

October 26, 2007

## India Strategy Friday Flash

BSE-30: 18,771

India

### Analysts

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#### Kotak Institutional Equities Research

Important disclosures appear at the back of this report.

**Volatile at high levels.** During the past week, Sensex remained highly volatile owing to uncertainties over SEBI's stance on regulation of participatory note investments in India. Sensex gained 773 points (4.3%) closing at 18,771. ICICI Bank and Larsen & Toubro were the largest gainers contributing 300 points to the Sensex rise. Going forward, we expect the movements in the market to be largely driven by forthcoming monetary policy by Reserve Bank of India and FOMC meeting on Federal Funds target rate.

### Market highlights for the week ending Thursday, October 25, 2007

- Largest gainers: LIC Housing Finance (22%), Tata Steel (18%), Suzlon Energy (17%)
- Largest losers: Tech Mahindra (-12%), I-flex Solutions (-8%), Sobha Developers (-7%)

#### Expected result announcement dates

Date	Companies
26-Oct	Tata Steel, L&T, ITC, HDIL, Lanco, Andhra Bank, Kotak Mahindra Bank, BEML, Bata India, Dredging Corp, Educomp Solutions, Godrej Industries and Pantaloon
27-Oct	Grasim, SBI, Jindal Saw, J&K Bank
29-Oct	M&M, HPCL, HDFC, Maruti Suzuki, Jet Airways, Sobha Developers, Sterlite
30-Oct	Nestle, Steel Authority of India, ONGC, IOC and Unitech

Source: Company, Bloomberg.

#### Flows in emerging markets

##### Flows in the cash markets

Date	Taiwan	Indonesia	Philippines	Thailand	India	Total
Investments in past week (US\$ mn)						
17-Oct-07	(176)	(5)	(3)	(54)	(440)	(679)
18-Oct-07	28	42	(8)	(37)	31	55
19-Oct-07	79	(18)	(4)	-	(797)	(741)
22-Oct-07	(811)	(4)	(13)	-	(300)	(1,128)
23-Oct-07	34	-	(16)	-	193	211
<b>Total</b>	<b>(846)</b>	<b>15</b>	<b>(45)</b>	<b>(91)</b>	<b>(1,314)</b>	<b>(2,281)</b>

# Our top recommendations

**Exhibit 1: Kotak Institutional Equities, Top 10, 25 October, 2007**

Companies	Sector	Rating	CMP	Mkt cap.	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)			Liquidity: 3mo
			(Rs)	(US\$ mn)	(Rs)	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	(Rs mn)
ICICI Bank	Banking	OP	1,146	30,130	1,200	34.6	36.0	49.1	33.1	31.8	23.3	—	—	—	3,780
Larsen & Toubro	Industrials	OP	3,456	25,041	2,725	65.1	88.0	112.4	53.1	39.3	30.8	34.2	24.6	19.1	270
ITC	Consumer Products	OP	183	17,340	225	7.2	8.3	9.6	25.3	22.0	19.1	16.1	13.7	11.6	1,298
Maruti Suzuki	Automobiles	OP	1,159	8,490	1,110	54.0	62.4	84.1	21.4	18.6	13.8	12.6	10.9	8.1	230
Bharat Heavy Electricals	Industrials	OP	2,289	28,403	2,025	49.3	66.4	84.1	46.4	34.5	27.2	25.2	19.0	14.9	2,635
Bajaj Auto	Automobiles	OP	2,496	6,400	2,750	127.2	114.5	151.9	19.6	21.8	16.4	13.6	14.6	11.5	607
NTPC	Utilities	IL	223	46,635	215	8.3	9.3	10.2	26.8	24.0	21.8	17.6	17.3	17.4	1,908
Aditya Birla Nuvo	Diversified	OP	1,606	3,799	1,660	24.2	22.9	26.6	66.3	70.2	60.5	31.2	29.1	26.1	269
Punjab National Bank	Banking	OP	523	4,183	610	48.8	55.2	63.3	10.7	9.5	8.3	0.0	0.0	0.0	404
<b>Mid Cap Basket</b>															
Andhra Bank	Banking	OP	88	1,077	120	11.1	12.4	13.0	7.9	7.1	6.7	—	—	—	137
Kalpataru Power Transmission	Transmission	OP	1,681	1,129	1,650	60.2	77.4	91.8	27.9	21.7	18.3	17.4	13.8	11.3	43
Mahindra Gesco	Property	OP	599	637	920	8.9	11.3	47.5	67.6	52.9	12.6	41.4	32.6	10.6	191
Nagarjuna Construction Co.	Construction	OP	281	1,651	300	6.5	10.3	14.0	43.2	27.2	20.1	27.5	16.1	12.6	309
PSL	Pipes	OP	384	403	460	20.2	26.4	43.5	19.0	14.6	8.8	11.1	8.7	5.8	50
<b>BSE-30</b>			<b>18,771</b>												

Source: Company, Bloomberg, Kotak Institutional Equities.

# Our model portfolio

## Exhibit 2: Kotak Institutional Equities Model Portfolio

Company	25-Oct		Weightage (%)		Diff.	Company	25-Oct		Weightage (%)		Diff.
	Price (Rs)	Rating	BSE-30	KS reco.	KS Reco.		Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Tata Motors	793	—	1.6	0.0	(160)	Bharat Heavy Electricals	2,289	OP	3.0	5.0	200
Maruti Suzuki	1,159	OP	1.0	3.0	200	ABB	1,434	OP	—	1.5	150
Bajaj Auto	2,496	OP	1.5	2.5	100	Larsen & Toubro	3,456	OP	6.2	8.2	200
Mahindra & Mahindra	773	—	1.3	2.3	100	<b>Industrials</b>			<b>9.2</b>	<b>14.7</b>	<b>550</b>
<b>Automobiles</b>			<b>5.4</b>	<b>7.8</b>	<b>240</b>	Tata Steel	989	IL	4.3	2.3	(200)
State Bank of India	1,945	IL	3.7	2.2	(150)	Hindalco Industries	192	OP	1.4	1.4	—
Punjab National Bank	523	OP	—	2.0	200	Sterlite Industries	923	OP	—	1.5	150
Andhra Bank	88	OP	—	0.6	60	<b>Metals</b>			<b>5.8</b>	<b>5.3</b>	<b>(50)</b>
<b>PSU Banking</b>			<b>3.7</b>	<b>4.8</b>	<b>110</b>	Ranbaxy Laboratories	430	—	1.0	—	(96)
HDFC Bank	1,541	IL	3.2	2.7	(50)	Dr Reddy's Laboratories	615	—	0.7	—	(68)
ICICI Bank	1,146	OP	9.1	12.1	300	Cipla	187	—	0.8	—	(78)
HDFC	2,525	IL	5.4	2.9	(250)	<b>Pharmaceuticals</b>			<b>2.4</b>	<b>—</b>	<b>(243)</b>
<b>Pvt Banking/Financing</b>			<b>17.7</b>	<b>17.7</b>	<b>—</b>	Infosys Technologies	1,840	OP	8.1	5.8	(225)
Grasim Industries	3,706	IL	2.1	2.1	—	Satyam Computer Services	460	OP	2.4	1.4	(100)
ACC	1,061	U	1.1	—	(114)	TCS	1,050	IL	1.8	—	(175)
Ambuja Cements	146	IL	1.5	—	(149)	Wipro	496	OP	1.1	1.1	—
<b>Cement</b>			<b>4.7</b>	<b>2.1</b>	<b>(263)</b>	<b>Technology</b>			<b>13.3</b>	<b>8.3</b>	<b>(500)</b>
Hindustan Unilever	221	IL	2.0	—	(204)	Bharti Airtel Limited	1,020	U	5.3	3.1	(225)
ITC	183	OP	4.0	6.0	200	Reliance Communications	750	U	3.8	1.3	(250)
<b>Consumers</b>			<b>6.1</b>	<b>6.0</b>	<b>(4)</b>	<b>Telecom</b>			<b>9.1</b>	<b>4.3</b>	<b>(475)</b>
Aditya Birla Nuvo	1,606	OP	—	2.0	200	NTPC	223	IL	2.3	4.3	200
<b>Diversified</b>			<b>—</b>	<b>2.0</b>	<b>200</b>	Reliance Energy	1,650	NR	2.1	2.1	—
Reliance Industries	2,628	0	14.6	13.1	(155)	<b>Utilities</b>			<b>4.4</b>	<b>6.4</b>	<b>200</b>
Oil & Natural Gas Corporation	1,114	OP	3.5	3.5	—	Nagarjuna Construction Co.	281	OP	—	0.6	60
Reliance Petroleum	191	IL	—	1.5	150	Mahindra Gesco	599	OP	—	0.6	60
<b>Energy</b>			<b>18.1</b>	<b>18.1</b>	<b>(5)</b>	Kalpataru Power Transmission	1,681	OP	—	0.6	60
Note:						PSL	384	OP	—	0.6	60

(a) weightages are with respect to October 4, 2007 prices.

Source: BSE, Bloomberg, Kotak Institutional Equities.

