kotak® Institutional Equities

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News Roundup

Corporate

- Exactly a week after the promoters of Ranbaxy Laboratories sold their shareholding to Japanese drug maker Daiichi Sankyo, the Indian drug maker and US giant Pfizer announced that they have reached an out-of-court settlement on their litigation over the world's largest selling drug, Lipitor. According to the settlement, Ranbaxy will launch its generic version of Lipitor, the $12.7-billion cholesterol-lowering medicine, and combination drug Caduet in November 30, 2011 in the US with exclusive marketing rights for 180 days, along with the innovator company. *(ET)*
- The principals of DreamWorks SKG are close to a deal with Reliance-Anil Dhirubhai Ambani Group to form a new movie venture, according to people familiar with the situation, a move that would give director Steven Spielberg the cash to finance his DreamWorks team's departure from Viacom Inc.'s Paramount Pictures later this year. *(Mint)*
- Tata Communications (formerly VSNL) has signed an equity joint venture agreement with the shareholders of China Enterprise Communications (CEC) Ltd for acquiring 50% stake in the Beijing-based company for an undisclosed sum. *(BL)*

Economic and political

- Lackluster performance by the petroleum and power sectors have slowed the growth of six core industries to 3.6% for April 2008 from 5.9% in the same month a year ago. The six core industries—crude oil, petroleum refinery products, coal, power, cement and finished carbon steel—registered 9.6% growth in March 2008. The six industries have a 26.7% weightage in the index of industrial production. *(ET)*

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

EQUITY MARKETS

	Change, %			
India	**18-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	15,422	(1.7)	(11.5)	2.9
Nifty	4,582	(1.5)	(11.2)	0.2
Global/Regional indices				
Dow Jones	12,029	(1.1)	(7.7)	(0.6)
Nasdaq Composite	2,430	(1.1)	(3.4)	9.9
FTSE	5,757	(1.8)	(9.7)	3.8
Nikkie	14,159	(2.0)	(0.8)	15.5
Hang Seng	22,944	(1.6)	(10.9)	4.9
KOSPI	1,746	(1.6)	(7.4)	7.6

Value traded - India

		Moving avg, Rs bn		
	18-Jun		**1-mo**	**3-mo**
Cash (NSE+BSE)	186.0		192.2	195.3
Derivatives (NSE)	474.4		378.8	475
Deri. open interest	867.7		788	647

Forex/money market

	Change, basis points			
	18-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	43.0	0	44	256
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.4	1	35	77

Net investment (US$mn)

	17-Jun		**MTD**	**CYTD**
FIIs	92		(1,382)	(5,255)
MFs	60		134	1,660

Top movers -3mo basis

	Change, %			
Best performers	**18-Jun**	**1-day**	**1-mo**	**3-mo**
Chambal Fert	87	(4.5)	10.4	93.5
i-Flex	1,328	(3.0)	(5.4)	43.4
Infosys	1,862	(2.6)	(0.5)	38.6
Tata Chem	369	(0.1)	(0.5)	37.3
Rashtriya Chem	65	(1.5)	(13.6)	36.6
Worst performers				
BPCL	279	(0.6)	(22.4)	(27.8)
Siemens India	491	(0.5)	(15.6)	(24.7)
Thermax	415	(2.4)	(9.3)	(21.9)
HPCL	199	2.5	(19.8)	(21.6)
Tata Motors	518	(0.3)	(22.9)	(20.4)

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Telecom

TATA.BO, Rs421	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	430
52W High -Low (Rs)	783 - 359
Market Cap (Rs bn)	119.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	32.8	35.6	39.6
Net Profit (Rs bn)	3.1	3.1	3.6
EPS (Rs)	11.0	11.0	12.8
EPS gth	*(36.3)*	*0.3*	*16.5*
P/E (x)	38.4	38.3	32.9
EV/EBITDA (x)	15.1	16.2	14.0
Div yield (%)	1.1	1.2	1.5

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	76.2	-	-
FIIs	7.4	0.1	(0.2)
MFs	2.3	0.2	(0.1)
UTI	-	-	(0.4)
LIC	8.2	0.8	0.4

Tata Communications : FY2008 results—consolidated performance impacted by rupee appreciation and one-offs

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- **Valuations—only for the patient investors**
- **4QFY08 Standalone revenues and EBITDA significantly below expectations**
- **FY2008 consolidated performance impacted by rupee appreciation, one-offs and pressure on realizations**
- **Not much progress on land demerger**
- **Maintain REDUCE; revise target price downwards by 19% to Rs430/share**

TCOM's reported standalone 4QFY08 EBITDA and net income was impacted by ongoing refinement of transfer pricing agreement with its overseas subsidiaries. Reported net income of Rs589 mn (Rs62 mn adjusted for writeback of provisions), was lower than our expectation of Rs885 bn, impacted largely by change in transfer pricing. EBITDA of Rs1.5 bn was also 20% lower than our expectation led by similar reason; note that these transfer pricing changes do not impact consolidated EBITDA. We have revised downwards our standalone FY2009E EPS to Rs11 and FY2010E EPS to Rs12.8. We reduce our 12-month DCF-based target price to Rs430 (Rs530 earlier) primarily to factor in weakness and competition in core business and lower probability assigned to value unlocking from demerger of surplus real estate. We will wait for FY2008 annual report and consolidated accounts to convert our earnings model to consolidated basis.

Valuations—only for the patient investors. We believe that TCOM has significant assets/investments which may realize value for the investors but the timing of which remains uncertain. We specifically highlight the value of surplus real estate, for which we assign just 50% of the estimated market value (translates into Rs112/share). The company has surplus real estate in Delhi (70 acres in Greater Kailash and Chattarpur), Pune (524 acres in Dighi), Kolkata and Chennai. We also believe there are value unlocking opportunities in the core business and by monetization of select investments. We also do not assign any value to investments in Neotel. On the flip side, the core business remains under pressure and going through a transition phase, which may take 18-24 months to stabilize.

