kotak® Institutional Equities

INDIA DAILY

June 15, 2007

Contents

EQUITY MARKETS

		Change, %		
India	**14-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	14,204	1.4	2.0	13.2
Nifty	4,170	1.4	1.2	14.4
Global/Regional indices				
Dow Jones	13,554	0.5	1.3	11.5
Nasdaq Composite	2,599	0.7	2.9	9.3
FTSE	6,650	1.4	1.2	8.4
Nikkie	17,963	0.7	2.6	6.5
Hang Seng	20,928	0.3	0.3	10.3
KOSPI	1,768	(0.0)	11.3	23.9

Value traded - India

			Moving avg, Rs bn	
	14-Jun		**1-mo**	**3-mo**
Cash (NSE+BSE)	123.3		142.7	128.5
Derivatives (NSE)	287.6		280.4	319.8
Deri. open interest	674.4		549.8	564.4

Forex/money market

		Change, basis points		
	14-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.9	-	(6)	(329)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.3	(2)	12	29

Net investment (US$mn)

	13-Jun		MTD	CYTD
FIIs	(76)		(92)	3,854
MFs	(17)		(95)	(195)

Top movers -3mo basis

		Change, %		
Best performers	**14-Jun**	**1-day**	**1-mo**	**3-mo**
Balaji Telefilms	214	3.5	20.4	86.9
Reliance Cap	1,009	4.0	22.4	68.8
GESCO	297	2.2	14.7	48.6
Moser Baer	424	(0.4)	5.4	42.7
SBI	1,314	1.9	7.1	42.5
Worst performers				
Bajaj Auto	2,107	0.4	(20.1)	(15.4)
Tata Motors	643	(0.5)	(10.1)	(11.5)
United Phos	286	3.2	(1.4)	(9.0)
Raymond	309	0.7	(8.9)	(8.7)
Maruti Udyog	729	1.1	(9.6)	(8.6)

News Roundup

Corporate

- Crisil has downgraded the credit rating of Hindalco from AAA to AA stable, on account of the US$3.1 bn debt raised by the company to acquire Novelis. (ET)
- RPG Life Sciences is in talks with seven global drug companies, including two domestic firms, to form pacts to enter the US market. The company hopes to file seven master drug files with the US food and drug administration (US FDA) seeking permission to market active pharmaceutical ingredients, as per the statement made by the managing director of the company. (BS)

Economic and political

- West Bengal government has turned down the opposition's demand to return land acquired from unwilling farmers for the Tata Motors small car project in Singur. (BS)
- Government has delicenced the supply of power from captive power plants, which means that they can now supply power at a higher unit tariff without being subject to licencing requirements under the electricity act. (FE)

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

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Energy

PLNG.BO, Rs55	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	50
52W High -Low (Rs)	65 - 39
Market Cap (Rs bn)	41.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	55.1	76.4	80.2
Net Profit (Rs bn)	3.1	4.1	3.9
EPS (Rs)	4.2	5.5	5.2
EPS gth	*62.5*	*32.4*	*(5.9)*
P/E (x)	13.3	10.1	10.7
EV/EBITDA (x)	7.6	7.6	8.4
Div yield (%)	2.3	2.7	1.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.0	-	-
FIIs	14.4	0.1	(0.0)
MFs	0.2	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Petronet LNG: High-priced LNG, anyone? If no, then sell

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- **Cozy existence may continue for some more time but for how long**
- **We find re-gasification tariff very high and 5% per annum increase abnormally high**
- **The big question is demand for likely high-priced LNG beyond 2010**

Based on our recent meeting with Petronet LNG's management and FY2007 annual report, we have made small changes to our earnings model. However, we retain our negative view of the stock in light of (1) weak positioning of expensive LNG versus domestic gas and (2) very high re-gasification tariffs of PLNG with potential downside risks. We have fine-tuned our EPS estimates for FY2008E, FY2009E and FY2010E to Rs5.5, Rs5.2 and Rs3.4, respectively versus Rs5.3, Rs5.1 and Rs3.3, respectively, previously. PLNG's valuation is very sensitive to re-gasification tariff assumptions; we find the extant tariffs very high (in the context of >20% ROE and CROCI for FY2007) and the 5% per annum increase in perpetuity outrageously high (in the context of high base tariff and modest increase in operating costs). Our revised 12-month DCF-based target price is Rs50 (Rs47 previously). Key upside risk is higher-than-expected re-gasification tariffs.

Steep increase in supply of 'cheap' domestic gas versus expensive LNG. We expect supply of domestic gas to increase rapidly from FY2009 led by Reliance, ONGC and GSPC (see Exhibit 1); our supply model does not factor gas to be produced by ONGC and GSPC from their recent discoveries in KG and Mahanadi basin blocks or CBM. The start of new LNG capacity of PLNG at Dahej and Kochi will coincide with steep increase in supply of domestic gas. We expect the price of domestic gas to be significantly lower versus that of imported LNG. The price of Reliance gas (wellhead) from its KG D-6 block would be about US$4.5/mn BTU as per the pricing formula (at US$65/bbl crude oil price, Rs41/U$ exchange rate and c of 1) assuming the government approves the formula. However, we do not rule out lower pricing for gas sold to new power plants, which Reliance would have to eventually, in our opinion. We believe the availability of abundant cheap coal in India will act as a check on natural gas prices for bulk consumption. We note that Petronet LNG is yet to finalize the price of the additional 10 mtpa of LNG required by it for its Dahej (5 mtpa) and Koch terminals (5 mtpa). However, we doubt LNG can be competitive with domestic gas given additional (liquefaction, re-gasification, shipping) costs involved.

Re-gasification tariff is a big variable. We note that PLNG's valuation is highly sensitive to assumptions of re-gasification tariff. PLNG management has steadfastly maintained that it can increase re-gasification tariff by 5% in perpetuity with a potential review of the then tariff once PLNG completes its expansion in FY2010E. We find the base re-gasification tariff very high let alone the 5% per annum escalation. We note the very high ROAE and CROCI (adjusted for C-WIP) of 23.6% and 25.1%, respectively for FY2007 as proof of PLNG's abnormally high tariff. We model the same to jump to 24.4% and 28.7% for FY2008E.

