	0.3	0.2	0.2	0.2
Average # of paying subscribers (mn)	1.2	2.1	3.3	4.5	5.4	6.0	6.4	6.8	7.1	7.4	7.5	7.7
Subscription fees per month (Rs/sub/month)	98	130	160	173	187	200	213	226	240	254	268	283
Gross ARPU (Rs/sub/month)	**114**	**153**	**174**	**190**	**208**	**221**	**233**	**244**	**258**	**273**	**286**	**301**

Source: Kotak Institutional Equities estimates

Discounted cash flow analysis of Dish TV (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBITDA	**(2,397)**	**(796)**	**192**	**1,459**	**2,182**	**2,812**	**3,581**	**4,384**	**4,956**	**5,719**
Tax expense	—	—	—	—	—	—	—	(253)	(333)	(431)
Working capital changes	(2,206)	346	(765)	(439)	(724)	399	462	4	306	320
Cash flow from operations	**(4,603)**	**(451)**	**(573)**	**1,019**	**1,457**	**3,211**	**4,043**	**4,135**	**4,929**	**5,609**
Capital expenditure	(4,160)	(3,049)	(2,471)	(2,737)	(2,472)	(2,399)	(2,325)	(2,091)	(2,027)	(1,963)
Free cash flow to the firm	**(8,763)**	**(3,500)**	**(3,044)**	**(1,718)**	**(1,014)**	**812**	**1,718**	**2,044**	**2,902**	**3,645**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**(11,080)**	**(1,831)**	**3,089**
FCF one-year forward	4,381	4,644	4,923
Terminal value	58,414	61,919	65,634
PV of terminal value (b)	**17,685**	**18,746**	**19,871**
Total PV (a) + (b)	**6,605**	**16,915**	**22,960**
Net debt	5,067	61	3,842
Equity value	1,538	16,854	19,118
Equity value (US$ mn)	**34**	**419**	**425**
Shares outstanding (mn)	428	946	946
Equity value/per share (Rs)	**4**	**18**	**20**

Discount rate (%)	13.5
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	13.3
Exit EBITDA multiple (X)	10.2

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Dish TV, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,127	7,478	11,478	14,415	17,145
EBITDA	**(830)**	**(1,852)**	**(2,152)**	**(2,397)**	**(796)**	**192**	**1,459**
Other income	—	34	30	162	199	57	23
Interest (expense)/income	(17)	(118)	(513)	(579)	(579)	(744)	(1,047)
Depreciation	(18)	(565)	(1,480)	(1,944)	(2,602)	(3,002)	(2,659)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(4,126)**	**(4,769)**	**(3,788)**	**(3,508)**	**(2,234)**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	(6)	—	—	—	—
Deferred taxation	—	—	—	38	129	232	96
Net income	**(2,078)**	**(2,519)**	**(4,132)**	**(4,731)**	**(3,660)**	**(3,276)**	**(2,137)**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.6)**	**(7.3)**	**(3.9)**	**(3.5)**	**(2.3)**
Balance sheet							
Total equity	1,915	(395)	(4,527)	2,142	(1,518)	(4,794)	(6,931)
Deferred taxation liability	—	—	—	(38)	(167)	(399)	(495)
Total borrowings	84	1,751	5,266	5,266	5,266	8,266	10,766
Current liabilities	1,820	8,596	11,376	12,110	12,833	12,204	12,134
Total liabilities and equity	**3,819**	**9,952**	**12,116**	**19,480**	**16,414**	**15,277**	**15,474**
Cash	59	113	199	5,205	1,424	476	306
Other current assets	1,528	2,271	3,276	3,429	3,707	4,059	4,358
Total fixed assets	1,067	6,107	7,190	9,405	9,852	9,321	9,399
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**12,116**	**19,480**	**16,414**	**15,277**	**15,474**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,552)	(2,977)	(1,375)	(553)	412
Working capital changes	599	3,507	2,129	581	445	(981)	(368)
Capital expenditure	(1,025)	(2,921)	(2,579)	(4,160)	(3,049)	(2,471)	(2,737)
Investments	185	(451)	(293)	—	—	—	—
Other income	3	5	9	162	199	57	23
Free cash flow	**(1,088)**	**(1,674)**	**(3,287)**	**(6,393)**	**(3,781)**	**(3,948)**	**(2,670)**
Ratios (%)							
Debt/equity	4.4	(443.6)	(116.3)	245.9	(346.9)	(172.4)	(155.3)
Net debt/equity	1.3	(414.9)	(111.9)	2.9	(253.1)	(162.5)	(150.9)
ROAE (%)	(217.0)	(331.3)	167.9	390.4	(1,748.2)	95.3	33.9
ROACE (%)	**(89.6)**	**(283.2)**	**(345.3)**	**(102.5)**	**(56.6)**	**(77.6)**	**(35.4)**

Source: Kotak Institutional Equities estimates.

Property

MGDL.BO, Rs208	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	810
52W High -Low (Rs)	907 - 208
Market Cap (Rs bn)	8.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1.6	2.5	3.8
Net Profit (Rs bn)	0.5	0.6	0.8
EPS (Rs)	12.7	13.9	19.0
EPS gth	*208.4*	*8.9*	*37.4*
P/E (x)	16.3	15.0	10.9
EV/EBITDA (x)	32.1	10.0	5.0
Div yield (%)	1.4	1.9	1.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	51.1	-	-
FIIs	22.0	0.1	0.1
MFs	10.1	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Mahindra Lifespace Developers: 2QFY09 revenues lower on account of lower sales in Mumbai. Maintain BUY, revise target price to Rs500

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

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

- **2QFY09 revenues lower than estimated indicating lower sales in Mumbai**
- **PAT of Rs108 mn in line with estimates on account of higher-than-expected other income**
- **Maintain BUY, revise target price to Rs500/share on March 2010-based NAV**

Mahindra Lifespaces (MLIFE) reported standalone revenues of Rs303 mn (our expectation Rs501 mn) and operating profit of Rs108 mn (our expectation Rs106 mn) for 2QFY09. We attribute lower-than-estimated revenues on account of (1) lower sales in Mumbai and (2) delay in start of revenue booking from Mahindra Chloris, Faridabad. We adjust our model to factor in (1) lower sales from Mumbai, (2) launch of Mahindra Eminette Phase II in FY2010E and (3) delayed launches in Nashik and Baroda. Accordingly, our revenue estimates are revised to Rs2 bn for FY2009E (earlier Rs2.5 bn) and Rs3 bn for FY2010E (earlier Rs3.8 bn). Our PAT estimates are revised to Rs535 mn in FY2009E (Rs566 mn earlier) and Rs700 mn in FY2010E (Rs778 mn earlier). We now value the Jaipur SEZ at book value (Rs24/share) to only account for the investment by MLIFE into the SEZ and assign a 20% discount to NAV for the Chennai SEZ. We also roll forward our NAV estimates to March 2010. Our revised target price of Rs500 (earlier Rs810) comprises Rs200 for SEZ business (earlier Rs480). Key risk to our rating is any unfavorable government action on SEZs.

Reducing estimates to factor in lower residential revenues

Exhibit 2 provides details about MLIFE's standalone residential business. We highlight MLIFE had launched two projects in 1QFY09 at better-than-expected prices—1) Rs4,000/sq. ft in Faridabad vis-à-vis our expectation of Rs3,000 and 2) Rs7,500/sq. ft at Bhandup vis-à-vis our expectation of Rs5,500. However, sales have stagnated after initial sales of 30% in the pre-launch phase. We attribute the low sales to current high prices. We continue to maintain our original selling price assumptions (20-25% lower than current prices) as we expect demand to emerge at these prices.

Exhibit 3 summarizes current ongoing and forthcoming projects of MLIFE. Ongoing projects have a revenue booking potential of Rs9.6 bn, out of which Rs3.4 bn has already been booked. MLIFE has an additional residential portfolio of 6.6 mn sq. ft, which will start contributing to revenues from FY2010E. We believe MLIFE's revenue booking and operating margins will show lesser volatility once it has an ongoing portfolio of 8-10 projects. Exhibit 4 shows volatility in quarterly margins for MLIFE.

We adjust our model for slower sales in Mumbai in FY2009E. We also incorporate Mahindra Eminette Phase II, a 300,000 sq. ft project in Mumbai to be launched in FY2010E. We believe any price correction to the tune of 25% will be valuation neutral as that is already factored into our estimates. Accordingly, we revise our revenue estimates to Rs2 bn for FY2009E (earlier Rs2.5 bn) and Rs3 bn for FY2010E (earlier Rs3.8 bn).

We maintain our BUY rating and revise our target price to Rs500/share

Exhibit 4 gives the breakup of our March 2010-based target price of Rs500/share (earlier Rs810/share). We now value Jaipur SEZ at 1X P/B and would assign full DCF-based value as and when we see residential launches in the SEZ. Our DCF-based value for Jaipur SEZ is Rs15.6 bn (Rs360/share). We also assign a 20% discount to the Chennai SEZ on account of slower-than-expected progress in residential activity. Our target price of Rs500 comprises Rs200/share for the SEZ business (earlier Rs480/share).

Strong balance sheet lends comfort; has no debt in standalone company

We would like to highlight that MLIFE (standalone) is a debt-free entity with cash of Rs137 mn and liquid investments of Rs2.5 bn or 65/share as of March 2008. We note MLIFE has raised Rs6.8 bn (Rs165/share) through QIP and issue of warrants at Rs526/share to promoters over the past 24 months. Exhibit 5 provides details about investments made by MLIFE as of FY2008. MLIFE increased its investments in the Jaipur SEZ to Rs1 bn in FY2008 from Rs259 mn in FY2007. Debt status of MLIFE's subsidiaries as of FY2008—(1) MWC has a debt of Rs330 mn, (2) Mahindra World City, Jaipur (MWCJIL) has a debt of Rs2.5 bn (all of it from banks) and a D/E of 1.8X.

Chennai and Jaipur SEZ continue to attract investments; however, residential activity slower than expected

MLIFE's SEZs at Chennai and Jaipur continue to make progress in client additions and construction activity. We summarize progress in these SEZs over the past six months.

Mahindra World City, Chennai (MWC). MLIFE has formed a joint venture with Ayala Land to undertake the development of a gated community in 55 acres within MWC. MLIFE's 74%-owned subsidiary Mahindra Residential Development Ltd will have a 51% stake in the joint venture, while Ayala Land (affiliate of ARCH Capital Asian Partners) will hold 49%. This gated community project is likely to be launched in 3QFY09. Our visit to the Chennai property exhibition highlights that residential prices in the vicinity of the SEZ have moved above Rs2,600+/ sq. ft compared to our assumptions of Rs2,370/sq. ft. Thus, we see limited downside risks to our selling price assumptions. Furthermore, we expect residential units inside the SEZ to attract premium pricing on account of direct access to railway station and being in close proximity to commercial units.

Mahindra World City, Jaipur (MWCJL). MWCJL has completed acquisition of 2,600 acres of land for the project. Since there have been delays in balance land acquisition, MWCJL has taken formal approvals for three sector specific SEZs—IT/ITES, handicrafts and light engineering. MWCJL has signed up large number of clients, which include Infosys and Wipro as anchor tenants, and others like Tech Mahindra, Nagarro Software and Instancesys. Deustche Bank started its back office operations in 0.2 mn sq. ft space in Mahindra Technology Park (Evolve) inside MWCJL from 2QFY09. Infosys has started operations inside the SEZ from 2QFY09.

Mahindra Lifespaces : 2QFY09 results

(in Rs mn)	2QFY08	1QFY09	2QFY09	% chg. qoq	% chg. yoy	Kotak estimates 2QFY09	Kotak estimates % deviation	FY08	FY09E	FY09/FY08 (%)
Net sales	**348**	**482**	**303**	**(37.1)**	**(13.0)**	**501**	**(39.4)**	**1,721**	**2,503**	**45.4**
Operating costs	**(293)**	**(412)**	**(268)**	**(35.0)**	**(8.6)**	**(411)**	**(34.9)**	**(1,341)**	**(1,888)**	**40.8**
Cost of construction	(199)	(308)	(193)	(37.3)	(2.9)			(1,118)	(1,610)	
Operating expenses	(58)	(49)	(19)	(61.2)	(67.4)			(142)	(150)	5.9
Staff cost	(21)	(19)	(19)	0.5	(6.8)			(81)	(128)	56.9
Other expenditure	(16)	(37)	(37)	0.8	130.6					
EBITDA	**55**	**70**	**35**	**(49.6)**	**(36.1)**	**89**	**(60.4)**	**380**	**615**	**61.9**
Other income	126	58	114	98.3	(9.3)	56	105.3	478	398	(17)
Interest costs	(1)	—	(5)	—	400.0	—		(1)	(1)	22
Depreciation	(5)	(4)	(5)	7.0	0.0	(4)	7.0	(20)	(31)	57.6
PBT	**176**	**123**	**140**	**13.3**	**(20.3)**	**141**	**(0.5)**	**838**	**981**	**17.1**
Taxes	(54)	(26)	(32)	24.7	(40.6)	(34)	(6.3)	(151)	(330)	119.4
PAT	**121**	**98**	**108**	**10.3**	**(11.2)**	**106**	**1.3**	**687**	**651**	**(5.3)**
Key ratios										
EBITDA margin (%)	15.9	14.6	11.7			17.8		22.1	24.6	
PAT margin (%)	34.8	20.2	35.5			21.2		39.9	26.0	
Effective tax rate (%)	31.0	21.0	23.1			24.5		18.0	33.7	

Source: Company data, Kotak Institutional Equities.

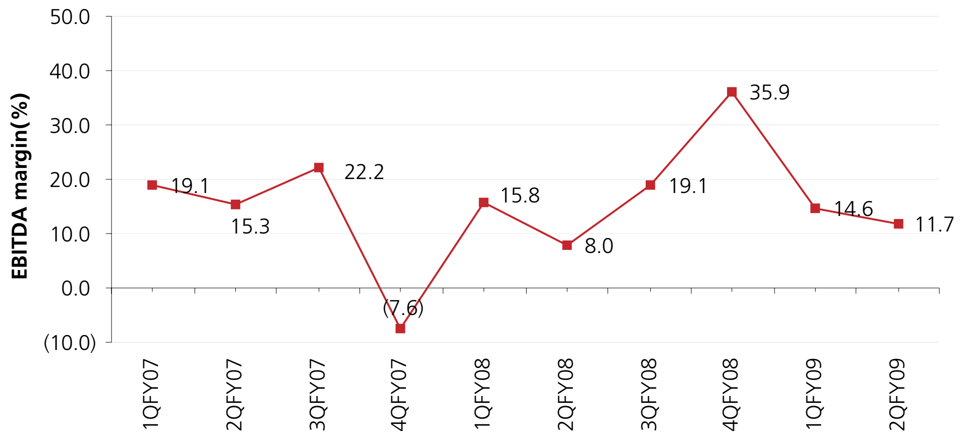
Revenue booking for 2QFY09

List of MGDL's residential projects from which revenue was booked in 2QFY09

Name of the project	City	Saleable area ('000 sq. ft)	Prices (Rs/sq. ft) Assumed	Prices (Rs/sq. ft) Current	Total Revenues (Rs mn)	Revenue Booking till 2QFY09 (Rs mn)
Ongoing						
Mahindra Eminente	Goregaon, Mumbai	270	5,800	Sold	1,566	1,253
Mahindra Royale- IA	Pimpri, Pune	208	2,700	Sold	562	421
Mahindra Royale-IB	Pimpri, Pune	100	3,000	3,200	300	225
Mahindra Royale-II	Pimpri, Pune	300	3,000	3,200	900	360
Mahindra Splendour (GKW)	Bhandup, Mumbai	320	5,500	7,500	1,760	352
Slyvan County	Chennai	490	1,700	Sold	833	833
Mahindra Chloris	Faridabad	420	3,500	4,500	1,470	0
Mahindra Eminette II	Goregaon, Mumbai	300	7,500	9,500	2,250	0
Total		**2,408**			**9,641**	**3,444**
Forthcoming						
Proposed project	Nasik	1,372	1,800	2,000	2,470	
Proposed project	Gurgaon Sector 112	1,400	4,000	5,000	5,600	
Proposed project	Mumbai - Byculla	400	18,000	24,000+	7,200	
Proposed project	Baroda	1,000	1,365	1,500	1,365	
Proposed project	Kandivili	450	5,000	7,000+	2,250	
Proposed project	Nagpur	2,000	2,000	2,000+	4,000	
Total		**6,622**			**22,885**	

Source: Company, Kotak Institutional Equities estimates.

EBITDA margins have been volatile



Source: Company, Kotak Institutional Equities.

MGDL—Our March 2010-based target price is Rs500/share

	Valuation Methodology	Valuation of business (Rs bn)	Probability (%)	Value contribution (Rs bn)	Value contribution (Rs/share)
SEZs					
Chennai SEZ	DCF	9.5	80	8	180
Karla SEZ	DCF	16.2	0	0	0
Jaipur SEZ	Book value	1.0	100	1	24
Thane SEZ	DCF	0.7	0	0	0
Total			**100**	**9**	**204**
Mahindra Gesco standalone					
Residential properties	NAV	7.0	100	7	167
Commercial properties	NAV	1.6	100	2	38
Total				**9**	**205**
FY2009 Net Cash		3.0	100	3	71
FY2009 Investments		1.0	100	1	24
Equity valuation (Rs/share)					**504**
Fully diluted no of shares (mn)				42	

Source: Kotak Institutional Equities estimates.

Investments in other subsidairies has increased in FY2008

(in Rs mn)	FY2008	FY2007
Subsidiaries		
Mahindra Infrastructure Developers Ltd	144	144
Mahindra World City Developers Ltd (a)	875	225
Mahindra World City (Jaipur) Ltd	999	259
Mahindra World City (Maharastra) Ltd	4	4
Mahindra Integrated Township Ltd	370	370
Mahindra Technology Park Ltd	100	0
Mahindra Knowledge Park (Mohali) Ltd (b)	1	1
Current investments	2,503	2,223
Others	34	32
Total	**5,029**	**3,258**

Note:
(a) Includes Rs650 mn of 6% cumulative redeemable preference shares
(b) Includes Rs0.5 mn of 7% non-cumulative redeemable participating optionally convertible preference share

Source: Kotak Institutional Equities.

Pipes

PSLH.BO, Rs108	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	610 - 101
Market Cap (Rs bn)	4.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.7	38.4	43.1
Net Profit (Rs bn)	0.8	1.9	2.5
EPS (Rs)	21.1	43.6	58.3
EPS gth	*4.2*	*106.9*	*33.7*
P/E (x)	5.1	2.5	1.9
EV/EBITDA (x)	3.8	3.2	2.3
Div yield (%)	4.7	5.6	6.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	48.4	-	-
FIIs	17.5	0.0	0.0
MFs	16.1	0.2	0.2
UTI	-	-	-
LIC	-	-	-

PSL: Q2FY09 results disappoint, but valuations excite; reiterate BUY

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

- **2QFY09-revenues up 30% yoy, PAT up 13% yoy**
- **Lower-than-expected volumes keep revenues and PAT below estimates; expect volumes to pick up in latter part of the year**
- **Revise estimates for lower volumes and margins, reduce TP to Rs280**
- **Valuations become very attractive post the recent correction, reiterate BUY**

PSL's 2QFY09 results were below expectations—net revenues for the quarter were at Rs6.4 bn versus estimated Rs6.6 bn and PAT was Rs216 mn versus estimated Rs289 mn due to lower-than-estimated pipe volumes. Pipe volume during the quarter was 69,234 tons against estimated 77,000 tons. We reduce our FY2009E and FY2010E revenue estimates by 1% and 13%, respectively, to factor in lower volumes. We lower our FY2009E and FY2010E volume assumptions by 7% and 17%, respectively. We reduce our EPS estimates for FY2009E and FY2010E to Rs43.2 and Rs58.3 from Rs45.1 and Rs64.5. We reduce our DCF-based target price to Rs280 (from Rs500) on account of reduced volume and margin assumptions across our forecast period. We believe the global economic slowdown, coupled with reduced steel prices, may impact pipe demand and shrink margins.

2QFY09—lower-than-expected volumes keep revenues and PAT below estimates

- **Lower volumes keep qoq revenues flat.** PSL reported revenues of Rs6.4 bn (flat qoq and up 30% yoy) versus our estimate of Rs6.6 bn. Lower-than-expected volumes (69,234 tons versus estimated 77,000 tons) resulted in revenues below estimate. Volumes were lower due to delay in dispatches resulting in large inventory build up. Finished goods inventory increased to 54,302 tons from 22,947 tons in the previous quarter. The management has proffered guidance for higher volumes in the latter part of the year based on the delivery schedule of the current order book. A strong order book of Rs60 bn to be executed over the next 12 months provides further support to revenue estimates.
- **Lower margins result in lower PAT.** PAT at Rs216 mn (down 16% qoq, up 13% yoy) was lower than our estimate of Rs289mn. EBITDA margins at 7.6% were lower than our estimate of 10% resulting in lower-than-expected PAT. However, EBITDA margin, including net income, was at 10.4% versus our expected 10.9%. We highlight that a large part of excise and export benefits which are operating in nature are recorded as other income.

Reduce estimates for lower volume and pricing assumptions

We reduce our FY2009E and FY2010E revenue estimates by 1% and 13%, respectively, to factor in lower volumes and lower steel price assumptions. We reduce our volume assumptions by 7% and 17% for the respective years. We reduce our FY2010E pipe realization and coil price assumptions by 16% to factor in the recent correction in steel prices. Lower rupee exchange rate assumption partially offsets the decline in revenues from reduced volumes and pricing. We revise our FY2009E and FY2010E EPS estimate to Rs43.2 and Rs58.3 from Rs45.1 and Rs64.5 based on lower revenue and margin estimates.

Reduce target price to Rs280, reiterate BUY on attractive valuations

We reduce our 12-month DCF-based target price to RS280 (Rs500 earlier) to factor in lower volume and margin assumptions across our forecast period. We also increase our WACC assumption to 13.5% (from 13%) to factor in higher market risk premium. We find the stock attractively valued at 2.5X FY2010E EBITDA. We highlight that this is the lowest EBITDA multiple the stock has traded over the last five years (see Exhibit 4). At a current price of Rs105 per share, the stock is trading at 0.8X FY2008 P/B with a dividend yield of 5.7%.

Exhibit 1: PSL, Interim results (stand alone), March fiscal year-ends, (Rs mn)

		qoq		yoy			yoy	
	2QFY09	1QFY09	*(% chg)*	1QFY08	*(% chg)*	1HFY09	1HFY08	*(% chg)*
Gross revenues	**6,438**	**6,523**	***(1.3)***	**4,965**	***29.7***	**12,961**	**9,066**	***43.0***
less: excise	48	87	*(45.0)*	316	*(84.8)*	135	564	*(76.0)*
Net revenues	**6,390**	**6,436**	***(0.7)***	**4,649**	***37.4***	**12,825**	**8,501**	***50.9***
Total expenditure	**(5,902)**	**(5,841)**	***1.0***	**(4,150)**	***42.2***	**(11,744)**	**(7,596)**	***54.6***
Inc/(Dec) in stock	2,947	1,217	*142.1*	1,764	*67.0*	4,164	2,184	*90.7*
Raw materials	(7,717)	(6,285)	*22.8*	(5,228)	*47.6*	(14,002)	(8,205)	*70.7*
Staff cost	(146)	(145)	*0.9*	(121)	*20.4*	(291)	(224)	*29.8*
Other expenditure	(986)	(628)	*57.0*	(565)	*74.5*	(1,614)	(1,351)	*19.5*
EBITDA	**487**	**594**	***(18.0)***	**499**	***(2.4)***	**1,082**	**906**	***19.4***
OPM (%)	**7.6**	**9.2**		**10.7**		**8.4**	**10.7**	
Other income	175	66	*165.7*	67	*160.6*	241	112	*116.1*
Interest	(204)	(127)	*61.3*	(162)	*26.3*	(331)	(256)	*29.2*
Depreciation	(136)	(145)	*(6.1)*	(130)	*4.8*	(282)	(260)	*8.3*
Pretax profits	**322**	**388**	***(17.1)***	**275**	***17.2***	**710**	**501**	***41.8***
EBIT%	**8.2**	**8.0**		**9.4**		**8.1**	**8.9**	
Tax	(106)	(128)	*(17.2)*	(84)	*26.8*	(196)	(139)	*41.7*
Net income	**216**	**260**	***(17.0)***	**191**	***13.0***	**514**	**363**	***41.8***
Income tax rate (%)	*32.9*	*33.0*		*30.4*		*27.6*	*27.7*	
Volumes	**69,234**	**75,240**	***(8.0)***	**66,646**	***3.9***	**144,474**	**123,288**	***17.2***

Source: Company data, Kotak Institutional Equities.

