

Contents

Updates

BPCL, HPCL, IOC: Oil bonds are coming, rejoice

News Roundup

Corporate

- Reliance Natural Resources (RNRL's) proposed plan to sell its 20% stake in coal bed methane business to a strategic investor will need to be vetted by the government. This is in accordance with the production-sharing agreement to which the government is a signatory. (ET)
- Internet major Google is in early stages of negotiations with Reliance Communications to take a part of the Flag Telecom's trans-Pacific undersea communications cable on a long-term lease. Google is believed to be in talks to take on lease 500 GB bandwidth and this, according to industry sources, puts the deal size at around US\$80-100 mn (Rs 320-400 crore). (BS)
- The Essar Group is raising US\$3.59 bn (Rs 14,360 crore) against its 33% stake in Vodafone-Essar, the country's fourth-largest mobile operator. The loan, which will be the largest fund-raising through the share monetisation route by an Indian company, will be used to lower borrowing costs and to fund investment for companies that are part of the Essar Group, according to a statement from BNP Paribas, which is part of the loan arrangement team. (BS)
- SRF Ltd has firmed up plans to set up a new polyester industrial yarn spinning unit with an annual capacity of 14,500 tonnes at its existing Gumminipoondi plant in Tamil Nadu. The new project would involve fresh investment of approximately US\$60 mn (Rs 250 crore). The company has also entered into a technological tie-up with Japan-based TORAY for the new plant. (BL)

Economic and political

- RBI relaxes overseas investment and loan repayment norms for companies, mutual funds and individuals seeking to stem the rupee's gains by encouraging capital outflows. The move is aimed as moving towards fuller capital account convertibility. (BS)
- SEBI is likely to prohibit close-ended mutual funds from charging up to 6% of the corpus as initial offer expenses, which is then amortized over a period of time. The close-ended funds would be allowed to charge an entry load only similar to the open-ended funds (ET)
- Government will issue oil bonds worth Rs120 bn to the government owned oil marketing companies over the next fortnight. (BS)

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

EQUITY MARKETS

India	Change, %			
	25-Sep	1-day	1-mo	3-mo
Sensex	16,900	0.3	17.2	16.5
Nifty	4,939	0.1	17.9	15.2
Global/Regional indices				
Dow Jones	13,779	0.1	3.0	3.3
Nasdaq Composite	2,683	0.6	4.1	4.2
FTSE	6,397	(1.1)	2.8	(2.5)
Nikkie	16,396	(0.0)	0.9	(9.2)
Hang Seng	26,430	(0.5)	15.3	21.2
KOSPI	1,919	0.5	7.1	9.7
Value traded - India				
		Moving avg, Rs bn		
	25-Sep	1-mo	3-mo	
Cash (NSE+BSE)	252.9	170.8	166.5	
Derivatives (NSE)	836.8	433.4	402.6	
Deri. open interest	1,001.1	838.5	780.6	

Forex/money market

	Change, basis points			
	25-Sep	1-day	1-mo	3-mo
Rs/US\$	39.7	-	(128)	(120)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	5	5	(18)

Net investment (US\$m)

	24-Sep	MTD	CYTD
FIs	315	2,253	9,889
MFs	32	23	776

Top movers -3mo basis

Best performers	Change, %			
	25-Sep	1-day	1-mo	3-mo
Reliance Energy	1,087	(0.6)	47.8	84.4
Neyveli Lignite	107	1.5	48.0	74.4
Chambal Fert	57	3.9	22.1	63.8
Tata Tele	41	(2.3)	44.3	57.4
SAIL	200	0.8	36.9	49.6
Worst performers				
i-Flex	1,822	(1.7)	(2.6)	(28.9)
Polaris	112	(1.3)	3.7	(27.8)
Novartis India	306	(0.8)	5.9	(23.2)
Punjab Tractors	233	(0.9)	4.4	(21.6)
Cipla	169	1.2	(1.0)	(18.0)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Energy

Sector coverage view

Neutral

Company	Rating	Price, Rs	
		25-Sep	Target
IOC	L	436	500
BPCL	L	349	400
HPCL	L	265	325

BPCL, HPCL, IOC: Oil bonds are coming, rejoice

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Rs240 bn of oil bonds may help earnings, sentiment but probably not enough to match FY2007 results**
- **Difficult to estimate earnings as yet but Rs30-35 EPS possible for BPCL, HPCL; Rs50-60 for IOCL**
- **Valuations look attractive; not much downside risk from current levels, in our view**

