kotak® Institutional Equities

INDIA DAILY

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EQUITY MARKETS

India	28-Jun	Change, % 1-day	1-mo	3-mo
Sensex	14,505	0.5	(0.0)	11.7
Nifty	4,282	0.4	(0.3)	12.7
Global/Regional indices				
Dow Jones	13,422	(0.0)	(0.7)	8.7
Nasdaq Composite	2,608	0.1	1.4	7.9
FTSE	6,571	0.7	(0.5)	3.9
Nikkie	18,089	0.9	2.4	4.8
Hang Seng	21,981	0.2	7.4	10.9
KOSPI	1,765	0.8	6.2	21.6

Value traded - India

	28-Jun	Moving avg, Rs bn 1-mo	3-mo
Cash (NSE+BSE)	168.4	135.9	132.9
Derivatives (NSE)	605.0	393.0	443.7
Deri. open interest	819.9	672.0	591.9

Forex/money market

	28-Jun	Change, basis points 1-day	1-mo	3-mo
Rs/US$	40.9	-	36	(289)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	1	12	25

Net investment (US$mn)

	26-Jun	MTD	CYTD
FIIs	(74)	551	4,498
MFs	(17)	13	(95)

Top movers -3mo basis

Best performers	28-Jun	Change, % 1-day	1-mo	3-mo
BALAJI TELEFILMS L	225	1.7	1.5	77.3
GREAT EASTERN SH	339	(0.4)	17.1	68.0
RELIANCE CAPITAL	1,082	(0.7)	10.2	63.2
TITAN INDUSTRIES L	1,340	0.8	22.3	61.7
MOSER BAER INDIA	456	4.1	1.3	55.2
Worst performers				
POLARIS SOFTWARI	152	(2.3)	(7.9)	(14.9)
CIPLA LTD	203	(1.1)	(7.1)	(13.9)
BAJAJ AUTO LIMITE	2,094	(1.7)	(4.5)	(13.5)
RAYMOND LIMITED	307	1.1	(6.2)	(9.7)
WIPRO LTD	515	1.0	(4.5)	(8.9)

News Roundup

Corporate

- Infosys is said to be bidding to for Europe's largest IT service giant Capgemini. However both sides have denied any such move (ET)
- Tata steel has revived its integrated titanium dioxide project in Tuticorin, Tamil Nadu at an investment of Rs25 bn (BS)

Economic and political

- India and Pakistan have come to agreement over gas transportation pricing for the Iran pipeline contract Under the agreement Pakistan would be paid $0.70-0.75 per mbtu of gas (BS)
- Government is considering a 10% capital subsidy to garment industry under the modified Technology Upgradation Funds Scheme. This would be in addition to the 5% interest subsidy to the textile industry (ET)

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

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Media

SUTV.BO, Rs1527	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	1,200
52W High -Low (Rs)	1849 - 968
Market Cap (Rs bn)	105.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	4.5	7.2	9.1
Net Profit (Rs bn)	2.0	3.2	4.4
EPS (Rs)	29.2	46.2	64.5
EPS gth	*39.2*	*58.1*	*39.5*
P/E (x)	52.2	33.0	23.7
EV/EBITDA (x)	29.5	17.9	13.1
Div yield (%)	0.4	0.7	1.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	90.0	-	-
FIIs	6.5	0.1	(0.3)
MFs	1.7	0.2	(0.2)
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Sun TV: 4QFY07 and FY2007 results: Not too promising; Retain U

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- **Pro forma FY2007 results show 15% growth in revenues and 33% growth in net income**
- **Limited merit in analysis due to results reflecting merger with Gemini TV and Udaya TV**
- **Retain 12-month DCF based target price of Rs1,200**

Sun TV reported 4QFY07 net income and FY2007 net income (merged for Gemini and Udaya TV) at Rs1.2 bn and Rs2.7 bn (EPS of Rs27.4), respectively. We note that 4QFY07 results include figures for Gemini TV and Udaya TV and are not comparable with either 3QFY07 or 4QFY06. On a pre-merger basis, our FY2007 EPS estimate was Rs29.2, based on net income estimate of Rs2 bn. On a pro forma basis, FY2007 revenues have grown by 15% to Rs6.8 bn and net income has grown by 33% to Rs2.7 bn; the 15% revenue growth looks disappointing to us. However, it is difficult to draw meaningful conclusions from the results given limited financial details on the merging entities. We have left our earnings estimates unchanged pending availability of financial details of Gemini TV and Udaya TV. We retain our 12-month target price of Rs1,200. Key upside risks stem from higher-than-expected advertisement and subscription revenues.

