INDIA DAILY

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Contents

New Release

Economy: July industrial growth raises hope that cyclical slowdown may not be deep

Change in recommendations

Cairn India: Low absolute risk at current levels unless crude prices decline sharply

Hindustan Unilever: Profitability for detergents to look up; emerging cost comfort buffers higher brand activation

Updates

Hero Honda: Dealer-level inventory rises in anticipation of a strong festival season demand; raise target price to Rs790/share; maintain REDUCE rating

Tata Communications: Use potential positive development on land as an opportunity to pare exposure

News Roundup

Corporate

- **Bharti Airtel Ltd** is diversifying into the information technology business - it plans to offer software applications to small and medium businesses and enterprises. (BL)
- At Singur, the weekend ended on a positive note after **Tata Motors** made placatory noises expressing hope that the government's proposed package would be received well by those whose land was acquired without their consent, and who had therefore earlier refused compensation. (Media)
- **Sahara India Investment Corporation** Ltd, part of the Subrata Roy-promoted Sahara group, has voluntarily exited the non-banking financial business to restrict its operations to real estate. (FE)
- The country's largest private equity fund, **ICICI Venture**, is teaming up with the US-based PE fund **Providence** to put in a joint bid for acquiring BPO firm Firstsource Solutions. (ET)
- Alarmed at the possibility of a cooking gas shortage during the impending festive season, the government is unlikely to allow **Reliance Industries** to export liquefied natural gas from its greenfield refinery at the Jamnagar SEZ, expected to be commissioned by the year-end I. Instead, the government has asked RIL to supply the LPG domestically to meet a shortfall of around 5 MMTPA. (ET)

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

EQUITY MARKETS

		Change, %		
India	**12-Sep**	**1-day**	**1-mo**	**3-mo**
Sensex	14,001	(2.3)	(4.9)	(7.8)
Nifty	4,228	(1.4)	(4.6)	(6.4)
Global/Regional indices				
Dow Jones	11,422	(0.1)	(2.0)	(7.2)
FTSE	5,417	1.8	(0.7)	(6.7)
Nikkie	12,215	0.9	(6.2)	(12.6)
Hang Seng	19,353	(0.2)	(8.5)	(14.3)
KOSPI	1,478	2.4	(6.0)	(15.4)

Value traded - India

			Moving avg, Rs bn	
	12-Sep		**1-mo**	**3-mo**
Cash (NSE+BSE)	174.7		168.6	176.2
Derivatives (NSE)	574.9		524.6	523
Deri. open interest	867.8		782	822

Forex/money market

		Change, basis points		
	12-Sep	**1-day**	**1-mo**	**3-mo**
Rs/US$	45.5	(21)	254	252
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	11-Sep		MTD	CYTD
FIIs	(350)		-	(7,299)
MFs	23		-	2,501

Top movers -3mo basis

		Change, %		
Best performers	**12-Sep**	**1-day**	**1-mo**	**3-mo**
BANK OF BARODA	310	0.3	21.4	33.5
BHARAT PETROLEU	345	(0.8)	8.9	29.4
BAJAJ AUTO LIMITE	632	2.5	11.8	25.0
HINDUSTAN PETROI	233	(2.6)	4.5	24.7
OIL & NATURAL GA:	1,023	(1.2)	(4.0)	21.6
Worst performers				
HOUSING DEVELOP	274	(5.0)	(18.3)	(38.1)
ABAN OFFSHORE LI	2,306	(0.6)	(3.9)	(38.1)
TATA STEEL LIMITE	524	(0.5)	(15.1)	(37.7)
STERLITE INDUSTRIE	487	(3.1)	(21.6)	(36.9)
INDIABULLS REAL E!	254	(5.8)	(16.6)	(32.2)

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Economy

Sector coverage view	N/A

July industrial growth raises hope that cyclical slowdown may not be deep

Mridul Saggar : mridul.saggar@kotak.com, +91-22-6634-1245

- **July IIP growth at 7.1% surpasses street expectations**
- **Core infrastructure industries continue to face supply-side issues**
- **Capital goods grow 21.9% on favorable base effects, decline 0.4% mom**
- **We expect industry to record below 7% growth in FY2009E**

July IIP growth at 7.1% was above our expectations and that of the street by over 1 ppt (see Exhibit 1). Growth improved upon 5.5% (revised from 5.4%) in June and an average of 5.2% in 1QFY09. Higher-than-expected growth in July and an upward revision in March and June 2008 IIP data raises hope that the current cyclical slowdown may not turn out to be deep. However, growth in July 2008 was lower than 8.3% in July 2007. On a 4mMA basis, IIP growth improved to 5.7% in July 2008 from 4.9% in June 2008, but remains considerably below the 10% plus growth seen during July 2006 to June 2007. In our view, industrial growth still remains below potential growth rate and a case for stimulus exists if inflation concerns recede.

High capital goods growth of 21.9% a result of base effects

Capital goods recorded a growth of 21.9%—the highest in eight months, raising hopes that an investment slowdown may be averted (see Exhibit 2). However, in our view, this is misleading as the high growth was the result of July 2007's low 12.3% in relation to average growth of 18% in this segment during FY2008.

Capital good have recorded an average growth of 11.3% during April-July 2008, down from 17.3% during April-July 2007 in spite of the favorable base effects in July. In our view, the growth in intermediate goods and consumer non-durables was also disappointing during the month.

Growth improves marginally across sectors but slowdown woes remain

In our assessment, industrial slowdown woes remain. Though growth has improved marginally across mining, manufacturing and electricity, we are unable to say that industrial recovery has begun. On a 4mMA basis, IIP growth improved to 5.7% in July 2008 from 4.9% in June 2008 (see Exhibit 3). This is the first time in 10 months that growth has improved on a moving average basis, but actual growth still remain below the potential growth rate.

Recently, the new RBI Governor had acknowledged growth concerns. See Economy note dated September 10, 2008, *New RBI Governor may be open to change in monetary policy stance.*

Supply-side issues still constraining core infrastructure industries

Though the growth in six core infrastructure industries improved to 4.3% in July 2008 from 3.4% in June (see Exhibit 4), we believe supply-side issues constraining growth in infrastructure industries persist. Electricity generation improved a bit to 4.5% in July, but problems persist in input supplies for hydel, nuclear and thermal production. We expect electricity output to drop next month. Crude output levels remain affected in the face of price rigidities and cement industry is also facing supply-side issues. With the investment climate deteriorating, industrial growth could remain low in the near term.

We stay with our call that industrial growth may fall below 7% in FY2009E, but July IIP numbers raise our hopes that the industrial slowdown may not be too deep.

Exhibit 1: July IIP improves moderately, but slowdown remains

Sectoral classification for IIP, March fiscal year-ends, 2007-2008 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Weights (%)		**10.5**			**79.4**			**10.2**			**100.0**	
April	3.4	2.6	6.0	11.0	12.4	6.7	5.9	8.7	1.4	9.9	11.3	6.2
May	2.9	3.8	5.1	13.3	11.3	4.2	5.0	9.4	2.0	11.7	10.6	4.1
June	4.7	1.5	1.5	10.8	9.7	6.1	4.9	6.8	2.6	9.7	8.9	5.5
July	5.1	3.2	5.0	14.3	8.8	7.5	8.9	7.5	4.5	13.2	8.3	7.1
August	(1.7)	14.7		11.9	10.7		4.1	9.2		10.3	10.9	
September	4.3	4.9		12.7	7.4		11.3	4.5		12.0	7.0	
October	5.9	5.1		3.8	13.8		9.7	4.2		4.5	12.2	
November	8.8	6.3		17.2	4.7		8.7	5.8		15.8	4.9	
December	6.1	5.0		14.5	8.6		9.1	3.8		13.4	8.0	
January	7.7	2.9		12.3	6.7		8.3	3.7		11.6	6.2	
February	7.5	7.9		12.0	9.6		3.3	9.8		11.0	9.5	
March	8.0	4.9		16.0	5.7		7.9	3.7		14.8	5.5	
April-March	**5.4**	**5.1**		**12.5**	**9.0**		**7.3**	**6.3**		**11.5**	**8.5**	
April-July	**4.0**	**2.7**	**4.5**	**12.3**	**10.5**	**6.1**	**6.2**	**8.1**	**2.6**	**11.1**	**9.7**	**5.7**

Source: CSO, Government of India.

Exhibit 2: Capital goods growth jump in July due to base effects; but slowdown remains

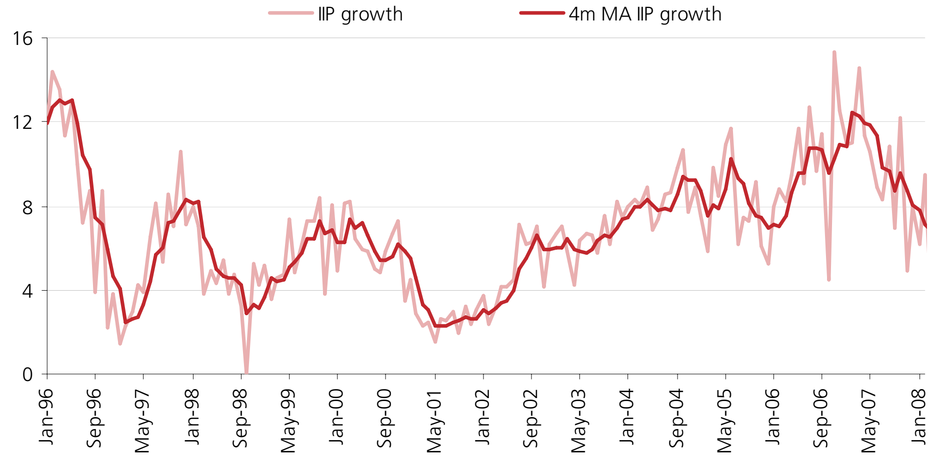
Use-based classification for IIP, March fiscal year-ends, 2007-2008 (%)

	Basic goods			Capital goods			Intermediate goods			Consumer goods			Consumer durables			Consumer non-durables		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
Weights (%)		**35.57**			**9.26**			**26.51**			**28.66**			**5.37**			**23.30**	
April	9.3	8.6	4.0	19.6	10.9	12.4	8.5	10.6	3.1	8.9	14.7	8.6	7.4	2.4	3.2	9.4	18.7	10.0
May	9.2	10.3	3.0	21.5	22.4	3.4	12.5	8.8	1.6	10.5	8.7	7.2	17.5	(0.7)	2.6	8.2	12.1	8.7
June	8.5	9.2	2.5	21.7	23.1	8.3	11.3	8.6	2.5	6.1	3.6	9.7	19.9	(3.6)	3.7	1.8	6.3	11.7
July	10.0	8.7	5.9	18.3	12.3	21.9	10.7	7.7	1.6	16.8	7.1	7.3	16.2	(2.7)	11.2	17.1	10.5	6.1
August	4.8	12.7		16.6	30.8		8.7	13.8		15.0	(0.0)		19.0	(6.2)		13.6	2.4	
September	11.5	6.5		9.5	20.9		13.8	10.1		12.1	(0.2)		11.8	(7.3)		12.2	2.6	
October	10.5	6.5		6.5	20.9		5.9	13.9		(2.8)	13.7		0.2	9.0		(4.1)	15.8	
November	12.1	5.2		29.4	24.2		17.9	5.5		13.5	(2.9)		10.1	(5.5)		14.8	(2.0)	
December	12.4	3.4		26.2	17.6		12.7	7.6		10.7	8.7		1.8	2.8		13.5	10.3	
January	12.0	3.6		16.3	2.6		13.7	8.0		8.2	8.4		5.3	(0.5)		9.1	11.1	
February	10.7	7.3		18.0	10.7		13.3	8.5		7.4	11.7		1.8	3.1		9.3	14.3	
March	11.9	3.3		18.1	20.3		15.3	4.9		15.8	0.9		3.8	(2.0)		20.2	1.9	
April-March	**10.3**	**7.0**		**18.2**	**18.0**		**12.0**	**8.9**		**10.1**	**6.1**		**9.2**	**(1.1)**		**10.4**	**8.5**	
April-July	**4.0**	**9.2**	**3.9**	**12.3**	**17.3**	**11.3**	**6.2**	**8.9**	**2.2**	**11.1**	**8.5**	**8.1**		**(1.2)**	**5.1**		**11.9**	**9.1**

Source: CSO, Government of India.

Exhibit 3: IIP growth on MA basis improves in July 2008 for the first time in 10 months

yoy growth in IIP and its 4-month moving average), April 1995-July 2008, (%)



Source: CSO, Government of India.

Exhibit 4: Core infrastructure industries facing supply-side issues

Sector-wise growth rates in production for six infrastructure industries (%)

		yoy growth for the month				April-July	
Sector	**Weight**	**Jul-07**	**May-08**	**Jun-08**	**Jul-08**	**2008**	**2009**
Crude oil	4.17	0.9	3.2	(4.7)	(3.0)	(0.3)	(0.9)
Petroleum refinery	2.00	4.7	0.1	5.6	11.8	11.0	5.4
Coal	3.22	1.1	8.3	6.2	5.5	0.8	7.6
Electricity	10.17	7.5	2.0	2.6	4.5	8.1	2.6
Cement	1.99	9.4	3.8	3.8	8.8	7.7	6.5
Finished steel	5.13	10.8	5.2	4.4	1.9	6.8	3.8
Total	**26.68**	**7.2**	**3.5**	**3.4**	**4.3**	**6.6**	**3.7**

Source: CSO, Government of India.

