kotak® Institutional Equities

INDIA DAILY

April 27, 2007

EQUITY MARKETS

India	26-Apr	1-day	1-mo	3-mo
		Change, %		
Sensex	14,229	0.1	8.4	(0.4)
Nifty	4,178	0.3	9.4	0.7
Global/Regional indices				
Dow Jones	13,106	0.1	5.7	5.0
Nasdaq Composite	2,554	0.3	4.8	4.9
FTSE	6,469	0.1	2.8	3.9
Nikkie	17,360	(0.4)	(0.0)	(0.4)
Hang Seng	20,527	(0.7)	4.2	1.2
KOSPI	1,542	(0.7)	6.1	12.4

Value traded - India

	26-Apr		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	168.5		120.0	125.8
Derivatives (NSE)	552.0		344.5	538.1
Deri. open interest	639.5		592.5	684.3

Forex/money market

	26-Apr	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.9	-	(242)	(335)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	6	6	16

Net investment (US$mn)

	25-Apr		MTD	CYTD
FIIs	218		1,289	40
MFs	63		221	(303)

Top movers -3mo basis

Best performers	26-Apr	1-day	1-mo	3-mo
		Change, %		
Balaji Telefilms	165	(2.2)	33.6	35.8
i-Flex	2,479	3.4	24.2	25.0
Tata Tele	27	-	25.9	21.1
Wockhardt	429	0.2	15.0	20.5
Punjab Tractors	303	1.1	(0.1)	20.2
Worst performers				
Arvind Mills	44	(1.2)	(1.9)	(25.1)
Ingersoll Rand	289	(1.1)	2.6	(23.4)
Acc	831	(0.2)	13.1	(20.2)
Tvs Motor	63	2.8	0.9	(19.3)
Ashok Leyland	39	(1.1)	(4.0)	(17.6)

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News Roundup

Corporate

- Reliance Industries (RIL) has recorded a net profit of Rs 28.53 bn for 4QFY07 on higher refining margins. The net profit was just 2% higher than the third quarter but 14% higher than the corresponding period of FY2006. (ET)
- Carrefour, the world's second largest retailer, has postponed its India plans indefinitely in the wake of rising political opposition to the entry of transnational retailers in India.(ET)
- As many as 44 wind turbines operated by Suzlon in Sangli district in Maharashtra have been shut down following protests from local residents. (BL)

Economic and political

- The unexpectedly sharp rise in the rupee has helped India become the 12th trillion dollar economy. (BS)

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

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Strategy

Sector coverage view	N/A

KS-Ownership Navigator, March 2007 quarter changes (qoq)

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- **FIIs divest Rs34 bn in March 2007 quarter; sell Industrials, Chemicals and Energy**
- **Banking and Technology stocks continue to weight heavily in FII portfolio.**
- **MFs divested Rs15 bn in March 2007 quarter; sell Banking and Cement**

KS-Ownership Navigator, March 2007 quarter changes (qoq). The March'07 quarter witnessed selling by all institutions except LIC. FIIs sold Industrials and Chemicals while bought Banking and Metals. MFs heavily sold Banking and Cement. LIC invested in Cement, Energy and reduced exposure to Technology and Media. UTI continued to remain a net seller, reducing its exposure to Banking.

FIIs divest Rs34 bn in the March 2007 quarter

- FIIs sell Industrials, Chemicals & Energy; buy Banking, Metals
- Mutual Funds (MFs) sell Banking, Cement
- UTI continued to remain net seller; reduces exposure to Banking
- LIC buys Cement, Energy, sells Technology, Media

Key stock changes ' FIIs buy ICICI Bank

- FIIs sell BHEL, Reliance Industries, ONGC
- MFs buy TCS, Siemens, Reliance Industries; sell SBI, ICICI Bank
- LIC buys ACC, Siemens; sells Bharti Airtel

Overweight/Underweight companies

- FIIs are overweight Banking, Technology, underweight Energy, Metals
- MFs are overweight Industrials and Banking, underweight Utilities, Technology

Limitations of our analyses

- Assumption: BSE-200 is the primary investable universe for institutions
- LIC and UTI portfolios comprise stocks with more than 1% holdings
- Unless otherwise specified, analysis in this report is with respect to BSE-200

Chemicals

RELI.BO, Rs1597	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	1,375
52W High -Low (Rs)	1625 - 806
Market Cap (Rs bn)	2,225

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1,052	979	1,148
Net Profit (Rs bn)	107.3	101.9	138.9
EPS (Rs)	77.0	73.2	95.6
EPS gth	*22.0*	*(5.0)*	*30.7*
P/E (x)	20.7	21.8	16.7
EV/EBITDA (x)	12.4	13.4	9.8
Div yield (%)	0.7	0.8	0.9

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.1	-	-
FIIs	23.5	6.6	0.5
MFs	2.3	4.0	(2.1)
UTI	-	-	(6.1)
LIC	4.5	7.1	1.0

Reliance Industries: 4QFY07 results: A negative (versus expectation) and positive (close for a change) surprise

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- **4QFY07 net income at Rs28.5 bn in line with our Rs29 bn expectation**
- **Maintained FY2008E estimate on higher refining margins, stronger rupee, weaker chemical margins; increased FY2009E on consolidation with RPL**
- **Tough to justify valuations despite a lot of effort**

Reliance Industries reported 4QFY07 net income at Rs28.5 bn (+2% qoq and +16% yoy) surprisingly close to our Rs29 bn estimate. Refining margins improved qoq but chemical margins declined moderately. FY2007 net income is Rs110 bn and EPS Rs78 (+20% yoy). We have (1) maintained FY2008E EPS at Rs73 with higher refining margins compensating for a stronger rupee and weaker chemical margins, (2) raised FY2009E EPS to Rs96 (Rs76 previously) but this includes contribution from RPL and (3) revised FY2010E EPS to Rs150 (Rs141 previously). We find it tough to justify Reliance's current valuation without (1) factoring in more oil and gas reserves, which presumably the street is doing or (2) assuming higher multiples for extant businesses; the latter seems difficult given near-peak cycle margins and earnings. Our revised 12-month target price is Rs1,350 versus Rs1,270 previously; since we are already using FY2010E EPS, there is limited scope to stretch our target price without new information on reserves. Key upside risk is higher-than-assumed reserves, profitability.

Valuation roadblock. Despite our reasonably aggressive view of Reliance's long-term earnings and positive view on fundamentals, we find it very tough to justify Reliance's current valuations; its market capitalization has increased US$10 bn since April 2, 2007 incidentally. Exhibit 1 gives our valuation model for Reliance. We use our FY2010E EPS (Rs150 on reported basis including contribution from RPL, KG D-6 oil and gas; Rs169 on adjusted basis removing treasury shares) as a starting point and use a 9X P/E multiple for the same. We believe a 9X P/E multiple is reasonable in the context of 12%-13% cost of equity and zero growth (ex-growth basis) for the underlying earnings; to some extent, we may be generous in using P/E multiple as it assumes gas production and same level of earnings in perpetuity; gas profit will decline after a few years due to the terms of the PSC. Reliance's overall earnings may (in fact, will) grow after FY2010E but we believe 9X is a good multiple for peak (FY2010E) earnings corresponding to the businesses being valued. FY2010E earnings reflect (1) high refining margins, (2) above-mid cycle chemical margins, (3) full capacity of RPL and KG-DWN-98/3 block (based on known volumes) and (4) zero taxation for several businesses (RPL, gas production), which will increase in the future. We add value of investments (once IPCL merges with RIL, its earnings and equity dilution will also reflect in the numbers) and retailing. We do not ascribe any value for SEZ development at this early juncture.

Earnings revisions

FY2008—maintained earnings on higher refining margins, stronger rupee, weaker chemical margins. We have maintained our FY2008E EPS at Rs73.2 with moderately higher refining margins compensating for a stronger rupee (Rs44 versus Rs44.5 previously) and modestly lower chemical margins. The modest decline in earnings yoy reflects (1) stronger rupee (Rs44 versus Rs45.3 in FY2007), (2) lower chemical margins, and (3) moderately higher tax (19% versus 17.4% in FY2007), which erode the positive impact of higher refining margins (US$12.1/bbl against US$11.7/bbl in FY2007).

As a result of the conversion of the refinery to an export oriented (EOU), we assume Reliance will export the bulk of the production volumes of diesel and gasoline. We assume it will use propylene, naphtha in the chemical segment and sell the bulk of LPG, petroleum coke, PX and PP in India. Exhibit 2 gives Reliance's key financials and Exhibit 3 gives a sensitivity of its earnings to key variables (refining margin, chemical prices and rupee-dollar rate).

FY2009—growth from gas, RPL. We model FY2009E EPS at Rs96 (Rs76 previously). Our earnings estimate is consolidated for RPL; we model 6 mn tonnes of throughput in FY2009 for RPL's refinery versus zero previously. Also, we assume 20 mcm/d of effective gas production. FY2009 is a transition year for Reliance and the earnings number will depend on the amount of gas production (depending on timing of completion of KG D-6 upstream project) and timing of start of RPL refinery. As such, we do not use FY2009 to value Reliance stock. Also, the price of gas sold by Reliance will impact FY2009E EPS; Reliance is currently in talks with potential consumers and will finalize prices over the next few months.

We expect chemical margins to further decline in FY2009 versus FY2008 led by new plant capacities globally. We model FY2009 refining margin at US$11.5/bbl, a modest decline versus 12.1/bbl in FY2008. We expect a significant increase in global refining capacity starting from CY2009.

FY2010—everybody's already here perhaps. We have raised FY2010E EPS (consolidated for RPL) to Rs150 from Rs141 previously to reflect (1) moderately higher refining margins for Reliance's extant refinery (higher duty drawback on certain export products); and (2) other minor changes. We model refining margin at US$11/bbl for Reliance's refinery and US$13.2/bbl for RPL's refinery.

Details of 4QFY07 and FY2007 results

Exhibit 4 gives details of quarterly and full year results. We discuss 4QFY07 and FY2007 results below but admit that we do not have full explanations for certain aspects of Reliance's previous quarterly results. These relate to (1) movement in Reliance's refining margins at variance with global trends in certain quarters, (2) movement in chemical prices at variance with company-provided/domestic prices and (3) aggressive accounting in certain cases (forex, E&P [full cost versus successful efforts]).