Result not too promising. We see limited merit in the results as the figures for 4QFY07 figures for Gemini TV and Udaya TV and hence are not comparable with either 3QFY07 or 4QFY06. Similarly, FY2007 and FY2006 results as reported are not comparable and we focus on pro forma figures for comparison. We believe that the results of Sun TV (standalone) are not too promising (see Exhibit 1). If we assume a moderate growth of 15% in FY2007E net profit for Gemini TV and Udaya TV (combined net profit of Rs703 mn in FY2006), we find that Sun TV (pre-merger basis) net income would come to Rs1.86 bn, which is lower than our estimated FY2007 net profit of Rs2 bn; 4QFY07 figure would show a significant shortfall versus our estimate of Rs504 mn. If we assume flat net income for Gemini TV and Udaya TV in FY2007, then we compute Sun TVFY2007 standalone profits at Rs1.97 bn, which is in-line with our estimate of Rs2 bn. However, the latter scenario does not auger well for Sun TV anyway; this would highlight lower growth prospects for the merging entities versus that of Sun TV and result in weaker-than-expected earnings growth in the future.

We believe strong growth in earnings in the merging companies is required for the merger to be value accretive. As highlighted in our December 4, 2006 note on the merger, we think Gemini TV and Udaya TV may see more subdued growth in revenues and net income because their revenues and net income already reflect pay-TV revenues. The main channels of Gemini TV and Udaya TV are pay from December 2002 and August 2004, respectively and presumably their financials for FY2006 and FY2007 include contribution from pay-TV revenues.

Bleak scenario for Sun TV in either case

Scenario analysis of standalone Sun TV revenues and profits for FY2007, March fiscal year-ends

Consolidated revenues (Rs mn)		Scenario 1 (a)	Scenario 2 (b)
	2006	2007	2007
Sun TV pre-merger	3,219	**4,080**	**3,677**
Gemini TV	1,747	1,747	2,009
Udaya TV	943	943	1,085
Total revenues	**5,909**	**6,770**	**6,770**

Consolidated profit (Rs mn)		Scenario 1 (a)	Scenario 2 (b)
	2006	2007	2007
Sun TV pre-merger	1,302	**1,965**	**1,859**
Gemini TV	451	451	518
Udaya TV	253	253	291
Net profit	**2,006**	**2,668**	**2,668**

Notes:
(a) Assuming no growth in FY2007 Gemini TV and Udaya TV revenues or profits over FY2006
(b) Assuming 15% growth in FY2007 Gemini TV and Udaya TV revenues and profits over FY2006

Source: Company, Kotak Insitutional Equities estimates.

Sun TV consolidated results (Rs mn)

