kotak® Institutional Equities

INDIA DAILY

August 02, 2007

EQUITY MARKETS

India	1-Aug	1-day	1-mo	3-mo
		Change, %		
Sensex	14,936	(4.0)	1.9	7.7
Nifty	4,346	(4.0)	0.7	6.3
Global/Regional indices				
Dow Jones	13,362	1.1	(1.3)	1.1
Nasdaq Composite	2,554	0.3	(3.0)	(0.2)
FTSE	6,251	(1.7)	(5.2)	(3.6)
Nikkie	16,952	0.5	(6.6)	(2.5)
Hang Seng	22,685	1.0	4.2	11.3
KOSPI	1,884	1.5	6.3	21.3

Value traded - India

	1-Aug		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	190.4		179.4	154.0
Derivatives (NSE)	559.1		354.6	256.3
Deri. open interest	785.7		612.4	450.0

Forex/money market

	1-Aug	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.5	-	(20)	(73)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	1	(29)	(26)

Net investment (US$mn)

	31-Jul		MTD	CYTD
FIIs	106		1,759	10,235
MFs	46		112	(207)

Top movers -3mo basis

Best performers	1-Aug	1-day	1-mo	3-mo
		Change, %		
Reliance Cap	1,111	(7.5)	0.6	55.8
Thermax	631	(1.9)	21.6	51.4
Balaji Telefilms	241	(4.3)	4.3	45.5
Reliance Energy	737	(7.1)	18.1	45.0
SBI	1,548	(4.7)	1.1	40.1
Worst performers				
Polaris	117	(5.6)	(23.5)	(31.7)
Escorts	96	(7.8)	(14.1)	(26.8)
Raymond	278	0.6	(9.2)	(19.5)
Essel Propack	60	0.5	(7.4)	(16.8)
Wipro	476	(4.0)	(7.2)	(16.7)

Contents

News Roundup

Corporate

- Bajaj Auto is pressing ahead with plans for a Rs1,600-crore plant in Uttarakand to take advantage of the state's tax breaks. (FT)
- Terming the next decade as 'decade of city gas distribution,' GAIL (India) has drawn up a roadmap for massive expansion of piped natural gas (PNG) and compressed natural gas (CNG) distribution to households and the transport sector, respectively, in the next five years. (BL)
- Cognizant Technology Solutions Corporation, provider of global IT and business process outsourcing services, plans to make an additional US$100 mn investment in its infrastructure expansion programme. Earlier, it announced US$200 mn programme. (BL)

Economic and political

- Stock markets the world over were hit by a fresh blast of selling, and India was among the worst performers in Asia. The benchmark Sensex shed 615.22 points (or 4%) to slip below the 15,000-mark and closed at 14,935.77, while the Nifty fell 4% to end at 4,345.85. Investors were poorer by Rs1,79,837 crore.(ET)
- Small and medium enterprises (SME) — the largest job creators in the country accounting for 9% of the GDP — can look forward to greater access to credit by the end of the year. The ministry of corporate affairs will remove certain ambiguities in the limited liability partnership (LLP) Bill to ensure that besides entities in the services sector, firms in the manufacturing sector too can get converted to LLPs. (ET)

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

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

Strategy

Sector coverage view	N/A

KS-Ownership Navigator, June 2007 quarter changes (qoq)

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255
Bhavesh Shah : bhavesh.shah@kotak.com, +91-22-6634-1498

- **June 2007 quarter witnessed buying by all the institutions**
- **FIIs invest Rs114 bn in the quarter**
- **FIIs bought Metals and Chemicals; sold Cement and Telecom**

June 2007 quarter witnessed buying by all the institutions. FIIs bought Metals and Chemicals but sold Cement and Telecom. MFs bought heavily into Banking and Telecom and divested Automobiles and Metals. LIC invested in Technology and Telecom and reduced exposure to Banking and Chemicals.