Exhibit 3 gives our assumptions for re-gasification tariffs and volumes for PLNG for the next few years. However, we have low confidence about our volume and price (re-gasification tariff) assumptions given the larger unaddressed issue of demand of likely high-priced LNG beyond 2010. We are not sure whether PLNG can place sell high-priced LNG in the Indian market beyond FY2010E once domestic volumes increase significantly and Reliance exhausts the demand of extant power and fertilizer plants. We don't think the quantum of re-gasification tariff is relevant in the larger unanswered question about demand for likely high-priced LNG and even for domestic gas (versus coal) in the critical power sector. However, producers of domestic gas have the flexibility to match the price of gas with that of coal in order to place the volumes in the domestic market; an LNG importer does not have that flexibility.

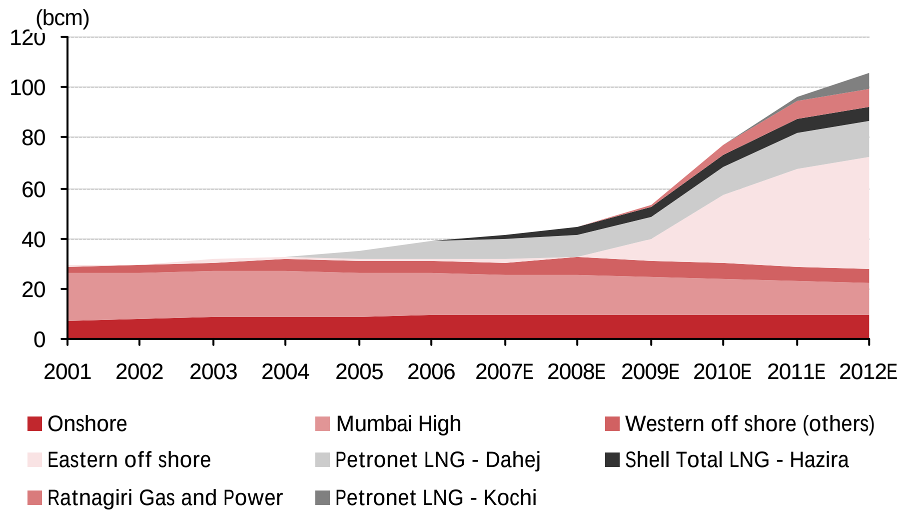
We could have made more aggressive assumptions on re-gasification tariffs (5% in perpetuity) in order to justify a higher valuation. However, we find it odd that a business with generally low risk (utility-like business) should be earning such high return on investment. We see this simply as a flaw in the system—a monopoly business operating in an unregulated environment. To put things in the right perspective, a 5% per annum increase in perpetuity will increase our 12-month forward DCF valuation to Rs117, about 5.8X end-FY2007 book value of Rs20.

Update on expansions. PLNG's 5 mtpa expansion at Dahej is on course for December 2008. It has an agreement with RasGas for 2.5 mtpa of LNG and is talking with other suppliers for the balance 2.5 mtpa. The cost of the re-gasification facilities and the two storage tanks is Rs16 bn.

PLNG's 5 mtpa Kochi terminal continues to suffer from delays due to delay in signing of a concession agreement with Kochi Port Authority. Without the contract for land, PLNG is not able to finalize the EPC and shipping contracts. It has short-listed three bidders for EPC and has received the technical and financial bids; it is a simple matter of opening the financial bids and awarding the contract but it does not want to do so until it gets the land. In the case of shipping, it has received the bids from four bidders but has not opened them as yet. In any case, this is not material as the time for building a LNG ship is 24 months versus 44 months for EPC. PLNG is yet to finalize LNG supplies for its Kochi terminal; it is in talks with ExxonMobil (part of the Gorgon consortium) for 2.5 mtpa of LNG. We believe Gorgon is unlikely to start before 2012, which would make PLNG dependent on short-term LNG contracts for about a year (FY2012).

We project steep ramp up in domestic supply from FY2009

Supply of natural gas in India, March fiscal year-ends, 2001-2012E (bcm)

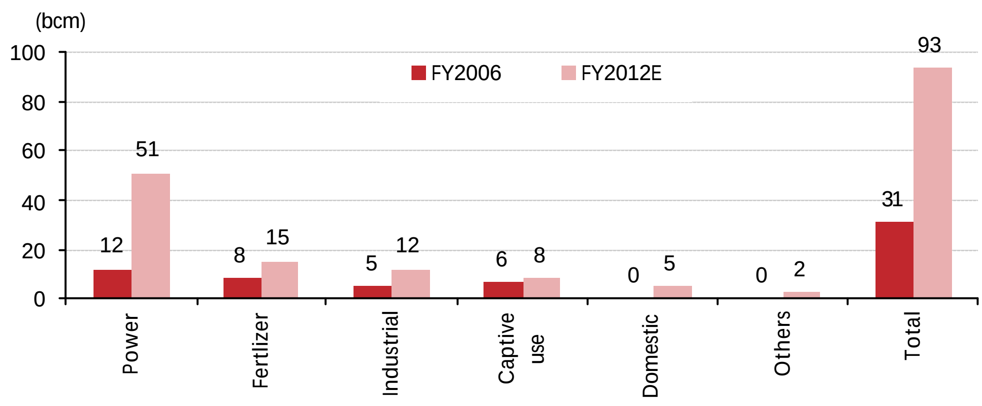


Note: Eastern offshore includes potential gas from Reliance's field in KG basin.

Source: Kotak Institutional Equities estimates.

Current supply constrained demand set to increase sharply

Segment wise demand for natural gas, current versus potential (bcm)



Source: Ministry of petroleum and natural gas, Kotak Institutional Equities estimates.

We model Petronet's volumes scaling up to 9 mtpa by FY2010

Key volume/price assumptions for Petronet LNG

	2005	2006	2007	2008E	2009E	2010E	2011E
Volume assumptions							
Sales volume (mn tonnes)	2.5	4.8	5.6	6.3	6.6	8.8	11.8
Price assumptions							
LNG purchase price (FOB) (US$/mn BTU)	2.5	2.5	3.3	4.3	4.3	4.6	4.7
Landed cost (incl. import tariff) (US$/mn BTU)	2.9	2.9	3.8	4.9	4.8	5.2	5.27
Re-gasification charges (US$/mn BTU)	0.53	0.57	0.58	0.64	0.67	0.55	0.56
Escalation in re-gasification charges (%)	**5.0**	**5.0**	**5.0**	**5.0**	**3.8**	**—**	**2.5**
Sales price (US$/mn BTU)	3.5	3.5	4.4	5.5	5.5	5.7	5.8
Other assumptions							
Rupee/US dollar exchange rate	45.0	44.3	45.3	43.0	43.0	43.0	43.0

Source: Kotak Institutional Equities estimates.