Standalone numbers are losing its meaning; consolidated results are not disclosed on a quarterly basis. TCOM's standalone results are getting impacted by changes in accounting treatment of key items of revenues and costs. TCOM's 2QFY08 results were impacted by alignment of billing practices and standardization of platform. 3QFY08 results were impacted by change in transfer pricing. 4QFY08 results were impacted by ongoing change in transfer pricing and transfer of retail business undertakings to a wholly-owned subsidiary. Further, the company is trying to harmonize and integrate the acquired businesses resulting in significant inter-company transactions. On the other hand, limited or no disclosures of quarterly consolidated financials makes quarterly financial analysis an onerous task. We would move to consolidated financials by the June '08 quarter. The company has indicated that it is working on making consolidated financials available on a quarterly basis.

Standalone revenues and EBITDA significantly below expectations. TCOM reported revenues of Rs8.5 bn for the March 2008 quarter, a yoy decline of 22%. Revenues were impacted by transfer of retail business undertakings to a wholly-owned subsidiary and fine tuning of the transfer pricing mechanism with overseas subsidiaries. Reported EBITDA of Rs1.48 bn (+195% qoq, -38.5% yoy) was aided by writeback of provisions of earlier quarters to the extent of Rs764 mn. For FY2008, TCOM reported revenues of Rs32.9 bn (-19%), EBITDA of Rs6.2 bn (-33%) and net income of Rs3.04 bn (-35%). Results were once again impacted by similar factors.

FY2008 consolidated performance impacted by rupee appreciation, one-offs and pressure on realizations. For FY2008, TCOM reported revenues of Rs82.6 bn (-4%), EBITDA of Rs8.5 bn (-16.4%) and net income of Rs103 mn. Revenue decline was primarily on account of rupee appreciation (average realization of 40.3 vs. 45 in FY2007). Global voice business minutes grew by 11.1% though a 10.3% decline in realizations led to flat revenues of US$1.25 bn. Data revenues grew 22.8% to US$685 led by volumes, though pricing continues to be under significant pressure. EBITDA margin declined by 200 bps to 10.2%. The management attributes the impact to one time cost of US$75 mn included in opex and largely pertaining to redundancy, transition and litigation costs.

Revenue growth guidance of 15% for FY2009. TCOM management expects 15% organic growth in revenues for FY2009 and EBITDA margin of 14-15% (13.9% adjusted OPM in FY2008). The company also reiterated its aspiration of 15% CAGR in revenues for the next five years and EBITDA margin of at least 20% (13.9% in FY2008). TCOM expects to achieve this through a combination of increase in data revenues in the overall mix (it expects 25-30% CAGR in data revenues). It also intends to grow retail broadband business aggressively, though it is constrained currently by delay in Wimax spectrum auction in the 2.5GHz band. The company further intends to protect voice margins, which in our view is challenging. The company expects to achieve its targets by moving up the value chain (greater contribution from managed services), increasing focus on enterprises and retail customers and stepping up investments in retail broadband. We highlight plans in each of the businesses below.

1. **Global data business**. TCOM has completed major expansion through Intra- Asia (Singapore-Hong Kong-Japan) and India-Europe (via Middle East) submarine cables. It has a strong presence in trans-Pacific and trans-Atlantic markets. The company is addressing managed service offerings (18% of data revenues) and working on global outsourcing project bids (with TCS). TCOM own the world's largest submarine cable and optic fiber cable network stretching 200,000 kms and 20+TB submarine cable capacity.

2. **Retail and broadband**. TCOM had 219,000 BB subscribers at end-March 2008 compared to 179,000 subs at end-March 2007. The company is addressing the challenge of last-mile access through implementation of WiMax networks, select wire-line rollout in high potential areas for both enterprises and retail. Mass scale roll out in Top 100 cities is contingent on auction of spectrum in the 2.5 GHz band.

3. **Global voice**. TCOM is the largest wholesale voice carrier globally. However, this segment is facing tremendous pricing pressure. Consolidated gross revenue per minute (GRPM) has declined to Rs1.8/min in FY2008 from Rs2.24/min in FY2007. Net RPM declined to Rs0.43/ min in FY2008 from Rs0.5/ min in FY2007. TCOM's strategy in this segment is largely to protect current profitability. This is challenging in our view; TCOM has focused its efforts on entry into new segments (mobile operators), product innovation and entry into retail voice segment. We note that the company is facing stiff challenges in the NLD as operators are establishing their own NLD backbone. TCOM is relying on carrying off-net traffic (courtesy 300+ POIs) and new operators to increase volumes. Implementation of Carrier Access Code (wherein a retail subscriber can choose the NLD operator as opposed to the routing choice being made by the access provider currently) could also help TCOM address some of its market share loss concerns in the India NLD market.

Aggressive capex plans. TCOM will spend aggressively over the next few years to grow its data and retail business; management disclosed consolidated capex of US$500-600 mn for FY2009 against US$550mn in FY2008. The management expects the capex to be directed towards expanding global connectivity (new cables in Africa), data center space augmentation and select upgrade of network to carry IP traffic. In addition, the company will also spend on retail broadband business aggressively. TCOM has outlined US$75 mn investments in Neotel for FY2008 versus US$45 mn in FY2007. We note that the company's net debt/ EBITDA ratio may reach an aggressive zone. The company had net debt of US$600 mn in FY2008 as against adjusted EBITDA of US$285 mn. The company may hit net debt/ EBITDA of 3X by end-FY2009E.

Not much progress on land demerger. TCOM management stated that the scheme of demerger of TCOM's surplus land is still pending with the government. It also clarified that TCOM will not bear the cost of demerger, in particular the stamp duties associated with the demerger.

Update on litigation with RCOM. We believe a negative verdict (for TCOM) in the FLAG Europe-Asia landing station access rights case could mean a payout of US$400 mn (ex-interest, based on press reports and the latest TCOM filings with the SEC) provided (1) the verdict is in RCOM's favor, (2) RCOM's computation on the claim amount is accepted, and (3) the case does not go into further appeals. The case is due for hearing in the next two months. In a recent development, a Netherlands-based district court has upheld the previous awards in favor of RCOM by the ICC. Our target price for the company reduces by 13.7% (Rs59/share) to Rs370/share in such an event.