# Sensex valuation summary

**Exhibit 3: Valuation summary of BSE-30 sectors, 25 October, 2007**

	Mkt-cap. (US\$ mn)	EPS growth (%)				PER (X)			EV/EBITDA (X)		Price/BV (X)		Div Yield (%)		RoE (%)	
		2006	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2007	2008E	2007	2008E	2007	2008E
Banking	87,958	13.3	14.2	23.2	29.1	33.5	27.2	21.1	—	—	5.5	3.4	0.7	0.8	16.5	12.7
Technology	78,889	28.6	44.4	21.3	22.2	25.6	21.1	17.3	19.1	15.2	8.6	6.7	1.0	1.5	33.5	31.8
Consumers	29,642	21.2	19.4	15.2	14.3	27.6	23.9	20.9	18.8	15.2	8.6	7.6	2.3	2.4	31.3	31.8
Pharmaceuticals	10,303	(15.1)	136.7	(17.3)	20.2	17.9	21.6	18.0	13.0	14.5	3.8	3.4	1.4	1.4	21.2	15.6
Metals	27,916	6.3	33.1	(3.3)	(11.6)	15.9	16.4	18.6	10.1	9.9	3.7	2.2	1.0	1.1	23.5	13.7
Automobiles	28,064	26.3	28.9	8.9	25.0	19.8	18.2	14.6	10.5	9.4	4.6	3.9	1.3	1.3	23.3	21.3
Energy	157,197	16.9	19.9	18.1	17.0	21.1	17.9	15.3	10.5	9.2	3.9	3.4	1.3	1.4	18.4	19.0
Industrials	53,444	57.2	56.3	35.8	28.0	49.7	36.6	28.6	28.9	21.4	13.1	10.0	0.4	0.5	26.4	27.4
Cement	19,293	27.7	89.5	21.7	8.0	17.6	14.4	13.4	10.2	8.0	4.7	3.6	1.1	1.3	26.5	25.1
Telecom	87,941	(107.4)	182.9	63.9	33.8	47.9	29.2	21.8	25.4	16.4	10.0	7.6	0.0	0.2	20.9	26.0
Utilities	56,156	17.0	16.1	11.4	9.1	29.1	26.1	23.9	15.5	15.7	3.8	3.5	1.2	1.5	12.9	13.3
<b>BSE-30</b>	<b>636,800</b>	<b>20.4</b>	<b>34.5</b>	<b>19.9</b>	<b>19.0</b>	<b>26.6</b>	<b>22.2</b>	<b>18.7</b>	<b>14.5</b>	<b>12.3</b>	<b>5.4</b>	<b>4.3</b>	<b>1.0</b>	<b>1.1</b>	<b>20.4</b>	<b>19.3</b>
<b>BSE-30 ex-Energy</b>	<b>479,603</b>	<b>22.4</b>	<b>42.3</b>	<b>20.7</b>	<b>19.9</b>	<b>29.1</b>	<b>24.1</b>	<b>20.1</b>	<b>17.1</b>	<b>14.2</b>	<b>6.3</b>	<b>4.7</b>	<b>0.8</b>	<b>1.0</b>	<b>21.5</b>	<b>19.4</b>
<b>BSE-30 ex-Energy, Com.</b>	<b>432,395</b>	<b>24.7</b>	<b>40.7</b>	<b>23.8</b>	<b>24.0</b>	<b>31.8</b>	<b>25.7</b>	<b>20.7</b>	<b>19.0</b>	<b>15.5</b>	<b>6.6</b>	<b>5.1</b>	<b>0.8</b>	<b>1.0</b>	<b>20.9</b>	<b>19.9</b>

Source: Company reports, Kotak Institutional Equities estimates.

# Nifty valuation summary

**Exhibit 4: Valuation summary of Nifty sectors, 25 October, 2007**

	Mkt cap. (US\$ mn)	EPS growth (%)				PER (X)			EV/EBITDA (X)			Price/BV (X)		Div Yield (%)		RoE (%)	
		2006	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2007E	2008E	2007E	2008E
Banking	92,140	11.6	13.2	21.3	22.1	30.5	25.2	20.6	—	—	—	5.1	3.3	0.8	0.8	16.6	12.9
Technology	84,178	28.3	46.8	19.0	21.6	24.7	20.8	17.1	18.3	15.0	11.9	8.0	6.3	1.1	1.5	32.2	30.6
Consumers	29,642	21.2	19.4	15.2	14.3	27.6	23.9	20.9	18.8	15.2	13.0	8.6	7.6	2.3	2.4	31.3	31.8
Metals	39,297	20.7	65.6	(9.6)	(5.0)	11.1	12.3	12.9	6.5	6.5	6.7	3.2	1.9	1.0	1.1	28.7	15.5
Automobiles	31,796	25.1	21.5	7.8	22.8	19.5	18.1	14.7	10.3	9.4	7.5	4.7	4.0	1.4	1.5	24.2	21.9
Energy	192,787	8.8	26.9	16.8	22.0	21.9	18.8	15.4	11.0	10.0	8.1	3.6	3.2	1.3	1.4	16.7	17.1
Industrials	82,220	64.0	46.7	38.0	37.8	55.6	40.3	29.2	32.8	23.7	17.5	14.7	11.2	0.3	0.4	26.5	27.8
Cement	19,293	27.7	89.5	18.1	9.4	17.6	14.9	13.6	10.2	8.2	7.3	4.7	3.7	1.1	1.3	26.5	24.6
Telecom	94,801	(53.9)	133.2	58.6	31.7	45.7	28.8	21.9	23.7	15.6	12.1	7.1	5.8	0.2	0.3	15.6	20.2
Utilities	62,755	18.3	14.1	13.7	11.0	30.5	26.8	24.2	16.1	16.4	16.9	3.8	3.5	1.2	1.4	12.5	13.0
Media	3,722	(34.6)	11.2	52.0	41.7	61.9	40.7	28.7	46.5	23.0	17.2	5.6	5.1	0.4	0.6	9.1	12.6
Property	14,209	151.9	1,389.1	19.2	70.6	43.0	36.0	21.1	28.1	24.8	15.1	28.1	16.7	—	0.3	65.4	46.2
<b>NIFTY</b>	<b>764,687</b>	<b>18.2</b>	<b>39.3</b>	<b>17.0</b>	<b>20.4</b>	<b>26.0</b>	<b>22.2</b>	<b>18.4</b>	<b>14.2</b>	<b>12.6</b>	<b>10.6</b>	<b>5.1</b>	<b>4.1</b>	<b>1.0</b>	<b>1.1</b>	<b>19.8</b>	<b>18.4</b>
<b>NIFTY ex-Energy</b>	<b>571,901</b>	<b>23.4</b>	<b>45.4</b>	<b>17.1</b>	<b>19.8</b>	<b>27.7</b>	<b>23.7</b>	<b>19.8</b>	<b>16.1</b>	<b>14.1</b>	<b>12.1</b>	<b>6.0</b>	<b>4.5</b>	<b>0.8</b>	<b>1.0</b>	<b>21.6</b>	<b>19.0</b>
<b>NIFTY ex-Energy ex Com</b>	<b>532,603</b>	<b>23.9</b>	<b>41.8</b>	<b>22.7</b>	<b>23.6</b>	<b>31.2</b>	<b>25.4</b>	<b>20.6</b>	<b>18.9</b>	<b>15.8</b>	<b>13.0</b>	<b>6.4</b>	<b>5.0</b>	<b>0.8</b>	<b>1.0</b>	<b>20.5</b>	<b>19.7</b>

Note:

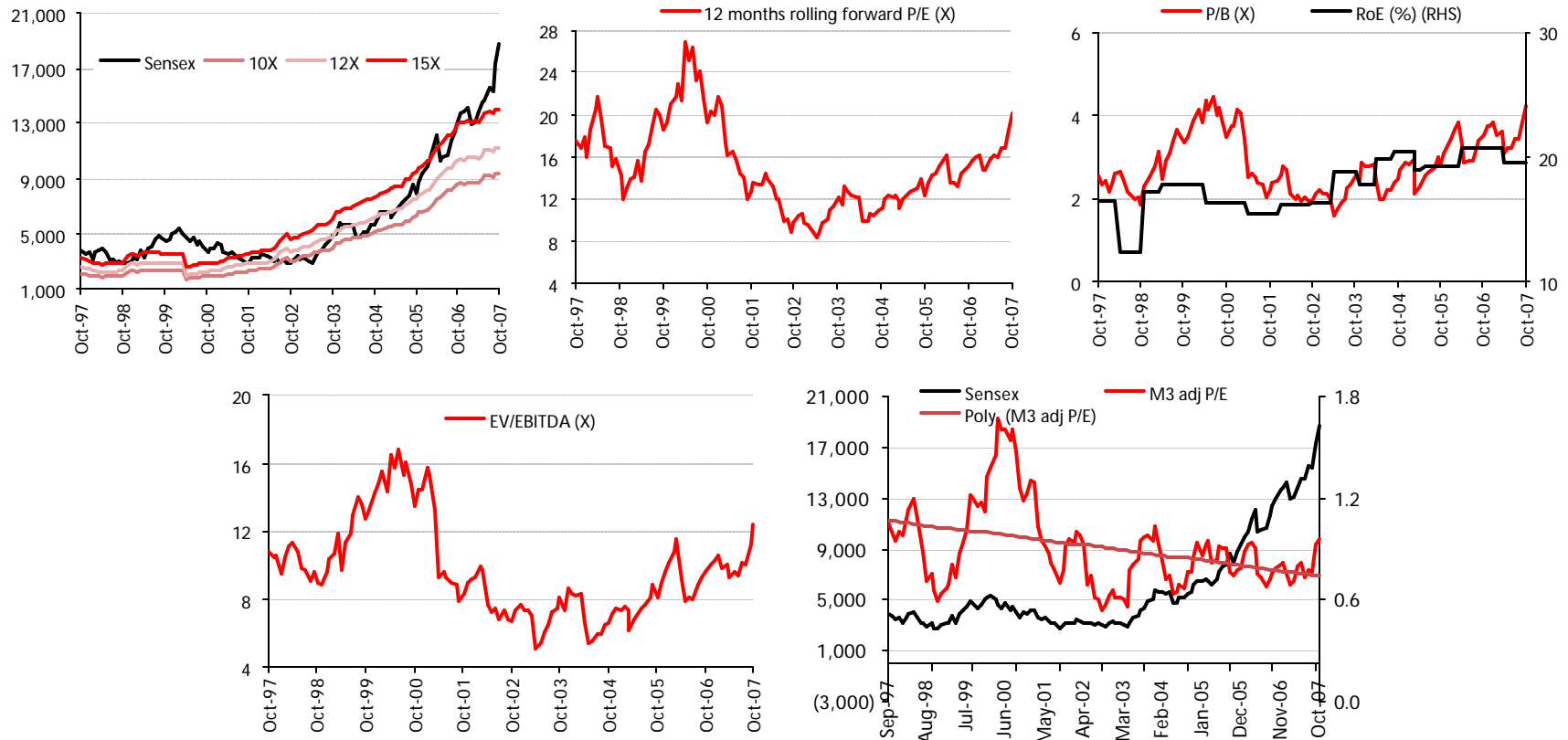
(a) Following companies are excluded: SAIL

Source: Company reports, Kotak Institutional Equities estimates.