We believe the street has the biggest issue with its refining margins, which is the largest variable for its earnings currently. Reliance management has offered explanations for its trend-defying refining margins in previous quarters; for whatever reasons, every quarter from 4QFY06 has been a positive surprise, which suggests the street is yet to fully appreciate the complexity of Reliance's refinery. We believe the best way to deal with skepticism about this would be to share the refinery's product slate and crude mix for a certain period; the management does not need to do on grounds of business competitiveness but it would be nice if it could, in our view.

EBITDA. Reliance's 4QFY07 EBITDA was Rs47 bn versus Rs47.1 bn in 3QFY07 and Rs40.5 bn in 4QFY06. The strong yoy improvement reflects higher refining margins primarily with refining margin rising US$2.7/bbl yoy and chemical contribution increasing modestly led by higher volumes. On qoq basis, refining margins improved by US$1.3/bbl and compensated for the decline in chemical segment EBITDA.

Taxation. Reliance's 4QFY07 effective tax rate was 18.1% while effective tax rate for FY2007 was 17.9% compared to 15.3% in FY2006. Reliance's taxation rate for FY2008 and FY2009 will depend on the amount of exports from its newly-converted EOU refinery; there is no income tax on exports or import duty on crude oil (otherwise 5.15%) used for producing refined products, which are exported. We model effective tax rate of 19% for FY2008, 15.3% for FY2009 and 15.1% for FY2010. We note that profits form RPL will be completely income-tax exempt (no MAT also).

Segment results

Chemicals segment—19% qoq decline in 4QFY07 EBIT. Reliance's 4QFY07 EBIT declined to Rs11.4 bn compared to Rs14.1 bn in 3QFY07 due to weaker chemical margins. On yoy basis, chemical segment is moderately up versus Rs10.6 bn in 4QFY06. FY2007 chemical segment EBIT is Rs54 bn (+26% yoy).

Refining and marketing segment—improvement qoq. Reliance's 4QFY07 EBIT improved to Rs22.8 bn from Rs19.3 bn in 3QFY07 led by higher refining margins at US$13/bbl compared to US$11.7/bbl in 3QFY07. FY2007 EBIT and refining margin are Rs77.3 bn and US$11.7/bbl, respectively compared to Rs59.2 bn and US$10.3/bbl, respectively in FY2006. It processed 8.1 mn tonnes of crude in 4QFY07 compared to 7.9 mn tonnes in 3QFY07 and 7.9 mn tonnes in 4QFY06.

Reliance Petroleum's 540,000 bpd refinery is due for completion by December 2008 and the management has maintained the previous-stated schedule in its press release. As per the management, the project is about 50% complete. Basic engineering is 100% complete, detailed engineering 80% and most of the long-lead items have been ordered.

Reliance added 46 auto fuel outlets in 4QFY07 taking the end-FY2007 figure to 1,385. It has also started selling ATF through five stations in five airports and is looking at setting up stations in 12 more.

E&P—update on KG D-6 block. Reliance management remains confident about a 2HFY09 start of gas production from its KG-D6 block. We model gas production at 20 mcm/d for FY2009E, 60 mcm/d for FY2010E and 80 mcm/d for FY2011E and the next few years. In case of the MA (oil) development, the company is talking to FPSO suppliers/ operators for acquiring a FPSO for a fast-track development and production (early CY2008). We model 30,000 b/d of oil production in FY2009E and 40,000 b/d in FY2010E; Reliance's share is 90%.

Reliance has added 350 mn boe of oil and gas reserves in FY2007 and 172 mn boe in 4QFY07. On NEC-25 block, the company guided that the block is still in an exploration phase and Reliance will look at development if it is establishes more reserves. It stated that there may be reserves at greater depths but these need to be verified. On MN-DWN-2003/ 1 block (D4) block, the management said that is interpreting seismic data and expects to commence drilling only by end-CY2008.

Update on retailing. Reliance had 96 stores at end-FY2007 with a total retailing area of 0.5 mn sq. ft. These are small-format F&B stores. Reliance has 135 F&B stores (0.37 mn sq. ft area) currently. The start of a 20,000 sq. ft consumer durables and IT store marks its entry into another format. We value the retailing business at US$3.75 bn (Rs112/share); Reliance has invested Rs40 bn as equity in Reliance Retail as of March 31, 2007.

12-month target price is Rs1,375
Valuation of Reliance stock on SOTP (Rs)

	FY2010E EPS (Rs)	P/E (X)	Valuation (Rs/share)	Comments
Chemicals, refining, E&P (a) (b)	169	9	1,521	Consolidated FY2010E EPS including Reliance Petroleum
E&P (higher reserves in KG-DWN-98/3)			—	We model 17 tcf of gas production rom KG-DWN-98/3 block
E&P (NEC-25, CBM)			44	Based on KG D-6 reserves and valuation
Investments			148	
IPCL and other investments			36	
Retailing			112	US$3.75 bn valuation; ~US$1 bn equity invested in Reliance Retail as of end-FY2007
SEZ development			—	SEZs will require investment for the first few years
Valuation using FY2010E EPS			**1,713**	
12-month forward valuation			**1,367**	**12.5% discount rate; discounted to April 2008**

Notes:
(a) FY2010E EPS is Rs150 on 1.513 bn shares without considering merger of IPCL but conversion of 120 mn warrants.
(b) FY2010E EPS is adjusted for treasury shares or computed using 1.343 bn shares.
(c) Number of shares outstanding after merger of IPCL will be 1.57 bn including 199 mn treasury shares.

Source: Kotak Institutional Equities estimates.

Reliance Industries consolidated with Reliance Petroleum: Profit model, balance sheet, cash model 2003-2010E, March fiscal year-ends (Rs mn)

	2003	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)								
Net sales	451,133	510,715	656,223	809,113	1,051,630	978,886	1,147,545	1,701,435
EBITDA	**75,808**	**91,148**	**123,820**	**139,991**	**180,100**	**172,356**	**225,447**	**345,475**
Other income	10,012	11,381	14,498	6,829	1,930	2,000	2,000	4,000
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(11,140)	(6,961)	(6,983)	(4,512)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(40,090)	(41,555)	(56,390)	(77,491)
Pretax profits	41,897	55,711	86,397	104,041	130,800	125,840	164,074	267,472
Extraordinary items	7,845	7,300	4,290	3,000	2,000	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(15,210)	(29,291)	(31,485)	(36,657)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(8,510)	5,370	6,345	(3,757)
Minority interest	—	—	—	—	—	—	—	—
Net profits	41,043	51,601	75,717	90,693	109,080	101,919	138,933	227,058
Adjusted Net profits	**33,586**	**44,708**	**71,760**	**87,954**	**107,309**	**101,919**	**138,933**	**227,058**
Earnings per share (Rs)	**24.1**	**32.0**	**51.4**	**63.1**	**77.0**	**73.2**	**95.6**	**150.1**
Balance sheet (Rs mn)								
Total equity	303,744	344,525	404,033	498,043	657,097	739,457	1,006,792	1,194,902
Deferred taxation liability	26,848	34,748	42,668	49,708	58,218	52,848	46,503	50,260
Minority interest	—	—	—	—	16,875	16,875	16,875	16,875
Total borrowings	197,583	209,447	187,846	218,656	144,918	223,533	111,820	27,739
Currrent liabilities	109,666	122,855	171,315	164,545	196,624	195,367	217,299	302,269
Total liabilities and equity	**637,842**	**711,574**	**805,863**	**930,952**	**1,073,732**	**1,228,080**	**1,399,289**	**1,592,046**
Cash	1,472	2,242	36,087	21,461	10,913	11,155	9,036	127,982
Current assets	227,809	218,159	248,438	224,283	269,355	260,313	285,010	379,110
Goodwill								
Total fixed assets	340,863	351,460	350,823	626,745	695,001	858,151	1,006,781	986,492
Investments	67,227	139,714	170,515	58,462	98,462	98,462	98,462	98,462
Total assets	**637,370**	**711,574**	**805,863**	**930,952**	**1,073,732**	**1,228,080**	**1,399,289**	**1,592,046**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capita	67,072	83,301	107,002	119,520	154,367	130,755	182,946	303,820
Working capital	(17,614)	20,265	46,875	(32,188)	(12,994)	7,785	(2,765)	(9,130)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(108,407)	(198,724)	(200,988)	(56,716)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(40,000)	—	—	—
Other income	5,219	5,902	3,032	5,159	1,930	2,000	2,000	4,000
Free cash flow	**(25,180)**	**(8,204)**	**92,903**	**(4,563)**	**(5,103)**	**(58,183)**	**(18,807)**	**241,974**
Ratios (%)								
Debt/equity	59.8	55.2	42.1	39.9	20.3	28.2	10.6	2.2
Net debt/equity	59.3	54.6	34.0	36.0	18.7	26.8	9.8	(8.1)
RoAE	9.7	11.5	16.0	16.8	16.5	13.2	14.8	19.5
RoACE	**10.1**	**11.1**	**14.4**	**14.2**	**15.1**	**10.7**	**12.5**	**19.0**

Source: Kotak Institutional Equities estimates.

Reliance has high leverage to refining margins
Sensitivy of RIL's earnings to key variables

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	43.0	44.0	45.0	43.0	44.0	45.0	43.0	44.0	45.0
Net profits (Rs mn)	97,659	101,919	106,179	133,580	138,933	144,286	219,449	227,058	234,667
EPS (Rs)	70.1	73.2	76.2	91.9	95.6	99.3	145.0	150.1	155.1
% upside/(downside)	**(4.2)**		**4.2**	**(3.9)**		**3.9**	**(3.4)**		**3.4**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	98,415	101,919	105,423	135,688	138,933	142,179	224,092	227,058	230,023
EPS (Rs)	70.6	73.2	75.7	93.4	95.6	97.8	148.1	150.1	152.0
% upside/(downside)	**(3.4)**		**3.4**	**(2.3)**		**2.3**	**(1.3)**		**1.3**
Refining margins (US$/bbl)									
Margins (US$/bbl)	11.1	12.1	13.1	10.5	11.5	12.5	10.0	11.0	12.0
Net profits (Rs mn)	92,821	101,919	111,017	127,976	138,933	149,890	211,402	227,058	242,713
EPS (Rs)	66.6	73.2	79.7	88.1	95.6	103.1	139.7	150.1	160.4
% upside/(downside)	**(8.9)**		**8.9**	**(7.9)**		**7.9**	**(6.9)**		**6.9**

Source: Kotak Institutional Equities estimates.