	qoq			yoy			yoy		
	4Q 2007	3Q 2007	*% chg.*	4Q 2007	4Q 2006	*% chg.*	2007	2006	*% chg.*
Net sales	**3,790**	**1,140**	***232.4***	**3,790**	**786**	***382.2***	**6,770**	**3,219**	***110.3***
Advertising Income (incl radio)	1,736	706	*146*	1,736	527	*229*	3,630	2,026	*79*
Broadcast fee	596	183	*226*	596	136	*340*	1,085	570	*90*
Program licensing income/International revenues	140	82	*71*	140	50	*178*	340	176	*93*
Cable distribution revenues	—	—		—	—		—	—	
Income from pay channels	1,288	165	*681*	1,288	67	*1,834*	1,671	440	*280*
Others	28	4	*574*	28	6	*356*	42	18	*137*
Total expenditure	**(1,267)**	**(257)**	***393.6***	**(1,267)**	**88**	***(1,536.1)***	**(1,951)**	**(748)**	***160.9***
Transmission and programming cost	(576)	(64)	*795*	(576)	345	*(267)*	(762)	(288)	*164*
Staff cost	(367)	(126)	*190*	(367)	(224)	*64*	(694)	(300)	*131*
Administrative & other costs	(323)	(66)	*391*	(323)	(32)	*913*	(496)	(159)	*211*
EBITDA	**2,524**	**884**	***185.6***	**2,524**	**874**	***188.7***	**4,818**	**2,471**	***95.0***
EBITDA margin (%)	**66.6**	**77.5**		**66.6**	**111.2**		**71.2**	**76.8**	
Other income	174	110	*58*	174	78	*123*	495	172	*188*
Interest	(15)	(2)	*907*	(15)	(31)	*(51)*	(31)	(63)	*(51)*
Depreciation and amortisation	(864)	(90)	*862*	(864)	(477)	*81*	(1,193)	(585)	*104*
Pretax profits	**1,819**	**902**	***101.6***	**1,819**	**444**	***309.5***	**4,089**	**1,995**	***105.0***
Extraordinaries									
Current tax	(734)	(306)	*140*	(734)	(155)	*374*	(1,503)	(693)	*117*
Fringe benefit tax	(2)	(1)	*31*	(2)	—		(5)	—	
Deferred tax	105	2	*4,483*	105	—		108	—	
Net income	**1,189**	**598**	***98.9***	**1,189**	**289**	***310.9***	**2,688**	**1,302**	***106.4***
Tax rate (%)	34.6	33.6		34.6	34.9		34.1	34.7	

Note:
(a) 4QFY2007 and 2007 data is for 'merged' entity and hence not comparable with previous period data
(b) Sun TV shows film amoritzation in depreciation and amortization; we show it in transmission and programming costs.
(c) Extant three radio channels are in Sun TV parent company and quarterly results include the three channels.

Source: Company, Kotak Insitutional Equities estimates.

Pharmaceuticals

PFIZ.BO, Rs826	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	900
52W High -Low (Rs)	965 - 666
Market Cap (Rs bn)	24.6

Financials

November y/e	2006	2007E	2008E
Sales (Rs bn)	6.9	7.2	7.8
Net Profit (Rs bn)	1.2	1.3	1.5
EPS (Rs)	39.3	44.9	51.5
EPS gth	*23.8*	*14.2*	*14.7*
P/E (x)	21.0	18.4	16.0
EV/EBITDA (x)	13.1	10.9	9.0
Div yield (%)	2.7	2.7	3.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.2	-	-
FIIs	2.8	0.0	(0.1)
MFs	10.1	0.2	0.2
UTI	3.7	0.7	0.6
LIC	8.3	0.2	0.1

Pfizer Limited: Other income aids 10% profit growth

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- **Q2 pre-exceptional profit is up 10% aided by higher other income.**
- **Operating profit is down 4%, following a 2% dip in revenues**
- **We have revised our EPS down to Rs44.9 (Rs48.3 earlier)**
- **Maintain OP with price target of Rs900. We think there is an upside potential to our target price, if the consumer business is hived off to shareholders.**

For Q2CY2007, net revenues are down 2% and net profit (pre-exceptional) is up 10% to Rs328 mn. Reported PAT was 618% higher at Rs2.6 bn, owing to profit from sale of property. The pharma business dipped by 2% and revenues were flat in the consumer business (volumes dipped by 12%). The consumer business constitutes about 22% of revenues, and has been sold off globally to J&J. Owing to the uncertainty regarding transfer there has been attrition in the marketing team. Our CY2007 EPS of Rs44.9 includes the consumer business, which had a net margin of 27% in the previous year versus company average of 18%. The consumer business thus contributed about a third of net profit in the previous year.

For H1, net revenues are up only 1% and net profit (pre-exceptional) is up 5% to Rs637 mn. EBITDA margin is down 100bps to 25.3%. The management has expressed confidence of being able to maintain these margins for the pharma business, even without the consumer business.