Energy

CAIR.BO, Rs222	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	245
52W High -Low (Rs)	343 - 125
Market Cap (Rs bn)	414.5

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	16.6	35.7	71.3
Net Profit (Rs bn)	1.9	7.3	38.4
EPS (Rs)	(0.1)	3.9	20.3
EPS gth	*(108.2)*	-	*430.2*
P/E (x)	(1,862)	56.6	10.9
EV/EBITDA (x)	51.8	23.1	7.6
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.8	-	-
FIIs	10.5	0.8	(0.7)
MFs	1.7	0.7	(0.8)
UTI	-	-	(1.5)
LIC	2.0	0.7	(0.8)

Cairn India: Low absolute risk at current levels unless crude prices decline sharply

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

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

- **Stock price is discounting reasonable crude price (US$76/bbl) in perpetuity**
- **Raised earnings moderately to factor weaker rupee (+ve for earnings)**
- **Revised rating to REDUCE with 12-month DCF-based target price of Rs245**

We believe that risks to Cairn's valuation have reduced meaningfully after the recent sharp correction in the stock price and crude oil prices. However, movement in crude prices will likely determine Cairn's stock performance. We see further downside to crude oil prices in light of better supply-demand balance for CY2009E. We have made changes to our earnings model to factor in the impact of a weaker rupee (+ve for earnings and valuation). We have revised CY2008E-10E EPS to Rs3.9, Rs20.3 and Rs65.2 from Rs3.9, Rs19.4 and Rs62.2. We have revised our rating to REDUCE from SELL noting and raised our 12-month DCF-based target price to Rs245 (Rs230 previously) due to (1) revision in earnings and (2) roll-forward of DCF valuation. We highlight that the stock price is now discounting crude price of US$76/bbl in perpetuity, which seems reasonable. Key upside risks stem from higher-than-expected crude oil price in perpetuity.

Risks to our fair value are lower now but declining crude price may act as overhang on stock performance. We find Cairn's valuation reasonable after the recent correction in its stock price; however, declining crude price may also act as overhang on the stock. We expect a better supply-demand balance for crude oil for CY2009E, which may lead to lower yoy prices. We expect low growth in global demand and strong growth in non-OPEC supply, OPEC NGLs and increase in OPEC spare capacity to result in improved supply-demand balance for CY2009E (see Exhibit 1).

Our reverse valuation exercise suggests that Cairn's current stock price is discounting US$76/bbl crude oil Dated Brent price in perpetuity based on (1) Rs41/US Dollar and (2) current reserves of Rajasthan block. However, we do not assume any cess or royalty on Cairn's portion of crude oil and assume a small discount of US$5/bbl versus Dated Brent price (the latter may be higher given the quality of Cairn's crude).

Cairn's stock price has high positive correlation with crude oil prices although the valuation for Cairn does not vary significantly with higher crude oil prices. We believe that a decline in crude prices may result in further correction in Cairn's stock price; this has been the case in the past two months. We would highlight that at US$75/bbl in perpetuity from CY2013E, our current valuation for Cairn stock comes to Rs204 (12-month fair value is Rs244). However, the 12-month forward valuation rises to Rs282 if we change our normalized crude price assumption (beyond CY2013E) to US$100/bbl and declines to Rs207 on US$50/bbl as can be seen in Exhibit 3 due to the nature of Cairn's PSC (see Exhibit 4).

Key changes to and major assumptions behind earnings model

We discuss our key assumptions and the major changes to our earnings model below. Exhibit 5 gives sensitivity of Cairn's EPS to key variables (rupee-dollar rate and crude oil price).

1. **Exchange rate.** We have revised our rupee-dollar exchange rates for CY2008E-10E to Rs42/US Dollar, Rs42.8/US Dollar and Rs42.1/US Dollar versus Rs42/US Dollar, Rs41.3/US Dollar and Rs40.3/US Dollar previously. We have revised our rupee-dollar exchange rates for CY2012 and beyond to Rs41/US Dollar versus Rs39/US Dollar previously.
2. **Crude oil price assumptions.** We retain our crude oil price (Dated Brent) forecast for CY2008-10E at US$110/bbl, US$95/bbl and US$90/bbl, respectively. We also retain our long-term crude price assumption of US$75/bbl (post CY2012E).
3. **Royalty and cess.** We currently assume that Cairn will not bear any royalty and cess on the portion of crude oil (70%) produced by it from the Rajasthan block. However, imposition of cess (Rs927/ton or Rs2,575/ton) will likely be a large negative for Cairn's earnings and valuation.

We expect crude prices to soften led by better supply-demand balance for CY2009E

Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)										
Total demand	82.5	84.0	85.1	86.1	86.8	87.6	89.1	90.6	92.3	94.0
Yoy growth	3.3	1.5	1.1	1.0	0.7	0.8	1.5	1.5	1.7	1.8
Supply (mb/d)										
Non-OPEC	48.8	48.7	49.2	49.6	49.9	50.7	50.9	51.0	51.0	51.4
Yoy growth	0.6	(0.1)	0.5	0.4	0.3	0.8	0.2	0.1	0.0	0.4
OPEC										
Crude	29.5	30.8	31.3	31.7	31.8	31.1	31.8	33.1	34.5	35.7
NGLs	4.2	4.5	4.6	4.8	5.1	5.8	6.4	6.5	6.8	6.9
Total OPEC	**33.7**	**35.3**	**35.9**	**36.5**	**36.9**	**36.9**	**38.2**	**39.6**	**41.3**	**42.6**
Total supply	**83.4**	**84.7**	**85.5**	**86.1**	**86.8**	**87.6**	**89.1**	**90.6**	**92.3**	**94.0**
Total stock change	1.0	0.7	0.8							
OPEC crude capacity				**34.4**	**35.3**	**36.4**	**37.4**	**37.3**	**37.6**	**37.9**
Implied OPEC spare capacity				**2.7**	**3.6**	**5.3**	**5.6**	**4.1**	**3.1**	**2.1**
Demand growth (yoy, %)	**4.2**	**1.8**	**1.3**	**1.2**	**0.8**	**0.9**	**1.7**	**1.7**	**1.8**	**1.9**
Supply growth (yoy, %)										
Non-OPEC	**1.2**	**(0.2)**	**1.0**	**0.8**	**0.6**	**1.6**	**0.4**	**0.2**	**0.0**	**0.8**
OPEC	**8.4**	**4.6**	**1.9**	**1.5**	**1.2**	**(0.0)**	**3.5**	**3.8**	**4.2**	**3.3**
Total	**4.4**	**1.6**	**0.9**	**0.7**	**0.8**	**0.9**	**1.7**	**1.7**	**1.8**	**1.9**
Dated Brent (US$/bbl)	**38.3**	**54.4**	**65.8**	**72.7**	**110.0**	**95.0**	**90.0**	**90.0**	**90.0**	**75.0**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

We value Cairn India stock at Rs245
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,668	10,155	11,150
CB-OS-2	133	87	59
Ravva	485	407	343
Upside potential (KG-DWN-98/2)	100	112	125
Total	**9,386**	**10,761**	**11,678**
Net debt	39	(247)	(161)
Equity value	**9,347**	**11,008**	**11,839**
Equity shares (mn)	1,891	1,891	1,891
Equity value per share (Rs/share)	**204**	**244**	**268**

Source: Kotak Institutional Equities estimates

Cairn's Rajasthan field's enterprise value has moderate leverage to crude prices but high leverage to regulations
Enterprise value sensitivity of Cairn to key variables (US$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$110/bbl)	10.8	251	23	12.5	297	21
Dated Brent price (US$100/bbl)	10.2	238	16	11.8	282	15
Dated Brent price (US$90/bbl)	9.6	224	10	11.1	267	9
Dated Brent price (US$80/bbl)	9.0	211	3	10.5	252	3
Dated Brent price (US$75/bbl)	**8.7**	**204**		**10.2**	**244**	
Dated Brent price (US$60/bbl)	7.8	184	(10)	9.2	222	(9)
Dated Brent price (US$50/bbl)	7.2	171	(16)	8.5	207	(15)
Dated Brent price (US$40/bbl)	6.6	157	(23)	7.8	192	(22)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**8.7**	**204**		**10.2**	**244**	
Royalty (Rs0/ton), Cess (Rs927/ton)	8.3	195	(4)	9.7	234	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.5	179	(12)	8.9	216	(12)
Royalty (Rs481/ton), Cess (Rs927/ton)	6.0	146	(29)	7.3	179	(27)
Royalty (Rs481/ton), Cess (Rs2,575/ton)	5.4	132	(35)	6.6	164	(33)

Source: Kotak Institutional Equities estimates

Maximum share of government of profit petroleum at 50% for Rajasthan block
Details of share of profit petroleum between the government and Cairn for Cairn's key assets

IM	Government share (%)
<1	**20**
>1, <1.5	20
>1.5, <2	30
<2, <2.5	40
>2.5, <3	**50**
>3	**50**

Note:
(a) IM = Investment Multiple.

Source: Company data

Cairn's earnings are highly leveraged to crude prices
Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	93.0	95.0	97.0	88.0	90.0	92.0	88.0	90.0	92.0
Net profits (Rs mn)	37,296	38,400	39,503	120,338	123,232	125,946	91,636	94,480	96,792
Earnings per share (Rs)	19.7	20.3	20.9	63.6	65.2	66.6	48.4	50.0	51.2
% upside/(downside)	**(2.9)**		**2.9**	**(2.3)**		**2.2**	**(3.0)**		**2.4**
Exchange rate									
Rs/US$	41.8	42.8	43.8	41.1	42.1	43.1	40.1	41.1	42.1
Net profits (Rs mn)	37,283	38,400	39,517	120,243	123,232	126,041	91,737	94,480	96,690
Earnings per share (Rs)	19.7	20.3	20.9	63.6	65.2	66.6	48.5	50.0	51.1
% upside/(downside)	**(2.9)**		**2.9**	**(2.4)**		**2.3**	**(2.9)**		**2.3**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	35,699	71,266	190,872	185,351	180,393	146,028
EBITDA	**5,332**	**6,705**	**17,316**	**53,326**	**148,520**	**113,239**	**79,711**	**62,972**
Other income	1,100	1,324	207	301	1,185	2,990	4,496	5,616
Interest	(201)	(27)	(7)	—	—	—	—	—
Depreciation	(497)	(4,589)	(6,284)	(6,893)	(8,785)	(8,287)	(8,409)	(8,390)
Pretax profits	5,734	3,413	11,231	46,733	140,920	107,942	75,798	60,199
Extraordinary items	—	(2,120)	—	—	—	—	—	—
Tax	(1,580)	(740)	(3,832)	(7,089)	(16,589)	(12,904)	(9,331)	(7,260)
Deferred taxation	(22)	(764)	(74)	(1,244)	(1,099)	(558)	(131)	129
Net profits	**4,132**	**(212)**	**7,325**	**38,400**	**123,232**	**94,480**	**66,336**	**53,067**
Earnings per share (Rs)	**2.3**	**(0.1)**	**3.9**	**20.3**	**65.2**	**50.0**	**35.1**	**28.1**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	327,029	365,429	422,276	461,435	488,929	510,924
Deferred tax liability	4,258	4,916	4,991	6,235	7,334	7,892	8,023	7,895
Total borrowings	5,122	3,124	—	—	—	—	—	—
Currrent liabilities	39,716	8,372	2,597	2,532	6,210	10,703	15,014	12,365
Total liabilities and equity	**341,900**	**310,771**	**334,617**	**374,196**	**435,820**	**480,030**	**511,967**	**531,184**
Cash	61,348	1,504	10,353	6,874	61,042	110,285	147,328	174,451
Current assets	6,470	19,029	3,423	6,834	18,303	17,773	17,298	14,003
Total fixed assets	17,609	25,157	56,288	69,570	25,900	23,600	21,195	18,854
Net producing properties	2,354	4,390	3,862	30,228	69,883	67,680	65,454	63,184
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	**341,900**	**310,771**	**334,617**	**374,196**	**435,820**	**480,030**	**511,967**	**531,184**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,990	6,387	10,560	44,087	129,781	98,884	68,930	54,262
Working capital changes	34,256	(908)	9,831	(3,475)	(7,791)	5,023	4,787	646
Capital expenditure	(5,619)	(11,739)	(33,970)	(44,391)	(2,622)	(2,333)	(2,329)	(2,329)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	207	301	1,185	2,990	4,496	5,616
Free cash flow	**(219,990)**	**(58,824)**	**(13,372)**	**(3,479)**	**120,554**	**104,564**	**75,885**	**58,196**
Key assumptions								
Gross production ('000 boe/d)	91.0	78.4	81.3	115.0	245.6	240.2	231.7	224.2
Net production ('000 boe/d)	25.1	21.5	25.7	52.6	147.0	145.7	141.9	139.0
Dated Brent (US$/bbl)	65.3	70.3	110.0	95.0	90.0	90.0	90.0	75.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Kotak Institutional Equities estimates

Consumer products

HLL.BO, Rs249	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	280
52W High -Low (Rs)	256 - 169
Market Cap (Rs bn)	541.8

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	137.2	162.9	187.0
Net Profit (Rs bn)	17.7	20.0	23.6
EPS (Rs)	8.1	9.2	10.8
EPS gth	*15.4*	*12.9*	*17.9*
P/E (x)	31	27.1	23.0
EV/EBITDA (x)	24.8	20.7	17.0
Div yield (%)	4.3	3.5	4.1

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	14.4	1.0	(0.3)
MFs	3.7	1.3	0.0
UTI	-	-	(1.3)
LIC	7.3	2.3	1.0

Hindustan Unilever: Detergents profitability to look up; emerging cost comfort provides buffer for higher brand activation

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

- **Oligopolistic trends seen in detergents; time to reap in profits**
- **HUL is planning to prototype a new formulation in soaps, about 15% of fatty matter to be replaced with starch**
- **Emerging cost comfort provide buffer for higher brand activation, limited ability to retain higher margins in soaps**
- **ITC's HPC launches on the fast track, tertiary sales on slow track**
- **Key risk—history of HUL's market share losses doesn't lend confidence to sustainable growth**
- **We estimate 18% earnings growth in CY09E, ADD rating and target price of Rs280/ share**

We see oligopolistic trends in detergents; the category is entering a sweet spot with gross margins likely returning to over 25% (from the current 20-25%) in CY09E. Our discussions with mid-sized detergent players and channel checks suggest uptrading from the unorganized segment. The emerging cost comfort will likely see players refocusing on product innovations; we expect increased focus on pre and post wash categories and efforts to upgrade the consumer. HUL is planning to prototype a new formulation in soaps, about 15% of fatty matter to be replaced with starch. A complete success will likely result in an incremental 5% boost to annual profit growth over the next 3-4 years. We remain cautious about the success of such ventures and highlight an earlier experiment in 2003 with 'Alphos' technology resulted in a significant dent to the brand equity of 'Breeze' soap. Our recent market visits and discussions with industry players suggest that the consumer response to ITC's HPC launches has likely fallen short of the company's expectations. We estimate CY09E EPS to grow at 18% (14% previously) to Rs10.8 primarily driven by improvement in detergents profitability. At 26XCY08E, the stock is trading at a 3-year and 5-year average P/E. The stock has displayed excellent defensive characteristics and has delivered a return of 14% and 22% over the past 3 and 6 months relative to the Sensex. We upgrade to ADD (REDUCE earlier) and revise target price to Rs280/share (Rs260/share previously). At our target price, the stock would trade at 26XCY09E.