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	19,453	38,197	55,090	76,389	80,245	110,082	150,881
EBITDA	**1,505**	**4,707**	**6,481**	**6,792**	**7,454**	**7,606**	**10,576**
Other income	133	194	366	332	231	139	144
Interest	(1,094)	(1,116)	(1,070)	(891)	(731)	(1,525)	(1,879)
Depreciation	(968)	(1,010)	(1,020)	(1,063)	(1,395)	(2,048)	(2,551)
Extraordinary items	—	175	—	—	—	—	—
Pretax profits	(424)	2,950	4,756	5,171	5,558	4,172	6,290
Tax	—	(256)	(6)	(586)	(976)	—	—
Deferred taxation	140	(745)	(1,617)	(467)	(702)	(1,654)	(2,188)
Net profits	**(284)**	**1,949**	**3,133**	**4,117**	**3,881**	**2,518**	**4,102**
Earnings per share (Rs)	**(0.4)**	**2.4**	**4.2**	**5.5**	**5.2**	**3.4**	**5.5**
Balance sheet (Rs mn)							
Total equity	8,770	10,719	12,755	15,556	18,559	20,200	22,986
Deferred taxation liability	(140)	605	2,472	2,939	3,641	5,295	7,483
Total borrowings	12,599	12,599	13,832	16,432	24,432	29,432	29,932
Currrent liabilities	3,585	1,725	5,877	7,256	7,524	9,592	12,419
Total liabilities and equity	**24,814**	**25,648**	**34,936**	**42,184**	**54,156**	**64,519**	**72,820**
Cash	2,980	2,506	3,405	3,235	500	618	650
Current assets	2,753	2,946	7,478	6,522	6,568	9,029	11,966
Total fixed assets	18,903	18,627	21,273	29,647	44,309	52,092	57,425
Investments	179	1,569	2,780	2,780	2,780	2,780	2,780
Total assets	**24,814**	**25,648**	**34,936**	**42,184**	**54,156**	**64,519**	**72,820**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	437	3,524	4,927	4,878	4,690	5,250	7,979
Working capital	628	(2,057)	(710)	2,336	222	(393)	(109)
Capital expenditure	(18,969)	(335)	(36)	(9,000)	(15,000)	(9,000)	(7,166)
Investments	(179)	(1,390)	(1,211)	—	—	—	—
Free cash flow	**(18,083)**	**(258)**	**2,970**	**(1,786)**	**(10,089)**	**(4,144)**	**704**
Other income	128	184	326	332	231	139	144
Ratios (%)							
Debt/equity	146	111	91	89	110	115	98
Net debt/equity	111	89	68	71	108	113	96
RoAE	(3.2)	19.5	23.6	24.4	19.1	10.6	14.7
RoACE	**2.1**	**11.9**	**14.5**	**15.1**	**10.8**	**6.8**	**9.2**
Adjusted CROCI	**8.9**	**21.3**	**25.1**	**28.7**	**16.5**	**18.4**	**15.4**
Key assumptions							
Sales volume (mn tonnes)	2.5	4.8	5.6	6.3	6.6	8.8	11.8
LNG purchase price (FOB) (US$/mn BTU)	2.5	2.5	3.3	4.3	4.3	4.6	4.7
Re-gasification charges (US$/mn BTU)	0.53	0.57	0.58	0.64	0.67	0.55	0.56
Sales price (US$/mn BTU)	3.5	3.5	4.4	5.5	5.5	5.7	5.8
Rupee/US dollar exchange rate	45.0	44.3	45.3	43.0	43.0	43.0	43.0

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for PLL is Rs47

Calculation of equity value of PLL using discounted cash flow analysis (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	6,792	7,454	7,606	10,576	15,161	14,900	14,691	14,591	14,483	14,368
Adjusted tax expense	(687)	(1,104)	—	—	(1,328)	(1,293)	(2,927)	(3,453)	(3,786)	(3,926)
Change in working capital	2,336	222	(393)	(109)	1,364	934	(37)	(195)	(238)	(292)
Operating cash flow	**8,442**	**6,571**	**7,213**	**10,467**	**15,197**	**14,541**	**11,727**	**10,942**	**10,459**	**10,150**
Capital expenditure	(9,000)	(15,000)	(9,000)	(7,166)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)
Free cash flow	**(558)**	**(8,429)**	**(1,787)**	**3,301**	**14,197**	**13,541**	**10,727**	**9,942**	**9,459**	**7,650**
Discounted cash flow-now	(508)	(6,823)	(1,286)	2,111	8,069	6,841	4,817	3,968	3,355	2,412
Discounted cash flow-1 year forward		(7,676)	(1,447)	2,375	9,080	7,696	5,419	4,464	3,775	2,714
Discounted cash flow-2 year forward			(1,628)	2,672	10,216	8,661	6,097	5,022	4,247	3,054

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5%	12.5%	12.5%
Total PV of free cash flow	22,956	28,814	43,467
Terminal value assumption			
Growth in perpetuity	0.0%	0.0%	0.0%
FCF in 2018E	7,650	7,650	7,650
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.3	4.3	4.3
Terminal value	61,203	61,203	61,203
PV of terminal value	19,296	19,296	19,296
Total company value	**42,252**	**48,110**	**62,763**
Net debt	7,647	10,417	21,152
Equity value	34,605	37,693	41,611
Shares outstanding (mn)	750	750	750
Estimated share price using DCF	**46.1**	**50.3**	**55.5**

Sensitivity of 12-month DCF to WACC and perpetual growth

WACC (%)	Perpetual growth (%)				
	-1.0%	**-0.5%**	**0.0%**	**0.5%**	**1.0%**
11.5%	54.3	55.9	57.6	59.5	61.6
12.0%	50.8	52.2	53.8	55.5	57.3
12.5%	47.6	48.9	**50.3**	51.7	53.4
13.0%	44.6	45.8	47.0	48.3	49.8
13.5%	41.8	42.9	44.0	45.2	46.5

Fiscal Year end (March 31, XXXX)	March-08	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17
Today	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07	15-Jun-07
Days left	290	655	1,020	1,385	1,751	2,116	2,481	2,846	3,212	3,577
Years left	0.79	1.79	2.79	3.79	4.80	5.80	6.80	7.80	8.80	9.80
Discount factor at WACC	**0.91**	**0.81**	**0.72**	**0.64**	**0.57**	**0.51**	**0.45**	**0.40**	**0.35**	**0.32**

Source: Kotak Institutional Equities estimates.