We have fine-tuned our model, and our new EPS for CY2007 is Rs44.9 (Rs48.3 earlier). This includes the consumer business, which has been sold off globally. Excluding the consumer business, we estimate EPS of Rs29.2 in CY2007 and Rs34.6 in CY2008. Our price target is Rs900; based on November-2008 DCF.

Pfizer - results table (Rs mn)

	May-06	Aug-06	Nov-06	CY2006	Feb-07	May-07	CY2007E	yoy growth %	ytd, growth %
Total revenues	**1,729**	**1,854**	**1,765**	**6,885**	**1,603**	**1,703**	**7,205**	*(2)*	*1*
Total Expenses	**1302**	**1378**	**1447**	**5232**	**1176**	**1295**	**5488**	*(1)*	*3*
- Chg in Stock	76	(103)	66		(72)	186			
- Materials consumed	293	378	291	2236	394	159	2420		
- Finished goods purchased	263	326	167		201	284			
- Staff Cost	254	251	272	1023	220	231	950	*(9)*	*(10)*
- Other Exp	417	526	651	1973	432	433	2119	*4*	*9*
EBITDA	**426**	**476**	**317**	**1652**	**427**	**408**	**1717**	*(4)*	*(3)*
Depreciation	32	37	31	131	27	30	128		
Interest			1	1			0		
Other Income	51	56	64	215	67	118	410		
PBT	**445**	**496**	**350**	**1,736**	**467**	**496**	**1,999**	*11*	*8*
Tax Provision	146	157	121	563	158	168	660		
Deferred Tax									
Exceptional charges	(60)	58	58	116	26	(2250)	(2087)		
PAT	359	281	170	1057	283	2578	3426	*618*	*372*
Adj. PAT	**299**	**339**	**228**	**1173**	**309**	**328**	**1339**	*10*	*5*
Ratios (%)									
Material consumed(% of revenues)	36.6	32.4	29.7	32.5	32.7	37.0	33.6		
Staff cost (% of revenues)	14.7	13.5	15.4	14.9	13.7	13.6	13.2		
Other expenses (% of revenues)	24.1	28.4	36.9	28.7	27.0	25.5	29.4		
Operating profit margin (%)	24.7	25.7	18.0	24.0	26.6	24.0	23.8		
Tax/PBT (%)	32.8	31.6	34.7	32.4	33.9	33.9	33.0		
Adjusted net profit margin (%)	17.3	18.3	12.9	17.0	19.3	19.3	18.6		

Automobiles

TVSM.BO, Rs65

TVS Motor Company: 4Q margins see a sharp drop; competition and costs hit hard

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- **4Q net profit at Rs90 mn declines 69% yoy; we had expected a 60% decline**
- **EBITDA margins dip sharply-decline 460 bps yoy**
- **Raw material costs increase to 79% of net sales- rise by 580 bps yoy**

TVS Motor (TVS) reported 4Q net profit at Rs90 mn (69% yoy drop) and lower than our estimate of Rs114 mn. Net sales for TVS increased 10% yoy. EBITDA margins in 4Q at 1.1% were disappointing dropping 460 bps yoy and 210 bps qoq largely due to a 580 bps yoy increase in RM costs. Raw material costs have increased due to rise in prices of steel, aluminum, rubber, etc. RM costs increased to 79% of sales as compared to 73% in 4QFY06. Most of TVS' volumes come in from the low-margin entry segment model where margins were been under pressure due to increased competition. The 2-wheeler industry is facing a slowdown on account of unwillingness of the financiers to fund 2-wheelers and rise in interest costs.

TVS Motors' in its press release has mentioned that it is planning to launch a 160cc bike in the second half of the year and a new bike in the executive segment. Besides, it will also launch a new variant under the TVS Star brand. The company expects margin pressures to continue in the first half of FY2008 till the new launches happen. With increased competition, slow down in the industry and sharply declining margins, TVS is set to be hit the hardest as compared to peers in the industry.