Oligopolistic trends seen in detergents; time to reap profit

Our discussion with mid-sized detergent companies suggest uptrading from the unorganized segment, resulting in high-growth for branded players. We believe that players like HUL are well positioned to continue good growth in the category (over 15%). Smaller unorganized players have lost out in the past two years due to (1) implementation of VAT (because of the 'registered dealer' requirement under VAT regulations) (2) non-availability of key raw materials and (3) input inflation. We highlight that the risk of marginal players re-emerging is real if input costs correct significantly. However, the cost efficiency measures already implemented, moving away from pack-sizes (for example 'Wheel' and other brands in the low-end have moved away from 500 gm and 1 kg pack-size and retail at various pack-size points of 340 gm, 630 gm etc) will help companies manage margins to their advantage.

We believe that there are oligopolistic trends seen in detergents (in terms of product pricing) and the category is in a sweet spot with gross margins likely returning to over 25% (from the current 20-25%) in CY09E. The bitter price battle between HUL and P&G from 2004 coupled with a tough input cost scenario (caustic soda, soda ash, linear alkyl benzene) had brought down the profitability of this category to ~15% gross margin levels. We believe that with P&G gaining substantially in urban areas and in distribution depth in rural, the tidings are favorable in this category for a sustained margin improvement. Cost savings on some ingredients like perfumes, structural changes to formulation (for example, decreasing bleach levels to the minimum required for targeted efficacy) will help the industry improve the margin profile of the category.

Expect more product innovations in detergents category

The emerging cost comfort will likely see players refocus on product innovations, brand extensions and investments in building newer segments. The acute cost inflation of the past three years resulted in companies channelizing the focus towards cost management. Recent examples of renewed focus are the launch of 'Rin Matic' (first ever mid-price detergent for semi-automatic washing machines) and the attempt to upgrade the 'Wheel' consumer by launching 'Wheel Gold' at about a 10% price premium to 'Wheel Blue'. We expect increased focus on pre and post wash categories and the effort to upgrade the consumer. Jyothy Laboratories' launch of 'Ujala Stiff n Shine' (fabric stiffener), Reckitt Benckiser's 'Vanish' (stain remover) and HUL's 'Comfort' (fabric softener with lasting perfume as the differentiator) are recent examples.

HUL is planning to prototype a new formulation in soaps, about 15% of fatty matter to be replaced with starch

Sources indicate that HUL is planning to prototype a new formulation in soaps where ~15% of fatty matter is to be replaced with starch. The company is setting up facilities at key soap manufacturing locations for the formulation change. Currently, the TFM (total fatty matter) in key soap brands of HUL (excluding Dove, Pears etc) range between 60-80%. We believe that HUL's new technology in soap making if successful can likely lead to a dramatic reduction in soap making costs. Success will depend upon consumer acceptance. We estimate that complete success with this move will likely result in an incremental 5% boost to annual profit growth over the next 3-4 years. Our estimates currently exclude any margin expansion due to success with such technology initiatives. We remain cautious about success of such ventures and highlight that an earlier experiment in 2003 with 'Alphos' technology significantly dented the brand equity of 'Breeze' soap.

Emerging cost comfort provide buffer for higher brand activation, limited ability to retain higher margins in soaps

Crude palm oil (key input for soaps) prices have corrected 20% in the past month and are 45% below the peak touched in March 2008. We estimate CPO to account for about 16% of HUL's input costs; a 10% correction in price adds 70 bps to EBITDA and 4% to EPS. However, significant margin expansion in soaps is unlikely as, (1) industry volumes growth of -1% in soaps, the chances of a price cut to stimulate demand is high and (2) likely increase in advertisement and promotion to block ITC's task of building personal care brands. However, we note that the emerging cost comfort will likely help HUL in effective portfolio management with gains from soaps category likely to be channeled for higher brand activation spends in personal care. However, the history of market shares losses for HUL in all key categories over a 1, 3 and 8 year horizon suggests that there is competition with significant market share ambitions and hence the ability for HUL to retain gains from cost comfort for a long period of time is limited.

ITC's HPC launches on the fast track, tertiary sales on slow track

We had highlighted in our ITC note dated July 31 that we are enthused by ITC's excellent activation in personal care. We continue to see evidence of excellent activation at the point-of-purchase as well as aggressive media spends on personal care launches. Our recent market visits and discussions with industry players suggest that the consumer response to ITC's HPC launches has likely missed company's expectations. We understand that while primary sales (company to distributor) and secondary sales (distributor to wholesaler/retailer) has happened, tertiary sales (retailer to consumer) are yet to pick up significantly. While it is early days to make meaningful conclusions about the direction of ITC's HPC launches, we believe that a revisit of 2004 HUL vs. P&G (when P&G cut detergent prices by 40% to gain market shares) cannot be ruled out as ITC management remains committed to growing a sustainable HPC business. However, we do not expect any such action by ITC in the near-term (in CY2009) as the company is still in the process of newer category entries and brand extensions.

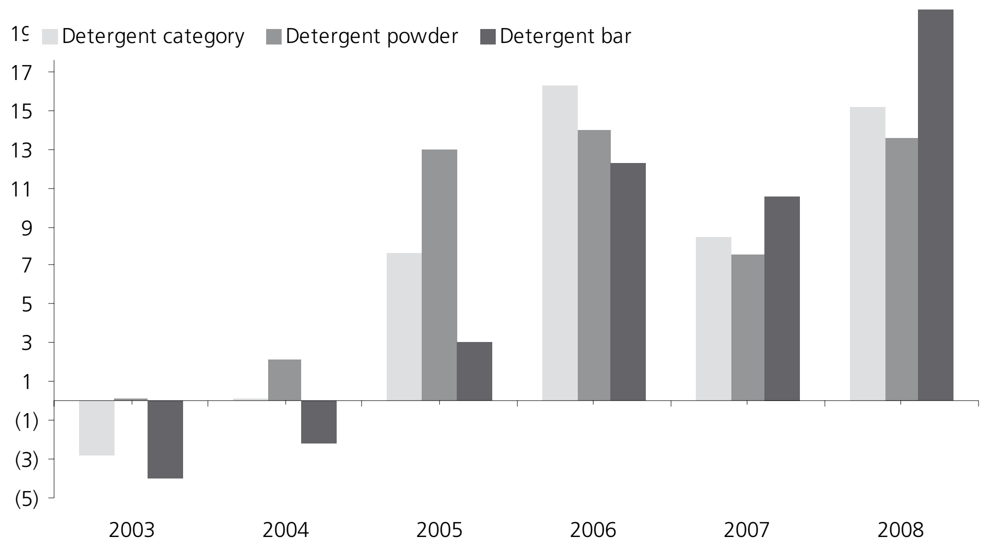
We reiterate that while the task of ITC in gaining market shares from well entrenched players like HUL will not be easy, the company's strategy of building three brands with differentiated identity for three positions—premium, masstige and popular—will likely bear fruit in the medium term. ITC is building 'Fiama Di Wills' for premium, 'Vivel' for masstige and 'Superia' for popular segments. We believe ITC is on the right path in building brand equities and developing an emotional connect with consumers as it takes on well-entrenched brands in the market place with solid legacies behind them.

Expect 18% earnings growth in CY09E, upgrade to ADD

We estimate EPS growth of 18% (14% previously) in CY09E, primarily driven by improvement in detergent profitability. Aggressive price increases and implementation of cost management measures has helped HUL manage margins when faced with a tough input cost scenario. With cost pressures likely receding, HUL will enjoy a phase of cost comfort providing ammunition for higher brand investments and accelerated new category launches. The demand conditions for FMCG remain robust and we expect the FMCG sales growth momentum (especially in rural areas) seen in CY2006-08 to sustain during CY2009E as well. We estimate HUL to maintain the annual payout at 90% and Rs10/share dividend for CY09E providing a 4% yield at the current market price of Rs248. We have marginally increased our EPS estimates for CY2008E and CY2009E to Rs9.2 (Rs9.1 previously) and Rs10.8 (Rs10.4 previously) to account for expected higher profitability in detergents. At 26XCY08E, the stock is trading at the last five year average P/E. The stock has displayed excellent defensive characteristics and has delivered a return of 14% and 22% over the last 3 and 6 months relative to Sensex. Upgrade to ADD rating (REDUCE earlier) and revise target price to Rs280/share (Rs260/share previously). At our target price, the stock would trade at 26XCY09E.

Price increases, market consolidation and uptrading are driving higher growth in detergents

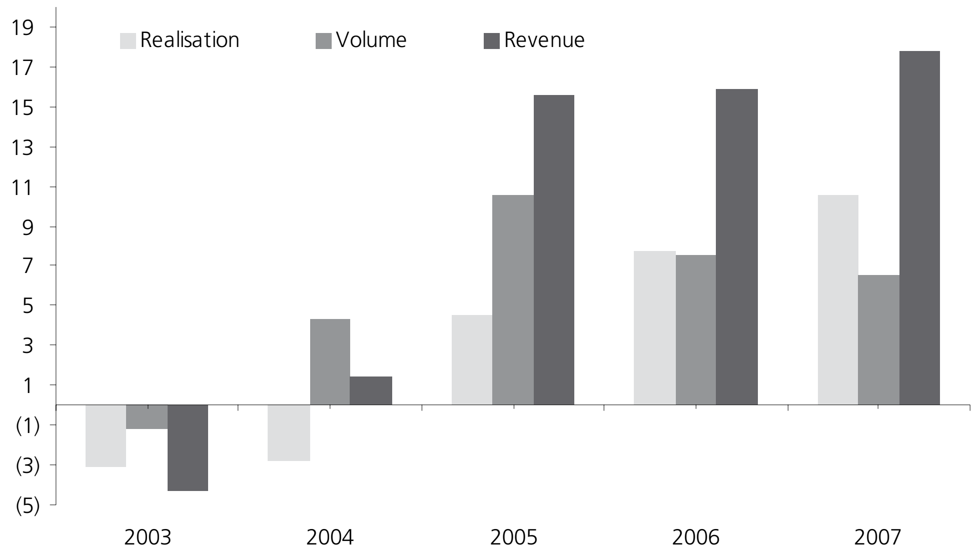
Value market growth rates (%)



Source: Market sources, Kotak Institutional Equities.

Uptrading and mix improvement likely drive higher detergent sales growth for HUL

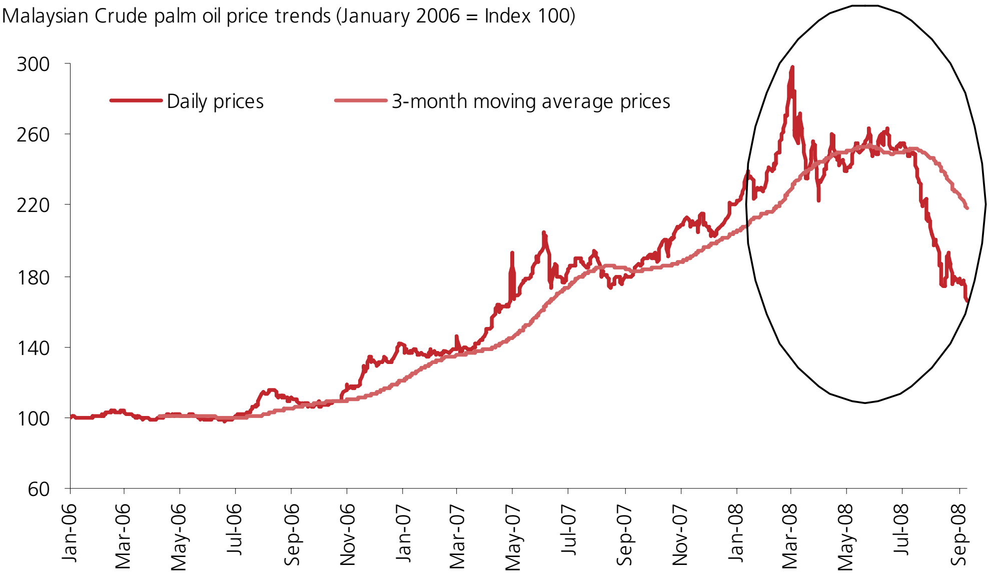
Volume, realisation and revenue growth (%)



Source: Company, Kotak Institutional Equities.