The Indian petroleum secretary stated on September 25 that the government may give Rs240 bn of oil bonds for FY2008E to the government-owned downstream oil companies. The government may issue Rs120 bn by October 15, which would enable the oil companies to book the amount in 2QFY08 results. The issue of oil bonds would shore up downstream oil companies' earnings and sentiment meaningfully; however, it is a bit early to get a good grip on FY2008E earnings. We retain our earnings estimates and 12-month target prices (Rs400 for BPCL, Rs325 for HPCL and Rs500 for IOCL based on 30-40% discount to 5X normalized EBITDA plus value of investments).

Oil bonds would help a lot, thank you. The issue of Rs240 bn of oil bonds in FY2008E will help the downstream oil companies report 'good' results for FY2008E although it is a bit early to get a 'perfect' grip on FY2008E earnings. Nonetheless, we expect the downstream oil companies to report weaker results in FY2008E compared to FY2007. Risks to earnings still exist from higher crude oil prices in winter and inappropriate government action (inadequate increase in amount of oil bonds or domestic selling prices).

Exhibit 1 shows our estimated subsidy under-recoveries for FY2008E in comparison with FY2006 and FY2007 actual under-recoveries. We expect gross under-recoveries to exceed the FY2007 figure of Rs494 bn; under-recoveries may exceed our current estimates if crude oil prices rise further in the winter season. Exhibit 2 gives our estimate of net under-recoveries (gross under-recoveries net of oil bonds and payment from upstream oil companies) of the downstream oil companies in FY2008E.

We model Rs200 bn of oil bonds in FY2008E. We model that the government will issue Rs200 bn of oil bonds in FY2008E. However, we would clarify that we use US\$71/bbl Dated Brent for 2HFY08. Current crude oil prices are above our assumed level and upside risks exist to our crude price estimates in the winter season, particularly if OPEC fails to increase supply sufficiently to match peak winter demand.

We note that the downstream oil companies have reportedly paid significantly higher advance tax for September 15 filing against the same period for FY2007. We would assume that the oil companies have visibility on the receipt of the oil bonds before their 2QFY08 results. We note that issue of oil bonds requires parliamentary approval but presumably a letter from the finance/petroleum ministry should suffice for the bonds to be booked in 2QFY08 results.

Update on BPCL's gas 'discovery' in Cachar block. According to press reports (*Economic Times dated September 25*), a consortium of Oil India-Indian Oil-Premier Oil-BPCL has discovered 8-18 tcf of in-place reserves of gas in Cachar block in Assam. Premier Oil had issued a statement in early July confirming a discovery in the block. The ET article quotes the BPCL chairman as saying, "This is a big discovery. Cachar has significant gas and possibly oil potential. We are still in process of evaluating the potential of this discovery. We are getting encouraging results".

We will wait for more details on reserves and PSC terms before ascribing a value to the discovery. Our preliminary valuation for BPCL's 14.5% stake in the block is US\$300-400 mn assuming press reports of 8-18 tcf of in-place reserves is correct.

R&M companies' earnings for FY2008E would depend on the amount of oil bonds

Estimation of subsidy under-recovery in FY2008E (Rs bn)

	2006	2007	2008E
Dated Brent crude oil price (US\$/bbl)	57	65	70
Subsidy loss	400	494	522
Payment by government (oil bonds)	115	241	240
Share of BPCL	22	53	53
Share of HPCL	23	49	49
Share of IOCL	70	138	138
Net under-recovery of oil companies	285	253	282
Share of refining companies	27	—	—
Share of upstream companies	140	205	174
Share of ONGC	120	170	145
Share of GAIL	11	15	13
Share of Oil India	10	20	17
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	118	48	108
Pre-tax profits of R&M companies	74	96	

Source: Kotak Institutional Equities estimates.

