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News Roundup

Corporate

- Carlyle, Citigroup Venture capital looking to acquire a 15% stake in Pyramid Saimira. Pyramid Saimira is offloading the stake around Rs420 to Rs445 per share which is at 31.6% premium to the current market price (BS)
- L&T is said to be in talks to acquire a stake in Feedback Ventures, a leading integrated infrastructure services firm (BS)
- ONGC is considering a stock split or bonus issue over course of time. However no timeframe for the same has been announced (BL)

Economic and political

- Government is considering reduction in entertainment tax charged on movie tickets and DTH services (BS)
- The Madras High court has ordered a stay on the IRDA's ban on actuarial-funded products for eight weeks. (FE)

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

EQUITY MARKETS

India	Change, %			
	19-Sep	1-day	1-mo	3-mo
Sensex	16,323	4.2	13.1	13.3
Nifty	4,732	4.1	12.4	11.4
Global/Regional indices				
Dow Jones	13,816	0.6	5.3	2.4
Nasdaq Composite	2,666	0.6	6.3	2.6
FTSE	6,460	2.8	6.3	(2.8)
Nikkie	16,395	0.1	4.2	(10.0)
Hang Seng	25,721	0.7	19.1	18.6
KOSPI	1,910	0.4	10.3	7.1
Value traded - India				
		Moving avg, Rs bn		
	19-Sep	1-mo	3-mo	
Cash (NSE+BSE)	236.6	152.6	160.1	
Derivatives (NSE)	686.4	648.8	374.2	
Deri. open interest	895.7	870.2	710.4	

Forex/money market

	Change, basis points			
	19-Sep	1-day	1-mo	3-mo
Rs/US\$	40.1	-	(84)	(58)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	1	(10)	(27)

Net investment (US\$m)

	18-Sep	MTD	CYTD
FIs	(34)	1,052	9,426
MFs	(5)	(67)	692

Top movers -3mo basis

Best performers	Change, %			
	19-Sep	1-day	1-mo	3-mo
Reliance Energy	946	2.1	30.4	75.9
Neyveli Lignite	98	1.8	27.8	59.9
Chambal Fert	50	0.7	12.3	47.4
Thermax	712	3.4	13.6	40.8
Exide Indus	63	1.4	14.7	36.1
Worst performers				
i-Flex	1,891	(0.2)	(0.7)	(26.6)
Polaris	117	1.0	1.1	(25.9)
Punjab Tractors	237	(0.1)	(2.2)	(19.7)
Cipla	170	0.6	(7.9)	(19.4)
Pfizer	677	(0.9)	(4.2)	(17.4)

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Insurance

Growth + profitability—potent combo driving valuations

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Insurance premium collections continue to be robust, a trend that is likely to be sustained by the aggressive expansion plans of companies. In our view, investments are justified given high profitability, though we'd like to see higher productivity as well. Key risk: Stock market volatility could impact growth and valuations given the dominance of ULIPs.

High profitability driving valuations of insurance players

We believe insurance companies will validate their rapid growth with high steady state IRRs of 25-30% and RoEs of over 40-50%. This is likely reflected in the willingness of some investors to pay a premium for this business seen recently in the case of ICICI Prudential Life. We advise investors to capitalize on the significant potential in the insurance sector through Max India (NR, insurance contribution to SOTP: 56%), Bajaj Auto (OP, 33%) and ICICI Bank (OP, 21%).

Premium income will likely remain high on the back of expansion

An expanding network agency force and buoyant capital markets drove FY2007 premium income growth up by 95%. YTD growth moderated to around 40% and we expect 60-70% for the rest of the year given aggressive expansion plans. Most players are looking at investing between 85% and 140% of FY2007's outstanding capital over the next two years and doubling their agency and branch networks in the next year.

Key trends in FY2007: More ULIPs, losses and lapsation

(1) ULIPs dominate incremental sales for all players in the sector, with a large part of the investment pumped in equities; (2) Lapsation and surrender ratios have been increasing, reflecting a short-term focus on premium collection; (3) Losses increased across players, and will likely remain high given expansion plans. Based on our analysis, most companies are likely generating high returns against capital invested and can be ranked as follows: Bajaj Allianz, SBI Life, ICICI Prudential Life, HDFC Standard Life, Birla Sun Life and Max Newyork Life. We see the difference between Bajaj Allianz, SBI Life and other players reducing as their product portfolio become increasingly similar.