Significant cost comfort emerging in soaps category, expect higher brand investments

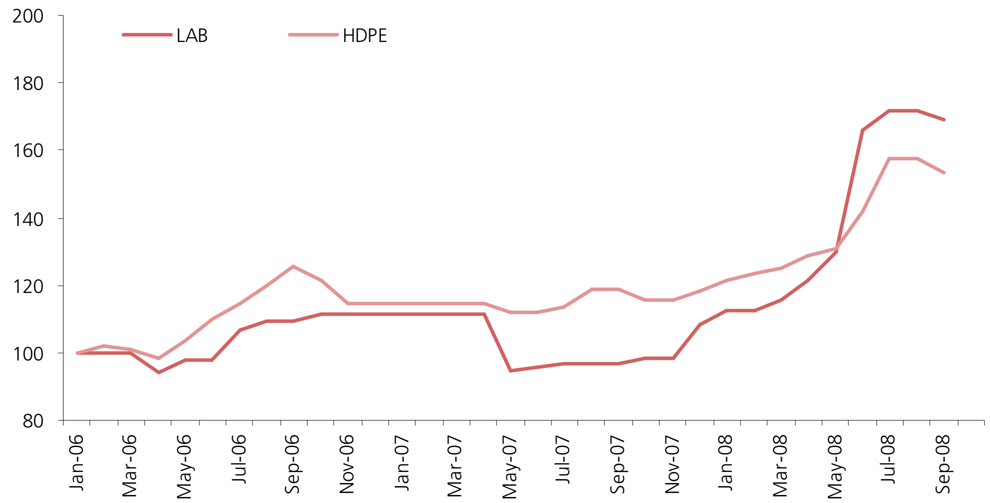
Malaysian Crude palm oil price trends (January 2006 = Index 100)



Source: Bloomberg, Kotak Institutional Equities

Cost comfort emerging in key inputs for detergents and personal products, will aid margin expansion

Key raw material price trends (Monthly average, January 2006 = Index 100)



Source: Bloomberg, Reliance Industries, Kotak Institutional Equities.

History of consistent market share losses doesnot provide confidence in sustainable growth

Changes in value market shares (bps)

Timeline	Period	Soaps	Detergents	Toothpaste	Shampoo	Skin	Tea
2000-2008	8-years	(650)	(320)	(540)	(1940)	(260)	(1320)
2005-2008	3-years	(220)	150	(210)	(70)	(380)	(560)
2006-2008	1-year	(230)	400	(40)	(180)	(250)	(30)

Source: Company, Kotak Institutional Equities.

HUL, change in estimates, December fiscal year-ends (Rs mn)

	CY2008E			CY2009E		
	New	Old	Change (%)	New	Old	Change (%)
Net Sales	162,860	161,678	0.7	186,989	183,162	2.1
EBITDA	22,756	22,014	3.4	27,805	25,695	8.2
Net profit	19,981	19,728	1.3	23,554	22,533	4.5
EPS	9.2	9.1	1.2	10.8	10.4	4.5
Sales growth (%)	18.7	17.9		14.8	13.3	
EPS growth (%)	14.5	13.8		17.9	14.2	

Source: Kotak Institutional Equities estimates.

HUL: Profit model, balance sheet, cash model 2005-2009E, December year-ends (Rs mn)

	2005	2006	2007	2008E	2009E
Profit model (Rs mn)					
Net sales	110,605	121,034	137,178	162,860	186,989
EBITDA	**14,433**	**16,621**	**18,874**	**22,756**	**27,805**
Other income	3,048	3,545	4,627	4,469	4,905
Interest	(192)	(107)	(255)	(225)	(75)
Depreciation	(1,245)	(1,302)	(1,384)	(1,531)	(1,813)
Extraordinary items	976	3,155	1,581	0	0
Pretax profits	16,045	18,757	21,862	25,470	30,823
Tax	(2,530)	(2,950)	(3,782)	(4,558)	(6,077)
Deferred taxation	(410)	(268)	(389)	(931)	(1,192)
Net profit	**13,105**	**15,539**	**17,690**	**19,981**	**23,554**
Earnings per share (Rs)	**6.0**	**7.0**	**8.0**	**9.2**	**10.8**
Balance sheet (Rs mn)					
Total equity	23,056	27,235	14,392	15,473	16,747
Total borrowings	569	726	885	885	885
Currrent liabilities	41,183	45,231	51,110	56,369	64,001
Total liabilities and equity	**64,809**	**73,191**	**66,387**	**72,727**	**81,633**
Cash	3,550	4,169	2,009	822	2,658
Current assets	24,080	27,527	30,765	32,963	37,421
Total fixed assets	14,835	15,110	17,081	20,117	23,922
Investments	20,142	24,139	14,408	17,632	17,632
Deferred tax asset	2,201	2,245	2,124	1,193	1
Total assets	**64,809**	**73,191**	**66,387**	**72,727**	**81,633**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,908	20,209	20,860	22,550	26,703
Working capital	5,858	(471)	3,092	4,192	2,083
Capital expenditure	(904)	(1,576)	(3,355)	(4,567)	(5,617)
Investments	2,452	(4,309)	9,294	(3,224)	0
Free cash flow	**23,314**	**13,852**	**29,890**	**18,951**	**23,168**
Key assumptions					
Revenue Growth (%)	11.4	9.4	13.3	18.7	14.8
EBITDA Margin(%)	13.2	13.9	14.0	14.0	14.9
EPS Growth (%)	10.6	18.3	13.8	14.5	17.9

Source: Kotak Institutional Equities estimates.

Automobiles

HROH.BO, Rs838	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	790
52W High -Low (Rs)	890 - 550
Market Cap (Rs bn)	167.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	103.3	120.6	133.6
Net Profit (Rs bn)	9.7	12.0	13.2
EPS (Rs)	48.5	59.9	66.1
EPS gth	*12.8*	*23.5*	*10.4*
P/E (x)	17.3	14.0	12.7
EV/EBITDA (x)	10.9	9.9	8.9
Div yield (%)	2.3	2.4	2.4

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.0	-	-
FIIs	24.3	0.5	0.1
MFs	3.8	0.4	0.0
UTI	-	-	(0.4)
LIC	5.8	0.6	0.2

Hero Honda: Dealer-level inventory rises in anticipation of a strong festival season demand; raise target price to Rs790/share—maintain REDUCE rating

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Festive season to see strong growth as pent-up demand expected to translate into purchases**
- **Financing continues to be tight—interest rates have shot up; meanwhile cash sales have increased substantially**
- **Our channel checks indicate that inventory levels with dealers are quite high for the festival season**
- **We revise our volume growth assumptions post our meeting with the management; revise our target price to Rs790/share—maintain REDUCE rating on the stock**

We met the management of Hero Honda and have returned positive given the management's expectation of a strong 2-wheeler demand in the festival season ahead. We learn that rural sales have increased and the strong volume growth in the past couple of months can be attributed to increased cash sales. Hero Honda is well prepared to make the most of the festival season as it has been building inventory. We have revised our volume growth assumptions for FY2009E to 9.5% given the expectation of strong sales in the coming months. Our channel checks with financers indicate that credit continues to be tight while finance rates have increased substantially. Besides, Hero Honda has been building inventory with dealers ahead of the festival season. We revise our target price to Rs790/share—maintain our REDUCE rating on the stock.

Increased focus on rural sales and cash sales have resulted in strong sales

The management has indicated that the strong growth seen in the last couple of months was on account of increased focus on rural areas. Besides, the proportion of cash sales has increased. The management also indicated that a good harvest increased sales in Northern India. We note that despite tightening credit conditions and pull-back by financiers, Hero Honda's volumes have grown 19% yoy on YTD basis.

Festive season to see strong growth as pent-up demand translates into purchases

According to the management, the festival season ahead is likely to see strong purchases as the pent-up demand translates into actual purchases—the strong growth in Aug' 08 volumes was a result of additional dispatches by Hero Honda so as to build inventory as the dealers' end. Our channel checks indicate that dealer inventory has gone up on account of build-up for the impending festival season. The company expects festival sales in FY2009E to be better than the previous year. Besides, the implementation of the Pay Commission recommendations will also lead to an increase in demand for motorcycles.

Channel checks indicate that dealer-level inventory has gone up

Our channel checks indicated that (a) dealer-level inventory has gone up from 20-22days to close to 30 days, (b) retail finance rates have gone up to 24-25% plus processing charges and (c) cash sales have increase to 70-75% for Hero Honda. We believe that these are clear indicators of inventory build-up resulting in higher primary sales while retail demand continues to be weak.

Revise volume estimates—we now estimate volumes to grow 9.5% and 7.5% in FY2009E and FY2010E

Given the strong sales expected in the festival season ahead, we revise our volume growth assumptions for Hero Honda. We now expect volumes to grow 9.5% and 7.5% in FY2009E and FY2010E respectively. Besides, sales would be aided by the launch of new bikes—Hero Honda has indicated that it would be launching 12 new models in the next 18 months. These new launches will be across all motorcycle segments and will include new models as well as upgraded variants of existing models. However, we expect sales to come off post the festival season.

Annual report review—working capital continues to be negative; operating cash flow continues to be strong

Our analysis of the FY2008 annual report does not reveal any major surprise. We highlight a few key points—(1) working capital continues to be negative—debtor days decline marginally from 12.2 days to 10.4 days while inventory is down marginally as well, (2) Hero Honda continues to have a strong balance sheet with net debt of Rs25.6 bn (up from Rs18.4 bn in FY2007) and (3) the company continues to generate strong operating cash flows—operating cash flow has nearly doubled to Rs12 bn from Rs6.2 bn in the previous year.

The company has outlined a capex of Rs30 bn over the next two years primarily to ramp up capacity at the Haridwar plant to 1.5 mn bikes from 0.5 mn bikes currently. We revise our earnings estimates marginally following increased volume growth assumption. We have increased our EPS estimate for FY2009E and FY2010E to Rs59.9 and Rs66.1, respectively (from Rs57 and Rs62.6 previously).

Raise target price to Rs790/share—maintain REDUCE rating as valuations appear expensive

We have revised our target price to Rs790/share—we value Hero Honda at 7X FY2010E EV/EBITDA. At current market price, Hero Honda is trading at an EV/EBITDA of 7.5X FY2010E and at a P/E of 12.6X FY2010E earnings. We continue to maintain our REDUCE rating on the stock.

Hero Honda, change in estimates, March fiscal year-ends, 2009E-2010E (Rs mn)

	Revised estimates		Old estimates		% change	
	2009E	2010E	2009E	2010E	2009E	2010E
Net sales	120,648	133,628	116,751	129,141	3.3	3.5
EBITDA	14,943	16,671	14,458	16,029	3.4	4.0
PAT	11,956	13,202	11,375	12,505	5.1	5.6
EPS (Rs/share)	59.9	66.1	57.0	62.6	5.1	5.6
Sales volume (vehicles sold)	3,655,062	3,928,557	3,580,903	3,832,893	2.1	2.5

Source: Kotak Institutional Equities estimates.

Hero Honda, valuation details, FY2010E basis

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2010E	16,671	7.0	116,694	584	Based on Hero Honda's historical average
Less: net debt			(40,704)	(204)	FY2010E net debt
Market capitalisation				**788**	
Target price				**790**	

Source: Company, Kotak Institutional Equities estimates.

Hero Honda, Volume assumptions, March fiscal year-ends, 2006-10E (# vehicles)

Volumes (units)	2,006	2,007	2,008	2009E	2010E
Motorcycles					
Domestic	2,893,070	3,147,219	3,144,101	3,458,511	3,727,677
Exports	92,666	96,613	88,219	83,808	79,618
Total motorcycles	**2,985,736**	**3,243,832**	**3,232,320**	**3,542,319**	**3,807,295**
Scooters	15,015	92,921	104,822	112,742	121,263
Total 2-wheelers	**3,000,751**	**3,336,753**	**3,337,142**	**3,655,062**	**3,928,557**
Volume growth (%)					
Motorcycles					
Domestic	13.1	8.8	(0.1)	10.0	7.8
Exports	44.8	4.3	(8.7)	(5.0)	(5.0)
Total motorcycles	**13.9**	**8.6**	**(0.4)**	**9.6**	**7.5**
Scooters		518.9	12.8	7.6	7.6
Total 2-wheelers	**14.5**	**11.2**	**0.0**	**9.5**	**7.5**

Source: Company data, Kotak Institutional Equities estimates.

Hero Honda, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2010E (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	87,140	99,000	103,318	120,648	133,628
EBITDA	**13,645**	**11,730**	**13,494**	**14,943**	**16,671**
Other income	1,563	1,899	1,854	1,925	1,999
Interest	61	230	358	377	397
Depreciaiton	(1,146)	(1,398)	(1,603)	(1,717)	(1,921)
Profit before tax	**14,122**	**12,461**	**14,103**	**15,528**	**17,145**
Current tax	(4,230)	(3,788)	(4,412)	(3,629)	(4,023)
Deferred tax	(179)	(94)	(12)	57	79
Net profit	**9,713**	**8,579**	**9,679**	**11,956**	**13,202**
Earnings per share (Rs)	**48.6**	**43.0**	**48.5**	**59.9**	**66.1**
Balance sheet (Rs mn)					
Equity	20,093	24,701	29,862	37,146	45,675
Deferred tax liability	1,188	1,282	1,254	1,196	1,117
Total Borrowings	1,858	1,652	1,320	785	285
Current liabilities	15,628	14,792	18,247	21,177	22,208
Total liabilities	**38,767**	**42,426**	**50,684**	**60,304**	**69,285**
Net fixed assets	9,936	13,555	15,487	16,270	16,849
Investments	20,619	19,739	25,668	32,168	39,168
Cash	1,587	358	1,311	1,672	1,821
Other current assets	6,625	8,775	8,057	10,033	11,286
Miscellaneous expenditure	-	-	161	161	161
Total assets	**38,767**	**42,426**	**50,684**	**60,304**	**69,285**
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	9,723	8,474	9,506	11,314	12,648
Working capital changes	(362)	(2,224)	2,612	954	(222)
Capital expenditure	(3,937)	(5,152)	(3,739)	(2,500)	(2,500)
Free cash flow	**5,424**	**1,099**	**8,379**	**9,768**	**9,926**
Ratios					
Operating margin (%)	15.7	11.8	13.1	12.4	12.5
PAT margin (%)	11.1	8.7	9.4	9.9	9.9
Debt/equity (X)	0.1	0.1	0.0	0.0	0.0
Net debt/equity (X)	(1.0)	(0.7)	(0.8)	(0.9)	(0.9)
Book Value (Rs/share)	106.6	130.1	155.0	191.2	233.5
RoAE (%)	52.2	36.3	34.0	34.6	31.1
RoACE (%)	**47.1**	**33.2**	**31.5**	**32.8**	**30.0**

Source: Company, Kotak Institutional Equities estimates.