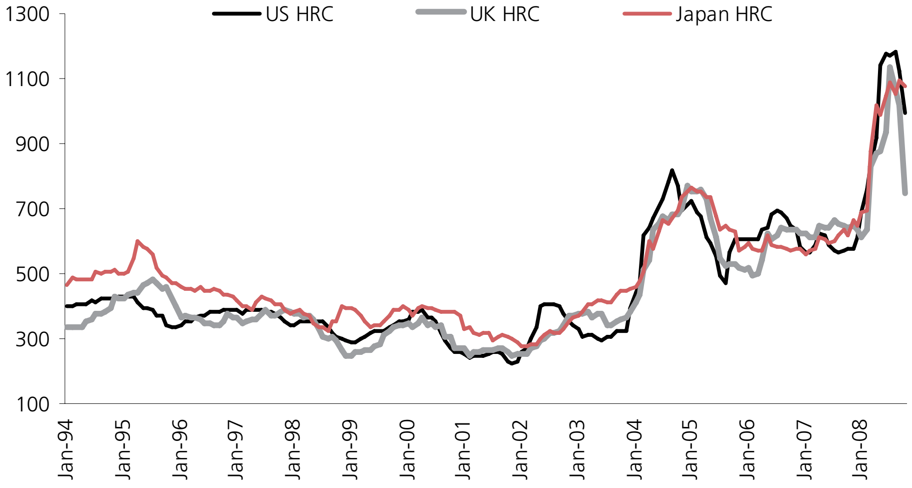
Exhibit 2: PSL, change in estimates, March fiscal year-ends

	New estimates		Old estimates		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Financials (Rs mn)						
Revenues	38,440	43,147	38,738	49,480	(0.8)	(12.8)
EBITDA	3,684	4,494	4,021	5,228	(8.4)	(14.0)
EBITDA (%)	9.6	10.4	10.4	10.6	—	—
PAT	1,883	2,542	1,967	2,810	(4.3)	(9.5)
Diluted EPS (Rs)	43.2	58.3	45.1	64.5	(4.2)	(9.6)
Sales ('000 tons)						
India	462	440	495	528	(6.7)	(16.7)
UAE	32	38	32	38	—	(1.3)
USA	56	165	56	165	—	—
Realisation (US$/ton)						
India	1,487	1,264	1,487	1,517	—	(16.7)
UAE	1,532	1,302	1,532	1,562	—	(16.6)
USA	1,800	1,800	1,800	1,800	—	—
Raw material cost (US$/ton)						
HR coil	948	834	948	995	—	(16.2)
EBITDA						
EBITDA (Rs mn)	3,684	4,494	4,021	5,228	(8.4)	(14.0)
EBITDA / ton ($)	152	155	164	172	(7.2)	(9.6)

Source: Kotak Institutional Equities estimates.

Exhibit 3: Coil prices have corrected sharply

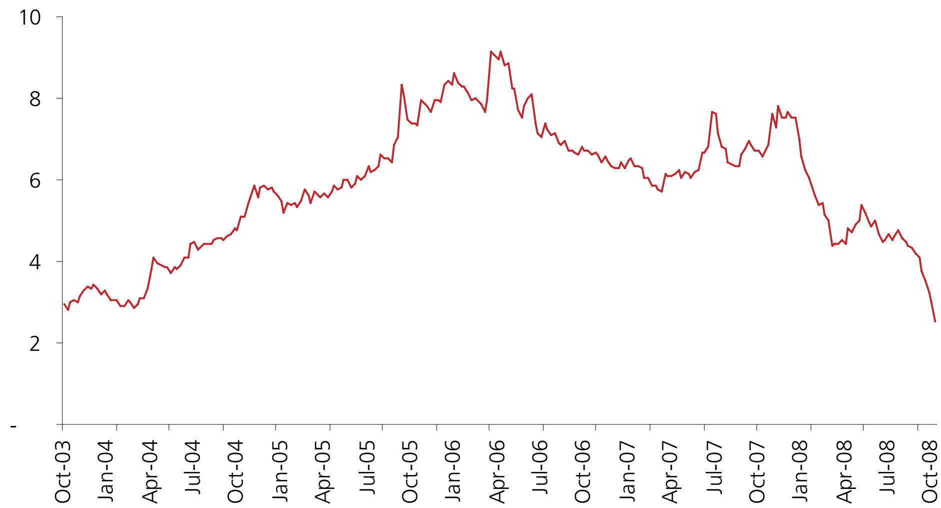
HR coil price (commerical grade), (US$/ton)



Source: CRU.

Exhibit 4: PSL is currently trading at its lowest EV/EBITDA multiple

PSL, one-year forward EV/EBITDA muliple



Source: Bloomberg, Kotak Institutional Equities.

Exhibit 5: Our DCF-based valuation for PSL Ltd is Rs280

DCF valuation of PSL Ltd, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal Value
EBITDA	3,684	4,494	3,892	3,275	3,237	3,300	3,279	3,279	3,279	
Tax expense	(842)	(596)	(627)	(672)	(724)	(805)	(806)	(810)	(753)	
Changes in working capital	(3,630)	(1,104)	2,750	1,312	116	144	7	-	-	
Cash flow from operations	**(788)**	**2,794**	**6,016**	**3,915**	**2,629**	**2,639**	**2,480**	**2,469**	**2,526**	
Capital expenditure	(2,278)	(171)	(174)	(176)	(239)	(244)	(311)	(318)	(913)	
Free cash flow to the firm	**(3,066)**	**2,622**	**5,842**	**3,739**	**2,391**	**2,396**	**2,170**	**2,151**	**1,613**	**13,033**
Dicounted cash flow-now	(2,906)	2,189	4,297	2,423	1,365	1,205	962	840	555	
Discounted cash flow-1 year forward		2,485	4,878	2,750	1,549	1,368	1,092	953	630	
Discounted cash flow-2 year forward			5,536	3,121	1,759	1,553	1,239	1,082	715	

Discount rate	13.5%
Growth from 2017 to perpetuity	1.0%

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Discount factor at WACC	**0.95**	**0.83**	**0.74**	**0.65**	**0.57**	**0.50**	**0.44**	**0.39**	**0.34**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**15,705**	**76%**	**15,005**	**72%**
PV of terminal value (b)	**5,090**	**24%**	**5,777**	**28%**
EV (a) + (b)	**20,795**		**20,782**	
EV (US$ mn)	**416**		**416**	
Net debt	8,702		6,807	
Equity value	**12,093**		**13,975**	
No. of shares	43.6		43.6	
Implied share price (Rs)	**277**		**321**	
Exit EV/EBITDA multiple (X)	4.0			
Exit FCF multiple (X)	**8.1**			

ensitivity of DCF value to WACC and growth rate (Rs

Growth Rate	WACC 12.5%	13.0%	13.5%	14.0%	14.5%
-0.5%	288	275	263	252	242
0.0%	293	280	268	256	246
0.5%	299	285	272	261	249
1.0%	305	291	**277**	265	254
1.5%	312	297	283	270	258
2.0%	319	304	289	275	263
2.5%	328	311	295	281	268

Source: Kotak Institutional Equities estimates.

Exhibit 6: Comparative valuation of global pipe companies

	24-Oct-08			Mkt Cap.	EV/EBITDA (X)			PER (X)			P/B (X)		
Company	**Price (local)**	**Currency**	**Year-end**	**(US$ mn)**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**	**LFY**	**FY1**	**FY2**
Welspun-Gujarat Stahl (1)	92	INR	Mar	339	6.1	3.3	1.9	4.5	3.2	2.0	1.0	0.7	0.5
Jindal Saw (1)	306	INR	Dec	375	3.7	2.1	1.8	4.6	3.5	3.7	0.7	0.5	0.5
PSL (1)	105	INR	Mar	93	3.8	3.2	2.2	5.1	2.4	1.8	0.8	0.6	0.5
Man Industries	34	INR	Mar	36	3.0	2.2	1.8	2.5	2.4	2.3	0.5	0.5	0.4
Mean - linepipe [India]					**4.1**	**2.7**	**1.9**	**4.2**	**2.9**	**2.4**	**0.7**	**0.6**	**0.5**
Tenaris	7	EUR	Dec	6,529	3.6	3.3	2.8	4.4	3.8	3.1	1.0	1.0	0.8
Vallourec	70	EUR	Dec	2,940	2.5	2.7	2.6	3.7	4.1	3.8	1.3	1.2	1.0
Maharashtra Seamless (1)	152	INR	Mar	212	3.0	2.5	2.4	5.1	4.0	4.0	0.9	0.8	0.7
Ratnamani Metals & Tubes	271	INR	Mar	49	1.9	1.6	1.4	2.7	2.0	1.7	1.1	0.7	0.5
Mean - seamless [global]					**2.8**	**2.5**	**2.3**	**4.0**	**3.5**	**3.1**	**1.1**	**0.9**	**0.7**
Posco	242,000	KRW	Dec	14,612	3.4	2.5	2.5	5.0	4.3	4.1	0.8	0.7	0.6
Sumitomo Metal Industries	198	JPY	Mar	10,269	5.0	4.9	5.0	5.0	5.4	5.4	1.0	0.9	0.8
Severstal	4	USD	Dec	3,628	1.4	0.9	0.9	1.9	1.1	1.1	0.3	0.3	0.3
United States Steel	36	USD	Dec	4,172	4.3	1.8	2.1	4.8	1.8	2.3	0.7	0.5	0.5
Salzgitter	41	EUR	Dec	1,960	0.7	0.7	0.8	2.6	2.8	3.1	0.6	0.5	0.4
Voestalpine	16	EUR	Mar	2,096	NA	3.5	3.7	3.4	2.7	3.0	0.8	0.6	0.5
Corinth Pipeworks	1	EUR	Dec	96	3.4	4.7	4.0	3.6	5.8	4.1	0.9	0.8	0.7
Mean - steel and pipe [global]					**3.0**	**2.7**	**2.7**	**3.8**	**3.4**	**3.3**	**0.7**	**0.6**	**0.6**
Mean - overall					**3.3**	**2.6**	**2.4**	**3.9**	**3.3**	**3.0**	**0.8**	**0.7**	**0.6**

Note: (1) Kotak Institutional Equities estimates.

Source: Bloomberg, Kotak Institutional Equities estimates.

Exhibit 7: Profit model, balance sheet, cash model for PSL Ltd 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model						
Net revenues	14,503	14,433	20,734	38,440	43,147	34,053
EBITDA	**1,550**	**1,642**	**2,231**	**3,684**	**4,494**	**3,892**
Other income	193	274	448	514	629	498
Interest (expense)/income	(690)	(563)	(887)	(786)	(721)	(608)
Depreciation	(344)	(445)	(539)	(751)	(897)	(911)
Pretax profits	**708**	**908**	**1,253**	**2,661**	**3,504**	**2,871**
Tax	(192)	(280)	(400)	(662)	(515)	(542)
Deferred taxation	3	25	(9)	(63)	(31)	(16)
Minority Interest	—	—	—	(54)	(417)	(273)
Adjusted consolidated net income	**519**	**653**	**844**	**1,883**	**2,542**	**2,041**
Diluted Earnings per share (Rs)	**14.1**	**15.8**	**19.4**	**43.2**	**58.3**	**46.8**
Balance sheet						
Total equity	2,777	3,519	5,697	7,373	9,533	11,191
Deferred taxation liability	32	7	16	78	109	124
Total borrowings	6,810	6,698	9,317	9,688	7,376	6,354
Minority Interest	—	—	178	232	649	922
Current liabilities	5,898	5,791	8,365	12,934	14,292	11,500
Total liabilities and equity	**15,518**	**16,015**	**23,572**	**30,305**	**31,958**	**30,091**
Cash	1,199	1,263	4,005	1,200	1,200	5,620
Other current assets	10,654	9,596	12,966	20,983	23,369	17,827
Total fixed assets	3,564	5,131	6,391	7,919	7,193	6,456
Miscl. Exps. not w/o	0	0	167	160	153	146
Investments	102	25	43	43	43	43
Total assets	**15,518**	**16,015**	**23,572**	**30,305**	**31,958**	**30,092**
Free cash flow						
Operating cash flow, excl working capital	900	1,042	1,473	2,243	3,265	2,749
Working capital changes	(1,267)	695	(1,023)	(3,630)	(1,104)	2,750
Capital expenditure	(1,115)	(2,012)	(1,799)	(2,278)	(171)	(174)
Investments	—	77	(18)	—	—	—
Other income	41	142	67	514	629	498
Free cash flow	**(1,441)**	**(57)**	**(1,300)**	**(3,152)**	**2,618**	**5,823**
Ratios (%)						
EBITDA margins (%)	10.7	11.4	10.8	9.6	10.4	11.4
Debt/equity	3.5	2.4	1.9	1.7	1.3	0.8
Net debt/equity	2.5	2.0	1.5	1.0	1.2	0.7
RoAE	18.3	22.6	20.7	18.3	28.8	30.1
RoACE	**13.2**	**11.4**	**10.7**	**11.3**	**15.0**	**17.5**

Source: Company data, Kotak Institutional Equities.

Technology

HEXT.BO, Rs21	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	25
52W High -Low (Rs)	118 - 20
Market Cap (Rs bn)	3.0

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	10.4	11.3	11.0
Net Profit (Rs bn)	0.1	0.4	0.5
EPS (Rs)	7.7	2.9	3.8
EPS gth	*(13.7)*	*(62.4)*	*32.1*
P/E (x)	2.8	7.4	5.6
EV/EBITDA (x)	(0.2)	1.0	0.7
Div yield (%)	4.3	7.5	7.5

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	23.6	-	-
FIIs	45.9	0.1	0.1
MFs	1.5	0.0	0.0
UTI	-	-	-
LIC	3.7	0.0	0.0

Hexaware Technologies: Jammed. SELL

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **3QCY08 results—benefits from margin expansion negated by huge forex losses**
- **Revenue growth stuck in a jam and likely to remain so in the near term**
- **Revenue growth in CY2009E looks unlikely**
- **Aggressive hedging will prevent benefits in rupee depreciation**

Hexaware reported a decent quarter of operating performance with significant margin expansion driving a 29.3% EBITDA growth yoy. However, revenue visibility seems to have worsened as evident in multiple factors—(1) 2% qoq and a disappointing 5% yoy revenue growth in US$ terms, (2) 2.8-5% sequential revenue decline guidance for the December quarter (in constant currency, a decline of 3.5-8% qoq in US$ terms), (3) poor order booking; revenue booking in The September 2008 quarter was US$51 mn, 77% of the quarter revenues (YTD order booking for CY2008 at 66% of YTD revenues), (4) no improvement in client metrics; qoq client addition has come down to four from the sustained 10-20 over the past 12 quarters and (5) continuous decline in employee base; headcount declined for the third quarter in a row and is now down 16.2% YTD. We believe improvement in revenue growth profile (and subsequently) operating performance is likely some time away with the new management team just embarking on some of their restructuring initiatives. In addition, aggressive hedging will prevent any operational gains derived from cost rationalization initiatives to flow to the net profit level. We have cut our estimates further and reiterate our SELL rating despite reasonable cash support (73% of current market cap). We cut our target price to Rs25 (Rs35 earlier).

3QCY08 results—benefits from margin expansion negated by huge forex losses. Hexaware reported another quarter of disappointing revenue performance with revenues declining 2% in US$ terms (0.4% decline in constant currency) to US$66.3 mn (yoy growth a disappointing 5%). Non-recurrence of one-off expenses, improvement in utilization, rupee benefits, and further cost rationalization led to EBITDA margins expanding to 13.3% (+140 bps yoy, +330 bps qoq). Net income, however, was impacted by Rs243 mn of MTM forex losses at the other income line. Net income was down 57.2% yoy to Rs115 mn, 26% lower than our expectations.

Revenue growth stuck in a jam and likely to remain so in the near term. Poor revenue visibility has been the major overhang on the stock for the past several months. We expect the same to continue as 3QCY08 results and operational metrics provided multiple evidences of the visibility having worsened—(1) 2% qoq and a disappointing 5% yoy revenue growth in US$ terms, (2) 2.8-5% sequential revenue decline guidance for the December quarter (in constant currency, a decline of 3.5-8% qoq in US$ terms to US$61-64.5 mn), (3) poor order booking; revenue booking in the September 2008 quarter was US$51 mn, 77% of the quarter revenues (YTD order booking for CY2008 at 66% of YTD revenues), (4) no improvement in client metrics; qoq client addition has come down to four from the sustained 10-20 over the past 12 quarters, and (5) continuous decline in employee base; headcount declined for the third quarter in a row and is now down 16.2% YTD. 4QCY08 guidance implies CY2008 revenues of US$262-265.5 mn, 2% lower than the revised guidance of US$270-275 mn given at end-2QCY08.

Revenue growth in CY2009E looks unlikely. We believe Hexaware's revenue growth challenges are unlikely to subside in the near term, leading to a likely yoy revenue decline in CY2009E. We have accordingly reduced our CY2009E revenue estimate by 14% and now expect a 7% revenue decline yoy. We discuss our thoughts on CY2009E revenue growth below.

- We believe Hexaware is facing significant challenges from some of its top-5 clients. This reflected in 19% sequential drop in revenues from its top 2-5 clients in the September 2008 quarter (following the 11.8% sequential drop in the June 2008 quarter).
- Challenges in the existing client base as well as poor sales execution also reflects in the third consecutive quarter of below-par new order wins; new order bookings for 3Q at US$51 mn (77% of quarter revenues) was substantially less than the trend of 1X quarterly revenues seen in earlier years. CY2008 YTD order booking of US$133 mn has also been a disappointing 66% of revenues booked in the same time frame. Poor new order wins, in addition to likely cancellations within the existing order book, means significant order book erosion in CY2008, an uninspiring sign for revenue growth in CY2009E.
- Third consecutive quarter of headcount decline does little to inspire any confidence on revenue outlook. The company's headcount has declined by 1,144 (16.2% of end-CY2007 employee base) in CY2008 YTD with the 60% of headcount reduction (674 employees) happening in 3QCY08. Attrition level (quarterly annualized) has increased to 28.3% from 18% in 3QCY07; we presume a significant part of the increase in attrition is involuntary in nature.
- Hexaware has a substantial exposure to BFSI (39% of revenues), and travel and transportation (15%) verticals and the US geography (64%)—clients across these verticals and geography are facing substantial pressure and any cut in spending from clients in these areas may impact growth in CY2009E.
- TTM new client additions are down to 41 from 52 in the previous quarter, depicting challenges on sales execution and new business development.

Improvement in sales execution imperative; initiatives from the new management team will take time to bear fruit. Hexaware has suffered on growth in the past three years on account of significant slippages on sales execution. The company has attempted to address this issue through change in profile of people at the front end, instituting new structures as CBU's and increase in sales count. However, the success has been limited resulting in wastage of significant opportunity of mining the high quality accounts (66 F-500/G-500 clients) for sustainable competitive advantage. This reflects in organic revenue growth of 27% in CY2005, 22% in CY2006 and 22% in CY2007 with 6-7% implied in CY2008E guidance.

Belt tightening can help margins only so much in absence of revenue growth. We believe sustained improvement in Hexaware's operating performance will have to be revenue-led as the company has utilized most of its non-volume margin levers such as SG&A rationalization and pricing to the maximum, in our view. While the company management indicates no significant pressure on pricing as yet, we believe continuous decline in volume growth trajectory will likely have its bearing on pricing over the next two to three quarters. Also, while low net hiring may help optimize utilization (and support margins) for the next two to three quarters, it will likely leave the company unprepared for a revival in IT services spending growth, as and when it occurs.

Aggressive hedging will prevent benefits from rupee depreciation. In addition to the operating challenges discussed above, Hexaware also faces significant headwinds from its aggressive hedging positions. The company had US$213 mn of hedges outstanding as of September 30, 2008 and has Rs1 bn of forex losses (market to market at Re/US$ rate of 47) in the OCI line in the balance sheet. These losses will hit the P&L in a phased manner over the next few quarters. The company also indicates that it has cancelled forward contracts to the tune of US$55 mn since October 1, 2008; we estimate the same to lead to a loss of Rs165 mn in 4QCY08 in addition to (1) further MTM losses of the remaining hedges and (2) more cash losses if further contracts are cancelled.

Cut estimates further. Maintain SELL. We have revised our EPS estimates for CY2008E-10E to factor in (1) reduced revenue estimates—we have revised our revenue estimate for CY2009E and CY2010E to US$245 mn (decline of 7% yoy) and US$257 mn (yoy growth of 5%), (2) marginally higher margin assumptions reflecting revised currency assumptions, and (3) revised forex loss assumptions reflecting the current hedges outstanding and recent cancellations of hedges. Our revised EPS estimates stand at Rs2.9 for CY2008E, Rs3.8 for CY2009E and Rs3.9 for CY2010E. Maintain SELL with a revised target price of Rs25/share.