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

		qoq			yoy			yoy		
	2008E	4Q 2007	3Q 2007	(% chg)	4Q 2007	4Q 2006	(% chg)	2007	2006	(% chg)
Net sales	**978,886**	**258,950**	**264,720**	***(2.2)***	**258,950**	**244,920**	***5.7***	**1,051,630**	**809,110**	***30.0***
Total expenditure	(806,530)	(211,960)	(217,630)	*(2.6)*	(211,960)	(204,960)	*3.4*	(871,530)	(669,120)	*30.3*
Inc/(Dec) in stock	—	2,430	(7,730)	*(131.4)*	2,430	(9,630)	*(125.2)*	9,700	21,310	*(54.5)*
Raw materials	(732,370)	(186,960)	(186,560)	*0.2*	(186,960)	(162,160)	*15.3*	(778,890)	(583,430)	*33.5*
Staff cost	(12,868)	(3,090)	(2,860)	*8.0*	(3,090)	(2,150)	*43.7*	(11,970)	(9,780)	*22.4*
Other expenditure	(61,292)	(24,340)	(20,480)	*18.8*	(24,340)	(31,020)	*(21.5)*	(90,370)	(97,220)	*(7.0)*
EBITDA	**172,356**	**46,990**	**47,090**	***(0.2)***	**46,990**	**39,960**	***17.6***	**180,100**	**139,990**	***28.7***
OPM (%)	**17.6**	**18.1**	**17.8**		**18.1**	**16.3**		**17.1**	**17.3**	
Other income	2,000	850	420	*102.4*	850	870	*(2.3)*	1,930	6,830	*(71.7)*
Interest	(6,961)	(2,770)	(2,930)	*(5.5)*	(2,770)	(2,250)	*23.1*	(11,140)	(8,770)	*27.0*
Depreciation	(41,555)	(10,220)	(10,620)	*(3.8)*	(10,220)	(9,820)	*4.1*	(40,090)	(34,010)	*17.9*
Pretax profits	**125,840**	**34,850**	**33,960**	***2.6***	**34,850**	**28,760**	***21.2***	**130,800**	**104,040**	***25.7***
Extraordinaries/sales tax benefit	—	—	—		—	500		2,000	3,000	
Tax	(29,291)	(3,960)	(3,920)	*1.0*	(3,960)	(2,480)	*59.7*	(15,210)	(9,310)	*63.4*
Deferred taxation	5,370	(2,360)	(2,050)	*15.1*	(2,360)	(1,760)	*34.1*	(8,510)	(7,040)	*20.9*
Net income	**101,919**	**28,530**	**27,990**	***1.9***	**28,530**	**25,020**	***14.0***	**109,080**	**90,690**	***20.3***
Adjusted profits	**101,919**	**28,530**	**27,990**	***1.9***	**28,530**	**24,520**	***16.4***	**107,080**	**87,690**	***22.1***
Income tax rate (%)	19.0	18.1	17.6		18.1	14.5		17.9	15.3	
Chemicals production										
Polymer volumes ('000 tonnes)		542	567	*(4)*	542	492	*10*	2,141	1,845	*16*
Polyester volumes ('000 tonnes)		367	389	*(6)*	367	296	*24*	1,482	1,129	*31*
Fiber intermediates ('000 tonnes)		1,123	1,007	*12*	1,123	900	*25*	4,073	3,220	*26*
Refining										
Crude throughput (mn tonnes)		8.1	7.9	*2.5*	8.1	7.9	*2.9*	31.7	30.5	*4.0*
Refining margin (US$/bbl) incl. sales tax incentives		**13.0**	**11.7**	*11.1*	13.0	10.3	*26.2*	11.7	10.3	*13.6*
Average exchange rate		45.1	45.0	*0.2*	45.1	44.4	*1.5*	45.3	44.3	*2.2*
E&P										
Crude oil production (000 tonnes)		148	158	*(6.2)*	148	130	*13.9*	547	471	*16.1*
Gas production (bcf)		12	11	*8.6*	12	9	*27.5*	40	38	*6.7*

Segment results of Reliance Industries

	qoq			yoy			yoy		
	4Q 2007	3Q 2007	(% chg)	4Q 2007	4Q 2006	(% chg)	2007	2006	(% chg)
Revenues									
Petrochemicals	106,700	108,950	*(2.1)*	106,700	106,080	*0.6*	422,260	328,020	*28.7*
Refining	210,690	208,700	*1.0*	210,690	212,480	*(0.8)*	860,090	711,170	*20.9*
Others	6,610	6,340	*4.3*	6,610	5,220	*26.6*	23,800	18,730	*27.1*
Gross turnover	324,000	323,990	*0.0*	324,000	323,780	*0.1*	1,306,150	1,057,920	*23.5*
Inter segment	50,010	46,280	*8.1*	50,010	41,160	*21.5*	197,290	148,540	*32.8*
Excise duty	15,040	12,990	*15.8*	15,040	19,060	*(21.1)*	55,230	79,130	*(30.2)*
Net sales	**258,950**	**264,720**	***(2.2)***	**258,950**	**263,560**	***(1.7)***	**1,053,630**	**830,250**	***26.9***
EBIT									
Petrochemicals	11,370	14,070	*(19.2)*	11,370	14,880	*(23.6)*	53,950	47,130	*14.5*
Refining	22,770	19,250	*18.3*	22,770	17,410	*30.8*	77,260	59,160	*30.6*
Others	3,220	3,640	*(11.5)*	3,220	3,260	*(1.2)*	13,350	11,120	*20.1*
Total	**37,360**	**36,960**	***1.1***	**37,360**	**35,550**	***5.1***	**144,560**	**117,410**	***23.1***
Interest expense	(2,770)	(2,930)	*(5.5)*	(2,770)	(2,830)	*(2.1)*	(11,140)	(9,350)	*19.1*
Interest income	480	260	*84.6*	480	880	*(45.5)*	1,080	4,920	*(78.0)*
Other unallocable (net)	(220)	(330)	*(33.3)*	(220)	(1,100)	*(80.0)*	(1,700)	(2,700)	*(37.0)*
PBT	**34,850**	**33,960**	***2.6***	**34,850**	**32,500**	***7.2***	**132,800**	**110,280**	***20.4***
Current tax	(3,960)	(3,920)	*1.0*	(3,960)	(2,430)	*63.0*	(15,210)	(9,260)	*64.3*
Deferred tax	(2,360)	(2,050)	*15.1*	(2,360)	(1,760)	*34.1*	(8,510)	(7,040)	*20.9*
PAT	**28,530**	**27,990**	***1.9***	**28,530**	**28,310**	***0.8***	**109,080**	**93,980**	***16.1***
Capital employed									
Petrochemicals	278,050	273,720	*1.6*	278,050	310,390	*(10.4)*	278,050	310,390	*(10.4)*
Refining	395,370	403,690	*(2.1)*	395,370	356,880	*10.8*	395,370	356,880	*10.8*
Others	148,790	89,510	*66.2*	148,790	65,020	*128.8*	148,790	65,020	*128.8*
Unallocated corporate	76,830	77,820	*(1.3)*	76,830	65,700	*16.9*	76,830	65,700	*16.9*
Total	**899,040**	**844,740**	***6.4***	**899,040**	**797,990**	***12.7***	**899,040**	**797,990**	***12.7***

Note:
(a) 4QFY06 and FY2006 segment results are on consolidated basis and not comparable.

Source: Company data, Kotak Institutional Equities.

Metals

HZNC.BO, Rs668	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	725
52W High -Low (Rs)	2817 - 1151
Market Cap (Rs bn)	282.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	85.6	82.9	80.4
Net Profit (Rs bn)	44.4	38.6	32.5
EPS (Rs)	105.1	91.2	76.9
EPS gth	*201.7*	*(13.2)*	*(15.8)*
P/E (x)	6.4	7.3	8.7
EV/EBITDA (x)	3.8	3.8	4.0
Div yield (%)	0.7	0.7	0.7

Hindustan Zinc: Lowering rating to In-Line due to weakening zinc fundamentals

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- **4Q net profit at Rs9.4 bn rises 17% yoy**
- **Zinc fundamentals weakening; we lower our FY2008 price assumption**
- **Lowering FY2008 & FY2009 EPS estimates 13% and 10% respectively**
- **Lowering rating to In-Line with a target price of Rs725**

Hindustan Zinc (HZL) reported 4Q net profit at Rs9.4 bn reflecting a 17% yoy growth and a 30% qoq decline. Lower LME zinc prices (20% down qoq) resulted in the qoq profit decline in 4Q. We lower our zinc price assumption for FY2008 to US$3,500/ton (US$3,750/ton previously) noting a weakening in zinc fundamentals in the last few months. We lower our EPS estimates for HZL 13% for FY2008 to Rs91.2 (Rs104.8 previously) and 10% for FY2009 to Rs76.9 (Rs85.4 previously). We lower our rating on the stock to In-Line (Outperform previously) with a revised target price of Rs725 (Rs900 previously).

Zinc fundamentals have weakened

We note that there has been a recent weakening of zinc market fundamentals on account of:

1. **Higher substitution of zinc:** The last few months has seen a steady increase in price related substitution of zinc. The die-casting industry in China has started using 'Galvalume' - a compound of aluminium (55%) and zinc (45%) instead of zinc. This has reduced zinc demand growth outlook in China.
2. **Rising Chinese zinc production:** China's zinc production has been steadily rising over the last few months with the result that the country has turned a net exporter of zinc. In 1QCY2007, China has exported 126,000 tons of zinc versus net imports of 41,000 tons in 1QCY2006. We note that China has thousands of small zinc mines making it difficult to track supply additions there.