Telecom

Sector coverage view	Cautious

		Price, Rs	
Company	**Rating**	**12-Sep**	**Target**
Bharti	REDUCE	779	840
Rcom	SELL	391	390
MTNL	REDUCE	97	100
VSNL	REDUCE	427	430
Idea Cellular	REDUCE	83	100

Tata Communications: Use potential positive development on land as an opportunity to pare exposure

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Government may consider auction of TCOM's surplus land, a positive**
- **We value surplus land at Rs61.4 bn (Rs 216/ share); net realization for minority shareholders will likely be Rs140**
- **No meaningful upside to our target price even in case of immediate auction**

The Economic Times reported that the Government may complete the auction of surplus land of Tata Communications (TCOM) by end-CY2008. We value TCOM's surplus land at Rs61.4 bn or Rs216 / share. The net realization for minority shareholders may be lower as an auction land sale may attract capital gains and potential dividend distribution tax; investors may eventually realize 65% of the sales proceeds. We have valued surplus land at Rs120 in our model; a 45% discount to the fair value. Our 12-month fair value of Rs430 may increase by 6% if the land sale were to materialize immediately, not material in our view. Maintain REDUCE rating.

Newspapers report progress on sale of land. According to newspapers, the department of telecom (DoT) has asked the revenue department to submit its views on auctioning the 773 acres lands in four cities by September 15. DoT is preparing a cabinet note to get the clearance for the auction. The views of the revenue department, if any, will be included in the cabinet note. Newspaper reports further indicate that the sale of land may be completed by end-CY2008. We believe that the auction method is the best way forward as it provides immediate funds to the Government and the best solution for minority shareholders as compared to other options suggested in the past including de-merger of surplus land into a separate company.

We value surplus land at Rs61.4 bn but realization would depend on timing of auction. VSNL has about 773 acres of surplus land, which we value at Rs60 bn at today's property prices. The bulk of our estimated valuation comes from VSNL's real estate in Delhi (70 acres in Greater Kailash and 58 acres in Chattarpur). We also clarify that the Dighi property in Pune may turn out to be more valuable, being a large contiguous piece of land of 524 acres, which may attract real estate developers to develop townships. We treat this as raw land currently. Our real estate analyst, Puneet Jain, suggests that an outright auction of the Delhi (Greater Kailash) plot may be challenging noting the high ticket size (US$1 bn+) relative to the financial strength of real estate players and limited scope of funding from banks.

… **however, net realization for minority shareholders may be lower.** We believe that the net realizations for minority shareholders may be impacted by (1) **capital gains tax**: sale of land may attract capital gains tax of 22%+ educational cess (on sale proceeds minus indexed cost of purchase of land). We do not have details of cost of purchase of land but assume that it would not be significant and (2) **dividend distribution tax**: the sale proceeds adjusted for capital gains tax may be distributed to shareholders in the form of dividends. This in turn may attract dividend distribution tax of 17%. Effectively, minority shareholders may realize only 65% of sale proceeds unless the Government comes up with better structure.

Current shareholders will benefit. We note that all shareholders of TCOM (barring the major shareholders—the TATA group) will receive cash as and when the auction is completed. The government will be the majority shareholder with 51% share; the balance proceeds will belong to the current minority shareholders (about 29%) and the shareholders who tendered their shares in the open offer (20%) to the TATA group.

We estimate value of surplus land at Rs120/share of TCOM

Derivation of value of surplus land held by VSNL

			Estimated value	
Location	**Acres**	**(000 sq ft)**	**(Rs/sq ft)**	**(Rs mn)**
Delhi—Greater Kailash	70	3,049	15,000	45,738
Delhi—Chattarpur	58	2,526	3,000	7,579
Pune—Dighi	524	22,826	300	6,848
Kolkata—Halisahar	35	1,533	250	383
Chennai—Padinallur	86	3,744	250	936
Total	**773**	**33,678**		**61,484**
Taxes payable (Rs mn)				—
Net value recovered				61,484
Net value per VSNL share (Rs/share)				**216**
Value added to our target price—55%				**119**