Key changes in CY2008-10 estimates

	New			Old			Change (%)		
US$ mn	**CY2008**	**CY2009**	**CY2010**	**CY2008**	**CY2009**	**CY2010**	**CY2008**	**CY2009**	**CY2010**
Revenues (US$ mn)	**263**	**245**	**257**	**270**	**284**	**300**	**(2.8)**	**(13.7)**	**(14.2)**
EBITDA Margin (%)	9.4	8.6	8.6	7.5	8.3	8.5			
EPS (Rs/ share)	**2.9**	**3.8**	**3.9**	**4.5**	**5.1**	**5.4**	**(36.2)**	**(25.4)**	**(28.4)**
Re/ US$ rate	**43.1**	**44.7**	**44.3**	**42.7**	**43.0**	**42.6**	**0.8**	**3.9**	**3.9**

Source: Kotak Institutional Equities estimates

Comments: Hexaware interim results (consolidated), 3QCY08

Rs mn	3QCY07	2QCY08	3QCY08	% chg. qoq	yoy	Kotak estimates	% deviation	Comments
Revenues	**2,546**	**2,845**	**2,946**	**3.6**	**15.7**	**3,014**	**(2.2)**	Revenues declined 1.9% qoq (US$ terms) as against our expectation of 0.3% growth and company guidance of flat revenues
Software Development Costs	(1,640)	(1,883)	(1,712)	(9.1)	4.4	(1,970)	(13.1)	
Gross profit	**906**	**962**	**1,234**	**28.3**	**36.2**	**1,044**	**18.2**	
Total SG&A Expenses	(602)	(879)	(841)	(4.3)	39.7	(807)	4.2	
EBITDA	**304**	**83**	**393**	**373.1**	**29.3**	**237**	**65.7**	
Depreciation	(57)	(70)	(67)	(3.6)	17.6	(69)	(2.5)	
EBIT	**247**	**13**	**326**	**2,346.6**	**32.0**	**168**	**93.8**	EBIT in the previous quarter was impacted by Rs138 mn of one-off expenses. Adjusted EBIT margin expansion of 580 bps qoq driven by aggressive cost rationalization, rupee depreciation, and higher utilization
Other Income	75	116	(200)	(272.5)	(366.5)	18	(1,198.3)	
Profit Before Tax	**322**	**129**	**126**	**(2.5)**	**(60.9)**	**186**	**(32.4)**	
Provision for Tax	(52)	(34)	(11)	(68.4)	(79.5)	(31)	(65.1)	
Net Profit	**269**	**95**	**115**	**21.0**	**(57.2)**	**155**	**(25.9)**	Net income 26% below estimates largely on account of huge forex losses
Extraordinary items	—	—	—			—		
Net Profit- Reported	269	95	115	21.0	(57.2)	155	(25.9)	
EPS (Rs/ share)	1.9	0.7	0.8	21.0	(57.2)	1.09	(25.9)	
No of shares outstanding (mn)	142.1	142.1	142.1	—	—	142.1		
As % of revenues								
Gross Profit Margin (%)	35.6	33.8	41.9			34.7		
Operating Margin	11.9	2.9	13.3			7.9		
SG&A Expenses (%)	23.7	30.9	28.6			26.8		
Billing Rates (US$/manhour)								
Onsite	67.2	69.7	68.7	(1.4)	2.3	69.4	(0.9)	Pricing pressure reflectcs adverse cross-currency movements; constant currency pricing stable
Offshore	23.4	23.7	23.4	(1.3)	(0.2)	23.5	(0.8)	
Revenue Mix (%)								
Onsite	64.7	64.5	62.6			64.3		
Offshore	35.3	35.5	37.4			35.7		

Hexaware has guided for US$61-64.5 mn revenues for 4QCY08, a sequential decline of 2.8-5%

Source: Company, Kotak Institutional Equities estimates

Hexaware Technologies: Consolidated profit & loss statement, December year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Revenues	**8,482**	**10,398**	**11,318**	**10,954**	**11,386**
Software Development Costs	(5,318)	(6,673)	(7,046)	(6,990)	(7,273)
Gross profit	**3,164**	**3,725**	**4,272**	**3,964**	**4,113**
Selling and marketing exp	(771)	(1,001)	(1,254)	(1,184)	(1,255)
Administration exp	(1,071)	(1,524)	(1,959)	(1,839)	(1,878)
Total SG&A Expenses	(1,842)	(2,524)	(3,213)	(3,022)	(3,133)
EBITDA	**1,322**	**1,201**	**1,059**	**942**	**980**
Depreciation	(200)	(232)	(272)	(315)	(331)
EBIT	**1,122**	**968**	**787**	**627**	**649**
Other Income	241	265	(289)	9	104
Profit Before Tax	**1,363**	**1,233**	**498**	**636**	**753**
Provision for Tax	(101)	(133)	(84)	(90)	(190)
Net Profit	**1,262**	**1,101**	**414**	**546**	**563**
Extraordinaries	—	(1,028)	—	—	—
Net Profit- Reported	**1,262**	**72**	**414**	**546**	**563**
EPS (Rs/ share)	**8.9**	**7.7**	**2.9**	**3.8**	**3.9**
No of shares outstanding (mn)	142.1	142.1	142.1	142.1	142.1
Margins (%)					
Gross Profit margin	37.3	35.8	37.7	36.2	36.1
EBITDA Margin	15.6	11.5	9.4	8.6	8.6
EBIT Margin	13.2	9.3	7.0	5.7	5.7
NPM	14.9	10.6	3.7	5.0	4.9
Growth Rates (%)					
Revenues	25.0	22.6	8.8	(3.2)	3.9
Gross Profit	21.1	17.7	14.7	(7.2)	3.8
EBITDA	21.6	(9.2)	(11.8)	(11.1)	4.1
EBIT	29.8	(13.7)	(18.8)	(20.3)	3.5
Net Profit	38.2	(12.8)	(62.4)	32.1	3.0

Source: Company, Kotak Institutional Equities estimates

Energy

ONGC.BO, Rs658	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	1,300
52W High -Low (Rs)	1387 - 635
Market Cap (Rs bn)	1,407

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,094	1,424	1,377
Net Profit (Rs bn)	196.8	321.6	341.1
EPS (Rs)	92.0	150.4	159.5
EPS gth	*8.2*	*63.4*	*6.1*
P/E (x)	7.2	4.4	4.1
EV/EBITDA (x)	2.5	1.6	1.2
Div yield (%)	4.9	6.1	6.8

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	6.9	1.8	(3.2)
MFs	1.6	2.3	(2.7)
UTI	-	-	(5.1)
LIC	2.4	2.9	(2.2)

Oil & Natural Gas Corporation: We don't know where oil price will be (nobody does) but think stock prices should be higher

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

- **Recent OPEC action may provide a floor to prices over the next few weeks**
- **Cairn and ONGC stocks are discounting very low crude prices in perpetuity**
- **Short-term crude prices are not so relevant for valuations of both the stocks**

We believe the recent correction in stock prices of Cairn India and ONGC offer excellent buying opportunities. Both the stocks are trading well below their fair values based on our normalized crude price assumptions. In other words, both the stocks are effectively discounting low crude oil prices in perpetuity. We believe the most appropriate time to buy solid commodity stocks are when they are discounting deep downturns in commodity prices and margins. Even though the current downturn may persist for a long time, we see both Cairn and ONGC to be exceptions to typical commodity stocks given the nature of their earnings. Finally, OPEC's recent decision to cut oil production may provide a floor to oil prices and result in crude prices moving up once the lower production volumes work their way into lower inventories or result in restoration of current supply-demand imbalance. Our 12-month fair valuation for Cairn and ONGC stocks are Rs245 and Rs1,300. We will review our target prices post 2QFY09 results.

We advocate a more positive view on the Indian upstream oil stocks on account of the following factors.

1. **Stocks are discounting very low prices in perpetuity.** Our reverse valuation analysis for Cairn and ONGC reveal that Cairn stock is discounting US$43/bbl crude oil price in perpetuity and ONGC stock US$35/bbl. We model long-term crude price of US$75/bbl in case of Cairn and US$55/bbl (to factor in subsidies) in case of ONGC. Also, we assume long-term rupee-dollar exchange rate at Rs41/US$ and this provides us with sufficient buffer against any rupee appreciation.

   We note that both the near-term weakness in crude price has relatively little impact on the companies' earnings and valuation due to the nature of the earnings of the two companies.

   a. **Cairn.** Current crude prices are largely irrelevant for Cairn's valuations as it will start production from its key Rajasthan fields in 2HCY09. Assumptions on long-term crude price primarily influence Cairn's valuations and we do not think its fair valuation should change unless consensus view has changed for long-term price of crude.

   b. **ONGC.** At US$60/bbl, Rs45/US$ exchange rate and no subsidy loss, we compute ONGC's FY2010E EPS at Rs147, still far ahead of consensus estimates. We assume subsidy loss would be negligible at US$60/bbl leading to effective price of US$60/bbl for ONGC. We also highlight the high sensitivity of ONGC's earnings to exchange rate assumptions—Rs1/US$ change in exchange rate results in Rs7 EPS impact on ONGC's earnings. We note that ONGC's revenues are impacted by exchange rate assumptions and not just margins as is the case with most other commodity players.

   We look at ONGC's FY2007 financials to understand ONGC's potential earnings in the current environment. In FY2007, ONGC reported consolidated EPS of Rs83 based on US$65/bbl (Dated Brent) average crude price, Rs45.3/US$ exchange rate and subsidy loss of Rs170 bn. Adjusting the Rs170 bn for taxation and impact on royalty would result in additional Rs45 EPS. This would put ONGC's FY2010E EPS at Rs128 on a pro forma basis. ONGC stock is trading at 8X FY2010E EPS and 5% dividend yield even if assuming if FY2007 conditions (including subsidies) repeat in FY2010E.

2. **Crude prices have a habit of surprising nastily.** We note that consensus view (including that of certain ultra-bullish investment banks) on crude prices has rapidly changed recently to low crude prices in the short term with moderate outlook (US$80-100/bbl) in the medium term (next two years). We do not rule out continued pressure on crude oil prices in the short term due to the current very weak global macro-environment and possible recession in certain developed economies in CY2009E. However, we expect prices to revert closer to long-term normalized levels as fundamentals (gradual return of demand in OECD countries and impact of production cuts by OPEC) reassert themselves over the next 6-12 months.

3. **Long-term, normalized price remains around US$70-80/bbl.** We do not see a change in the long-term price of crude due to the recent negative global developments. If anything, we expect a decline in E&P activity if crude oil prices persist at current levels (around US$60/bbl) for an extended period of time. We compute that the economics of marginal oil production translate into long-term price of around US$75/bbl.

4. **OPEC production cuts may set a floor to the price.** We expect positive impact on crude oil prices of the recently announced cut in production (1.5 mn b/d) by OPEC from November 1 (Exhibit 1). We expect a more cohesive action by OPEC to production cuts than in case of a reverse situation (production increases) given the large impact of oil prices on all the member countries' national budgets (see Exhibit 2). Even under a very weak global GDP outlook for CY2009E, we expect 'call on OPEC' to remain at current levels (see Exhibit 3); this would provide support to crude oil prices, in our view. Finally, we note that crude is a supply-constrained product with 'reverse' economics; OPEC can always cut production (up to a certain level) as required to stabilize prices leading to prices being influenced by (1) higher cost of production and economics of marginal production and (2) changes in inventory levels. Exhibit 4 gives our global supply-demand balance for the next few years.

5. **A reversal in the US Dollar's direction may provide impetus to crude oil prices.** We highlight the high inverse correlation between US Dollar exchange rate with other currencies and commodity prices (see Exhibit 5). We view the recent strength of the US Dollar versus other currencies as largely temporary and resulting from large capital inflows in the US from emerging markets (so-called 'flight to safety').

   However, we find this paradoxical since the US does not have any net savings of its own and also has a very weak financial position currently with very high total debt-to-GDP. It has to rely on large capital flows from other countries to cover its current account deficit and provide capital to other markets in turn. We do not rule out steep dollar weakness in case of an eventual return of capital to the countries from which the capital originated—high-saving Asian economies—if these countries have concerns about the fundamentals of the US economy, its currency and debt position. Finally, the additional funding by the US government to deal with the ongoing financial crisis will eventually lead to currency weakness. Countries holding large amounts of US financial assets (treasury bills, currency) may question the wisdom of holding these assets as a 'store' of value.

OPEC has decided to decrease the OPEC-11 ceiling production by 1.5 mn b/d

Production cut announced by OPEC ('000 b/d)

		Production (mn b/d)			Sustainable production capacity (mn b/d)	Spare capacity (mn b/d)
		Jul-08	Aug-08	Sep-08		
Current production ceiling	**28,808**					
Less: decrease announced						
Algeria	71	1.37	1.37	1.37	1.40	0.03
Angola	99	1.92	1.85	1.75	2.00	0.25
Ecuador	27	0.50	0.50	0.50	0.50	—
Indonesia	—	0.86	0.87	0.86	0.87	0.01
Iran	199	3.95	4.10	3.97	4.10	0.13
Iraq	—	2.51	2.33	2.19	2.50	0.31
Kuwait	132	2.63	2.61	2.60	2.64	0.04
Libya	89	1.73	1.65	1.70	1.80	0.10
Nigeria	113	1.87	1.98	1.98	2.55	0.57
Qatar	43	0.88	0.87	0.87	0.88	0.01
Saudi Arabia	466	9.50	9.50	9.45	10.80	1.35
United Arab Emirates	134	2.69	2.66	2.66	2.85	0.19
Venezuela	129	2.39	2.31	2.37	2.60	0.23
Total cut in poduction ceiling	**1,502**					
New production ceiling/Total	**27,306**	**32.79**	**32.58**	**32.25**	**35.47**	**3.22**

Source: OPEC

OPEC countries rely heavily on oil exports for meeting their national budgets and expenditure

Key data on OPEC members, latest fiscal year

	Population (mn)	GDP (US$ bn)	Total government expenditure (US$ bn)	Total exports (US$ bn)	Oil exports (US$ bn)	Oil exports/ Total exports (%)	Oil exports/ GDP (%)	Oil exports/ Expenditure (%)
Algeria	34	135	52	59	44	74	33	85
Angola	17	61	29	43	42	98	68	146
Ecuador	14	44	11	14	8	60	19	74
Indonesia	226	433	84	119	16	13	4	19
Iran	71	367	70	83	77	93	21	110
Iraq	29	63	74	38	64	169	103	87
Kuwait	3	111	36	61	60	98	54	166
Libya	6	57	24	40	40	98	70	167
Nigeria	148	167	18	62	58	94	35	317
Qatar	1	64	18	38	28	73	44	150
Saudi Arabia	24	376	124	230	206	90	55	166
United Arab Emirates	4	193	33	157	75	48	39	223
Venezuela	27	231	68	70	51	74	22	75
OPEC	**603**	**2,303**	**642**	**1,013**	**730**	**72**	**32**	**114**
Data on US$/bbl basis (US$/bbl)			**56**		**63**			

Source: OPEC, IMF, other industry sources

We believe the cut in OPEC production will help support crude oil prices even if demand is weaker than expected
Global demand-supply balance for crude (mn b/d)

	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009
A: Current scenario					
Demand					
OECD demand	48.9	48.1	46.4	47.0	48.5
Non-OECD demand	38.7	39.3	39.8	39.8	40.0
Total demand	**87.6**	**87.4**	**86.2**	**86.8**	**88.5**
Inventory					
Opening inventory	11.4	13.1	13.0	13.1	13.6
No. of days of inventory	54.9	54.9	54.9	55.9	55.9
Closing inventory	13.1	13.0	13.1	13.6	13.5
Change in stock	1.7	(0.2)	0.1	0.5	(0.0)
Supply					
Total supply	**87.6**	**87.4**	**86.2**	**86.8**	**88.5**
Non-OPEC supply	50.5	51.2	50.3	49.8	50.4
NGLs supply	5.4	5.6	5.8	6.0	6.1
Call on OPEC	**33.4**	**30.4**	**30.2**	**31.5**	**32.0**
B: Scenario assuming weaker demand and OPEC production cut					
OECD demand	47.9	47.1	45.5	46.1	47.5
Non-OECD demand	38.3	38.9	39.4	39.4	39.6
Total demand	**86.2**	**86.0**	**84.9**	**85.5**	**87.1**
Existing supply	87.6	87.4	86.2	86.8	88.5
Less: production cut announced by OPEC	1.5	1.5	1.5	1.5	1.5
Total supply	**86.1**	**85.9**	**84.7**	**85.3**	**87.0**
Decline in inventory levels	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**

Source: IEA, Kotak Institutional Equities estimates

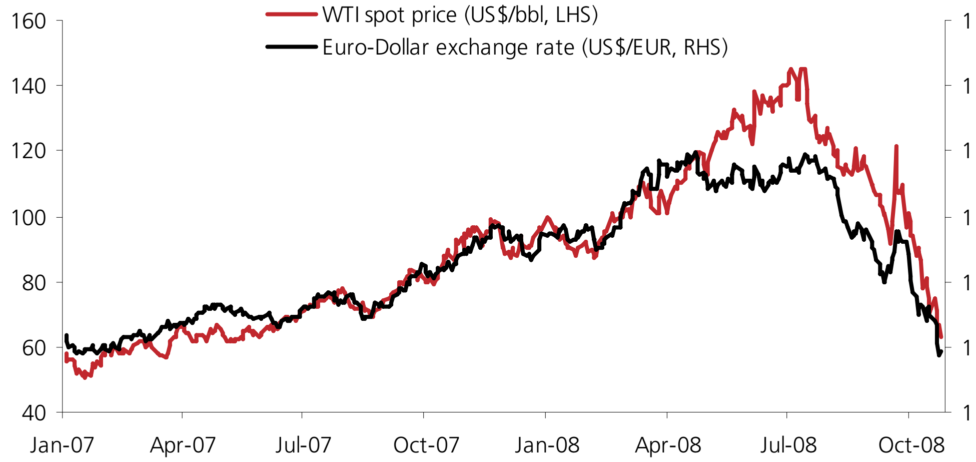
Expect weak global GDP to result in weak oil demand growth
Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)										
Total demand	82.5	84.0	85.1	86.1	86.5	87.2	88.3	89.5	90.7	92.3
Yoy growth	3.3	1.5	1.1	1.0	0.4	0.7	1.1	1.2	1.2	1.6
Supply (mb/d)										
Non-OPEC	48.8	48.7	49.2	49.6	49.8	50.4	50.6	50.7	50.7	51.3
Yoy growth	0.6	(0.1)	0.5	0.4	0.2	0.6	0.2	0.1	0.0	0.6
OPEC										
Crude	29.5	30.8	31.3	31.7	31.6	30.9	31.3	32.3	33.2	34.1
NGLs	4.2	4.5	4.6	4.8	5.1	5.9	6.4	6.5	6.8	6.9
Total OPEC	**33.7**	**35.3**	**35.9**	**36.5**	**36.7**	**36.8**	**37.7**	**38.8**	**40.0**	**41.0**
Total supply	**83.4**	**84.7**	**85.5**	**86.1**	**86.5**	**87.2**	**88.3**	**89.5**	**90.7**	**92.3**
Total stock change	1.0	0.7	0.8							
OPEC crude capacity				**34.4**	**35.3**	**36.4**	**37.4**	**37.3**	**37.6**	**37.9**
Implied OPEC spare capacity				**2.7**	**3.7**	**5.5**	**6.1**	**5.0**	**4.4**	**3.8**
Demand growth (yoy, %)	**4.2**	**1.8**	**1.3**	**1.2**	**0.5**	**0.8**	**1.3**	**1.4**	**1.3**	**1.8**
Supply growth (yoy, %)										
Non-OPEC	**1.2**	**(0.2)**	**1.0**	**0.8**	**0.4**	**1.2**	**0.4**	**0.2**	**0.0**	**1.2**
OPEC	**8.4**	**4.6**	**1.9**	**1.5**	**0.6**	**0.3**	**2.4**	**2.9**	**3.1**	**2.5**
Total	**4.4**	**1.6**	**0.9**	**0.7**	**0.5**	**0.8**	**1.3**	**1.4**	**1.3**	**1.8**
Dated Brent (US$/bbl)	**38.3**	**54.4**	**65.8**	**72.7**	**105.0**	**80.0**	**85.0**	**85.0**	**85.0**	**75.0**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

Crude oil prices and US Dollar have shown high inverse correlation

Movement in crude oil price and US Dollar-Euro exchange rate



Source: Bloomberg

We value Cairn India stock at Rs245

EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,668	10,155	11,150
CB-OS-2	133	87	59
Ravva	485	407	343
Upside potential (KG-DWN-98/2)	100	112	125
Total	**9,386**	**10,761**	**11,678**
Net debt	39	(247)	(161)
Equity value	**9,347**	**11,008**	**11,839**
Equity shares (mn)	1,891	1,891	1,891
Equity value per share (Rs/share)	**204**	**244**	**268**

Source: Kotak Institutional Equities estimates

We value ONGC stock at Rs1,300 on US$55/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
A. Core business valuation			
Normalized crude price assumption (US$/bbl)	55.0	55.0	55.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	110,086	165,201	129,581
Add: OCF after normalizing natural gas price	33,085	31,492	25,781
Add: OCF after removing subsidies	289,266	206,001	245,948
Recurring OCF	432,437	402,693	401,310
Recurring capex			
Production per annum (mn bbls)	397	401	411
Replacement or F&D costs (US$/bbl)	9.0	9.0	9.0
Recurring capex	160,651	162,411	162,709
Free cash flow	**271,786**	**240,282**	**238,601**
Free cash flow multiple (X)	8	8	8
Enterprise value	2,174,291	1,922,259	1,908,804
(Net debt)/cash	389,519	591,282	804,879
Investments	92,407	97,350	102,291
Equity value	2,656,216	2,610,890	2,815,974
Equity value of core business (Rs/share)	**1,242**	**1,221**	**1,317**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	49	55	61
MN-DWN-98/3 block (Rs/share)	15	16	18
Equity value of new discoveries (Rs/share)	**63**	**71**	**80**
Total equity value per share (Rs/share)	**1,305**	**1,292**	**1,396**

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$90/bbl	2,165	68
US$80/bbl	1,908	48
US$75/bbl	1,779	38
US$70/bbl	1,651	28
US$60/bbl	1,393	8
US$55/bbl	**1,292**	
US$50/bbl	1,155	(11)
US$40/bbl	745	(42)

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	35,699	71,266	190,872	185,351	180,393	146,028
EBITDA	**5,332**	**6,705**	**17,316**	**53,326**	**148,520**	**113,239**	**79,711**	**62,972**
Other income	1,100	1,324	207	301	1,185	2,990	4,496	5,616
Interest	(201)	(27)	(7)	—	—	—	—	—
Depreciation	(497)	(4,589)	(6,284)	(6,893)	(8,785)	(8,287)	(8,409)	(8,390)
Pretax profits	5,734	3,413	11,231	46,733	140,920	107,942	75,798	60,199
Extraordinary items	—	(2,120)	—	—	—	—	—	—
Tax	(1,580)	(740)	(3,832)	(7,089)	(16,589)	(12,904)	(9,331)	(7,260)
Deferred taxation	(22)	(764)	(74)	(1,244)	(1,099)	(558)	(131)	129
Net profits	**4,132**	**(212)**	**7,325**	**38,400**	**123,232**	**94,480**	**66,336**	**53,067**
Earnings per share (Rs)	**2.3**	**(0.1)**	**3.9**	**20.3**	**65.2**	**50.0**	**35.1**	**28.1**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	327,029	365,429	422,276	461,435	488,929	510,924
Deferred tax liability	4,258	4,916	4,991	6,235	7,334	7,892	8,023	7,895
Total borrowings	5,122	3,124	—	—	—	—	—	—
Currrent liabilities	39,716	8,372	2,597	2,532	6,210	10,703	15,014	12,365
Total liabilities and equity	**341,900**	**310,771**	**334,617**	**374,196**	**435,820**	**480,030**	**511,967**	**531,184**
Cash	61,348	1,504	10,353	6,874	61,042	110,285	147,328	174,451
Current assets	6,470	19,029	3,423	6,834	18,303	17,773	17,298	14,003
Total fixed assets	17,609	25,157	56,288	69,570	25,900	23,600	21,195	18,854
Net producing properties	2,354	4,390	3,862	30,228	69,883	67,680	65,454	63,184
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	**341,900**	**310,771**	**334,617**	**374,196**	**435,820**	**480,030**	**511,967**	**531,184**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,990	6,387	10,560	44,087	129,781	98,884	68,930	54,262
Working capital changes	34,256	(908)	9,831	(3,475)	(7,791)	5,023	4,787	646
Capital expenditure	(5,619)	(11,739)	(33,970)	(44,391)	(2,622)	(2,333)	(2,329)	(2,329)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	207	301	1,185	2,990	4,496	5,616
Free cash flow	**(219,990)**	**(58,824)**	**(13,372)**	**(3,479)**	**120,554**	**104,564**	**75,885**	**58,196**
Key assumptions								
Gross production ('000 boe/d)	91.0	78.4	81.3	115.0	245.6	240.2	231.7	224.2
Net production ('000 boe/d)	25.1	21.5	25.7	52.6	147.0	145.7	141.9	139.0
Dated Brent (US$/bbl)	65.3	70.3	110.0	95.0	90.0	90.0	90.0	75.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	467,124	707,083	807,603	966,542	1,093,771	1,424,312	1,376,577	1,436,502	1,437,656
EBITDA	**196,494**	**281,195**	**310,054**	**358,001**	**394,558**	**562,306**	**549,088**	**571,426**	**547,368**
Other income	23,752	17,595	27,350	45,378	55,918	54,641	65,954	75,396	90,523
Interest	(5,028)	(2,512)	(537)	394	(8,705)	(6,150)	(4,067)	(4,160)	(4,836)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(129,698)	(129,724)	(109,605)	(103,820)	(102,880)
Pretax profits	149,693	222,813	239,141	284,222	312,073	481,073	501,370	538,843	530,175
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(105,118)	(148,161)	(152,782)	(152,779)	(152,421)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(7,799)	(5,481)	(4,313)	(7,414)	(5,032)
Net profits	95,523	143,175	154,596	178,414	201,829	327,431	344,275	378,649	372,722
Net profits after minority interests	**94,219**	**140,670**	**153,542**	**176,922**	**198,516**	**321,647**	**341,139**	**376,365**	**370,614**
Earnings per share (Rs)	**44.1**	**65.8**	**71.8**	**82.7**	**92.8**	**150.4**	**159.5**	**176.0**	**173.3**
Balance sheet (Rs mn)									
Total equity	415,582	488,912	578,830	670,137	791,303	1,014,617	1,241,668	1,490,265	1,732,873
Deferred tax liability	54,250	57,911	71,557	80,976	88,775	94,256	98,569	105,983	111,016
Liability for abandonment cost	80,292	80,941	128,675	151,857	128,961	128,961	128,961	128,961	128,961
Total borrowings	60,961	39,028	28,767	21,826	22,356	28,779	48,406	75,306	63,706
Currrent liabilities	85,376	128,346	142,435	187,051	234,910	145,399	146,406	148,956	152,820
Total liabilities and equity	**696,461**	**795,138**	**950,264**	**1,111,847**	**1,266,305**	**1,412,013**	**1,664,010**	**1,949,472**	**2,189,376**
Cash	95,721	101,843	90,743	206,262	273,491	418,298	639,688	880,185	1,150,444
Current assets	133,039	178,421	240,210	192,652	238,460	228,022	225,263	253,793	256,385
Total fixed assets	419,213	471,543	565,722	643,219	674,890	686,228	714,654	726,148	693,202
Goodwill	11,661	10,753	14,172	27,686	27,686	27,686	27,686	27,686	27,686
Investments	30,811	26,961	35,753	36,888	45,041	45,041	49,981	54,922	54,923
Deferred expenditure	6,017	5,617	3,663	5,141	6,739	6,739	6,739	6,739	6,739
Total assets	**696,461**	**795,138**	**950,264**	**1,111,848**	**1,266,306**	**1,412,013**	**1,664,011**	**1,949,473**	**2,189,378**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	273,964	339,287	345,463	377,044	355,558
Working capital changes	25,630	18,787	46,461	(4,990)	(13,043)	(142,319)	34,734	(4,961)	1,271
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(142,692)	(74,700)	(93,821)	(81,369)	(38,938)
Investments	(10,608)	(9,887)	(28,912)	53,822	(11,696)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	25,882	55,016	65,954	75,396	90,523
Free cash flow	**101,749**	**105,532**	**135,083**	**186,976**	**132,415**	**177,284**	**347,390**	**366,111**	**408,413**
Ratios (%)									
Debt/equity	14.7	8.0	5.0	3.3	2.8	2.8	3.9	5.1	3.7
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(31.7)	(38.4)	(47.6)	(54.0)	(62.7)
RoAE	21.6	28.0	25.9	25.5	24.6	32.8	28.3	26.0	21.8
RoACE	**20.6**	**24.6**	**22.0**	**22.1**	**21.4**	**29.5**	**25.6**	**23.9**	**20.3**
Key assumptions									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	78.9	105.0	90.0	95.0	95.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	4,211	4,250	4,250	4,250	4,750	5,250
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	425.0	300.0	350.0	350.0