Media

Sector coverage view	Neutral

		Price, Rs	
Company	Rating	14-Jun	Target
ZEEL	U	284	215
SunTV	U	1,457	1,200

CAS or no CAS, time to do a reality check on earnings expectations

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- **First came CAS; this will take time and the faster the investors realize this, the better**
- **Second came advertisement revenues; fragmentation will take care of it**
- **What next? Nothing**

We suggest investors do a reality check on earnings growth expectations of ZEEL and Sun TV in light of (1) less-than-stellar progress of a CAS and potential risks to domestic pay-TV revenues and (2) increased fragmentation in the broadcasting sector and potential risks to advertisement revenues. We do not set much store by the recent recommendations of The Group on Digitalization and Introduction of Voluntary CAS. The group has recommended introduction of a CAS in 55 cities in phases starting from October 2008. However, we doubt the government has any keenness to pass legislation for a mandatory CAS in other parts of the country; note its extreme reluctance to do so, even in the notified cities of Delhi, Kolkata and Mumbai. Also, we are getting increasingly concerned by the incessant launch of channels and the impact of increasing market fragmentation on a channel's advertisement revenues and cost of programming. We retain our U rating on ZEEL and Sun TV stocks and 12-month DCF-based target price of Rs215 and Rs1,200 respectively. Key upside risks stem from higher-than-expected advertisement and subscription revenues.

The government may have no plans for a CAS (Cannot Act Somehow); does not bode well ZEEL's domestic pay-TV revenues. We believe our domestic pay-TV revenue forecasts for ZEEL may have downside risk given (1) likely slow pace of adoption of a CAS on cable systems (mandatory or voluntary) and (2) slower-than-expected off-take in DTH subscribers. We model ZEEL's FY2008E, FY2009E and FY2010E domestic pay-TV revenues to increase to Rs3.8 bn, Rs4.9 bn and Rs6.1 bn, respectively from Rs3.1 bn in FY2007 (Rs854 mn in 4QFY07). Similarly, we model Sun TV's FY2008E, FY2009E and FY2010E domestic pay-TV revenues to increase to Rs1.8 bn, Rs2.7 bn and Rs3.2 bn, respectively from Rs0.7 bn in FY2007E. We do not doubt the need for a proper conditional access system (along with digitalization), which will result in increased consumer choice, enhanced competition and a coherent cable industry. However, we have been long skeptical about the government's intention to introduce a system, which will increase viewing costs for the consumer (cost of a set top box and likely higher monthly subscription fees). The government has introduced a CAS in the three remaining metros only after the intervention of the judiciary. However, there is no legislation for the introduction of a CAS beyond the original four metros and we doubt the government will issue a notification for a mandatory CAS in other metros/parts of the country.

CAS—Call After Sometime or tell me when it happens. We find the recommendations of the above-mentioned group academic. The government's notification is critical and the government has shown little interest in even implementing a CAS in the notified areas of the three metros as discussed above. The group has recommended that the government notify a CAS on cable systems in 55 cities (18.1mn TV households, 13.4 mn cable households) from an "effective date" (in phases from October 2008 to September 2011). The group has recommended mandatory CAS for the 55 cities for a period of one year followed by continuation of a CAS on a voluntary basis.

We believe a better approach to a voluntary CAS would be run a parallel digital system (but no CAS; a household will receive all channels to start with) along with the current analog system. We expect a number of households in top-tier cities to voluntary opt for a digital system (even though there may not be a choice of channels) simply due to enhanced viewing quality and the current low cost of set-top boxes. MSOs can introduce conditional access after a period of time within a regulatory framework decided by the TRAI covering (1) interconnection between broadcaster, MSO and LCO, (2) must-carry and must-provide elements and (3) penalties for disruption of service by any service provider.

Advertisement revenues—watch out because there are too many channels to watch. We are getting increasingly concerned about the proliferation of channels in India driven by (1) easy funding and (2) even easier market capitalization creation. We have a laundry list of 82 channels, which will start operations over the next few months but a few more have been announced over the last few days.

We are not sure whether the market can support so many players especially if there is limited progress in the subscription market. Just to put things in perspective, the total size of the Hindi general entertainment market is about Rs18 bn, there are four new channels starting operations in the next 9-12 months and the annual operating cost of a channel is about Rs4 bn. At this point of time, we do not think even the number three player among the extant Hindi General Entertainment channels is profitable. We would also focus on the increased cost of programming; as can be seen in Exhibit 4 and 5, Balaji Telefilms' realization has increased steeply over the past few years and quarters.

24 new channels will start operations in the most common genres
List of extant and proposed channels in the general entertainment, news, cinema, sports genres

	Hindi - GE	English - GE	Hindi - News	English - News	Cinema	Music	Sports	Niche
Existing								
	Channel Siti	AXN	Aaj Tak	BBC	B4U Movies	ATN Music	DD Sports	Animal Planet
	DD1	Star World	Awaaz	CNBC TV18	CVO	B4U Music	ESPN	Animax
	DD2	Zee Cafe	DD News	CNN	FILMY	Channel V	Neo Sports	Cartoon Network
	SAB		Dilli Aaj Tak	CNN IBN	Hallmark	Enter10	Neo Sports Plus	Discovery
	Sahara One		IBN 7	Headlines Today	HBO	ETC	Star Sports	Disney Channel
	Sony TV		India TV	NDTV 24x7	Jhankarr Movies	ITV	Ten Sports	Fashion TV
	Star One		Janmat	NDTV Profit	MAX	MH1	Zee Sports	History
	Star Plus		NDTV India	Times Now	PIX	MTV		Hungama TV
	Star Utsav		Sahara Samay		Star Gold	Music India		Kermit
	Zee Smile		Star News		Star Movies	Siti Music		National Geographic
	Zee TV		TEZ		Zee Action	SS Music		Nickelodeon
	Zoom		Zee Business		Zee Cinema	VH1		POGO
			Zee News		Zee Classic	YO Music		Reality TV
					Zee Premier	Zee Music		TMG
					Zee Studio	Sur Sangeet		Toon Disney
								Travel & Living
								Zee Education
								Zee Trendz
								Zone Reality
								Play TV
								Voyager TV
Total existing channels	**12**	**3**	**13**	**8**	**15**	**15**	**7**	**21**
Proposed								
	INX Group	BBC World India	MH1 News	INX News X	NDTV Imagine	9X	Star Cricket	13th Street
	NDTV Imagine	NDTV Imagine	NCR9		Olive TV	9X Music		CBeebies
	UTV Bindass		Triveni News			RK Music		MarineBiz TV
	Viacom-18		TV9 Mumbai					Sahara Real Estate
								Sanskriti
								Universal Channel
								Weather Channel
Total proposed channels	**4**	**2**	**4**	**1**	**2**	**3**	**1**	**7**
Total existing and proposed	**16**	**5**	**17**	**9**	**17**	**18**	**8**	**28**

Source: Industry data, Kotak Institutional Equities estimates.