Risks: Volatile equity market, margin pressure, lower productivity

(1) ICICI Prudential Life data indicates stable NBAP margins. However, for the sector as a whole, we believe the increase in competition and higher surrenders could put margins at risk; (2) ULIP products, with close to 80% equity exposure, now drive a large part of the insurance business. A sustained fall in the market could thus impact volume growth for insurance players; (3) Growth in premium income is coming from expansion rather than from productivity gains, and could impact profitability if the trend sustains.

Automobiles

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		19-Sep	Target
Bajaj Auto	OP	2,512	2,750

Freight rates drop in Aug'2007

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- **Freight index down 1% mom; DAFI down 4% mom**
- **We expect freight rates to improve in 2HFY2008**

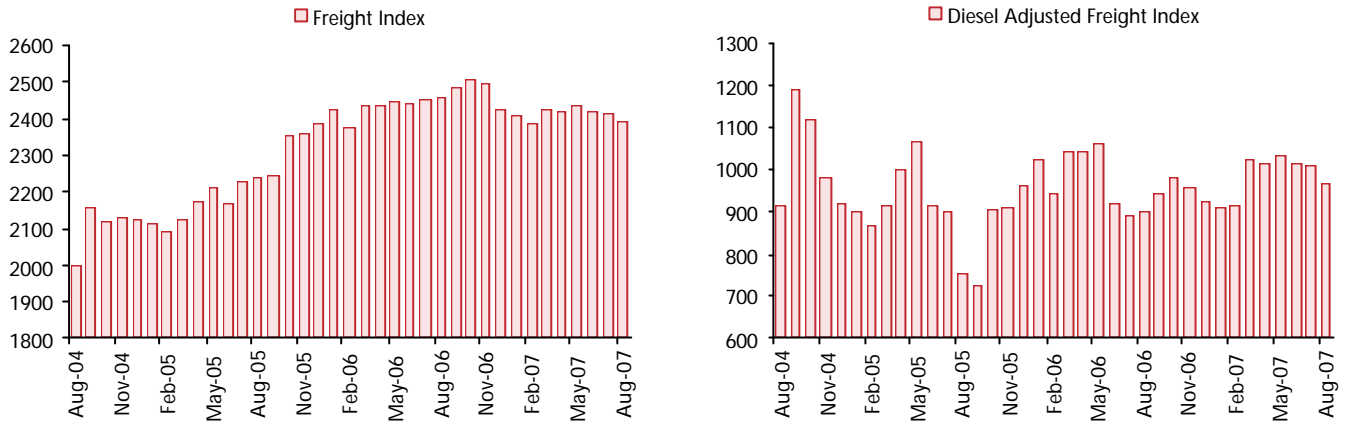
Freight rates have declined in August following a marginal decline in the previous month. Our freight index is down 1% mom while our diesel adjusted freight index (DAFI) is down 4% mom. Domestic M&HCV sales for August have grown 11% mom. On a yoy basis, our freight index has declined 3% while the DAFI has grown by 8%. This is mainly due to the increase in diesel prices by Rs1.50 in June 2006. The freight index has been declining consistently for the last 4 months. The fall in the freight index and the DAFI has been the steepest for August'07. The freight index has declined 1% since the beginning of FY2008 while the DAFI has fallen by 5.5%. Simultaneously, the CV volumes growth has also shown a negative trend with domestic CV volumes declining 26% YTD FY2008 and domestic M&HCV volumes declining 38% YTD FY2008. The declining trend in volumes is mainly due to the high interest rates.

We expect freight rates to recover in the second half of the fiscal year. Our talks with vehicle-financiers have indicated that the interest rates for CV financing are expected to decline over the next couple of months and that volumes should pick up. We believe that domestic CV volumes should see positive growth in 2HFY2008 as interest rates have peaked out.