The company indicates (1) there is no financial implication of the upholding of the partial award, (2) the case on RCOM's financial claims is due for hearing in a district court in the next few months, (3) TCOM is exploring options of appealing in higher courts in case the district court issues a verdict in favor of RCOM, (4) the damage claim amount of approx US$400 mn (plus interest) is based on RCOM's computation and none of the lower courts have made a comment on the same.

TCOM standalone interim results, March fiscal year-ends (Rs mn)

	qoq			yoy			yoy		
	4Q 2008	3Q 2008	% chg.	4Q 2008	4Q 2007	% chg.	2008	2007	% chg.
Revenues	**8,502**	**10,407**	***(18.3)***	**8,502**	**10,842**	***(21.6)***	**32,833**	**40,418**	***(18.8)***
Staff cost	(639)	(702)	*(9.0)*	(639)	(536)	*19.1*	(2,424)	(2,437)	*(0.5)*
Interconnection, network, license fee costs	(4,634)	(7,279)	*(36.3)*	(4,634)	(5,686)	*(18.5)*	(18,527)	(22,045)	*(16.0)*
SG&A	(1,756)	(1,927)	*(8.9)*	(1,756)	(2,221)	*(21.0)*	(5,681)	(6,631)	*(14.3)*
Total expenditure	(7,028)	(9,908)	*(29.1)*	(7,028)	(8,444)	*(16.8)*	(26,632)	(31,112)	*(14.4)*
EBITDA	**1,475**	**500**	***195.1***	**1,475**	**2,399**	***(38.5)***	**6,201**	**9,306**	***(33.4)***
EBITDA margin (%)	**17.3**	**4.8**		**17.3**	**22.1**		**18.9**	**23.0**	
Interest/other income	352	728	*(51.6)*	352	880	*(60.0)*	1,660	2,122	*(21.7)*
Depreciation and amortization	(858)	(1,019)	*(15.8)*	(858)	(1,048)	*(18.1)*	(3,013)	(3,913)	*(23.0)*
Interest expense	(105)	(71)		(105)	(32)		(236)	(69)	
Pre-tax profits	**863**	**137**	***528.0***	**863**	**2,199**	***(60.8)***	**4,612**	**7,445**	***(38.1)***
Extraordinaries/Prior Year	(11)	—		(11)	(117)		(112)	(319)	
Tax (incl. deferred tax)	(264)	(42)	*525.1*	(264)	(770)	*(65.7)*	(1,455)	(2,441)	*(40.4)*
Reported net income	**589**	**95**	***518.3***	**589**	**1,313**	***(55.2)***	**3,045**	**4,686**	***(35.0)***
Adjusted net income	**599**	**95**	***529.3***	**599**	**1,430**	***(58.1)***	**3,157**	**5,005**	***(36.9)***
Recurring EPS	**2.1**	**0.3**		**2.1**	**5.0**		**11.1**	**17.6**	
Effective tax rate (%)	30.9	30.7		30.9	37.0		32.3	34.2	
Segment results									
Revenues									
Wholesale voice	4,438	5,213	*(15)*	4,438	5,742	*(23)*	16,954	22,169	*(24)*
Enterprise and carrier data	3,144	4,072	*(23)*	3,144	3,915	*(20)*	12,262	13,807	*(11)*
Others	921	1,123	*(18)*	921	1,185	*(22)*	3,617	4,443	*(19)*
EBIT (before unalloc. expenses)									
Wholesale voice	666	(165)	—	666	1,326	*(50)*	1,989	4,230	*(53)*
Enterprise and carrier data	2,668	3,690	*(28)*	2,668	3,230	*(17)*	10,593	11,341	*(7)*
Others	417	438	*(5)*	417	297	*41*	1,281	1,467	*(13)*

Source: Company, Kotak Intitutional Equities estimates.

TCOM consolidated results, March fiscal year-ends (Rs mn)

	Consolidated			Consolidated -- standalone = subsidiaries		
	2008	2007	2006	2008	2007	2006
Revenues	**82,630**	**86,112**	**45,625**	**49,797**	**53,279**	**5,207**
Staff cost	(8,950)	(8,662)	(3,797)	(6,526)	(6,238)	(1,360)
Interconnection, network, license fee costs	(47,635)	(52,428)	(25,807)	(29,108)	(33,901)	(3,762)
SG&A	(17,594)	(14,486)	(9,662)	(11,912)	(8,805)	(3,031)
Total expenditure	(74,178)	(75,576)	(39,265)	(47,546)	(48,943)	(8,153)
EBITDA	**8,452**	**10,536**	**6,360**	**2,251**	**4,336**	**(2,946)**
EBITDA margin (%)	**10.2**	**12.2**	**13.9**	**4.5**	**8.1**	**(56.6)**
Interest/other income	2,636	2,454	2,350	975	794	228
Depreciation and amortization	(7,844)	(7,830)	(4,857)	(4,831)	(4,817)	(943)
Interest expense	(1,642)	(1,436)	(398)	(1,406)	(1,200)	(329)
Pre-tax profits	**1,601**	**3,724**	**3,455**	**(3,011)**	**(887)**	**(3,991)**
Extraordinaries/Prior Year	(112)	(914)	(676)	-	(802)	(357)
Tax (incl. deferred tax)	(1,769)	(2,794)	(2,079)	(999)	(1,339)	361
Net profit before minorities	**(280)**	**17**	**699**	**(4,010)**	**(3,028)**	**(3,987)**
Minority interest- share of loss	383	137	-	383	137	-
Net income	**103**	**154**	**699**	**(3,627)**	**(2,891)**	**(3,987)**
Adjusted net income	**215**	**1,067**	**1,375**	**(3,627)**	**(2,089)**	**(3,629)**
Recurring EPS	**0.8**	**3.7**	**4.8**	**(12.7)**	**(7.3)**	**(12.7)**
Effective tax rate (%)	118.8	99.4	74.8	(33.2)	(79.3)	8.3

Source: Company, Kotak Intitutional Equities estimates.