58 new regional language channels will start operations over the next few months

List of extant and proposed regional language channels

	Tamil	Telugu	Marathi	Kannada	Malayalam	Punjabi	Bengali	Gujarati	Others
Existing									
	Chutti TV	DD8 Telugu	DD10 Sahyadri	DD9 Chandana	Amrita TV	Balle Balle	24 Ghanta TV	DD11 Gujarati	Aastha
	DD5 Podhigai	Eenadu TV	ETV Marathi	ETV Kannada	Asianet	DD Punjabi	Aakaash Bangla	ETV Gujarati	C Channel
	Jaya TV	ETV2 Telugu News	Mi Marathi	Suprabhata	Asianet News	ETC Punjabi	DD7 Bangla	Gurjari	CCC
	KTV	Gemini Music	Prabhat TV	TV9 Karnataka	Asianet Plus	Lashkara	ETV Bangla	Zee Gujarati	CMM
	Makkal TV	Gemini News	Zee Marathi	U2	DD4 Malayalam	Punjab Today	Kolkata TV		CTVN AKD Plus
	Raj Digital Plus	Gemini TV	Zee Talkies	Udaya Movies	Indiavision	Zee Punjabi	Sangeet Bangla		DD Delhi
	Raj Musix	Maa Telugu		Udaya TV	Kairali		Star Ananda		DD India
	Raj TV	Siti Telugu		Udaya Varthegalu	Kiran TV		Tara Muzik		DD International
	Sun Music	Teja TV		Ushe	Manorama News		Tara Newz		DD6 Oriya
	SUN News	TV9 Telugu News		Zee Kannada	Surya TV		Zee Bangla		ETV Bihar
	Sun TV	Vissa							ETV Oriya
	Vijay TV	Zee Telugu							ETV Uttar Pradesh
	Zee News (Tamil)								IN Mumbai
									OTV
									QTV
									Sadhna
									Sanskar
									Siti Cable
									Siti Cinema
									Taaza TV
									Zee Jagran
									Zee Jagran
Total existing channels	**13**	**12**	**6**	**10**	**10**	**6**	**10**	**4**	**22**
Proposed									
	Asianet	Bhakti	NDTV Mumbai	Asianet		INX Group	INX Group	INX Group	BAG Films (4 channels)
	Kalaignar TV	N TV		Kasturi			NDTV Calcutta	TV9 Gujarat	INX Group (5 regional channels)
	NDTV Chennai	STAR - Balaji		NDTV Bangalore					Raj TV (11 channels)
	Raj Youth	TV1							STAR - Balaji (regional channels)
									Triveni Media (17 regional news channels)
									TV-18 (3 regional news channels)
Total proposed channels	**4**	**4**	**1**	**3**	**0**	**1**	**2**	**2**	**41**
Total existing and proposed	**17**	**16**	**7**	**13**	**10**	**7**	**12**	**6**	**63**

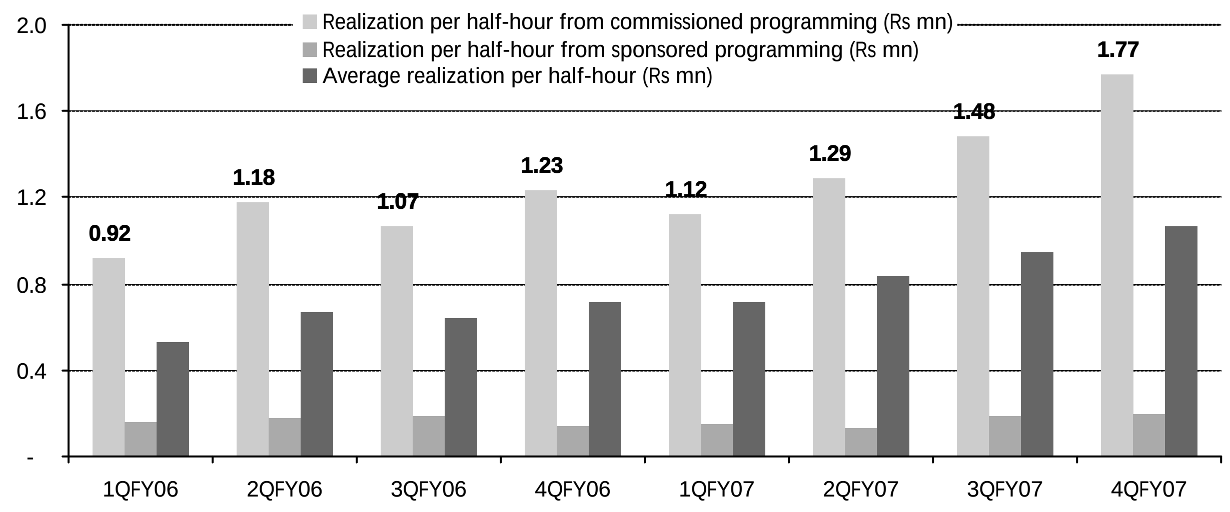
A new channel will require plentiful ad revenues to recoup its costs; may be difficult in the initial years

Economics of a new hindi general entertainment channel (Rs mn)

		Comments
1. Programming		
Total no. of 1/2 hr prime-time slots available per week (#)	36	8:00-11:00 PM on weekdays and Saturday
Cost of prime-time slot program	0.88	50% discount to 4QFY07 prime-time realization of Balaji Telefilms
Total cost of prime time programming per week	**31.8**	
Total no. of 1/2 hr afternoon slots available per week (#)	36	1-4 PM on weekdays and Saturday
Total no. of 1/2 hr original afternoon slots available per week (#)	18	Excluding 50% repeat of prime-time programing content
Cost of afternoon slot program	0.35	60% discount to prime-time programing cost
Total cost of afternoon programming per week	**6.4**	
Total no. of 1/2 hr non-prime slots available per week (#)	264	
Total no. of 1/2 hr original slots available per week (#)	48	Two hours of original programming in evening (children) and morning
Cost of non-prime slot program	0.05	Repeats, low cost content
Total cost of non-prime programming per week	**2.4**	
Total cost of programming per annum	**2,110**	
2. Distribution		
Total no. of primary MSOs in India (#)	10	For the initial launch of the program
Average carriage charges by MSO per year	25.0	
Total carriage charges per annum	**250.0**	
Total carriage charges per week	4.8	
3. Employees		
Total no. of employees	600	Assuming the broadcaster does it own distribution
Cost per employee (Rs mn/annum)	1.5	
Total employee cost per annum	**900**	
4. SG&A		
Total SG&A costs per annum	**900**	
Total direct operating costs (Rs mn/annum)	**4,160**	