# BSE-Sensex key parameters

## Exhibit 5: Key fundamental indicators of BSE Sensex

Sensex (BSE-30) P/B, EV/EBITDA and 12-month forward rolling P/E, April 1997 - current



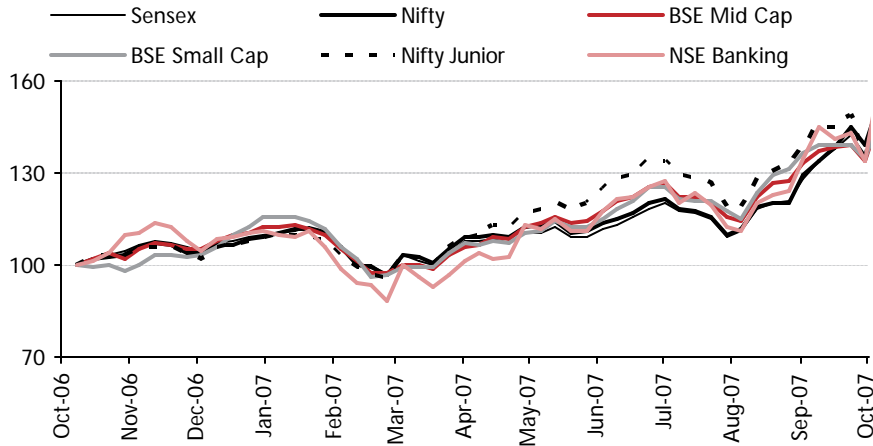
Source: Bloomberg, Company reports, Kotak Institutional Equities.

## Market performance

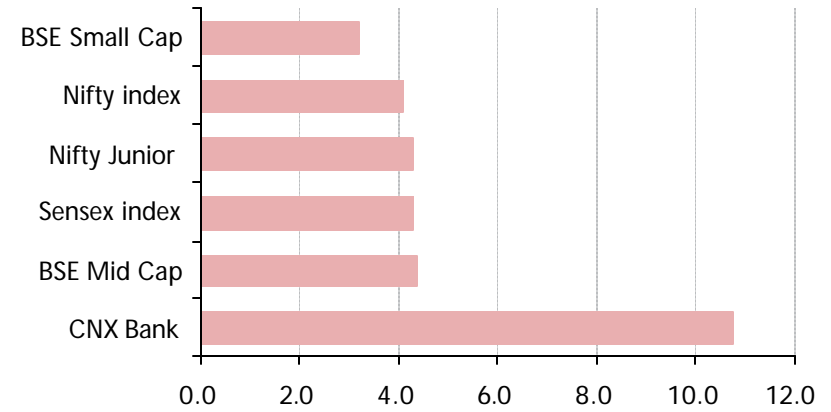
- Performance of benchmark indices
- Performance of global indices
- Pricing performance of Sensex sectors
- Top gainers and losers (Stocks under Kotak coverage)
- Price-to-Earnings ratio analysis
- EV-to-EBITDA ratio analysis
- Volume momentum analysis

# Relative performance of Indian markets

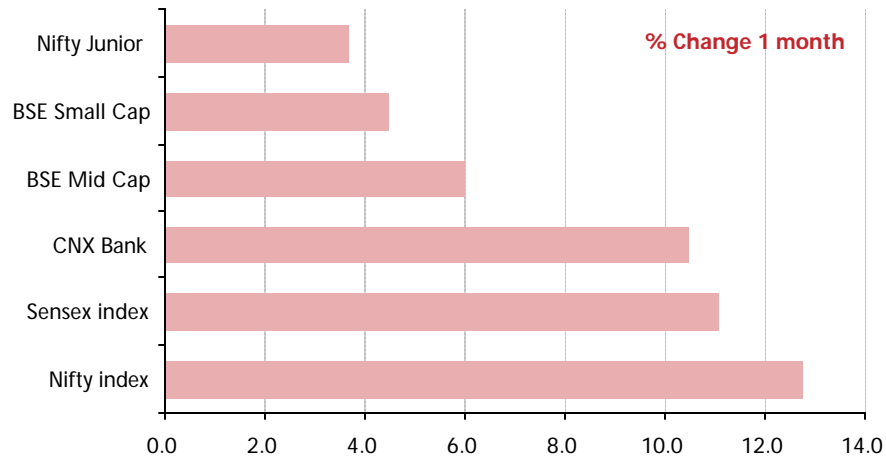
**Exhibit 6: Key performance of benchmark indices**  
(base 100 as of October 22, 2006)



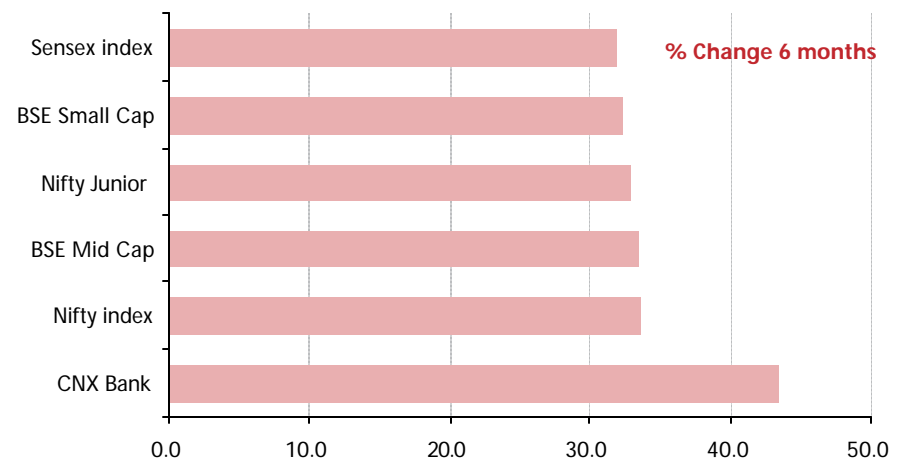
**Exhibit 7: Weekly performance of the benchmark indices**



**Exhibit 8: 1-month performance of the benchmark indices**



**Exhibit 9: 6-month performance of the benchmark indices**

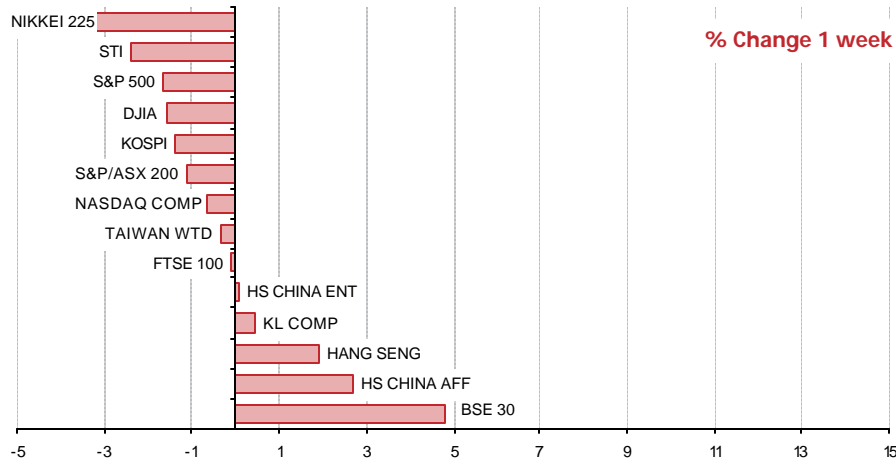


Source: Bloomberg, Kotak Institutional Equities.