FIIs invest Rs114 bn in the June 2007 quarter

- FIIs buy Metals, Chemicals & Utilities; sell Cement, Telecom
- Mutual Funds (MFs) buy Banking, Telecom
- LIC buys Technology, Telecom, sells Banking, Chemicals

Key stock changes—FIIs increase exposure to commodities

- FIIs buy Sterlite Industries, Tata Steel
- MFs buy HDFC Bank, Reliance Communications, ICICI Bank
- LIC buys Infosys Technologies, TCS

Overweight/Underweight companies

- FIIs are overweight Banking, Technology; underweight Energy, Utilities
- MFs are overweight Industrials and Banking; underweight Energy, Metals

Limitations of our analyses

- Assumption: BSE-200 is the primary investable universe for institutions
- LIC portfolio comprise stocks with more than 1% holdings
- Unless otherwise specified, analysis in this report is with respect to BSE-200

Utilities

NTPC.BO, Rs161	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	170
52W High -Low (Rs)	171 - 116
Market Cap (Rs bn)	1,323

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	326.3	350.1	402.3
Net Profit (Rs bn)	68.6	76.5	82.1
EPS (Rs)	8.3	9.3	10.0
EPS gth	*20.8*	*13.4*	*8.6*
P/E (x)	19.3	17.3	16.1
EV/EBITDA (x)	13.1	15.0	15.2
Div yield (%)	2.0	2.3	2.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	89.5	-	-
FIIs	7.0	1.4	(2.9)
MFs	0.6	0.7	(3.6)
UTI	-	-	(4.3)
LIC	-	-	(4.3)

National Thermal Power Corp.: 1QFY08: Prior period revenue and forex gains explain the higher profit

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

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **Prior period income of Rs5.1 bn provide EBITDA growth.**
- **Forex gains of Rs5.1 bn reduce interest costs.**
- **We retain our In Line rating with DCF-based target price of Rs170/share (Rs160 previously).**

NTPC reported net sales of Rs89.7 bn, EBITDA of Rs26.9 bn and net profit of Rs23.7 bn as against our estimate of Rs89.5 bn, Rs25.7 bn and Rs18.6 bn respectively. NTPC has restated the financials of 1QFY07 to include the tax recoverable through tariffs in revenues. NTPC reported a strong 15% growth in EBITDA aided by a large prior period income of Rs5.1 bn (as compared to Rs0.9 bn during 1QFY07 and our estimate of Rs0.3 bn). Forex gain of Rs5.7 bn resulted in a sharp decline in interest costs and therefore higher than anticipated net profits. Lower interest costs is primarily explained by higher than anticipated prior period revenue, fuel cost and interest expense. As per the data available from the Central Electricity Authority (CEA) the PLF for coal-based power plants improved to 93.9% (87.8% in 1QFY07) and total units generated stood at 52 bn units (46.3 bn units in 1QFY07). We have revisited the implementation schedule of NTPC projects and have revised our EPS estimates for FY2008 to Rs9.3 (Rs8.8 previously) and Rs10.0 for FY2009 (Rs9.8 previously). We retain our In Line rating with DCF-based target price revised to Rs170/share (Rs160 previously).

Higher EBITDA due to prior period income diluted by provisions for wage revision. As per the judgements passed by Apellate Tribunal of Electicity (ATE), NTPC has provisionally recognized sales of Rs5.1 bn for prior periods. Adjusting for the prior period revenues, adjusted EBITDA declined by 4% yoy and about Rs3.4 bn lower than our estimate. Higher provisions for employee expenses—(1) Rs1.06 bn provisions on estimated basis, pending pay revision of employees due w.e.f. January 1, 2007; and (2) provision of Rs2.04 bn towards additional incentives payable to employees for FY2007 and 1QFY08.

Forex gains result in decline in interest costs. Lower interest costs resulted in a sharp increase in reported PAT. However, the interest and finance charges for the quarter include exchange differences amounting to Rs5.7 bn (Rs0.9 bn in 1QFY06).

Quarterly results for NTPC, March yearends (Rs bn)

		yoy		Our est.	
	1QFY08	1QFY07	% chg	1QFY08	% chg
Net sales	**89.7**	**75.0**	***19.6***	**89.5**	***19.4***
Operating costs					
Cost of fuel	(53.2)	(45.7)		(56.4)	
Rebate under One Time Settlement Scheme	-	-		-	
Personnel costs	(6.1)	(2.7)		(3.5)	
Other expenses	(3.5)	(3.2)		(4.0)	
Total expense	(62.8)	(51.6)		(63.9)	
EBITDA	**26.9**	**23.4**	***14.9***	**25.7**	***9.5***
EBITDA margin (%)	30.0	31.3		28.7	
Other income	7.2	6.4		5.5	
Interest & finance charges	(0.3)	(5.2)		(5.6)	
Depreciation	(4.9)	(4.8)		(6.1)	
PBT	**28.9**	**19.8**	***46.0***	**19.5**	***(1.8)***
Provision for tax (net)	(5.2)	(4.3)		(0.9)	
Net profit	**23.7**	**15.5**	***52.6***	**18.6**	***19.6***
Adjusted EBITDA calculations					
Net sales	**84.6**	**74.1**	***14.2***	**89.1**	***20.3***
Cost of fuel	(53.2)	(45.7)		(56.4)	
Rebate under One Time Settlement Scheme	-	-		-	
Personnel costs	(6.1)	(2.7)		(3.5)	
Other expenses	(4.9)	(4.5)		(5.5)	
Total expense	(64.2)	(52.8)		(65.3)	
EBITDA (pre-provisions)	**20.4**	**21.2**	***(4.0)***	**23.8**	***12.1***
Prior period revenue	5.1	0.9	*442.7*	0.3	*(68)*
Key operating parameters					
Units generated (bn units)		45.1		51.8	*15*
Energy sent out (bn units)		41.9		48.2	*15*
PLF (%) - Coal based		87.8			