Source: Kotak Institutional Equities estimates

Energy

RELI.BO, Rs1020	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	1,325
52W High -Low (Rs)	3298 - 990
Market Cap (Rs bn)	1,340

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,334	1,831	2,557
Net Profit (Rs bn)	142.5	150.9	236.9
EPS (Rs)	101.7	99.7	150.6
EPS gth	*23.0*	*(2.0)*	*51.0*
P/E (x)	10.0	10.2	6.8
EV/EBITDA (x)	6.5	5.4	3.0
Div yield (%)	1.2	1.4	2.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	44.2	-	-
FIIs	21.0	9.7	0.8
MFs	2.8	7.1	(1.8)
UTI	-	-	(8.9)
LIC	5.1	10.8	1.9

Reliance Industries : Reinstating coverage view with an ADD rating

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

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

- **Current stock price appears to be discounting a very bearish global outlook**
- **12-month TP at Rs1,325 based on median of base-case and trough-case scenarios**
- **High global exposure and other issues make RIL a less attractive India play versus pure India consumption, investment stories**

We have reinstated coverage view on RIL stock and now rate the stock as ADD (previously Rating Suspended) with a 12-month target price of Rs1,325. We use the median value of our base-case (Rs1,500) and trough-case (Rs1,150) scenarios to set our 12-month price target of Rs1,325 for RIL stock. We admit that it is very difficult to value a deep-cycle commodity play in the current macro-environment as we do not have any real understanding of the length and depth of a likely global recession. This precludes a BUY rating but we find RIL stock offering attractive risk-reward balance at current levels. The stock appears to be discounting a reasonably bearish outlook as it is currently trading below our trough-case valuation. Key downside risks stem from (1) weaker-than-expected chemical and refining margins from weaker-than-expected global demand, (2) negative outcome of ongoing RIL-RNRL court case (potentially Rs150 impact) and (3) negative policy developments ('windfall' tax on upstream earnings and removal of EOU status of extant refinery).

We believe that valuation for RIL stock is difficult currently for the following reasons.

1. **Earnings-based valuations are difficult to rely on in the current environment as earnings of a cyclical commodity business can vary hugely depending on global GDP conditions.** Also, the market may accord very low multiples for street earnings to factor in downside risks to earnings in case of an extended global recession. Finally, we suspect wide divergence in street earnings and multiples based on different assumptions of global conditions and view of cycles leading to wide variation in chemical and refining margins and thus, earnings.
2. **Book value and replacement value can offer a guide to trough valuations but they are highly subjective.** We note that these valuation methodologies are highly subjective and even a long trading history may not be very useful. Also, they too ultimately depend on earnings with the multiples being a function of ROE and CROCI earned by a company. Finally, assets can trade well below book value or replacement value for an extended period of time if there is no visibility on recovery in profitability of the business in the short term.

We discuss three different ways to value RIL stock below.

1. **Base-case scenario valuation at Rs1,500.** Exhibit 1 gives our base-case valuation model and shows our SOTP valuation at Rs1,500. We assume chemical margins at around US$500-600/ton (product prices less naphtha price) and refining margin at US$12.5/bbl including US$3/mn BTU benefit from use of gas instead of liquid fuels for a part of refinery heating requirement. We value the new E&P business based on DCF at Rs485/share and build in 35% higher production of gas versus announced reserves from the KG D-6 block.

We use 5X FY2010E EBITDA to value RIL's chemical and refining segments, which seems reasonable in light of our mid-cycle assumptions. More important, we model a steep decline in chemical and refining margins in FY2010E as can be seen in Exhibits 2 and 3. We would also highlight that we model very low profitability for the chemical and refining segments in 2HFY09E to reflect current weak demand conditions, which will translate into weak volumes and very weak margins. We model FY2009E EBIT of chemical and refining segments at Rs53 bn and Rs78 bn compared to reported 1HFY09 EBIT of Rs35 bn and Rs58 bn. Exhibit 4 gives a breakup of RIL's segment revenues and profits.

2. **Trough-margin scenario valuation at around Rs1,150.** We use (1) US$100/ton lower margin versus our base-case assumptions for the chemical segment and (2) US$2/bbl lower refining margin versus our base-case assumption of US$12.5/bbl for the refining segment in FY2010E. This would translate into chemical margins similar to in FY2001-03 and underlying refining margin of US$7.5/bbl. We expect many chemical and refining plants to come under serious financial pressure at our assumed trough margins while RIL would still remain reasonably profitable. However, a severe downturn would also result in large-scale shutdowns and reduction to operating rates by weak players, which would result in prices/margins finding support at trough levels (prices around cash cost of production of marginal players).

   We also adjust the valuation of the gas business down by Rs144/share to factor in sale of gas to NTPC and RNRL at US$2.34/mn BTU and computation of government's share at US$4.2/mn BTU. Finally, we value the retailing business at 1X book. Exhibit 5 gives our trough-margin case.

3. **Valuation based on book value.** Exhibit 6 gives our attempt to value RIL stock on the basis of its book. We value the extant chemical, refining and oil & gas businesses on adjusted book value and add our estimated valuation for the new businesses and investments. We arrive at a fair value of Rs1,270 based on 1.1X FY2008 estimated book for extant businesses (Rs453) at end-FY2008 against a reported book of Rs650. We use 1.1X P/B multiple for the extant businesses noting that the company's average P/B multiple was 1.09X in FY1999-04. However, we would clarify that the stock had traded at 0.6X book value (lowest P/B) also in this period as can be seen in Exhibit 7 and RIL's valuations in this period also factored in option value of new businesses (erstwhile refinery in FY1999-02, telecommunications in FY2000-04 and gas in FY2002-04).

   We would caution against using RIL's book directly since the book is complicated by the presence of treasury shares, RIL's practice of frequent revaluation of assets, WDV method of depreciation for certain assets and investment in and loans and advances to affiliates and subsidiaries. We have cleaned out the book for these extraordinary items in our exercise.

SOTP valuation of Reliance is Rs1,500 per share on FY2010E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals		63		5.0	313	228
Refining & Marketing		104		5.0	519	378
Oil and gas—producing		33		3.0	100	73
Gas—developing (DCF-based) (a)	575	—	100%	—	575	418
Oil—KG-DWN-98/3 (b)	107	—	100%	—	107	78
Investments						
RPL (3.167 bn shares at Rs100)	317	—	100%	—	317	230
Others	27	—	100%	—	27	20
Loans & advances to affiliates less accounts payables to affiliates	46	—	100%	—	46	34
Retailing	40	—	1.5	—	60	44
SEZ development	75	—	80%	—	60	43
Total					**2,018**	**1,546**
PV of refining division's future sales tax incentives					2	2
Total value					**2,020**	**1,547**
Net debt					63	46
Implied equity value					**1,957**	**1,502**

Note:
(a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.
(d) We use 1.374 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

We model a steep in chemical margins in FY2010E
Major assumptions of chemical segment, March fiscal year-ends, 2000-2012E (US$/ton)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
HDPE (HDPE – naphtha)													
Asia margin	**400**	**410**	**390**	**365**	**450**	**600**	**655**	**820**	**850**	**700**	**550**	**500**	**475**
Exchange rate (Rs/US$)	43.3	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Import tariff (%)	45.4	44.9	41.3	36.0	28.4	17.3	9.8	5.1	5.2	5.2	5.2	5.2	5.2
India margin (Rs/ton)	29,044	32,095	29,514	27,055	28,666	33,381	32,892	40,227	37,496	33,122	26,025	23,133	21,477
India margin	670	704	620	559	624	742	743	889	931	736	578	526	499
Difference (India – Asia)	**270**	**294**	**230**	**194**	**174**	**142**	**88**	**69**	**81**	**36**	**28**	**26**	**24**
PP (PP – naphtha)													
Asia margin	**340**	**335**	**330**	**430**	**500**	**610**	**700**	**820**	**745**	**600**	**500**	**450**	**425**
Exchange rate (Rs/US$)	43.3	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Import tariff (%)	45.4	44.9	41.3	36.0	28.4	17.3	9.8	5.1	5.2	5.2	5.2	5.2	5.2
India margin (Rs/ton)	25,264	27,140	25,477	31,335	31,617	33,909	35,079	40,227	33,050	28,391	23,659	20,820	19,216
India margin	583	595	535	647	688	754	792	889	821	631	526	473	447
Difference (India – Asia)	**243**	**260**	**205**	**217**	**188**	**144**	**92**	**69**	**76**	**31**	**26**	**23**	**22**
PSF (PSF – naphtha)													
Asia margin	**590**	**635**	**545**	**660**	**800**	**785**	**795**	**830**	**750**	**625**	**525**	**500**	**525**
Exchange rate (Rs/US$)	43.3	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Import tariff (%)	45.1	27.8	25.7	25.7	24.4	19.9	14.9	10.0	6.9	5.2	5.2	5.2	5.2
India margin (Rs/ton)	40,903	39,847	34,265	41,970	47,406	44,496	42,551	43,712	34,281	29,573	24,842	23,133	23,738
India margin	944	874	719	867	1,031	989	961	966	851	657	552	526	552
Difference (India – Asia)	**354**	**239**	**174**	**207**	**231**	**204**	**166**	**136**	**101**	**32**	**27**	**26**	**27**
PFY (PFY – naphtha)													
Asia margin	**730**	**745**	**720**	**810**	**960**	**910**	**880**	**870**	**825**	**700**	**600**	**575**	**600**
Exchange rate (Rs/US$)	43.3	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Import tariff (%)	46.0	28.7	26.6	26.6	24.7	19.9	14.9	10.0	6.9	5.2	5.2	5.2	5.2
India margin (Rs/ton)	50,069	46,672	45,135	51,543	56,747	51,238	46,874	45,703	37,509	33,122	28,391	26,603	27,129
India margin	1,156	1,024	948	1,065	1,234	1,139	1,059	1,010	931	736	631	605	631
Difference (India – Asia)	**426**	**279**	**228**	**255**	**274**	**229**	**179**	**140**	**106**	**36**	**31**	**30**	**31**

Source: Kotak Institutional Equities estimates

We model a decline in underlying margins but use of gas for internal refining processes would compensate

Major assumptions of refinery division, March fiscal year-ends, 2001-2012E (US$/bbl)

	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Rupee-dollar exchange rate	45.6	47.6	48.4	46.0	45.0	44.3	45.3	40.3	45.0	45.0	44.0	43.0
Import tariff on crude (%)	12.5	10.0	10.0	10.0	10.2	5.1	5.1	1.8	0.3	—	—	—
Refinery yield	34.4	27.7	33.1	35.5	46.2	61.9	71.6	86.0	109.4	86.4	88.2	88.1
Cost of crude	26.4	22.3	26.5	27.8	34.3	49.5	56.9	69.7	95.8	73.9	75.9	75.9
Landed cost of crude	29.7	24.6	29.1	30.5	37.8	52.1	59.8	71.0	96.2	73.9	75.9	75.9
Net refining margin	**4.7**	**3.1**	**4.0**	**5.0**	**8.4**	**9.8**	**11.8**	**15.0**	**13.3**	**12.5**	**12.3**	**12.2**
Crude throughput (mn tons)	25.7	29.0	28.6	29.6	31.5	30.5	31.8	31.8	32.3	32.3	32.3	32.3
Fuel and loss-own fuel used (%)	7.4	7.4	7.4	7.6	7.6	7.6	7.6	7.6	7.6	2.5	2.5	2.5
Fuel & loss equivalent-gas used (%)									—	5.1	5.1	5.1
Cost of natural gas used (US$/mn BTU)									5.3	5.3	5.3	5.3

Note:
(a) Refining margins do not include sales tax incentives.

Source: Kotak Institutional Equities estimates

Upstream segment EBITDA growth to power overall EBITDA growth

Segment breakdown of Reliance's standalone financials, March fiscal year-ends, 2005-2012E (Rs mn)

	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Revenues											
Chemicals	159,124	199,564	213,347	261,572	295,579	480,207	496,602	590,934	504,400	502,213	492,835
Refining & marketing	293,461	313,685	383,051	477,051	661,079	834,161	1,004,123	1,159,064	931,698	929,499	907,561
Others (incl. Upstream)	13,030	13,133	25,179	26,153	17,707	24,681					
Upstream							50,282	74,209	227,848	258,840	297,834
Inter-divisional sales	(52,106)	(75,249)	(110,861)	(103,579)	(148,544)	(203,348)	(179,540)	(181,345)	(148,270)	(155,320)	(151,790)
Total	**413,509**	**451,133**	**510,715**	**661,197**	**825,822**	**1,135,701**	**1,371,467**	**1,642,862**	**1,515,675**	**1,535,233**	**1,546,441**
EBITDA											
Chemicals	39,585	44,203	47,658	51,107	58,748	93,703	97,976	75,625	62,680	45,525	39,076
Refining & marketing	23,631	24,142	40,260	60,952	70,186	95,065	125,243	96,486	103,899	96,497	90,473
Others (incl. Upstream)	8,599	7,056	6,914	14,207	13,340	17,204	1,963				
Upstream							20,685	52,937	160,743	180,485	208,409
Unallocated	(444)	408	(3,683)	(2,446)	(2,282)	(184)	(2,185)	—	—	—	—
Total	**71,370**	**75,808**	**91,148**	**123,819**	**139,991**	**205,789**	**243,681**	**225,049**	**327,322**	**322,507**	**337,959**
EBIT											
Chemicals	23,314	27,370	31,229	31,911	44,267	67,423	73,862	52,896	40,228	25,460	20,313
Refining & marketing	12,382	13,677	25,242	45,203	52,879	76,643	105,959	78,376	85,700	78,135	71,949
Sales tax incentives	7,380	7,845	7,300	4,290	3,418	2,000	—	—	—	—	—
Others (incl. Upstream)	7,966	5,983	5,890	11,918	11,118	13,002	1,248				
Upstream							15,198	41,329	126,965	138,306	157,971
Unallocated	(444)	408	(3,683)	(2,446)	(2,700)	(274)	(2,628)	—	—	—	—
Total	**50,598**	**55,282**	**65,978**	**90,875**	**108,982**	**158,794**	**193,639**	**172,602**	**252,893**	**241,901**	**250,234**
Pretax profits											
Chemicals	14,422	18,100	21,065	21,870	41,669	61,963	64,376	43,813	33,065	19,158	14,057
Refining & marketing	3,023	6,983	19,645	39,195	45,601	67,328	102,918	79,461	88,016	85,300	83,455
Sales tax incentives	11,497	7,845	7,300	4,290	3,418	2,000	—	—	—	—	—
Others (incl. Upstream)	7,966	5,983	5,890	11,918	11,118	13,002	1,248				
Upstream							15,198	41,329	126,965	138,306	157,971
Other income	7,823	10,012	11,381	14,498	6,829	4,783	8,953	10,804	11,107	15,532	22,896
Unallocated	(444)	408	(3,683)	(2,446)	(2,700)	(274)	44,702	—	—	—	—
Total	**44,287**	**49,332**	**61,597**	**89,324**	**105,935**	**148,802**	**237,396**	**175,407**	**259,152**	**258,296**	**278,380**

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is around Rs1,150 per share assuming trough-margin scenario

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals (a)		29		7.0	203	148
Refining & Marketing (b)		83		5.5	454	331
Oil and gas—producing		33		3.0	100	73
Gas—developing (DCF-based) (c)	377	—	100%	—	377	274
Oil—KG-DWN-98/3 (d)	92	—	100%	—	92	67
Investments						
RPL (3.167 bn shares at Rs100)	317	—	100%	—	317	230
Others	27	—	100%	—	27	20
Loans & advances to affiliates less accounts payables to affiliate:	46	—	100%	—	46	34
Retailing	40	—	1.0	—	40	29
SEZ development	75	—	50%	—	37	27
Total					**1,602**	**1,232**
PV of refining division's future sales tax incentives					2	2
Total value					**1,604**	**1,234**
Net debt					116	84
Implied equity value					**1,488**	**1,150**

Note:

(a) We reduce chemical margins by US$100/ton versus our base-case margins.

(b) We reduce refining margin by US$2/bbl versus our base-case assumption.

(c) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.

(d) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.

(e) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.

(f) We use 1.374 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

Valuation of RIL on P/B basis comes to around Rs1,300

Compuation of valuation of RIL based on book value (Rs/share)

Equity at end-FY2008 adjusted for extraordinary items (Rs mn)	948,143
Net debt at end-FY2008 (Rs mn)	321,997
Total capital employed at end-FY2008 (Rs mn) (1)	**1,270,140**
Less:	
Investments and loans & advances to subsidiaries/affiliates valued separately (Rs mn) (2)	**268,549**
Reliance Petroleum	(63,339)
Reliance Retail	(40,000)
Reliance SEZ	(90,102)
Others	27,195
Treasury shares (Rs mn) (3)	**57,121**
Net debt for new E&P assuming new E&P funded by debt (4)	**238,500**
Capital employed for refining, chemicals and extant E&P (1) - (2) + (3 + (4)	**705,970**
Net debt for existing business (Rs mn)	83,497
Book value of refining, chemicals and extant E&P	**622,474**
Adjusted book value on 1,374 mn shares	**453**
Target P/B multiple of chemicals, refining and extant E&P	**1.1**
Value of chemicals, refining & extant E&P (a)	**498**
New E&P business	
Value of new E&P business based on DCF of known reserves	412
Equity value of new E&P business (b)	**412**
Investments	
Reliance Petroleum (3.167 bn shares at Rs100)	230
Others	20
Loans & advances to affiliates less accounts payables to affiliates	34
Investments total (c)	**284**
New initiatives	
Retailing on 1X equity investment	29
SEZs on 1X investment	45
Value of new initiatives (d)	**74**
Total (a) + (b) + (c) + (d)	**1,269**

Note:
(i) Target multiple is based on average of FY1999-2004 P/B multiples.
(ii) Rupee-US Dollar exchange rate assumed at Rs45/US$.

Source: Kotak Institutional Equities estimates

Price/book (price to current year-end book) ratio for Reliance Industries (X)

Source: Bloomberg, Company, Kotak Institutional Equities estimates

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)										
Net sales	451,133	510,715	656,223	809,113	1,114,927	1,334,430	1,830,781	2,556,588	2,538,100	2,525,548
EBITDA	**75,808**	**91,148**	**123,820**	**139,991**	**198,462**	**233,056**	**251,826**	**437,900**	**415,099**	**426,767**
Other income	10,012	11,381	14,498	6,829	4,783	8,953	10,818	11,176	15,654	22,999
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(13,247)	(15,509)	(22,785)	(28,104)	(18,031)	(7,407)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(48,152)	(48,471)	(57,433)	(89,220)	(95,505)	(102,732)
Pretax profits	41,897	55,711	86,397	104,041	141,846	178,028	182,426	331,752	317,217	339,628
Extraordinary items	7,845	7,300	4,290	3,000	2,000	47,335	—	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(16,574)	(26,520)	(28,000)	(73,440)	(77,605)	(88,328)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(9,196)	(8,999)	(299)	1,253	5,816	9,542
Minority interest	—	—	—	—	—	—	(3,253)	(22,659)	(18,617)	(19,306)
Net profits	41,043	51,601	75,717	90,693	118,076	189,844	150,875	236,906	226,811	241,536
Adjusted net profits	**34,570**	**45,623**	**72,135**	**88,152**	**116,434**	**147,869**	**150,875**	**236,906**	**226,811**	**241,536**
Earnings per share (Rs)	**24.8**	**32.7**	**51.7**	**63.3**	**80.1**	**101.7**	**99.7**	**150.6**	**144.2**	**153.5**
Balance sheet (Rs mn)										
Total equity	303,744	344,525	404,033	430,543	673,037	847,853	1,128,140	1,328,523	1,518,182	1,692,549
Deferred taxation liability	26,848	34,748	42,668	49,708	69,820	78,725	79,024	77,771	71,955	62,413
Minority interest	—	—	—	—	33,622	33,622	36,368	52,860	65,942	71,706
Total borrowings	197,583	209,447	187,846	218,656	332,927	493,072	367,382	286,181	204,988	164,660
Currrent liabilities	109,666	122,855	171,315	164,545	192,305	251,427	323,134	326,797	327,106	321,247
Total liabilities and equity	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**1,934,048**	**2,072,132**	**2,188,172**	**2,312,576**
Cash	1,472	2,242	36,087	21,461	18,449	42,822	17,812	30,734	108,075	177,379
Current assets	227,809	218,159	248,438	224,283	286,566	402,721	516,001	601,441	599,628	594,357
Total fixed assets	340,863	351,460	350,823	626,745	899,403	1,081,638	1,190,216	1,192,438	1,192,950	1,238,320
Investments	67,227	139,714	170,515	(9,038)	97,294	177,519	210,019	247,519	287,519	302,519
Deferred expenditure	472	—	—	—	—	—	—	—	—	—
Total assets	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**1,934,048**	**2,072,132**	**2,188,172**	**2,312,576**
Free cash flow (Rs mn)										
Operating cash flow, excl. working cap	67,072	83,301	107,002	119,520	164,285	180,718	191,538	330,888	310,797	318,420
Working capital	(17,614)	20,265	46,875	(32,188)	(13,075)	(31,071)	(41,573)	(81,778)	2,122	(589)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(247,274)	(239,691)	(140,397)	(85,975)	(87,350)	(135,489)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(105,760)	(78,953)	(32,500)	(37,500)	(40,000)	(15,000)
Other income	5,219	5,902	3,032	5,159	4,143	6,132	10,818	11,176	15,654	22,999
Free cash flow	**(16,569)**	**(2,153)**	**56,276**	**(34,146)**	**(197,681)**	**(162,865)**	**(12,114)**	**136,811**	**201,223**	**190,341**
Ratios (%)										
Debt/equity	59.8	55.2	42.1	45.5	44.8	53.2	30.4	20.4	12.9	9.4
Net debt/equity	59.3	54.6	34.0	41.1	42.3	48.6	29.0	18.2	6.1	(0.7)
RoAE	10.7	12.7	17.6	19.9	20.1	18.3	14.5	18.5	15.3	14.5
RoACE	**8.8**	**9.7**	**13.0**	**13.8**	**13.9**	**12.6**	**11.2**	**16.7**	**14.4**	**13.9**

