kotak® Institutional Equities

INDIA DAILY

July 25, 2007

EQUITY MARKETS

		Change, %		
India	**24-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	15,795	0.4	9.0	11.1
Nifty	4,621	0.0	8.5	10.9
Global/Regional indices				
Dow Jones	13,717	(1.6)	2.7	4.8
Nasdaq Composite	2,640	(1.9)	2.4	3.6
FTSE	6,499	(1.9)	(1.4)	0.6
Nikkie	17,803	(1.1)	(1.6)	3.3
Hang Seng	23,240	(1.0)	6.5	13.2
KOSPI	1,985	(0.4)	12.9	28.4
Value traded - India				
			Moving avg, Rs bn	
	24-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	195.8		168.0	148.0
Derivatives (NSE)	642.8		379.4	508.7
Deri. open interest	943.1		760.4	610.9

Forex/money market

		Change, basis points		
	24-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.2	(6)	(68)	(80)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	5	(32)	(18)

Net investment (US$mn)

	23-Jul		**MTD**	**CYTD**
FIIs	269		1,759	9,403
MFs	(12)		112	(356)

Top movers -3mo basis

		Change, %		
Best performers	**24-Jul**	**1-day**	**1-mo**	**3-mo**
RELIANCE CAPITAL	1,199	(1.3)	9.1	61.6
BALAJI TELEFILMS L	257	(2.6)	17.5	52.2
RELIANCE ENERGY	775	8.5	31.2	48.1
BHARAT HEAVY ELE	1,835	4.0	26.5	47.2
THERMAX LIMITED	602	0.5	18.9	44.0
Worst performers				
POLARIS SOFTWARI	131	(1.2)	(15.1)	(32.8)
CIPLA LTD	188	(1.6)	(8.6)	(25.4)
RAYMOND LIMITED	282	0.8	(7.6)	(21.5)
ESSEL PROPACK LT	61	(0.8)	(5.2)	(14.3)
ESCORTS LIMITED	109	(2.6)	(1.8)	(13.9)

Contents

News Roundup

Corporate

- The empowered group of ministers (EGoM) on ultra mega power projects ruled that Lanco Infratech’s bid to build the 4,000 Mw Sasan project is “void” following a change in its joint venture partner after it won the bid.(BS)
- Reliance Industries Ltd (RIL) is planning to set up 4,000 Mw of gas-based power generation capacity at multiple locations at an investment of Rs100 bn, in addition to a mega fertiliser plant at Kakinada in Andhra Pradesh.(BS)
- India’s trade practices regulator MRTPC on Tuesday ordered a probe into the business practices of 14 leading cement manufacturers. These manufacturers colluded to hike prices, alleges a preliminary report by MRTPC’s investigative wing.(ET)

Economic and political

- RBI panel has suggested that institutional lending to accredited loan providers (ALPs) in rural areas should be treated as priority sector lending. (FE)
- The US is set to cut aid to India by 35% to US$81 mn in 2008 after it categorised the country as 'transforming' in an overhaul of the US foreign assistance programme.(FE)

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

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Telecom

IDEA.BO, Rs133	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	110
52W High -Low (Rs)	136 - 75
Market Cap (Rs bn)	351.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	43.7	70.2	101.2
Net Profit (Rs bn)	5.0	13.0	15.8
EPS (Rs)	2.2	4.9	6.0
EPS gth	*146.3*	*125.9*	*21.8*
P/E (x)	61.2	27.1	22.2
EV/EBITDA (x)	25.7	15.7	11.8
Div yield (%)	0.7	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.0	-	-
FIIs	25.6	1.0	1.0
MFs	1.0	0.3	0.3
UTI	-	-	-
LIC	-	-	-

Idea Cellular: Strong EBITDA growth; items below EBITDA drive positive earnings surprise

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- **Higher-than-expected net income due to forex gains and lower depreciation charge**
- **A few anomalies/surprises in operating parameters**
- **Maintain U rating with revised target price of Rs110 (Rs100 previously)**

Idea reported 1QFY08 net income at Rs3.08 bn versus our expected Rs2.23 bn and Rs1.93 bn in 4QFY07. Most of the positive surprise has come from items below EBITDA as EBITDA at Rs5.13 bn was modestly ahead of our Rs4.91 bn estimate and revenues at Rs14.8 bn was in line with our Rs14.7 bn expectation. The key items which contributed to the positive surprise at the net income level include (1) lower depreciation charge, (2) forex gains and (3) lower FBT provisioning. We have revised our 12-month DCF-based target price to Rs110 from Rs100 previously. Key upside risk stems from higher-than-expected profitability.

Reasons for positive variance versus our estimates. Idea's 1QFY08 net income of Rs3.1 bn was Rs0.85 bn ahead of our expectations. We attribute the difference to (1) **forex gain** of Rs360 mn and treasury income of Rs458 mn leading to net finance cost being Rs143 mn versus our expectation of Rs691 mn, (2) **lower-than-expected depreciation charge**; depreciation charge has hardly changed since 3QFY07 despite significant capex over this period; the company attributed the lower depreciation to complete write-down of plant and machinery pertaining to old circles such as Gujarat. We note that the yoy increase in depreciation is 30% against 64% revenue growth and (3) marginally higher EBITDA margin; up 120 bps to 34.7%. The increase in EBITDA margin reflects the dual effect of (1) lower ADC; interconnection costs increased 8.6% qoq versus revenue growth of 12.9% and (2) lower SG&A expenses, which may have to be stepped up once the company starts services in new circles.

A few anomalies/surprises in operating parameters. We highlight a few anomalies in operating parameters, where we could like more clarity from the management. We are positively surprised by the relative movements in absolute minutes of usage, ARPU, MOU and RPM (see Exhibit 2).

1. **Lower growth in absolute minutes versus previous quarters with higher net additions.** The number of quarterly minutes on qoq basis increased by 1.63 bn in 1QFY08 compared to an increase of 2.84 bn minutes in 4QFY07 and 2.89 bn minutes in 3QFY07. In contrast, the number of subs increased by 2.12 mn in 1QFY08 (15% increase in number of subs compared to period starting number), 1.57 mn in 4QFY07 and 2.08 mn in 3QFY07. We can conclude that that the new users may be low-end users, which would explain the lower qoq increase in total MOU. However, this conclusion is inconsistent with the fact that ARPUs have increased modestly qoq.

2. **Increase in RPM is a positive surprise and against the trend of last several quarters for all companies.** Idea's 1QFY08 RPM increased to Rs0.84/min compared to Rs0.82/min in 4QFY07, which is surprising in light of general price declines. We can explain this by incremental subs being primarily in lifelong plans, which have significantly higher RPMs. However, ARPUs would have come down in that case given the very low ARPUs of lifelong plans (<Rs100); blended ARPU has gone up modestly to Rs320 from Rs317 in 4QFY07. We note that prepaid subs accounted for more than 100% of the additions in the quarter as the postpaid subscriber base declined in 1QFY08; we cannot attribute the increase in ARPUs to a change in subscriber mix.

Earnings revisions and valuations

Short-term profit versus medium-term growth and lower profits. We note that Idea's FY2008 and FY2009 earnings would be a function of its pace of expansion into new circles, which in turn would depend on (1) management strategy and (2) availability of spectrum. Idea will likely incur losses in the first few years of operations in the new circles, which would influence its overall earnings. We note Idea suffered an EBITDA loss of Rs246 mn on revenues of Rs614 mn in 1QFY08 in its three new circles compared to Rs330 mn loss on revenues of Rs434 mn in 4QFY07. We can safely conclude that Idea will likely make negative EBITDA in its new circles for a few quarters; the breakeven will be likely delayed the longer it sits out a particular market.

We believe Idea would be need to be more aggressive in pursuing growth at least in its extant 11 circles until it gets license and spectrum for the new circles. We believe market subscriber growth would be strong over the next 6-8 quarters and Idea would need to participate in that in order to consolidate its longer-term position.

Noting a likely delay in the allocation of spectrum, we have delayed the start of services in Mumbai and Bihar to early-FY2009 from 3QFY08 assumed previously. Accordingly, we have increased our FY2008 EPS estimates by 48% to Rs4.9 from Rs3.3 previously (EBITDA to Rs24.6 bn from Rs23.1 bn previously) and our FY2009 EPS estimate by 46% to Rs6 from Rs4.1 previously (EBITDA to Rs34.1 from Rs31.7 bn previously). The large changes to net income/EPS reflect a small earnings base; note that impact on EBITDA is much more moderate.

Despite the strong upward revision to FY2008 and FY2009 net income, we highlight the moderate change to our DCF valuation. The combined EPS of FY2008 and FY2009 at Rs10.6 is a very small proportion of the company's current stock price and our DCF valuation; the bulk of the value resides in the cash flows of the next 10 years and the terminal year. There is little change to our earnings and cash flows of the outer years. We also clarify that Idea's earnings for FY2008E and FY2009E are boosted by near-zero taxation due to carry forward losses. As such, we are reluctant to use FY2008E and FY2009E EPS as the sole basis for valuing Idea stock.

Key to stock is market growth, market share gains, profitability, execution. We highlight the key factors to support Idea's current valuations—(1) continued strong growth in the Indian market, (2) continued high profitability and (3) strong execution to participate in the market growth. We model Idea's market share to increase to 10.5% by FY2010E from 8.9% at end-FY2007. The increase in market share reflects start of operations in 11 new circles starting April 2008.

Among the variables, we are more concerned about pricing and profitability. The Indian wireless market continues to bemuse us by its high profitability and returns. Idea's CROCI has expanded to 25.8% in 1QFY08 from 23.1% in 4QFY07. We would assume that such high levels of returns leave large scope for deterioration in pricing and profitability, whenever the market becomes more competitive. Such a blissful state of limited competition may continue for a few more quarters but we are reluctant to believe that the Indian market will support super-normal profitability and returns in perpetuity. Nonetheless, our model factors in 21% average ROACE over our forecast period (FY2008-FY2017E) and 27% ROACE in the terminal year of our forecast period (FY2017E).

Details of 1QFY08 results

Revenues. Idea's 1QFY08 revenues were Rs14.8 bn, a strong 13% increase over 4QFY07 revenues. Idea's eight old circles continue to be driver of revenues with the new circles contributing a small 4.2% of revenues. Idea added 2.14 mn subs in 1QFY08. Idea's blended ARPU increased 0.9% qoq to Rs320 despite a 1.6% qoq decline in MOU to 381. RPM (revenue per minute) has improved to Rs0.84/min from Rs0.82/min in 4QFY07, which we view as a positive.

EBITDA strong despite losses of new circles. Idea's 1QFY08 EBITDA jumped 18% qoq to Rs5.2 bn reflecting growth in revenues and a disproportionately lower growth in costs. We suspect Idea may have been able to retain a significant portion of lower ADC; interconnection costs increased 8.6% qoq against 12.9% increase in revenues. 1QFY08 EBITDA margin improved to 34.7% compared to 33.3% in 4QFY07 and 32.3% in 3QFY07, which is impressive in light of losses in the three new circles (Rs246 mn). EPM (EBITDA per min) has expanded to Rs0.3 from Rs0.28 in 4QFY07 and Rs0.29 in 3QFY07, which primarily reflects retention of lower ADC.

Consolidated interim results for Idea Cellular Limited (Rs mn)

		qoq			yoy			yoy		
	FY2008E	1Q 2008	4Q 2007	% chg	1Q 2008	1Q 2007	% chg	2007	2006	% chg
Gross sales	**70,175**	**14,773**	**13,084**	***12.9***	**14,773**	**9,002**	***64.1***	**43,664**	**29,655**	***47.2***
Operating costs										
Interconnection costs	(11,315)	(2,396)	(2,206)	*8.6*	(2,396)	(1,514)	*58.3*	(7,290)	(4,963)	*46.9*
License fee and spectrum charges	(7,239)	(1,599)	(1,411)	*13.3*	(1,599)	(909)	*75.9*	(4,487)	(3,020)	*48.6*
Network operating costs	(9,076)	(1,896)	(1,680)	*12.8*	(1,896)	(1,045)	*81.3*	(5,279)	(3,158)	*67.1*
Employee costs	(3,541)	(708)	(685)	*3.4*	(708)	(554)	*27.8*	(2,598)	(1,781)	*45.8*
SG&A expenses	(14,418)	(2,283)	(2,179)	*4.8*	(2,283)	(1,539)	*48.4*	(8,813)	(6,058)	*45.5*
Other expenses	—	(764)	(564)	*35.4*	(764)	(422)	*81.0*	—	—	
Total Operating costs	(45,589)	(9,645)	(8,724)	*10.6*	(9,645)	(5,982)	*61.2*	(28,467)	(18,981)	*50.0*
EBITDA	**24,586**	**5,128**	**4,360**	***17.6***	**5,128**	**3,020**	***69.8***	**15,198**	**10,674**	***42.4***
EBITDA margin (%)	35.0	34.7	33.3		34.7	33.5		34.8	36.0	
Net finance cost	(3,449)	(931)	(975)	*(4.5)*	(931)	(721)	*29.2*	(3,291)	(3,225)	*2.1*
Other income	1,140	791	326	*142.4*	791	20	*3,778.2*	472	244	*93.3*
Depreciation & Amortization	(9,193)	(1,887)	(1,761)	*7.1*	(1,887)	(1,456)	*29.6*	(6,718)	(5,495)	*22.3*
PBT	**13,084**	**3,101**	**1,950**	***59.0***	**3,101**	**863**	***259.2***	**5,660**	**2,198**	***157.5***
Current tax (expense)/income	(100)	(16)	(19)	*(17.8)*	(16)	(4)	*292.5*	(63)	(34)	*86.5*
Deferred tax (liability)/asset	—	—	—	—	—	—	—	(3)	(47)	—
Minority loss/(income)	—	—	—	—	—	—	—	—	(117)	—
Reported net income	**12,984**	**3,085**	**1,931**	***59.8***	**3,085**	**859**	***259.0***	**5,594**	**2,001**	***179.5***
Diluted EPS (reported basis)										
Wireless segment										
Cellular subscribers ('000)										
Prepaid	20,683	14,594	12,456	*17.2*	14,594	7,152	*104.0*	12,456	6,026	*106.7*
Postpaid	2,674	1,532	1,555	*(1.5)*	1,532	1,383	*10.8*	1,555	1,341	*16.0*
Total	23,357	16,126	14,011	*15.1*	16,126	8,535	*88.9*	14,011	7,366	*90.2*
ARPU (Rs/mth)										
Blended	312	320	317	*0.9*	320	362	—	332	391	*(15.1)*
MOU (min/mth)										
Blended	383	381	387	*(1.6)*	381	342	—	364	289	*26.0*
Churn (%)										
Prepaid	—	4.2	4.2	—	4.2	5.3	—	4.3	—	—
Postpaid	—	4.1	4.2	—	4.1	4.7	—	4.5	—	—
Revenue/min: RPM = ARPU/MOU										
Blended revenue/min (incl. in-roaming)	0.81	0.84	0.82	*2.5*	0.84	1.06	—	0.91	1.35	*(32.6)*
Estimated volume (mn mins)										
Total estimated volume (mn mins)	85,846	17,100	15,469	*10.5*	17,100	8,097	—	45,931	20,921	*119.5*
EBITDA per min - blended (Rs)	0.29	0.30	0.28	*6.4*	0.30	0.00	—	0.33	0.51	*(35.1)*
VAS as % of wireless ARPU revenues	0.0	8.4	9.0	—	8.4	9.2	—	9.2	8.0	—