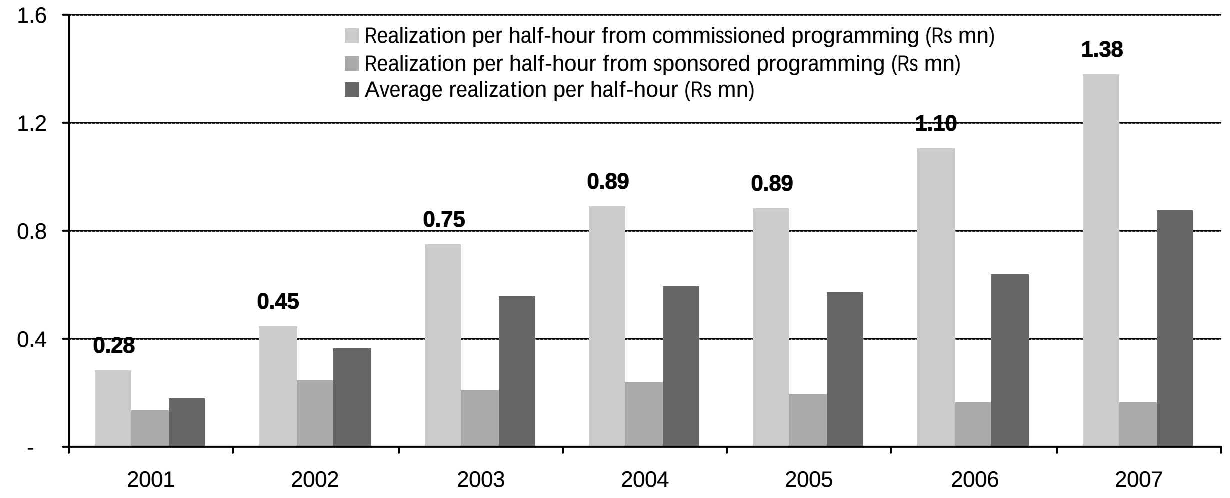
Source: Industry, Kotak Institutional Equities estimates.

Balaji Telefilms' realization has increased steeply over the past few quarters despite a decline in ratings
Realization for Balaji's programming costs, March fiscal year-ends, 2006-2007 (Rs mn)



Source: Kotak Institutional Equities estimates.

Balaji Telefilms' realization has increased steeply over the past few years
Realization for Balaji's programming costs, March fiscal year-ends, 2001-2007 (Rs mn)



Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Zee Telefilms 2006 and of ZEEL 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Total revenues	**16,544**	**14,412**	**17,141**	**19,617**	**22,363**	**25,020**	**27,577**
EBITDA	**2,695**	**3,188**	**5,587**	**7,212**	**8,972**	**10,550**	**11,957**
Other income	639	630	634	716	909	1,185	1,519
Interest	(188)	(219)	(210)	(37)	(2)	—	—
Depreciation	(360)	(228)	(274)	(287)	(299)	(305)	(315)
Amortization	—	—	—	—	—	—	—
Pretax profits	**2,787**	**3,371**	**5,737**	**7,605**	**9,581**	**11,430**	**13,161**
Extraordinary items	19	—	—	—	—	—	—
Tax	(528)	(984)	(1,814)	(2,480)	(3,296)	(3,956)	(4,552)
Deferred tax	(9)	20	19	19	19	18	18
Minority interest	(117)	(212)	(187)	(223)	(261)	(298)	(333)
Net income	**2,153**	**2,195**	**3,754**	**4,921**	**6,043**	**7,195**	**8,294**
Recurring net income	**2,134**	**2,195**	**3,754**	**4,921**	**6,043**	**7,195**	**8,294**
Earnings per share (Rs)	**4.9**	**5.0**	**8.6**	**11.3**	**13.9**	**16.5**	**19.1**
Balance sheet (Rs mn)							
Total equity	21,286	27,363	30,269	34,079	38,757	44,327	50,748
Deferred tax balance	(148)	(168)	(188)	(207)	(226)	(244)	(262)
Minority interest	458	670	857	1,080	1,342	1,639	1,972
Total borrowings	4,901	3,880	780	40	—	—	—
Currrent liabilities	4,346	2,628	2,704	2,858	3,045	3,228	3,429
Total capital	**30,844**	**34,373**	**34,423**	**37,851**	**42,918**	**48,951**	**55,887**
Cash	1,286	1,200	1,584	3,940	8,041	13,131	19,155
Current assets	13,574	14,651	14,392	15,551	16,615	17,664	18,691
Net fixed assets	12,948	12,921	12,846	12,760	12,661	12,555	12,440
Investments	3,024	5,589	5,589	5,589	5,589	5,589	5,589
Deferred expenditure	12	12	12	12	12	12	12
Total assets	**30,844**	**34,373**	**34,423**	**37,851**	**42,918**	**48,951**	**55,887**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,931	1,984	3,563	4,696	5,674	6,595	7,405
Working capital	(3,950)	(2,794)	335	(1,005)	(877)	(865)	(827)
Capital expenditure	(383)	(200)	(200)	(200)	(200)	(200)	(200)
Investments	418	(2,565)	—	—	—	—	—
Other income	488	630	634	716	909	1,185	1,519
Free cash flow	**(1,496)**	**(2,945)**	**4,331**	**4,207**	**5,507**	**6,715**	**7,896**
Revenue model (Rs mn)							
Advertising	6,566	7,062	8,242	9,312	10,616	12,036	13,500
Subscription-domestic	2,742	3,064	3,825	4,916	6,076	7,052	7,878
Subscription-overseas	3,097	3,543	4,296	4,571	4,813	5,032	5,254
Subscription-cable	978	—	—	—	—	—	—
Others	3,160	742	779	817	858	900	944
Total revenues	**16,544**	**14,412**	**17,141**	**19,617**	**22,363**	**25,020**	**27,577**

Source: Kotak Institutional Equities estimates.