This has resulted in a drop in zinc demand and an increase in zinc supply expectations for CY2007. We now expect the zinc market to move into surplus by end CY2007 and expect zinc prices to start weakening in the second half of FY2008. LME zinc prices have gone up 25% in the last two months and are currently at US$3,750/ton. We don't expect current prices to sustain for long and expect prices to weaken during FY2008. We lower our zinc price assumption for FY2008 to US$3,500/ton (US$3,750/ton previously). We maintain our view that large supply additions globally will result in a sharp drop in zinc prices in FY2009 and leave our zinc price assumption for FY2009 unchanged at US$2,500/ton.

We however note that delays in commissioning of new zinc mining capacity globally could potentially result in zinc prices averaging higher than our estimate of US$2,500/ton in FY2009. This scenario would result in our FY2009 EPS estimate having upside risk.

Lowering EPS estimates 13% for FY08 & 10% for FY09

We lower our EPS estimates for HZL 13% for FY2008 to Rs91.2 (Rs104.8 previously) and 10% for FY2009 to Rs76.9 (Rs85.4 previously). Our earnings revision also factors in a USD/INR rate of Rs44.0 for FY2008 (Rs45.0 previously) and Rs43.0 for FY2009 (Rs45.0 previously). The rupee is currently trading at Rs40.9 to the dollar. We note that if the rupee appreciates further, there would exist downside risk to our EPS estimates for Hindustan Zinc. Our revised estimates also factor in revenues from the company's wind energy division and slightly lower zinc production estimates over FY2008-09.

Lowering rating to In-Line with a target price of Rs725

We lower our rating on Hindustan Zinc to In-Line (Outperform previously). The stock has gone up 20% in the last month on the back of rising zinc prices. However, from current levels we expect the stock to provide market returns at best as zinc prices trend downward. Our revised target price for Hindustan Zinc is Rs725 (Rs900 previously) based on 4.5X FY2009 EV/EBITDA and 9.4X FY2009 P/E.

Key takeaways from 4Q results conference call:

1. Cost of production currently stands at US$600/ton. The company is targeting to bring this down further to US$500/ton in the next year.
2. The company has undertaken substantial exploration work to enhance reserves in its zinc mines. Based on the outcome of this exercise, the company plans to expand zinc smelting capacity to 1 mn tpa in coming years. This expansion would result in Hindustan Zinc becoming the largest zinc manufacturer in the world.
3. Sterlite's call option on the government of India's 30% stake in Hindustan Zinc has become active on April 11, 2007. Sterlite intends to exercise this option but no time-line has been provided for the same.

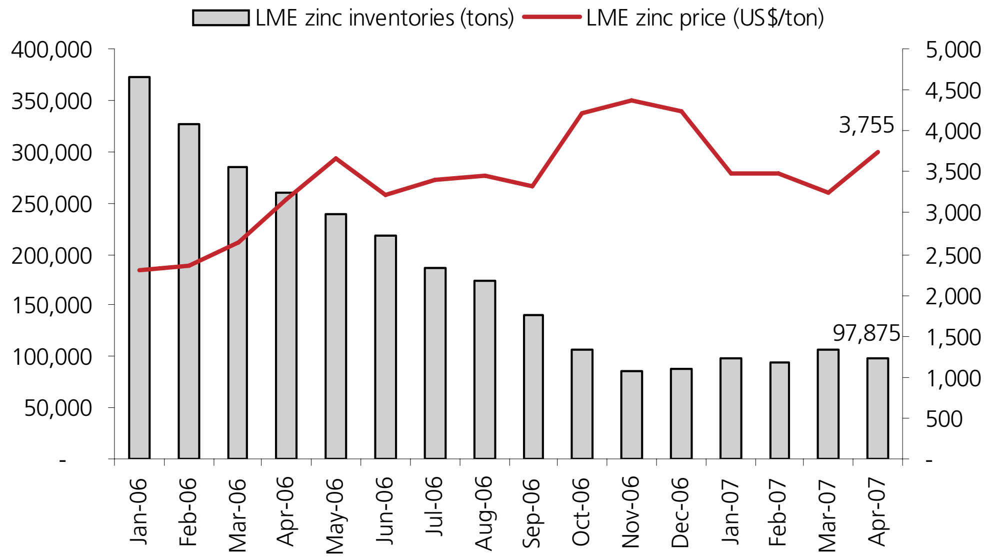
Hindustan Zinc: 4QFY2007 results

				% chg.		Kotak estimates				
(in Rs mn)	4QFY06	3QFY07	4QFY07	qoq	yoy	4QFY07	% deviation	FY06	FY07E	% chg.
Net sales	**17,740**	**24,800**	**20,210**	**(18.5)**	**13.9**	**24,736**	**(18.3)**	**38,770**	**85,600**	**120.8**
Operating costs	**(5,150)**	**(5,730)**	**(6,210)**	**8.4**	**20.6**	**(3,319)**	**87.1**	**(15,760)**	**(21,530)**	**36.6**
(Inc)/Dec in stocks	(500)	50	(420)	(940.0)	(16.0)	3,060	(113.7)	430	570	32.6
Mining and manufacturing expenses	(2,450)	(2,680)	(2,710)	1.1	10.6	(3,234)	(16.2)	(9,740)	(10,400)	6.8
Mining royalty	(1,000)	(1,920)	(1,510)	(21.4)	51.0	(1,712)	(11.8)	(2,740)	(6,440)	135.0
Staff costs	(520)	(600)	(690)			(660)		(2,060)	(2,600)	
SG&A expenses	(680)	(580)	(880)	51.7	29.4	(773)	13.8	(1,650)	(2,660)	61.2
EBITDA	**12,590**	**19,070**	**14,000**	**(26.6)**	**11.2**	**21,417**	**(34.6)**	**23,010**	**64,070**	**178.4**
Other income	370	640	740	15.6	100.0	299	147.6	1,160	2,310	99.1
Interest costs	(30)	110	(20)	(118.2)	(33.3)	(206)		(470)	(280)	(40.4)
Depreciation	(380)	(370)	(450)	21.6	18.4	(371)	21.4	(1,410)	(1,560)	10.6
Extraordinairies										
PBT	**12,550**	**19,450**	**14,270**	**(26.6)**	**13.7**	**21,139**	**(32.5)**	**22,290**	**64,540**	**189.5**
Taxes	(4,530)	(6,100)	(4,920)	(19.3)	8.6	(8,793)	(44.0)	(7,570)	(20,120)	165.8
PAT	**8,020**	**13,350**	**9,350**	**(30.0)**	**16.6**	**12,346**	**(24.3)**	**14,720**	**44,420**	**201.8**
Key ratios										
EBITDA (%)	71.0	76.9	69.3	(7.6)	(1.7)	86.6	(17.3)	59.4	74.8	(27.2)
PAT (%)	45.2	53.8	46.3	(7.6)	1.1	49.9	(3.6)	38.0	51.9	(11.9)
Effective tax rate (%)	36.1	31.4	34.5	3.1	(1.6)	41.6	(7.1)	34.0	31.2	(7.6)
Average LME zinc price (US$/ton)	2,437	4,275	3,405	(20.4)	39.7	3,550	(4.1)	1,695	3,620	113.6
Production-refined metal (tons)	91,588	92,759	94,856	2.3	3.6	115,901	(18.2)	262,688	348,316	32.6

Source: Company data, Kotak Institutional Equities

LME zinc inventories have risen slightly, but still at very low levels

LME zinc inventories (tons) and LME zinc prices (US$/ton)



Source: Bloomberg, Kotak Institutional Equities

Key assumptions for Hindustan Zinc

	2005	2006	2007E	2008E	2009E
Zinc					
Zinc production (tons)	212,445	282,668	349,350	395,080	568,650
Zinc produced from external smelters (tons)	53,479	34,890	-	-	-
Zinc concentrate sales (tons)	57,699	194,704	250,000	160,000	160,000
Zinc concentrate sales (US$/ton)	806	1,682	3,495	3,375	2,375
LME Zinc price (US$/ton)	1,158	1,808	3,620	3,500	2,500
Import tariff on zinc (%)	15.0	10.0	5	5	5
USD/INR exchange rate	44.9	44.2	45.5	44.0	43.0
Lead					
Lead production (tons)	15,727	23,636	51,500	61,800	72,100
LME lead price (US$/ton)	993	1,175	1,300	1,700	1,200
Import tariff on lead (%)	15.0	5.0	5.0	5.0	5.0
USD/INR exchange rate	44.9	44.2	45.5	44.0	43.0

Source: Company data, Kotak Institutional Equities estimates

Pharmaceuticals

CIPL.BO, Rs253	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	225
52W High -Low (Rs)	280 - 178
Market Cap (Rs bn)	194.1

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	34.4	40.4	46.7
Net Profit (Rs bn)	6.6	7.4	8.8
EPS (Rs)	8.6	9.6	11.5
EPS gth	*10.9*	*11.7*	*19.1*
P/E (x)	29.4	26.3	22.1
EV/EBITDA (x)	21.1	19.3	16.5
Div yield (%)	0.8	0.9	1.1

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	39.4	-	-
FIIs	17.6	0.5	(0.1)
MFs	3.4	0.6	(0.0)
UTI	-	-	(0.7)
LIC	6.5	1.1	0.5

Cipla: Q4 disappointing, lowering rating to U

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- **Q4 pre-exceptional net profit is down 29%, owing to sharp rise in expenses**
- **Q4 margin is exceptionally low; the full year numbers are more realistic**
- **EPS growth is 11% for FY2007 and we now model 12% growth in FY2008**
- **Lowering rating to U and price target to Rs225**

For FY2007, revenues have grown by 18%, while pre-exceptional net profit is up 13%. Q4 however is a surprise, with operating margin dipping to 13%, thereby resulting in a 29% dip in Q4 net profit (pre-exceptional). Q4 performance is surprising on both material cost and other expenses, which are significantly higher than trend. We think that the full year numbers are more indicative of a trend, with operating margin of 20%. We have cut FY2008 and FY2009 earnings by 16% and 17% respectively. We now expect net profit growth of 12% in FY2008 and 19% in FY2009. Our revised target price is Rs225 (Rs265 earlier), and we are lowering our rating to U.