Source: Company

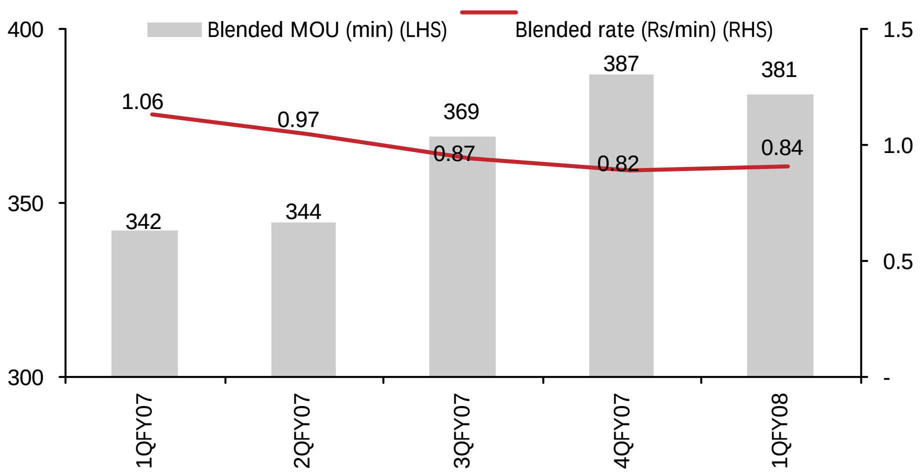
Idea's RPM from its incremental subscribers showed a steep rise despite prepaid subscribers forming the bulk of net adds
Idea's ARPU, MOU, and RPM from incremental subscribers, 1QFY07-1QFY08

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Subscribers (mn)	8.5	10.4	12.4	14.0	16.1
Average subscribers (mn)	8.0	9.4	11.4	13.2	15.1
Prepaid subs (%)	**83.8**	**86.1**	**88.0**	**88.9**	**90.5**
VAS revenues (% of ARPU)	**9.2**	**9.6**	**9.2**	**9.0**	**8.4**
ARPU (Rs)	362	335	322	317	320
MOU (min)	342	344	369	387	381
RPM (Rs)	1.06	0.97	0.87	0.82	0.84
Total MOU (mn min)	8,097	9,736	12,629	15,469	17,100
Gross revenues (Rs mn)	9,002	10,096	11,482	13,084	14,773
Incremental subs (average) (mn)		**1.50**	**1.95**	**1.82**	**1.84**
Incremental total MOU (mn)		**1,639**	**2,893**	**2,840**	**1,631**
Incremental MOU/incremental sub (min) (using average subs)		365	494	519	295
Marginal ARPU (Rs) (using average subs)		243	237	293	306
Marginal RPM (Rs)		**0.67**	**0.48**	**0.56**	**1.04**

Note:
(a) We assume that there is no change in the ARPU or MOU of extant subscribers.

Source: Company data, Kotak Institutional Equities estimates.

We are pleasantly surprised by the increase in RPM and decrease in MOU
Idea's blended revenue on a per minute basis (Rs/min) and minutes of usage (min)



Source: Company data, Kotak Institutional Equities estimates.

Increasing CROCI reflects super-normal profitability

Idea's cash return on cash invested (%), 3QFY07-4QFY08

	Dec-06	Mar-07	Jun-07
EBIT (Rs mn)	1,905	2,599	3,241
Tax rate (%)	3.2	1.0	0.5
EBIT*(1-t) (Rs mn)	1,845	2,573	3,224
Add: Depreciation	1,801	1,761	1,887
Cash return (Rs mn)	3,646	4,334	5,111
Annualized cash return (Rs mn)	14,584	17,336	20,446
Gross cash invested (Rs mn)	66,187	75,105	79,201
CROCI (%)	**22.0**	**23.1**	**25.8**

Source: Company data, Kotak Institutional Equities estimates

Key macro assumptions for Idea Cellular business, March fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Market subscribers (mn)	158	248	333	394	438	472	502	529	554	577	599
Idea subscribers (mn)	14.0	23.4	33.6	41.4	47.2	51.7	55.6	59.2	62.4	65.5	68.5
Idea's market share (%)	**8.9**	**9.4**	**10.1**	**10.5**	**10.8**	**11.0**	**11.1**	**11.2**	**11.3**	**11.4**	**11.4**
Market revenues (Rs bn)	533	759	979	1,186	1,325	1,434	1,537	1,636	1,734	1,829	1,920
Idea's revenues (Rs bn)	44	70	101	130	152	168	183	196	208	218	229
Idea's market share (%)	8.2	9.2	10.3	11.0	11.5	11.7	11.9	12.0	12.0	11.9	11.9
Idea subs (mn)	**14.0**	**23.4**	**33.6**	**41.4**	**47.2**	**51.7**	**55.6**	**59.2**	**62.4**	**65.5**	**68.5**
Idea prepaid subs ('000)	12.3	20.7	29.9	36.9	42.1	46.2	50	53	56	59	61
Idea postpaid subs ('000)	1.7	2.7	3.7	4.5	5.1	5.5	6	6	7	7	7
Idea blended ARPU (Rs/month)	**340**	**312**	**295**	**289**	**286**	**283**	**283**	**285**	**285**	**284**	**284**
Idea prepaid ARPU (Rs/month)	276	266	251	247	245	241	242	244	244	244	244
Idea postpaid ARPU (Rs/month)	664	604	595	590	593	597	596	599	599	599	599
Idea blended MOU (mins/month)	**359**	**383**	**385**	**389**	**388**	**388**	**387**	**387**	**387**	**387**	**387**
Idea prepaid MOU (mins/month)	306	336	336	341	341	341	341	341	341	341	341
Idea postpaid MOU (mins/month)	673	733	773	778	778	778	778	778	778	778	778
Idea blended RPM (Rs) (ARPU/MOU)	**0.9**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Idea prepaid RPM (Rs/min) (ARPU/MOU)	0.9	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Idea postpaid RPM (Rs/min) (ARPU/MOU)	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Idea overall yield (Rs/min)	**0.9**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Blended EBIDTA per min (Rs)	0.32	0.29	0.26	0.26	0.27	0.27	0.27	0.28	0.28	0.28	0.28
EBITDA margin (%)	**33.5**	**35.1**	**33.7**	**34.8**	**36.0**	**36.9**	**37.4**	**37.9**	**38.1**	**38.4**	**38.6**
Growth capex/incremental min (Rs)	**1.10**	**1.00**	**1.00**	**0.95**	**0.90**	**0.85**	**0.80**	**0.75**	**0.70**	**0.65**	**0.60**
Growth capex/incremental sub (US$)	90	105	112	132	122	112	98	91	85	77	71

Source: Kotak Institutional Equities estimates.

Consolidated profit and loss for Idea Cellular, March fiscal year-ends, 2007-2017E (Rs mn)

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues											
Wireless	43,444	69,895	100,860	129,995	152,144	167,706	182,508	196,236	207,733	218,426	228,568
Others	220	280	350	400	440	480	500	530	560	600	650
Less: Intersegment eliminations	—	—	—	—	—	—	—	—	—	—	—
Consolidated revenues	**43,664**	**70,175**	**101,210**	**130,395**	**152,584**	**168,186**	**183,008**	**196,766**	**208,293**	**219,026**	**229,218**
Interconnection costs	(7,287)	(11,315)	(16,328)	(20,655)	(24,174)	(26,646)	(28,998)	(31,180)	(33,006)	(34,705)	(36,317)
License fees and spectrum charges	(4,487)	(7,239)	(11,133)	(14,320)	(16,721)	(18,404)	(20,005)	(21,489)	(22,730)	(23,882)	(24,974)
Network operating costs	(5,279)	(9,076)	(13,907)	(18,450)	(21,711)	(23,441)	(25,444)	(27,210)	(28,744)	(30,130)	(31,425)
Sales and marketing expenses	(7,438)	(11,456)	(16,412)	(19,365)	(20,797)	(22,352)	(23,989)	(25,504)	(26,823)	(28,095)	(29,301)
Employee costs	(2,598)	(3,541)	(5,093)	(6,922)	(8,018)	(8,469)	(8,730)	(8,968)	(9,202)	(9,357)	(9,529)
G&A costs	(1,939)	(2,962)	(4,221)	(5,354)	(6,243)	(6,902)	(7,465)	(7,998)	(8,456)	(8,891)	(9,313)
Consolidated EBITDA	**14,636**	**24,586**	**34,115**	**45,330**	**54,920**	**61,972**	**68,377**	**74,417**	**79,332**	**83,966**	**88,360**
Other income incl. Interest income	465	1,140	278	276	264	227	313	1,415	3,265	4,914	6,519
Interest expense	(3,291)	(3,449)	(4,326)	(5,595)	(5,618)	(4,001)	(1,435)	-	—	—	—
Amortization of entry fee	(1,064)	(1,115)	(1,297)	(1,475)	(1,468)	(1,468)	(1,468)	(1,468)	(1,468)	(1,468)	(1,468)
Depreciation	(5,654)	(8,078)	(10,940)	(15,460)	(19,244)	(22,178)	(24,764)	(26,748)	(29,054)	(30,193)	(32,066)
Pretax profits	**5,092**	**13,084**	**17,830**	**23,075**	**28,855**	**34,552**	**41,023**	**47,617**	**52,074**	**57,219**	**61,346**
Extraordinary income/(charges)	—	—	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—	—	—
Current tax expense	(60)	(100)	(2,020)	(2,614)	(3,269)	(3,915)	(6,427)	(10,371)	(13,588)	(14,996)	(18,675)
Deferred tax (liability)/asset	—	—	—	(1,349)	(967)	(324)	555	934	1,568	1,831	2,367
Minority interest expense	—	—	—	—	—	—	—	—	—	—	—
Reported net profits	**5,032**	**12,984**	**15,810**	**19,112**	**24,619**	**30,313**	**35,151**	**38,179**	**40,055**	**44,054**	**45,038**
Adjusted net profits	**5,032**	**12,984**	**15,810**	**19,112**	**24,619**	**30,313**	**35,151**	**38,179**	**40,055**	**44,054**	**45,038**
Adjusted EPS (Rs)											
Year end	1.9	4.9	6.0	7.3	9.3	11.5	13.3	14.5	15.2	16.7	17.1
Primary	2.2	4.9	6.0	7.3	9.3	11.5	13.3	14.5	15.2	16.7	17.1
Fully diluted	2.2	4.9	6.0	7.3	9.3	11.5	13.3	14.5	15.2	16.7	17.1
Shares outstanding (mn)											
Year end	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635
Primary	2,307	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635
Fully diluted	2,307	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635	2,635
Growth (%)											
Revenues	47	61	44	29	17	10	9	8	6	5	5
EBITDA	37	68	39	33	21	13	10	9	7	6	5
Net profits	151	158	22	21	29	23	16	9	5	10	2
EPS	146	126	22	21	29	23	16	9	5	10	2
Margin (%)											
EBITDA	33.5	35.0	33.7	34.8	36.0	36.8	37.4	37.8	38.1	38.3	38.5
Net profits	12	19	16	15	16	18	19	19	19	20	20
Cash earnings	11,671	22,107	26,660	33,139							
Current tax rate (%)	1.2	0.8	11.3	11.3	11.3	11.3	15.7	21.8	26.1	26.2	30.4
Effective tax rate (%)	1.2	0.8	11.3	17.2	14.7	12.3	14.3	19.8	23.1	23.0	26.6
DPS (for a Rs10 share)	—	—	—	—	—	1.0	1.5	3.0	6.0	8.0	9.0
Dividend pay-out (%)	—	—	—	—	—	9	11	21	39	48	53

Source: Kotak Institutional Equities estimates.