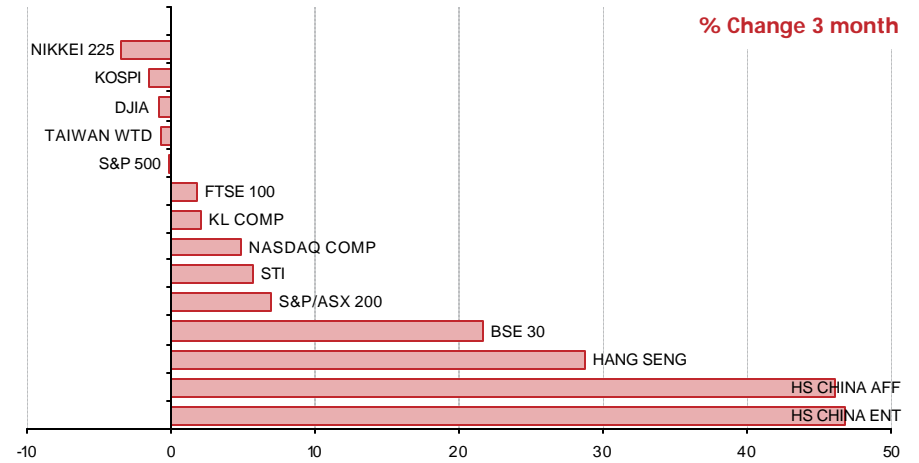


# BSE-Sensex versus regional indices

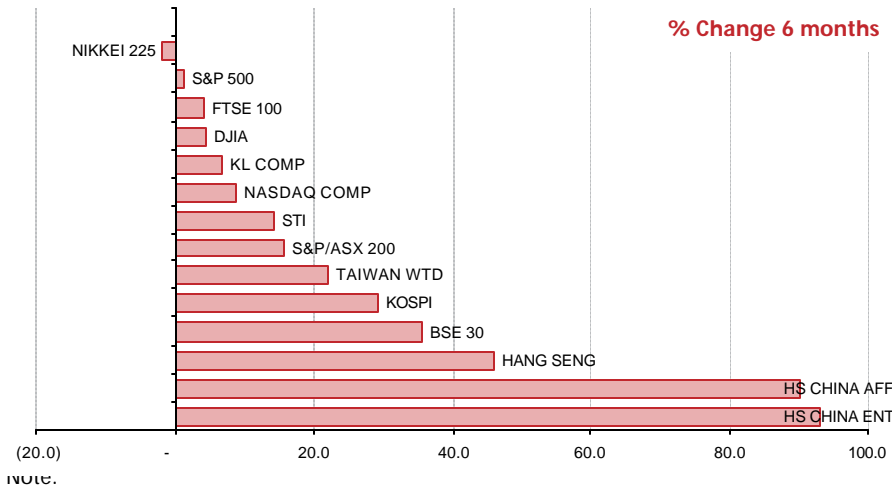
**Exhibit 10: Weekly performance**



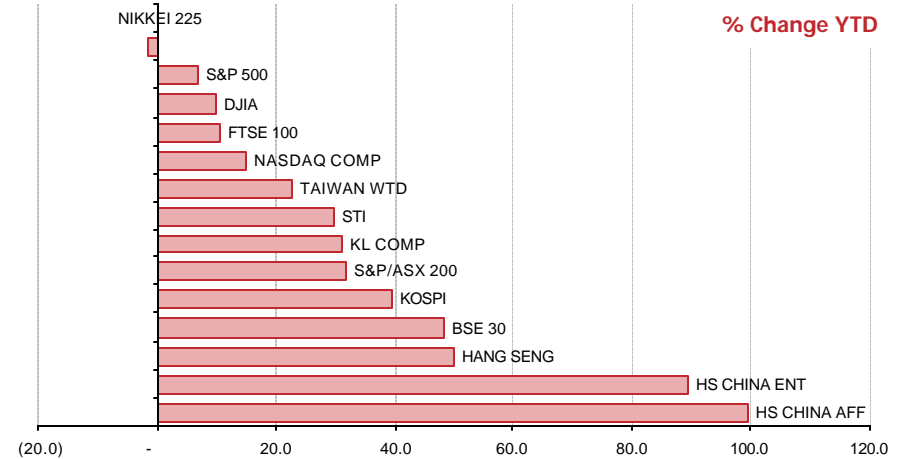
**Exhibit 11: 3-month performance**



**Exhibit 12: 6-month performance**



**Exhibit 13: Year-to-date performance**



(a) Returns are adjusted for the currency changes

Source: Bloomberg, BSE, Kotak Institutional Equities.

# Sectoral performance

Exhibit 14: Market performance of Sensex sectors, 25 October, 2007

	Mkt cap.	Change (%)						Relative change (%)			
	(US\$ m)	1-Day	1-mo	3-mo	6-mo	1-Year	CYTD	1-Day	1-mo	6-mo	1-Year
Banking	87,958	2.3	10.3	23.4	41.2	70.7	43.7	0.9	(0.7)	7.0	14.8
Technology	78,889	0.5	7.1	(6.2)	(10.4)	(5.9)	(15.4)	(0.8)	(3.5)	(32.1)	(36.7)
Consumers	29,642	0.4	(2.5)	9.8	9.3	(2.2)	3.0	(1.0)	(12.2)	(17.2)	(34.2)
Pharmaceuticals	10,303	(2.4)	3.0	6.5	(9.7)	(13.4)	(14.3)	(3.7)	(7.2)	(31.6)	(41.8)
Metals	27,916	6.5	28.3	29.6	60.5	62.5	71.5	5.0	15.5	21.6	9.3
Automobiles	28,064	2.2	6.7	14.5	13.2	1.4	(2.0)	0.8	(3.9)	(14.2)	(31.8)
Energy	157,197	0.6	13.2	30.2	40.8	83.9	67.3	(0.7)	1.9	6.6	23.6
Industrials	53,444	1.1	17.2	30.8	92.9	118.9	116.3	(0.3)	5.5	46.1	47.2
Cement	19,293	0.6	0.7	13.8	35.0	25.2	12.8	(0.8)	(9.3)	2.3	(15.8)
Telecom	87,896	2.0	13.9	17.4	33.0	104.1	60.9	0.6	2.6	0.7	37.3
Utilities	56,156	0.6	19.2	42.0	56.9	93.9	78.2	(0.7)	7.3	18.8	30.4
<b>Sensex sum</b>	<b>636,755</b>	<b>1.4</b>	<b>11.1</b>	<b>19.6</b>	<b>32.0</b>	<b>48.7</b>	<b>36.2</b>				

Source: Kotak Institutional Equities.

# Top gainers and losers

Exhibit 15: Top gainers and losers (stocks in Kotak Institutional Equities universe)

## 1-week performance

Top Gainers		Top Losers	
Company	% Change	Company	% Change
1 LIC Housing Finance	21.6	1 Tech Mahindra	(12.3)
2 Tata Steel	18.3	2 i-flex solutions	(7.5)
3 Suzlon Energy	16.8	3 Sobha	(6.6)
4 State Bank of India	15.9	4 Hindustan Zinc	(6.5)
5 Canara Bank	15.4	5 TCS	(6.1)
6 JSW Steel	15.1	6 KEC	(6.1)
7 Asian Paints	14.0	7 JSL	(5.9)
8 Punj	13.4	8 TVS Motor Co	(5.9)
9 VSNL	13.0	9 UltraTech Cement	(5.3)
10 IDFC	12.4	10 Ashok Leyland	(4.9)

## CYTD performance

Top Gainers		Top Losers	
Company	% Change	Company	% Change
1 Educomp Solutions	257.5	1 Vardhman	(48.4)
2 Jindal Steel and power	249.6	2 Hexaware Technologies	(43.8)
3 Welspun Gujarat Stahl Rohrer	248.8	3 Rico Auto	(42.1)
4 India Infoline	225.0	4 TVS Motor Co	(37.6)
5 Reliance Energy	217.4	5 Polaris Software Lab	(35.0)
6 Reliance Petroleum	204.1	6 Mahindra Gesco	(31.7)
7 JSW Steel	152.4	7 Tech Mahindra	(26.5)
8 ABG Shipyard	147.6	8 Hotel Leela	(25.8)
9 SREI	141.1	9 Cipla	(25.5)

## 1- month performance

Top Gainers		Top Losers	
Company	% Change	Company	% Change
1 iGate Global Solutions	67.6	1 TVS Motor Co	(22.5)
2 Reliance Energy	51.7	2 Maharashtra Seamless	(15.9)
3 Sesa Goa	48.4	3 Container Corporation	(15.2)
4 Jindal Steel and power	45.0	4 i-flex solutions	(14.9)
5 Punj	37.4	5 Ashok Leyland	(14.3)
6 LANCO	35.7	6 Godrej Consumer Products	(13.6)
7 GE Shipping	34.1	7 Motherson Sumi	(12.9)
8 Tata Power	33.7	8 Indian Bank	(12.4)
9 Tata Steel	33.0	9 Hindustan Petroleum	(11.4)
10 Suzlon Energy	32.6	10 Lakshmi	(10.8)

## 1-year performance

Top Gainers		Top Losers	
Company	% Change	Company	% Change
1 Educomp Solutions	433.2	1 Rico Auto	(54.5)
2 India Infoline	407.6	2 TVS Motor Co	(53.3)
3 Jindal Steel and power	354.7	3 Vardhman	(51.6)
4 Welspun Gujarat Stahl Rohrer	342.1	4 Hexaware Technologies	(35.5)
6 Reliance Energy	254.5	5 Aventis Pharma	(31.8)
7 Sesa Goa	207.1	6 Godrej Consumer Products	(29.9)
8 Divi's Laboratories	196.4	7 Cipla	(27.3)
9 Reliance Petroleum	193.2	8 Hotel Leela	(26.3)
10 JSW Steel	192.6	9 Mahindra Gesco	(25.8)
11 Punj	181.3	10 Hindustan Petroleum	(25.7)

Source: Kotak Institutional Equities.

## Fundamental & technical indicators

- **Price-to-Earnings ratio analysis**
- **EV-EBTDA ratio analysis**
- **Volume momentum analysis**

# Price-to-Earnings ratio analysis

**Exhibit 16 and 17: Companies trading at a premiums/discounts to the sector based on comparable companies covered by Kotak Institutional Equities**

Premium to 1 year rolling forward P/E (%)		Discount to 1 year rolling forward P/E (%)	
Company	Premium to sector	Company	Discount to sector
GVKPIL	186.2	Monnet Ispat	79.0
Reliance Energy	183.4	Dredging Corporation	69.2
Aditya Birla Nuvo	176.1	Andhra Bank	63.3
HDFC	175.4	Maharashtra Seamless	62.4
Jet Airways	165.4	Canara Bank	55.2
Reliance Industries	156.3	Bank of Baroda	54.6
i-flex solutions	155.7	Punjab National Bank	53.5

**Exhibit 19: Companies trading at lowest P/E in the Kotak universe**

Lowest 1 year rolling forward P/E (X)	
Company	Lowest P/E
LIC Housing Finance	6.0
Andhra Bank	6.9
Hindustan Petroleum	7.1
Monnet Ispat	7.7
Canara Bank	8.4
Bank of Baroda	8.5
Indian Oil Corporation	8.7
Punjab National Bank	8.7
Ipca Laboratories	9.1
Oriental Bank of Commerce Corporation Bank	9.6

**Exhibit 20: Companies trading at highest P/E in the Kotak universe**

Highest 1 year forward P/E (X)	
Company	Highest P/E
Aditya Birla Nuvo	64.2
GVKPIL	46.7
Reliance Energy	46.0
ABB	45.8
Siemens	42.7
Divi's Laboratories	36.7
HDFC	32.9
Zee Entertainment Enterprises	32.7
Suzlon Energy	32.3
Bharat Heavy Electricals	29.8
Tata Power	29.3

**Exhibit 18: Companies trading at all-time high historical P/Es, indicating re-rating of the multiples by market**

Company	% discount to historical high
ABB	0.0
Asian Paints	0.0
Bharat Electronics	0.0
Bharat Heavy Electricals	0.0
CESC	0.0
GAIL (India)	0.0
GE Shipping	0.0
HDFC	0.0
HDFC Bank	0.0
Larsen & Toubro	0.0
NTPC	0.0
Reliance Energy	0.0
Reliance Industries	0.0
Axis Bank	0.0
VSNL	0.0
IDFC	0.0
Sintex	0.0

Note:

(a) Historical figures are generated since May 2000.