Source: Company data, Capital markets, Kotak Institutional Equities.

Auto Components

MICO.BO, Rs4355

MICO: 2QCY07 recurring profits grow 4% yoy

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

- **1QCY07 recurring net profit rises 4% yoy**
- **Top-line grows at 18%; margins increase 170 bps yoy**

MICO reported 2QCY07 recurring net profit at Rs1.5 bn- growth of 4% yoy. 2Q results included Rs97 mn of extraordinary income on account of profit on sale of investments. This resulted in reported net profit at Rs1.6 bn, a 32% yoy decline. Net sales at Rs10.9 bn grew 18% yoy but remained flat on a qoq basis. 2Q EBITDA margins at 22.7% increased 170 bps yoy. 2Q results were boosted by lower depreciation. Interest costs have gone up 45% yoy while employee costs have increased 12% yoy.

The parent company Robert Bosch GmbH had made an open offer to acquire additional 20% stake in the company. The open offer price was recently revised from Rs4,000 per share to Rs4,600. The open offer was closed on July 9, 2007.

MICO:2QCY2007 results (Rs mn)

				% chg.		
	2QCY06	**1QCY07**	**2QCY07**	**qoq**	**yoy**	**CY06**
Net sales	**9,247**	**10,901**	**10,934**	**0.3**	**18.2**	**39,098**
Operating costs	**(7,301)**	**(8,659)**	**(8,452)**	**(2.4)**	**15.8**	**(30,984)**
Inc/(dec) in Stock	129	135	(113)			99
Raw materials	(4,680)	(5,706)	(5,483)	(3.9)	17.2	(19,352)
Staff cost	(1,049)	(1,100)	(1,178)	7.1	12.3	(3,938)
Other expenditure	(1,701)	(1,987)	(1,678)	(15.5)	(1.3)	(7,793)
EBITDA	**1,946**	**2,242**	**2,482**	**10.7**	**27.6**	**8,114**
Other income	63	71	71	0.0	12.0	287
Interest costs	153	172	222	28.6	44.9	530
Depreciation	(633)	(455)	(538)	18.2	(15.1)	(2,465)
Extraordinairies	1,436	536	97			1,517
PBT	**2,965**	**2,566**	**2,334**	**(9.0)**	**(21.3)**	**7,983**
Taxes	(540)	(728)	(691)	(5.0)	28.1	(2,503)
PAT	**2,425**	**1,838**	**1,643**	**(10.6)**	**(32.3)**	**5,480**
Adjusted PAT	**1,492**	**1,489**	**1,555**	**4.4**	**4.2**	**4,494**
Key ratios						
RM/VOP (%)	51.4	49.9	49.9	(0.0)	(1.6)	49.4
EBITDA margin (%)	21.0	20.6	22.7	2.1	1.7	20.8
PAT margin (%)	26.2	16.9	15.0	(1.8)	(11.2)	14.0
Effective tax rate (%)	18.2	28.4	29.6	1.3	11.4	31.4

Source: Company data, Kotak Institutional Equities

Telecom

VSNL.BO, Rs450	
Rating	OP
Sector coverage view	Cautious
Target Price (Rs)	550
52W High -Low (Rs)	515 - 342
Market Cap (Rs bn)	128.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	40.4	45.1	49.6
Net Profit (Rs bn)	4.9	5.2	5.9
EPS (Rs)	17.2	18.1	20.6
EPS gth	*(8)*	*5.3*	*13.7*
P/E (x)	26.2	24.9	21.9
EV/EBITDA (x)	10.7	10.8	9.6
Div yield (%)	1.0	1.0	1.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	76.2	-	-
FIIs	9.0	0.2	(0.2)
MFs	1.8	0.2	(0.2)
UTI	-	-	(0.4)
LIC	7.0	0.7	0.3