Discounted cash flow valuation of Idea Cellular (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	24,586	34,115	45,330	54,920	61,972	68,377	74,417	79,332	83,966	88,360
Tax	(126)	(2,510)	(3,248)	(3,906)	(4,368)	(6,652)	(10,371)	(13,588)	(14,996)	(18,675)
Change in working capital	7,643	9,251	(5,645)	(3,761)	(394)	3,984	4,616	4,563	4,768	4,982
Post-tax operating cash flow	**32,103**	**40,856**	**36,436**	**47,253**	**57,210**	**65,709**	**68,662**	**70,307**	**73,738**	**74,668**
Capex	(40,332)	(53,514)	(43,067)	(32,044)	(26,506)	(26,050)	(27,152)	(27,105)	(27,004)	(26,916)
Free cash flow	**(8,229)**	**(12,658)**	**(6,631)**	**15,210**	**30,704**	**39,658**	**41,510**	**43,202**	**46,735**	**47,752**

	Now	+ 1-year	WACC and growth in perpetuity assumptions	
PV of cash flows	93,417	129,546	**Terminal growth - g (%)**	**4.3**
PV of terminal value	192,719	200,909	**WACC (%)**	**12.5**
EV	286,135	330,455		
Net debt	24,972	35,485		
Equity value (Rs mn)	**261,163**	**294,971**		
Equity value (US$ mn)	**5,936**	**6,704**		
Shares outstanding (mn)	2,635	2,635		
Equity value (Rs/Idea share)	**99**	**112**		
Exit FCF multiple (X)	12.1			
Exit EBITDA multiple (X)	**6.8**			

Key assumptions (%)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	60.7	44.2	28.8	17.0	10.2	8.8	7.5	5.9	5.2	4.7
EBITDA growth	68.0	38.8	32.9	21.2	12.8	10.3	8.8	6.6	5.8	5.2
EBITDA margin	**35.0**	**33.7**	**34.8**	**36.0**	**36.8**	**37.4**	**37.8**	**38.1**	**38.3**	**38.5**
Capex/sales	57.5	52.9	33.0	21.0	15.8	14.2	13.8	13.0	12.3	11.7
Cash tax rate	0.8	11.3	11.3	11.3	11.3	15.7	21.8	26.1	26.2	30.4
Effective tax rate	0.8	11.3	17.2	14.7	12.3	14.3	19.8	23.1	23.0	26.6
Return on avg. capital employed	**15.2**	**21.1**	**19.4**	**19.1**	**19.5**	**20.6**	**21.6**	**22.7**	**23.6**	**26.7**

Source: Kotak Institutional Equities estimates.

Automobiles

HROH.BO, Rs695

Hero Honda: Operating performance disappoints yet again

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- **1Q net profit at Rs1.9 bn declines 20% yoy and 3% qoq**
- **1Q operating performance disappoints; margins at 10.8% drop 270 bps yoy**

Hero Honda reported 1QFY08 net profit at Rs1.9 bn—a 20% yoy decline. 1Q EBITDA at Rs2.6 bn dropped 17.4%. 1Q EBITDA margin at 10.8% declined 270 bps yoy but was up 60 bps qoq. The 1Q volumes for Hero Honda declined 3.6% yoy and 6.2% qoq on account of (a) slowdown in the 2-wheeler industry (b) rising cost of finance and (c) financier's becoming reluctant in extending 2-wheeler loans.

1Q operating performance disappoints; margins drop 270 bps yoy

1QFY08 margins at 10.8% declined 270 bps despite a 7.4% increase in average realizations. The volumes for 1Q declined 3.6% yoy resulting in increase in net sales by 3.5% yoy to Rs24.5 bn. The raw material cost increased 90 bps yoy on account of increase in the aluminum and steel prices. Interest cost increased 170% yoy to Rs90 mn mainly on account of the capex while other income declined 25.6% yoy. 1QFY08 net profit declined 20%yoy to Rs1.9 bn from Rs2.4 bn in the corresponding period.

2Q margins likely to be under pressure

Hero Honda has announced a production cut and has delayed the commencement of its new plant in Uttaranchal by six months. Besides, it has indicated that margin pressures would continue on account of higher metal costs. Competitive pressures along with the traditionally lean monsoon season would impact its margins in 2QFY08 as it would be unable to pass on the increased input costs to its customers. The company expects sales to pick up from 3Q with the onset of the festival season.

Hero Honda: 1QFY2008 results

(in Rs mn)	1QFY07	4QFY07	1QFY08	% chg. qoq	% chg. yoy	FY07
Net sales	**23,644**	**26,396**	**24,480**	**(7.3)**	**3.5**	**99,000**
Operating costs	**(20,454)**	**(23,709)**	**(21,845)**	**(7.9)**	**6.8**	**(87,269)**
(inc)/dec in stock	146	(113)	125	(210.2)	(14.4)	(22)
Raw materials	(17,175)	(19,177)	(17,972)	(6.3)	4.6	(71,765)
Staff cost	(868)	(905)	(966)	6.8	11.3	(3,538)
Other expenditure	(2,557)	(3,514)	(3,032)	(13.7)	18.6	(11,944)
EBITDA	**3,190**	**2,687**	**2,635**	**(1.9)**	**(17.4)**	**11,730**
Other income	523	445	389	(12.6)	(25.6)	1,899
Interest costs	33	77	90	16.4	170.4	230
Depreciation	(323)	(355)	(376)	5.9	16.4	(1,398)
Extraordinairies						
PBT	**3,423**	**2,854**	**2,737**	**(4.1)**	**(20.0)**	**12,461**
Taxes	(1,045)	(904)	(839)	(7.1)	(19.7)	(3,882)
PAT	**2,377**	**1,950**	**1,898**	**(2.6)**	**(20.1)**	**8,579**
Key ratios						
Volumes	832,692	855,987	802,853	(6.2)	(3.6)	3,336,760
Net realizations (Rs/vehicle)	28,394	30,837	30,491	(1.1)	7.4	29,669
RM/Net sales (%)	72.0	73.1	72.9	(0.2)	0.9	72.5
RM/VOP (%)	72.2	73.0	73.0	0.1	0.8	72.5
EBITDA per vehicle (Rs)	3,830	3,139	3,282	4.6	(14.3)	3,516
EBITDA margin (%)	13.5	10.2	10.8	0.6	(2.7)	11.8
PAT margin (%)	10.1	7.4	7.8	0.4	(2.3)	8.7
Effective tax rate (%)	30.5	31.7	30.6	(1.0)	0.1	31.2

Source: Company data, Kotak Institutional Equities

Automobiles

BFRG.BO, Rs302

Bharat Forge: 1QFY08 net profit grows 26% yoy; margins decline 520bps yoy

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- **1Q stand-alone net profit at Rs648 mn grows 26% yoy**
- **1Q stand-alone EBITDA margins decline 520 bps yoy**
- **Consolidated profits remain flat in 1Q; subsidiary performance continues to disappoint**

Bharat Forge reported 1Q standalone net profit at Rs648 mn—a growth of 25.7% yoy. EBITDA margins at 20.4% for 1QFY08 declined 520 bps yoy and 370 bps qoq. Net sales for 1Q grew 18% yoy. Domestic revenues grew 9% yoy versus export revenues outperformed growing 31.5% yoy. Consolidated net profit for 1Q however remained flat.

1Q EBITDA for Bharat Forge at Rs1 bn declined 5.7% as raw material costs increased 190 bps yoy. The EBIDTA margins were impacted by rise in staff costs by 39% yoy resulting in a 520 bps yoy decline in margins. Other income grew 129% yoy resulting from an exchange gain of Rs333 mn arising from the difference in foreign currency borrowings and bank deposits. Interest costs grew 33% yoy to Rs234 mn. Net profit for 1QFY08 grew by 25.7% yoy to Rs648 mn.

Consolidated profits remain flat in 1Q; subsidiary performance disappoints

Bharat Forge reported a consolidated net profit of Rs804 mn. Consolidated sales at Rs10.6 bn grew 7.5% yoy but dropped 4.4% qoq. Consolidated margins at 13.8% declined 230 bps yoy. However, overall profitability of the subsidiaries continues to remain low. Net profit margin of the subsidiaries put together was just 2.8% in 1Q (2.7% in 4QFY2007) while EBITDA margins of the subsidiaries at 8% declined 110 bps yoy. Combined net profit of the subsidiaries declined 46% yoy.

Bharat Forge: 1QFY2008 consolidated results

				% chg.	
(in Rs mn)	**1QFY07**	**4QFY07**	**1QFY08**	**qoq**	**yoy**
Net sales	**9,878**	**11,098**	**10,614**	**(4.4)**	**7.5**
Operating costs	**(8,287)**	**(9,372)**	**(9,148)**	**(2.4)**	**10.4**
EBITDA	**1,591**	**1,726**	**1,466**	**(15.1)**	**(7.8)**
Other income	237	227	539	137.8	127.6
Interest costs	(219)	(277)	(267)	(3.6)	21.6
Depreciation	(422)	(449)	(525)	16.9	24.3
PBT	**1,186**	**1,227**	**1,214**	**(1.1)**	**2.3**
Taxes	(382)	(427)	(410)	(4.0)	7.1
PAT	**804**	**800**	**804**	**0.5**	**0.1**
Key ratios					
EBITDA margin (%)	16.1	15.6	13.8	(1.74)	(2.29)
PAT margin (%)	8.1	7.2	7.6	0.37	(0.56)
Effective tax rate (%)	32.2	34.8	33.7	(1.02)	1.50

Source: Company data, Kotak Institutional Equities

Energy

CAST.BO, Rs280	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	310
52W High -Low (Rs)	315 - 163
Market Cap (Rs bn)	34.7

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	17.5	19.7	20.3
Net Profit (Rs bn)	1.5	2.3	2.6
EPS (Rs)	12.2	18.2	20.7
EPS gth	*3.3*	*49.3*	*13.4*
P/E (x)	22.9	15.4	13.6
EV/EBITDA (x)	13.3	8.8	7.8
Div yield (%)	3.2	4.3	5.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	71.0	-	-
FIIs	1.5	0.0	(0.1)
MFs	1.5	0.0	(0.1)
UTI	-	-	(0.1)
LIC	5.2	0.1	0.0

Castrol India: Strong 2QCY07 results in line with expectations; fine-tuned estimates

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- **Healthy growth in revenues and stronger rupee primarily contributed to strong earnings**
- **Solid performance by both automotive and non-automotive divisions**
- **Retain OP with revised 12-month target price of Rs310 (Rs300 previously)**

Castrol reported 2QCY07 net income at Rs659 mn (+59% qoq, +31% yoy), in-line with our estimate of Rs657 mn despite higher-than-expected advertisement expense; net included a tax write-back of Rs15.4 mn. Castrol's 2QFY07 revenues grew strongly to Rs5.4 bn (+22.2% qoq and +13.3% yoy) due to (1) higher realizations and (2) seasonally strong quarter. We have fine-tuned CY2007E and CY2008E EPS estimates to Rs18.2 and Rs20.7, respectively from Rs18.4 and Rs20, respectively, previously to reflect (1) higher volumes and realization, (2) stronger rupee (Rs41.5 for CY2007E and Rs41 for CY2008E versus Rs43 previously for both the years) and (3) moderately higher LOBS prices. We have raised our 12-month target price to Rs310 (15X CY2008E EPS of Rs20.7) from Rs300 previously. Key downside risk stems from higher-than-expected LOBS price arising from a rebound in crude oil prices.

Strong operating performance. Castrol's 2QCY07 EBITDA grew strongly to Rs1 bn (+75%yoy) marginally ahead of our Rs975 mn expectation. 1HCY07 net income increased 30% yoy to Rs1.1 bn despite an extraordinary gain of Rs154 mn from profit on sale of premises in 1HCY06. The strong growth in net income in 2QCY07 was despite higher-than-expected advertisement expense at Rs280 mn (+68% qoq, +59% yoy). The increase in advertisement expenditure reflects several initiatives taken by the company during the quarter towards brand promotion.

Automotive division does well again. Castrol's 2QCY07 automotive lubes segment's revenues increased a strong 12.5% yoy led by (1) higher realization on the back of price increase effected in CY2006 and (2) likely good volume growth in 2QCY07.The automotive segment's EBIT has grown 36% yoy to Rs850 mn. The automotive segment's EBIT margin has also expanded significantly to 18.3% in 2QCY07 from 15.2% in 2QCY06. We do not look at qoq comparison since automobile lubes sale is seasonal—2Q and 4Q in a calendar year are the best quarters.

Industrial segment maintains its strong performance. Castrol's industrial lubes segment reported 18% yoy growth in revenues to Rs769 mn and 72% yoy increase in EBIT to Rs149 mn. The industrial segment's EBIT margin has expanded to 19.4% in 2QCY07 from 13.3% in 2QCY06. Castrol has invested in this business significantly in the past and is seeing the benefits in the form of increased traction among industrial customers.

Earnings revisions

CY2007. We have fine-tuned Castrol's CY2007E EPS to Rs18.2 from Rs18.4 previously to reflect (1) higher LOBS prices (US$815/tonne from US$800/tonne previously) due to the recent rebound in crude oil prices and (2) higher advertisement expenses, which offset the positive impact of (1) higher volumes and realisation and (2) stronger rupee (Rs41.5 from 43.0 previously). We note that a Rs1/US$ change impacts Castrol's EPS by Rs0.9.

CY2008. We have raised Castrol's CY2008E EPS to Rs20.7 from Rs20 previously on account of the same reasons discussed above. The 14% yoy growth in earnings reflects a US$40/tonne (5%) price decline in LOBS assumed by us.

Interim dividend announced. Castrol announced an interim dividend of Rs4.5 (Rs4 interim dividend in CY2006). We model Rs12 and Rs14 dividend for CY2007E and CY2008E, respectively.