Source: Kotak Institutional Equities estimates

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's standalone (without RPET) earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	44.0	45.0	46.0	44.0	45.0	46.0	43.0	44.0	45.0
Net profits (Rs mn)	137,895	143,146	148,397	177,320	183,065	188,805	176,729	182,575	188,409
EPS (Rs)	91.1	94.6	98.1	112.7	116.4	120.0	112.3	116.0	119.7
% upside/(downside)	**(3.7)**		**3.7**	**(3.1)**		**3.1**	**(3.2)**		**3.2**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	139,122	143,146	147,169	179,361	183,065	186,770	179,373	182,575	185,776
EPS (Rs)	91.9	94.6	97.2	114.0	116.4	118.7	114.0	116.0	118.1
% upside/(downside)	**(2.8)**		**2.8**	**(2.0)**		**2.0**	**(1.8)**		**1.8**
Refining margins (US$/bbl)									
Margins (US$/bbl)	12.3	13.3	14.3	11.5	12.5	13.5	11.3	12.3	13.3
Net profits (Rs mn)	133,336	143,146	152,956	176,037	183,065	190,093	175,703	182,575	189,447
EPS (Rs)	88.1	94.6	101.1	111.9	116.4	120.8	111.7	116.0	120.4
% upside/(downside)	**(6.9)**		**6.9**	**(3.8)**		**3.8**	**(3.8)**		**3.8**

Source: Kotak Institutional Equities estimates

Industrials

BHEL.BO, Rs1100	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,475
52W High -Low (Rs)	2930 - 1072
Market Cap (Rs bn)	538.4

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	193.0	257.9	340.8
Net Profit (Rs bn)	28.6	35.4	48.0
EPS (Rs)	58.4	72.2	98.0
EPS gth	*22.9*	*23.7*	*35.6*
P/E (x)	18.8	15.2	11.2
EV/EBITDA (x)	9.6	7.4	5.6
Div yield (%)	1.4	1.4	1.9

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.7	-	-
FIIs	16.0	1.6	(0.3)
MFs	6.7	3.7	1.7
UTI	-	-	(2.0)
LIC	2.1	1.0	(1.0)

BHEL: Strong execution with margin blips; Upgrade to BUY on insulated business model, earnings visibility and valuations

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496
Supriya Subramanian : supriya.subramanian@kotak.com, +91-22-6634-3383

- **Strong execution continue, margins take a hit led by commodity price hikes and rupee depreciation; which falling commodity prices would alleviate**
- **Confidence to deal with competition from China has increased substantially; led by quality issues and favorable exchange rate movement**
- **We upgrade to BUY based on (a) relatively protected business model, (b) earnings growth visibility and (d) valuations of 11X FY2010E earnings**

BHEL management upped its FY2009E revenue growth guidance to 25-30% from 25% earlier based on strong yoy revenue growth of 34.3% in 1HFY09. The company reported 2QFY09 revenues of Rs53.4 bn (up 34.7% yoy), marginally above our estimate of Rs52.9 bn. Operating profit margin declined by 420 bps yoy lead by higher material costs as a percentage of sales. The recent decline in commodity prices should help alleviate margin pressures for BHEL from 4QFY09E onwards. BHEL reported a strong order backlog of Rs1,040 bn, registering growth of 43.3% yoy which provides a visibility of 3.6 years for the company based on future four quarter revenues. We believe that BHEL remains relatively insulated from the current economic crisis and hence is our preferred stock among capital goods stocks. The management also emphasized its increased confidence to deal with Chinese competition due to its edge in (1) quality issues (2) currency movements. We have made marginal changes to our earnings estimates and have revised our DCF-based target price to Rs1,475 (from Rs2,000 earlier) implying about 15X FY2010E earnings. We upgrade our rating to BUY based on (a) BHEL's relatively protected business model, (b) strong near-term earnings growth visibility with order backlog of Rs1,040 bn, (c) sustained strong further order inflows and (d) valuations of 15X and 11X FY2009E and FY2010E earnings

Strong execution continues; margins suffer from commodity price hikes, rupee depreciation

BHEL reported 2QFY09 revenues of Rs53.4 bn (up 34.7% yoy),slightly above our estimate of Rs52.9 bn. Operating profit margin declined significantly by 420 bps to 13.3% in this quarter versus our estimate of 15.3%. The decline in margins was mainly driven by a steep rise in material costs as a percentage of sales increasing by about 500 bps yoy. We were estimating a 250 bps decline in margins for 2QFY09.

Profit after tax grew by 10% yoy to Rs6.2 bn versus our estimate of Rs7 bn. For the half year ending September 2008, BHEL reported revenues of Rs96.7 bn, operating profit margin of Rs10.8 bn (11.2% operating profit margin) and PAT of Rs10 bn.

Management ups revenue growth guidance to 25-30% versus 25% earlier, based on strong 1HFY09 performance; we had already built in 33% revenue growth for FY2009E

BHEL management said that at this point of time it is confident of revenue growth in the region of 25-30% versus 25% earlier. We highlight that we have already built in a growth of about 34% for the company at the beginning of FY2009E.

Falling commodity prices to help alleviate margin pressures; 'old price' positions limited

BHEL highlighted that it is likely to benefit from decline in commodity prices. The company has tied up supplies of only the critical items such as thick boiler plates, forgings and foundry items at earlier prices as part of advanced manufacturing action. On the rest of the items such as Copper, CRGO and Steel, it would have benefited from the decline in commodity prices. BHEL only holds an inventory of 90 days and hence it should benefit from the fall in commodity prices from 4QFY09E onwards which would help improve margins.

Visibility of 3.6 years based on future revenues for the next four quarters

BHEL reported a strong order backlog of Rs1,040 bn, registering growth of 43.3% yoy which provides a visibility of 3.6 years for the company based on future four quarter revenues. Order inflows were to the tune of Rs143 bn for 2QFY09 and Rs277 bn for the half year ending September 2008 (up 12%). BHEL maintains its order booking target of Rs500 bn for FY2009E, having already booked more than 50% of this already.

Competition from China dulled by quality issues and exchange rate movements

The management maintains that the intensity of competition from Chinese contractors has abated significantly given:

1) **Quality issues.** Management said that the CEA report highlights short-term problems of lack of access for maintenance etc, however, long-term problems of adjusting to variable coal quality in Indian conditions as well as grid conditions would test the Chinese equipment over the long term.

2) **Currency movements.** Recent Rupee depreciation versus the US$ while stable/ appreciation of Chinese Remninbi makes the pricing almost at par for Chinese and BHEL manufactured equipment.

3) **Objective is to keep Chinese away.** BHEL said that despite strong demand from private players, the company is constrained to keep its pricing low in order to raise the barrier for Chinese entrants in the Indian market.

We tweak our earnings estimates and target price to Rs1,475

We have revised our earnings estimates to Rs72 and Rs98 for FY2009E and FY2010E, respectively, from Rs73.1 and Rs96.9 earlier, based on slightly lower margins in FY2009E versus earlier expectations. We have not revised our execution estimates. We have revised our DCF-based target price to Rs1,475 from Rs2,000 implying about 15X FY2010E earnings.

Relatively insulated from current crisis and thus BHEL is our preferred stock among capital goods stocks; upgrade to BUY

We maintain that BHEL operates in a public sector ecosystem, supplies to relatively risk-insulated utilities (all interest, capital and fuel costs are passed through) and has very strong order backlog. Thus. it is among the best placed companies to weather the current turmoil in global financial markets. In our preference order, we would still rank BHEL above other capital goods stocks in our coverage.

We upgrade to BUY based on (a) relatively protected business model, (b) strong near-term earnings growth visibility with order backlog of Rs1,040 bn, (c) continued strength of further order inflows so far and (d) valuations of 15X and 11X FY2009E and FY2010E earnings.

Key catalysts for the stock include (1) negotiated orders for 800MW supercritical units from NTPC (including units for XIIth Plan requirements such as Lara and Darlipali), (2) visibility on execution of projects in JVs like that with TNEB for supercritical projects (including projects like Koradi, Maharashtra and OBRA, UP) and (3) strong execution resulting in robust near-term earnings growth.

Key risks include (1) commodity price fluctuations reflecting with lags in operating performance, (2) possible deterioration in competitive position with foreign vendors winning significant orders in India from the private sector or from state utilities based on tie-ups with local EPC contractors (visible in TNEB (Mettur) and Rajasthan (Kalisindh) orders won by BGR Energy), (3) competing domestic manufacturer grabbing market share, (4) potential slips ups in the XIth and XIIth plan execution that would reduce market opportunity and (5) larger role that private sector is likely to have in power generation capacity addition in future as compared to the past.

Other takeaways from the conference call

Working capital situation not worsening as yet. BHEL's management highlighted that the working capital situation has got better with reduction in number of days of sales at the end of 1H in both inventories and debtors. However, a true picture would emerge only at the end of fiscal year FY2009E for comparison with FY2008.

Employee costs. BHEL expects full-year employee cost of Rs42 bn for FY2009E. Employee related provisions were Rs2.2 bn in 2QFY09E versus Rs3.2 bn in 1QFY09E.

Government orders predominate. The management highlights that 85% of order backlog belong to the government sector and only 15% may belong to areas such as private sector and industrials business related orders.

Negotiated orders possible by March, however not part of guidance. BHEL is expecting negotiated orders from NTPC by March-end or so, however, it has not included these orders as part of its total order booking guidance.

Lack of progress on BOP may not affect revenue booking as much. BHEL maintains that it is unaffected by the fact that BOP contracts for large number of orders have not been placed does as 85% of BHEL's business is manufacturing supply—which can proceed simply with progress on the civil side of business, without too much progress on other BOP components. BOP orders have a cycle time of only twenty six months versus forty months for full plant EPC; however, constraints on progress of BOP work would introduce risks.

Super-critical generation plant JVs. JV agreement with TNEB would be signed by the middle of November and then order to BHEL should flow in by FY2010E.

JV with NPCIL. Right now a JV is taking place with 50:50 equity participation of BHEL and NPCIL and tenders for technology induction for already invited. It is envisaged that a technology provider may bring in equity participation as well.

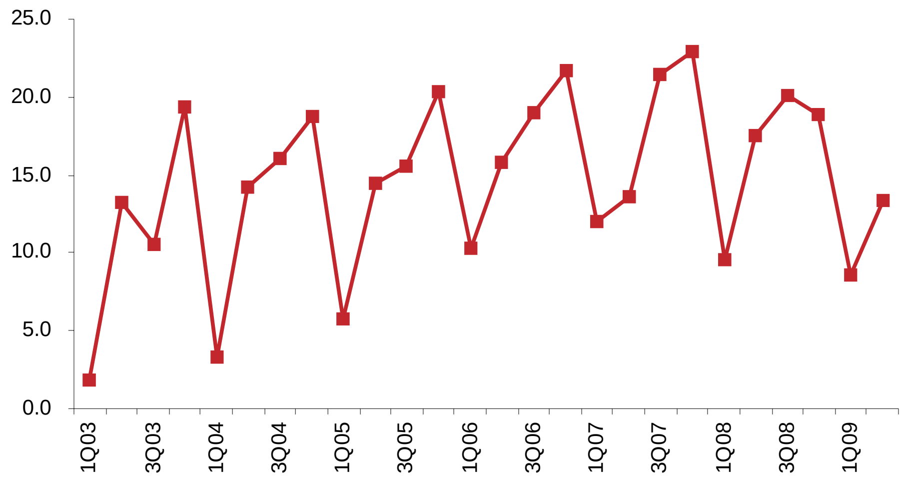
JV with NTPC. The three-stage business plan includes (a) two orders each from BHEL and NTPC for EPC, (b) manufacturing BOP components by FY2012E and (c) manufacturing BTG component by FY2014E.

Forging and Foundry. The management highlighted that in case of setting up a facility for large scale forgings and foundry items, total project investment would be to the tune of Rs15 bn.

Exhibit 1. BHEL 2QFY09 result - key numbers (Rs mn)

	yoy			qoq			yoy		
	2QFY09	2QFY08	*% change*	2QFY09	1QFY09	*% change*	1HFY09	1HFY08	*% change*
Net revenues	**53,426**	**39,654**	***34.7***	**53,426**	**43,292**	***23.4***	**96,719**	**71,993**	***34.3***
(Inc)/Dec in WIP	4,400	3,798	*15.9*	4,400	(144)	*(3,162.1)*	4,257	3,655	*16.5*
Raw material consumption	(36,212)	(25,434)	*42.4*	(36,212)	(25,179)	*43.8*	(61,391)	(44,442)	*38.1*
Staff cost	(8,898)	(6,296)	*41.3*	(8,898)	(8,953)	*(0.6)*	(17,851)	(12,335)	*44.7*
Other items	(5,609)	(4,769)	*17.6*	(5,609)	(5,280)	*6.2*	(10,889)	(8,812)	*23.6*
Total Expenditure	(46,319)	(32,702)	*41.6*	(46,319)	(39,555)	*17.1*	(85,874)	(61,934)	*38.7*
EBIDTA	**7,107**	**6,952**	***2.2***	**7,107**	**3,737**	***90.2***	**10,844**	**10,059**	***7.8***
Other income	3,072	2,334	*31.6*	3,072	2,917	*5.3*	5,990	4,397	*36.2*
EBIDT	10,179	9,286	*9.6*	10,179	6,655	*53.0*	16,834	14,456	*16.5*
Interest	(22)	(19)	*18.9*	(22)	(26)	*(14.1)*	(48)	(40)	*18.7*
Depreciation	(744)	(694)	*7.1*	(744)	(726)	*2.5*	(1,469)	(1,384)	*6.2*
PBT	**9,414**	**8,573**	***9.8***	**9,414**	**5,903**	***59.5***	**15,317**	**13,032**	***17.5***
Tax	(3,256)	(3,354)	*(2.9)*	(3,256)	(2,059)	*58.1*	(5,315)	(4,924)	*7.9*
PAT	**6,158**	**5,219**	***18.0***	**6,158**	**3,844**	***60.2***	**10,002**	**8,108**	***23.4***
Key ratios (%)									
Raw Material to Sales	59.5	54.6		59.5	58.5		59.1	56.7	
Staff Cost to sales	16.7	15.9		16.7	20.7		18.5	17.1	
Other exp to sales	10.5	12.0		10.5	12.2		11.3	12.2	
OPM	13.3	17.5		13.3	8.6		11.2	14.0	
EBIDTA margin	19.1	23.4		19.1	15.4		17.4	20.1	
Effective tax rate	34.6	39.1		34.6	34.9		34.7	37.8	
Order backlog (Rs bn)	1,040,000	726,000	*43.3*	1,040,000	950,000	*9.5*	1,040,000	726,000	*43.3*
Order inflow (Rs bn)	143,426	141,654	*1.3*	143,426	134,297	*6.8*	277,723	247,993	*12.0*
Segmental revenues									
Power	44,090	33,039	*33.4*	44,090	35,087	*25.7*	79,177	60,401	*31.1*
Industry	14,961	12,422	*20.4*	14,961	12,851	*16.4*	27,812	21,620	*28.6*
Revenue mix (%)									
Power	74.7	72.7		74.7	73.2		74.0	73.6	
Industry	25.3	27.3		25.3	26.8		26.0	26.4	
EBIT margin (%)									
Power	17.3	23.1		17.3	18.7		17.9	21.5	
Industry	15.1	14.1		15.1	14.1		14.6	9.7	

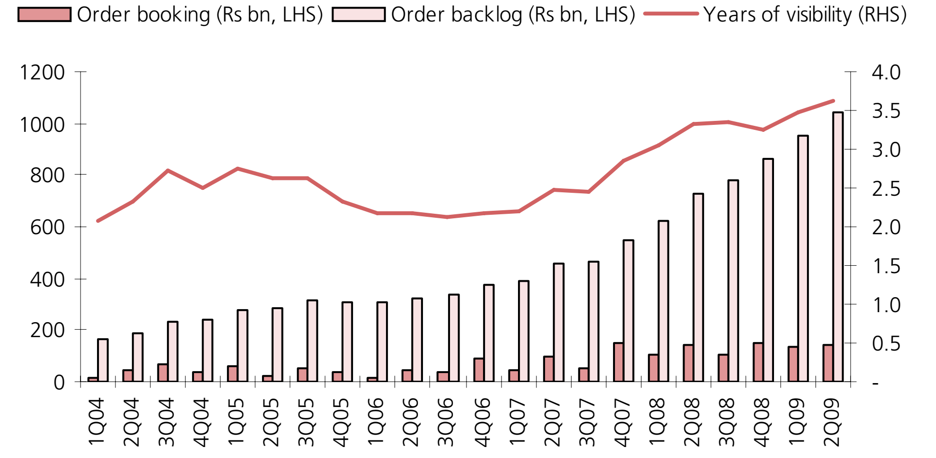
Exhibit 2. Operating margin trend for BHEL over the last five years (%)



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3. Order backlog provides visibility of 3.6 years based on forward four quarter revenues

Order booking, Order backlog & visibility trend for BHEL



Source: Company data, Kotak Institutional Equities.

Exhibit 4. List of orders bagged by BHEL during FY2008 and FY2009

Order, Client	Configuration	Value (Rs mn)	Nature of work	Date
Order received in FY2009 so far				
Chadrapura TPS, Maharashtra State Power Gen. Co. Ltd.	2X 500 MW	26,900	BTG + Electric BOP package	
NTPC Ltd	2X 660 MW	14,740	Steam Turbine Generator package at Barh Thermal Power Project	23-Oct-08
Satluj Jal Vidyut Nigam Limited (SJVNL)	6x 68.67 MW	6,410	Hydro Electric Project (HEP) in Himachal Pradesh	21-Oct-08
Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL)	2X250	9,900	Chhabra Thermal Power Station	30-Sep-08
SAIL		3,380	Equipment supply	25-Sep-08
ONGC Tripura Power Company Limited (OTPCL)	2X 363.3 MW	22,000	Turnkey contract - Combined Cycle Power Plant	9-Sep-08
GVK Power Ltd	2X 270 MW	11,550	Thermal Power Project	29-Aug-08
International Energy Resources (IER), UAE	2X 42 MW	1,400	Supply of two gas turbine generating units	26-Aug-08
Ministry of Infrastructure, Government of the Republic of Rwanda	2X 14 MW	4,000	Turnkey contract- Hydro Power Project	8-Aug-08
Andhra Pradesh Power Development Company Limited (APPDCL)	2X 800 MW	25,000	Supply of Steam Generators Boilers	5-Aug-08
Nam Chien Hydropower Joint Stock Company, Vietnam	2X 100 MW	2,000	EPC Basis	4-Aug-08
International Energy Resources, UAE	2X 42 MW	1,600	Supply of two gas turbine generating units	16-Jul-08
Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power Station	1X 600 MW	21,750	EPC Basis	11-Jul-08
Public Establishment of Electricity for Generation and Transmission, Ministry of Electricity, Syria	2X 200 MW	20,800	Turnkey contract- Thermal Power Project	30-Jun-08
Oil and Natural Gas Corporation Limited ONGC		5,060	Onshore Drilling rigs	26-Jun-08
Damodar Valley Corporation DVC	1X 500 MW	18,400	Power Project - Turnkey Contract	20-Jun-08
Pragati Power Corporation Limited	1X 1371 MW	35,880	Combined Cycle Power Plant	9-Jun-08
Chhattisgarh State Electricity Board	3X 500 MW	33,680	Main Plant Package	28-Apr-08
Total Orders received in FY09	**9865.62**	**264,450**		
Order received in FY2008				
New Caledonia	2X 135 MW	5500	CCF Boiler supply	31-Mar-08
Gujarat State Energy Generation Limited	1X 350 MW	10750	EPC Contract	26-Feb-08
Gujarat State Petroleum Corporation GSPC	2X 350 MW	18930	EPC Contract	29-Feb-08
Nabinagar Rail Bijlee Company Ltd	4X 250 MW	20300	Main Plant Package	17-Mar-08
General Electricity Company of Libya	1X 300 MW	6500	EPC Basis	18-Feb-08
Tamil Nadu Electricity Board TNEB, North Chennai Thermal Power Station	1X 600 MW	24750	EPC basis	24-Jan-08
Maithon Power Limited (MPL), a joint venture company of Tata Power and Damodar Valley Corporation (DVC).	2X525 MW	21080	BTG package	22-Nov-07
Reliance Industries LTd.	345 MW	8660	EPC basis	22-Jan-08
Vallur power project, Ennore Tamil Nadu	2X 500 MW	19900	Equipment supply	30-Aug-07
Durgapur Steels	2X 500 MW	32500	Equipment supply	21-Aug-07
Sudan	2X 500 MW	40000	EPC Contract	
OBRA, UP Power Corporation Ltd.	2X 800 MW	64,000	EPC Contract	
Anpara - D, UP Power Corporation Ltd.	2X 500 MW	33,900	EPC Contract	8-Feb-08
Sikka, Gujarat State Electricity Corporation Ltd.	540 MW	20,000	EPC Contract	
Koderma, Damodar Valley Corporation	2X 500 MW	32,800	EPC Contract	21-Aug-07
Maheshwar hydro electric power project, Madhya Pradesh	400 MW	5,730	Electromechanical component	
Rayalseema, APGENCO	210 MW	6,100	EPC Contract	
Srinagar Hydro power project, GVK Power and Infrastructure	330 MW	4,450	Electromechanical component	
Teesta, National Hydro Power Corporation	270 MW	2,760	Electromechanical component	
Jhajjar, Haryana Power Generation Corporation Ltd.	3 X 500 MW	18,690	Equipment supply	9-Aug 2007
HMEL, a JV of HPCL and L.N. Mittals, Mittal Energy Limited	1X 153 MW	11,500	Captive Power Plant	26-May-08
Rashtriya Ispat Nigam Ltd.		1060	Turbo power blower	
National Thermal Power Corp.		1390	Transformers	
Total Orders received in FY08	**14273**	**411,250**		

Source: Company, Kotak Institutional Equities

Exhibit 5: Our March 2010 DCF based valuation results in a target price of Rs1,475/share

DCF valuation for BHEL, March fiscal year ends, 2008E-2018E (Rs mn)

	Existing orders ensure visibility				XII plan execution of 65,000 MW; 16% CAGR growth in industry sector revenues							
Year to March	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Revenue	**257,892**	**340,795**	**397,201**	**459,054**	**462,444**	**506,592**	**562,492**	**664,858**	**749,372**	**824,309**	**906,740**	**997,414**
Growth (%)	*33.6*	*32.1*	*16.6*	*15.6*	*0.7*	*9.5*	*11.0*	*18.2*	*12.7*	*10.0*	*10.0*	*10.0*
EBIT margin	*19.1*	*16.4*	*19.5*	*19.7*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*	*16.5*
EBIT*(1-tax rate)	**32,573**	**36,899**	**51,231**	**59,608**	**50,360**	**55,168**	**61,255**	**72,403**	**81,607**	**89,767**	**98,744**	**108,618**
Depreciation	3,246	3,961	4,890	5,818	6,695	6,527	5,871	5,445	5,563	5,480	5,313	5,251
Change in working capital	6,024	(36,335)	(16,705)	(20,867)	(678)	(8,830)	(11,180)	(20,473)	(16,903)	(14,987)	(16,486)	(18,135)
Capital expenditure	(11,000)	(11,000)	(11,000)	(11,000)	(5,703)	(2,649)	(3,354)	(6,142)	(5,071)	(4,496)	(4,946)	(5,440)
Free Cash Flows	**30,842**	**(6,475)**	**28,416**	**33,559**	**50,674**	**50,217**	**52,593**	**51,233**	**65,196**	**75,763**	**82,625**	**90,294**
Growth (%)	*(23.0)*	*(121.0)*	*(538.8)*	*18.1*	*51.0*	*(0.9)*	*4.7*	*(2.6)*	*27.3*	*16.2*	*9.1*	*9.3*
Years discounted	-	-	1	2	3	4	5	6	7	8	9	10
Discount factor	1.00	1.00	0.88	0.78	0.68	0.60	0.53	0.47	0.41	0.36	0.32	0.28
Discounted cash flow	**30,842**	**(6,475)**	**25,036**	**26,051**	**34,658**	**30,260**	**27,922**	**23,965**	**26,869**	**27,510**	**26,433**	**25,451**

Target price calculation	**Rs mn**
Sum of free cash flow	267,679
Discounted terminal value	314,392
Enterprise value	582,071
Add Investments	83
Net debt	(125,511)
Net present value-equity	707,666
Shares o/s	490
Target price /share(Rs)	**1,446**

Terminal multiples	
EV/EBIDTA	6.6
P/FCF	12.4

Terminal value calculation	
Cash flow in terminal year	90,294
Growth to perpetuity (g)	***5.0%***
Capitalisation rate (WACC-g)	*8.5%*
Terminal value	1,115,400
Discount period (years)	10.0
Discount factor	0.28
Discounted terminal value	**314,392**

WACC calculation	
Risk-free rate (Rf)	*8.5%*
Beta (B)	1.00
Equity risk premium	*5.0%*
Expected market Return (Rm)	*13.5%*
Cost of Equity (Ke)	*13.5%*
Cost of Debt (Kd) (Post-tax)	*8.0%*
WACC	***13.5%***

Note: We have used cash EBIT margins for DCF, effecting the margins in FY2010E, when we expect the employee cost related provisions to be realised as cash expense

Source: Kotak Institutional Equities estimates.