VSNL: Performance of subsidiaries improve significantly. Maintain OP

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Results in line with expectations**
- **Subsidiaries report EBITDA of Rs700 mn versus loss in 4QFY07**
- **Retain OP with revised target price of Rs550**

VSNL's reported 1QFY08 net income of Rs1.04 bn was 9% lower than our estimate of Rs1.15 bn. EBITDA was Rs2.3 bn, marginally lower than our expectations. We attribute lower net income to below EBITDA line factors, viz lower other income and higher-than-expected taxation rate. Data business reported robust performance while voice business suffered from market share loss. We have made small adjustments to our FY2008 and FY2009 EBITDA and net income estimates. We would shortly convert our earnings model to consolidated basis. Our 12-month SOTP target price of Rs550 (Rs560 previously) faces the risk of continued delays in unlocking of land value (we now factor in 70% of estimated market value of surplus land in our SOTP valuation as opposed to 80% previously) and aggressive price competition.

Significant improvement in EBITDA of subsidiaries, though still a drag on net income. VSNL's reported consolidated 1QFY08 revenues and EBITDA of Rs20.6 bn (down 4.4% qoq) and Rs3 bn (+46% qoq) as against Rs21.6 bn and Rs2 bn in 4QFY07. VSNL's standalone revenues and EBITDA were Rs10 bn and Rs2.3 bn for 1QFY08 versus Rs10.8 bn and Rs2.3 bn for 4QFY07. This would suggest revenue of Rs10.5 bn (down 1.7% qoq) and EBITDA of Rs703 mn for 1QFY08 versus Rs10.7 bn and negative EBITDA of Rs329 mn for 4QFY07 for VSNL's subsidiaries. We believe that this turnaround at the EBITDA level was achieved through cost rationalization, outsourcing of non-core functions of erstwhile subsidiaries and increase in capacity utilization. At the net income level, the subsidiaries are still reporting losses (Rs852 mn loss in 1QFY08); we note that bulk of the loss pertains to erstwhile Tyco. Consolidated tax rate of 81.4% for 1QFY08 looks high because of (1) VSNL parent company is paying full tax (34%) for the profitable Indian entity and (2) overseas operations are reporting negative PBT (Rs632 mn in 1QFY08), which lowers consolidated PBT. Since the turnaround of the overseas subsidiaries is still not certain, the company has not created a deferred tax asset.

Standalone EBITDA in line with our expectations. VSNL's standalone revenues declined by 7% qoq to Rs10 bn, reflecting the impact of reduction in ADC charges and rupee appreciation. EBITDA declined by a marginal 3% qoq but increased 6.7% yoy to Rs2.3 bn. Absolute operating costs declined 8% qoq due to decline in interconnection charges and control on SG&A costs. Net income declined 27% qoq but increased 12% yoy to Rs1.04 bn. We note that 4QFY07 net income was helped by non-disclosed asset sale.

Voice segment profitability declined significantly. VSNL's 1QFY08 voice revenues declined 8% qoq and 1% yoy to Rs5.3 bn. The company indicates that realizations were stable qoq. Voice EBIT declined 43% qoq and 44% yoy to Rs758 mn. VSNL believes that EBIT on qoq basis will be volatile; in the past four quarters, voice EBIT was Rs758mn, Rs1.3 bn, Rs1 bn and Rs450 mn. Volume growth was modest on account of seasonal factors and loss of market share. NLD volumes were flat as against significant growth reported by peers, which have significant in-house traffic.

Data segment registers robust performance. VSNL's 1QFY08 data revenues (including others segment) declined 6.7% qoq to Rs4.8 bn. We attribute this to seasonality; typically there is a year-end push (March) to meet annual targets resulting in a spike in revenues in the March quarter. On a yoy basis, data revenues grew 22%, impressive in our view. EBIT margin for the segment increased by 7% qoq to 76.1%, led largely by increase in television up-linking revenues. We expect growth in revenues in the data segment to be led by international markets. VSNL may lose domestic market share given entry of new players such as AT&T and BT; we note that VSNL provided these services for BT and AT&T's international clients in India earlier.