Interim results of Castrol, calendar year-ends (Rs mn)

		qoq			yoy			yoy		
	2007E	2Q 2007	1Q 2007	*% chg*	2Q 2007	2Q 2006	*% chg*	1H 2007	1H 2006	*% chg*
Net sales	**19,707**	**5,401**	**4,421**	***22.2***	**5,401**	**4,768**	***13.3***	**9,822**	**8,526**	***15.2***
Raw materials	11,939	3,158	2,786	*13.4*	3,158	3,193	*(1.1)*	5,945	5,647	*5.3*
Employees	805	214	191	*12.1*	214	200	*7.4*	405	344	*18.0*
Others	3,520	1,022	803	*27.3*	1,022	801	*27.7*	1,825	1,459	*25.1*
Advertisement	—	280	167	*67.8*	280	176	*58.8*	446	297	*50.4*
CIF costs	—	203	163	*24.8*	203	180	*12.5*	366	331	*10.4*
Other exp	—	540	474	*13.9*	540	444	*21.5*	1,013	832	*21.8*
Total expenditure	16,263	4,395	3,780	*16.3*	4,395	4,193	*4.8*	8,175	7,450	*9.7*
EBITDA	**3,444**	**1,006**	**641**	***57.0***	**1,006**	**575**	***74.9***	**1,647**	**1,075**	***53.1***
EBITDA margin (%)	**17.5**	**18.6**	**14.5**		**18.6**	**12.1**		**16.8**	**12.6**	
Other income	320	79	73	*7.8*	79	47	*67.6*	152	89	*70.2*
Interest	62	21	9	*148.2*	21	7	*205.8*	30	14	*119.3*
Depreciation	178	50	48	*4.0*	50	45	*9.5*	98	88	*11.3*
Pre-tax profits	**3,523**	**1,014**	**657**	***54.2***	**1,014**	**570**	***77.9***	**1,671**	**1,063**	***57.2***
Extraordinaries	15	15	(10)	—	15	190	—	5	190	—
Tax	1,306	370	232	*59.3*	370	256	*44.2*	602	429	*40.4*
Deferred tax	(33)	—	—	—	—	—	—	—	—	—
Net income	**2,266**	**659**	**415**	***58.8***	**659**	**503**	***31.0***	**1,075**	**825**	***30.3***
Adjusted net income	**2,256**	**650**	**422**	***54.0***	**650**	**399**	***62.9***	**1,071**	**711**	***50.6***
Effective tax rate (%)	36.1	36.5	35.3		36.5	45.0		36.0	40.3	

Segment details									
Revenues									
Automotive	4,631	3,645	*27.1*	4,631	4,116	*12.5*	8,277	7,295	*13.5*
Non-automotive	769	776	*(0.9)*	769	653	*17.9*	1,545	1,231	*25.5*
Total	**5,401**	**4,421**	***22.2***	**5,401**	**4,768**	***13.3***	**9,822**	**8,526**	***15.2***
EBIT									
Automotive	850	490	*73.5*	850	626	*35.8*	1,339	1,034	*29.6*
Non-automotive	149	148	*0.8*	149	87	*71.8*	297	165	*79.7*
Total	**999**	**638**	***56.7***	**999**	**713**	***40.2***	**1,636**	**1,199**	***36.5***
EBIT margin (%)									
Automotive	18.3	13.4		18.3	15.2		16.2	14.2	
Non-automotive	19.4	19.1		19.4	13.3		19.2	13.4	
Total	**18.5**	**14.4**		**18.5**	**14.9**		**16.7**	**14.1**	
Capital employed									
Automotive	2,054	3,185	*(35.5)*	2,054	3,050	*(32.7)*	2,054	3,050	*(32.7)*
Non-automotive	867	1,021	*(15.1)*	867	906	*(4.3)*	867	906	*(4.3)*
Unallocable assets less liabilities	1,662	386	*330.1*	1,662	206	*706.2*	1,662	206	*706.2*
Total	**4,582**	**4,592**	***(0.2)***	**4,582**	**4,161**	***10.1***	**4,582**	**4,161**	***10.1***

Source: Company, Kotak Institutional Equities estimates.

Castrol: Profit model, balance sheet, cash model, December year-ends, 2004-2009E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Profit model (Rs mn)						
Net sales	13,051	14,304	17,524	19,707	20,341	20,998
EBITDA	**2,082**	**2,117**	**2,200**	**3,444**	**3,914**	**4,419**
Other income	221	201	344	320	320	320
Interest	(29)	(30)	(41)	(62)	(62)	(61)
Depreciation	(249)	(189)	(180)	(178)	(184)	(188)
Pretax profits	2,026	2,098	2,322	3,523	3,988	4,490
Tax	(687)	(694)	(889)	(1,306)	(1,468)	(1,641)
Deferred taxation	9	56	57	33	37	39
Net profits	**1,275**	**1,468**	**1,545**	**2,266**	**2,558**	**2,889**
Earnings per share (Rs)	**10.7**	**11.8**	**12.2**	**18.2**	**20.7**	**23.4**
Balance sheet (Rs mn)						
Total equity	3,601	3,901	4,177	4,707	5,240	5,814
Deferred taxation liability	174	119	61	28	(9)	(48)
Total borrowings	37	28	28	23	19	16
Currrent liabilities	2,830	3,238	3,619	3,553	3,527	3,492
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**8,311**	**8,777**	**9,274**
Cash	297	399	892	1,381	1,786	2,226
Current assets	3,558	4,422	5,271	5,236	5,332	5,427
Total fixed assets	1,498	1,383	1,297	1,269	1,234	1,197
Investments	1,289	1,081	425	425	425	425
Total assets	**6,642**	**7,285**	**7,885**	**8,311**	**8,777**	**9,274**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,091	2,385	2,717
Working capital	24	(465)	(506)	(32)	(121)	(130)
Capital expenditure	(57)	(89)	63	(150)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**1,909**	**2,114**	**2,438**
Investments	(402)	258	687	—	—	—
Other income	37	25	9	320	320	320
Ratios (%)						
Debt/equity	0.99	0.69	0.66	0.49	0.37	0.28
Net debt/equity	0.98	0.69	0.65	0.49	0.37	0.28
RoAE	34.3	37.7	37.4	50.5	51.3	52.5
RoACE	**35.4**	**36.3**	**35.6**	**50.1**	**51.1**	**52.4**

Source: Kotak Institutional Equities estimates.

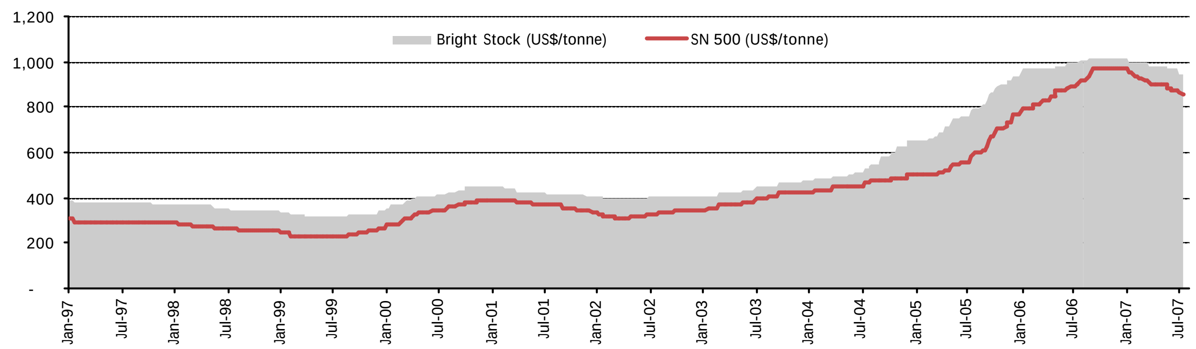
Castrol has high leverage to exchange rate and raw material prices

Sensitivity of Castrol's earnings to key variables

	CY2007E			CY2008E			CY2009E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rupee dollar	42.5	41.5	40.5	42.0	41.0	40.0	42.0	41.0	40.0
Net profits (Rs mn)	2,144	2,266	2,388	2,439	2,558	2,677	2,775	2,889	3,002
EPS (Rs)		18.3			20.7			23.4	
% upside/(downside)	**(5.4)**		**5.4**	**(4.6)**		**4.6**	**(3.9)**		**3.9**
Raw material price									
Raw material price (US$/tonne)	840	815	790	800	775	750	750	725	700
Net profits (Rs mn)	2,111	2,266	2,422	2,400	2,558	2,715	2,729	2,889	3,049
EPS (Rs)		18.3			20.7			23.4	
% upside/(downside)	**(6.9)**		**6.9**	**(6.1)**		**6.1**	**(5.6)**		**5.6**

Source: Kotak Institutional Equities estimates.

Base oil price, US$/tonne, Singapore FOB



Bright Stock, December calendar year-ends (US$/tonne)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
1Q	382	372	328	371	444	400	414	484	660	965	996
2Q	380	359	319	405	423	398	427	501	737	980	976
3Q	380	347	322	424	415	406	456	552	812	1,005	945
4Q	376	341	334	448	413	410	470	623	913	1,013	
Average	**380**	**355**	**326**	**412**	**424**	**403**	**442**	**540**	**780**	**991**	**981**

SN500, December calendar year-ends (US$/tonne)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
1Q	297	283	239	296	386	320	358	436	502	805	930
2Q	295	271	230	335	375	316	373	452	540	867	889
3Q	293	262	237	359	362	333	405	473	613	935	858
4Q	293	256	257	383	345	345	423	491	728	967	
Average	**294**	**268**	**241**	**343**	**367**	**329**	**390**	**463**	**596**	**894**	**904**

Weekly prices (US$/tonne) (Bright Stock)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
945	945	945	965	970

Weekly prices (US$/tonne) (SN500)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
855	855	865	870	875

Source: ICIS, Kotak Institutional Equities.

Technology

MINT.BO, Rs733	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	650
52W High -Low (Rs)	1022 - 425
Market Cap (Rs bn)	28.3

Financials

April y/e	2007	2008E	2009E
Sales (Rs bn)	5.9	7.4	9.7
Net Profit (Rs bn)	0.9	1.0	1.3
EPS (Rs)	21.8	25.7	33.8
EPS gth	*18.2*	*18.0*	*31.2*
P/E (x)	33.6	28.5	21.7
EV/EBITDA (x)	25.6	22.1	16.2
Div yield (%)	0.1	0.4	0.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.5	-	-
FIIs	4.8	0.0	0.0
MFs	0.0	0.0	0.0
UTI	-	-	-
LIC	-	-	-

MindTree Consulting: Results below expectations; EPS guidance reduced on rupee appreciation. Downgrade to Underperform from In-Line

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- **Results below expectations**
- **Revenue growth guidance maintained, EPS guidance cut by 15%**
- **17% EPS guidance cut reflects increasing margin pressures**
- **Valuations expensive'downgrade to Underperform from In-Line earlier**

MindTree's (MT) 1QFY08 results were below expectations. Net income of Rs206 mn, a qoq decline of 16%, was lower than our expectation of Rs237 mn. Revenues grew 9.9% qoq to US$39 mn, 0.9% lower than our expectations of a 10.8% growth. More important, the extent of operating margin decline (270bps qoq) despite only partial wage increases came as a negative surprise. The company has revised downwards its EPS guidance for FY2008 by 17% to Rs.24.5 from Rs29.5 earlier while maintaining its revenue guidance at US$178-180 mn. The steep guidance revision, despite only 3% additional rupee appreciation built in (revised guidance at 41 versus 42.25 earlier) suggests the increasing operational challenges manifesting in margin pressure. We revise our FY2008 and FY2009 estimates downwards to factor in revised Re/US$ assumptions (40.5 and 40 versus 43 earlier). Our revised EPS estimates for FY2008 and FY2009 stand at Rs25.7 and Rs33.8, 16.1% and 15.8% lower than our earlier estimates of Rs30.7 and Rs40 respectively. The stock trades at 28.5xFY2008 and 21.7xFY2009 earnings, a premium to Tier 1 companies. While we like the growth story, we find valuations extremely difficult to justify. We downgrade the stock to Underperform from an In-Line earlier. We adjust our end March 2009 DCF based target price to Rs650 from 750 earlier with the entire revision in target price coming from impact of rupee appreciation.

Results below expectations: MT's overall 1QFY08 results were lower than our expectations. Revenues grew 9.9% qoq in US$ terms to US$39 mn, slightly below our expectations of US$39.5 mn. However, the major negative surprise was the OPM decline of 270bps qoq (much higher than our expectations of a 60bps decline) to 15.8% despite SG&A efficiency gains of 90bps and 2.4% qoq improvement in utilization rate. We note that the company has passed on only partial wage increases during the quarter (53% of offshore employees, 40% of overall salary expenses). Net income was Rs206 mn, 13.2% lower than our expectations, and down 16.4% qoq and 13.3% yoy. Net headcount addition of 270 was also below our expectation of 400 net adds for the quarter.

Revenue guidance maintained, EPS guidance cut by 15%: MT has maintained its US$ revenue guidance for FY2008 at US$178-180 mn, implying a yoy growth of 36.8-38.4%. We note that the company needs to achieve revenue CQGR of 9.5% from 2Q-4QFY08 to achieve the upper end of the guidance, reasonable in our view. The growth will likely be led by ramp up in enterprise business and new service offerings. We model a revenue growth of 39% (US$ terms) for MT in FY2008. The company has reduced its net income guidance downwards by 10% to US$22.5-22.6 mn and its EPS guidance by 17% to Rs24.5 from Rs29.5 earlier. We note that the revised guidance is based on a Re/US$ rate of 41 versus 42.25 earlier.