Source: VSNL open offer document, Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	12-Sep-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	632	ADD	91,498	2,160	145	59.3	58.7	63.2	(53.4)	(1.1)	7.8	10.7	10.8	10.0	7.4	7.4	6.8	5.7	4.6	3.8	3.2	3.2	3.2	21.0	41.5	36.4	630	(0.4)	—
Hero Honda	838	REDUCE	167,339	3,950	200	48.5	59.9	66.1	12.8	23.5	10.4	17.3	14.0	12.7	10.9	9.9	8.9	5.4	4.4	3.6	2.3	2.4	2.4	34.0	34.6	31.1	790	(5.7)	6.2
Mahindra & Mahindra	548	ADD	141,478	3,340	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	14.4	14.8	14.7	10.5	10.3	9.4	3.2	2.5	2.1	2.0	1.7	1.8	27.8	22.0	17.8	640	16.8	6.2
Maruti Suzuki	703	ADD	203,268	4,799	289	59.9	60.0	65.1	10.8	0.2	8.4	11.7	11.7	10.8	6.6	6.4	5.8	2.3	2.0	1.7	0.6	0.6	0.6	22.1	18.3	16.8	790	12.3	16.0
Tata Motors	413	SELL	240,157	5,669	581	47.4	25.1	22.3	0.9	(47.1)	(10.9)	8.7	16.5	18.5	8.4	9.7	9.6	2.6	1.0	1.2	2.4	3.1	3.1	24.3	9.8	7.4	425	2.9	9.8
Automobiles		**Cautious**	**843,740**	**19,918**					**(0.8)**	**(5.2)**	**3.0**	**12.9**	**13.6**	**13.2**	8.4	8.6	8.0	**3.1**	**2.1**	**1.9**	**2.0**	**2.1**	**2.1**	**24.3**	**15.4**	**14.0**			
Banks/Financial Institutions																													
Andhra Bank	59	REDUCE	28,373	670	485	11.9	10.1	11.6	7.0	(15.0)	15.0	4.9	5.8	5.0	—	—	—	0.9	0.8	0.7	6.8	4.3	5.0	18.0	14.3	14.8	65	11.1	0.8
Axis Bank	693	REDUCE	247,732	5,848	358	32.2	35.8	55.1	37.7	11.0	53.9	21.5	19.4	12.6	—	—	—	3.0	2.5	2.2	0.8	1.0	1.5	17.6	13.8	18.7	750	8.3	64.3
Bank of Baroda	310	ADD	113,186	2,672	366	39.3	34.7	42.6	39.8	(11.6)	22.6	7.9	8.9	7.3	—	—	—	1.3	1.1	1.0	2.6	2.3	2.8	14.6	11.1	12.6	310	0.1	6.2
Bank of India	286	BUY	150,228	3,546	526	40.6	41.6	49.8	76.6	2.4	19.6	7.0	6.9	5.7	—	—	—	1.9	1.5	1.2	1.4	1.5	1.8	27.6	22.4	22.0	375	31.3	28.8
Canara Bank	213	REDUCE	87,187	2,058	410	38.2	23.4	38.6	10.1	(38.6)	64.7	5.6	9.1	5.5	—	—	—	1.2	1.1	0.9	3.8	3.3	3.5	15.0	8.9	13.6	210	(1.2)	3.8
Central Bank of India	57	SELL	23,218	548	404	11.6	5.6	16.3	(24.6)	(52.1)	194.4	5.0	10.3	3.5	—	—	—	1.1	0.8	0.6	3.5	-	-	15.3	7.9	16.7	55	(4.3)	0.6
Corporation Bank	281	ADD	40,234	950	143	51.3	44.8	53.6	37.2	(12.5)	19.6	5.5	6.3	5.2	—	—	—	1.0	0.9	0.8	3.7	3.3	3.9	18.4	14.4	15.4	355	26.6	0.5
Federal Bank	219	BUY	37,456	884	171	34.4	20.8	32.4	0.5	(39.4)	55.6	6.4	10.5	6.8	—	—	—	1.0	0.9	0.8	1.8	1.8	2.7	13.6	8.8	12.5	275	25.6	2.0
HDFC	2,182	ADD	626,299	14,785	287	85.8	83.7	100.1	38.2	(2.4)	19.6	25.4	26.1	21.8	—	—	—	5.2	4.5	4.0	1.1	1.2	1.4	27.8	18.6	19.3	2,350	7.7	70.9
HDFC Bank	1,245	BUY	526,866	12,438	423	46.0	52.5	67.4	28.7	14.1	28.4	27.1	23.7	18.5	—	—	—	4.6	3.6	2.5	0.6	0.8	1.0	17.7	17.0	16.9	1,300	4.4	49.0
ICICI Bank	653	ADD	726,357	17,147	1,113	39.9	33.9	42.0	15.4	(15.1)	23.8	16.4	19.3	15.6	—	—	—	1.6	1.5	1.4	1.7	1.3	1.6	11.7	7.9	9.2	870	33.3	140.0
IDFC	91	REDUCE	117,716	2,779	1,294	5.7	6.7	8.1	2.9	18.4	20.3	16.0	13.5	11.2	—	—	—	2.1	1.9	1.7	1.3	2.0	2.3	17.6	14.9	16.1	125	37.4	30.2
India Infoline	124	ADD	43,281	1,022	350	5.6	6.7	9.8	85.6	19.1	47.4	22.1	18.6	12.6	9.0	9.2	6.9	3.6	2.3	2.0	0.8	1.2	1.7	20.7	14.9	17.0	155	25.3	5.3
Indian Bank	126	ADD	54,215	1,280	430	22.5	19.5	25.6	33.9	(13.3)	30.8	5.6	6.5	4.9	—	—	—	1.2	1.1	0.9	2.4	2.0	2.6	23.4	16.4	18.4	140	11.0	2.9
Indian Overseas Bank	100	ADD	54,534	1,287	545	22.1	18.9	22.5	19.2	(14.2)	18.7	4.5	5.3	4.5	—	—	—	1.1	1.0	0.8	3.7	5.0	5.5	27.2	19.7	20.1	130	29.9	1.1
J&K Bank	503	ADD	24,389	576	48	74.2	75.7	77.5	31.2	2.0	2.4	6.8	6.6	6.5	—	—	—	1.2	1.0	0.9	3.1	3.1	3.2	16.8	15.2	13.9	750	49.1	0.4
LIC Housing Finance	313	ADD	26,612	628	85	45.5	56.5	59.5	38.7	24.1	5.3	6.9	5.5	5.3	—	—	—	1.4	1.2	1.0	3.2	4.0	4.2	-	-	-	380	21.4	5.3
Mahindra & Mahindra Financial	242	SELL	23,063	544	95	20.8	22.9	27.2	32.6	10.1	18.7	11.6	10.5	8.9	—	—	—	1.8	1.6	1.4	1.9	2.4	2.8	16.9	15.7	16.6	215	(11.2)	0.1
Oriental Bank of Commerce	173	ADD	43,331	1,023	251	23.9	26.3	30.7	(27.6)	10.3	16.4	7.2	6.6	5.6	—	—	—	0.9	0.8	0.7	2.7	3.0	3.5	6.2	10.9	11.7	200	15.6	1.9
PFC	129	REDUCE	148,234	3,499	1,148	11.4	13.0	15.8	2.6	14.3	21.1	11.3	9.9	8.2	—	—	—	1.4	1.3	1.1	1.2	1.4	1.7	13.4	13.6	14.6	130	0.7	4.0
Punjab National Bank	510	BUY	160,820	3,797	315	65.0	69.2	79.8	33.0	6.5	15.2	7.8	7.4	6.4	—	—	—	1.7	1.3	1.2	2.5	2.7	3.1	18.0	16.7	17.1	650	27.4	10.2
SREI	100	BUY	13,436	317	134	11.4	5.5	8.1	57.4	(51.8)	47.8	8.8	18.2	12.3	—	—	—	2.1	1.1	1.0	1.0	2.3	2.8	23.1	11.6	12.5	160	59.7	0.7
State Bank of India	1,514	ADD	955,762	22,563	631	106.6	93.5	119.2	23.5	(12.2)	27.4	14.2	16.2	12.7	—	—	—	2.3	2.0	1.7	1.4	1.4	1.5	16.8	11.5	13.4	1,700	12.3	77.2
Union Bank	151	BUY	76,121	1,797	505	27.5	20.8	29.3	64.1	(24.2)	40.9	5.5	7.2	5.1	—	—	—	1.0	0.9	0.8	2.7	2.1	2.9	26.8	17.4	20.9	200	32.7	3.7
Banks/Financial Institutions		**Attractive**	**4,372,767**	**103,229**					**36.3**	**(3.0)**	**28.6**	**13.4**	**13.8**	**10.7**	**—**	**—**	**—**	**2.0**	**1.8**	**1.6**	**1.5**	**1.5**	**1.8**	**15.3**	**12.9**	**14.6**			
Cement																													
ACC	592	REDUCE	111,684	2,637	189	64.1	61.2	47.7	13.0	(4.5)	(22.0)	9.2	9.7	12.4	4.8	4.9	6.4	2.5	2.1	2.0	3.9	3.9	3.9	33.3	25.3	17.5	610	3.0	9.2
Ambuja Cements	80	REDUCE	121,409	2,866	1,522	7.6	8.0	6.6	(11.2)	6.4	(17.5)	10.5	9.9	12.0	5.4	6.0	6.5	2.4	1.9	1.7	3.2	3.7	2.7	26.6	21.7	15.4	95	19.1	3.9
Grasim Industries	1,979	ADD	181,491	4,284	92	284.6	257.6	240.4	32.6	(9.5)	(6.7)	7.0	7.7	8.2	4.0	4.2	4.0	1.6	1.3	1.1	1.6	1.7	1.7	25.3	18.3	14.5	2,320	17.2	5.2
India Cements	139	ADD	39,278	927	282	24.5	19.1	19.9	n/a	(21.8)	4.1	5.7	7.3	7.0	4.2	4.5	3.9	1.1	1.0	0.9	1.3	1.5	1.5	25.9	15.8	14.4	160	14.8	3.5
Shree Cement	577	BUY	20,106	475	35	85.9	98.5	60.0	90.0	14.7	(39.0)	6.7	5.9	9.6	2.8	2.5	2.5	3.0	2.1	1.8	1.2	1.4	1.4	53.5	42.5	20.5	1,080	87.1	0.5
UltraTech Cement	565	BUY	70,797	1,671	125	81.4	80.6	59.1	28.5	(0.9)	(26.7)	6.9	7.0	9.6	4.8	4.8	5.5	2.2	1.7	1.5	1.3	1.4	1.4	45.2	32.1	18.9	700	23.8	1.0
Cement		**Cautious**	**544,766**	**12,860**					**19.0**	**(4.8)**	**(15.2)**	**7.8**	**8.2**	**9.7**	**4.4**	**4.6**	**4.8**	**1.9**	**1.6**	**1.4**	**2.4**	**2.6**	**2.3**	**24.5**	**19.1**	**14.3**			
Consumer (Discretionary)																													
Radico Khaitan	69	REDUCE	8,106	191	118	3.4	3.2	3.8	8.4	(7.0)	21.5	20.3	21.8	17.9	9.7	9.7	8.8	1.6	1.5	1.4	0.6	0.6	0.6	9.4	8.1	9.0	91	32.1	0.3
United Breweries	165	REDUCE	39,620	935	240	1.9	2.4	4.4	(11.6)	25.7	82.1	86.6	68.9	37.8	21.0	16.5	12.5	6.9	3.8	3.5	—	—	—	8.3	7.1	9.6	160	(3.1)	0.2
United Spirits	1,320	BUY	123,678	2,920	94	40.0	45.5	59.1	50.8	13.7	29.8	33.0	29.0	22.4	16.0	14.0	12.1	5.2	4.2	3.7	0.0	0.0	0.0	18.8	17.9	19.4	1,600	21.2	5.9
Consumer (Discretionary)		**Attractive**	**171,404**	**4,046**					**35.8**	**11.7**	**34.1**	**35.7**	**31.9**	**23.8**	**16.3**	**14.1**	**12.0**	**5.0**	**3.9**	**3.4**	**0.0**	**0.0**	**0.0**	**14.0**	**12.3**	**14.3**			
Consumer products																													
Asian Paints	1,211	ADD	116,135	2,742	96	38.3	44.3	52.4	36.1	15.8	18.2	31.6	27.3	23.1	19.0	16.0	13.3	12.0	9.7	7.8	1.2	1.4	1.7	43.5	40.2	38.3	1,240	2.4	1.3
Colgate-Palmolive (India)	405	REDUCE	55,070	1,300	136	17.3	19.2	22.4	18.4	10.6	17.0	23.4	21.1	18.1	18.5	15.6	13.1	29.4	25.1	21.4	3.2	3.6	4.2	100.8	128.5	128.3	420	3.7	1.0
GlaxoSmithkline Consumer (a)	626	BUY	26,333	622	42	38.5	45.5	53.8	27.4	18.4	18.3	16.3	13.8	11.6	8.5	7.0	5.7	4.0	3.4	2.9	2.0	2.4	2.8	27.3	27.3	27.3	800	27.8	0.2
Godrej Consumer Products	125	ADD	32,186	760	258	7.3	8.0	8.5	22.9	9.0	6.9	17.1	15.7	14.7	14.8	11.7	10.5	15.1	4.6	4.0	2.8	3.2	3.2	100.9	46.1	39.3	140	12.3	0.1
Hindustan Unilever	249	ADD	541,753	12,789	2,177	8.1	9.2	10.8	15.4	12.9	17.9	30.6	27.1	23.0	24.8	20.7	17.0	37.6	35.0	32.3	4.3	3.5	4.1	85.2	134.3	146.7	280	12.5	16.1
ITC	191	BUY	716,125	16,906	3,742	8.0	9.1	10.4	11.3	13.3	14.3	23.8	21.0	18.4	15.7	13.8	11.8	5.8	5.1	4.4	1.8	2.0	2.1	26.9	26.6	26.4	230	20.2	23.5
Jyothy Laboratories	433	ADD	6,278	148	15	31.0	42.1	68.3	(12.8)	35.8	62.3	14.0	10.3	6.3	9.6	6.8	4.0	1.7	1.4	1.2	2.2	2.4	2.7	11.5	13.1	17.9	740	71.1	-
Nestle India (a)	1,782	ADD	171,784	4,055	96	44.5	58.6	70.2	31.3	31.7	19.7	40.0	30.4	25.4	24.1	18.8	15.6	33.3	25.3	19.6	1.5	2.0	2.4	94.8	94.5	86.9	1,900	6.6	0.9
Tata Tea	700	BUY	43,291	1,022	62	54.1	63.3	67.3	3.6	17.2	6.2	13.0	11.1	10.4	5.0	4.4	3.9	0.9	0.9	0.8	2.1	2.5	2.7	9.7	9.4	9.4	1,100	57.1	1.8
Consumer products		**Attractive**	**1,708,955**	**40,344**					**15.0**	**15.2**	**15.8**	**26.2**	**22.8**	**19.7**	**17.5**	**15.0**	**12.7**	**8.0**	**6.9**	**6.1**	**2.6**	**2.5**	**2.8**	**30.3**	**30.3**	**30.8**			
Constructions																													
Consolidated Construction Co.	505	BUY	18,648	440	37	24.0	34.2	44.9	67.6	42.4	31.1	21.0	14.7	11.2	13.7	8.8	6.7	4.1	3.3	2.7	0.5	1.0	1.3	27.7	25.0	26.4	700	38.7	0.0
IVRCL	278	BUY	37,689	890	135	16.0	17.1	22.8	29.2	6.5	33.2	17.4	16.3	12.2	13.1	9.7	7.6	2.3	2.0	1.8	0.5	0.3	0.3	14.8	13.5	15.6	415	49.0	7.0
Nagarjuna Construction Co.	127	BUY	29,026	685	229	7.4	8.1	10.6	13.4	9.9	30.2	17.1	15.6	12.0	11.2	9.4	8.1	1.8	3.4	1.5	0.9	1.1	1.3	13.0	11.3	13.3	195	53.9	5.6
Punj Lloyd	285	BUY	92,085	2,174	323	10.0	14.7	20.8	323.5	46.9	42.1	28.5	19.4	13.7	14.6	10.4	7.9	3.4	2.7	2.4	0.1	0.2	0.3	16.8	16.1	19.4	350	22.9	30.1
Sadbhav Engineering	781	BUY	10,228	241	13	40.5	62.6	78.1	68.2	54.4	24.8	19.3	12.5	10.0	11.4	7.0	5.3	3.5	2.4	2.1	0.5	0.6	0.8	16.3	19.6	20.5	1,100	40.9	0.3
Construction		**Attractive**	**187,675**	**4,430**					**93.6**	**29.6**	**36.0**	**22.2**	**17.1**	**12.6**	**13.3**	**9.7**	**7.6**	**2.8**	**2.4**	**2.1**	**0.4**	**0.5**	**0.6**	**12.7**	**14.3**	**16.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	12-Sep-08	Rating	Mkt cap.		O/S shares	0 EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)		(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	345	REDUCE	113,181	2,672	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	8.7	8.5	9.0	3.5	3.8	2.8	0.9	0.9	0.7	1.3	1.2	1.1	11.4	10.4	8.9	360	4.3	5.4
Cairn india	222	REDUCE	414,495	9,785	1,868	(0.1)	3.9	20.3	(105)	(3,390)	418	(1,862)	57	10.9	51.8	23.1	7.6	1.4	1.3	1.1	—	—	—	(0.1)	2.3	10.9	245	10.4	37.7
Castrol India (a)	346	ADD	42,817	1,011	124	20.1	23.6	24.1	64.6	17.5	2.1	17.2	14.7	14.4	10.0	8.7	8.5	10.4	9.7	9.0	4.0	5.2	5.2	59.5	68.5	65.2	350	1.1	0.4
GAIL (India)	421	BUY	355,596	8,395	846	30.8	36.8	42.0	21.7	19.5	14.3	13.7	11.4	10.0	7.9	7.0	7.0	2.5	2.2	1.8	2.4	2.6	3.1	18.2	19.2	18.7	470	11.8	14.9
GSPL	58	ADD	32,637	770	563	1.8	3.6	5.1	8.5	103.8	40.2	32.7	16.0	11.4	10.3	7.2	5.1	2.6	2.3	2.0	0.9	1.8	2.5	8.7	15.3	18.8	69	19.0	2.5
Hindustan Petroleum	233	REDUCE	79,060	1,866	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	7.0	8.9	7.0	5.7	3.7	2.2	0.6	0.6	0.5	1.3	1.0	1.3	9.6	6.8	7.9	260	11.5	5.2
Indian Oil Corporation	408	REDUCE	480,573	11,345	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	6.7	10.0	6.6	4.4	8.1	7.5	1.1	1.0	0.8	1.4	1.2	1.7	17.2	10.1	13.5	500	22.7	3.8
Oil & Natural Gas Corporation	1,023	BUY	2,188,937	51,675	2,139	92.8	129.3	149.2	9.1	39.3	15.4	11.0	7.9	6.9	4.2	3.2	2.7	2.1	1.8	1.5	3.1	3.5	4.4	19.3	23.4	22.8	1,225	19.7	50.6
Petronet LNG	58	ADD	43,838	1,035	750	6.3	5.8	6.5	—	(7.6)	10.5	9.2	10.0	9.0	5.8	7.2	6.0	2.3	1.9	1.6	2.6	2.6	2.6	26.7	20.2	18.6	70	19.8	2.3
Reliance Industries	1,933	RS	2,540,256	59,968	1,314	101.7	105.8	158.3	23.0	4.0	49.5	19.0	18.3	12.2	11.4	9.1	5.5	2.8	2.5	1.9	0.6	0.8	1.1	18.5	15.5	19.8	—	—	259.5
Reliance Petroleum	154	REDUCE	694,350	16,392	4,500	(1.1)	2.4	16.9	n/a	n/a	617.4	n/a	65.4	9.1	n/a	31.7	7.5	5.2	4.8	3.3	—	—	1.3	(3.5)	7.6	42.8	150	(2.8)	98.0
Energy		**Cautious**	**6,985,738**	**164,914**					**11.1**	**21.5**	**45.9**	**15.0**	**12.3**	**8.4**	**7.4**	**6.4**	**4.8**	**2.2**	**1.8**	**1.6**	**1.5**	**1.7**	**2.3**	**14.4**	**14.7**	**18.5**			
Industrials																													
ABB	857	REDUCE	181,690	4,289	212	23.2	28.6	35.4	44.5	23.2	23.7	37.0	30.0	24.2	21.9	17.4	13.5	11.2	8.5	6.5	0.3	0.3	0.4	34.8	32.1	30.3	875	2.1	10.4
AIA Engineering	1,620	BUY	30,451	719	19	70.9	89.4	114.2	38.1	26.1	27.7	22.8	18.1	14.2	17.2	11.5	8.7	5.0	4.0	3.2	0.4	0.6	0.7	24.0	24.2	24.6	1,600	(1.2)	0.2
BGR Energy Systems	299	REDUCE	21,553	509	72	12.3	18.3	23.2	(67.1)	49.5	26.7	24.4	16.3	12.9	14.8	10.0	8.5	4.3	3.5	2.8	0.4	0.6	0.8	30.1	23.5	24.1	325	8.6	3.7
Bharat Electronics	932	ADD	74,564	1,760	80	102.1	104.4	111.1	11.3	2.3	6.4	9.1	8.9	8.4	3.6	3.3	2.9	2.3	1.9	1.6	2.7	2.7	2.7	27.9	23.1	20.9	1,200	28.7	1.6
Bharat Heavy Electricals	1,699	ADD	831,450	19,628	490	58.4	73.1	96.9	22.9	25.1	32.6	29.1	23.2	17.5	15.7	12.3	9.4	7.7	6.2	4.9	0.9	0.9	1.2	29.2	29.5	31.1	2,000	17.8	80.8
Dredging Corporation	445	REDUCE	12,454	294	28	55.3	48.7	57.0	(8.3)	(12.0)	17.2	8.0	9.1	7.8	4.3	4.1	3.3	1.0	0.9	0.9	3.4	3.4	3.4	12.5	10.3	11.1	475	6.8	0.1
Larsen & Toubro	2,639	BUY	782,112	18,463	296	75.9	117.5	149.1	20.8	54.8	27.0	34.8	22.5	17.7	21.6	13.5	10.6	6.6	4.4	3.5	0.6	0.8	0.8	22.7	23.6	22.4	3,600	36.4	118.8
Maharashtra Seamless	301	BUY	21,237	501	71	31.4	37.5	44.7	(18.3)	19.6	19.1	9.6	8.0	6.7	5.8	5.1	4.3	1.8	1.5	1.3	1.5	1.9	2.2	20.9	20.8	20.7	390	29.5	0.9
Siemens	520	REDUCE	175,357	4,140	337	18.2	18.8	25.9	60.4	3.1	38.0	28.6	27.7	20.1	16.8	16.0	11.3	9.5	7.4	5.7	0.5	0.5	0.6	39.9	30.2	32.0	570	9.6	7.3
Suzlon Energy	220	ADD	344,102	8,123	1,567	6.6	11.4	17.7	9.5	73.5	55.1	33.4	19.3	12.4	16.6	12.6	9.6	3.8	3.1	2.5	0.4	0.5	0.5	16.3	17.7	22.1	300	36.6	43.6
Industrials		**Neutral**	**2,474,970**	**58,427**					**24.2**	**34.4**	**32.2**	**28.6**	**21.3**	**16.1**	**16.5**	**12.3**	**9.6**	**5.9**	**4.5**	**3.6**	**0.7**	**0.8**	**0.9**	**20.6**	**21.3**	**22.4**			
Infrastructure																													
IRB Infrastructure	149	BUY	49,455	1,167	332	3.4	7.3	15.7	150.9	111.5	116.3	43.4	20.5	9.5	15.2	13.8	6.5	3.0	2.6	2.0	—	—	—	10.7	13.4	23.3	195	31.0	0.6
Media																													
DishTV	36	BUY	18,085	427	500	(9.6)	(8.9)	(4.4)	n/a	(7.8)	(50.7)	(3.8)	(4.1)	(8.2)	(10.3)	(11.1)	72.3	(4.0)	(7.1)	(3.4)	—	—	—	167.9	125.6	71.3	56	54.7	4.5
HT Media	128	BUY	29,949	707	234	4.3	4.2	7.5	4.7	(2.0)	77.1	29.6	30.2	17.0	16.9	16.7	9.4	3.5	3.2	2.7	0.3	0.3	0.6	12.2	11.0	17.2	175	36.9	0.3
Jagran Prakashan	74	BUY	22,287	526	301	3.3	3.1	5.0	33.5	(6.3)	63.3	22.7	24.2	14.8	12.7	12.9	8.2	4.1	3.9	3.5	2.7	2.5	3.4	18.7	16.6	25.1	95	28.4	0.3