Gross under-recovery in FY2008E likely higher than FY2007 levels

Estimation of gross under-recovery in FY2008E

	FY2007	FY2008E
Government estimate of gross under-recovery	494	NA
KIE estimated gross under-recovery in April-September 2007		256
KIE estimated gross under-recovery in September 2007 (a)		44
KIE estimated gross under-recovery in balance of FY2008 (b)		266
KIE estimated gross under-recovery in FY2008E		522
Subsidy loss on diesel in FY2007 or in September 2007 (Rs/l)	2.0	1.7
Subsidy loss on gasoline in FY2007 or in September 2007 (Rs/l)	1.6	1.7
Subsidy loss on LPG in FY2007 or in September 2007 (Rs/cylinder)	187	204
Subsidy loss on gasoline in FY2007 or in September 2007 (Rs/l)	16.5	15.2
Crude oil (Dated Brent) price in FY2007 or in August 2007 (US\$/bbl)	64.8	70.8

Note:

(a) Based on August international product prices and September retail domestic price; Dated Brent price in August 2007 was US\$70.8/bbl.

(b) Gross under-recovery for balance of FY2008 computed using September 2007E gross under-recovery.

Source: MOPNG, Kotak Institutional Equities estimates.

Normalized earnings forecasts are significantly higher versus actual forecasts

Comparison of normalized marketing margins with FY2009 estimates (Rs/ton)

	BPCL		HPCL		IOCL	
	2009E	Normalized	2009E	Normalized	2009E	Normalized
LPG	(10,750)	1,500	(10,750)	1,500	(10,750)	1,500
Naphtha	2,000	500	2,000	500	2,250	1,000
Gasoline	(2,500)	1,700	(2,500)	1,700	(2,500)	2,000
Jet fuel	2,000	1,400	2,000	1,400	2,000	1,700
Kerosene	(16,250)	600	(16,250)	600	(15,000)	600
Diesel	(750)	1,500	(750)	1,500	(750)	1,800
Light diesel oil	1,000	500	1,000	500	1,800	1,000
Low sulphur heavy stock	1,600	500	1,600	500	2,200	1,000
Fuel oil	1,600	500	1,600	500	2,200	1,000
Bitumen	1,800	1,000	1,800	1,000	2,600	1,600
EPS (Rs)	35.4	69.3	34.0	65.4	45.2	68.3
EBITDA (Rs bn)	27.1	45.6	29.3	45.4	102.0	143.7
EV (5X normalised EBITDA) (Rs bn)		228		227		719
Value of investments (Rs bn)		92		48		274
Net debt (Rs bn)		75		91		137
Equity value (Rs/share)		676		544		717
Equity value at 40% discount (Rs/share) (b)		406		326		502

Note:

(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2009.

(b) Target price for IOC is based 30% discount to fair value (5X normalized EBITDA plus investments).

Source: Kotak Institutional Equities estimates.

Indian downstream oil stocks are inexpensive on long-term valuations

P/B and EV/GCI for BPCL, HPCL and IOCL

	2006			2007E			2008E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
Stock price (Rs)	349	265	436	349	265	436	349	265	436
Year-end book value (Rs)	290	299	304	322	325	350	351	347	389
P/B (X)	1.2	0.9	1.4	1.1	0.8	1.2	1.0	0.8	1.1
ROAE (%)	3.3	4.1	15.0	16.3	14.9	17.5	13.0	9.5	16.8
EV (Rs bn)	166	116	687	143	123	618	137	147	605
Gross cash invested (Rs bn)	220	189	720	218	211	752	232	251	815
EV/GCI (X)	0.8	0.6	1.0	0.7	0.6	0.8	0.6	0.6	0.7
Cash returns (Rs bn)	9	7	59	25	16	72	21	17	78
CROCI (%)	4.2	3.6	8.1	11.3	7.7	9.5	8.8	6.6	9.6

Note:

(a) IOC's book value does not include unrealized gain from investments in ONGC, GAIL amounting to Rs95/share.

(b) Book value of Indian R&M stocks may be depressed due to full depreciation of certain assets (old refineries, LPG cylinders).

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	479,840	578,774	755,333	965,569	984,342	1,001,055	1,028,067
EBITDA	38,686	26,231	9,407	35,362	27,779	27,069	32,757
Other income	4,348	4,015	4,653	7,332	8,276	7,709	7,280
Interest	(1,447)	(1,748)	(2,474)	(4,774)	(6,643)	(6,059)	(5,507)
Depreciation	(6,754)	(7,130)	(7,680)	(9,041)	(8,983)	(9,321)	(10,277)
Pretax profits	34,833	21,368	3,906	28,879	20,429	19,397	24,253
Extraordinary items	(420)	810	176	(68)	2,314	—	—
Tax	(12,026)	(7,250)	(140)	(9,286)	(5,626)	(5,549)	(5,715)
Deferred taxation	(805)	(1,230)	(1,025)	(268)	(1,318)	(1,044)	(2,529)
Net profits	21,582	13,698	2,916	18,055	15,800	12,804	16,009
Net profits after minority interests	19,086	11,334	2,916	18,055	15,800	12,804	16,009
Earnings per share (Rs)	64.6	37.2	7.6	50.1	38.9	35.4	44.3