Extent of EPS guidance cut reflects increasing margin pressure: We find the extent of EPS guidance cut (17%) surprising given (a) the company has maintained revenue growth guidance (b) additional rupee appreciation of only 3% factored in-a 1% rupee appreciation impacts net income by 2-3%, in our view (c) no change in share count assumption. While the company indicates that the revision in EPS guidance is purely due to change in Re/US$ assumptions, we believe that the company could be facing other operational challenges. We note that the MT has to go through two more rounds of partial wage increase (in the Sep '07 and Dec '07 quarter), which would could put margins under further pressure. We are however factoring in OPM decline of 140bps in FY2008 noting that low utilization rate (65.1%) and pricing improvement may offset some of the incremental pressures over the next two years.

Other metrics-good client addition, attrition down further: We highlight some of the other key metrics for the quarter-(a) client specific issues continued to dampen Europe revenues, down 8.5% qoq (US$ terms)-the company indicates that the ramp down is over and Europe revenues will likely see an uptick from Sep '07 quarter (b) client addition pace continues to be good with 28 new clients added during the quarter. More important, the company now has 38 F-500 clients, up from 36 in the previous quarter (c) attrition came down marginally to 15.2% (ttm) from 15.7% in the previous quarter-MT's attrition rates remain among the lowest in the industry.

Revising estimates-reduce rating to Underperform, target price to Rs650: We revise our FY2008 and FY2009 estimates downwards primarily to factor in revised Re/US$ assumptions (40.5 and 40 versus 43 earlier). Our revised EPS estimates for FY2008 and FY2009 stand at Rs25.7 and Rs33.8, 16.1% and 15.6% lower than our earlier estimates of Rs30.7 and Rs40 respectively. The CMP implies a PE multiple of 21.7xFY2009 EPS, higher than tier-I players like Infosys and Satyam, unjustified in our view. We downgrade MT to Underperform from In-Line earlier noting expensive valuations and margin challenges and reduce our Mar '09 DCF-based target price to Rs650 (Rs750 earlier).

Key changes to FY2008-10 estimates

	New			Old			Change (%)		
Rs mn	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**
Revenues (Rs mn)	**7,351**	**9,737**	**12,820**	**7,938**	**10,548**	**13,747**	**(7.4)**	**(7.7)**	**(6.7)**
Revenues (US$ mn)	**182**	**243**	**320**	**185**	**245**	**320**	**(1.9)**	**(0.9)**	**0.1**
EBITDA	1,247	1,675	2,153	1,492	2,039	2,639	(16.4)	(17.9)	(18.4)
Net Profit	1,017	1,334	1,575	1,223	1,594	1,822	(16.8)	(16.3)	(13.5)
EPS (Rs/ share)	**26.3**	**34.0**	**40.1**	**31.7**	**40.6**	**46.3**	**(16.8)**	**(16.3)**	**(13.5)**
Fully diluted EPS	**25.7**	**33.8**	**39.9**	**30.7**	**40.0**	**45.7**	**(16.1)**	**(15.6)**	**(12.7)**
Re/ $ rate	40.5	40.0	40.0	42.9	43.0	43.0	(5.6)	(6.9)	(6.9)
EBITDA margin	17.0	17.2	16.8	18.8	19.3	19.2			

Source: Kotak Institutional Equities estimates

Mindtree Consulting: Indian GAAP consolidated quarterly earnings statement

Rs mn	Jun-06	Mar-07	Jun-07	qoq (%)	yoy (%)	Kotak E	Deviation	Comments
Revenues	**1,333**	**1,566**	**1,615**	**3.2**	**21.2**	**1,614**	**0.0**	Revenues grew 9.9% in US$ terms to US$39 mn versus our expectation of 10.8% growth.
Software development expenses	(770)	(931)	(1,018)	9.3	32.1	(968)	**5.1**	
Gross profit	**562**	**635**	**597**	**(5.9)**	**6.2**	**646**	**(7.5)**	
SG&A expenses	(289)	(345)	(342)	(1.1)	18.1	(358)	**(4.4)**	
EBITDA	**273**	**289**	**256**	**(11.7)**	**(6.4)**	**289**	**(11.4)**	EBITDA margins declined 270bps qoq against our expectations of a 60bps decline
Depreciation	(47)	(67)	(79)	17.8	69.4	(67)	**17.2**	
EBIT	**227**	**223**	**177**	**(20.5)**	**(21.9)**	**221**	**(20.1)**	
Interest	(9)	(7)	(9)	42.8	3.6	(2)	**376.0**	
Other income	20	29	62	118.3	209.6	47	**32.6**	
Profit before tax	**238**	**245**	**230**	**(6.0)**	**(3.2)**	**266**	**(13.7)**	
Tax	-	2	(24)	(1,427)		(29)		
Net profit	**238**	**246**	**206**	**(16.4)**	**(13.3)**	**237**	**(13.2)**	
Minority interest	-	-	-			-		
Net income	**238**	**246**	**206**	**(16.4)**	**(13.3)**	**237**	**(13.2)**	Net income much below expectations on account of lower than expected profitability
Extraordinaries	-	-	-			-		
Net profit- reported	**238**	**246**	**206**	**(16.4)**	**(13.3)**	**237**	**(13.2)**	
Chk								
EBITDA margin	**20.5**	**18.5**	**15.8**			**17.9**		
EPS (Rs/ share)	**8.1**	**6.6**	**5.5**	**(17.0)**	**(31.9)**	**6.1**	**(10.8)**	
Shares outstanding (mn)	29.5	37.3	37.6			38.6		
Fully Diluted EPS (Rs/ share)	**7.5**	**6.2**	**5.2**	**(16.4)**	**(30.8)**	**6.0**	**(12.5)**	
Fully DilutedShares outstanding (mn)	31.5	39.5	39.5			39.9		

Guidance (FY2008)	lower end	upper end	Comments
Revenues (US$ mn)	178.0	180.0	Revenue guidance for FY2008 maintained. Implies a sequential growth of 9.5% from 2Q-4QFY08,
Growth (%)	36.8	38.4	
Net Income (US $mn)	22.5	22.6	Net income guidance cut by 10% to US$22.5-22.6 mn from US$25-25.2 mn. (Revised guidance factors in a Re/US$ rate of 41 vs 42.25 earlier)

Mindtree Consulting- consolidated Indian GAAP profit & loss statement. March fiscal year ends

Rs mn	2005	2006	2007	2008E	2009E	2010E
Software development expenses	(1,600)	(2,735)	(3,509)	(4,608)	(6,150)	(8,167)
Gross profit	**865**	**1,753**	**2,395**	**2,743**	**3,587**	**4,652**
Administrative and other expenses	(617)	(999)	(1,309)	(1,496)	(1,912)	(2,500)
EBITDA	**248**	**754**	**1,086**	**1,247**	**1,675**	**2,153**
Depreciation	(105)	(209)	(244)	(330)	(405)	(497)
EBIT	**143**	**544**	**841**	**917**	**1,269**	**1,655**
Interest	(21)	(53)	(30)	(8)	-	-
Other income	51	66	82	242	254	303
Profit before tax	**173**	**558**	**893**	**1,151**	**1,523**	**1,959**
Tax	(4)	(15)	(31)	(134)	(189)	(383)
Net profit	**169**	**542**	**862**	**1,017**	**1,334**	**1,575**
Minority interest		-				
Net income	**169**	**542**	**862**	**1,017**	**1,334**	**1,575**
Extraordinaries	-	-	-	-	-	-
Net profit- reported	**169**	**542**	**862**	**1,017**	**1,334**	**1,575**
EPS (Rs/share)	**7.7**	**18.5**	**22.8**	**26.3**	**34.0**	**40.1**
Fully Diluted EPS (Rs/Share)	**6.1**	**17.1**	**21.8**	**25.7**	**33.8**	**39.9**
Margins (%)						
Gross profit margin	35.1	39.1	40.6	37.3	36.8	36.3
EBITDA margin	10.0	16.8	18.4	17.0	17.2	16.8
EBIT margin	5.8	12.1	14.3	12.5	13.0	12.9
NPM	6.8	12.1	14.6	13.8	13.7	12.3
Growth rates (%)						
Revenues	89.0	82.1	31.5	24.5	32.5	31.7
Gross profit	75.5	102.8	36.6	14.6	30.7	29.7
EBITDA	392.6	204.4	44.0	14.8	34.3	28.6
EBIT	-901.9	281.1	54.5	9.0	38.4	30.4
Net profit	557.0	221.2	59.0	18.0	31.2	18.1
Net income						
As percentage of Sales						
Revenues	100.0	100.0	100.0	100.0	100.0	100.0
Software development expenses	64.9	60.9	59.4	62.7	63.2	63.7
Gross profit	35.1	39.1	40.6	37.3	36.8	36.3
Selling expenses	-	-	9.0	8.5	8.0	8.0
Administrative expenses	-	-	13.2	11.9	11.6	11.5
S G & A expenses	25.0	22.3	22.2	20.4	19.6	19.5
EBITDA	10.0	16.8	18.4	17.0	17.2	16.8
Depreciation	4.3	4.7	4.1	4.5	4.2	3.9
EBIT	5.8	12.1	14.3	12.5	13.0	12.9
Net profit	6.8	12.1	14.6	13.8	13.7	12.3
Tax rate	2.3	2.8	3.5	11.6	12.4	19.6

Property

MGDL.BO, Rs620	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	920
52W High -Low (Rs)	1052 - 466
Market Cap (Rs bn)	26.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	3.4	4.2	10.9
Net Profit (Rs bn)	0.4	0.5	1.9
EPS (Rs)	8.9	11.3	47.5
EPS gth	-	-	-
P/E (x)	70.0	54.7	13.1
EV/EBITDA (x)	42.9	33.6	10.9
Div yield (%)	0.3	0.5	0.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.0	-	-
FIIs	27.3	0.1	0.0
MFs	2.5	0.1	(0.0)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Mahindra Gesco Developers: 1QFY2008 operating profit in line with our estimates, retain OP rating and target price

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- **1QFY2008 operating profit in line with our estimates; maintain rating and target price**
- **PAT higher than our estimates due to profit booking of Rs60 mn on account of sale of stake in Knight Frank (India)**
- **Key event to watch for in the near future ' new project launches, acquisition of balance land for Jaipur SEZ**

Mahindra Gesco on a standalone basis (MGDL) reported revenues of Rs348 mn (v/s our expectation of Rs371 mn) and operating profit of Rs55 mn (v/s our expectation of Rs66 mn) for 1QFY2008. Operating margin of 15.9% for the quarter was slightly below our estimates of 17.7%. Other income of MGDL at Rs122 mn was significantly higher than our estimates of Rs31 mn largely due to profit booking of Rs60 mn on account of sale of stake in Knight Frank (India). As a result, MGDL's PAT at Rs122 mn was ahead of our estimates of Rs76 mn. MGDL is planning to launch couple of properties in Mumbai as well as NCR in the near future and launch schedule of properties needs to be monitored closely. We retain our target price of Rs920 on the company. This provides an upside of 45% based on the current market price and we retain our outperform rating.

New project launches of the company need to be watched closely.

MGDL has received good response to 600,000 sq. ft 'Mahindra Royale' project at Pimpri in Pune. MGDL's Goregaon project 'Mahindra Eminette' is progressing smoothly with the next phase of the project to be launched in the next quarter. Currently MGDL is also in the process of obtaining clearances for launching projects at Bhandup, Mumbai and Faridabad.

Jaipur SEZ continues to make progress

Mahindra World City Jaipur Limited (MWCJL) has received 1,000 acres of land and formal approval for its IT SEZ. Land acquisition of balance 2,000 acres is being managed by Jaipur Development Authority and we expect this to happen in the next two months. Already Infosys and Wipro have shown interest in acquiring large parcels of land. Though we do not perceive any delay is terms of land acquisition or increase in costs for the same, start of this SEZ could be delayed pending notification by Ministry of Commerce.

We retain our target price and rating

We retain our estimates as operating performance of the company has been in line with our estimates. On the SEZ front, we will be closely watching policy developments as well as any land acquisitions delays faced by its subsidiaries. Our target price of Rs920 provides an upside of 48% based on the current market price and we retain our outperform rating on the company.