Sun TV Network	230	REDUCE	90,757	2,143	394	8.3	9.7	12.0	30.7	16.7	23.6	27.8	23.8	19.3	14.7	12.3	10.0	6.0	5.2	4.7	1.1	1.3	2.6	24.8	24.2	26.1	260	12.9	1.6
Zee Entertainment Enterprises	227	ADD	98,376	2,322	434	8.9	10.5	13.9	62.6	17.8	32.7	25.6	21.7	16.3	18.5	14.0	10.7	3.5	3.1	2.7	0.9	1.1	1.6	14.2	15.1	17.8	260	14.6	6.9
Media		**Attractive**	**259,454**	**6,125**					**24.0**	**16.8**	**92.0**	**52.0**	**44.5**	**23.2**	**20.7**	**16.7**	**10.9**	**4.9**	**4.2**	**3.9**	**1.0**	**1.1**	**1.9**	**9.4**	**9.4**	**16.6**			
Metals																													
Hindalco Industries	121	REDUCE	211,445	4,992	1,742	13.1	16.2	14.6	(10.9)	23.5	(9.9)	9.3	7.5	8.3	5.8	4.6	4.4	1.2	0.7	0.7	1.1	1.5	1.5	14.3	12.7	9.4	150	23.6	11.2
National Aluminium Co.	406	REDUCE	261,493	6,173	644	25.2	30.3	33.5	(31.8)	20.0	10.6	16.1	13.4	12.1	8.5	7.2	5.8	2.8	2.4	2.1	1.8	1.8	1.8	18.4	19.4	18.7	370	(8.8)	5.8
Jindal Steel and Power	1,588	BUY	244,506	5,772	154	80.4	111.6	117.0	83.2	38.9	4.8	19.8	14.2	13.6	12.7	9.4	8.6	5.7	4.0	3.0	—	—	—	34.3	32.8	25.1	2,900	82.6	24.3
JSW Steel	658	ADD	122,325	2,888	186	92.0	103.1	146.8	35.7	12.0	42.4	7.2	6.4	4.5	5.4	5.7	4.1	1.2	1.0	0.8	2.8	2.8	2.8	21.2	18.1	21.0	1,040	57.9	18.7
Hindustan Zinc	525	ADD	221,893	5,238	423	104.0	72.2	71.5	(1.0)	(30.6)	(1.0)	5.0	7.3	7.3	3.5	4.3	3.8	1.8	1.5	1.2	1.4	1.4	1.9	44.0	22.5	18.4	750	42.8	3.2
Sesa Goa	136	BUY	106,947	2,525	787	18.8	22.6	23.2	144.6	19.7	2.7	7.2	6.0	5.9	4.7	3.6	3.2	3.9	2.5	1.9	2.6	2.9	3.7	68.6	50.8	36.9	195	43.5	38.8
Sterlite Industries	487	ADD	344,682	8,137	708	63.7	52.3	51.5	(23.3)	(17.9)	(1.6)	7.6	9.3	9.4	4.3	4.3	3.8	1.5	1.3	1.1	—	—	—	26.6	14.8	12.6	460	(5.4)	32.7
Tata Steel	524	REDUCE	430,435	10,161	822	75.7	116.9	106.1	43.8	54.4	(9.3)	6.9	4.5	4.9	5.2	4.5	4.5	1.2	1.0	0.8	2.8	2.5	2.5	46.3	35.6	28.4	520	(0.7)	72.1
Metals		**Cautious**	**1,943,726**	**45,886**					**12.3**	**13.1**	**(0.4)**	**8.3**	**7.3**	**7.3**	**5.4**	**5.0**	**4.6**	**1.7**	**1.3**	**1.1**	**1.5**	**1.5**	**1.6**	**20.2**	**18.2**	**15.5**			
Pharmaceutical																													
Biocon	192	BUY	19,180	453	100	22.5	24.5	32.0	9.4	8.5	31.0	8.5	7.8	6.0	5.0	4.7	3.6	1.3	1.2	1.0	0.2	0.2	0.2	17.6	15.7	18.2	615	220.6	1.4
Cipla	227	REDUCE	176,484	4,166	777	9.0	10.5	12.2	4.9	16.2	16.4	25.2	21.7	18.6	18.4	16.6	13.9	4.7	4.1	3.5	0.9	1.1	1.3	20.1	20.1	20.3	230	1.3	7.8
Dishman Pharma & chemicals	314	BUY	25,522	603	81	14.7	19.7	27.7	30.5	34.1	40.1	21.3	15.9	11.3	15.8	11.9	8.8	4.5	3.5	2.8	0.0	0.0	0.0	26.8	24.8	27.3	515	64.1	0.4
Divi's Laboratories	1,442	BUY	93,062	2,197	65	56.6	77.9	103.6	85.6	37.7	33.0	25.5	18.5	13.9	22.0	15.1	10.9	10.9	7.0	4.8	0.1	0.1	0.1	52.9	46.5	41.3	2,330	61.6	4.6
Dr Reddy's Laboratories	570	BUY	95,884	2,264	168	26.1	33.8	41.0	(57.2)	29.6	21.5	21.9	16.9	13.9	10.4	8.3	7.0	2.1	1.9	1.7	0.7	0.7	0.7	10.3	12.0	13.0	790	38.6	8.4
Glenmark Pharmaceuticals	655	ADD	174,161	4,111	266	25.8	32.4	41.9	98.3	25.4	29.3	25.4	20.2	15.6	21.5	16.1	12.2	11.8	6.4	4.7	0.0	0.0	0.0	58.2	40.6	35.1	770	17.5	6.9
Jubilant Organosys	325	BUY	58,908	1,391	181	22.1	19.5	35.5	69.9	(11.6)	81.6	14.7	16.6	9.2	11.7	12.8	8.2	3	2.4	2.2	0.4	0.6	0.8	30.4	18.8	27.5	700	115.3	0.4
Piramal Healthcare	317	BUY	66,159	1,562	209	17.6	20.0	26.5	65.4	13.5	32.5	18.0	15.8	12.0	13.2	10.9	8.3	6.0	4.7	3.5	1.3	1.3	1.4	30.6	33.3	33.8	530	67.4	1.3
Ranbaxy Laboratories	457	REDUCE	191,305	4,516	419	23.3	11.5	18.2	70.4	(50.6)	58.0	19.6	39.6	25.1	15.5	17.9	10.3	6.4	2.9	1.8	1.7	2.3	2.9	29.8	10.7	10.7	520	13.9	71.6
Sun Pharmaceuticals	1,490	BUY	309,801	7,314	208	71.5	84.3	77.5	71.3	17.9	(8.1)	20.8	17.7	19.2	17.1	13.3	13.8	5.7	4.4	3.7	0.6	0.7	0.9	37.6	29.7	22.0	1,780	19.5	19.8
Pharmaceuticals		**Attractive**	**1,210,466**	**28,576**					**34.1**	**9.6**	**25.1**	**21.7**	**19.8**	**15.8**	**15.6**	**13.4**	**10.5**	**5.1**	**3.7**	**2.8**	**0.7**	**0.9**	**1.1**	**23.4**	**18.7**	**17.9**			
Property																													
Housing Development & Infrastruc	274	BUY	75,568	1,784	275	51.2	56.6	63.6	118.6	10.6	12.3	5.4	4.8	4.3	6.1	5.6	4.7	2.1	1.5	1.2	1.4	2.9	2.9	64.5	36.3	30.7	610	122.4	45.6
DLF	466	BUY	795,064	18,769	1,705	43.8	49.8	55.1	244.6	13.9	10.5	10.7	9.4	8.5	9.6	8.2	6.7	4.0	3.0	2.3	1.1	1.5	2.1	63.2	36.6	30.8	660	41.5	73.9
IVR Prime Urban Developers	159	BUY	10,203	241	64	27.0	15.5	17.1	552.0	(42.6)	10.8	5.9	10.3	9.3	3.8	8.2	8.1	1.0	1.0	0.9	2.5	3.1	4.4	31.9	9.6	10.0	360	126.3	0.3
Mahindra Life Space Developer	435	BUY	18,330	433	42	12.7	13.9	19.0	208.4	8.9	37.4	34.2	31.4	22.9	73.9	25.1	15.0	2.1	2.0	1.9	0.7	0.9	0.9	6.4	6.5	8.5	810	86.0	0.7
Phoenix Mills	164	BUY	23,794	562	145	2.6	4.4	11.6	(59.8)	68.1	162.1	62.3	37.1	14.1	53.7	24.6	8.8	1.7	1.6	1.4	—	—	—	5.0	4.4	10.6	350	113.0	0.7
Puravankara Projects	170	REDUCE	36,271	856	213	11.3	14.0	16.7	67.4	24.8	19.1	15.1	12.1	10.2	20.0	16.9	12.7	2.9	2.5	2.2	0.6	2.4	3.5	32.9	22.4	23.1	220	29.4	0.6
Sobha	261	REDUCE	19,060	450	73	31.7	30.2	33.2	42.9	(4.7)	9.8	8.2	8.6	7.9	9.9	8.6	8.1	1.9	1.6	1.4	2.5	1.5	1.5	25.3	20.0	18.6	250	(4.4)	1.6
Unitech	156	REDUCE	253,298	5,980	1,623	9.7	12.0	15.0	20.3	24.5	24.7	16.1	13.0	10.4	12.5	10.3	8.5	7.5	5.1	3.8	0.6	1.3	2.6	58.4	46.8	41.9	190	21.8	37.1
Property		**Neutral**	**1,231,589**	**29,074**					**168.7**	**14.1**	**14.0**	**11.0**	**9.7**	**8.5**	**10.0**	**8.6**	**7.0**	**3.8**	**2.9**	**2.3**	**1.0**	**1.5**	**2.3**	**34.7**	**29.8**	**26.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	12-Sep-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Pantaloon Retail	326	BUY	56,107	1,325	172	8.0	14.2	19.9	93.2	76.5	39.9	40.6	23.0	16.4	15.7	10.2	8.4	3.3	2.1	1.9	0.2	0.2	0.3	8.6	10.7	11.5	460	41.0	1.2
Rajesh Exports	46	BUY	13,388	316	291	8.2	5.9	6.9	80.4	(28.2)	16.6	5.6	7.8	6.7	2.1	0.9	0.3	1.7	1.0	0.9	0.7	0.9	1.0	26.8	12.3	13.5	120	160.6	2.8
Titan Industries	1,167	BUY	51,780	1,222	44	35.1	41.1	49.8	55.2	17.3	21.0	33.3	28.4	23.4	22.3	17.4	14.0	11.0	8.4	6.6	0.7	0.8	0.9	37.7	33.6	31.6	1,350	15.7	2.6
Vishal Retail	377	ADD	8,435	199	22	18.1	21.6	35.6	37.2	19.2	65.2	20.8	17.5	10.6	10.6	7.2	5.5	3.1	2.6	2.1	-	-	-	20.2	16.2	22.1	485	28.8	0.2
Retail			**129,711**	**3,062**					**53.0**	**20.1**	**32.7**	**24.5**	**20.4**	**15.4**	**12.1**	**9.4**	**7.6**	**4.0**	**2.6**	**2.3**	**0.4**	**0.5**	**0.6**	**16.4**	**12.9**	**14.8**			
Technology																													
HCL Technologies	229	REDUCE	159,051	3,755	695	15.3	22.3	25.4	(19.0)	46.0	13.8	15.0	10.3	9.0	8.5	6.7	5.6	3.2	2.7	2.3	3.5	3.5	3.5	21.4	28.1	27.3	250	9.2	5.3
Hexaware Technologies	44	SELL	6,318	149	142	7.7	4.7	5.6	(13.7)	(38.2)	18.5	5.8	9.4	7.9	2.6	2.6	1.9	0.9	0.8	0.8	3.6	3.6	3.6	15.1	9.4	10.4	50	12.5	0.4
Infosys Technologies	1,644	BUY	943,656	22,277	574	79.1	102.1	118.1	18.0	29.1	15.7	20.8	16.1	13.9	16.4	12.4	10.0	6.8	5.2	4.1	2.0	1.5	1.7	36.1	36.8	33.1	2,100	27.7	82.2
Mphasis BFL	242	SELL	50,413	1,190	208	12.2	15.6	18.5	67.6	27.3	18.8	19.7	15.5	13.0	11.8	9.3	7.6	4.4	0.6	3.0	1.4	1.7	1.9	23.6	25.6	25.4	220	(9.0)	2.0
Mindtree	342	BUY	13,427	317	39	26.1	35.7	43.4	14.8	36.5	21.7	13.1	9.6	7.9	11.0	6.8	5.1	2.5	2.0	1.6	0.8	1.0	1.3	21.3	23.5	22.9	550	60.7	0.5
Patni Computer Systems	218	SELL	30,281	715	139	33.4	25.2	29.7	29.7	(24.5)	17.7	6.5	8.6	7.3	3.5	3.2	2.2	1.1	1.0	1.0	0.9	1.1	1.3	19.2	11.7	12.7	260	19.3	1.6
Polaris Software Lab	94	SELL	9,240	218	98	7.4	10.1	11.8	(27.6)	36.0	16.2	12.6	9.3	8.0	6.3	4.5	3.6	1.4	1.3	1.1	1.9	1.9	1.9	11.7	14.3	14.8	90	(4.3)	6.1
Satyam Computer Services	407	BUY	277,785	6,558	682	25.2	32.2	37.5	17.7	27.6	16.5	16.1	12.6	10.9	12.8	9.2	7.5	3.8	3.1	2.5	2.4	2.9	3.4	26.0	27.1	25.7	500	22.8	39.6
TCS	811	REDUCE	793,212	18,726	979	51.3	58.7	67.9	21.5	14.5	15.6	15.8	13.8	11.9	12.9	10.8	9.0	6.4	5.0	4.1	1.7	2.5	3.3	47.0	40.8	37.8	900	11.0	26.5
Tech Mahindra	759	BUY	94,600	2,233	125	59.1	74.8	89.4	25.7	26.7	19.4	12.9	10.1	8.5	11.4	7.2	5.4	7.5	4.2	2.8	0.5	—	0.8	70.7	55.8	41.6	900	18.5	4.9
Wipro	420	ADD	608,493	14,365	1,450	22.2	27.5	33.5	12.6	23.6	21.8	18.9	15.3	12.5	15.1	11.3	8.9	4.7	3.8	3.1	1.5	1.9	2.4	27.9	27.6	27.4	490	16.8	11.3
Technology		**Neutral**	**2,986,476**	**70,502**					**16.1**	**23.8**	**17.0**	**17.3**	**14.0**	**11.9**	**13.3**	**10.4**	**8.4**	**5.1**	**4.0**	**3.3**	**1.9**	**2.1**	**2.5**	**29.5**	**29.0**	**27.6**			
Telecom																													
Bharti Airtel Ltd	779	REDUCE	1,478,179	34,896	1,898	35.3	47.0	57.0	65.0	33.2	21.1	22.1	16.6	13.7	13.4	9.8	7.5	6.6	4.7	3.5	—	0.5	0.8	39.1	32.9	29.1	840	7.9	76.7
IDEA	83	REDUCE	219,443	5,180	2,639	3.9	4.6	5.5	78.5	15.7	20.8	21.1	18.2	15.1	12.2	9.1	7.6	6.2	4.6	3.5	—	—	—	36.4	29.1	26.6	100	20.3	17.9
MTNL	97	REDUCE	60,858	1,437	630	6.0	6.5	7.0	(25.2)	7.7	8.2	16.1	14.9	13.8	1.7	1.9	1.8	0.5	0.5	0.5	6.2	6.2	6.2	2.7	2.9	3.2	100	3.5	3.7
Reliance Communications	391	SELL	807,643	19,066	2,064	25.0	28.6	34.8	76.4	14.1	21.9	15.6	13.7	11.2	11.0	9.4	7.4	2.9	2.4	1.9	0.2	—	-	16.1	19.9	19.8	390	(0.3)	91.5
Tata Communications	427	REDUCE	121,638	2,872	285	10.9	12.0	13.3	(36.3)	9.2	11.2	39.0	35.7	32.1	16.3	15.2	13.1	1.8	1.8	1.7	1.1	1.2	1.5	4.4	4.7	4.9	430	0.7	3.3
Telecom		**Cautious**	**2,687,761**	**63,450**					**61.9**	**23.9**	**20.6**	**19.0**	**15.4**	**12.7**	**12.1**	**9.5**	**7.5**	**3.7**	**3.0**	**2.5**	**0.4**	**0.6**	**0.6**	**19.4**	**19.6**	**19.3**			
Transportation																													
Container Corporation	896	ADD	116,521	2,751	130	57.7	67.5	75.0	7.8	17.0	11.0	15.5	13.3	12.0	10.7	9.0	7.6	3.6	3.0	2.5	1.4	1.6	1.8	25.8	24.9	23.1	950	6.0	1.4
Gateway Distriparks	87	BUY	10,068	238	115	6.4	8.1	10.8	(5.0)	26.5	33.5	13.6	10.7	8.1	9.5	7.1	5.4	1.4	1.3	1.2	3.4	3.8	3.9	10.8	12.9	15.8	125	43.3	1.0
GE Shipping	336	BUY	51,224	1,209	152	105.9	72.7	48.2	77.6	(31.3)	(33.7)	3.2	4.6	7.0	4.6	5.6	6.4	1.2	1.0	0.9	4.5	5.4	3.6	43.2	23.4	13.7	500	48.6	2.8
Jet Airways	516	SELL	44,559	1,052	86	(76.5)	(123.3)	96.4	(2,857)	71	206.7	(6.7)	(4.2)	5.4	60.1	17.7	6.3	1.0	1.3	1.0	—	—	1.3	(19.5)	(26.5)	21.5	450	(14.9)	1.5
Transportation		**Neutral**	**222,371**	**5,250**					**3.9**	**(42.9)**	**162.9**	**12.5**	**21.9**	**8.3**	**12.3**	**10.1**	**6.6**	**1.7**	**1.7**	**1.5**	**1.9**	**2.3**	**2.2**	**13.9**	**7.7**	**17.4**			
Utilities																													
CESC	308	BUY	38,468	908	125	27.8	28.2	31.1	(23.3)	1.4	10.4	11.1	10.9	9.9	5.7	6.5	7.4	1.2	1.1	1.0	1.3	1.3	1.6	12.5	10.6	10.5	500	62.4	1.1
Lanco Infratech	291	BUY	64,645	1,526	222	16.0	18.7	31.3	88.4	17.4	67.1	18.2	15.5	9.3	14.1	16.6	13.7	3.2	2.7	2.1	(2.0)	—	—	20.2	18.9	25.2	530	82.3	18.8
NTPC	174	REDUCE	1,434,299	33,860	8,245	8.9	9.5	10.3	3.5	6.7	8.0	19.5	18.2	16.9	14.0	15.2	15.2	2.7	2.5	2.3	2.1	2.2	3.0	14.4	14.2	14.3	179	2.9	31.7
Reliance Infrastructure	930	BUY	214,677	5,068	231	46.0	49.7	50.2	26.1	8.0	0.9	20.2	18.7	18.5	19.8	37.1	29.3	1.3	1.3	1.2	0.7	0.7	0.7	4.0	4.0	5.3	1,250	34.5	100.6
Reliance Power	168	REDUCE	403,381	9,523	2,397	0.4	2.1	2.6	—	443.9	25.2	442.5	81.4	65.0	—	—	—	2.9	2.8	2.7	—	—	—	1.2	3.5	4.3	180	7.0	43.1
Tata Power	1,003	BUY	233,579	5,514	233	29.7	38.1	39.9	11.6	28.5	4.6	33.8	26.3	25.1	23.3	20.8	21.2	3.1	2.4	2.1	0.9	0.9	0.9	10.0	10.3	9.0	1,540	53.6	30.3
Utilities		**Attractive**	**2,389,049**	**56,399**					**10.0**	**12.6**	**10.1**	**24.1**	**21.4**	**19.4**	**16.8**	**19.3**	**19.7**	**2.5**	**2.3**	**2.1**	**1.3**	**1.5**	**1.9**	**10.3**	**10.7**	**11.0**			
Others																													
Aban Offshore	2,306	REDUCE	89,168	2,105	39	72.3	271.8	488.1	(1,066)	276.0	79.6	31.9	8.5	4.7	16.8	8.0	5.2	10.2	4.2	2.3	0.2	0.4	0.6	51.7	60.1	53.5	2,700	17.1	19.7
ABG Shipyard	353	-	17,952	424	51	22.8	32.1	56.2	39.0	40.6	74.8	15.4	11.0	6.3	10.6	8.0	4.6	2.8	2.1	1.2	0.5	0.6	0.8	20.4	21.5	24.7	—	121.2	0.8
Aditya Birla Nuvo	1,149	ADD	107,209	2,531	93	22.9	26.6	29.2	(5.6)	16.0	9.8	50.2	43.2	39.4	22.0	19.8	18.3	3.2	3.0	2.8	0.5	0.6	0.6	6.4	7.1	7.4	2,000	74.1	2.9
Educomp Solutions	3,607	ADD	68,605	1,620	19	35.2	46.2	112.0	113.9	31.5	142.4	102.6	78.0	32.2	54.2	25.2	14.1	22.8	9.1	7.5	0.1	0.1	0.3	33.5	17.4	26.2	3,650	1.2	19.6
Jaiprakash Associates	157	BUY	195,494	4,615	1,242	4.9	7.6	11.6	6.5	54.7	53.5	32.1	20.8	13.5	17.4	12.1	11.2	3.9	3.2	2.8	0.0	0.0	0.0	15.4	17.5	22.6	255	62.1	54.8
Jindal Saw	619	BUY	37,963	896	61	57.7	90.7	110.4	(50.2)	57.0	21.7	10.7	6.8	5.6	5.9	3.5	2.7	1.3	0.9	0.9	1.3	2.3	2.6	11.4	16.1	16.9	900	45.4	1.4
JSL	121	ADD	10,046	237	83	11.7	15.0	17.0	75.8	28.2	13.5	10.4	8.1	7.1	6.2	5.0	4.4	2.7	2.1	1.6	0.8	0.8	0.8	29.7	29.0	25.5	275	126.8	0.5
Kalpataru Power Transmission	794	ADD	21,041	497	26	67.5	86.5	93.7	12.2	28.1	8.3	11.8	9.2	8.5	7.0	5.2	4.3	2.6	2.1	1.7	1.3	1.3	1.6	24.5	25.3	22.2	1,700	114.1	0.8
KEC	402	ADD	15,232	360	38	40.6	49.2	58.0	48.7	21.2	17.8	9.9	8.2	6.9	5.3	4.5	3.7	3.6	2.6	1.9	0.7	0.9	1.0	43.1	36.3	31.2	800	99.1	0.3
Monnet Ispat	471	ADD	24,584	580	52	41.1	53.4	50.0	25.3	30.1	(6.5)	11.5	8.8	9.4	12.8	6.9	6.8	1.9	1.6	1.4	0.5	0.6	—	14.5	17.8	14.2	600	27.3	1.0
PSL	291	BUY	12,693	300	44	21.1	45.6	64.5	4.2	116.1	41.5	13.8	6.4	4.5	6.8	4.9	3.7	2.3	1.7	1.3	1.8	2.1	2.6	11.3	15.4	18.4	500	71.7	0.2
Sintex	298	BUY	48,418	1,143	163	19.5	23.4	31.2	58.2	19.6	33.5	15.2	12.7	9.5	13.3	9.5	6.8	2.9	1.9	1.7	0.3	0.4	0.6	14.0	14.8	15.9	460	54.4	2.2
Vardhman	86	ADD	5,440	128	63	22.7	31.6	42.3	(22.9)	39.0	33.9	3.8	2.7	2.0	6.0	4.3	3.3	0.3	0.3	0.3	3.7	5.2	6.9	8.9	11.2	13.5	175	102.5	0.0
Welspun Gujarat Stahl Rohren	305	REDUCE	57,624	1,360	189	20.6	29.2	47.4	94.5	41.9	62.7	14.8	10.5	6.4	12.2	6.6	4.2	3.3	2.4	1.7	0.8	1.6	1.9	27.1	26.0	31.3	360	17.9	5.9
Others			**711,468**	**16,796**					**21.6**	**78.5**	**48.7**	**25.0**	**14.0**	**9.4**	**14.0**	**8.9**	**7.0**	**3.3**	**2.6**	**2.0**	**0.4**	**0.6**	**0.7**	**13.1**	**18.4**	**21.4**			
KS universe (b)			**31,506,397**	**743,777**					**24.1**	**14.5**	**25.1**	**15.9**	**13.9**	**11.1**	**10.0**	**8.7**	**7.2**	**2.8**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**17.6**	**16.8**	**18.0**			
KS universe (b) ex-Energy			**24,520,659**	**578,864**					**28.7**	**12.4**	**18.2**	**16.2**	**14.4**	**12.2**	**11.3**	**9.9**	**8.6**	**3.1**	**2.5**	**2.2**	**1.3**	**1.4**	**1.7**	**19.0**	**17.6**	**17.7**			
KS universe (d) ex-Energy & ex-Commodities			**22,032,166**	**520,117**					**33.1**	**13.3**	**23.5**	**18.3**	**16.1**	**13.1**	**14.0**	**11.8**	**9.8**	**3.4**	**2.8**	**2.4**	**1.3**	**1.4**	**1.7**	**18.5**	**17.4**	**18.3**			