Our sum-of-the-parts 12-month target price for TCOM is Rs430/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Equity value	**46**	**161**	**46**	**161**	
2. Investments					
TATA Teleservices (TTSL)	31	109	31	109	Valuation based on US$5 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
India retail business	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**45**	**158**	**45**	**158**	
3. Others					
Surplus real estate	64	225	32	112	50% of estimated market value of surplus land
Total	**64**	**225**	**32**	**112**	
Grand total [1]+[2]+[3]	**155**	**544**	**123**	**431**	**12-month forward target price is Rs430**

Source: Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs42	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	55
52W High -Low (Rs)	121 - 34
Market Cap (Rs bn)	26.9

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.1	7.4	12.5
Net Profit (Rs bn)	(4.1)	(4.8)	(3.0)
EPS (Rs)	(6.4)	(7.5)	(4.7)
EPS gth	-	-	-
P/E (x)	(6.5)	(5.6)	(8.9)
EV/EBITDA (x)	(14.9)	(16.5)	61.3
Div yield (%)	-	-	-

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	14.9	0.0	(0.0)
MFs	4.1	0.1	0.0
UTI	-	-	(0.1)
LIC	2.9	0.0	(0.0)

Dish TV : 4QFY08 results marginally below expectations; company remains in investment mode

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- **4QFY08 net loss at Rs1.15 bn, marginally above our expectation of Rs1.03 bn**
- **Higher-than-expected subscriber acquisition cost due to increased subsidies, SG&A expenses**
- **Fine-tuned estimates; upgrade to BUY (ADD previously) with 12-month DCF-based target price of Rs55 (Rs65 previously) on rights issue at likely discount to fair value**

Dish TV reported 4QFY08 net loss of Rs1.15 bn versus 3QFY08 loss of Rs1.16 bn but higher than our estimate of Rs1.03 bn. Reported revenues increased 21% qoq to Rs1.36 bn from Rs1.12 bn in 3QFY08, marginally below our Rs1.42 bn estimate. Dish TV sustained with its aggressive subscriber acquisition strategy in 4QFY08, which led to higher-than-expected SG&A expenses. Monthly subscriber addition reduced marginally to 95,000 in 4QFY08 from 99,000 in 3QFY08; we do not believe qoq comparison of subscriber addition volume is valid since 3QFY08 is festival season when people spend more on consumer durables including entertainment goods and services. We have fine-tuned our estimates—(1) rights issue at likely discount to fair value in current market conditions, (2) lower ARPUs and greater number of free service months, (3) increased losses on account of higher subscriber addition costs and (4) reduction in license fee payable to government. We upgrade the stock to BUY with reduced 12-month DCF-based target price of Rs55 noting 35% upside from current levels. Key risks stem from lower-than-expected ARPUs and stronger-than-expected emerging competition.

4QFY08 results analysis

Moderately weak gross subscriber addition in 4QFY08, already rectified in 1QFY09. Dish TV added 101,000 subscribers in January 2008, 100,000 subscribers in February 2008 and 86,000 subscribers in March 2008 for a total gross subscriber addition of 287,000 in 4QFY08; we note that Dish TV added 297,000 subscribers in 3QFY08 and 278,000 subscribers in 2QFY08. Dish TV's marketing tie-up with Future group supported the volumes with over 30,000 subscribers acquired in February at over 100 Big Bazaar and E-zone outlets.

We do not believe the 4QFY08 subscriber addition volume is comparable to 3QFY08 due to festival season during the latter period when people spend more on consumer durables including entertainment goods and services. Moreover, the volumes have picked in 1QFY09 due to (1) new schemes launched by Dish TV and (2) aggressive advertising and marketing. Dish TV added 99,000 subscribers in April 2008 and 148,000 subscribers in May 2008 and is on track to do equally well in June 2008 as the service is adding about 5,500-6,000 subscriber daily.

Dish TV net subscriber base at 2.55 mn. Dish TV management had previously disclosed that it had reached the milestone of 3 mn subscribers by end-FY2008E but lost 450,000 subscribers over the past three years due to churn leaving Dish TV with 2.55 mn paying subscriber at end-FY2008E. We model Dish TV to add 1.4 mn gross subscribers in FY2009E and it would need to add 115,000 subs every month in the June 2008-March 2009 to achieve our target. We have assumed a churn rate of 7% for Dish TV given (1) growing market where operator focus would be to convert cable subscribers to DTH and (2) regulations that bar content exclusivity on any platform except in very few cases (Video-on-Demand, Value-Added-Services).

ARPUs improve in 4QFY08 but improvement not as strong as expected. 4QFY08 ARPU improved a robust 11% qoq to Rs178, marginally below our Rs186 estimate, likely led by increase in number of paying subs due to conversion of hitherto 'free' subscribers under various discount schemes. As per the management, an increasing number of new paying subs have opted to stay with the premium channel bouquet offered during the initial months of free service; this bodes well for Dish TV's ARPUs.

High losses sustain due to higher-than-expected SG&A expenses. 4QFY08 net loss at Rs1.15 bn was on par with 3QFY08 net loss of Rs1.16 bn but above our Rs1.03 bn estimate. Operating expenses increased only 11% qoq versus revenue growth of 21% qoq due to relatively flat direct operating costs (+6% qoq); we believe carriage fees played an instrumental role in keeping cost of goods and services under check. Also, Dish TV did not add any expensive channel in 4QFY08 unlike 3QFY08 when it added Star Cricket to its base packages.

However, the SG&A expenses increased sharply in 4QFY08 to Rs551 mn from Rs325 mn in 3QFY08 and our expectation of Rs492 mn; the management attributed the increase to scaling up of operations to meet robust subscriber additions and rising expectations of dealers in the form of higher commissions due to increased competition for distribution in the market. Advertising expenses declined to Rs203 mn in 4QFY08 from Rs306 mn in 3QFY08 due to seasonality.

Earnings revisions

Revised earnings estimates to factor in 4QFY08 results. We have cut our FY2009E-2011E earnings estimates (see Exhibit 2) to factor in rights issue at likely discount to fair value and higher competition resulting in substantial increase in consumer acquisition costs partially offset by lower license fees. We model Dish's FY2009E and FY2010E net loss at Rs4.8 bn (Rs4.1 bn previously) and Rs3 bn (Rs2.7 bn), respectively.