Mahindra Gesco :1QFY2008 results

(in Rs mn)	1QFY07	4QFY07	1QFY08	% chg. qoq	% chg. yoy	Kotak estimates 1QFY07	% deviation	FY07	FY08E	% chg.
Net sales	**343**	**340**	**348**	**2.4**	**1.6**	**371**	**(6.2)**	**1,555**	**2,856**	**83.6**
Operating costs	**(277)**	**(366)**	**(293)**	**(20.0)**	**5.6**	**(306)**	**(4.2)**	**(1,352)**	**(2,184)**	**61.5**
Cost of construction	(211)	(254)	(199)	(21.7)	(5.9)			(1,051)	(2,016)	
Operating expenses	(32)	(32)	(58)	78.6	80.3			(148)	(57)	(61.3)
Staff cost	(15)	(21)	(21)	1.0	37.1			(70)	(110)	58.7
Other expenditure	(19)	(60)	(16)	(73.1)	(16.7)			(85)		
EBITDA	**65**	**(26)**	**55**	**(314.7)**	**(15.3)**	**66**	**(15.5)**	**203**	**673**	**231.6**
Other income	4	31	126	304.2	3,297.3	31	304.2	66	80	435.4
Interest costs	(5)	6	(0)	(101.8)	(98.0)	(2)		(36)	(64)	76.1
Depreciation	(13)	(6)	(5)	(24.6)	(63.2)	(7)	(34.3)	(22)	(28)	(263.6)
PBT	**52**	**5**	**176**	**3,500.0**	**241.2**	**88**	**101.1**	**211**	**661**	**214.1**
Taxes	(18)	(20)	(54)	170.6	203.9	(12)	353.3	(69)	(178)	159.2
PAT	**34**	**(15)**	**122**	**(902.6)**	**260.9**	**76**	**61.2**	**142**	**483**	**240.7**
Key ratios										
EBITDA margin (%)	19.1	(7.6)	15.9			17.7				
PAT margin (%)	9.9	(4.5)	35.0			20.4				
Effective tax rate (%)	34.6	410.2	30.8			13.7				

Source: Company data, Kotak Institutional Equities

MGDL - We retain out SOTP based target price of Rs920

	Valuation Methodology	Valuation of business (Rs bn)	Probability (%)	Value contribution (Rs bn)	Value contribution
SEZs					
Chennai SEZ	DCF	9.1	100.0	9.1	218
Karla SEZ	DCF	16.2	10.0	1.6	39
Jaipur SEZ	DCF	13.5	90.0	12.1	288
Thane SEZ	DCF	0.7	100.0	0.7	17
Total			100.0	23.6	562
Mahindra Gesco standalone					
Residential properties	NAV	4.0	100.0	4.0	95
Commercial property	NAV	1.6	100.0	1.6	38
Terminal value in FY2008 (EV EBITDA multiple of 6)		3.5	100.0	3.5	83
Less: Debt				(0.8)	(19)
Total				8.3	198
Cash raised		6.8	100.0	6.8	162
Equity valuation (Rs/share)					921
Fully diluted no of shares (mn)				42.0	

Shipyards

ABGS.BO, Rs490	
Rating	OP
Sector coverage view	-
Target Price (Rs)	575
52W High -Low (Rs)	515 - 202
Market Cap (Rs bn)	25

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	7	10	17
Net Profit (Rs bn)	1.1	1.7	2.9
EPS (Rs)	22.2	32.7	57.4
EPS gth	*35.1*	*47.5*	*75.3*
P/E (x)	22.1	15.0	8.5
EV/EBITDA (x)	13.8	9.3	4.8
Div yield (%)	0.4	0.5	0.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.9	-	-
FIIs	20.5	0.1	0.1
MFs	2.9	0.1	0.1
UTI	-	-	-
LIC	-	-	-

ABG Shipyard: Faster order-booking in new yard than expected; we upgrade target price, maintain Outperform

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- **ABG Shipyard announced that it has received an order of US$360 mn (Rs15 bn) to construct 12 vessels of 32,000 DWT each from Precious Shipping, Thailand. This order completely absorbs the available berth from the new Dahej yard for the first cycle.**
- **Outstanding order backlog now stands at Rs47 bn, which covers for revenues till FY2011E.**
- **We raise FY2010E revenue estimate by 20% owing to higher execution expected from ABG's new facility. This leads to revision in earnings by 20% and change in target price to Rs575/ share (from Rs460 earlier).**

ABG shipyard announced that is has received an order of US$360 mn from Precious Shipping, Thailand. The order is to construct 12 vessels of 32,000 DWT each. With this order, ABG has completely filled-up berths at its expected yard in Dahej with higher size vessel construction. The outstanding order-backlog now stands at Rs47 bn, which will cover revenues till FY2011E. We now factor higher revenue recognition from its Dahej yard in FY2009E, which leads to revision in revenues by 20%. We also raise earnings estimate for FY2009E by 20% and target price to Rs575/ share (Rs460 earlier). Maintain Outperform.

Recent order absorbs all available berths at ABG's new yard for the first cycle. The yard at Dahej, now has orders to build 3 vessels of 54,000 DWT each and 12 vessels for 32,000 DWT each. Dahej yard will now be able to offer berths for new builds only for FY2011. We had expected a slow ramp-up in Dahej yard's order inflow, but now revise our assumptions after the receipt of this order.

Oustanding order-backlog stands at Rs47 bn, approximately 7X FY2007 revenues. The existing backlog will cover for revenues to be recognized till FY2011E.

We expect better FY2010E revenues, given the renewed execution visbility from the new yard. We had expected a slow build-up of order receipt in the larger vessel category, given the absence of ABG's rack record in this segment. This order receipt increases the execution visibility, and hence, we raise FY2009E revenue estimates.

We raise target price to Rs575/ share (from Rs460 earlier). Continue to rate the stock as Outperform. Higher revenue recognition raises earnings estimate by 20%, and target price to Rs575/ share from Rs460 earlier. At our target price, the stock will trade at 5.8X FY2009E EV/EBITDA and 10X FY2009E PER. We continue to rate the stock as Outperform.

ABG Shipyard, Profit Model, March fiscal year-ends, 2005-2009E, (Rs mn)

	2005	2006	2007E	2008E	2009E
Net Revenues	3,766	5,417	7,044	9,935	16,993
Other operating income	-	-	-	-	-
Gross operating revenues	**3,766**	**5,417**	**7,044**	**9,935**	**16,993**
Operating expenses					
Cost of goods sold	(2,262)	(3,320)	(4,202)	(5,991)	(10,247)
Staff costs	(91)	(122)	(149)	(223)	(381)
SG&A expenses	(492)	(567)	(740)	(1,039)	(1,726)
Total expenditure	**(2,845)**	**(4,009)**	**(5,114)**	**(7,253)**	**(12,354)**
(% of revenues)	*75.5*	*74.0*	*73.0*	*73.0*	*72.7*
EBITDA	**921**	**1,409**	**(1,953)**	**2,683**	**4,639**
EBITDA Margin (%)	*24.5*	*26.0*	*27.7*	*27.0*	*27.3*
Net finance cost	(202)	(167)	(267)	(150)	(100)
Other income	2	61	54	30	30
PBDT	**720**	**1,303**	**1,771**	**2,563**	**4,569**
Depreciation and amortisation	(31)	(36)	(59)	(40)	(148)
Pretax profits before extra-ordinaries	**689**	**1,267**	**1,731**	**2,523**	**4,421**
Exceptional items	-	-	-	-	-
Prior period items	-	-	-	-	-
Profit before tax	**689**	**1,267**	**1,731**	**2,523**	**4,421**
Current tax	(67)	(41)	(105)	(86)	(150)
Deferred tax	(175)	(389)	(413)	(770)	(1,350)
Minority / Associate earnings	-	-	-	-	-
Reported PAT	448	837	1,163	1,667	2,921
Adjusted net profit	**448**	**837**	**1,163**	**1,667**	**2,921**
Primary EPS (using wtd avg shares)	13.8	20.1	22.8	32.7	57.4
Diluted EPS	13.8	16.4	22.8	32.7	57.4
Year end no of shares (mn)	32.5	50.9	50.9	50.9	50.9
Weighted average no of shares (mn)	32.5	41.7	50.9	50.9	50.9
Fully diluted no of shares (mn)	32.5	50.9	50.9	50.9	50.9
Margins (%)					
EBITDA margin	24.5	26.0	27.0	27.0	27.3
PBT margin	18.3	23.4	24.7	25.4	26.0
Net profit margin (w/o extraordinaries)	11.9	15.4	16.4	16.8	17.2
Effective tax rate (%)	35.0	33.9	33.5	33.9	33.9
Growth (% p.a)					
Revenues	-	43.8	29.3	41.8	71.0
EBITDA	-	53.0	34.2	41.9	72.9
PBT	-	83.8	36.7	45.8	75.2
Net profit (w/o extraordinaries)	-	87.0	37.5	44.9	75.2
Diluted EPS	-	19.3	37.5	44.9	75.2

ABG Shipyard, Balance sheet, March fiscal-year ends, 2005-09E (Rs mn)

	2005	2006	2007E	2008E	2009E
Equity					
Share capital	325	509	509	509	509
General reserves and surplus	663	3,780	4,808	6,347	9,116
Net worth	**988**	**4,289**	**5,317**	**6,857**	**9,625**
Deferred tax liability	278	667	1,122	1,637	2,478
Debt					
Secured	730	997	1,247	347	-
Unsecured	-	-	-	-	-
Total Debt	**730**	**997**	**1,247**	**347**	**-**
Current liability and provisions	1,052	3,776	4,342	5,329	8,503
Total capital	**3,048**	**9,729**	**12,027**	**14,169**	**20,607**
Assets					
Cash and cash equivalents	487	4,050	367	357	2,447
Inventory	717	2,249	2,977	4,304	7,644
Sundry Debtors	129	58	83	117	200
Loans and Advances	1,271	2,341	3,110	3,740	4,613
Gross block	741	901	901	901	5,801
Less: Accumulated depreciation	(340)	(395)	(435)	(475)	(623)
Net fixed assets	401	506	466	426	5,178
Capital -WIP	43	518	5,018	5,218	518
Net fixed assets (incl. C-WIP)	**444**	**1,024**	**5,484**	**5,644**	**5,696**
Investments	-	7	7	7	7
Miscallenous expenditure	-	-	-	-	-
Intangibles	-	-	-	-	-
Total Assets	**3,048**	**9,729**	**12,027**	**14,169**	**20,607**
Leverage and return raitos (%)					
Debt/Equity	57.7	20.1	19.4	4.1	-
Debt/Capitalisation	36.6	16.7	16.2	3.9	-
Net Debt/Equity	19.2	(61.6)	13.7	(0.1)	(20.2)
Net Debt/Capitalisation	16.1	(160.4)	12.0	(0.1)	(25.3)
Net Debt/EBITDA	0.5	0.2	2.6	2.4	1.5
ROE (%)	35.3	26.9	19.8	22.3	28.4
ROCE (%)	29.0	23.8	18.0	21.4	28.5

ABG Shipyard, Cash flow statement, March fiscal-year ends, 2005-09E (Rs mn)

	2005	2006	2007E	2008E	2009E
Operating cash flows					
Pre-tax profits and extraordinary items	689	1,266	1,710	2,523	4,421
Depreciation & amortization	31	36	40	40	148
Taxes paid	(50)	(75)	(126)	(340)	(659)
Dividend and other income	-	(5)	-	-	-
Interest expense	202	167	150	150	100
Interest paid	(202)	(167)	(150)	(150)	(100)
Foreign exchange loss/(gain)	-	2	-	-	-
Extraordinaries (incl. prior period items)	0	0	-	-	-
Other non-cash items	-	-	-	-	-
Working capital changes	(851)	4	(955)	(1,005)	(1,120)
Cash flow from operations	**(181)**	**1,227**	**669**	**1,217**	**2,790**
Operating, excl. working capital	**671**	**1,224**	**1,624**	**2,222**	**3,910**
Investing					
Capex incl. capital issue expenses	(96)	(616)	(4,500)	(200)	(200)
(Purchase)/sale of assets/businesses	-	-	-	-	-
(Purchase)/sale of investments (incl. inv. in subsidiaries)	0	(7)	-	-	-
Advances to subsidiary	-	-	-	-	-
Interest/dividend received	-	5	-	-	-
Cash flow from investing	**(96)**	**(618)**	**(4,500)**	**(200)**	**(200)**
Financing					
Proceeds from issue of share capital	-	2,534	-	-	-
Net proceeds from borrowings	371	420	250	(900)	(347)
Effect of FX changes	-	-	-	-	-
Dividends paid (incl. tax)	-	-	(102)	(127)	(153)
Cash flow from financing	**371**	**2,954**	**148**	**(1,027)**	**(500)**
Net change in cash/cash equivalents	95	3,564	(3,683)	(10)	2,090
Beginning cash	392	487	4,050	367	357
Ending cash	**487**	**4,050**	**367**	**357**	**2,447**

Transmission

KECI.BO, Rs615	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	725
52W High -Low (Rs)	660 - 210
Market Cap (Rs bn)	23

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	20.5	24.7	29.0
Net Profit (Rs bn)	1.0	1.3	1.6
EPS (Rs)	27.3	34.5	42.6
EPS gth	*92.4*	*26.3*	*23.4*
P/E (x)	22.5	17.8	14.4
EV/EBITDA (x)	10.2	9.0	7.9
Div yield (%)	0.3	0.5	0.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	34.3	-	-
FIIs	14.1	0.0	0.0
MFs	24.4	0.5	0.5
UTI	1.5	0.2	0.2
LIC	7.3	0.1	0.1

KEC International: 1Q 2008 results: Strong growth continues; raise target price, maintain Outperform rating

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- **Net earnings at Rs253 mn, grew 74% on yoy basis (vs. our estimate of Rs210 mn) led by 210bps improvement in OPM and 24% growth in revenues.**
- **Outstanding order backlog stood at Rs33 bn, up from Rs30 bn at start of year.**
- **We raise FY2008E and FY2009E earnings estimates by ~20%, largely owing expectations of better margins. We raise target price to Rs725/ share (from Rs595 earlier). We now value KEC's standalone power transmission business at 35% discount to our Electrical Equipment coverage universe.**
- **We expect strong order flow for KEC and continue to rate the stock as Outperform.**

KEC, in its 1QFY08 results, reported net earnings of Rs253 mn, up 74% on yoy basis. Increased operating profit margins by 210 bps and 24% growth in revenue led to higher-than-expected net earnings. Order-backlog increased to Rs33 bn, up from Rs30 bn at start of year. The management appeared confident of achieving 20-25% revenue CAGR over next two years. We expect significant capex from Powergrid Corporation (India's CTU) to materialize over the next 3 years despite the start of new Five Year Plan, and expect KEC to witness growing order backlogs over the same period. We continue to rate the stock as Outperform and revise target price to Rs725 (from Rs595/ share).