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

	qoq			yoy			yoy		
	1Q 2008	**4Q 2007**	**% chg.**	**1Q 2008**	**1Q 2007**	**% chg.**	**2007**	**2006**	**% chg.**
Telephone (ILD + DLD)	5,306	5,742	*(7.6)*	5,306	5,380	*(1.4)*	22,169	21,630	*2.5*
Non-telephony revenues	4,775	5,100	*(6.4)*	4,775	3,910	*22.1*	18,250	16,180	*12.8*
Revenues	**10,081**	**10,842**	***(7.0)***	**10,081**	**9,290**	***8.5***	**40,418**	**37,810**	***6.9***
Staff cost	(666)	(536)	*24.2*	(666)	(590)	*12.9*	(2,437)	(2,091)	*16.5*
Interconnection, network, license fee costs	(5,649)	(5,686)	*(0.7)*	(5,649)	(5,360)	*5.4*	(22,045)	(20,959)	*5.2*
SG&A	(1,439)	(2,221)	*(35.2)*	(1,439)	(1,160)	*24.1*	(6,631)	(6,002)	*10.5*
Total expenditure	(7,754)	(8,444)	*(8.2)*	(7,754)	(7,110)	*9.1*	(31,112)	(29,052)	*7.1*
EBITDA	**2,327**	**2,399**	***(3.0)***	**2,327**	**2,180**	***6.7***	**9,306**	**8,758**	***6.3***
EBITDA margin (%)	**23.1**	**22.1**		**23.1**	**23.5**		**23.0**	**23.2**	
Interest/other income	273	880	*(68.9)*	273	270	*1.2*	2,122	1,745	*21.6*
Depreciation and amortization	(929)	(1,048)	*(11.3)*	(929)	(1,050)	*(11.5)*	(3,913)	(3,594)	*8.9*
Interest expense	(19)	(32)		(19)	(10)		(69)	(18)	
Pre-tax profits	**1,652**	**2,199**	***(24.9)***	**1,652**	**1,390**	***18.8***	**7,445**	**6,891**	***8.0***
Extraordinaries/Prior Year	-	(117)		-	(30)		(319)	(24)	
Tax (incl. deferred tax)	(610)	(770)	*(20.7)*	(610)	(430)	*41.9*	(2,441)	(2,071)	*17.9*
Reported net income	**1,042**	**1,313**	***(20.6)***	**1,042**	**930**	***12.0***	**4,686**	**4,796**	***(2.3)***
Adjusted net income	**1,042**	**1,430**	***(27.2)***	**1,042**	**960**	***8.5***	**5,005**	**4,820**	***3.8***
Recurring EPS	**3.7**	**5.0**		**3.7**	**3.4**		**17.6**	**16.9**	
Effective tax rate (%)	36.9	37.0		36.9	31.6		34.2	30.2	
Segment results									
Revenues									
Wholesale voice	5,306	5,742	*(8)*	5,306	5,380	*(1)*	22,169	21,630	*2*
Enterprise and carrier data	3,431	3,915	*(12)*	3,431	2,900	*18*	13,807	12,620	*9*
Others	1,345	1,185	*13*	1,345	1,010	*33*	4,443	3,560	*25*
EBIT (before unalloc. expenses)									
Wholesale voice	758	1,326	*(43)*	758	1,270	*(40)*	4,230	4,800	*(12)*
Enterprise and carrier data	2,915	3,230	*(10)*	2,915	2,230	*31*	11,341	10,260	*11*
Others	722	297	*143*	722	210	*244*	1,467	860	*71*

Source: Company, Kotak Intitutional Equities estimates.

There was substantial improvement in the profitability of VSNL's subsidiaries in 1QFY08