Description of our proprietary Freight Index

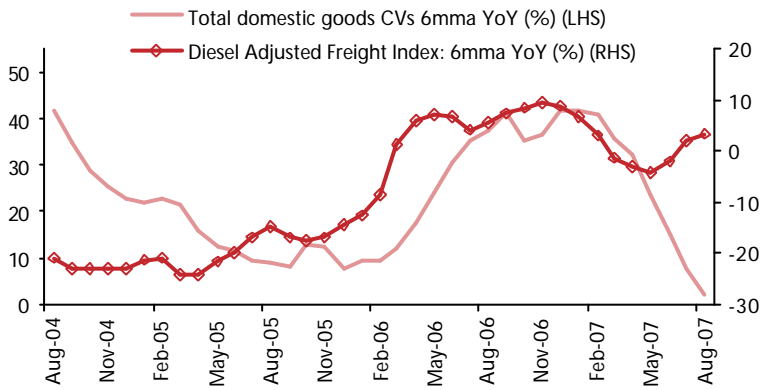
We track freight rates across 26 routes in India using our proprietary freight index (FI). We adjust the freight rates for diesel prices and arrive at a "Diesel adjusted freight index" (DAFI), which is a measure of the operating profitability of freight operators. Historically, our DAFI has been a good leading indicator to CV industry growth rates. DAFI growth rates have historically risen and fallen ahead of CV cycle upturns and downturns respectively.

Our freight index is down 1% mom while diesel adjusted freight index dropped 4% mom in August



Source: Kotak Institutional Equities

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

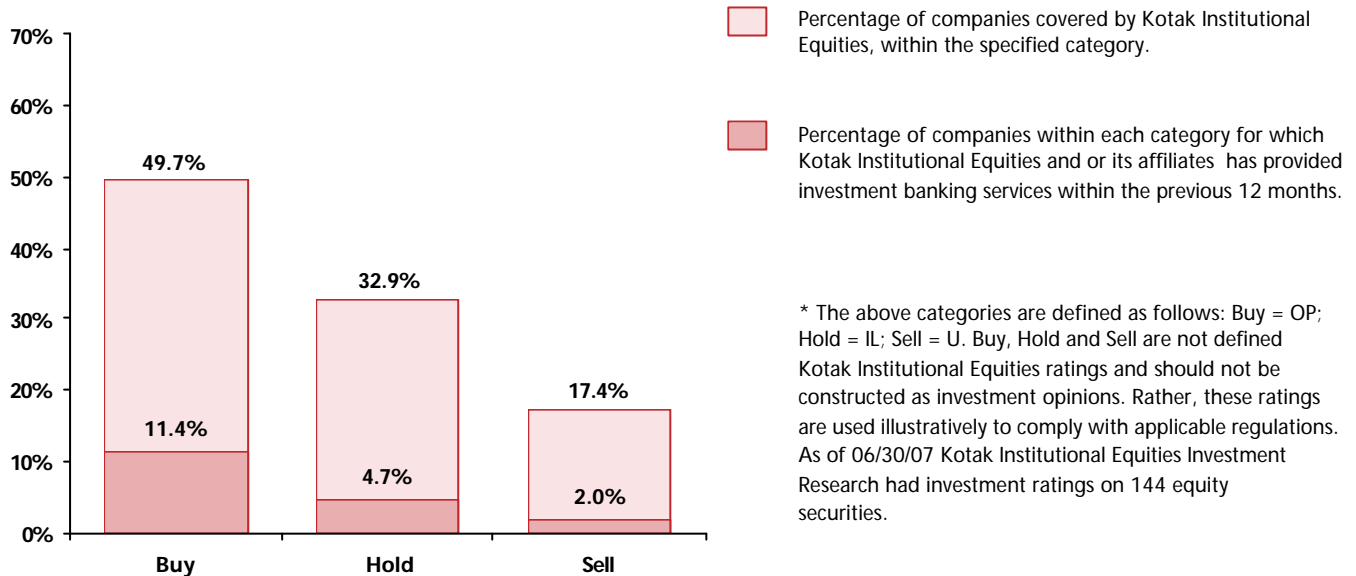


Source: SIAM, Kotak Institutional Equities

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Source: Kotak Institutional Equities.

As of June 30, 2007

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