Net earnings grew 74% yoy following 210bps improvement in EBITDA margins and 24% growth in revenues. The management communicated that improvement in margins followed completion of old orders at lower margins and newer orders taken at higher margins. The current quarter EBITDA contained foreign exchange gain of Rs120 mn.

Outstanding order backlog at end of 1Q stood at Rs33 bn, up from Rs30 bn reported at start of the year. We expect Powergrid Corporation to continue to build capacities over the next 3-5 years, thereby increasing business for incumbents, including KEC.

We raise FY2008E and FY2009E earnings estimates by ~20%. We now expect better margins for FY2008E (11.9% versus 11.4% earlier) following continued management confidence on achieving better margins. We have also increased interest expense following higher-than-expected interest expense in 1Q (follows from higher lending rates).

We raise target price to Rs725 (versus Rs595 earlier). We have moved to valuing Kec International at 35% discount to Kotak's Electrical Equipment coverage universe (comprises of BHEL, ABB, Siemens and Suzlon) from DCF-based valuation earlier. At our target price, the stock shall trade at 16X FY2009E price-to-earnings and 9.6X EV/EBITDA. Maintain Outperform rating on the stock.

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

	yoy			qoq			yoy		
	1Q 2008	1Q 2007	*(% chg)*	1Q 2008	4Q 2007	*(% chg)*	2008E	2007	*(% chg)*
Net sales	**5,116**	**4,124**	***24.1***	**5,116**	**6,409**	***(20.2)***	**25,809**	**20,932**	***23.3***
Total expenditure	(4,477)	(3,693)		(4,477)	(5,703)		(22,738)	(18,420)	
Raw materials	(2,244)	(1,306)		(2,244)	(3,117)		(11,883)	(9,293)	
Staff cost	(242)	(219)		(242)	(281)		(1,002)	(962)	
Other expenditure	(1,991)	(2,169)		(1,991)	(2,304)		(9,853)	(8,164)	
EBITDA	**639**	**430**	***48.5***	**639**	**707**	***(9.6)***	**3,071**	**2,513**	***22.2***
OPM (%)	**12.5**	**10.4**		**12.5**	**11.0**		**11.9**	**12.0**	
Other income	0	0		0	3		10	7	
Interest	(163)	(118)		(163)	(168)		(555)	(593)	
Depreciation	(88)	(88)		(88)	(80)		(350)	(334)	
Pretax profits	**388**	**224**	***73.0***	**388**	**461**	***(15.8)***	**2,177**	**1,593**	***36.7***
Extraordinaries	-	-		-	-		-	-	
Tax	(135)	(79)		(135)	(159)		(729)	(546)	
Deferred taxation	-	-		-	-		-	-	
Net income	**253**	**146**	***73.7***	**253**	**302**	***(16.2)***	**1,447**	**1,047**	***38.3***
Adjusted profits	**253**	**146**		**253**	**302**		**718**	**1,047**	
Income tax rate (%)	*34.8*	*35.1*		*34.8*	*34.5*		*33.5*	*34.3*	

Note:
(a) Previous year results are adjusted for scheme of arrangement.

Source: Company data, Kotak Institutional equities estimates

Kec International, SOTP-based valuation, March fiscal year-ends, 2009E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	EV (Rs mn)	Value (Rs/share)	Comments
Standalone power transmission business	3,218	9.6	30,748	816	Based on 35% discount to EECU [(a)]
13% stake in RPG transmission	-	-	426	11	Based on most recent market capitalization
Enterprise value	**-**	**-**	**31,175**	**827**	
Net debt	-	-	(3,781)	(100)	Based on current net debt
Market capitailzation	**-**	**-**	**27,394**	**727**	
Target price (Rs)				**725**	

Notes:
(a) EECU is Kotak's Electrical Equipment Coverage Universe, which comprises of BHEL, ABB, Siemens and Suzlon

Source: Kotak Institutional Equities estimates

Kec International, Income statement, March fiscal year-ends, 2005-10E (Rs mn)

	2006	2007E	2008E	2009E	2010E
Net revenues	**17,272**	**20,406**	**25,809**	**29,255**	**33,173**
Expenditure	**(15,650)**	**(17,888)**	**(22,738)**	**(26,037)**	**(29,756)**
Raw materials	(8,894)	(9,293)	(11,883)	(13,616)	(15,605)
Employee expenses	(838)	(955)	(1,002)	(1,053)	(1,105)
Other expenditure	(5,918)	(7,640)	(9,853)	(11,369)	(13,046)
EBITDA	**1,623**	**2,518**	**3,071**	**3,218**	**3,417**
Non-operating income	4	7	10	10	10
Depreciation	(269)	(334)	(350)	(368)	(386)
EBIT	1,357	2,191	2,731	2,860	3,040
Interest expenses	(593)	(593)	(555)	(291)	(85)
Adjusted pre-tax profits	765	1,599	2,177	2,569	2,955
Unusual or infrequent items	-	-	-	-	-
Reported pre-tax profits	**765**	**1,599**	**2,177**	**2,569**	**2,955**
Taxes	(272)	(552)	(729)	(861)	(990)
Reported net income	**493**	**1,046**	**1,447**	**1,708**	**1,965**
Adjusted net income	**493**	**1,046**	**1,447**	**1,708**	**1,965**
EPS (Rs), based on weighted average shares	13.1	27.8	38.4	45.3	52.1
EPS (Rs), based on fully diluted shares	**13.1**	**27.8**	**38.4**	**45.3**	**52.1**
Year-end shares outstanding (mn)	37.7	37.7	37.7	37.7	37.7
Weighted average shares outstanding (mn)	37.7	37.7	37.7	37.7	37.7
Fully diluted shares outstanding (mn)	37.7	37.7	37.7	37.7	37.7
Ratios (%)					
Effective tax rate	35.5	34.5	33.5	33.5	33.5
EBITDA margins	9.4	12.3	11.9	11.0	10.3
EBIT margins	7.9	10.7	10.6	9.8	9.2
DPS (Rs)					
Growth (%)					
Revenue	40.3	18.1	26.5	13.3	13.4
EBITDA	8.2	55.2	22.0	4.8	6.2
Adjusted net earnings	19.5	112.2	38.3	18.0	15.0
Fully diluted EPS	19.5	112.2	38.3	18.0	15.0

Source: Kotak Institutional Equities estimates

Kec International, Balance sheet, March fiscal year-ends, 2005-10E (Rs mn)

	2006	2007E	2008E	2009E	2010E
Equity capital	377	377	377	377	377
Reserves and surplus	1,365	2,213	3,411	4,869	6,584
Deferred tax liability	201	290	366	456	560
Total Equity	**1,943**	**2,880**	**4,154**	**5,702**	**7,521**
Secured loans	3,325	3,864	2,664	864	204
Unsecured loans	131	131	131	131	131
Total borrowings	**3,456**	**3,995**	**2,795**	**995**	**335**
Current liabilities	9,402	9,908	12,400	13,203	14,012
Total capital	**14,802**	**16,783**	**19,348**	**19,900**	**21,867**
Cash	636	214	527	350	1,154
Inventory	1,249	1,506	1,838	2,004	2,181
Debtors	6,803	9,041	10,960	11,622	12,724
Other current assets	1,619	1,717	1,717	1,717	1,717
Total current assets	**10,307**	**12,478**	**15,043**	**15,692**	**17,776**
Gross block	4,499	4,676	4,926	5,176	5,426
Less: Depreciation	(269)	(600)	(950)	(1,318)	(1,704)
Net block	4,230	4,076	3,976	3,858	3,722
Add: Capital work-in-process	60	23	23	23	23
Total fixed assets	**4,290**	**4,099**	**3,999**	**3,881**	**3,745**
Investments	205	206	306	326	346
Miscellaneous expenditure	-	-	-	-	-
Total assets	**14,802**	**16,783**	**19,348**	**19,900**	**21,867**
Ratios (%)					
Debt/equity	177.9	138.7	67.3	17.4	4.4
Debt/capitalization	64.0	58.1	40.2	14.9	4.3
Net debt/equity	145.1	131.3	54.6	11.3	(10.9)
Net debt/capitalization	59.2	56.8	35.3	10.2	(12.2)

Kec International, Cash flow statement, March fiscal year-ends, 2005-2010E (Rs mn)

	2006	2007	2008E	2009E	2010E
Operating					
Pre-tax profits and ex-od	765	1,599	2,177	2,569	2,955
Depreciation & amort	269	334	350	368	386
Taxes paid	(77)	(395)	(653)	(771)	(887)
Dividend and OI	(45)	(11)	-	-	-
Interest expense	637	603	555	291	85
Interest paid	(630)	(615)	(555)	(291)	(85)
FX (Gain) / loss	11	(136)	-	-	-
Ex-od (incl prior period)	0	0	-	-	-
Other non-cash items	-	-	-	-	-
WC changes	(404)	(2,213)	240	(24)	(471)
Cash flow from operations	**527**	**(834)**	**2,113**	**2,143**	**1,984**
Operating, excl. WC	**931**	**1,380**	**1,874**	**2,166**	**2,455**
Investing					
Capex	(376)	(112)	(250)	(250)	(250)
(Pur)/Sale of bussiness	-	-	-	-	-
(Pur)/Sale of invts	-	(1)	(100)	(20)	(20)
Advances to subsidiary	-	-	-	-	-
Interest/dividend recd	51	15	-	-	-
Cash flow from investing	**(325)**	**(98)**	**(350)**	**(270)**	**(270)**
Financing					
Equity capital issues	1	-	-	-	-
Net from borrowings	(1,226)	567	(1,200)	(1,800)	(660)
Effect of FX changes	-	-	-	-	-
Dividends paid (incl. tax)	-	(51)	(250)	(250)	(250)
Cash flow from financing	**(1,226)**	**516**	**(1,450)**	**(2,050)**	**(910)**
	-	-	-	-	-
Net chg in CCE	(1,024)	(416)	313	(177)	804
Beginning cash	1,654	630	214	527	350
+/- Adjustments	-	-	-	-	-
Ending cash	**630**	**214**	**527**	**350**	**1,154**

Banking

MMFS.BO, Rs250	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	265
52W High -Low (Rs)	299 - 195
Market Cap (Rs bn)	21.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	5.2	6.5	7.6
Net Profit (Rs bn)	1.3	1.6	1.9
EPS (Rs)	15.7	19.1	22.1
EPS gth	*25.5*	*21.3*	*16.2*
P/E (x)	15.9	13.1	11.3
P/B (x)	2.9	2.6	2.2
Div yield (%)	1.6	1.9	2.2

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	70.0	-	-
FIIs	23.6	0.1	0.1
MFs	0.6	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Mahindra & Mahindra Finance: Profit below estimates, higher NPL raises concern

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- **Net profit of Rs214 mn for 1QFY08 up 12% yoy**
- **Strong loan growth and stable margins, but high NPLs**
- **Revising estimates, downgrading to IL**

Mahindra and Mahindra financial services (MMFSL) reported net profit of Rs214 mn up12% yoy on the back of robust asset growth and stable margins. However, PBT adjusted for extraordinary expenses and securitization income fell 8% yoy due to higher provisions. A sharp jump in NPLs pulled down core performance. On positive front, the company reported stronger disbursements growth of 46% up from 21% in FY2007. We are revising down our earnings estimates by 3% for FY2008 to factor in higher provisions, but increasing this for FY2009 by 5% to factor in likely higher than expected margin due to stable interest rate environment. We retain our target price of Rs265 for MMFSL expecting limited upside in stock price compared to other banks and finance companies, thus downgrading the stock to IL. The stock trades at 11.3X PER and 2.2X PBR FY2009.

Disbursements growth strong: We expect MMFSL to report 30% and 23% disbursement growth in FY2008 and FY2009 respectively. The company has reported 46% disbursement growth in 1Q08 likely driven by tractor sales. We expect this to moderate to about 25% over the next nine months as poor monsoon may impact tractor sales in the coming months. While disbursements for UVs have increased by 22% yoy (11,000 vehicles in the 1Q08), cars have increased by 36% to 15,000 from 11,000 last year. The company has recently started CV financing for manufacturers other than Mahindra and Mahindra (M&M) and has disbursed close to Rs1.4 bn or 8% of total disbursements in this quarter. Tractor finance has increased to 10,000 vehicles in 1Q08 from 7,000 in 1Q07 (43% yoy growth) on the back of M&M acquisition of Punjab Tractors the second largest tractor manufacturer.

Higher penetration in M&M tractors is a cause of concern. While the parent company M&M reported sluggish 1-2% yoy growth in tractor sales in 1Q08, MMFSL's penetration in M&M's tractor sales has increased to 35% (not including sale of PTL tractors) from 28% in the past. MMFSL is a captive financier for M&M.

Increase in NPLs is a disappointing. MMFSL's NPL ratio has increased to 7.6% from 5.5% in March 2007 and 6.4% in June 2006. While the rise in NPLs is a seasonal trend, we are surprised with the quantum of rise (45%qoq, 54%yoy). Consequently, NPL provisions were up 103% yoy to Rs594 mn for 1Q07, 66% above our estimates. The company has recently absorbed 875 employees from an outsourcing company who were focused on recovery business. This will likely support the branch heads in improving collections. We are raising our estimates for (a) loan loss provisions to 2.6% and 2.5% of average net loans for FY2008 and FY2009 from 2.1% and 2% respectively (b) employee expenses by 7% and 10% in FY2008 and FY2009 respectively.

Capital adequacy reduces on the back of high growth. Tier I CAR has reduced to 8.7% from 11.3% in March 2007 due to increase in risk weighted assets. The company will likely raise capital by 4Q08 or in 1H09.