1. **Rights issue at likely discount to fair value.** We believe the fair value of Dish TV stock is Rs65 on existing share capital base. However, Dish TV is in urgent need of capital infusion given a weak balance sheet and need to sustain aggressive consumer acquisition strategy. We assume a 1:2 rights issues (one share for every two shares of Dish TV) at an offer price of Rs40 to calculate our new target price on the expanded capital base. We believe the company is likely to go through with the issue even in current turbulent market conditions, given the urgent need for capital. We note that our DCF-based fair value will go up if the rights issue is successfully concluded at a price higher than Rs40 assumed by us.
2. **Reduced revenues on more months of free service.** We assume that the extant operators will offer initial free service for a longer period to fend off new competition and thus, we have increased the number of free service months provided by Dish TV in FY2009E and FY2010E to eight months (six months previously) and six months (four months), respectively.
3. **Marginal reduction in ARPUs to factor in 4QFY08 results.** We have reduced our FY2009E and FY2010E Dish TV ARPU to Rs189 (Rs210 previously) and Rs246 (Rs259) to factor in lower-than-expected 4QFY08 ARPUs and more months of free service. Our new FY2009E and FY2010E revenues estimates for Dish TV are Rs6.1 bn (Rs6.6 bn previously and Rs10.8 bn (Rs10.6 bn), respectively.
4. **Increase in subscriber acquisition costs.** We also expect strong competition to result in higher subscriber acquisition cost for all DTH operators. We have revised our FY2009E and FY2010E SG&A expenses to Rs2.8 bn (Rs2.3 bn previously) and Rs3.1 bn (Rs2.6 bn), respectively. We model subscriber acquisition cost of Rs2,800 for FY2009E.

5. **Reduction in DTH license fee to 6% from 10% of gross revenues previously.** The Ministry of Information and Broadcasting (MIB) has agreed to reduce the license fee payable to the government by the DTH operators; the reduction will be applicable starting FY2009E.

6. **Higher subscriber addition in FY2009E.** We note the robust subscriber addition so far in 1QFY09 led by new schemes and greater advertising and marketing. Our FY2009E gross subscriber addition estimate stands revised to 1.4 mn versus 1.1 mn previously. This reflects in higher rentals and higher depreciation expenses due to more number of STBs.

7. **Model interest rate at 12% from 10% previously.** We have revised our interest rate assumption for Dish TV to 12% from 10% in view of a rising interest rate environment in India. Dish TV management noted during the results concall that effective interest rate for bank debt in the books of the company has gone up to 11% in 4QFY08.

Valuation remains tricky; long-term ARPUs and emerging competition to be the key determinants. We note the valuation of Dish TV remains tricky given (1) the entry of multiple strong players with potentially aggressive pricing strategies, (2) lack of earnings/cash flows for the next few quarters and (3) very high sensitivity of DCF valuation to long-term ARPUs (see Exhibit 4). We like the business and expect DTH subscriber volumes to grow strongly over the next several years led by rising affordability. Dish TV is well placed to leverage its first mover advantage and renewed marketing push in the DTH segment. We believe valuations are attractive at current levels and already factor in high subscriber acquisition costs being incurred by existing players in anticipation of emerging competition in the market. We upgrade Dish TV to BUY (ADD previously) with revised our 12-month DCF-based target price of Rs55.

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

			qoq			yoy			yoy	
	2009E	4Q 2008	3Q 2008	% chg.	4Q 2008	4Q 2007	% chg.	2008	2007	% chg.
Net sales	**7,378**	**1,359**	**1,121**	***21***	**1,359**	**659**	***106***	**4,127**	**1,909**	***116***
DTH services	7,116	1,291	1,045	*24*	1,291	634	*104*	3,892	1,798	*117*
Trading	150	37	49	*(24)*	37	2	*1,720*	123	7	*1,681*
Teleport services	112	31	27	*13*	31	23	*35*	112	105	*7*
Total expenditure	**(9,209)**	**(1,951)**	**(1,762)**	***11***	**(1,951)**	**(1,314)**	***49***	**(6,323)**	**(3,799)**	***66***
Direct operating cost & connectivity	(5,662)	(1,118)	(1,058)	*6*	(1,118)	(696)	*61*	(3,635)	(2,248)	*62*
Advertisement expenses	(1,219)	(203)	(306)	*(34)*	(203)	(186)	*9*	(969)	(535)	*81*
Staff cost	(381)	(80)	(74)	*8*	(80)	(52)	*55*	(295)	(149)	*98*
Administrative & other costs	(1,947)	(157)	(71)	*120*	(157)	(138)	*14*	(365)	(373)	*(2)*
Selling and distribution expenditure	—	(394)	(253)	*56*	(394)	(243)	*62*	(1,059)	(494)	*115*
EBITDA	**(1,831)**	**(592)**	**(642)**	***(8)***	**(592)**	**(655)**	***(10)***	**(2,196)**	**(1,889)**	***16***
EBITDA margin (%)	**(24.8)**	**(43.6)**	**(57.3)**	—	**(43.6)**	**(99.4)**	—	**(53.2)**	**(98.9)**	—
Other income	110	5	4	*7*	5	8	*(38)*	30	34	*(13)*
Interest	(803)	(145)	(135)	*7*	(145)	(62)	*135*	(469)	(86)	*448*
Depreciation and amortisation	(2,268)	(416)	(389)	*7*	(416)	(292)	*43*	(1,490)	(575)	*159*
Pretax profits	**(4,792)**	**(1,149)**	**(1,162)**	***(1)***	**(1,149)**	**(1,001)**	***15***	**(4,126)**	**(2,516)**	***64***
Extraordinaries	—	—	—		—	—		—	—	
Current tax	—	(2)	(2)	*(23)*	(2)	(1)	*99*	(6)	(3)	*135*
Deferred tax	(4)	—	—	—	—	—	—	—	—	—
Net income	**(4,796)**	**(1,151)**	**(1,164)**	***(1)***	**(1,151)**	**(1,002)**	***15***	**(4,132)**	**(2,519)**	***64***
Tax rate (%)	(0.1)	(0.2)	(0.2)	—	(0.2)	(0.1)	—	(0.1)	(0.1)	—
# of gross subs (mn)	4.4	2.7	2.4	12	2.7	2.0	39	2.7	1.8	—
ARPU (Rs/sub/month)	189	136	119	14	136	114	19	124	—	—

Source: Company, Kotak Insitutional Equities estimates.