	Consolidated				Consolidated - standalone = subsidiaries			
	1Q 2008	4Q 2007	2007	2006	1Q 2008	4Q 2007	2007	2006
Revenues	**20,620**	**21,570**	**86,112**	**45,625**	**10,539**	**10,728**	**45,694**	**7,815**
Staff cost	(2,160)	(2,360)	(8,662)	(3,797)	(1,494)	(1,824)	(6,225)	(1,706)
Interconnection, network, license fee costs	(12,070)	(12,980)	(52,428)	(25,807)	(6,421)	(7,294)	(30,383)	(4,848)
SG&A	(3,360)	(4,160)	(14,486)	(9,662)	(1,921)	(1,939)	(7,855)	(3,660)
Total expenditure	(17,590)	(19,500)	(75,576)	(39,265)	(9,836)	(11,057)	(44,464)	(10,213)
EBITDA	**3,030**	**2,070**	**10,536**	**6,360**	**703**	**(329)**	**1,230**	**(2,398)**
EBITDA margin (%)	**14.7**	**9.6**	**12.2**	**13.9**	**6.7**	**(3.1)**	**2.7**	**(30.7)**
Interest/other income	270		2,454	2,350	(3)		332	605
Depreciation and amortization	(1,970)		(7,830)	(4,857)	(1,041)		(3,917)	(1,263)
Interest expense	(310)		(1,436)	(398)	(291)		(1,367)	(380)
Pre-tax profits	**1,020**		**3,724**	**3,455**	**(632)**		**(3,721)**	**(3,436)**
Extraordinaries/Prior Year	-		(914)	(676)	-		(595)	(652)
Tax (incl. deferred tax)	(830)		(2,794)	(2,079)	(220)		(353)	(8)
Net profit before minorities	**190**		**17**	**699**	**(852)**		**(4,669)**	**(4,097)**
Minority interest- share of loss	90		137	-	90		137	-
Net income	**280**		**154**	**699**	**(762)**		**(4,532)**	**(4,097)**
Adjusted net income	**280**		**1,067**	**1,375**	**(762)**		**(3,937)**	**(3,445)**
Recurring EPS	**1.0**		**3.7**	**4.8**	**(2.7)**		**(13.8)**	**(12.1)**
Effective tax rate (%)	81.4		99.4	74.8	(34.8)		(8.2)	(0.2)

Source: Company, Kotak Intitutional Equities estimates.

Our sum-of-the-parts 12-month target price for VSNL is Rs550/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Enterprise value (EV)	54	190	54	190	12-month forward DCF (discounting FY2008 onwards)
Net cash/(debt)	8	29	8	29	As of end-March 2008
Total	**62**	**219**	**62**	**219**	
2. Investments					
TATA Teleservices (TTSL)	32	112	32	112	Valuation based on US$5 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**46**	**160**	**46**	**160**	
3. Others					
Surplus real estate	69	242	48	170	70% of estimated market value of surplus land
Total	**69**	**242**	**48**	**170**	
Grand total [1]+[2]+[3]	**177**	**622**	**156**	**549**	**12-month forward target price is Rs550**

Source: Kotak Institutional Equities estimates.

VSNL's standalone condensed financial statements, March year ends, 2006-2011

	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)						
Revenue	37,810	40,418	45,058	49,555	57,117	64,608
EBITDA	8,759	9,307	10,363	11,683	13,431	15,145
EBIT	5,165	5,394	6,331	7,239	8,532	9,851
Net interest income / (expense)	935	139	696	800	800	800
Tax	2,072	2,441	2,619	2,925	3,333	3,754
Net profit	5,190	4,687	5,158	5,864	6,749	7,646
Fully diluted EPS (Rs)	**18.6**	**17.2**	**18.1**	**20.6**	**23.7**	**26.8**
Balance sheet (Rs mn)						
Cash	12,251	10,298	8,330	9,207	11,250	14,242
Other current assets	21,460	22,124	21,213	22,076	23,526	24,963
Fixed assets	28,376	31,875	36,426	39,732	43,046	45,206
Other long term assets	18,499	20,552	21,124	20,597	20,070	19,543
Short tem debt	—	—	—	—	—	—
Other current liabilities	18,241	18,561	18,721	18,817	20,312	21,059
Long term debt	983	1,976	—	—	—	—
Other long term liabilities	751	717	1,120	1,346	1,549	1,717
Shareholders funds (incl. minorities)	60,612	63,595	67,252	71,449	76,031	81,177
Net (debt)/ cash	11,269	8,322	8,330	9,207	11,250	14,242
Free cash flow (Rs mn)						
EBITDA	8,759	9,307	10,363	11,683	13,431	15,145
Change in working capital	(433)	(2,507)	1,071	(767)	45	(689)
Cash tax (paid)	266	(2,882)	(2,334)	(2,699)	(3,129)	(3,587)
Cash interest (paid)	949	98	731	800	800	800
Capex on PP&E and intangibles	(7,970)	(8,369)	(8,056)	(7,223)	(7,686)	(6,927)
Free cash flow	1,570	(4,353)	1,774	1,794	3,461	4,742
Ratios (%)						
Sales growth	NA	6.9	11.5	10.0	15.3	13.1
EBITDA growth	NA	6.3	11.4	12.7	15.0	12.8
EPS growth	NA	(7.8)	5.3	13.7	15.1	13.3
FCF growth	NA	(37.7)	NM	0.1	9.3	3.7
EBITDA margin	**23.2**	**23.0**	**23.0**	**23.6**	**23.5**	**23.4**
Net margin	13.7	11.6	11.4	11.8	11.8	11.8
FCF margin	4.2	(10.8)	3.9	3.6	6.1	7.3
RoAE	8.9	7.8	7.8	8.3	9.0	9.5
RoACE	8.4	7.8	8.2	8.6	9.2	9.7
ROACE (excl. cash and int. income)	**10.3**	**9.1**	**8.1**	**8.6**	**9.5**	**10.5**
Net debt/ EBITDA (x)	(1.3)	(0.9)	(0.8)	(0.8)	(0.8)	(0.9)
Net debt/equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Total debt/capital (x)	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate (%)	28.5	34.2	33.7	33.3	33.1	32.9