Mahindra Finance

(in Rs mn)	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)	1Q08E	Actual vs KS(%)
Total interest income	1,594	1,716	2,055	2,332	2,351	48	2,306	2
Total interest expense	676	751	856	958	1,032	53	1,115	(7)
Net interest income	**918**	**965**	**1,199**	**1,373**	**1,320**	**44**	**1,191**	**11**
Provisions and write/off	**292**	**271**	**415**	**245**	**594**	**103**	**358**	**66**
Net interest income (after prov.)	626	694	784	1,129	725	16	833	(13)
Other income	56	249	114	330	153	176	80	92
Income from securitization	-	166	82	290	95		40	138
Total income pre loan loss provision	681	1,214	1,313	1,703	1,473	116	913	61
Operating expenses	**415**	**456**	**511**	**572**	**556**	**34**	**559**	**(0)**
Employee expenses	167	153	154	173	181	9	225	(20)
Depreciation	15	15	16	29	21	43	30	(31)
Other expenses	234	288	342	370	355	52	304	17
Pretax income	**266**	**487**	**387**	**886**	**323**	**21**	**354**	**(9)**
Tax provisions	74	184	131	309	108	45	124	(13)
Net Profit	**192**	**303**	**256**	**577**	**214**	**12**	**230**	**(7)**
Tax rate	28	38	34	35	34		35	
PBT before securitisation income and provisions	**559**	**592**	**720**	**841**	**822**	**47**	**672**	**22**
PBT bef sec income post prov	**296**	**321**	**305**	**596**	**273**	**(8)**		

Other operational details	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)	1Q08E	Actual vs KS(%)
Disbursements (Rs bn)	10.90	6.70	12.14	24.7	15.9	46	12.5	15.0
Outstanding assets (Rs bn)	50.87	55.07	59.52	62.8	66.1	30		
Outstanding loans (Rs bn)	48.93	52.04	56.89	58.7	62.7	28	60	23
Loans securitised during the period (Rs mn)	-	1,676	1,131	3,363	1,000			
Total income/ average assets(%)	12.80	13.5		14.9	14.9			
Interest / average assets (%)	5.20	5.4		5.6	6.3			
Difference (%)	7.50	8.1		9.3	8.6			
Gross NPLs (Rs mn)	3,374	3,519	4,245	3,582	5,207			
Gross NPLS (%)	6.4	6.2	6.9	5.5	7.6			
NPAs (Rs mn)	1,708	1,917	2,305	2,034	2,518			
NPL ratio (%)	3.6	3.5	3.9	2.5	3.8			
CAR (%)	17.0	15.4	15.2	14.7	14.4			
Tier I (%)		12.4	11.8	11.3	8.7			
Exp/ Ave Assets (%)	3.2	3.2		3.4	3.5			
Incremental Borrowing cost (%)	8.5	8.5	8.5		9.5			

Balance sheet (Rs mn)	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)
Sharecapital	833	833	833	840	841	1
Reserves	6,172	6,452	6,708	6,929	7,146	16
ESOP	13	17	22	13	14	11
Total Borrowings	39,851	43,011	46,663	49,113	51,675	30
Current Liabilities	3,502	4,755	5,298	5,914	6,392	83
Provisions	491					
Total liabilities and shareholders funds	**50,862**	**55,068**	**59,524**	**62,809**	**66,068**	30
Loans & Avd	48,932	52,035	56,885	58,655	62,689	28
Investments	91	525	519	269	38	(58)
Deferred tax	485	517	561	745	808	67
Current Assets	1,115	1,745	1,298	2,867	2,242	101
Fixed assets	239	246	261	273	291	22
Total assets	**50,862**	**55,068**	**59,524**	**62,809**	**66,068**	30

Source: Company, Kotak Institutional Equities estimates.

Mahindra Finance

	Old estimates			New estimates			% change		
Rs mn	**FY08E**	**FY09E**	**FY10E**	**FY08E**	**FY09E**	**FY10E**	**FY08E**	**FY09E**	**FY10E**
Net interest income	5,738	6,781	7,808	6,155	7,622	8,859	7.3	12.4	13.5
Loan growth (%)	22	20	17	30	20	19			
NIM (%)	8.0	7.7	7.5	8.6	8.7	8.5			
NPL provisions	1,431	1,648	1,855	1,750	2,086	2,488	22.2	26.6	34.1
Other income	730	830	830	784	830	830	7.4	0.0	0.0
Securitization	700	800	800	700	800	800	0.0	0.0	0.0
Operating expenses	2,604	3,137	3,569	2,831	3,397	3,887	8.7	8.3	8.9
Employee	862	1,024	1,150	922	1,126	1,300	7.0	10.0	13.1
Others	1,742	2,113	2,419	1,909	2,271	2,587	9.5	7.5	6.9
PBT	2,432	2,826	3,214	2,358	2,969	3,314	(3.1)	5.0	3.1
Tax	832	967	1,099	806	1,015	1,133	(3.1)	5.0	3.1
PAT	1,600	1,860	2,114	1,552	1,953	2,181	(3.1)	5.0	3.1

Source: Kotak Institutional Equities estimates

Utilities

LAIN.BO, Rs234	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	252
52W High -Low (Rs)	276 - 137
Market Cap (Rs bn)	52.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	16.1	31.0	61.0
Net Profit (Rs bn)	1.9	3.4	6.8
EPS (Rs)	8.5	15.2	30.5
EPS gth	*61.3*	*93.1*	*117.9*
P/E (x)	27.6	15.4	7.7
EV/EBITDA (x)	16.2	15.5	9.8
Div yield (%)	-	-	-
#N/A ##	#N/A	#N/A	#N/A

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.0	-	-
FIIs	8.8	0.1	0.1
MFs	1.4	0.0	0.0
UTI	-	-	-
LIC	1.5	0.0	0.0

Lanco Infratech: Lanco's bid for Sasan UMPP void ab initio

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- **Lanco implementing Sasan UMPP ruled out.**
- **Decision on who will implement Sasan still pending - Reliance Energy was the next lowest bidder.**
- **Without Sasan, Lanco's attributable generation capacity to become 10X in four years.**
- **Retain In Line with target price of Rs252/share.**

The empowered group of ministers has ruled the bid of the Lanco consortium for Sasan UMPP 'void ab initio' (invalid from the outset). However, no decision has been taken on the future course of action to be taken for Sasan UMPP. Lanco's bid for the UMPP had been in controversy with the change in ownership of Globaleq (Singapore), which was the lead member of the bidding consortium. We note that our SOTP based target price of Rs252/share did not include any value for the Sasan UMPP and retain our Inline rating on the stock. Our target price of Rs252/share comprises Rs118/share from power projects (other than Sasan), Rs55/share from construction business, Rs75/share from real estate and Rs5/share as the likely value enhancement from the two BOOT road projects won by the company.

Lanco implementing Sasan UMPP ruled out. The empowered group of ministers has ruled the bid of the Lanco consortium for Sasan UMPP "void ab initio" (invalid from the outset). However, no decision has been taken on the future course of action to be taken for Sasan Power company. The decision of the empowered group of ministers does not mention the awarding of the project to the next best bidder Reliance Energy (REL) nor advices a re-bid for the project. Lanco along with its consortium partner Globaleq (Singapore) had earlier emerged as the lowest bidder with a levelized tariff bid of Rs1.196/ unit. Subsequently, Gloabaleq (Singapore) was acquired from its parent company (Golbaleq, UK) by Jindal Steel and Power Limited (JSPL) and Princeton Investments (the promoter company of Lanco Infratech). The change in composition of the original consortium partners put in question the validity of the bid, which has finally been ruled void by the empowered group of ministers.

Lanco Infratech set to increase its attributable generation capacity to 3,074 MW by end-FY2011 from the current 307 MW. We note that Lanco Infratech is implementing a portfolio of projects comprising thermal (imported and domestic coal) and hydro projects. Even without Sasan UMPP, Lanco Infratech's attributable generation capacity is set to become 10X over the next four years.

Forecasts and valuations

	Revenues (Rs mn)	Gth (%)	EBITDA (Rs mn)	Gth (%)	Net profit (Rs mn)	EPS (Rs)	ROCE (%)	ROE (%)
2006	1,471	(20.0)	167	3.7	171	5.6	7.8	19.7
2007	16,058	991.6	4,198	2,407	1,881	8.5	20.5	23.4
2008E	31,011	93.1	7,226	72.1	3,383	15.2	10.6	20.1
2009E	61,011	96.7	15,588	115.7	6,791	30.5	11.9	31.0
2010E	95,768	57.0	30,297	94.4	13,714	61.7	17.1	42.6
2011E	104,517	9.1	36,549	20.6	13,071	58.8	16.5	28.7

Note: Financials of power projects have been consolidated from FY2007E onwards after the restructuring of the group holding structure.

Source: Company data, Kotak Institutional Equities estimates.

SOTP value of Rs252/share

	Explicit forecast (PPA period)		PV of terminal value		Total value	Equity Inv.		Cash & cash eqv.	Attributable value		
	DCFe (Rs mn)	No. of years	(Rs mn)	Contr. (%)	(Rs mn)	(Rs mn)	(X) BV		(%)	(Rs mn)	(Rs/share)
Operating power plants											
Lanco Kondapalli	5,485	10	2,082	28	7,567	3,400	2.2	2,473	59.0	5,924	
Aban Power	1,889	15	272	13	2,161	1,318	1.6	895	51.0	1,559	
Clarion Power	200	18	0	0	200	224	0.9	71	97.0	263	
Rithwik Power	129	17	0	0	129	90	1.4	22	89.0	134	
Lanco Electric Utility (Power trading)	253	14	264	51	517	212	2.4		99.8	516	
Power plants under construction											
Lanco Amarkantak	9,465	25	572	6	10,037	5,260	1.9		76.0	7,628	
Lanco Green	1,392	40	0	0	1,392	838	1.7		90.0	1,253	
Vamshi Hydro	426	35	0	0	426	139	3.1		91.1	388	
Vamshi Industrial	393	35	0	0	393	145	2.7		91.1	358	
Nagarjuna Power	11,476	25	854	7	12,330	8,708	1.4		74.0	9,124	
Lanco Energy - Teesta VI	14,849	35	0	0	14,849	5,900	2.5		74.0	10,988	
Power plants yet to achieve financial closure											
Lanco Hydro (Uttaranchal)	2,396	35	0	0	2,396	1,440	1.7		91.1	2,183	
Anpara 'C'	7,497	25	647	8	8,144	8,000	1.0		100.0	8,144	
Sub total	**55,850**		**4,690**	**8**	**60,540**	**35,675**	**1.7**			**48,461**	
17% lost as dividend distribution tax on consolidation										(8,238)	
Net equity funding requirement										(13,880)	
Power (A)										**26,343**	**118**
Construction (B)										**12,123**	**55**
Property development										19,997	
17% lost as dividend distribution tax on consolidation										(3,399)	
Property development (C)										**16,597**	**75**
Road projects (D)										**1,006**	**5**
Grand Total (A+B+C+D)										**56,068**	**252**

Source: Kotak Institutional Equities estimates.

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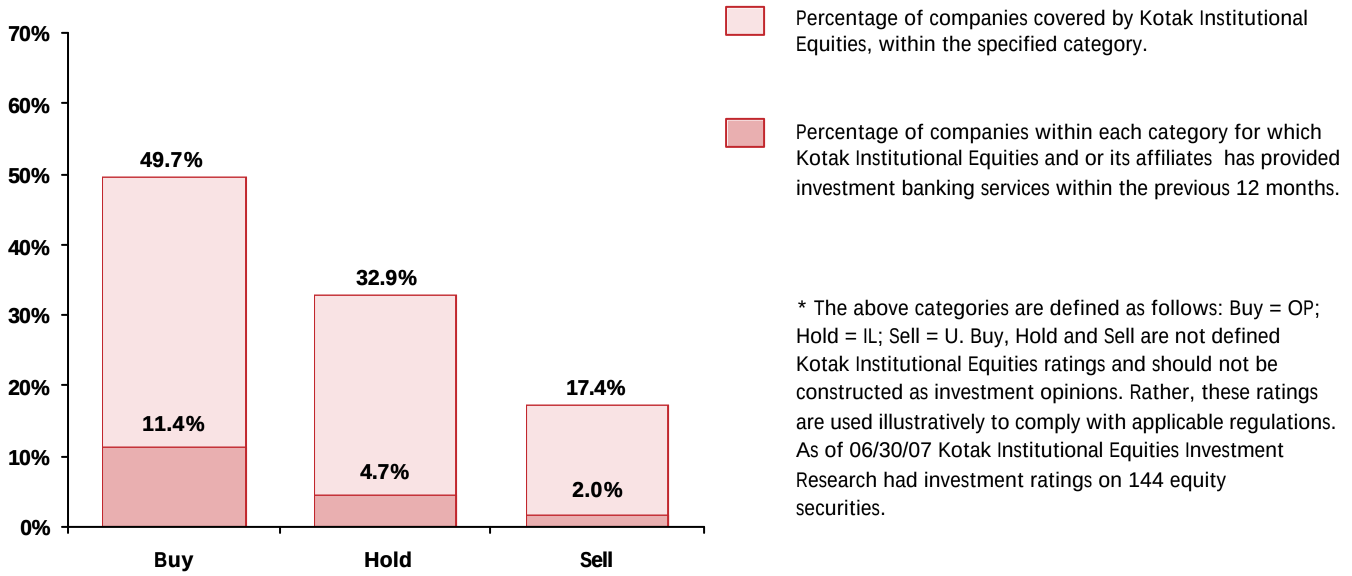

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Source: Kotak Institutional Equities. As of June 30, 2007

Ratings and other definitions/identifiers

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