Source: Bloomberg, Kotak Institutional Equities

# Enterprise Value-to-EBITDA ratio analysis

**Exhibit 21 and 22: Companies trading at a premium to the sector based on comparable companies covered by Kotak Institutional Equities. Analysis done on 1- year forward EV -EBITDA**

**Trading at premium to the sectors**  
**Premium to 1 year rolling forward EV/EBITDA (%)**

Company	Sector premium
Petronet LNG	176.1
Gateway Distriparks	167.3
Castrol India	163.7
Jindal Steel and Power	158.5
GAIL (India)	157.4

**Trading at discount to sectors**  
**Discount to 1 year rolling forward EV/EBITDA (%)**

Company	Sector discount
Dredging Corporation	29.7
Polaris Software Lab	41.8
Novartis India	47.1
Abbott India	47.6
Bharat Electronics	47.8

**Exhibit 23: Companies trading at highest EV/EBITDA amongst the Kotak coverage list**

**Highest 1 year rolling forward EV/EBITDA (X)**

Company	Highest EV/EBITDA
Reliance Energy	45.5
Divi's Laboratories	28.0
ABB	27.2
Aditya Birla Nuvo	27.1
Siemens	25.0
Larsen & Toubro	23.8
Suzlon Energy	20.8

**Exhibit 24: Companies trading at lowest EV/EBITDA amongst the Kotak coverage list**

**Lowest 1 year rolling forward EV/EBITDA (X)**

Company	Lowest EV/EBITDA
Bharat Petroleum	4.5
Hindustan Petroleum	4.1
Indian Oil Corporation	4.7
Oil & Natural Gas Corporation	4.8
TVS Motor Co	5.0
Rico Auto	5.1
National Aluminium Co	5.2
Novartis India	6.0

Source: Bloomberg, Kotak Institutional Equities

# Technical indicators

## Exhibit 25: Volume momentum analysis

### Volume Positive Momentum (5-day volume v/s 30-day volume)

Company	5-day average volumes	Increase (%)	Price Change (%)
			(1month basis %)
HDFC	697,686	259	5.5
Apollo Hospital	69,654	241	(2.9)
Container Corporation	236,181	215	(15.2)
MTNL	2,951,125	146	13.9
LIC Housing Finance	591,928	137	23.0
Bharti Airtel Ltd	1,084,875	110	5.8
ICICI Bank	1,915,070	110	(2.2)

### Volume Negative Momentum (5-day volume v/s 30-day volume)

Company	5-day average volumes	% decrease	Price Change (%)
			(1month basis %)
Sintex	159,361	(87)	18.8
Torrent Pharma	26,723	(82)	(2.2)
Abbott India	1,886	(71)	(1.4)
Bharat Petroleum	42,889	(69)	2.0
Nicholas Piramal	20,640	(67)	6.2
Motherson Sumi	2,789	(66)	(12.9)
iGate Global Solutions	34,002	(64)	67.6

Date	Sensex	Avg daily value traded	Institutional participation in total turnover		Sensex Put-Call delivery	Put-Call (X)
		(US\$ mn)	FII%	MF%	(%)	
Apr-07	13,872	2,776	18.0	4.7	49.2	1.12
May-07	14,544	3,420	16.3	4.5	49.8	1.38
Jun-07	14,651	3,327	17.6	3.9	49.9	1.44
Jul-07	15,551	4,309	18.6	4.4	49.8	1.38
Aug-07	15,318	3,742	18.6	4.3	45.2	1.32
Sep-07	17,291	4,703	16.0	4.2	48.0	1.23
<b>Oct-07</b>	<b>18,771</b>	<b>6,923</b>	<b>18.8</b>	<b>3.4</b>	<b>48.0</b>	<b>1.33</b>

Source: Bloomberg, Kotak Institutional Equities.

## Earnings momentum

**Top upgrades and downgrades in 2008 estimates in the past month**

- **Top changes in target prices in the past month**
- **Top changes in ratings in the past month**



# Top upgrades/downgrades

## Exhibit 26: Kotak Institutional Equities earning upgrades/downgrades in the past 1 month

### FY2008 earnings upgrades (KIE) (1 month)

	Company	% Change
1	Cairn India	124.2
2	India Infoline	21.0
3	UltraTech Cement	20.3
4	LIC Housing Finance	16.8
5	GlaxoSmithkline Consumer (a)	13.8
6	Asian Paints	11.7
7	CESC	11.3
8	PFC	10.9

### FY2008 earnings downgrades (KIE) (1 month)

	Company	% Change
1	Hexaware Technologies	(19.2)
2	Sobha	(14.9)
3	Polaris Software Lab	(13.5)
4	Suzlon Energy	(10.3)
5	Aditya Birla Nuvo	(8.5)
6	Tech Mahindra	(8.2)
7	GAIL (India)	(7.7)
8	Sun TV Network	(7.1)

Source: Kotak Institutional Equities, Bloomberg.

# Changes in our target prices

## Exhibit 28: Changes in target prices in the past 1 month

### Upgrades in target prices (1 month)

	Company	% Change	New	Old
1	India Infoline	56.7	1,050	670
2	Axis Bank	49.1	850	570
3	Nagarjuna Construction Co.	35.7	300	221
4	Welspun Gujarat Stahl Rohre	35.7	285	210
5	Suzlon Energy	27.6	1,850	1,450
6	Punj	23.0	375	305
7	IDFC	20.8	145	120
8	PFC	20.0	150	125
9	ABB	18.9	1,575	1,325
10	Glaxo Smithkline Consumer	15.2	720	625
11	UltraTech Cement	13.3	850	750
12	LIC Housing Finance	12.5	270	240
13	Asian Paints	12.4	1,000	890
14	PSL	9.5	460	420
15	HT Media	9.1	240	220
16	GE Shipping	9.0	365	335
17	GAIL (India)	8.6	380	350
18	Petronet LNG	7.5	57	53
19	Indian Bank	7.4	145	135
20	HDFC Bank	4.0	1,300	1,250
21	Zee Entertainment Enterpris	4.0	260	250

### Downgrades in target prices (1 month)

	Company	% Change	New	Old
1	Godrej Consumer Products	(24.3)	140	185
2	DishTV	(20.0)	80	100
3	Tech Mahindra	(13.3)	1,300	1,500
4	Container Corporation	(9.3)	2,200	2,425
5	HCL Technologies	(8.3)	330	360
6	Hexaware Technologies	(7.1)	130	140
7	TCS	(5.8)	1,225	1,300
8	Mindtree	(3.6)	530	550
9	Satyam Computer Services	(3.5)	550	570
10	Sun TV Network	(3.2)	300	310
11	Infosys Technologies	(2.2)	2,200	2,250

Source: Kotak Institutional Equities.

# Changes in our ratings

**Exhibit 29: Changes in ratings in the past 1 month**

Company name		Rating	
		Current	Previous
Mindtree	Upgraded	IL	U
India Infoline	Upgraded	IL	U
Reliance Petroleum	Downgraded	IL	OP
Sobha	Downgraded	IL	OP
DishTV	Downgraded	IL	OP
Shriram Transport	Downgraded	U	OP
Punj	Upgraded	OP	IL
HT Media	Upgraded	OP	IL

Source: Kotak Institutional Equities.

## Flows

- **Trend in equity flows**
- **FII flows in other emerging markets**
- **IPO analysis**
- **Delivery position analysis**

# Trend in equity flows

**Exhibit 31: Net investments by mutual funds and FII in the cash market (US\$ mn)**

	FII	MF
CY 1999	1,537	0
CY 2000	1,462	(150)
CY 2001	2,807	(1,110)
CY 2002	751	(685)
CY 2003	6,658	118
CY2004	8,382	(217)
CY 2005	10,776	2,873
CY 2006	8,632	3,585
<b>CY 2007</b>	<b>16,403</b>	<b>(314)</b>
Jan	40	(298)
Feb	1,249	(61)
March	317	(365)
April	1,257	217
May	1,085	401
June	1,759	100
July	4,530	(218)
August	(1,861)	1,037
September	4,645	(187)
October	3,384	(941)

**Exhibit 32: Net foreign flows in the Derivatives market (US\$ mn)**

	Index Futures	Index Options	Stock Futures	Stock Options
<b>CY2004</b>	(91)	608	(796)	4
<b>CY2005</b>	(676)	2,199	(668)	(42)
<b>CY 2006</b>	345	3,950	(3,690)	(83)
<b>CY2007</b>	389	10,203	(7,379)	(134)
Jan	13	960	(632)	(27)
Feb	(937)	682	(313)	0
Mar	1,132	630	467	(8)
Apr	264	810	(111)	(15)
May	320	516	(1,246)	(10)
June	(1,025)	980	(568)	(16)
July	(821)	1,860	(1,649)	(4)
August	1,037	1,235	(303)	(15)
September	2,122	1,607	(1,291)	(1)
October	(1,717)	923	(1,732)	(39)