Source: Company, Kotak Intitutional Equities estimates.

Consumer Products

NEST.BO, Rs1199	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,150
52W High -Low (Rs)	1387 - 876
Market Cap (Rs bn)	116

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	28.2	34.4	39.2
Net Profit (Rs bn)	3.3	4.1	4.6
EPS (Rs)	33.9	43.0	48.1
EPS gth	*(0.7)*	*26.7*	*12.0*
P/E (x)	35.4	27.9	24.9
EV/EBITDA (x)	20.6	17.1	14.8
Div yield (%)	2.1	2.3	2.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	61.8	-	-
FIIs	8.9	0.1	(0.2)
MFs	4.1	0.4	0.1
UTI	-	-	(0.3)
LIC	3.5	0.3	(0.0)

Nestle India: 1QCY07: Strong topline growth, increase estimates on higher growth; retain IL

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

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **Domestic sales growth (24% yoy) indicates robust business environment**
- **EBITDA increases by 27% yoy to Rs1.6 bn**
- **Retain In Line with target price of Rs1,150/share**

Nestle India reported y-o-y sales growth of 23.2% (against our estimate of 11.5%) and EBITDA growth of 27.8% (our estimate of 17.8% growth) for 2QCY07. The company's domestic sales growth rate at 24% yoy was better than our estimate of 11.6%. Export growth was in line with our estimates at 15.6%. In spite of the high prices of commodities (milk, wheat etc.), EBITDA margins improved by 70 bp yoy to 19.5% during 2QCY07. We have revised our estimates to reflect higher growth in domestis sales and price increases during CY2007 and CY2008. Our EPS estimate for CY2007 has increased to Rs43.0 (Rs39.1 previously) and Rs48.1 for CY2008 (Rs42.6 previously). We retain our In-Line rating on the stock. We have revised our DCF based target price to Rs1,150/share (Rs1,000/share previously). Our target price implies 26.8X on CY2007E and 23.9X on CY2008E.

Domestic sales growth indicates robust business environment. Domestic sales growth of 24% during 1QCY2007 is the highest growth recorded by Nestle in the last five years where the average sales growth has been 9.3% yoy. The sales increase has been on account of both price increase and higher volumes across categories. Export sales grew by 16%, which was mainly on account of increased green coffee exports. We expect Nestle to resort to price increases everytime raw material costs put pressure on the margins. It has been seen that given the pricing power of its products these price increases do not result in loss of market share, hence we have revised our sales growth estimates keeping in mind the inflationary pressures on raw material prices.

EBITDA increases by 27% yoy to Rs1.6 bn. EBITDA increase was on account of the sales growth, which resulted in higher fixed costs absorptions. However margins continue to be pressurized by increase in the prices of key commodities such as milk solids, green coffee and wheat flour. Milk prices are expected to further strengthen by 15-20% as compared to prices prevailing during 2QCY07.

20-year explicit forecast based DCF model derived target price of Rs1,150/share. The model builds in a WACC of 14% and a terminal year growth rate of 6%. Upward revision in near-term estimates has resulted in our DCF based valuation increasing to Rs1,150/share (Rs1,000/share previously). CY2007E and 23.9X on CY2008E.