Balance sheet (Rs mn)							
Total equity	69,960	82,887	91,394	102,735	111,767	119,087	128,238
Deferred taxation liability	11,304	12,533	13,558	13,826	15,144	16,188	18,717
Total borrowings	32,701	46,589	83,736	108,292	85,916	79,416	71,416
Current liabilities	95,495	104,462	94,070	112,767	91,296	92,976	95,761
Total liabilities and equity	209,459	246,472	282,758	337,620	304,124	307,668	314,133
Cash	9,319	6,644	4,921	8,640	4,111	4,096	3,672
Current assets	97,729	130,393	128,208	127,698	103,399	104,565	106,623
Goodwill	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	118,334	126,012	138,405	153,237
Investments	13,927	10,893	38,774	82,949	70,602	60,602	50,602
Total assets	209,459	246,472	282,758	337,621	304,124	307,668	314,133

Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	30,727	21,118	9,275	29,920	17,442	15,461	21,535
Working capital	1,025	(18,393)	1,577	11,451	2,829	514	727
Capital expenditure	(17,001)	(17,120)	(19,945)	(17,908)	(16,279)	(21,714)	(25,109)
Investments	1,278	2,992	(28,146)	(45,481)	12,347	10,000	10,000
Other income	1,985	2,445	1,785	4,337	8,276	7,709	7,280
Free cash flow	18,015	(8,957)	(35,455)	(17,682)	24,615	11,970	14,433

Ratios (%)							
Debt/equity	40.2	48.8	91.6	105.4	76.9	66.7	55.7
Net debt/equity	28.8	41.9	86.2	97.0	73.2	63.2	52.8
RoAE	28.8	14.4	3.3	16.3	13.0	9.8	11.3
RoACE	21.2	12.0	4.1	11.0	9.3	8.5	10.5

Key assumptions (standalone until FY2005)							
Crude throughput (mn tons)	8.8	9.1	17.2	19.8	20.4	20.5	21.0
Effective tariff protection (%)	7.2	4.8	2.9	1.6	1.4	0.4	0.8
Net refining margin (US\$/bbl)	4.2	3.8	2.1	3.2	5.1	4.5	4.0
Sales volume (mn tons)	20.9	21.5	23.3	24.2	25.4	26.4	27.4
Marketing margin (Rs/ton)	1,893	1,732	(671)	(1,140)	(945)	(338)	1,531
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(20,159)	(37,068)	(28,259)	(16,527)