Energy

RPET.BO, Rs77	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	100
52W High -Low (Rs)	295 - 76
Market Cap (Rs bn)	347

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	0.0	187.9	1,056
Net Profit (Rs bn)	(4.7)	11.0	76.5
EPS (Rs)	(1.1)	2.4	17.0
EPS gth	-	-	*614.5*
P/E (x)	-	-	4.5
EV/EBITDA (x)	-	-	4.3
Div yield (%)	-	-	2.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.4	-	-
FIIs	1.5	0.2	(2.1)
MFs	1.2	0.7	(1.5)
UTI	-	-	(2.2)
LIC	1.7	0.9	(1.3)

Reliance Petroleum : Reduced 12-month target price to Rs100 (Rs130 earlier) and retain REDUCE rating

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

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

- **Removing option value of refinery from FCF of soon-to-be-commissioned refinery**
- **Global conditions will result in likely large imbalance for a number of years**
- **Changing valuation methodology to DCF from P/E**

We have changed our valuation methodology for RPET stock to DCF from P/E in order to remove the option value of new refining assets from FCF of RPET's upcoming refinery. We do not see any scope for RPET to pursue a new refinery project in the medium term given large supply-demand imbalance for the next few years. In fact, even RPET may find it difficult to place its products from its soon-to-be-commissioned refinery if current weak market conditions persist. Our revised 12-month target price for RPET stock based on DCF is Rs100 (current value: Rs83; 12-month DCF value: Rs97) versus Rs130 previously based on 8X FY2010E earnings. Exhibit 1 gives our DCF valuation for RPET. Key upside risk to our negative view stems from a sharp recovery in global GDP leading to higher-than-expected refining margins

Weak demand and large supply rules out a new refinery for some time. We doubt RPET would pursue a second refinery from the free cash flows of its upcoming refinery in the medium term. The new refinery will likely start operations over the next few months and will likely face difficulty in placing its products in the global market in case global conditions worsen and oil demand is lower versus our current expectations.

We expect supply-demand imbalance to persist for the next 2-3 years given large capacity additions and likely weak demand until FY2010E. We expect projects due in CY2011E and CY2012E to be likely postponed. RPET can explore the possibility of setting up a second refinery to target CY2013-14E assuming supply-demand balance is sufficiently restored by then. However, we see a large imbalance in supply and demand over the next few years for the following reasons.

1. **Significant capacity addition due in CY2009-10E.** We expect significant addition to refining capacity from 4QCY08 led by China's 0.95 mb/d and RPET's 580,000 b/d refinery (see Exhibit 2). We expect refining capacity addition of 1.4 mb/d, 1.6 mb/d and 1.7 mb/d in CY2008E, CY2009E and CY2010E (see Exhibit 3). In addition, we expect supply of OPEC natural gas liquids (NGLs) to increase by 0.3 mb/d, 0.8 mb/d and 0.5 mb/d in CY2008E, CY2009E and CY2010E led by start of several gas-processing plants associated with gas developments in Iran (Phase 6-10 of South Pars development), Qatar (four new LNG trains of Qatargas 2 and RasGas), Saudi Arabia and Nigeria.

2. **Likely weak demand with risk is on the downside.** Exhibit 4 gives our supply-demand estimates for oil but we see significant downside risks to global demand. The IEA currently projects CY2009E global oil demand growth at 0.7 mn b/d with non-OECD demand growth of 1.3 mn b/d making up for demand loss of 0.6 mn b/d in OECD countries. We see downside risks to both, especially if the US and Euro-zone go into a deep recession—this would impact exports from emerging Asian countries and thus, result in lower GDP growth in those countries, particularly China and East Asia.

   The IEA recently cut its demand growth for CY2008E to 0.4 mn b/d (down from 2 mn b/d in January 2008) reflecting demand compression primarily in the OECD countries. In particular, US demand continues to be weak with September demand declining by 7% yoy led by economic slowdown and ongoing financial crisis; demand contracted 4.5% yoy in August 2008 and 4% yoy in July 2008.

Our DCF-based fair value for RPL is Rs100
DCF valuation for Reliance Petroleum (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	**26,777**	**110,577**	**92,592**	**88,808**	**81,059**	**79,870**	**79,564**	**79,229**	**78,865**	**78,472**	**78,049**	**78,049**	**78,049**	**78,049**
Tax expense	(55)	(113)	(72)	(68)	(57)	(8,114)	(10,326)	(11,107)	(11,752)	(12,278)	(23,231)	(23,453)		
Working capital changes	(16,451)	(68,335)	3,112	1,961	3,745	127	(7)	(5)	(4)	(4)	(3)	1		
Cash flow from operations	**10,272**	**42,130**	**95,632**	**90,701**	**84,747**	**71,883**	**69,232**	**68,117**	**67,109**	**66,190**	**54,815**	**54,597**		
Capital expenditure	(39,097)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)		
Free cash flow to the firm	**(28,825)**	**40,130**	**93,632**	**88,701**	**82,747**	**69,883**	**67,232**	**66,117**	**65,109**	**64,190**	**52,815**	**52,597**	**52,597**	**52,597**
Discount factor at WACC	**0.95**	**0.85**	**0.76**	**0.68**	**0.60**	**0.54**	**0.48**	**0.43**	**0.38**	**0.34**	**0.31**	**0.27**	—	—
Discounted cash flow	(27,428)	34,093	71,025	60,057	50,023	37,720	32,401	28,441	25,006	22,012	16,171			
Discounted cash flow-1 year forward		38,185	79,548	67,285	56,026	42,246	36,289	31,863	28,007	24,654	18,111	16,104		
Discounted cash flow-2 year forward			89,094	75,359	62,768	47,316	40,643	35,687	31,378	27,612	20,285	18,036	16,104	

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**349,522**	**452,693**	**478,657**
FCF one-year forward	52,597	52,597	52,597
Terminal value	438,306	438,306	438,306
PV of terminal value (b)	**150,304**	**150,304**	**150,304**
Total PV (a) + (b)	**499,826**	**602,997**	**628,961**
Net debt	128,253	167,833	157,407
Equity value	371,573	435,164	471,555
Equity value (US$ mn)	**8,257**	**9,670**	**10,717**
Shares outstanding (mn)	4,500	4,500	4,500
Equity value/per share (Rs)	**83**	**97**	**105**

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

Growth rate (%)	WACC (%) 11.0	11.5	12.0	12.5	13.0	13.5	14.0
-	**107**	**102**	**97**	92	88	84	80
1.0	**112**	**106**	**101**	96	91	87	83
2.0	**119**	**112**	**106**	**100**	95	90	86
3.0	**127**	**119**	**112**	**105**	**99**	94	89
4.0	**137**	**127**	**119**	**112**	**105**	**99**	94
5.0	**150**	**139**	**129**	**120**	**112**	**105**	**99**
6.0	**169**	**154**	**141**	**130**	**121**	**113**	**105**
7.0	**197**	**176**	**159**	**145**	**133**	**123**	**114**

Discount rate (%)	**12.0**
Growth from 2020 to perpetuity (%)	—
Exit free cash multiple (X)	8.3
Exit EBITDA multiple (X)	5.6

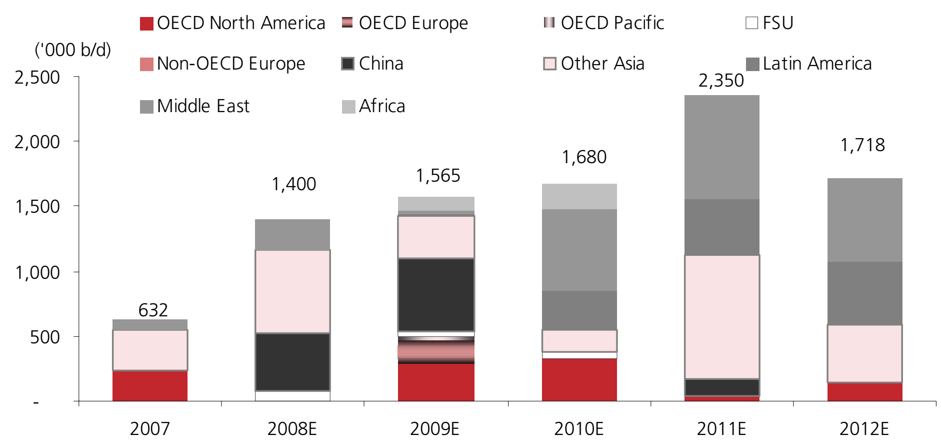
Source: Kotak Institutional Equities estimates

Significant refining capacity to come onstream in China and India from 2HCY08
Upcoming refining capacity addition (b/d)

Company	Location	Capacity addition (b/d)	Expected completion
CNOOC	Daya Bay, Huizhou, Guangdong, China	240,000	3QCY08
Reliance Petroleum	Jamnagar, India	580,000	4QCY08
Sinopec	Qingdao, China	200,000	4QCY08
Fujian Petrochemical	Quangang, Quanzhou City, China	160,000	1QCY09
Sinopec	Tianjin, China	150,000	1QCY09
Petrochina	Dagang, Quinzhou, China	200,000	1QCY09
Petrovietnam	Dung Quat, Vietnam	121,000	1QCY09
Total capacity addition		**1,651,000**	

Source: Oil & Gas journal, Kotak Institutional Equities estimates

Significant supply additions to global refining capacity in the next few years
Global refinery capacity addition, calendar year ends, 2007-2012E ('000 b/d)



Source: IEA, Kotak Institutional Equities estimates

Expect moderate demand growth led by economic slowdown and ongoing financial crisis
Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)										
Total demand	82.5	84.0	85.1	86.1	86.5	87.2	88.3	89.5	90.7	92.2
Yoy growth	3.3	1.5	1.1	1.0	0.4	0.7	1.1	1.2	1.2	1.5
Supply (mb/d)										
Non-OPEC	48.8	48.7	49.2	49.6	49.8	50.4	50.6	50.7	50.7	51.3
Yoy growth	0.6	(0.1)	0.5	0.4	0.2	0.6	0.2	0.1	0.0	0.6
OPEC										
Crude	29.5	30.8	31.3	31.7	31.6	30.9	31.3	32.3	33.2	34.0
NGLs	4.2	4.5	4.6	4.8	5.1	5.9	6.4	6.5	6.8	6.9
Total OPEC	**33.7**	**35.3**	**35.9**	**36.5**	**36.7**	**36.8**	**37.7**	**38.8**	**40.0**	**40.9**
Total supply	**83.4**	**84.7**	**85.5**	**86.1**	**86.5**	**87.2**	**88.3**	**89.5**	**90.7**	**92.2**
Total stock change	1.0	0.7	0.8							
OPEC crude capacity				**34.4**	**35.3**	**36.4**	**37.4**	**37.3**	**37.6**	**37.9**
Implied OPEC spare capacity				**2.7**	**3.7**	**5.5**	**6.1**	**5.0**	**4.4**	**3.9**
Demand growth (yoy, %)	**4.2**	**1.8**	**1.3**	**1.2**	**0.5**	**0.8**	**1.3**	**1.4**	**1.3**	**1.7**
Supply growth (yoy, %)										
Non-OPEC	**1.2**	**(0.2)**	**1.0**	**0.8**	**0.4**	**1.2**	**0.4**	**0.2**	**0.0**	**1.2**
OPEC	**8.4**	**4.6**	**1.9**	**1.5**	**0.6**	**0.3**	**2.4**	**2.9**	**3.1**	**2.3**
Total	**4.4**	**1.6**	**0.9**	**0.7**	**0.5**	**0.8**	**1.3**	**1.4**	**1.3**	**1.7**
Dated Brent (US$/bbl)	**38.3**	**54.4**	**65.8**	**72.7**	**100.0**	**80.0**	**85.0**	**85.0**	**85.0**	**75.0**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

Reliance Petroleum's earnings have high leverage to refining margins
Sensitivity of RPL's earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	44.0	45.0	46.0	44.0	45.0	46.0	43.0	44.0	45.0
Net profits (Rs mn)	10,293	10,982	11,671	73,555	76,500	79,445	60,245	62,854	65,463
EPS (Rs)	2.3	2.4	2.6	16.3	17.0	17.7	13.4	14.0	14.5
% upside/(downside)	**(6.3)**		**6.3**	**(3.9)**		**3.9**	**(4.2)**		**4.2**
Refining margins (US$/bbl)									
Margins (US$/bbl)	13.1	14.1	15.1	11.6	12.6	13.6	10.3	11.3	12.3
Net profits (Rs mn)	9,342	10,982	12,622	66,985	76,500	86,015	53,548	62,854	72,160
EPS (Rs)	2.1	2.4	2.8	14.9	17.0	19.1	11.9	14.0	16.0
% upside/(downside)	**(14.9)**		**14.9**	**(12.4)**		**12.4**	**(14.8)**		**14.8**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Reliance Petroleum 2009-2014E, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E
Profit model						
Net revenues	187,920	1,056,461	1,018,070	993,965	945,387	944,465
EBITDA	**26,777**	**110,577**	**92,592**	**88,808**	**81,059**	**79,870**
Other income	14	69	122	103	93	121
Interest (expense)/income	(10,796)	(19,266)	(14,903)	(8,666)	(5,853)	(3,161)
Depreciation	(4,986)	(14,791)	(14,899)	(15,007)	(15,116)	(15,224)
Pretax profits	**11,009**	**76,590**	**62,912**	**65,238**	**60,183**	**61,606**
Extraordinary items	—	—	—	—	—	—
Tax	(28)	(90)	(58)	(60)	(52)	(7,718)
Deferred taxation	—	—	—	—	—	1,624
Net income	**10,982**	**76,500**	**62,854**	**65,178**	**60,131**	**55,512**
Earnings per share (Rs)	**2.4**	**17.0**	**14.0**	**14.5**	**13.4**	**12.3**
Balance sheet						
Total equity	145,471	211,442	263,766	286,826	276,607	267,172
Deferred taxation liability	—	—	—	—	—	(1,624)
Total borrowings	168,275	159,275	91,275	52,275	46,275	44,275
Current liabilities	14,735	77,307	75,626	73,945	70,584	70,584
Total liabilities and equity	**328,481**	**448,024**	**430,667**	**413,047**	**393,467**	**380,408**
Cash	443	1,869	2,204	1,232	1,873	2,165
Other current assets	36,802	167,708	162,916	159,275	152,169	152,042
Net fixed assets	266,854	254,063	241,164	228,157	215,041	201,817
Capital work-in-progress	—	—	—	—	—	—
Investments	24,383	24,383	24,383	24,383	24,383	24,383
Deferred expenditure	—	—	—	—	—	—
Total assets	**328,481**	**448,024**	**430,667**	**413,047**	**393,467**	**380,408**
Free cash flow						
Operating cash flow, excl. working capital	15,954	91,221	77,631	80,082	75,153	68,991
Working capital changes	(16,451)	(68,335)	3,112	1,961	3,745	127
Capital expenditure	(39,097)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Investments	—	—	—	—	—	—
Other income	14	69	122	103	93	121
Free cash flow	**(39,580)**	**20,956**	**78,864**	**80,146**	**76,991**	**67,239**
Ratios (%)						
Debt/equity	115.7	75.3	34.6	18.2	16.7	16.6
Net debt/equity	115.4	74.4	33.8	17.8	16.1	15.8
ROAE (%)	7.8	42.9	26.5	23.7	21.3	20.5
ROACE (%)	**7.5**	**28.0**	**21.4**	**21.3**	**19.9**	**18.4**

Source: Kotak Institutional Equities estimates

Pharmaceuticals

GLEN.BO, Rs324	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	770
52W High -Low (Rs)	736 - 291
Market Cap (Rs bn)	86.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	16.9	25.0	35.4
Net Profit (Rs bn)	6.3	8.2	11.1
EPS (Rs)	25.8	31.8	41.8
EPS gth	*98.4*	*23.2*	*31.3*
P/E (x)	12.5	10.2	7.7
EV/EBITDA (x)	11.1	8.3	6.1
Div yield (%)	0.0	0.0	0.1

Glenmark Pharmaceuticals : Further trials on GRC 6211 molecule suspended, contributes Rs42 to our price target

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127
Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **Clinical development for GRC 6211 suspended; contributes Rs42 to our price target**
- **Glenmark has another NCE in this class—GRC17173**
- **Latin America/CIS revenue targets could be at risk in FY10/11**
- **Results due October 27, analysts meet likely early November**
- **Comprehensive review of earnings/PT following analyst meet**

Eli Lilly has suspended further clinical development for GRC 6211 in Osteoarthritis pain. The NCE was out licensed in October 2007 with total deal size of US$350 mn. We remain unclear whether the NCE will be tested for other indications of pain and the future for this molecule. The collaboration between Glenmark and Lilly covers all TRPV1 antagonist molecules discovered by either company with Glenmark having another NCE in this class of compounds in preclinical stage (GRC17173). On a separate note, Glenmark has the maximum exposure among KIE generics with 17% of FY2008 sales to Latin America/CIS countries. We think revenue generation for companies with exposure to these economies is not a problem, its conversion to cash is. Working capital cycle may increase due to delays in payments from these markets. We wait for analysts meet (early November) post earnings release (on October 27) to revise earnings/target price.

Eli Lilly has suspended further clinical development for GRC 6211 in Osteoarthritis pain. Total deal size for this NCE stood at US$350 mn. Glenmark has announced that its partner Eli Lilly has suspended further clinical development for GRC 6211 in Osteoarthritis pain. The NCE was outlicensed in October 2007 and was currently in phase IIb trials for Osteoarthritis pain.

Our SOTP-based target price of Rs770 includes Rs125 as the probability-adjusted NPV of the three NCEs in the clinics with, Rs42 from GRC 6211. We value GRC 6211 only for the indication of OA pain and not for other indications (see Exhibit 1). We think the current market capitalization is indicating that the company's entire research pipeline is treated at zero value.

Background of the deal. Under the terms of the agreement entered into October 2007, Glenmark received an upfront fee of US$45 mn and could receive up to an additional US$215 mn in potential development and sales milestones for the initial indication, as well as royalties on sales if GRC 6211 is successfully commercialized. If other indications are successfully developed, Glenmark would be entitled to additional milestones up to US$90 mn. Lilly will have marketing rights for North America, Europe and Japan, while Glenmark will retain the marketing rights in all other countries.

Glenmark has another NCE in this class—GRC17173. The collaboration between Glenmark and Lilly covers all TRPV1 antagonist molecules discovered by either company with Glenmark having another NCE in this class of compounds—GRC17173. This NCE is in preclinical stage currently and according to the company is expected to enter clinics in Q3FY09. Given that this NCE is yet to enter phase I, we think news on clinical development from this NCE by Lilly is still sometime away.

Management comments on CNBC India Mr. Glenn Saldanha mentioned that they have seen some recent clinical findings on account of which they decided to put a hold on the program. They are still reviewing the data jointly and further clarification will be made. They believe of now GRC 6211 could still progress forward or they would move one of the backup compound.

This development does not affect PAT guidance for FY2009E and FY2010E. They had not included any income from this molecule. Glenmark has rights to the backup compounds irrespective of who develops it, Glenmark or Eli Lily.

On the other compounds, he mentioned that asthma molecule oglemilast phase 2B is currently ongoing in both asthma as well as COPD (Chronic Obstructive Pulmonary Disorder) in the US and multiple locations. Diabetes molecule Melogliptan is in Phase IIb and Glenmark expects to have a licensing partner in the next six-nine months.

Glenmark has the largest exposure among KIE generic coverage with 17% of FY2008 sales from Latin America/CIS. Indian companies which have exposure to Latin America/Russia/CIS in KIE generics coverage are Glenmark, DRL and Ranbaxy. Recent increase in risk perception may lead to business disruption in future. In addition, there could be losses relating to inventory and debtors in these countries.

Glenmark with 17% of FY2008 sales from these countries is the one most at risk. In FY2008, it earned Rs857 mn from Russia/CIS and Rs2.2 bn from Latin America. Glenmark is focusing on building operations in three markets in the CIS—Ukraine, Kazakhstan and Uzbekistan. There are currently six products that Glenmark promotes in Ukraine. In Kazakhstan, Glenmark has filed 21 products out of which four have been registered.

Working capital cycle set to increase due to delays in payments. This will be a key thing to watch out for in the quarterly results. Companies which have reported results so far such as Biocon have reported stretching of working capital cycle with deteriorating debtors' position and increasing debtors' days. Kiran Mazumdar-Shaw, chairperson of Biocon, indicated that Biocon has not seen a slowdown in business despite the global financial turmoil. However, it would follow a policy of exercising caution in international business due to fear of inability to pay on part of their customers.

What is the market price implying? Management guidance for FY2009 and FY2010 has been retained after results for 1QFY09. Glenmark expects PAT of US$210 mn for FY2009E and US$282 mn for FY2010E. Excluding post-tax research income of US$63 mn for FY2009-10E Glenmark is guiding for PAT of US$147 mn for FY2009E and US$219 mn for FY2010E.

Our price target of Rs770 includes value of research pipeline of Rs125 (see Exhibit 1). Thus, we value Glenmark's business excluding research at Rs645 in a year's time. Glenmark at a price of Rs323 is trading at 10X FY2010E and 8X FY2011E estimated earnings. At the target price of Rs645 excluding research we value it at 19X FY2010E and 16X FY2011E estimated earnings.

We wait for analysts meet (early November) post earnings release (on October 27) to revise earnings/target price. Glenmark is scheduled to release results on October 27 and will hold an analysts meet in early November.

Exposure to Russia/CIS and Latin America (Rs mn)

				(% of sales)	
	Total sales	**Russia/CIS**	**L. America**	**Russia/CIS**	**L. America**
Glenmark	17,689	857	2,211	5	13
DRL	49,700	5,525	NA	11	NA
Ranbaxy	67,887	3,720	2,687	5	4
Lupin	27,730	348	NA	1	NA
Cipla	41,010	25% of exports from North, Central and South America			

Source:Company.