Revenues were up 7% in Q4 and 19% for FY2007. Domestic formulations grew by 14% in the quarter and 16% for the year. Formulation exports grew by 17% for the quarter and 26% for the year. However API sales were down 27% in Q4 and flat for the year. H2 of the previous year included Sertraline supplies to Teva (for generic exclusivity), which being non-recurring impacted growth.

EBITDA is down 31% in Q4 and up 5% for the year. EBITDA margin was down 710bps to 12.7% in Q4. Margins have been impacted by unusually high material cost of 55% versus the normal 46-50% band. For the full year, margin is down 260 bps to 20%, impacted by 400bps rise in material cost. In the past, we have seen volatility in quarterly numbers; however the rise in the last two quarters is worrying. The company has said that the rise in material cost is owing to a higher proportion of anti-retroviral sales (about 12-15% margin).

Other expenses have shown a surprise jump in Q4 to Rs2.5 bn versus an average of Rs2 bn in the first three quarters. While it is possible that some of it is owing to the heavy capex program that is ongoing (commercialization of any new unit), however the depreciation is similar to Q3.

Other operating income for the year was Rs1.3 bn and constitutes 17% of PBT. Tax rate for the quarter was 11% and 17% for the year. Net profit (pre-exceptional) is down 29% in Q4 and up 13% for the year.

Between FY2007 and FY2009, we estimate 17% CAGR in revenues and 15% CAGR in net profit. We expect revenue growth of 17.5% in FY2008 and 16% in FY2009. For the domestic business, we have modeled 14% and 12% growth for FY2008 and FY2009 respectively. For exports, we have modeled 21% and 19% growth for FY2008 and FY2009 respectively. Key export destinations are LatAm, Africa and South Africa. We view Cipla as a play on emerging economies, on the back of its combination of multiple geographies and medicines.

We have modeled EBITDA margin of 20.7% and 20.9% in FY2008 and FY2009 respectively. We do expect scale benefits to eventually result in stable margins of 25-26%, but unlikely for the next two years (as multiple new units get commercialized).

We have modeled other operating income at Rs1.3 bn for the next two years. However, we model a dip in other income to Rs411 mn, down from Rs891 mn in FY2007. This is owing to utilization of cash, raised from an equity issuance last year. Most new facilities are likely to have tax shelter, and thus we expect tax-rate to decline to 16% in the next fiscal. We expect net profit growth of 12% in FY2008 and 19% in FY2009.

Company is investing heavily. The company incurred a capex of US$100 mn in FY2007 and a similar number is likely to be spent this year (60% increase in gross block). This we believe will sustain a revenue CAGR of 16% till FY2010. Historically, Cipla has been an efficient user of capacity.

Lowering price target to Rs225 and rating to U. We have added contingent liability (claim for overpricing in the domestic market) of Rs10/share to our net debt, while computing our price target. We have cut FY2008 and FY2009 earnings by 16% and 17% respectively. We have rolled over our DCF based price target to FY2009, and our revised price target is Rs225 (Rs265 earlier).

Key risks: Execution and consolidation

The two big risks to earnings are: a) execution, which is susceptible to regulatory changes, and b) global consolidation, which could result in loss of business from existing partners. Adverse pricing policy in the domestic market, however it is difficult to quantify the impact. The company has a contingent liability of Rs7.5 bn (Rs10/share), on alleged overpricing of few medicines in the domestic market. The matter is subjudice and it is difficult to predict the outcome.

Cipla - Results table (Rs mn)

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	growth (%)	FY2006	FY2007	growth (%)	FY2008
Gross Sales	6787	6841	7819	8762	8667	8841	8532	9291	6	30303	35330	17	41511
Excise	381	251	313	250	233	192	240	219		1223	949		1099
Net Sales	**6406**	**6591**	**7506**	**8511**	**8434**	**8650**	**8292**	**9071**	7	**29080**	**34381**	18	**40412**
Total Expenditure	5129	4944	5600	6827	6347	6685	6613	7915	16	22429	27494	23	32035
- Chg in Stock	(117)	85	(667)	(142)	328	39	(313)	285		(944)			
- Raw material consumed	3267	2826	4046	4379	3538	4067	4647	4690	7	14541	17280	19	20206
- Staff Cost	392	303	352	426	513	439	458	433	2	1508	1843	22	2211
- Other Exp	1587	1730	1870	2165	1969	2140	1821	2507	16	7324	8371	14	9618
EBITDA	**1277**	**1646**	**1906**	**1684**	**2086**	**1965**	**1679**	**1157**	(31)	**6651**	**6887**	4	**8377**
Other operating income	222	127	300	195	202	311	513	313	61	839	1340	60	1300
Depreciation	135	215	230	250	260	245	275	261	4	802	1041	30	1205
Interest	14	17	51	33	28	16	13	13		114	70		36
Other Income	84	15	17	253	220	190	261	221		274	891		367
PBT	**1434**	**1556**	**1942**	**1848**	**2220**	**2205**	**2166**	**1417**	(23)	**6849**	**8008**	17	**8802**
yoy growth %	52	27	80	48						53			
Current tax	273	280	300	80	491	378	272	135		932	1275		1320
Deferred Tax	48	50			25	25	50	25		90	125		100
Tax Rate (%)	22.3	21.2	15.4	4	23	18	15	11		15	17		16
PAT (pre-exceptional)	**1114**	**1226**	**1642**	**1768**	**1704**	**1803**	**1844**	**1257**	(29)	**5827**	**6608**	13	**7382**
Extraordinary income			111	139						250	0		0
Reported PAT	1114	1226	1753	1908	1704	1803	1844	1257	(34)	6076	6608	9	7382

Note: We have made assumptions to determine non-recurring income. For FY2005, we have shown gains from sale of investments, as an exceptional item (earlier included in other income). In Q3FY2006, the company received Rs730mn as insurance claim on inventor

Sales breakup (Rs mn)	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	growth (%)	FY2006	FY2007	growth (%)	FY2008
Gross Sales	6787	6841	7819	8762	8667	8841	8532	9291	6	30209	35330	17	41511
Domestic	3940	3636	3956	3495	4729	4444	4353	3997	14	15027	17523	17	19976
Exports	2847	3206	3864	5266	3938	4397	4179	5293	1	15182	17807	17	21535
- Formulations	2154	2480	2361	3320	3187	2800	3197	3879	17	10315	12978	26	16223
- Bulks	694	725	1503	1946	752	1597	982	1415	-27	4868	4829	-1	5312
Technical knowhow fees	59	75	260	75	90	176	258	242	221	416	764	84	750
Other operating income	163	51	40	119	112	136	256	71	-40	424	576	36	550
Total	7009	6968	8119	8956	8869	9153	9045	9604	7	31048	36671	18	42811
Exports/Sales (%)	42	47	49	60	45	50	49	57		50	50		52
Bulks/Exports (%)	24	23	39	37	19	36	23	27		32	27		25
Excise/ Domestic sales (%)	9.7	6.9	7.9	7.2	4.9	4.3	5.5	5.5		8.1	5.4		5.5
Operating matrix (% of net sales)													
Material costs	49.2	44.2	45.0	49.8	45.8	47.5	52.3	54.8		46.8	50.3		50.0
Staff cost	6.1	4.6	4.7	5.0	6	5	6	4.8		5	5.4		5
Other expenditure	24.8	26.3	24.9	25.4	23	25	22	28		25	24		24
EBITDA	19.9	25.0	25.4	19.8	24.7	22.7	20.3	12.7		22.9	20.0		21
Net margin	17.4	18.6	21.9	20.8	20	21	22	13.9		20	19.2		18

Industrials

ABB.BO, Rs4094	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	4,575
52W High -Low (Rs)	4122 - 1920
Market Cap (Rs bn)	173.5

Financials

December y/e	**2006**	**2007E**	**2008E**
Sales (Rs bn)	42.7	61.7	76.3
Net Profit (Rs bn)	3.4	5.1	6.5
EPS (Rs)	80.3	121.4	152.7
EPS gth	*55.6*	*51.2*	*25.8*
P/E (x)	51.0	33.7	26.8
EV/EBITDA (x)	30.1	19.2	14.8
Div yield (%)	0.3	0.3	0.4

Shareholding, December 2006

	Pattern	**% of Portfolio**	**Over/(under) weight**
Promoters	52.1	-	-
FIIs	17.2	0.4	(0.1)
MFs	3.1	0.5	(0.1)
UTI	-	-	(0.5)
LIC	9.9	1.4	0.9

ABB: Strong 1Q; estimates and target price revised upwards

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- **Revenue and operating margin stronger than expected**
- **Big ticket orders drive 60% growth in order book**
- **Our estimates for CY2007 and CY2008 revised up by 3.7% and 4.5%; new target price at Rs4,575; stock upgraded to OP**

ABB has reported PAT of Rs866 mn (up 69% yoy), higher than our estimate of Rs735 mn. The company surprised with stronger-than-expected revenue growth (at 64%) and margin expansion (110bps). We believe the rupee appreciation might have helped margins considerably. Three big-ticket orders in the automation segment boosted order inflow by 43% and order backlog by 60%. Based on strong numbers and orders, we upgrade our estimates for CY2007 and 08 by 3.7% and 4.5%. Our new DCF-based target price is Rs4,575 (earlier Rs4,375). We upgrade the stock to OP.

Revenue and OPM better than expected

ABB reported revenues of Rs13.1 bn (up 64%) and PAT of Rs866 mn (up 69%, our estimate: Rs735 mn). Operating margin at 9.8% showed a 110bps improvement. Given that ABB is a sizeable net importer of components, the rupee appreciation may have aided the margin jump to the extent of 80bps. Raw materials account for 75% of revenues of which around 40% is usually imported, usually a mix of US$ and Euros. On the other hand, exports may have constituted only 10% of 1Q revenue, in our estimate. Assuming an average rupee appreciation of 4%, we arrive at our estimate of 80bps. The rest of the margin expansion is thus due to operating leverage.