Source: Bloomberg, Kotak Institutional Equities

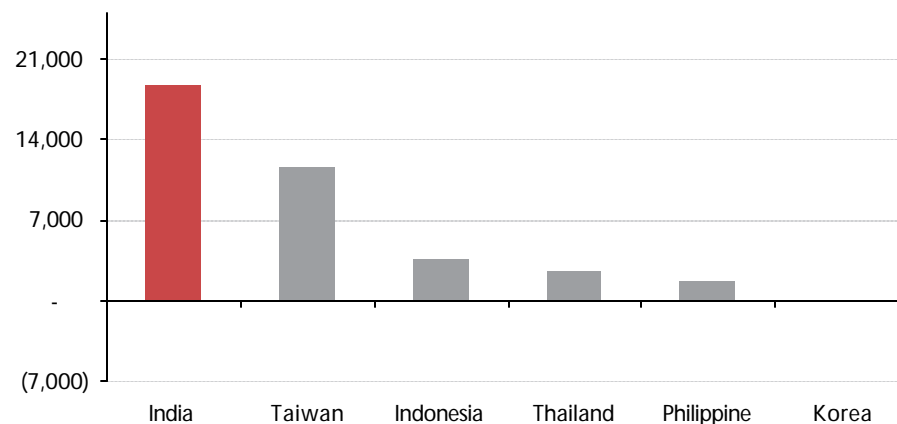
# FII flows in other emerging markets

## FII flows in the various countries (US\$ mn)

Flows in the cash markets

Date	Taiwan	Indonesia	Philippine	Thailand	India
24-Sep-07	-	30	(10)	67	315
25-Sep-07	-	(9)	(8)	3	380
26-Sep-07	83	19	(12)	(20)	246
27-Sep-07	451	24	(4)	30	596
28-Sep-07	312	25	13	30	856
1-Oct-07	18	25	(10)	30	538
3-Oct-07	548	38	17	9	775
4-Oct-07	(97)	28	46	(29)	141
8-Oct-07	283	53	12	37	838
9-Oct-07	(34)	31	3	51	484
10-Oct-07	-	75	(1)	59	433
11-Oct-07	137	71	1	90	246
12-Oct-07	(288)	-	-	(15)	194
15-Oct-07	24	-	(2)	68	957
16-Oct-07	(134)	-	(10)	65	286
17-Oct-07	(176)	(5)	(3)	(54)	(440)
18-Oct-07	28	42	(8)	(37)	31
19-Oct-07	79	(18)	(4)	-	(797)
22-Oct-07	(811)	(4)	(13)	-	(300)
23-Oct-07	34	-	(16)	-	193
<b>Total</b>	<b>458</b>	<b>424</b>	<b>(12)</b>	<b>385</b>	<b>5,969</b>

## Net investments by FIIs in the cash market (US\$ mn) over last 1 year



Source: Bloomberg.

# IPO analysis

**Exhibit 33: Market performance since IPO/ Follow on offering**

Name	Offer Shares	Price (Rs)	Value (Rs mn)	Date of Listing	Price		Performance (%)	
					Day 1	Latest	Day 1	Since Listing
Koutons Retail	35	415	1,462	12-Oct-07	590	691	42	67
Magnum Ventures	176	30	529	20-Sep-07	49	26	62	(15)
Indowind Energy	125	65	813	14-Sep-07	115	183	76	181
Motilal Oswal Financial	30	825	2,461	11-Sep-07	977	1,117	18	35
Puravankara Projects	215	400	8,587	30-Aug-07	362	446	(10)	12
KPR Mill	59	225	1,330	28-Aug-07	174	125	(23)	(44)
TakeSolutions	21	730	1,533	27-Aug-07	926	1,194	27	64
Central Bank of India	800	102	8,160	21-Aug-07	115	125	13	23
SEL manufacturing	41	90	372	21-Aug-07	142	85	58	(6)
Refex Refrigerants	38	65	247	20-Aug-07	62	109	(5)	67
Zylog Systems	36	350	1,260	17-Aug-07	431	354	23	1
IVR Prime	142	550	7,783	16-Aug-07	418	411	(24)	(25)
OMAXE Ltd	178	310	5,517	09-Aug-07	349	318	13	3
Alpa Laboratories	95	68	646	06-Aug-07	55	39	(19)	(42)
Simplex projects	30	185	555	03-Aug-07	272	270	47	46
Everonn Systems	36	140	500	01-Aug-07	478	578	241	313
Allied Digital	45	190	859	25-Jul-07	331	428	74	125
Housing Development & Infra	297	500	14,850	24-Jul-07	558	659	12	32
Soice Communications	1,131	46	5,203	18-Jul-07	61	50	32	10
Roman Tarmat	29	175	508	09-Jul-07	319	176	82	0
DLF	1,750	525	91,875	05-Jul-07	570	868	9	65
Vishal Retail	40	270	1,082	04-Jul-07	752	749	179	177
Nitin Fire Protection	34	190	644	05-Jun-07	484	380	155	100
Insecticides Ind	32	115	369	30-May-07	110	55	(5)	(52)
MIC Electronics	51	150	765	30-May-07	336	521	124	247
Binani Cements	205	75	1,538	28-May-07	69	116	(8)	54
Hilton Metal Forging	55	70	382	24-May-07	68	35	(3)	(50)
Bhagwati Hotels	230	40	920	17-May-07	51	47	27	19
Fortis Healthcare	460	108	4,968	09-May-07	100	79	(7)	(27)
Advanta IndiaLtd	34	640	2,163	19-Apr-07	850	1,081	33	69
ICRA Ltd	26	330	852	13-Apr-07	798	926	142	181
Orbit Corp Ltd	91	110	1,001	12-Apr-07	128	594	16	440
Gremach Infrastructure	69	86	590	11-Apr-07	84	267	(2)	210
Astral Polytechn	30	115	342	20-Mar-07	105	132	(9)	15
Abhishek Mills L	41	100	410	19-Mar-07	91	42	(9)	(58)
AMD Metplast Ltd	102	75	763	19-Mar-07	78	40	4	(46)
Jagjanani Textil	81	25	203	19-Mar-07	23	9	(7)	(64)
Lawreshwar Polym	87	16	139	19-Mar-07	14	8	(13)	(49)
Page Industries	28	360	1,009	16-Mar-07	282	442	(22)	23
Raj Television N	36	257	917	16-Mar-07	226	197	(12)	(23)
Euro Ceramics	56	165	928	09-Mar-07	119	200	(28)	21
Idea Cellular	2,833	75	21,250	09-Mar-07	86	152	14	103
Mudra Lifestyle	96	90	862	09-Mar-07	64	76	(29)	(15)
Vijayeshwari Textiles	90	100	900	09-Mar-07	69	54	(31)	(46)
Indus Fila Ltd	48	170	823	08-Mar-07	132	220	(22)	29
Broadcast Initiatives	86	120	1,026	07-Mar-07	69	43	(42)	(64)
Evinix Accessories	35	120	420	07-Mar-07	74	194	(39)	62
Mindtree Consulting	56	425	2,377	07-Mar-07	620	502	46	18

Source: Bloomberg and Kotak Institutional Equities.

**Exhibit 34: Forthcoming IPO/Follow on offerings**

Company	Issue
National Hydroelectric Power Corp.Ltd.	IPO
Mundra Port & Special Economic Zone Ltd.	IPO
Brigade Enterprises Ltd.	IPO
Rural Electrification Corp.Ltd.	IPO
Wockhardt Hospitals Ltd.	IPO
Bgr Energy Systems Ltd.	IPO
Onmobile Global Ltd.	IPO
Kolte-Patil Developers Ltd.	IPO
Edelweiss Capital Ltd.	IPO
Jyothy Laboratories Ltd.	IPO
Rns Infrastructure Ltd.	IPO
Manaksia Ltd.	FPO
Empee Distilleries Ltd.	IPO
Ramsarup Lohh Udyog Ltd.	IPO
Religare Enterprises Ltd.	IPO
Tecpro Systems Ltd.	IPO
Gss America Infotech Ltd.	IPO
Eclerx Services Ltd.	IPO
Man Infraconstruction Ltd.	IPO
Rithwik Projects Ltd.	IPO
Uma Precision Ltd.	IPO
Bang Overseas Ltd.	IPO
Precision Pipes & Profiles Co.Ltd.	IPO
J.Kumar Infraprojects Ltd.	IPO
Globus Spirits Ltd.	IPO
Brahamputra Consortium Ltd.	IPO
Varun Industries Ltd.	IPO
Cords Cable Industries Ltd.	IPO
Essel Shyam Communication Ltd.	IPO
Khadim India Ltd.	IPO
M.S. Khurana Engineering Ltd.	IPO
Midvalley Entertainment Ltd.	IPO
Veena Industries Ltd.	IPO
Aries Agro Ltd.	IPO
Alkali Metals Ltd.	IPO
Niraj Cement Structurals Ltd.	IPO
Renaissance Jewellery Ltd.	IPO
Tulsi Extrusions Ltd.	IPO
Kiri Dyes & Chemicals Ltd.	IPO
Kaushalya Infrastructure Development Corp.Ltd.	IPO
Svec Constructions Ltd.	IPO

Source: Primedatabase .

# Delivery positions

**Exhibit 36: Top increase/(decrease) in delivery percentage**

## Increase in delivery % (KIE universe)

Name	Delivery %	
	Previous week	Current week
Ultratech Cement Ltd	55	91
Shoppers' Stop Ltd	53	88
Wockhardt Limited	59	89
CESC Limited	46	75
Divi'S Laboratories Ltd	30	56
Housing Development Finance	72	97
Igate Global Solutions Ltd	35	60
Monnet Ispat & Energy Ltd	55	78
Infrastructure Dev Finance	30	53

## Decrease in delivery % (KIE universe)

Name	Delivery %	
	Previous week	Current week
Ipca Laboratories Limited	99	71
Punj Lloyd Limited	24	-
Hero Honda Motors Limited	82	58
Asian Paints Ltd	84	61
Oriental Bank Of Commerce	58	36
Jet Airways India Ltd	74	53
Container Corp Of India Ltd	97	77
Dr. Reddy'S Laboratories	80	63
Motor Industries Co Limited	94	77

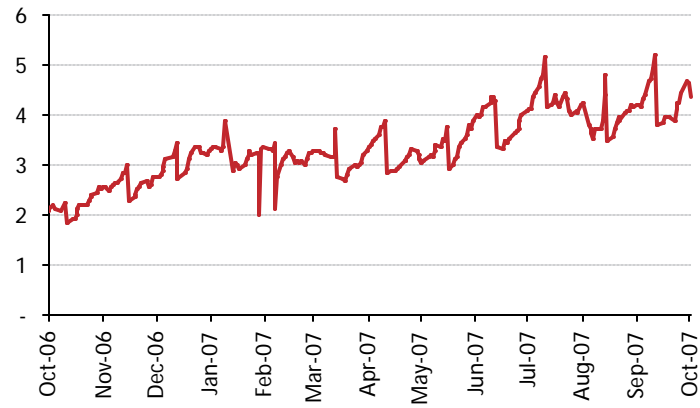
Source: Bloomberg and Kotak Institutional Equities.