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

	Revised estimates			Previous estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Subscription revenues	6,095	10,823	15,395	6,569	10,573	15,380	(7.2)	2.4	0.1
Other revenues	1,283	1,636	1,972	1,129	1,532	1,915	13.6	6.8	3.0
Total revenues	**7,378**	**12,459**	**17,367**	**7,698**	**12,105**	**17,294**	**(4.2)**	**2.9**	**0.4**
Operating cost	(6,443)	(8,835)	(11,120)	(6,545)	(8,518)	(10,976)	(1.5)	3.7	1.3
Advertising cost	(1,219)	(1,299)	(1,232)	(854)	(867)	(923)	42.7	49.8	33.5
Other expenses	(1,546)	(1,777)	(1,990)	(1,430)	(1,701)	(1,921)	8.1	4.5	3.6
Total expenditure	**(9,209)**	**(11,910)**	**(14,342)**	**(8,829)**	**(11,086)**	**(13,820)**	**4.3**	**7.4**	**3.8**
EBITDA	**(1,831)**	**549**	**3,025**	**(1,131)**	**1,019**	**3,475**	**(62)**	**(46)**	**(13)**
Depreciation	(2,268)	(2,981)	(3,487)	(2,181)	(2,807)	(3,314)	4.0	6.2	5.2
Operating Income	**(4,099)**	**(2,432)**	**(463)**	**(3,312)**	**(1,789)**	**160**	**(24)**	**(36)**	**(389)**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for Dish TV is Rs55

Discounted cash flow analysis of Dish TV (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**(1,831)**	**549**	**3,025**	**5,217**	**6,248**	**7,367**	**8,221**	**9,160**	**10,139**
Tax expense	—	—	—	(235)	(366)	(512)	(605)	(709)	(2,501)
Working capital changes	507	797	398	660	732	632	663	372	398
Cash flow from operations	**(1,324)**	**1,345**	**3,423**	**5,641**	**6,614**	**7,487**	**8,279**	**8,823**	**8,035**
Capital expenditure	(4,143)	(3,118)	(2,967)	(3,638)	(3,592)	(3,309)	(3,254)	(2,984)	(2,911)
Free cash flow to the firm	**(5,467)**	**(1,773)**	**456**	**2,003**	**3,021**	**4,178**	**5,026**	**5,839**	**5,124**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**8,298**	**16,523**	**22,217**
FCF one-year forward	6,032	6,393	6,777
Terminal value	86,165	91,335	96,815
PV of terminal value (b)	**22,486**	**23,835**	**25,265**
Total PV (a) + (b)	**30,784**	**40,358**	**47,481**
Net debt	6,669	4,163	7,600
Equity value	24,115	36,194	39,882
Equity value (US$ mn)	**533**	**905**	**1,036**
Shares outstanding (mn)	428	642	642
Equity value/per share (Rs)	**56**	**56**	**62**

Discount rate (%)	13.0
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	14.3
Exit EBITDA multiple (X)	7.8

Source: Kotak Institutional Equities estimates.

Pricing has a more significant impact on valuation of Dish TV than volume
Sensitivity of Dish TV's valuation to number of subscribers and subscription fees

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	65	15
10%	60	7
Base case	**56**	
-10%	52	(7)
-20%	48	(15)
Change in monthly subscription fees (%)		
20%	112	99
10%	84	50
Base case	**56**	
-10%	33	(41)

Source: Kotak Institutional Equities estimates.

Dish's subscribers will likely increase to 4.5 mn by FY2010E and to 7.2 mn by FY2015E
Key financial and operating data of Dish TV, March fiscal year-ends, 2007-2017E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues (Rs bn)	1.9	4.1	7.4	12.5	17.4	22.0	25.5	28.9	32.2	35.4	38.4	41.3	44.2
EBITDA (Rs bn)	(1.9)	(2.2)	(1.8)	0.5	3.0	5.2	6.2	7.4	8.2	9.2	10.1	11.0	11.8
EBITDA margin (%)	**(97.0)**	**(53.2)**	**(24.8)**	**4.4**	**17.4**	**23.7**	**24.5**	**25.5**	**25.6**	**25.9**	**26.4**	**26.7**	**26.7**
Year-end # of paying subscribers (mn)	**1.7**	**2.6**	**3.7**	**4.5**	**5.3**	**5.9**	**6.4**	**6.8**	**7.2**	**7.5**	**7.7**	**7.9**	**8.0**
Increase/(decrease) in # of paying subs (mn)	0.9	0.9	1.2	0.8	0.7	0.6	0.6	0.4	0.4	0.3	0.2	0.1	0.1
Average # of paying subscribers (mn)	1.2	2.1	3.1	4.1	4.9	5.6	6.1	6.6	7.0	7.4	7.6	7.8	7.9
Subscription fees per month (Rs/sub/month)	98	130	162	219	262	297	317	337	356	377	398	421	445
ARPU (Rs/sub/month)	**113**	**153**	**189**	**246**	**290**	**325**	**342**	**359**	**377**	**397**	**417**	**438**	**460**