But for the rupee appreciation factor, RM to sales ratio may have deteriorated by 200bps.

Big ticket orders drive order book growth

ABB booked orders worth Rs20 bn (up 43%); not surprising considering a spate of big-ticket order announcements in the early part of 1Q: Jindal Steel (Rs2.5 bn), Karnataka Power Transmission Corp (Rs1.86 bn) and Grasim/Ultratech Cement (Rs3.1 bn). Barring these orders, order flows seem to be flat on YoY basis. The average duration of these orders is longer than average for ABB at 12-24 months. Order backlog stood at Rs42.6 bn, providing an improved visibility of 11 months based on trailing four quarters revenues. The improved visibility is partly due to the fact that around 15% of the order backlog have >12 month execution periods. Large order flows underscore the sustained capex momentum in process industries (particularly steel and cement) and the continued thrust of power utilities on the modernization of their T&D systems.

Revise estimates and target price upwards

Based on stronger than expected revenue and margin, we upgrade our CY2007 and 08 estimates by 3.7% and 4.5%. Given the continued rupee appreciation, we believe margin expansion may sustain going ahead. We have made the following changes to our model: A) we have upgraded our revenue estimates by 5.7% and 5.8% for CY2007 and 08 - more confidence arises from a strong order backlog, continued momentum in power and industry capex and ABB's continued thrust on new product introductions and range expansions. B) minor margin upgrades of 20bps each for CY2007 and 08: our estimates now factor in margin expansion of 140bps and 40bps for CY2007 and 08 respectively.

Our DCF-based target price is Rs4,575 (earlier Rs4,375). We upgrade the stock to OP.

The stock may cool down post recent sharp run-up; may offer entry opportunity

The stock has seen a strong run-up in the recent past probably on expectations of strong results. If the stock cools off post this, we would view it as a strong buying opportunity.

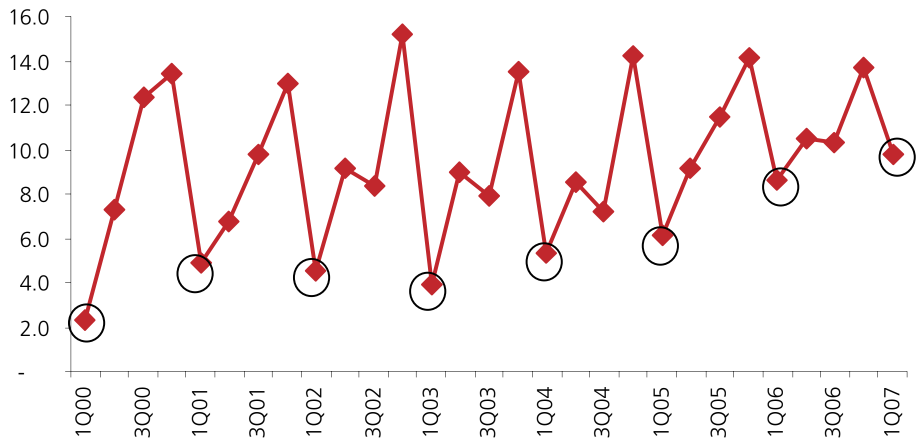
ABB - 1QCY07 numbers (Rs mn)

		yoy			qoq		
	CY2007E	1QCY07	1QCY06	*% change*	1QCY07	4QCY06	*% change*
Sales	**61,692.1**	**13,124.4**	**8,029.1**	**63.5**	**13,124.4**	**14,263.2**	**(8.0)**
Expenses	(54,047.6)	(11,842.6)	(7,334.6)	61.5	(11,842.6)	(12,316.4)	(3.8)
Stock	0.0	97.1	465.6	(79.2)	97.1	(71.0)	(236.7)
RM	(46,420.6)	(9,847.8)	(6,333.5)	55.5	(9,847.8)	(10,431.1)	(5.6)
Employee	(2,988.8)	(698.0)	(555.1)	25.7	(698.0)	(657.4)	6.2
Other expenses	(4,638.3)	(1,393.9)	(911.6)	52.9	(1,393.9)	(1,156.9)	20.5
Operating profit	**7,644.5**	**1,281.8**	**694.5**	**84.6**	**1,281.8**	**1,946.8**	**(34.2)**
Other income	800.0	151.7	179.5	(15.5)	151.7	174.1	(12.9)
EBIDT	8,444.5	1,433.5	874.0	64.0	1,433.5	2,120.8	(32.4)
Interest	0.0	(10.0)	(1.9)	415.5	(10.0)	(1.1)	817.4
Depreciation	(340.0)	(86.2)	(62.1)	38.8	(86.2)	(71.2)	21.1
PBT	**8,104.5**	**1,337.3**	**810.0**	**65.1**	**1,337.3**	**2,048.6**	**(34.7)**
Tax	(2,958.1)	(471.0)	(297.0)	58.6	(471.0)	(699.0)	(32.6)
Net profit	**5,146.3**	**866.3**	**513.0**	**68.9**	**866.3**	**1,349.6**	**(35.8)**
Key ratios (%)							
RM / Sales	75.2	74.3	73.1		74.3	73.6	
Empl / Sales	4.8	5.3	6.9		5.3	4.6	
Other exp / Sales	7.5	10.6	11.4		10.6	8.1	
OPM	12.4	9.8	8.7		9.8	13.6	
PBT Margin	13.1	10.2	10.1		10.2	14.4	
Tax rate	36.5	35.2	36.7		35.2	34.1	
Order inflow & backlog							
Order booking		20,003.0	14,019.0	42.7	20,003.0	14,126.0	41.6
Order backlog		42,596.0	26,700.0	59.5	42,596.0	33,723.0	26.3
Segment results							
Revenues							
Power Products		3,803.3	2,071.8	83.6	3,803.3	3,877.9	(1.9)
Power Systems		4,480.3	3,008.5	48.9	4,480.3	4,975.8	(10.0)
Automation Products		2,879.7	1,912.2	50.6	2,879.7	2,857.0	0.8
Process Automation		2,671.4	1,620.2	64.9	2,671.4	3,488.5	(23.4)
Others		54.0	18.6	190.7	54.0	63.3	(14.7)
Revenue mix (%)							
Power Products		27.4	24.0		27.4	25.4	
Power Systems		32.3	34.9		32.3	32.6	
Automation Products		20.7	22.2		20.7	18.7	
Process Automation		19.2	18.8		19.2	22.9	
Others		0.4	0.2		0.4	0.4	
EBIT Margin (%)							
Power Products		9.0	8.8		9.0	15.8	
Power Systems		9.5	8.2		9.5	14.8	
Automation Products		11.3	11.3		11.3	15.0	
Process Automation		7.5	8.4		7.5	10.6	
Others		(2.4)	11.4		(2.4)	10.3	

Source: Company data, Kotak Institutional Equities estimates

ABB has reported the highest 1Q margin in seven since CY2000

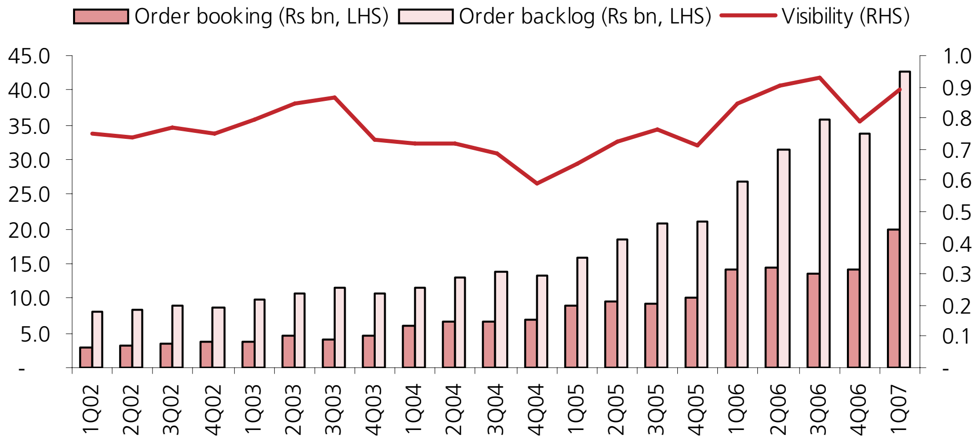
Quarterly margin pattern for ABB for last seven years



Source: company data, Kotak Institutional equities estimates

Big ticket orders have led to sharp order improvement ths q

Order booking, Order backlog & visibility trend for ABB



Source: company data, Kotak Institutional Equities estimates

Auto Components

MICO.BO, Rs3425	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	3,300
52W High -Low (Rs)	3855 - 2350
Market Cap (Rs bn)	109.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	39.1	48.1	59.7
Net Profit (Rs bn)	4.0	5.2	6.6
EPS (Rs)	126.2	161.9	205.1
EPS gth	*21.4*	*29.1*	*27.5*
P/E (x)	27.1	21.2	16.7
EV/EBITDA (x)	12.8	9.5	7.2
Div yield (%)	0.5	0.5	0.5

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.5	-	-
FIIs	7.4	0.1	(0.3)
MFs	5.9	0.6	0.3
UTI	-	-	(0.4)
LIC	3.3	0.3	(0.1)

MICO: 1Q recurring profits grow 24% yoy; maintain In-Line

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- **1Q recurring net profit rises 24% yoy; In-line with our estimates**
- **Top-line growth at 18% comes in lower than we estimated; margins decline 120 bps yoy**
- **Maintain EPS estimates, In-Line rating and target price of Rs3,300 for the stock**

MICO reported 1Q recurring net profit at Rs1.4 bn- a 24% yoy growth and in-line with our estimate of Rs1.4 bn for the quarter. 1Q results included Rs536 mn of extraordinary income on account of profit on sale of investments. This resulted in reported net profit coming in at Rs1.8 bn - a 60% yoy growth. Net sales at Rs10.9 bn grew 18% yoy - lower than our forecast of Rs11.5 bn for the quarter. 1Q EBITDA margins at 20.6% declined 120 bps yoy. 1Q results were boosted by lower-than-expected depreciation and effective tax-rate. We maintain our EPS estimates for MICO at Rs161.9 for CY2007 and Rs205.1 for CY2008. We maintain our In-Line rating on the stock with our target price unchanged at Rs3,300. At our target price the stock will trade at 16X CY08 P/E.