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

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	2,725	2,903	3,219	4,498	7,181	9,133	10,833
EBITDA	**1,293**	**1,306**	**2,035**	**3,009**	**4,944**	**6,572**	**7,999**
Other income	67	107	172	439	624	821	1,086
Interest (expense)/income	(9)	(35)	(65)	(16)	—	—	—
Depreciation	(137)	(153)	(147)	(349)	(560)	(459)	(388)
Amortization	—	—	—	(49)	(195)	(195)	(195)
Pretax profits	**1,213**	**1,224**	**1,995**	**3,035**	**4,813**	**6,739**	**8,502**
Tax-cash	(430)	(454)	(709)	(1,020)	(1,673)	(2,311)	(2,894)
Tax-deferred	(6)	(3)	16	(12)	43	33	23
Minority interest	—	—	—	3	3	(19)	(44)
Net profits after minority interests	**777**	**768**	**1,302**	**2,006**	**3,185**	**4,442**	**5,587**
Earnings per share (Rs)	**17.3**	**12.4**	**21.0**	**29.2**	**46.2**	**64.5**	**81.1**
Balance sheet (Rs mn)							
Total equity	3,296	4,063	3,071	10,662	13,062	16,325	20,263
Deferred Tax	45	48	32	43	—	(33)	(55)
Total borrowings	—	424	2,333	—	—	—	—
Currrent liabilities	287	372	741	753	882	934	979
Total capital	**3,627**	**4,907**	**6,209**	**11,488**	**13,971**	**17,273**	**21,276**
Cash	1,141	1,853	732	3,378	5,341	8,301	11,969
Current assets	1,538	1,461	2,440	3,120	4,295	5,166	5,934
Total fixed assets	945	1,501	1,027	3,001	2,541	2,207	1,970
Intangible assets	—	88	2,009	1,989	1,794	1,599	1,403
Total assets	**3,627**	**4,907**	**6,209**	**11,489**	**13,972**	**17,273**	**21,277**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,152	1,239	1,722	2,321	3,690	4,761	5,655
Working capital	30	26	(251)	(667)	(1,046)	(819)	(723)
Capital expenditure	(219)	(680)	(2,091)	(2,323)	(100)	(125)	(150)
Investments	(335)	(287)	(326)	(348)	(419)	(500)	(550)
Other income	—	(7)	80	439	624	821	1,086
Free cash flow	**962**	**585**	**(619)**	**(668)**	**2,544**	**3,817**	**4,781**
Ratios (%)							
Debt/equity	—	10.4	76.0	—	—	—	—
Net debt/equity	(34.6)	(35.2)	52.1	(31.7)	(40.9)	(50.8)	(59.1)
RoAE	26.4	20.6	36.1	29.1	26.8	30.3	30.6
RoACE	**26.5**	**20.1**	**26.6**	**25.5**	**27.5**	**31.0**	**31.4**

Source: Kotak Institutional Equities estimates.

Cement

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**14-Jun**	**Target**
Gujarat Ambuj	IL	111	110
ACC	IL	825	810
Grasim	OP	2,432	2,440
India Cements	IL	178	170
UltraTech Cem	IL	805	710
Shree Cement	OP	1,108	1,090

Cement despatches growth in double-digits, prices stable

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- **Cement despatches grew 11.2% yoy during May**
- **Average cement prices largely unchanged in May at Rs224/bag**
- **We retain Cautious view on the sector**

Cement despatch growth of 11.2% yoy in May 2007. Despatch growth has climbed back into double-digits after four months of single-digit growth. Despatches have shown a strong growth rate due to the lower base in the corresponding month of previous year. We estimate 8.9% growth in volumes for FY2008 and 8.3% for FY2009. Strong growth in despatches for ACC and Shree Cements can be attributed to capacity additions, even as all companies continued to operate at high utilization rates.

Cement prices have stabilized after the excise-linked hike in March. All India average cement prices during April-May 2007 were stable at Rs224/bag, but higher compared to Rs209/bag in February. We note that cement manufacturers had taken a price hike following the introduction of dual excise duty structure in the Union Budget. In May, the government modified the excise structure, wherein cement priced between Rs190/bag to Rs250/bag would be charged excise at 12% on retail price as against the flat rate of Rs30/bag (Rs600/tonne). Cement prices have increased in South, by as much as Rs3-6/bag during April-May 2007. Cement prices in all other regions have shown stable or marginal weakness in prices since March 2007.

We retain our Cautious view on the sector. Government intervention remains the biggest negative in the sector, with threat of imports putting an end to any large increase in prices as well. We estimate the gains from volumes growth in FY2009 to be neutralized by increase in costs and marginal weakness in cement prices. We highlight the potential negative triggers for the sector:

- Removal of coal linkages or increase in price of coal sold to cement manufacturers or increase in royalty rates (applicable for limestone as well) will likely add to costs.
- Ban on cement and clinker exports will make available additional supplies (7-8 mn tpa) in the domestic market.
- Rising interest rates resulting in slowdown in real estate and construction.
- Capacity addition in Middle East. Large capacity additions (30-35 mn tpa) in the Middle East is likely to commission during the next 18 months. This could potentially dry up the exports from India, Indonesia and Thailand.supplies may get diverted to other Asian markets (including India) lowering the regional prices.

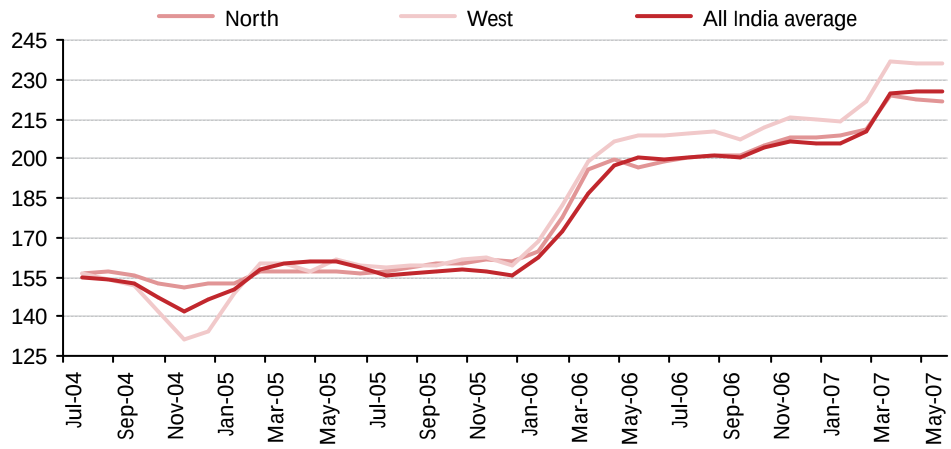
Exhibit 1: Cement despatch growth rates for major companies