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,127	7,378	12,459	17,367	22,038
EBITDA	**(830)**	**(1,852)**	**(2,196)**	**(1,831)**	**549**	**3,025**	**5,217**
Other income	—	34	30	110	82	74	141
Interest (expense)/income	(17)	(118)	(469)	(803)	(803)	(959)	(965)
Depreciation	(18)	(565)	(1,480)	(2,258)	(2,971)	(3,477)	(3,274)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(4,126)**	**(4,792)**	**(3,154)**	**(1,347)**	**1,109**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	—	(126)
Deferred taxation	—	—	(6)	(4)	139	279	157
Net income	**(2,078)**	**(2,519)**	**(4,132)**	**(4,796)**	**(3,015)**	**(1,068)**	**1,140**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.6)**	**(7.5)**	**(4.7)**	**(1.7)**	**1.8**
Balance sheet							
Total equity	1,915	(395)	(4,527)	(759)	(3,774)	(4,842)	(3,702)
Deferred taxation liability	—	—	6	10	(128)	(407)	(564)
Total borrowings	84	1,751	6,744	6,744	6,744	10,438	7,938
Current liabilities	1,820	8,596	8,436	8,841	9,173	9,952	11,324
Total liabilities and equity	**3,819**	**9,952**	**10,659**	**14,837**	**12,015**	**15,141**	**14,996**
Cash	59	113	75	2,581	(856)	2,331	1,385
Other current assets	1,528	2,271	1,245	1,042	1,520	1,979	2,426
Total fixed assets	1,067	6,107	7,888	9,773	9,920	9,410	9,774
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**10,659**	**14,837**	**12,015**	**15,141**	**14,996**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,665)	(2,634)	(255)	2,066	4,126
Working capital changes	599	3,507	866	608	(146)	320	924
Capital expenditure	(1,025)	(2,921)	(3,262)	(4,143)	(3,118)	(2,967)	(3,638)
Investments	185	(451)	—	—	—	—	—
Other income	3	5	30	110	82	74	141
Free cash flow	**(1,088)**	**(1,674)**	**(5,031)**	**(6,059)**	**(3,436)**	**(507)**	**1,553**
Ratios (%)							
Debt/equity	4.4	(443.6)	(149.0)	(888.7)	(178.7)	(215.6)	(214.4)
Net debt/equity	1.3	(414.9)	(147.3)	(548.6)	(201.4)	(167.4)	(177.0)
ROAE (%)	(217.0)	(331.3)	168.1	182.0	129.7	23.3	(24.0)
ROACE (%)	**(89.6)**	**(283.2)**	**(204.6)**	**(97.2)**	**(50.9)**	**(7.7)**	**48.1**

Source: Kotak Institutional Equities estimates.

Technology

INFY.BO, Rs1862	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	2,200
52W High -Low (Rs)	2142 - 1212
Market Cap (Rs bn)	1,069

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	166.9	218.5	266.5
Net Profit (Rs bn)	45.4	59.0	68.6
EPS (Rs)	79.1	102.8	119.6
EPS gth	*18.0*	*30.0*	*16.3*
P/E (x)	23.6	18	15.6
EV/EBITDA (x)	18.8	13.9	11.2
Div yield (%)	1.8	1.3	1.6

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	16.5	-	-
FIIs	52.5	5.7	3.5
MFs	2.9	1.7	(0.5)
UTI	-	-	(2.2)
LIC	3.7	1.9	(0.2)

Infosys Technologies : Braving the tough external environment—and doing it well

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- **Seeing moderate improvement in the demand environment**
- **No pricing pressure outside select clients; does not expect a breakdown of pricing discipline in the industry**
- **Traction in TSP vertical remains strong; expect the vertical to be the major revenue growth driver in FY2009**
- **Expects the technical flaw in Sec 10AA (7) income tax exemption on SEZ income to be corrected**

Our discussions with the Infosys management reaffirmed our confidence on the company meeting our revenue growth (24% US$ terms) and EPS (Rs102.8/share) estimates for FY2009E. The key takeaways from our recent meetings with the Infosys management—(1) despite no material change in the spending environment since the quarterly earnings commentary (implying no material change in IT budgets), the confidence level among the clients has improved over the same timeframe, (2) Infosys has started seeing increased traction on new RFPs and deals in the market, (3) no worries on the pricing front yet; cases of pricing concessions have been sporadic and client-specific, (4) most key accounts outside BFS vertical are ramping up well, (5) momentum in the TSP vertical remains strong, and (6) comfort on margin management has increased with rupee depreciation over the past two months; management indicated reinvestment of some of the rupee depreciation benefits into the business, especially in the sales and marketing organization. We maintain our preference for Infosys among the tier-I Indian IT stocks, given the company's superior execution capabilities, and lower and 'healthier' (low exposure to troubled clients) exposure to BFS vertical. Maintain BUY with an end-March 2009 DCF-based target price of Rs2,200/share.

Seeing moderate improvement in the demand environment. Infosys management indicated an improvement in the confidence level of its clients; the same would take some more time to reflect in closed deals and project ramp-ups though. The company has seen an increase in new RFPs in the market; the sales cycle continues to remain longer-than-earlier though with clients exercising extra caution before releasing their budgets. Improvement in new project closures is critical in achieving its back-ended revenue growth guidance. The company maintained its confidence on 2HFY09 recovery (as reflected in its 2Q-4QFY09 revenue CQGR of 6.5% implied in its FY2009 and 1QFY09 revenue guidance). Project ramp-downs and pricing concessions remain limited to select 'troubled clients'.

We maintain our 24% FY2009 US$-term revenue growth estimate for Infosys. We believe that Infosys will likely outperform its 1Q revenue guidance (0.3% growth at the upper-end) by 2-3%. We expect upward revision in FY2009E revenue guidance, but limited to the tune of 1Q revenue outperformance; we also expect the company to revise its Re/US$ assumption (initial guidance was at 40.02) and subsequently its FY2009E EPS guidance.

No pricing pressure outside select clients; does not expect a breakdown of pricing discipline in the industry. Infosys indicated that it has not faced pressure on the pricing front except a few sporadic instances with select clients. The company reiterated that it is seeing moderate pricing improvement in some of the new contracts while maintaining the pricing levels in most existing contract renegotiations. We note that sustaining pricing levels at 4QFY08 levels would mean a pricing improvement of 1.1% (onsite) and 1.6% (offshore) in FY2009E versus FY2008. We factor in qoq decline of 25bps in both onsite and offshore realization in 1Q and 2QFY09 in our estimates.