TVS Motor: 4QFY2007 results

				% chg.		Kotak estimates				
(in Rs mn)	4QFY06	3QFY07	4QFY07	qoq	yoy	4QFY07	% deviation	FY06	FY07	% chg.
Net sales	**8,393**	**9,354**	**9,199**	**(1.7)**	**9.6**	**9,427**	**(2.4)**	**32,350**	**38,550**	**19.2**
Operating costs	**(7,911)**	**(9,058)**	**(9,098)**	**0.4**	**15.0**	**(9,086)**	**0.1**	**(30,305)**	**(37,177)**	**22.7**
(Inc/Dec in Stock)	593	833	(566)	(168.0)	(195.4)	537	(205.4)	607	(377)	(162.1)
Raw Materials	(6,715)	(7,875)	(6,674)	(15.2)	(0.6)	(7,536)	(11.4)	(23,818)	(28,657)	20.3
Staff Cost	(373)	(463)	(370)	(20.2)	(0.8)	(478)	(22.7)	(1,569)	(1,723)	9.8
Other Expenditure	(1,416)	(1,553)	(1,488)	(4.2)	5.1	(1,609)	(7.5)	(5,525)	(6,420)	16.2
EBITDA	**482**	**296**	**101**	**(66.0)**	**(79.1)**	**341**	**(70.4)**	**2,045**	**1,373**	**(32.9)**
Other income	214	176	270	53.4	26.3	164	64.5	710	732	3.1
Interest costs	(46)	(86)	(113)	31.2	148.0	(88)	28.3	(131)	(321)	144.5
Depreciation	(240)	(245)	(154)	(37.1)	(35.8)	(258)	(40.4)	(939)	(876)	(6.7)
PBT	**410**	**141**	**103**	**(26.6)**	**(74.8)**	**158**	**(34.7)**	**1,685**	**909**	**(46.1)**
Taxes	(120)	(27)	(13)	(50.9)	(89.1)	(45)	(71.0)	(515)	(243)	(52.9)
PAT	**291**	**115**	**90**	**(21.0)**	**(68.9)**	**114**	**(20.3)**	**1,170**	**666**	**(43.1)**
Key ratios										
Volumes	350,689	363,670	369,464	1.6	5.4	369,464		1,342,203	1,528,103	13.9
Net realizations (Rs/vehicle)	23,932	25,721	24,898	(3.2)	4.0	25,516		24,102	25,227	4.7
RM/Net sales (%)	72.9	75.3	78.7	3.4	5.8	74.2		71.8	75.3	3.6
RM/VOP (%)	74.7	77.3	77.3	0.0	2.6	75.6		72.3	75.1	2.8
RM/vehicle (Rs)	17,458	19,363	19,596	1.2	12.2	18,943		16,975	17,293	1.9
EBITDA per vehicle (Rs)	1,374	815	273	(66.5)	(80.1)	922		1,523	898	(41.0)
EBITDA margin (%)	5.7	3.2	1.1	(2.1)	(4.6)	3.6		6.3	3.6	(2.8)
PAT margin (%)	3.5	1.2	1.0	(0.2)	(2.5)	1.2		3.6	1.7	(1.9)
Effective tax rate (%)	29.1	18.8	12.6	(6.2)	(16.6)	28.3		30.5	26.7	(3.9)

Source: Company data, Kotak Institutional Equities

Banking

Sector coverage view	Neutral

Company	Rating	Price, Rs 28-Jun	Target
SBI	OP	1,470	1,400
HDFC	IL	1,958	1,550
HDFC Bank	IL	1,092	1,180
ICICI Bank	IL	943	1,000
Corp Bk	IL	311	360
BoB	OP	260	330
PNB	OP	515	610
OBC	IL	215	240
Canara Bk	OP	260	320
LIC Housing	OP	195	220
UTI Bank	U	580	410
IOB	OP	115	150
Shriram Transp	OP	158	180
SREI	IL	91	110
MMFSL	OP	243	265
Andhra	OP	82	125
IDFC	IL	132	95
PFC	U	147	105
Centurion Bank	U	41	35
Federal Bank	OP	294	340
J&K Bank	OP	665	875
India Infoline	IL	740	420
Indian Bank	IL	126	120