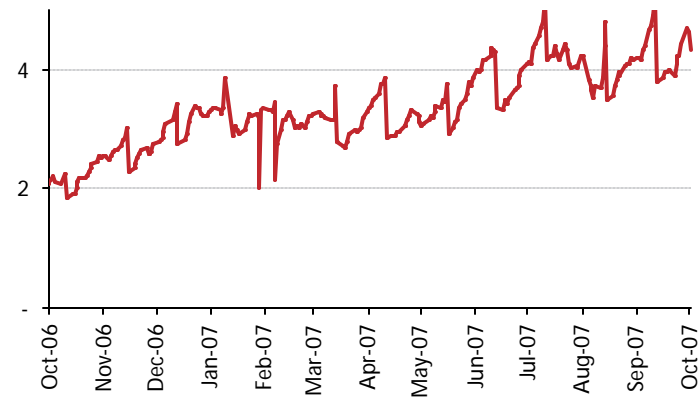
# Open interest analysis

**Exhibit 37: National Stock Exchange (US\$ bn)**

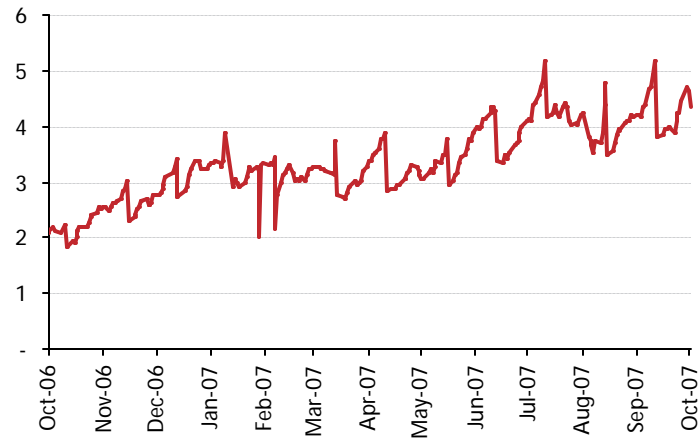
**India Index futures open interest**



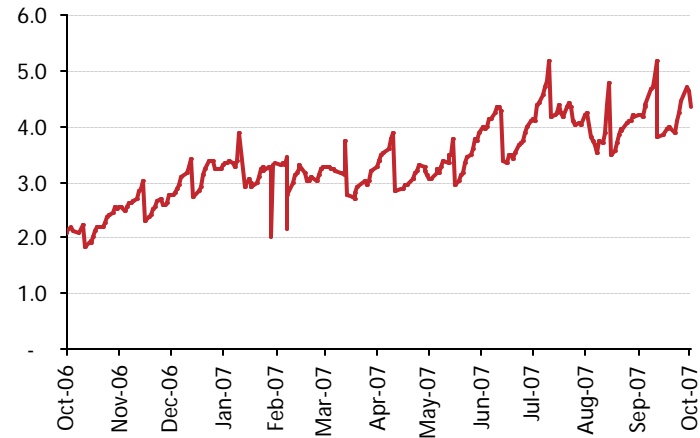
**India stock futures open interest**



**India Index option open interest**



**India stock option open interest**

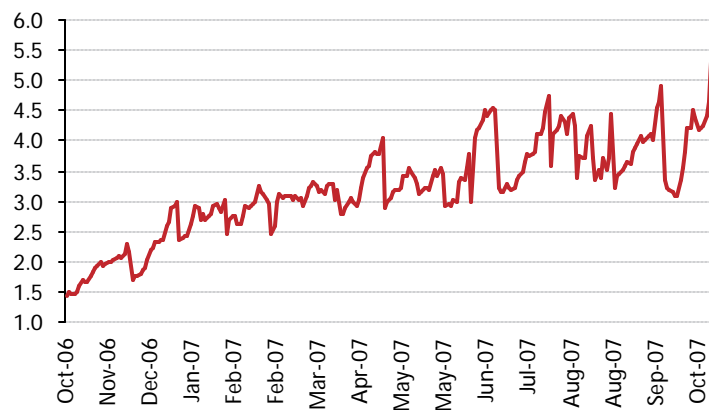


Source: Bloomberg and Kotak Institutional Equities.

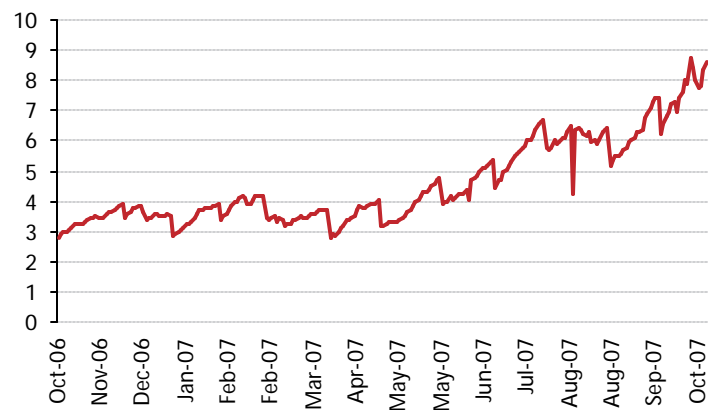
# Open interest analysis

Exhibit 38: Open interest position movement for foreign institutional investors (US\$ bn)

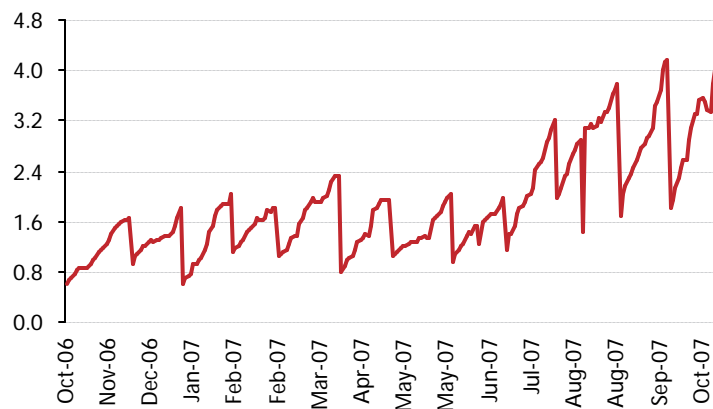
Index futures value of open interest



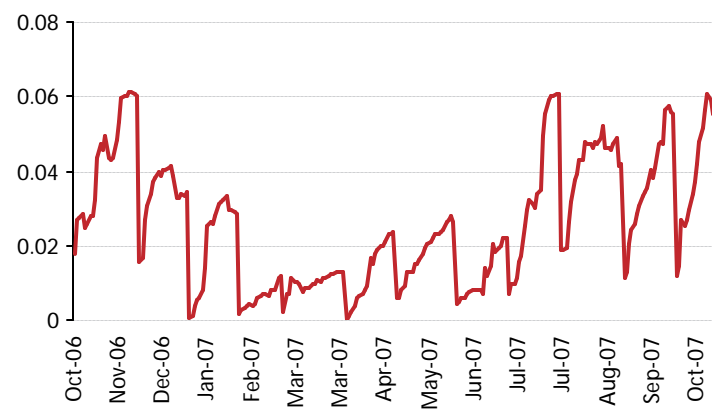
Stock futures value of open interest



Index options value of open interest



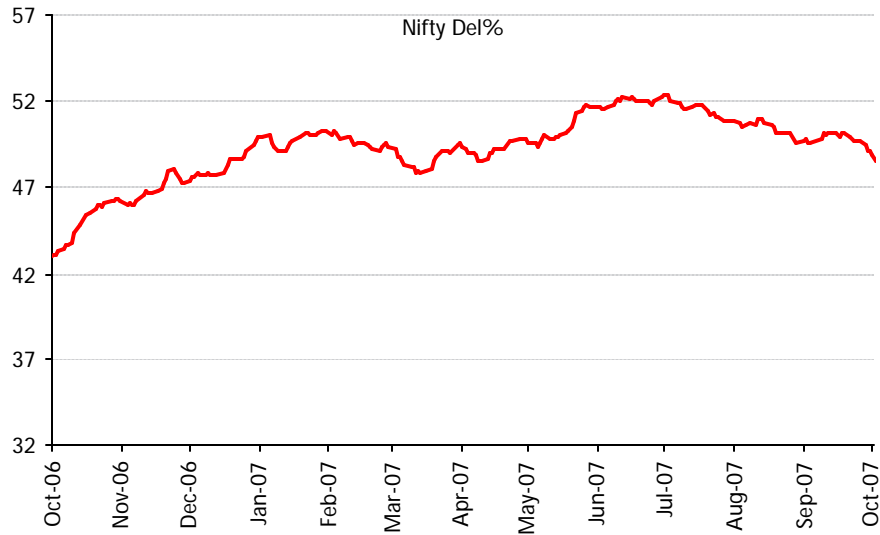
Stock options value of open interest



Source: Bloomberg and Kotak Institutional Equities.

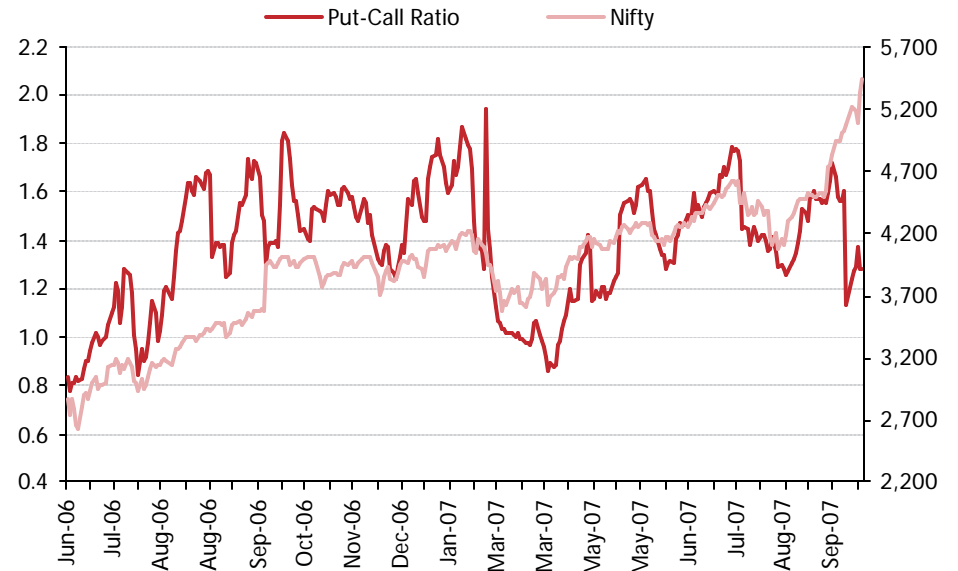
# Market movement indicators

**Exhibit 39: Aggregate delivery percentage**



Source: Bloomberg and Kotak Institutional Equities.