	May-07	Growth (%)	
	(mn tons)	y-o-y	YTD
ACC	1.80	18.3	10.5
Gujarat Ambuja	1.53	2.7	(0.4)
UltraTech	1.30	(1.1)	0.7
Grasim Industries	1.40	11.6	8.9
Shree Cement	0.46	20.2	23.4
India Cements	0.78	3.4	5.6
Madras Cements	0.45	15.2	11.4
Industry	**14.2**	**11.2**	**8.7**

Source: CMA, Kotak Institutional Equities.

Exhibit 2: Cement prices have been stable for the past two months

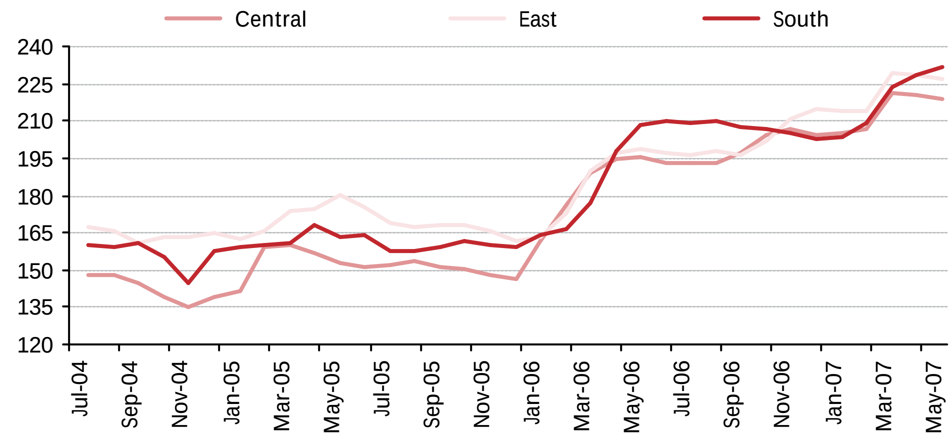
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities.

Exhibit 3: Cement prices in South have increased more sharply than other regions

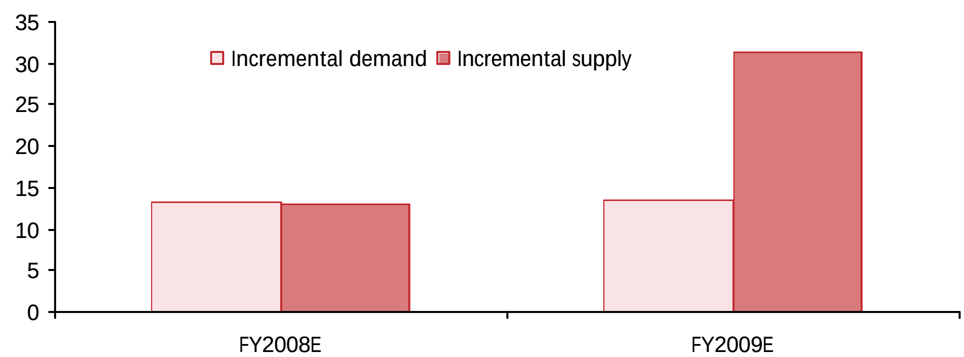
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities.

Exhibit 4: Incremental supply far exceeds incremental demand from FY2009

Incremental demand and supply for cement (mn tonnes)



Source:Kotak Institutional Equities.

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Kotak Institutional Equities Research coverage universe

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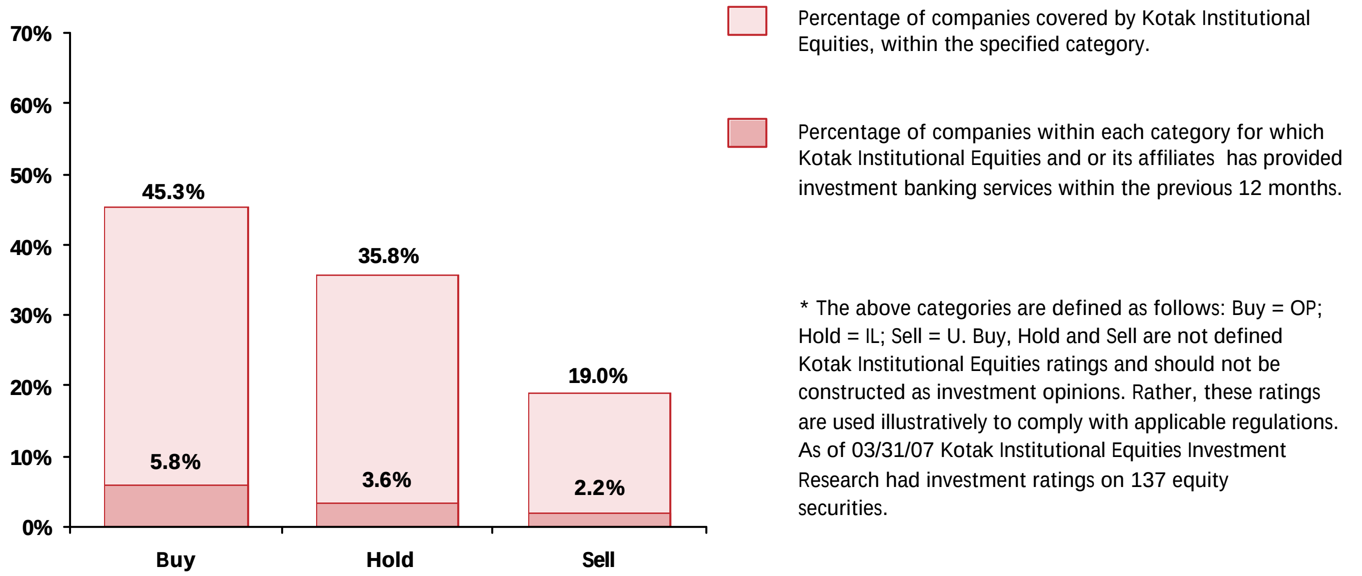

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 03/31/07 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

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

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