Traction in TSP/CSP vertical remains strong; expect the vertical to be the major revenue growth driver in FY2009. The company continues to see the Communication Service Provider (CSP, includes telecom service providers, cable companies, etc.) vertical as the key growth driver in FY2009E, especially in the backdrop of the likely deceleration in revenue growth from top BFS accounts. We note that Infosys' telecom practice now accounts for 22% of its revenues and has grown at a CAGR of 59% over the past two years. Management identified strong spending tailwinds (with large telcos spending heavily in network transformation to next-generation networks) and new opportunities in the form of cable companies opening up to IT outsourcing/offshoring as the key growth propellants in the vertical. Infosys continues to remain focused on getting a foothold into some of the unpenetrated large telcos while pursuing relatively smaller opportunities in the cable segment.

Expects the technical flaw in Sec 10AA(7) income tax exemption on SEZ income to be corrected: Infosys confirmed the technical flaw in the income tax act on SEZ tax exemption (Sec 10 AA (7)). The current act allows an SEZ unit to claim tax exemption on profits in proportion of the SEZ unit's export turnover to the assessee company's export turnover (essentially not allowing 100% tax exemption on SEZ profits). Infosys management indicated that the IT companies in India have filed a petition to get the wordings of the clause amended and expect the same to happen over the next few months. Infosys also indicated that it had claimed tax exemptions on its SEZ profits (Infosys derived around 5.6% of its consolidated FY2008 revenues from SEZs) in line with the current Income Tax interpretation; effectively the company has paid taxes and not claimed 100% tax exemption from revenues accruing from the SEZ.

We expect Infosys to revise its revenue guidance up marginally post 1Q

Infosys' current FY2009E guidance

	Lower end	Upper end	FY2008
Revenues (US$ mn)	4,970.0	5,050.0	4,175.0
Growth yoy (%)	**19.0**	**21.0**	
Revenues (Rs bn)	198.9	202.1	166.9
Growth yoy (%)	19.2	21.1	
EPS (Rs)	92.3	93.9	79.4
Growth yoy (%)	16.3	18.3	
EPADS (US$)	2.31	2.35	2.03
Growth yoy (%)	16.7	18.7	
Re/US$ rate	40.02		40.0

Source: Company reports.

Telecom vertical has been the key driver of growth for Infosys over the past two years

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08
Telecom vertical revenues (US$ mn)	117	141	150	189	204	210	229	257
% of overall revenues	17.7	18.9	18.3	21.9	22.0	20.6	21.1	22.5
qoq growth (%)	20.9	20.5	6.6	25.7	8.1	3.1	8.7	12.4
yoy growth (%)	42.8	60.9	70.1	95.2	74.6	49.4	52.3	36.1

Source: Company reports.

Infosys Technologies: Consolidated Indian GAAP income statement (Rs mn)

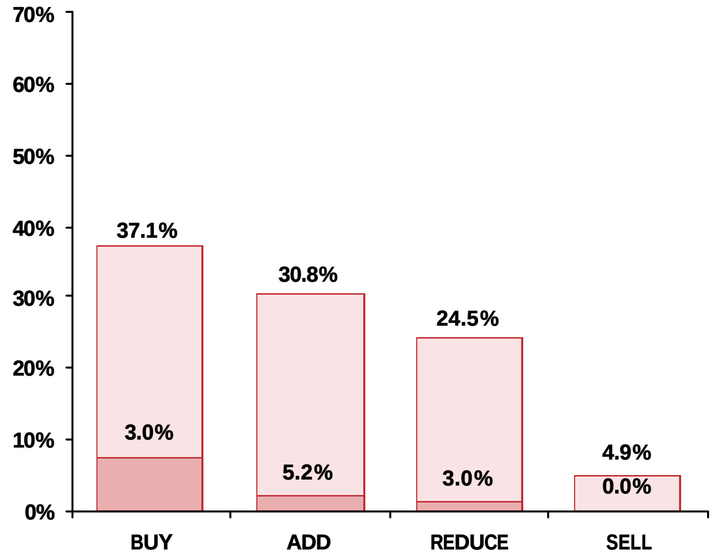
	2007	2008	2009E	2010E
Revenues	**138,930**	**166,920**	**218,478**	**266,532**
Software Development Costs	(74,580)	(92,070)	(119,473)	(146,759)
Gross profit	**64,350**	**74,850**	**99,005**	**119,772**
Selling and marketing exp	(9,290)	(9,160)	(12,886)	(15,832)
Administration exp	(11,150)	(13,310)	(17,549)	(21,771)
Total SG&A Expenses	(20,440)	(22,470)	(30,435)	(37,603)
EBITDA	**43,910**	**52,380**	**68,570**	**82,169**
Depreciation	(5,140)	(5,980)	(6,949)	(8,371)
EBIT	**38,770**	**46,400**	**61,621**	**73,798**
Other Income	3,750	7,040	7,407	8,562
Profit Before Tax	**42,520**	**53,440**	**69,027**	**82,360**
Provision for Tax	(5,100)	(8,060)	(10,029)	(13,734)
Net Profit	**37,420**	**45,380**	**58,999**	**68,626**
Minority Interest	(110)	—	—	—
Net Income	**37,310**	**45,380**	**58,999**	**68,626**
Extraordinaries	1,250	1,210	—	—
Net Profit- Reported	**38,560**	**46,590**	**58,999**	**68,626**
EPS (Rs/ share)	**67.0**	**79.1**	**102.8**	**119.6**
Margins (%)				
Gross Profit margin	46.3	44.8	45.3	44.9
EBITDA Margin	31.6	31.4	31.4	30.8
EBIT Margin	27.9	27.8	28.2	27.7
NPM	26.9	27.2	27.0	25.7
Growth Rates (%)				
Revenues	45.9	20.1	30.9	22.0
Gross Profit	44.4	16.3	32.3	21.0
EBITDA	42.0	19.3	30.9	19.8
EBIT	46.1	19.7	32.8	19.8
Net Profit	50.9	21.3	30.0	16.3
Net Income	51.8	21.6	30.0	16.3

Source: Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 31/03/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2008

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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

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