Research pipeline valuation (Rs mn)

	Milestone	**Revenues**	**Total**
GRC 3886	13	46	60
GRC 8200	8	15	22
GRC 6211	16	26	42
Total	**37**	**87**	**124**

Source: Company, Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	23-Oct-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	530	ADD	76,675	1,541	145	59.3	65.9	69.8	(53.4)	11.0	5.9	8.9	8.0	7.6	6.3	5.9	5.5	4.8	3.8	3.1	3.8	3.8	3.8	21.0	42.6	36.5	610	15.1	—
Hero Honda	760	REDUCE	151,852	3,052	200	48.5	56.8	63.2	12.8	17.2	11.3	15.7	13.4	12.0	9.9	8.9	8.3	4.9	4.0	3.3	2.5	2.6	2.6	34.0	33.1	30.4	770	1.3	9.0
Mahindra & Mahindra	341	ADD	88,025	1,769	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	9.0	9.2	9.2	7.0	7.1	6.6	2.0	1.6	1.3	3.2	2.7	2.8	27.8	22.0	17.8	640	87.7	5.8
Maruti Suzuki	595	ADD	172,071	3,459	289	59.9	60.0	65.1	10.8	0.2	8.4	9.9	9.9	9.1	5.6	5.4	4.9	2.0	1.7	1.4	0.8	0.8	0.8	22.1	18.3	16.8	790	32.7	16.0
Tata Motors	195	SELL	113,118	2,274	581	47.4	25.1	22.3	0.9	(47.1)	(10.9)	4.1	7.8	8.7	4.7	5.9	6.3	1.2	0.5	0.6	5.1	6.5	6.5	24.3	9.8	7.4	425	118.4	9.7
Automobiles		**Cautious**	**601,741**	**12,095**					**(0.8)**	**(4.6)**	**2.9**	**9.2**	**9.7**	**9.4**	6.2	6.4	6.1	**2.2**	**1.5**	**1.3**	**2.8**	**3.0**	**3.0**	**24.3**	**15.5**	**14.1**			
Banks/Financial Institutions																													
Andhra Bank	51	REDUCE	24,735	497	485	11.9	11.6	12.1	7.0	(2.4)	4.7	4.3	4.4	4.2	—	—	—	0.8	0.7	0.6	7.8	5.7	5.9	18.0	16.3	15.3	65	27.5	0.8
Axis Bank	622	REDUCE	222,639	4,475	358	32.2	39.7	51.8	37.7	23.2	30.5	19.3	15.7	12.0	—	—	—	2.7	2.4	2.1	0.9	1.2	1.6	17.6	15.2	17.5	750	20.5	68.7
Bank of Baroda	273	ADD	99,862	2,007	366	39.3	39.3	44.6	39.8	0.1	13.4	7.0	6.9	6.1	—	—	—	1.2	1.0	0.9	2.9	2.9	3.3	14.6	12.5	13.0	310	13.5	8.7
Bank of India	257	BUY	134,897	2,711	526	40.6	48.0	46.3	76.6	18.2	(3.6)	6.3	5.3	5.5	—	—	—	1.7	1.3	1.1	1.6	2.0	1.9	27.6	25.4	20.1	370	44.2	21.8
Canara Bank	175	REDUCE	71,627	1,440	410	38.2	40.0	38.3	10.1	4.8	(4.3)	4.6	4.4	4.6	—	—	—	1.0	0.8	0.7	4.6	3.4	3.4	15.0	14.7	12.6	220	25.9	3.9
Central Bank of India	40	SELL	16,267	327	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	3.5	4.3	2.4	—	—	—	0.8	0.5	0.4	5.0	—	—	15.3	11.6	16.7	55	36.6	0.4
Corporation Bank	228	ADD	32,654	656	143	51.3	48.7	55.5	37.2	(5.0)	13.9	4.4	4.7	4.1	—	—	—	0.8	0.7	0.6	4.6	4.4	5.0	18.4	15.5	15.7	355	55.9	0.5
Federal Bank	152	BUY	25,911	521	171	34.4	26.6	29.8	0.5	(22.7)	12.2	4.4	5.7	5.1	—	—	—	0.7	0.6	0.6	2.6	3.3	3.7	13.6	11.1	11.4	300	98.0	1.5
Future Capital Holdings	180	BUY	11,352	228	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(39.8)	40.3	6.2	—	—	—	1.6	1.5	1.2	—	—	—	(6.7)	3.8	21.4	440	145.1	1.1
HDFC	1,764	ADD	506,264	10,176	287	85.8	78.0	97.1	38.2	(9.0)	24.5	20.6	22.6	18.2	—	—	—	4.2	3.7	3.2	1.4	1.3	1.7	27.8	17.4	18.9	2,200	24.7	72.6
HDFC Bank	1,074	BUY	454,716	9,140	423	46.0	55.6	68.9	28.7	20.9	23.9	23.4	19.3	15.6	—	—	—	4.0	3.1	2.1	0.7	0.9	1.1	17.7	17.9	17.1	1,350	25.7	51.4
ICICI Bank	366	ADD	407,018	8,181	1,113	39.9	32.9	40.2	15.4	(17.7)	22.2	9.2	11.1	9.1	—	—	—	0.9	0.8	0.8	3.0	2.2	2.7	11.7	7.7	8.8	650	77.7	166.9
IDFC	54	ADD	69,310	1,393	1,294	5.7	6.4	7.2	3.0	13.3	11.8	9.4	8.3	7.4	—	—	—	1.2	1.1	1.0	2.2	2.1	2.3	17.6	14.2	14.2	85	58.7	22.7
India Infoline	51	ADD	14,657	295	287	5.6	6.3	6.2	85.6	12.0	(1.2)	9.1	8.1	8.2	1.9	3.8	3.4	1.2	1.1	1.0	2.3	2.6	2.6	20.7	14.1	12.9	70	37.3	3.5
Indian Bank	136	ADD	58,341	1,173	430	22.5	22.8	23.5	33.9	1.0	3.1	6.0	6.0	5.8	—	—	—	1.3	1.1	1.0	2.2	2.1	2.2	23.4	18.8	16.7	160	17.9	2.7
Indian Overseas Bank	94	ADD	51,102	1,027	545	22.1	22.0	23.6	19.2	(0.1)	7.2	4.3	4.3	4.0	—	—	—	1.1	0.9	0.8	4.0	5.3	5.8	27.2	22.6	20.5	130	38.6	1.1
J&K Bank	412	ADD	19,984	402	48	74.2	76.1	78.4	31.2	2.5	3.1	5.6	5.4	5.3	—	—	—	1.0	0.8	0.7	3.8	3.9	4.0	16.8	15.2	14.1	750	82.0	0.4
LIC Housing Finance	224	ADD	19,018	382	85	45.5	54.6	56.2	38.7	19.8	2.9	4.9	4.1	4.0	—	—	—	1.0	0.8	0.7	4.5	5.4	5.5	—	—	—	325	45.3	3.7
Mahindra & Mahindra Financial	199	SELL	18,965	381	95	20.8	22.9	27.2	32.6	10.1	18.7	9.5	8.7	7.3	—	—	—	1.5	1.3	1.2	2.3	2.9	3.4	16.9	15.7	16.6	215	8.0	0.1
Oriental Bank of Commerce	158	ADD	39,598	796	251	23.9	44.0	30.0	(27.6)	84.3	(31.8)	6.6	3.6	5.3	—	—	—	0.8	0.7	0.6	3.0	5.6	3.8	6.2	17.8	10.9	200	26.5	2.0
PFC	108	ADD	124,131	2,495	1,148	11.4	12.6	15.7	2.4	10.7	24.9	9.5	8.6	6.9	—	—	—	1.2	1.1	1.0	3.2	1.6	2.0	13.5	13.3	14.8	140	29.4	2.8
Punjab National Bank	475	BUY	149,832	3,012	315	65.0	73.2	82.5	33.0	12.6	12.8	7.3	6.5	5.8	—	—	—	1.6	1.2	1.1	2.7	3.1	3.5	18.0	17.6	17.6	650	36.8	11.0
Shriram Transport	212	REDUCE	43,094	866	203	19.2	26.8	31.1	85.7	39.9	15.9	11.1	7.9	6.8	—	—	—	2.5	2.1	1.7	2.4	3.8	4.6	26.9	27.2	27.2	320	50.8	0.9
SREI	51	BUY	6,805	137	134	11.4	5.5	8.1	57.4	(51.8)	47.8	4.4	9.2	6.2	—	—	—	1.0	0.6	0.5	2.1	4.5	5.5	23.1	11.6	12.5	160	215.3	0.6
State Bank of India	1,326	ADD	837,488	16,834	631	106.6	113.4	124.6	23.5	6.4	9.9	12.4	11.7	10.6	—	—	—	2.0	1.7	1.5	1.6	1.6	1.7	16.8	13.8	13.6	1,700	28.2	95.6
Union Bank	139	BUY	70,211	1,411	505	27.5	26.3	30.8	64.1	(4.2)	17.0	5.1	5.3	4.5	—	—	—	1.0	0.8	0.7	2.9	2.8	3.3	26.8	21.5	21.1	200	43.9	4.4
Banks/Financial Institutions		**Attractive**	**3,530,476**	**70,963**					**36.9**	**8.8**	**13.6**	**10.7**	**9.9**	**8.7**	**—**	**—**	**—**	**1.7**	**1.4**	**1.2**	**2.0**	**1.9**	**2.2**	**15.4**	**14.5**	**14.3**			
Cement																													
ACC	442	REDUCE	83,445	1,677	189	64.1	56.2	44.5	13.0	(12.3)	(20.8)	6.9	7.9	9.9	3.4	3.6	4.9	1.9	1.6	1.5	5.3	5.3	5.3	33.3	23.5	16.7	550	24.3	5.6
Ambuja Cements	49	REDUCE	73,987	1,487	1,522	7.6	8.0	6.6	(11.2)	6.4	(17.5)	6.4	6.0	7.3	3.2	3.7	4.0	1.5	1.2	1.0	5.3	6.2	4.4	26.6	21.7	15.4	95	95.5	2.6
Grasim Industries	1,180	ADD	108,199	2,175	92	284.6	230.8	197.7	32.6	(18.9)	(14.3)	4.1	5.1	6.0	2.9	3.3	3.2	0.9	0.8	0.7	2.6	2.8	2.8	25.0	16.3	12.1	1,700	44.1	4.5
India Cements	84	ADD	23,790	478	282	24.5	19.1	19.9	n/a	(21.8)	4.1	3.4	4.4	4.2	2.8	3.1	2.5	0.7	0.6	0.5	2.2	2.5	2.5	25.9	15.8	14.4	160	89.6	2.0
Shree Cement	455	BUY	15,854	319	35	90.2	109.1	71.4	99.5	21.0	(34.6)	5.0	4.2	6.4	2.8	3.3	3.1	2.4	1.6	1.3	1.8	1.8	1.8	56.9	46.6	22.9	850	86.8	0.3
UltraTech Cement	350	BUY	43,822	881	125	81.4	71.0	54.7	28.5	(12.8)	(22.9)	4.3	4.9	6.4	3.3	3.6	4.0	1.4	1.1	0.9	2.2	2.3	2.3	45.2	28.8	18.2	550	57.2	1.0
Cement		**Cautious**	**349,097**	**7,017**					**19.3**	**(11.1)**	**(16.9)**	**5.0**	**5.6**	**6.8**	**3.1**	**3.4**	**3.6**	**1.2**	**1.0**	**0.9**	**3.7**	**4.0**	**3.6**	**24.3**	**17.9**	**13.3**			
Consumer (Discretionary)																													
Radico Khaitan	58	REDUCE	6,853	138	118	3.4	3.2	3.8	8.4	(7.0)	21.5	17.1	18.4	15.2	8.6	8.6	7.8	1.4	1.3	1.2	0.7	0.7	0.7	9.4	8.1	9.0	91	56.2	0.4
United Breweries	82	REDUCE	19,684	396	240	1.9	2.4	4.4	(11.6)	25.7	82.1	43.0	34.2	18.8	11.8	8.5	6.4	3.4	1.9	1.7	—	—	—	8.3	7.1	9.6	160	95.1	0.2
United Spirits	830	BUY	77,706	1,562	94	40.0	40.1	52.4	50.8	0.1	30.9	20.7	20.7	15.8	12.0	10.6	9.3	3.3	3.3	2.4	0.0	0.0	0.0	18.8	15.9	17.7	1,050	26.6	7.5
Consumer (Discretionary)		**Attractive**	**104,243**	**2,095**					**35.8**	**1.2**	**35.3**	**21.7**	**21.4**	**15.9**	**11.7**	**10.1**	**8.7**	**3.0**	**2.4**	**2.1**	**0.1**	**0.1**	**0.1**	**14.0**	**11.3**	**13.4**			
Consumer products																													
Asian Paints	978	ADD	93,829	1,886	96	38.3	44.3	52.4	36.1	15.8	18.2	25.5	22.1	18.7	15.3	12.9	10.7	9.7	7.8	6.3	1.5	1.8	2.0	43.5	40.2	38.3	1,240	26.8	0.8
Colgate-Palmolive (India)	389	REDUCE	52,962	1,065	136	17.3	19.2	22.4	18.4	10.6	17.0	22.5	20.3	17.4	17.7	15.0	12.6	28.3	24.1	20.6	3.3	3.7	4.3	100.8	128.5	128.3	420	7.8	0.9
GlaxoSmithkline Consumer (a)	605	BUY	25,444	511	42	38.5	45.5	53.8	27.4	18.4	18.3	15.7	13.3	11.2	8.2	6.7	5.4	3.8	3.3	2.8	2.1	2.5	2.9	27.3	27.3	27.3	800	32.2	0.1
Godrej Consumer Products	106	ADD	27,243	548	258	7.3	8.0	8.5	22.9	9.0	6.9	14.5	13.3	12.4	12.6	9.9	8.8	12.8	3.9	3.4	3.3	3.8	3.8	100.9	46.1	39.3	140	32.6	0.1
Hindustan Unilever	242	ADD	526,402	10,581	2,177	8.1	9.2	10.8	15.4	12.9	17.9	29.8	26.3	22.3	24.1	20.1	16.5	36.6	34.0	31.4	4.4	3.6	4.2	85.2	134.3	146.7	280	15.8	22.0
ITC	169	BUY	631,006	12,683	3,742	8.0	9.1	10.4	11.3	13.3	14.3	21.0	18.5	16.2	13.8	12.0	10.3	5.1	4.5	3.9	2.1	2.2	2.4	26.9	26.6	26.4	230	36.4	25.2
Jyothy Laboratories	264	ADD	3,825	77	15	31.0	42.1	68.3	(12.8)	35.8	62.3	8.5	6.3	3.9	5.5	3.7	1.8	1.0	0.9	0.7	3.6	4.0	4.4	11.5	13.1	17.9	740	180.8	
Nestle India (a)	1,508	ADD	145,366	2,922	96	44.5	58.6	70.2	31.3	31.7	19.7	33.9	25.7	21.5	20.4	15.9	13.1	28.2	21.4	16.6	1.8	2.4	2.8	94.8	94.5	86.9	1,900	26.0	1.4
Tata Tea	555	BUY	34,318	690	62	54.1	63.3	67.3	3.6	17.2	6.2	10.3	8.8	8.3	4.0	3.4	2.9	0.7	0.7	0.6	2.7	3.2	3.4	9.7	9.4	9.4	1,100	98.2	1.4
Consumer products		**Attractive**	**1,540,395**	**30,962**					**15.0**	**15.2**	**15.8**	**23.7**	**20.5**	**17.7**	**15.7**	**13.4**	**11.4**	**7.2**	**6.2**	**5.5**	**2.9**	**2.8**	**3.2**	**30.3**	**30.3**	**30.8**			
Constructions																													
Consolidated Construction Co.	326	BUY	12,031	242	37	24.0	34.2	44.9	67.6	42.4	31.1	13.5	9.5	7.3	8.9	5.6	4.3	2.6	2.2	1.7	0.8	1.5	2.0	27.7	25.0	26.4	700	115.0	0.0
IVRCL	95	BUY	12,886	259	135	16.0	17.1	22.8	29.2	6.5	33.2	5.9	5.6	4.2	6.1	4.7	3.9	0.8	0.7	0.6	1.5	0.8	0.8	14.8	13.5	15.6	415	335.9	5.7
Nagarjuna Construction Co.	48	BUY	10,882	219	229	7.2	8.1	10.6	14.5	13.4	30.2	6.6	5.8	4.5	6.2	5.5	5.0	0.7	1.3	0.6	2.3	2.8	3.4	12.6	11.3	13.3	195	310.5	4.7
Punj Lloyd	165	BUY	53,272	1,071	323	10.0	17.9	20.5	323.5	79.6	14.5	16.5	9.2	8.0	9.0	5.8	4.9	1.9	1.5	1.4	0.2	0.5	0.5	16.8	19.3	18.6	260	57.9	32.8
Sadbhav Engineering	521	BUY	6,823	137	13	40.5	62.6	78.1	68.2	54.4	24.8	12.9	8.3	6.7	7.9	4.7	3.4	2.3	1.6	1.4	0.7	1.0	1.2	16.3	19.6	20.5	820	57.4	0.1