**Exhibit 40: Put call ratio versus Nifty**



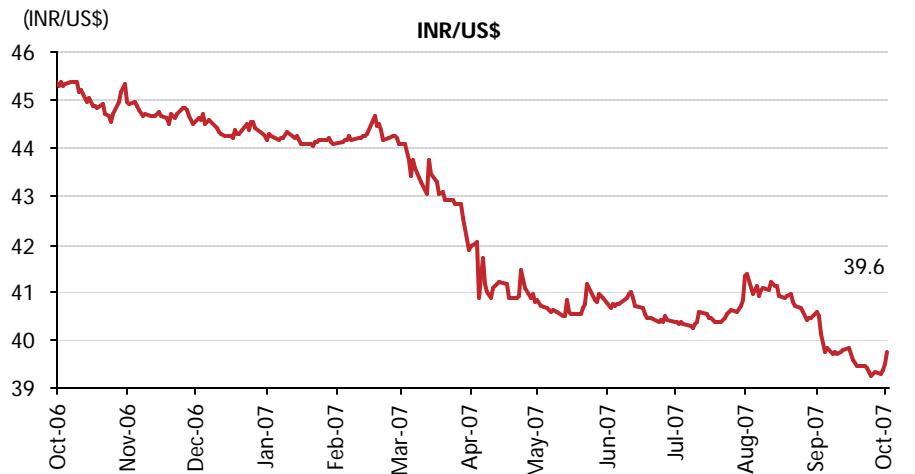
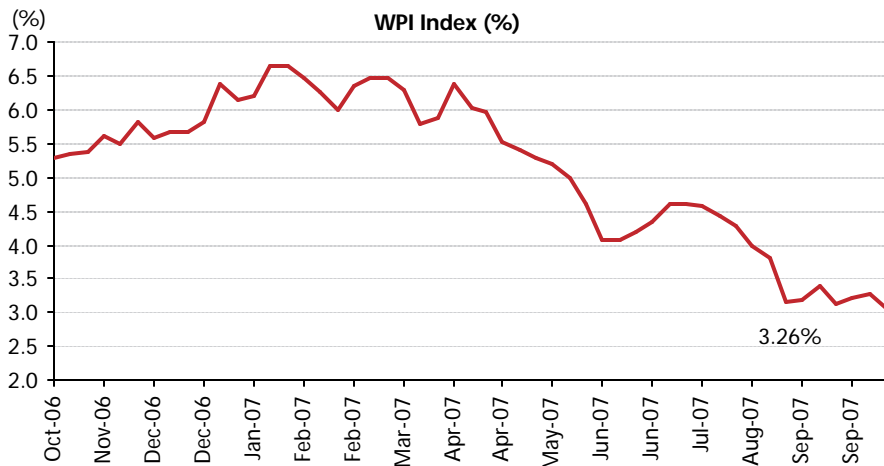
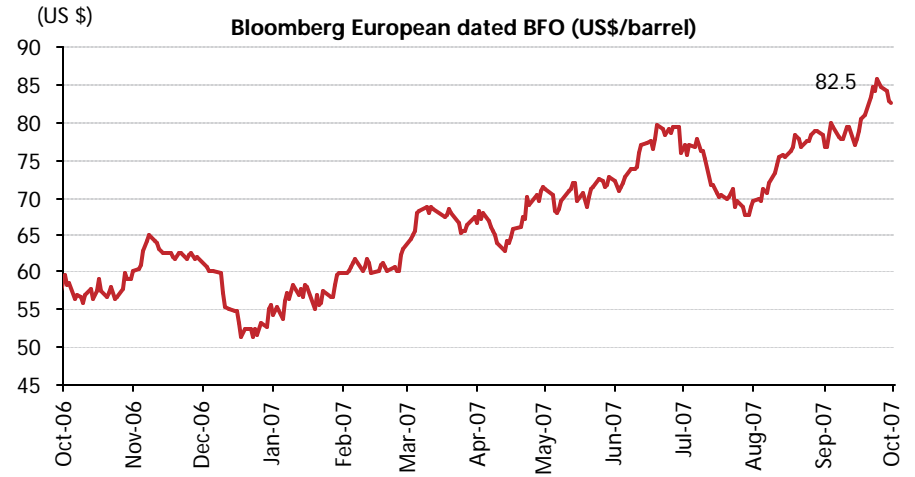
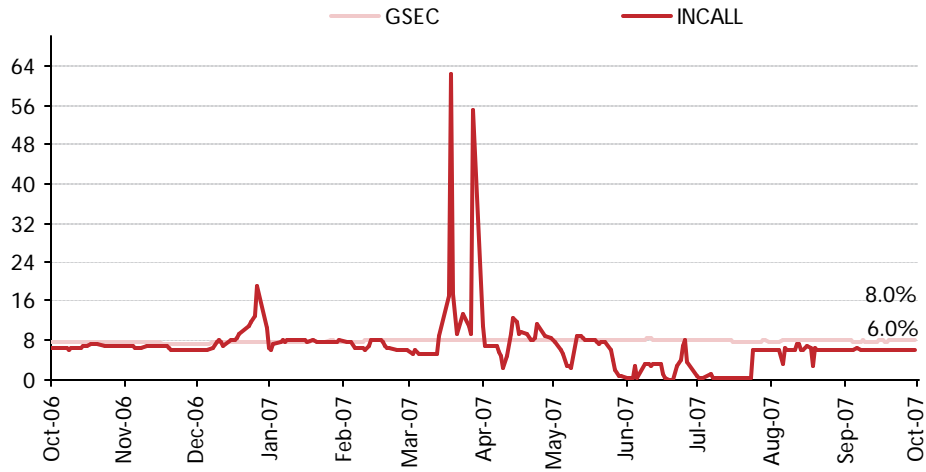
Put call is for Nifty open interest

Source: Bloomberg and Kotak Institutional Equities.

## Economic indicators

# Economic indicators

Exhibit 41: Key economic parameters



Source: Bloomberg and Kotak Institutional Equities.

## Kotak valuation summary





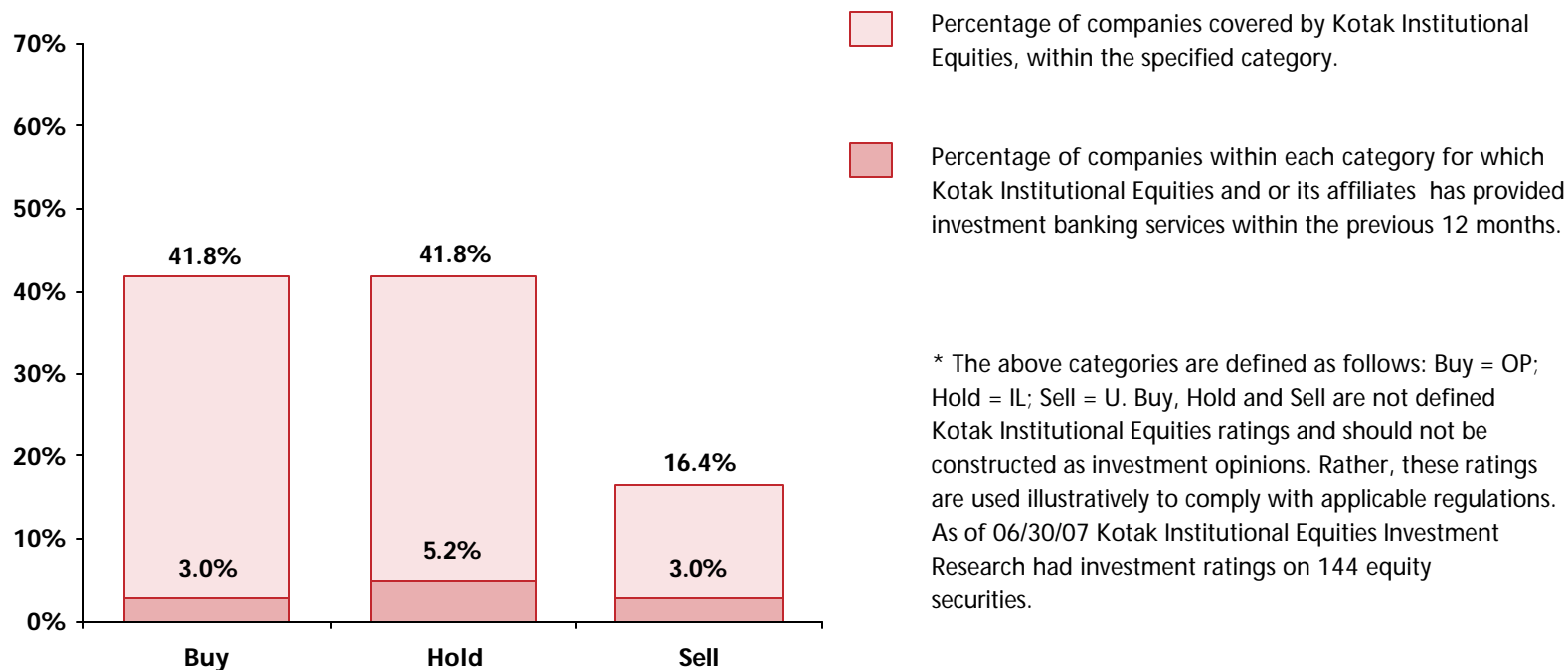




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Distribution of ratings/investment banking relationships



\* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 06/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities.

As of September 30, 2007

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