Factors that could make us turn positive on MICO:

1. Higher than expected CV growth in CY07
2. Faster than expected dieselization of the car market resulting in higher-than-expected CRDi sales for MICO in coming years.
3. Entry into Tata Motors new CRDi diesel car launches scheduled for CY08

CRDi—the next growth opportunity. MICO has advanced its plan for the introduction of CRDi systems by two years after the overwhelming response to the technology. The company will invest Rs5.5 bn for the manufacture of CRDi components in the Nasik and Bangalore plants. The first locally manufactured common rail systems are scheduled to come off production lines by 2007. While extensive competition is expected in this segment, Bosch is the world leader for CRDi which will help MICO build its network in India. Export of common rail components is also a possibility in coming years. MICO has planned a total investment of Rs10 bn till 2008.

MICO:1QCY2007 results

(in Rs mn)	1QCY06	4QCY06	1QCY07	% chg. qoq	% chg. yoy	Kotak estimates 1QCY07	% deviation	CY06	CY07E	% chg.
Net sales	**9,231**	**10,488**	**10,901**	**3.9**	**18.1**	**11,500**	**(5.2)**	**39,098**	**48,145**	**23.1**
Operating costs	**(7,222)**	**(8,524)**	**(8,659)**	**1.6**	**19.9**	**(8,875)**	**(2.4)**	**(30,984)**	**(37,940)**	**22.5**
(Inc/Dec in Stock)	5	(1)	135			-		99	-	(100.0)
Raw Materials	(4,587)	(5,010)	(5,706)	13.9	24.4	(5,750)	(0.8)	(19,352)	(24,183)	25.0
Staff Cost	(1,034)	(904)	(1,100)	21.7	6.4	(1,000)	10.0	(3,938)	(4,397)	11.7
Other Expenditure	(1,606)	(2,609)	(1,987)	(23.8)	23.7	(2,125)	(6.5)	(7,793)	(9,360)	20.1
EBITDA	**2,008**	**1,965**	**2,242**	**14.1**	**11.6**	**2,625**	**(14.6)**	**8,114**	**10,205**	**25.8**
Other income	62	79	71	(10.8)	13.8	94	(24.8)	287	377	31.1
Interest costs	113	114	172	51.5	52.1	-		530	-	(100.0)
Depreciation	(548)	(786)	(455)	(42.1)	(16.9)	(650)	(30.0)	(2,465)	(2,838)	15.1
Extraordinairies	82	2	536			-		1,517	-	(100.0)
PBT	**1,718**	**1,374**	**2,566**	**86.8**	**49.3**	**2,069**	**24.0**	**7,983**	**7,744**	**(3.0)**
Taxes	(569)	(724)	(728)	0.5	27.9	(695)	4.7	(2,503)	(2,555)	2.1
PAT	**1,149**	**650**	**1,838**	**182.9**	**60.0**	**1,374**	**33.8**	**5,480**	**5,188**	**(5.3)**
Adjusted PAT	**1,096**	**648**	**1,355**	**109.0**	**23.7**	**1,374**	**(1.4)**	**4,494**	**5,188**	**15.4**
Key ratios										
RM/VOP (%)	51.4	49.9	49.9	(0.0)	(1.6)	50.0	(0.1)	49.4	50.2	0.9
EBITDA margin (%)	21.8	18.7	20.6	1.8	(1.2)	22.8	(2.3)	20.8	21.2	0.4
PAT margin (%)	12.4	6.2	16.9	10.7	4.4	11.9	4.9	14.0	10.8	(3.2)
Effective tax rate (%)	33.1	52.7	28.4	(24.3)	(4.8)	33.6	(5.2)	31.4	33.0	1.6

Source: Company data, Kotak Institutional Equities

Pharmaceuticals

CADI.BO, Rs327	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	420
52W High -Low (Rs)	400 - 231
Market Cap (Rs bn)	41.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	17.9	21.1	24.2
Net Profit (Rs bn)	2.1	2.7	3.1
EPS (Rs)	17.0	21.3	24.9
EPS gth	*40.3*	*24.9*	*17.4*
P/E (x)	19.2	15.4	13.1
EV/EBITDA (x)	12.5	10.5	9.0
Div yield (%)	1.3	1.6	1.9

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	72.0	-	-
FIIs	4.7	0.0	(0.1)
MFs	6.0	0.3	0.1
UTI	-	-	(0.2)
LIC	6.8	0.3	0.1

Cadila Healthcare: Good Q; outlook remains strong

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- **Despite sharp rise in operating expenses (skewed in Q4); net profit is up 27%**
- **After a strong 40% growth in FY2007 EPS, we model 25% growth in FY2008**
- **Maintain OP rating, with revised target price of Rs420.**

For Q4, Cadila reported consolidated net profit of Rs389 mn, growth of 27% yoy. The numbers are impressive considering the fact that research cost quadrupled to Rs463 mn in Q4, while staff cost rose 28% to Rs599 mn. For the full year, pre-exceptional net profit is up 40% yoy to Rs2.14 bn. Our model assumes margins of 17.9% in FY2008 and 17.8% in FY2009, up from 17.3% in FY2007. For FY2008, we estimate revenue growth of 18% and net profit growth of 25%. Zydus Altana (makes intermediates for Protonix) contributed 31% of FY2007 PAT; its contribution will likely come down to 20% in FY2008 and 10% in FY2009. The management reiterated that new manufacturing contracts will help tide over the Protonix patent expiry in CY2009 and CY2010. Our revised DCF-based target price is Rs420, or 17x FY2009 earnings (rolled over to March 2009). Maintain OP.

Expect earnings growth of 21% compounded over next two years. Cadila's revenues will likely grow by 16% over the next two years and net profit by 21% compounded. We expect a strong 25% earnings growth in FY2008 on the back of 18% revenue growth. Our model assumes margins of 17.9% in FY2008 and 17.8% in FY2009, up from 17.3% in FY2007.

US business to drive earnings in FY2008. For FY2007, the US subsidiary had sales of Rs1.4 bn and net profit of Rs134 mn. In FY2006, the US subsidiary generated revenues of Rs500 mn, with a net profit of Rs4 mn. We expect the US business to clock revenues of Rs1.8 bn in FY2008 and Rs2.6 bn in FY2009. The company has a basket of both niche and commodity products.

Turnaround of French operations likely to drive FY2009 earnings. For FY2007, the French subsidiary had sales of Rs1.3 bn and a loss of Rs155 mn. The management has said that it expects the French business to breakeven in FY2008 and make profit in FY2009. We have modeled a loss of Rs45 mn in FY2008, and a profit of Rs168 mn in FY2009.

Domestic formulations will likely continue to grow well. Domestic formulations grew by 16% in Q4 and 8% for the year. This year, the company went through an internal reorganization of field force and there was also a dip in unbranded generic sales. Cadila ranks fifth in the domestic formulations market. It is hopeful of growing its domestic formulations business (56% of total sales) with focus on chronic diseases and product inlicensing. The company has also in-licensed about 38 products from several mid-sized companies, which contribute about 13% of domestic formulations sales. Our model assumes that the branded business will grow by 12% in FY2008 and 10% inFY2009.

JV with Mayne could make up for lost profits from Zydus Altana in FY2009 and FY2010. Investors are usually concerned about the company's dependence on Zydus Altana, the JV that makes intermediates of Protonix. Patents on Protonix expire in 2010 in the US and 2009 in other parts of the world. Cadila's share of profits was Rs663 mn in FY2007, which we believe will come down to Rs538 mn in FY2008 and Rs300 mn in FY2009. We expect contribution of Zydus Altana to drop to 20% in FY2008, from 31% in FY2007. To reduce dependence on this JV, the company has signed over twenty manufacturing contracts, with peak revenue potential of US$75 mn. The most prominent is a JV with Hospira for manufacturing seven oncology products, with peak revenue potential of US$50 mn by 2010. In absolute terms, the management reiterated that the Mayne JV will likely exceed lost profits of Zydus Altana.

Cadila - results table (Rs mn)