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	23-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	302	REDUCE	99,133	1,993	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	7.6	7.4	7.9	3.1	3.5	2.5	0.8	0.7	0.6	1.5	1.4	1.3	11.4	10.4	8.9	360	19.0	7.0
Cairn india	146	ADD	273,279	5,493	1,868	(0.1)	3.9	20.3	(105)	(3,390)	418	(1,227)	37	7.2	34.2	15.0	5.0	0.9	0.8	0.7	—	—	—	(0.1)	2.3	10.9	245	67.5	21.4
Castrol India (a)	301	ADD	37,185	747	124	20.1	23.6	24.1	64.6	17.5	2.1	15.0	12.7	12.5	8.6	7.5	7.3	9.0	8.4	7.8	4.7	6.0	6.0	59.5	68.5	65.2	350	16.4	0.5
GAIL (India)	224	REDUCE	284,202	5,712	1,268	20.4	27.5	27.9	21.0	35.1	1.4	11.0	8.1	8.0	5.6	4.8	5.9	2.0	1.7	1.4	3.0	3.6	3.6	18.1	21.4	18.5	240	7.1	15.0
GSPL	37	BUY	20,823	419	563	1.8	3.0	4.2	10.1	66.1	39.9	20.5	12.4	8.8	7.1	6.2	4.5	1.7	1.5	1.3	1.3	2.2	3.1	8.8	12.9	16.1	65	75.7	2.2
Hindustan Petroleum	195	REDUCE	66,044	1,327	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	5.8	7.5	5.8	5.2	3.4	2.1	0.5	0.5	0.5	1.5	1.2	1.5	9.6	6.8	7.9	260	33.4	5.7
Indian Oil Corporation	372	REDUCE	438,353	8,811	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	6.1	9.1	6.0	4.2	7.8	7.4	1.0	0.9	0.8	1.5	1.4	1.9	17.2	10.1	13.5	500	34.5	3.8
Oil & Natural Gas Corporation	776	BUY	1,660,525	33,377	2,139	92.0	150.4	159.5	8.2	63.4	6.1	8.4	5.2	4.9	3.0	2.0	1.7	1.6	1.3	1.1	4.1	5.2	5.8	19.4	27.3	24.0	1,300	67.5	48.4
Petronet LNG	40	ADD	30,338	610	750	6.3	6.0	7.1	—	(5.7)	18.7	6.4	6.8	5.7	4.3	5.6	4.4	1.6	1.3	1.1	3.7	3.7	3.7	26.7	20.6	20.3	60	48.3	1.6
Reliance Industries	1,218	RS	1,600,467	32,169	1,314	101.7	99.7	150.6	23.0	(2.0)	51.0	12.0	12.2	8.1	7.6	6.4	3.6	1.8	1.6	1.2	1.0	1.2	1.7	18.5	14.7	19.1	—	—	230.8
Reliance Petroleum	90	REDUCE	402,750	8,095	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	36.7	5.3	n/a	20.4	4.8	3.0	2.8	1.9	—	—	2.2	(3.5)	7.8	42.9	130	45.3	54.3
Energy		**Cautious**	**4,913,099**	**98,753**					**10.7**	**30.5**	**38.0**	**10.6**	**8.1**	**5.9**	**5.3**	**4.5**	**3.5**	**1.5**	**1.3**	**1.1**	**2.1**	**2.6**	**3.2**	**14.5**	**15.7**	**18.7**			
Industrials																													
ABB	587	REDUCE	124,475	2,502	212	23.2	28.6	35.4	44.5	23.2	23.7	25.3	20.6	16.6	14.7	11.5	8.9	7.7	5.8	4.4	0.4	0.5	0.6	34.8	32.1	30.3	875	49.0	8.8
BGR Energy Systems	169	REDUCE	12,143	244	72	12.3	18.3	23.2	(67.1)	49.5	26.7	13.8	9.2	7.3	8.8	6.2	5.7	2.4	2.0	1.6	0.7	1.1	1.4	30.1	23.5	24.1	325	92.7	1.2
Bharat Electronics	643	ADD	51,404	1,033	80	102.1	104.4	111.1	11.3	2.3	6.4	6.3	6.2	5.8	1.8	1.5	1.3	1.6	1.3	1.1	3.9	3.9	3.9	27.9	23.1	20.9	1,200	86.8	1.4
Bharat Heavy Electricals	1,173	ADD	573,987	11,537	490	58.4	73.1	96.9	22.9	25.1	32.6	20.1	16.0	12.1	10.3	7.9	6.1	5.3	4.3	3.4	1.3	1.3	1.8	29.2	29.5	31.1	2,000	70.6	77.5
Larsen & Toubro	833	BUY	493,423	9,918	593	37.9	54.3	68.9	20.8	43.1	26.9	21.9	15.3	12.1	14.6	9.5	7.7	4.2	3.0	2.5	1.0	2.4	2.4	22.7	22.7	22.5	1,225	47.1	103.8
Maharashtra Seamless	184	BUY	12,963	261	71	29.4	38.5	43.0	(23.5)	31.2	11.8	6.3	4.8	4.3	3.8	3.0	2.7	1.1	0.9	0.8	2.7	3.1	3.5	19.7	21.7	20.2	350	90.4	0.7
Siemens	283	REDUCE	95,265	1,915	337	18.2	18.8	25.9	60.4	3.1	38.0	15.5	15.0	10.9	8.6	8.2	5.6	5.2	4.0	3.1	0.8	1.0	1.1	39.9	30.2	32.0	570	101.7	6.6
Suzlon Energy	78	BUY	122,065	2,454	1,567	6.6	10.9	16.1	9.5	65.9	47.8	11.8	7.1	4.8	6.7	7.3	5.4	1.3	1.1	0.9	1.2	1.3	1.3	16.3	17.0	20.5	225	188.8	35.7
Industrials		**Neutral**	**1,485,725**	**29,863**					**24.6**	**31.6**	**30.8**	**17.8**	**13.5**	**10.3**	**10.2**	**7.9**	**6.3**	**3.7**	**2.9**	**2.3**	**1.2**	**1.7**	**1.9**	**20.8**	**21.4**	**22.5**			
Infrastructure																													
IRB Infrastructure	90	BUY	29,896	601	332	3.4	5.9	13.2	150.9	73.0	122.3	26.2	15.2	6.8	10.4	10.3	5.0	1.8	1.6	1.2	—	—	—	10.7	11.1	20.4	155	72.3	0.5
Media																													
DishTV	16	BUY	10,113	203	644	(9.6)	(6.1)	(2.7)	n/a	(36.8)	(55.2)	(1.6)	(2.6)	(5.7)	(6.6)	(4.6)	(85.8)	(2.2)	3.4	27.9	—	—	—	167.9	497.0	####	32	103.8	3.9
HT Media	75	BUY	17,522	352	234	4.3	3.1	6.0	4.7	(28.8)	94.1	17.3	24.3	12.5	9.6	10.7	6.1	2.0	1.9	1.7	0.5	0.5	1.1	12.2	8.1	14.4	130	73.8	0.2
Jagran Prakashan	57	BUY	17,137	344	301	3.3	3.2	4.6	33.5	(2.8)	45.2	17.5	18.0	12.4	9.6	10.0	7.0	3.2	3.0	2.7	3.5	3.3	4.0	18.7	17.2	23.2	84	47.6	0.3
Sun TV Network	169	ADD	66,521	1,337	394	8.3	9.5	11.6	30.7	14.2	22.0	20.4	17.8	14.6	10.5	8.9	7.3	4.4	3.8	3.5	1.5	1.8	3.6	24.8	23.7	25.5	245	45.1	0.9
Zee Entertainment Enterprises	146	BUY	63,279	1,272	434	8.9	9.7	12.0	62.6	9.1	24.0	16.4	15.1	12.2	12.1	10.1	8.1	2.1	1.9	1.7	1.4	1.7	2.1	14.2	13.8	15.3	205	40.5	6.3
Media		**Attractive**	**174,571**	**3,509**					**24.0**	**14.1**	**75.3**	**35.0**	**30.7**	**17.5**	**13.9**	**11.4**	**8.0**	**3.2**	**2.5**	**2.4**	**1.5**	**1.7**	**2.6**	**9.2**	**8.3**	**13.7**			
Metals																													
Hindalco Industries	52	SELL	91,925	1,848	1,753	13.8	8.9	7.0	(10.0)	(35.7)	(21.2)	3.8	5.9	7.5	5.7	5.1	5.7	0.4	0.3	0.3	—	—	—	14.4	10.0	6.7	65	23.9	10.1
National Aluminium Co.	205	REDUCE	132,309	2,659	644	25.2	30.3	33.5	(31.8)	20.0	10.6	8.1	6.8	6.1	3.8	3.5	2.5	1.4	1.2	1.1	3.7	3.7	3.7	18.4	19.4	18.7	370	80.2	4.8
Jindal Steel and Power	637	BUY	98,050	1,971	154	91.1	126.1	125.9	101.5	38.4	(0.1)	7.0	5.1	5.1	5.7	4.1	4.1	2.3	1.6	1.2	0.7	0.9	1.2	43.8	37.3	27.3	1,800	182.6	21.8
JSW Steel	229	ADD	42,562	855	186	92.0	103.1	146.8	35.7	12.0	42.4	2.5	2.2	1.6	3.1	3.6	2.6	0.4	0.4	0.3	8.1	8.1	8.1	21.2	18.1	21.0	1,040	354.0	12.2
Hindustan Zinc	264	ADD	111,337	2,238	423	104.0	77.2	55.9	(1.0)	(25.8)	(27.6)	2.5	3.4	4.7	1.8	2.1	3.1	0.9	0.7	0.6	1.9	2.8	3.8	43.6	23.5	14.3	400	51.8	2.4
Sesa Goa	77	ADD	60,539	1,217	787	18.9	22.0	13.3	145.9	16.3	(39.8)	4.1	3.5	5.8	2.7	2.2	3.2	2.1	1.5	1.3	4.6	9.1	9.1	67.7	50.5	24.4	100	30.0	32.2
Sterlite Industries	247	BUY	174,644	3,510	708	64.3	45.7	38.1	(22.6)	(28.9)	(16.7)	3.8	5.4	6.5	3.3	4.4	5.5	0.7	0.7	0.6	—	—	—	26.1	13.3	10.3	415	68.4	33.8
Tata Steel	208	REDUCE	170,974	3,437	822	75.7	89.7	74.6	43.8	18.5	(16.9)	2.7	2.3	2.8	3.7	3.9	4.1	0.5	0.4	0.4	7.0	6.2	6.2	46.3	29.9	22.6	285	37.0	57.3
Metals		**Cautious**	**882,339**	**17,735**					**13.2**	**(3.6)**	**(11.7)**	**3.7**	**3.8**	**4.3**	**3.7**	**3.9**	**4.1**	**0.7**	**0.6**	**0.5**	**2.9**	**3.2**	**3.4**	**19.9**	**16.0**	**12.6**			
Pharmaceutical																													
Biocon	122	BUY	24,370	490	200	23.3	9.5	16.4	126.0	(59.0)	71.7	5.2	12.8	7.4	6.6	6.1	4.8	1.7	1.5	1.4	0.1	0.1	0.1	17.6	15.7	19.6	260	113.4	0.7
Cipla	181	REDUCE	140,418	2,822	777	9.0	10.3	12.7	4.9	13.8	23.3	20.0	17.6	14.3	14.7	13.1	10.9	3.7	3.2	2.8	1.1	1.4	1.7	20.1	19.7	21.0	220	21.8	7.3
Dishman Pharma & chemicals	210	BUY	17,104	344	81	14.7	19.7	27.7	30.5	34.1	40.1	14.3	10.7	7.6	11.6	8.9	6.5	3.0	2.4	1.8	0.0	0.0	0.0	26.8	24.8	27.3	515	144.9	0.4
Divi's Laboratories	1,064	BUY	68,652	1,380	65	53.2	76.5	103.6	85.8	43.7	35.4	20.0	13.9	10.3	16.3	11.1	7.9	8.1	5.2	3.6	0.1	0.1	0.2	49.8	45.7	41.3	2,330	119.1	4.4
Dr Reddy's Laboratories	466	BUY	78,775	1,583	169	26.1	26.4	36.6	(57.2)	1.2	38.7	17.9	17.6	12.7	8.7	7.6	6.3	1.8	1.6	1.5	0.8	0.9	0.9	10.3	9.5	12.0	675	45.0	6.0
Glenmark Pharmaceuticals	405	BUY	107,551	2,162	266	25.8	31.8	41.8	98.4	23.2	31.3	15.7	12.7	9.7	13.7	10.3	7.6	7.1	4.0	2.9	0.0	0.0	0.0	57.4	39.6	35.1	770	90.3	6.4
Jubilant Organosys	160	BUY	29,010	583	181	22.1	11.0	29.6	69.9	(50.4)	170.2	7.2	14.6	5.4	7.5	11.8	5.8	2.3	1.7	1.5	0.8	1.0	1.3	37.0	14.9	32.2	475	196.7	0.4
Lupin	637	BUY	56,418	1,134	89	49.8	51.3	59.5	30.2	3.0	16.1	12.8	12.4	10.7	15.1	10.2	8.7	4.4	2.7	2.3	1.5	1.5	1.8	37.9	27.7	23.9	950	49.2	2.8
Piramal Healthcare	201	BUY	41,967	844	209	17.7	18.3	25.9	66.8	3.3	41.1	11.3	11.0	7.8	8.7	8.1	5.9	3.8	3.0	2.3	2.1	2.0	2.2	30.9	30.0	34.1	410	104.2	1.3
Ranbaxy Laboratories	230	REDUCE	96,281	1,935	419	23.3	9.8	15.5	70.4	(58.1)	58.7	9.8	23.5	14.8	9.0	9.9	4.4	3.2	1.5	0.9	3.3	4.6	5.8	29.8	9.1	9.2	420	82.8	35.7
Sun Pharmaceuticals	1,332	BUY	275,972	5,547	207	74.7	86.1	79.1	78.9	15.3	(8.0)	17.8	15.5	16.8	15.1	11.7	12.0	5.3	4.0	3.3	0.8	0.8	1.0	38.3	30.9	22.7	1,780	33.6	21.0
Pharmaceuticals		**Attractive**	**936,520**	**18,824**					**34.1**	**3.2**	**28.2**	**15.6**	**15.1**	**11.8**	**11.8**	**10.3**	**7.9**	**3.8**	**2.8**	**2.1**	**1.0**	**1.2**	**1.5**	**24.5**	**18.4**	**18.1**			
Property																													
DLF	268	BUY	456,891	9,184	1,705	43.8	49.8	55.1	244.6	13.9	10.5	6.1	5.4	4.9	6.0	5.0	3.9	2.3	1.7	1.3	1.9	2.6	3.7	63.2	36.6	30.8	660	146.2	62.6
Housing Development & Infrastruc	151	BUY	41,586	836	275	51.2	56.6	63.6	118.6	10.6	12.3	2.9	2.7	2.4	4.1	3.8	3.2	1.1	0.8	0.6	2.6	5.3	5.3	64.5	36.3	30.7	610	304.1	40.1
Indiabulls Real Estate	112	BUY	30,467	612	273	16.4	6.8	7.5	2,383.9	(58.6)	10.4	6.8	16.4	14.9	(893.8)	(2.2)	6.1	0.5	0.4	0.4	0.2	0.0	0.0	10.6	2.9	2.8	275	146.1	33.6
IVR Prime Urban Developers	47	BUY	3,018	61	64	27.0	15.5	17.1	552.0	(42.6)	10.8	1.7	3.0	2.7	0.7	3.3	4.2	0.3	0.3	0.3	8.5	10.6	14.9	31.9	9.6	10.0	360	665.1	0.1
Mahindra Life Space Developer	250	BUY	10,523	212	42	12.7	13.9	19.0	208.4	8.9	37.4	19.6	18.0	13.1	39.8	12.8	6.8	1.2	1.1	1.1	1.2	1.6	1.6	6.4	6.5	8.5	810	224.0	0.4
Phoenix Mills	66	BUY	9,516	191	145	12.4	5.5	12.0	89.5	(55.9)	119.9	5.3	12.0	5.5	6.6	10.3	3.7	0.7	0.6	0.6	—	—	—	22.1	5.4	10.9	280	326.2	0.9
Puravankara Projects	88	REDUCE	18,675	375	213	11.3	14.0	16.7	67.4	24.8	19.1	7.8	6.2	5.2	11.8	10.7	8.6	1.5	1.3	1.1	1.1	4.6	6.9	32.9	22.4	23.1	220	151.4	0.4
Sobha	119	REDUCE	8,679	174	73	31.7	30.2	33.2	42.9	(4.7)	9.8	3.7	3.9	3.6	7.1	6.2	6.0	0.9	0.7	0.6	5.5	3.4	3.4	25.3	20.0	18.6	250	110.0	1.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	23-Oct-08		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Property		**Neutral**	**679,344**	**13,655**					**180.6**	**10.7**	**13.8**	**5.8**	**5.2**	**4.6**	**6.0**	**5.1**	**4.1**	**1.8**	**1.4**	**1.1**	**1.8**	**2.8**	**4.1**	**30.9**	**25.9**	**24.0**			
Retail																													
Pantaloon Retail	213	BUY	36,660	737	172	8.0	12.1	18.4	93.1	50.4	52.2	26.5	17.6	11.6	10.4	7.1	5.8	2.1	1.4	1.2	0.3	0.4	0.5	8.5	9.1	10.8	370	73.5	1.3
Titan Industries	979	BUY	43,435	873	44	35.1	49.8	56.6	55.2	42.1	13.6	27.9	19.6	17.3	18.8	12.3	10.3	9.2	6.6	5.1	0.8	1.0	1.1	37.7	39.3	33.2	1,280	30.8	2.6
Vishal Retail	120	ADD	2,693	54	22	18.1	21.6	35.6	37.2	19.2	65.2	6.6	5.6	3.4	6.0	4.7	3.9	1.0	0.8	0.7	—	—	—	20.2	16.2	22.1	485	303.3	0.1
Retail			**82,788**	**1,664**					**31.8**	**48.2**	**35.6**	**25.7**	**17.3**	**12.8**	**12.2**	**8.2**	**6.6**	**3.4**	**2.3**	**2.0**	**0.5**	**0.7**	**0.8**	**13.2**	**13.1**	**15.3**			
Technology																													
HCL Technologies	151	REDUCE	104,806	2,107	695	15.3	20.6	21.7	(19.0)	35.0	5.4	9.9	7.3	6.9	5.1	3.7	3.3	2.1	1.6	1.5	5.3	5.3	5.3	21.4	23.8	22.7	200	32.6	3.9
Hexaware Technologies	24	SELL	3,411	69	142	7.7	4.6	5.1	(13.7)	(39.8)	10.6	3.1	5.2	4.7	0.2	(0.3)	(0.7)	0.5	0.5	0.4	3.8	6.7	6.7	15.1	9.1	9.5	35	45.8	0.2
Infosys Technologies	1,283	BUY	736,586	14,805	574	79.1	100.8	108.8	18.0	27.5	7.9	16.2	12.7	11.8	12.5	9.4	8.3	5.3	4.1	3.3	2.6	1.9	2.0	36.1	36.4	30.9	1,600	24.7	68.6
Mphasis BFL	183	REDUCE	38,164	767	208	12.2	22.3	23.4	67.6	81.7	5.0	14.9	8.2	7.8	8.9	5.3	4.4	3.3	0.4	2.0	1.9	2.2	2.5	23.6	34.6	28.4	190	3.8	1.6
Mindtree	266	BUY	6,917	139	26	26.7	30.7	39.6	12.3	14.7	29.0	9.9	8.7	6.7	5.8	3.2	2.9	1.3	1.0	0.8	1.5	—	—	—	17.2	17.8	450	69.5	0.4
Patni Computer Systems	153	SELL	19,697	396	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.6	5.8	5.0	1.3	1.4	0.4	0.7	0.7	0.6	1.4	1.7	2.0	19.2	14.1	12.0	160	4.5	1.5
Polaris Software Lab	48	SELL	4,738	95	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	6.5	3.8	4.2	2.5	1.4	1.1	0.7	0.6	0.6	3.6	3.6	3.6	11.7	17.8	14.1	70	45.2	4.7
Satyam Computer Services	300	BUY	204,673	4,114	682	25.2	33.7	35.5	17.7	33.3	5.3	11.9	8.9	8.5	8.8	5.8	4.9	2.8	2.3	1.9	3.3	4.0	4.7	26.0	28.2	24.2	400	33.3	34.0
TCS	547	REDUCE	535,593	10,765	979	51.3	56.4	63.0	21.5	10.0	11.6	10.7	9.7	8.7	8.5	7.0	6.3	4.3	3.4	2.8	2.6	3.6	4.6	47.0	39.3	35.6	650	18.8	23.4
Tech Mahindra	375	BUY	46,774	940	125	59.1	76.4	85.0	25.7	29.4	11.2	6.4	4.9	4.4	5.6	3.1	2.2	3.7	2.1	1.4	1.4	1.6	1.7	70.7	58.0	40.9	700	86.5	3.2
Wipro	272	ADD	394,618	7,932	1,450	22.2	26.0	28.7	12.6	17.0	10.4	12.2	10.5	9.5	9.7	7.1	6.1	3.1	2.5	2.1	2.3	2.8	3.2	27.9	26.3	24.3	360	32.3	11.1
Technology		**Neutral**	**2,095,976**	**42,129**					**16.1**	**21.5**	**9.2**	**12.1**	**10.0**	**9.1**	**9.1**	**6.7**	**5.9**	**3.6**	**2.8**	**2.3**	**2.7**	**2.9**	**3.3**	**29.4**	**28.3**	**25.6**			
Telecom																													
Bharti Airtel Ltd	615	BUY	1,167,303	23,463	1,898	35.3	47.0	57.0	65.0	33.2	21.1	17.4	13.1	10.8	10.6	7.8	5.9	5.2	3.7	2.7	—	0.6	1.0	39.1	32.9	29.1	840	36.6	84.0
IDEA	41	REDUCE	133,500	2,683	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	10.4	12.7	12.0	8.4	5.1	4.6	3.8	0.9	0.9	—	—	—	36.4	12.0	8.0	70	69.7	11.1
MTNL	65	REDUCE	40,982	824	630	6.0	6.5	7.0	(25.2)	7.7	8.2	10.8	10.1	9.3	(0.7)	(0.8)	(0.7)	0.4	0.4	0.4	9.2	9.2	9.2	2.7	2.9	3.2	100	53.7	3.0
Reliance Communications	230	SELL	474,307	9,534	2,064	25.0	28.6	34.8	76.4	14.1	21.9	9.2	8.0	6.6	7.0	6.2	4.9	1.7	1.4	1.1	0.3	—	—	16.1	19.9	19.8	390	69.7	70.0
Tata Communications	431	REDUCE	122,807	2,468	285	10.9	12.0	13.3	(36.3)	9.2	11.2	39.4	36.0	32.4	16.4	15.3	13.3	1.9	1.8	1.7	1.0	1.2	1.5	4.4	4.7	4.9	430	(0.2)	3.5
Telecom		**Cautious**	**1,938,898**	**38,972**					**61.9**	**22.9**	**20.0**	**13.7**	**11.2**	**9.3**	**8.9**	**7.0**	**5.5**	**2.7**	**2.0**	**1.6**	**0.5**	**0.8**	**0.9**	**19.4**	**17.6**	**17.6**			
Transportation																													
Container Corporation	718	REDUCE	93,319	1,876	130	57.7	69.4	74.2	7.8	20.3	6.8	12.4	10.3	9.7	8.2	6.6	5.9	2.9	2.4	2.0	1.7	2.1	2.2	25.8	25.6	22.8	800	11.4	1.3
Transportation		**Neutral**	**93,319**	**1,876**					**7.8**	**20.3**	**6.8**	**12.4**	**10.3**	**9.7**	**8.2**	**6.6**	**5.9**	**2.9**	**2.4**	**2.0**	**1.7**	**2.1**	**2.2**	**23.5**	**23.3**	**21.0**			
Utilities																													
CESC	188	BUY	23,519	473	125	27.8	28.2	31.1	(23.3)	1.4	10.4	6.8	6.7	6.0	3.5	4.3	5.5	0.7	0.7	0.6	2.1	2.2	2.6	12.5	10.6	10.5	500	165.6	1.5
Lanco Infratech	125	BUY	27,721	557	222	14.8	17.5	26.0	75.2	18.2	48.3	8.4	7.1	4.8	8.2	11.7	10.1	1.5	1.2	1.0	—	—	—	19.7	19.2	23.0	400	220.8	10.1
NTPC	143	REDUCE	1,180,751	23,733	8,245	8.9	9.5	10.3	3.5	6.7	8.0	16.0	15.0	13.9	11.7	13.1	13.4	2.2	2.1	1.9	2.5	2.7	3.6	14.4	14.2	14.3	179	25.0	32.1
Reliance Infrastructure	447	BUY	103,321	2,077	231	37.6	53.6	56.8	13.9	42.6	6.0	11.9	8.3	7.9	18.5	15.1	15.1	0.6	0.6	0.6	1.4	1.6	1.9	4.3	6.2	6.6	1,250	179.4	80.9
Reliance Power	107	REDUCE	255,379	5,133	2,397	0.4	2.1	2.6	—	443.9	25.2	280.2	51.5	41.1	—	—	—	1.9	1.7	1.7	—	—	—	1.2	3.5	4.3	180	68.9	32.0
Tata Power	725	BUY	168,879	3,394	233	29.7	38.1	39.9	11.6	28.5	4.6	24.4	19.0	18.2	18.2	16.5	17.4	2.2	1.7	1.5	1.2	1.3	1.3	10.0	10.3	9.0	1,425	96.6	22.9
Utilities		**Attractive**	**1,759,570**	**35,367**					**8.5**	**15.8**	**9.8**	**18.1**	**15.7**	**14.3**	**13.1**	**15.0**	**16.2**	**1.8**	**1.7**	**1.6**	**1.9**	**2.0**	**2.6**	**10.1**	**10.8**	**11.0**			
Others																													
Aban Offshore	904	BUY	34,955	703	39	72.3	264.8	453.9	(1,066)	266.3	71.5	12.5	3.4	2.0	12.5	6.0	3.9	4.0	1.7	0.9	0.4	1.1	1.7	51.7	59.5	52.1	2,400	165.5	17.9
Aditya Birla Nuvo	590	ADD	55,053	1,107	93	22.9	26.6	29.2	(5.6)	16.0	9.8	25.8	22.2	20.2	13.4	12.1	11.2	1.6	1.5	1.4	1.0	1.1	1.1	6.4	7.1	7.4	2,000	239.0	2.5
Educomp Solutions	1,909	BUY	36,301	730	19	35.2	63.9	108.1	114	81.7	69.2	54.3	29.9	17.7	28.9	12.3	7.7	11.8	5.0	4.0	0.1	0.3	0.5	33.5	23.3	24.3	2,550	33.6	25.5
Havells India	217	BUY	13,160	265	61	26.6	36.9	46.5	40.0	38.7	26.0	8.2	5.9	4.7	6.8	5.2	3.8	1.9	1.4	1.0	1.1	1.5	1.9	33.7	28.4	25.5	430	97.7	0.4
Jaiprakash Associates	68	BUY	80,603	1,620	1,188	4.9	7.3	11.0	7	49.5	50.9	13.9	9.3	6.1	10.6	8.2	7.8	1.6	1.4	1.2	0.0	0.0	0.0	15.4	16.1	20.5	205	202.1	45.0
Jindal Saw	341	BUY	20,886	420	61	66.6	86.9	82.9	(42.6)	30.6	(4.7)	5.1	3.9	4.1	4.0	2.3	2.0	0.7	0.5	0.5	2.1	3.8	4.4	12.5	14.4	12.3	500	46.8	1.7
PSL	116	BUY	5,040	101	44	21.1	45.6	64.5	4	116.1	41.5	5.5	2.5	1.8	3.9	3.2	2.3	0.9	0.7	0.5	4.4	5.2	6.5	11.3	15.4	18.4	500	332.3	0.2
Sintex	180	BUY	29,324	589	163	19.5	23.4	31.2	58.2	19.6	33.5	9.2	7.7	5.8	8.6	6.2	4.3	1.8	1.1	1.0	0.5	0.7	1.0	14.0	14.8	15.9	460	154.9	1.8
Welspun Gujarat Stahl Rohren	109	REDUCE	20,586	414	189	20.6	29.2	47.4	94	41.9	62.7	5.3	3.7	2.3	6.6	3.5	2.0	1.2	0.8	0.6	2.2	4.5	5.2	27.1	26.0	31.3	360	230.1	4.5
Others			**295,908**	**5,948**					**24.2**	**85.0**	**47.8**	**13.6**	**7.3**	**5.0**	**9.8**	**6.4**	**5.1**	**1.7**	**1.3**	**1.1**	**0.7**	**1.2**	**1.4**	**12.8**	**18.3**	**21.4**			
KS universe (b)			**21,589,796**	**433,955**					**24.6**	**16.1**	**18.6**	**11.0**	**9.5**	**8.0**	**7.1**	**6.3**	**5.4**	**2.0**	**1.6**	**1.4**	**2.0**	**2.2**	**2.6**	**17.7**	**16.9**	**17.3**			
KS universe (b) ex-Energy			**16,676,697**	**335,202**					**29.6**	**11.5**	**11.5**	**11.2**	**10.0**	**9.0**	**8.0**	**7.2**	**6.6**	**2.1**	**1.8**	**1.5**	**1.9**	**2.1**	**2.4**	**19.1**	**17.5**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**15,445,261**	**310,450**					**34.3**	**15.9**	**16.7**	**13.1**	**11.3**	**9.7**	**10.0**	**8.5**	**7.4**	**2.4**	**2.0**	**1.7**	**1.8**	**2.0**	**2.3**	**18.7**	**17.7**	**17.6**			

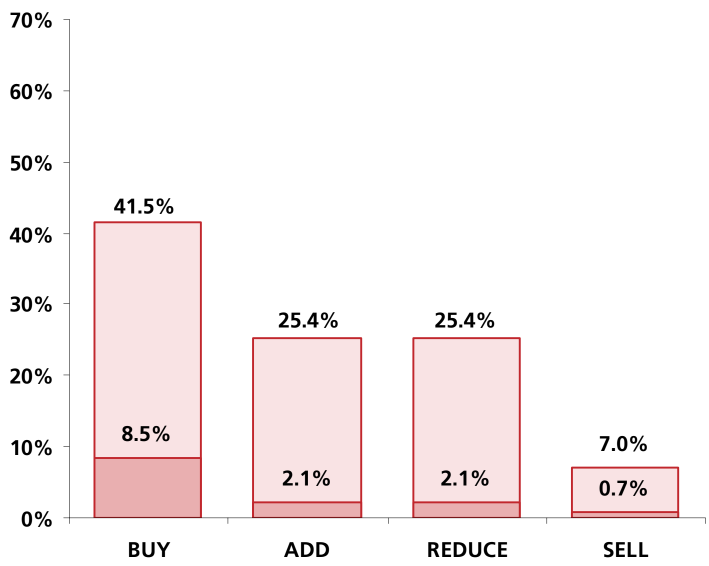
Note:
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 49.75

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Mridul Saggar, Aman Batra, Jairam Nathan, Rahul Jain, Lokesh Garg, Ramnath Venkateswaran, Prashant Vaishampayan, Nischint Chawathe."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/09/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 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.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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

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

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

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

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

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

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

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