RBI issues guidelines for banks to engage in pension fund management business-opens up an interesting business opportunity for banks

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- **RBI issues guidelines for banks to engage in pension fund management business, opening up a new business opportunity for banks**
- **We view this as a positive for banks given the robust economic outlook of India and significant under penetration of pension benefits across the workforce.**
- **We currently are not ascribing any value for this business**

RBI had recognized 'acting as a pension fund manager' as lawful business activity for banks through a notification issued on May 24, 2007. Following this notification RBI has issued (on June 28, 2007) detailed guidelines (listed later in the note) that banks would have to satisfy to pursue this business activity. In addition, banks will have to comply with the Pension Fund Regulatory and Development Authority (PFRDA) regulations. We view this development as a positive for banks and believe that this business could provide strong growth opportunities given the economic outlook for India and significantly lower penetration of pension benefits across the workforce. Currently only 11% of the country's workforce of 450 mn is covered by retirement benefits, while in other countries pension fund assets are close to 65% of GDP *(Source: SBI).* We are currently not ascribing any value for this business line for banks but would await greater clarity on the regulatory framework and strategy that individual banks would follow to tap this growth opportunity.

Key guidelines for banks to engage in pension fund management business

a) Banks can undertake business as a pension fund manager only through a specialized subsidiary and should maintain 'arm's length' relationship with this entity;

b) Networth of the bank should be not less than Rs5 bn;

c) CRAR of the bank should not be less than 11% during the last three years;

d) Return on assets (RoA) should be atleast 0.6%;

e) Net NPL ratio should be less that 3.0%;

f) Performance of the bank's subsidiary/ies, if any, should be satisfactory;

g) Composition of the Board of Directors of the subsidiary should be broad based and should be as per the guidelines, if any, prescribed by PFRDA;

h) Any further equity contribution by the bank to the subsidiary should be with the prior approval of the Reserve Bank and limited to 10% of its own paid-up capital and reserve;

i) Bank's total investment by way of equity contributions in its existing subsidiaries, the proposed pension funds subsidiary and those formed in future together with portfolio investments in other financial services companies should not exceed 20% of its paid-up capital and reserves;

j) The subsidiary should confine itself to the business of pension fund management and any other business, which is purely incidental and directly related its primary business;

k) Bank should submit a business plan to RBI highlighting the business projections of the subsidiary for the first five years. This is to help RBI determine whether subsidiary would be able to comply with the solvency margin as may be prescribed by PFRDA and not fall back on the bank for augmenting its capital for the purpose.

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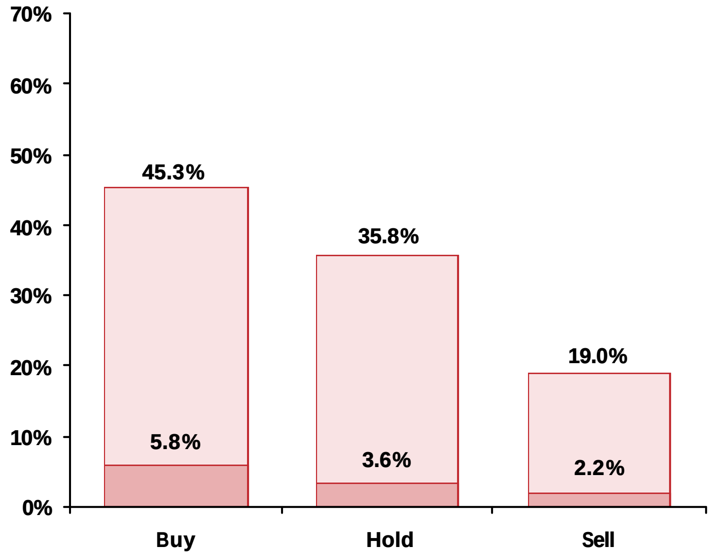
Kotak Institutional Equities Research coverage universe

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 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

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