Note:
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 42.36

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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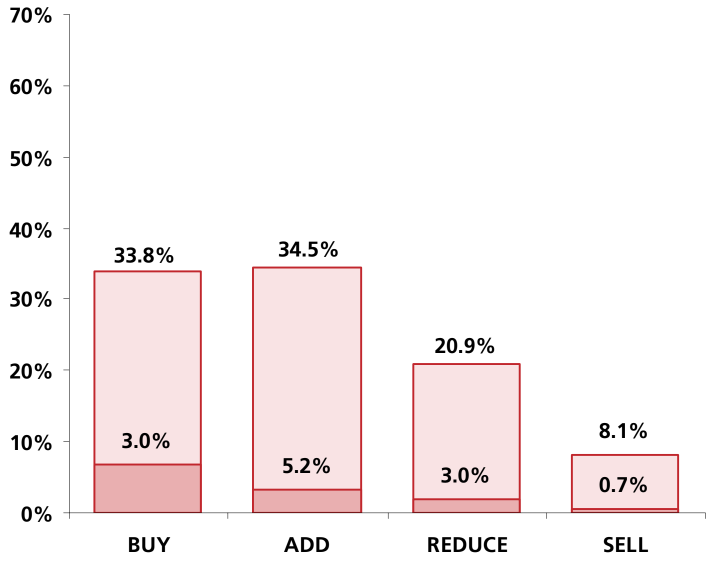
Kotak Institutional Equities Research coverage universe

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 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of June 30, 2008

Ratings and other definitions/identifiers

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.

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.
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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, Portsoken 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

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