	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q4, yoy growth (%)	FY2006	FY2007	FY07, yoy growth (%)	FY2008E
Sales	**3,501**	**4,565**	**4,892**	**4,815**	**4,475**	28	**15,078**	**18,747**	24	**22,079**
Excise	137	204	219	206	264		625	892		962
Net Sales	**3,364**	**4,361**	**4,673**	**4,609**	**4,211**	25	**14,453**	**17,855**	24	**21,117**
Total Exp	**2,830**	**3,560**	**3,658**	**3,901**	**3,646**	29	**12,083**	**14,767**	22	**17,332**
- Inc/Dec Stock	68	(322)	(171)	(32)	(393)		(99)	(917)		
- Consp of RM	1,329	1,844	1,815	1,715	1,915	44	5,787	7,289	26	7,866
- Staff Cost	467	477	515	519	599	28	1,919	1,739	(9)	1,931
- Other Exp	966	1,561	1,499	1,699	1,525	58	4,476	6,656	49	7,535
EBITDA	**534**	**801**	**1,015**	**708**	**565**	6	**2,370**	**3,088**	30	**3,785**
Depreciation	194	197	213	212	200		779	823		888
Interest	36	69	54	49	52		251	223		287
Other Income	87	146	78	112	161		428	497		522
PBT	**391**	**681**	**826**	**559**	**474**	21	**1,768**	**2,539**	44	**3,132**
Current Tax	43	64	62	85	63		156	287		323
Deferred Tax	26	12	38	13	(13)		87	37		50
Minority interest & adjustments	16	21	21	1	35		1	77		90
Pre-exceptional PAT	**306**	**584**	**705**	**460**	**389**	27	**1,524**	**2,138**	40	**2,670**
Exceptionals				(200)				(200)		
Rep. PAT	**306**	**584**	**705**	**660**	**389**	27	**1,524**	**2,338**	53	**2,670**
EPS (Rs, pre-exceptional)	2.4	4.6	5.6	3.7	3.1		12.1	17.0		21.3
Standalone nos										
Net revenues	**2768**	**3572**	**3820**	**3,749**	**3,201**		**12,460**	**14,137**		
PAT	**223**	**492**	**655**	**525**	**375**		**1,649**	**2,047**		
Operating ratios (%)										
Material consumed(% of revenu	41.5	34.9	35.2	38.0	36.1		39.4	35.7		37.3
Staff cost (% of revenues)	13.9	10.9	11.0	11.3	14.2		13.3	9.7		9.1
Other expenses (% of revenues)	28.7	35.8	32.1	36.9	36.2		31.0	37.3		35.7
EBITDA margin (%)	15.9	18.4	21.7	15.4	13.4		16.4	17.3		17.9
Tax/PBT (%)	17.6	11.2	12.1	17.5	10.5		13.7	12.8		11.9
Adjusted net profit margin (%)	9.1	13.4	15.1	10.0	9.2		10.5	12.0		12.6
Revenue breakup (Rs mn)										
Domestic										
Formulations	1,978	2,753	2,968	2,580	2,302	16	9,793	10,602	8	12,179
API	77	93	119	82	85	10	451	378	(16)	393
Consumer & others	241	431	410	476	398	65	1,114	1,715	54	1,969
Sub - Total	2,296	3,277	3,496	3,138	2,785	21	11,358	12,695	12	14,542
International sales										
Formulations & others	654	740	810	1,212	1,008	54	1,976	3,715	88	4,991
API	551	548	586	465	682	24	1,744	2,282	31	2,427
Sub - Total	1,205	1,288	1,396	1,677	1,690	40	3,720	5,997	61	7,417
Gross sales	**3,501**	**4,565**	**4,892**	**4,815**	**4,475**	28	**15,078**	**18,692**	24	**21,959**
Revenue breakup										
USA	250	271	280	386	491	96	500	1,428	186	1,764
Brazil	62	48	38	44	46	(26)	115	176	53	294
France	160	225	263	346	433	171	623	1,267	103	1,920
RoW	182	196	229	436	38	(79)	738	844	14	1,013

Details of important subsidiaries/JVs

	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q4, yoy growth (%)	FY2006	FY2007	FY07, yoy growth (%)	FY2008
Zydus Altana										
Sales	229	222	207	96	312	36	750	837	12	837
Profit	186	182	170	73	238	28	460	663	44	538
Zydus France										
Sales	160	225	263	542	237	48	623	1,267	103	1,920
Profit	(83)	(8)	(34)	(16)	(97)		(238)	(155)		(45)
Zydus USA										
Sales	250	271	280	386	491	96	500	1,428	186	1,764
Profit	40	34	41	(3)	62		4	134		176
Net sales, ex Altana	3,135	4,139	4,466	4,513	3,899		13,703	17,018		20,280
Profits, ex Altana	120	402	535	387	151		1,064	1,475		2,131
% of sales	3.8	9.7	12.0	8.6	3.9		7.8	8.7		10.5

Banking

IDFC.BO, Rs99	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	95
52W High -Low (Rs)	113 - 43
Market Cap (Rs bn)	111.3

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	7.1	9.0	10.6
Net Profit (Rs bn)	4.9	5.6	6.4
EPS (Rs)	4.4	5.0	5.7
EPS gth	*26.3*	*13.4*	*15.3*
P/E (x)	22.6	19.9	17.3
P/B (x)	3.8	3.4	3.0
Div yield (%)	1.0	1.6	1.9

Shareholding, December 2006

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	50.3	0.7	0.4
MFs	2.8	0.2	(0.1)
UTI	-	-	(0.3)
LIC	2.8	0.2	(0.1)

IDFC: Raising target price to factor higher estimates and AMC valuations, retain IL

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- **IDFC to raise equity of US$500 mn to support private equity growth,**
- **Increasing earnings estimates and rolling target price to FY2009, retain IL**

We have rolled over our target price for IDFC to FY2009, which now stands at Rs95 per share (from Rs85/share). This target price factors in: (1) higher earnings estimates, and (2) higher valuation for the AMC business, giving credit for likely carry. We are, however, retaining our IL rating given fair valuations. The company has announced plans to raise US$500mn in equity. The issuance announcement has come in earlier than expected given the low leverage of 5.4X in FY2007 and will likely impact RoE expectations.

Revising up earnings estimates

We are raising our earnings estimates for IDFC by 14% for FY2008 and 8% for FY2009 factoring in (a) higher spreads (earlier estimating a decline), (b) lower loan growth given flat disbursements in 4QFY07 and (c) higher fee income likely from securitisation of loans.

IDFC to raise capital to support private equity investments and meet exposure norms:

- IDFC's proposes to raise equity capital of US$500 mn, which will likely be utilized for sponsoring its private equity funds. We expect IDFC's funds under management to increase to US$2.7 bn by FY2009 from US$700 mn in FY2007. Sponsors of the fund generally contribute about 5-10% of the fund.
- As per the recent RBI guidelines for NBFCs, IDFC will need to restrict single party lending exposures to 20% of its net owned funds. As such, a higher net worth will enable its to take higher exposures.

IDFC's funds valued at 15% of AUM: In order to appropriately capture the 'carry' component in IDFC's funds, we have assigned a valuation multiple of 15% AUMs. We have verified this multiple by using a DCF model. Key assumptions for DCF include (a) 2% fund management fees and 20% carry beyond the hurdle rate, (b) hurdle rate of 8% and IRR of 25% for the fund, (c) about half the carry is shared with the employees, and (d) average tenure of about 6 years. IDFC has however quoted door-to door tenure of about ten years for its funds. We note that IDFC's first private equity fund (US$200mn India Development fund) has already exited three of eight investments. It has repaid the face value of the investments and the current investments, as and when realized, will accrue towards the hurdle rate and carry.

Expect higher fees from loan securitisation: IDFC's management has clarified that a large proportion of its standalone fee income during 4QFY07 was on account of securitisation/ sell-down of loans. As the loan securitisation market develops, we believe that it will likely provide strong earnings potential to IDFC.

IDFC - SOTP

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (standalone)	74,371	66.1	As per residual growth model
IDFC (private equity)	8,438	7.5	15% of FY2009 AUM - US$1.25 bn
IDFC (project equity)	9,113	8.1	15% of FY2009 AUM - US$1.35 bn
IDFC investment advisors (PMS)	709	0.6	15% of FY2009 AUMs - US$100 mn
SSKI	3,003	2.7	15X FY2009E PAT
IDFC's investment in NSE	9,338	8.3	Valuations based on recent NSE stake sale
Total	**95,633**	**93.3**	

Source : Kotak institutional equities estimates

IDFC (standalone - old and new estimates Rsmn)

	Old estimates				New estimates				% change in estimates				YoY change (%)		
	FY2007E	FY2008E	FY2009E	FY2010E	FY2007A	FY2008E	FY2009E	FY2010E	FY2007A	FY2008E	FY2009E	FY2010E	FY07-08	FY08-09	FY09-10
Net interest income	4,171	5,177	6,877	8,834	4,437	5,545	6,802	8,080	6	7	(1)	(9)	25	23	19
Spread (%)	2.11	1.83	1.87	1.94	2.51	2.33	2.20	2.14							
NIM (%)	2.82	2.52	2.48	2.46	2.88	2.71	2.63	2.50							
Infrastructure loans	152,891	217,194	295,257	378,545	140,910	188,947	254,061	311,821	(8)	(13)	(14)	(18)	34	34	23
Loan loss provisions	83	370	769	1,348	174	495	665	1,132	110	34	(14)	(16)	185	34	70
Other income	2,353	2,437	2,656	2,719	2,065	2,642	2,732	2,955	(12)	8	3	9	28	3	8
Fee income	191	278	384	505	456	643	864	1,103	139	132	125	118	41	34	28
Treasury income	1,780	1,604	1,503	1,203	1,245	1,504	1,203	1,003	(30)	(6)	(20)	(17)	21	(20)	(17)
Operating expenses	668	939	1,237	1,519	614	793	1,015	1,249	(8)	(16)	(18)	(18)	29	28	23
Employee expenses	424	594	772	965	361	457	578	731	(15)	(23)	(25)	(24)	27	27	27
PBT	5,799	6,330	7,553	8,712	5,715	6,900	7,854	8,654	(1)	9	4	(1)	21	14	10
Tax	1,073	1,772	2,115	2,614	1,087	1,725	1,963	2,596	1	(3)	(7)	(1)	59	14	32
Net profit	**4,726**	**4,557**	**5,438**	**6,098**	**4,629**	**5,175**	**5,890**	**6,058**	(2)	14	8	(1)	12	14	3
PBT-treasury+provisions	**4,076**	**5,071**	**6,793**	**8,832**	**4,644**	**5,890**	**7,315**	**8,783**	14	16	8	(1)	27	24	20

Source: Kotak Institutional Equities.

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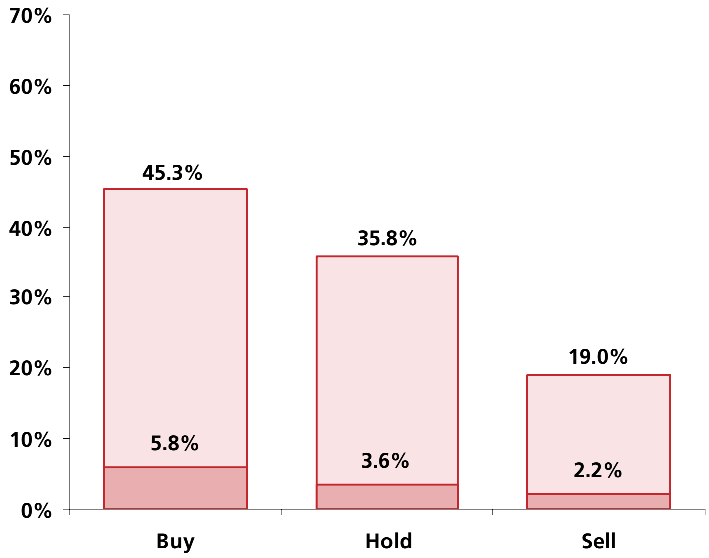

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