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	512,001	597,020	708,609	889,959	882,351	898,492	914,764
EBITDA	31,858	20,511	8,056	24,036	22,771	29,256	34,529
Other income	3,794	3,295	3,285	6,845	8,586	5,723	5,222
Interest	(557)	(816)	(1,587)	(4,230)	(6,974)	(7,635)	(6,132)
Depreciation	(6,054)	(6,584)	(6,902)	(7,040)	(8,060)	(9,898)	(9,817)
Pretax profits	29,042	16,406	2,851	19,611	16,323	17,447	23,801
Extraordinary items	—	1,471	2,201	3,030	—	—	—
Tax	(10,225)	(5,897)	(898)	(6,625)	(4,291)	(4,109)	(6,590)
Deferred taxation	(540)	793	(97)	(365)	(1,257)	(1,822)	(1,500)
Prior period adjustment	762	—	—	61	—	—	—
Net profits	19,039	12,773	4,056	15,712	10,775	11,516	15,711
Earnings per share (Rs)	56.2	34.8	6.6	40.0	31.8	34.0	46.4
Balance sheet (Rs mn)							
Total equity	77,428	84,409	87,357	95,987	102,003	108,433	117,205
Deferred tax liability	14,541	13,748	13,844	14,209	15,466	17,287	18,787
Total borrowings	17,008	21,854	66,638	105,175	105,175	91,121	71,371
Current liabilities	76,551	69,887	79,549	101,195	85,934	91,029	94,040
Total liabilities and equity	185,528	189,896	247,389	316,566	308,578	307,870	301,403
Cash	1,971	2,016	426	868	452	331	394
Current assets	92,331	93,007	109,674	113,779	114,027	117,544	119,422
Total fixed assets	70,743	77,305	97,013	130,644	146,300	149,698	156,289
Investments	20,484	17,568	40,276	71,275	47,798	40,298	25,298
Total assets	185,528	189,896	247,389	316,566	308,578	307,871	301,403
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	29,062	15,977	10,126	23,966	10,200	17,512	21,806
Working capital changes	(13,410)	(3,614)	(5,351)	8,936	(13,902)	1,579	1,132
Capital expenditure	(8,895)	(12,849)	(25,298)	(38,510)	(22,410)	(13,296)	(16,409)
Investments	(342)	2,995	(22,884)	(31,704)	23,477	7,500	15,000
Other income	1,052	800	941	2,067	6,979	5,723	5,222
Free cash flow	7,466	3,310	(42,466)	(35,246)	4,343	19,020	26,751
Ratios (%)							
Debt/equity	18.5	22.3	65.8	95.4	89.5	72.5	52.5
Net debt/equity	16.4	20.2	65.4	94.7	89.1	72.2	52.2
RoAE	22.0	13.4	4.1	14.9	9.5	9.5	12.0
RoACE	18.9	10.1	2.5	8.8	7.8	8.7	10.2
Key assumptions							
Crude throughput (mn tons)	13.7	13.9	14.0	16.7	16.7	18.5	19.3
Effective tariff protection (%)	7.4	5.6	3.1	1.4	1.2	0.4	0.7
Net refining margin (US\$/bbl)	4.4	4.5	3.9	4.3	5.2	4.7	4.2
Sales volume (mn tons)	20.1	20.6	20.1	23.4	24.2	25.0	25.8
Marketing margin (Rs/ton)	1,861	1,688	(463)	(710)	(572)	(92)	1,527
Subsidy under-recoveries (Rs mn)	(12,870)	(26,708)	(29,671)	(18,899)	(34,743)	(27,116)	(18,736)

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	1,173,450	1,379,018	1,732,849	2,148,663	2,140,347	2,186,575	2,248,170
EBITDA	114,303	86,765	82,024	110,439	118,030	102,040	99,533
Other income	17,565	16,138	25,714	27,450	40,038	21,752	20,088
Interest	(5,043)	(7,433)	(12,101)	(14,002)	(11,459)	(8,259)	(5,284)
Depreciation	(20,626)	(23,140)	(24,711)	(28,686)	(30,963)	(31,584)	(33,490)
Pretax profits	106,199	72,330	70,926	95,202	115,646	83,949	80,847
Extraordinary items	3,553	4,283	5,590	24,501	5,540	5,502	5,468
Tax	(25,966)	(13,658)	(19,975)	(33,839)	(36,266)	(27,717)	(24,651)
Deferred taxation	(5,157)	(2,335)	(1,282)	(78)	(2,012)	57	(2,002)
Net profits	79,052	59,475	55,509	85,786	82,908	61,791	59,662
Net profits after minority interests	73,298	52,666	49,643	67,548	74,164	53,928	52,641
Earnings per share (Rs)	62.8	45.1	42.5	56.6	62.2	45.2	44.1

Balance sheet (Rs mn)							
Total equity	233,386	271,302	317,977	380,944	428,559	456,352	482,882
Deferred tax liability	47,934	50,367	50,602	51,661	53,673	53,616	55,618
Total borrowings	146,147	197,809	292,395	253,834	199,438	146,166	120,431
Current liabilities	219,522	266,430	286,716	348,444	375,985	388,043	400,207
Total liabilities and equity	646,988	785,907	947,691	1,034,884	1,057,656	1,044,176	1,059,139
Cash	13,777	13,356	8,080	5,654	9,548	9,004	8,782
Current assets	278,550	368,158	413,904	453,324	505,498	515,664	527,833
Total fixed assets	320,647	370,003	383,717	407,013	413,718	430,616	453,632
Investments	34,013	34,391	141,990	168,892	128,892	88,892	68,892
Total assets	646,988	785,907	947,691	1,034,883	1,057,655	1,044,176	1,059,138

Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	78,657	66,215	63,274	74,611
Working capital changes	1,710	(33,421)	(8,136)	20,517	(19,635)	3,067	(7,131)
Capital expenditure	(47,179)	(73,626)	(49,042)	(41,442)	(41,006)	(50,011)	(51,306)
Investments	(509)	(1,172)	(17,778)	(27,349)	40,000	40,115	20,000
Other Income	5,826	7,814	10,317	24,489	24,913	21,787	20,139
Free cash flow	53,560	(28,641)	(74,973)	54,871	70,487	78,233	56,313

Ratios (%)							
Debt/equity	52.0	61.5	79.3	58.7	41.4	28.7	22.4
Net debt/equity	47.1	57.3	77.1	57.4	39.4	26.9	20.7
RoAE	30.0	18.3	15.0	17.5	16.8	11.3	10.5
RoACE	20.4	13.7	10.1	10.4	12.8	9.2	9.1

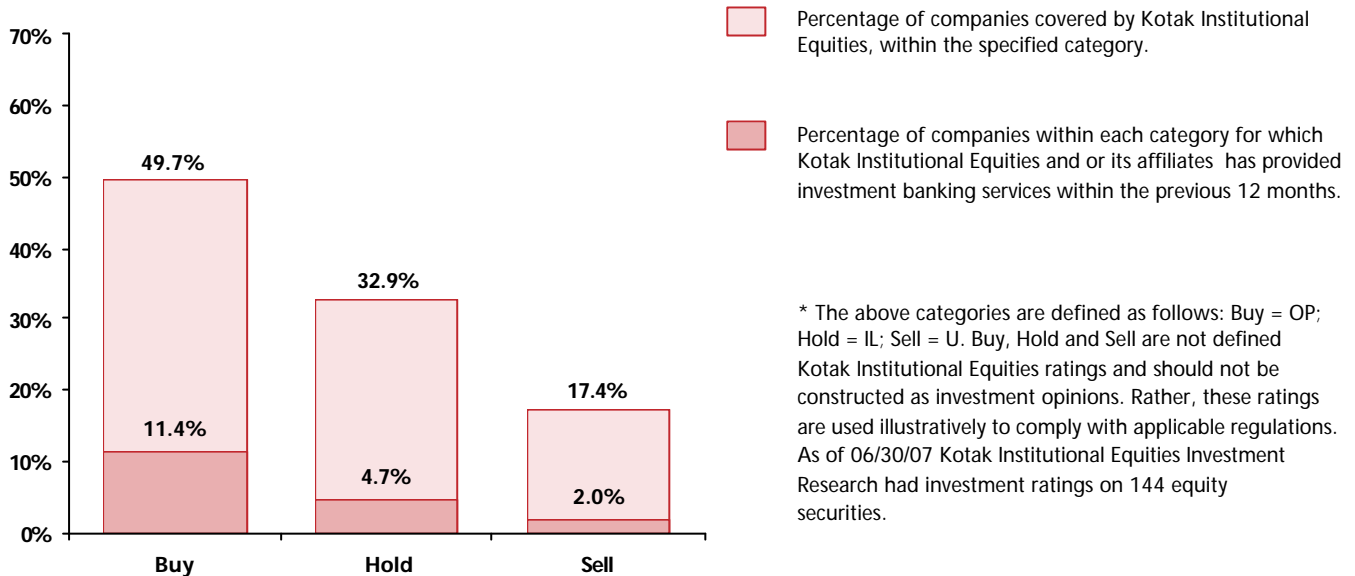
Key assumptions (IOC standalone)							
Crude throughput (mn tonnes)	37.7	36.6	38.5	44.0	46.7	48.2	49.7
Effective tariff protection (%)	7.9	5.8	3.3	1.9	1.7	0.7	1.0
Net refining margin (US\$/bbl)	5.4	6.2	4.8	4.5	6.0	5.4	5.0
Sales volume (mn tonnes)	47.1	48.2	50.4	53.3	55.6	57.7	59.6
Marketing margin (Rs/tonne)	2,092	1,982	26	(633)	(332)	82	1,703
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(65,041)	(55,190)	(41,406)

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: Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

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 June 30, 2007

Ratings and other definitions/identifiers

Current 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.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

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.

Corporate Office
Kotak Securities Ltd.

Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd.

6th Floor, Portsocken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.

50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120

Copyright 2007 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMIInc). However KMIInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.

Kotak Securities Ltd.

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453