Nestle-Quarterly summary, December year-ends (Rs mn)

			yoy	Our est.	yoy
	2Q 2007	2Q 2006	% chg	2Q 2007	% chg
Net sales	**8,389**	**6,812**	**23.2**	**7,593**	**11.5**
Material cost	(4,048)	(3,141)			
Employee cost	(697)	(538)			
Other overheads	(2,010)	(1,851)			
Total expense	(6,755)	(5,530)			
EBITDA	**1,634**	**1,282**	**27.4**	**1,511**	**17.8**
Depreciation	(178)	(161)		(177)	
EBIT	1,456	1,121		1,334	
Other income	32	44		57	
Net interest	(4)	(2)		(6)	
PBT	**1,484**	**1,163**	**27.6**	**1,385**	**19.1**
Tax	(507)	(421)		(444)	
PAT	**977**	**742**	**31.6**	**941**	**26.8**
Extraordinary Income (loss)	-	68		-	
Net profit	**977**	**810**	**20.5**	**941**	**16.1**
EBITDA margin (%)	19.5	18.8		19.9	
Effective tax rate (%)	34.2	36.2		32.1	
Domestic sales (net of excise)	7,569	6,103	24.0	6,775	11.0
Exports	820	709	15.6	818	15.4

Source: Company data, Kotak Institutional Equities.

Industrials

AIAE.BO, Rs1423	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,750
52W High -Low (Rs)	1819 - 615
Market Cap (Rs bn)	26.8

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	5.2	7.8	11.3
Net Profit (Rs bn)	1.0	1.3	1.9
EPS (Rs)	51.4	70.4	98.8
EPS gth	*74.4*	*37.1*	*40.3*
P/E (x)	27.7	20.2	14.4
EV/EBITDA (x)	19.3	13.5	9.2
Div yield (%)	0.2	0.4	0.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.6	-	-
FIIs	5.8	0.0	0.0
MFs	18.1	0.4	0.4
UTI	-	-	-
LIC	-	-	-

AIA Engineering: Rising rupee punishes global aims; maintain rating and target

Nitin Bhasin : nitin.bhasin@kotak.com, +91-22-6634-1110

- **1QFY08 results below estimates; net earnings of Rs216 mn de-grew 2% yoy**
- **Loss of production restricted yoy revenue growth to 18.4%; strong rupee and higher raw material prices pushed margins considerably lower to 19.8% from 24.5% last year**
- **We note the stock has already come off ahead of results and suggest investors make fresh long-term investments; maintain target price of Rs1,750 and OP rating**

AIA reported lower-than-estimated 1QFY08 performance with significantly lower margins at 19.8% and 2% yoy de-growth in net earnings to Rs216 mn. Lower-than-expected production and strong rupee impacted volume growth and realisations, respectively. Volumes increased by about 15% and revenues, at Rs1,371 mn, grew 18.4% on a yoy basis. Despite marginally higher realisations, margins fell considerably as raw material (scrap and ferro-chrome) prices increased sharply and sub-optimal capacity utilization at the new plant. We expect EBITDA margins to get better with the improving capacity utilization of new facilities and higher realisations from 2QFY08. We suggest fresh long-term investments in the stock and maintain our target price of Rs1,750 and OP rating on the stock.

Nothing for an 'A' rating during the quarter

1QFY08 performance was considerably lower-than-expected as margins fell sharply to 19.8% from 24.5% last year and net earning de-grew by 2% due to the following factors – (1) strong rupee impacting export realisations, (2) higher raw material (scrap and ferro-chrome prices), and (3) lower production due to maintenance shutdown and sub-optimal capacity utilization in the new facility. Average realisation for the quarter (Rs73.3/kg) was flattish (up 2%) on a yoy basis as export realisations were adversely impacted by strong rupee. Exports accounted for 46% of revenues during the quarter. Sharp increase in the scrap and ferro-chrome prices also impacted margins; raw material as a proportion to revenues increased sharply to 52.5% in 1QFY08 from 44.6% in 1QFY07. Production during 1QFY08 was 17,716 tons – up 6% yoy but down 2% qoq – as company lost 1,900 tons production due to plant maintenance and sub-optimal capacity utilization of the new facility. New facility produced only 2,500 tons as delay in availability of power restricted production.

Long-term picture undamaged; maintain FY2008E estimates

We expect volume and revenue growth to improve from 2QFY08 as new facility starts contributing larger volumes. Further, we expect pricing to get better as higher raw material prices get factored in as per escalation clauses. However, we believe loss in realisation on account of strong rupee will take more than a quarter to get factored in the realisations. We expect margins to be significantly better in 2HFY08 as capacity utilization scales up with improving realisations and sales to mining companies. We model volumes from the second phase of 50,000 ton capacity to flow in from 4QFY07.

Exhibit 1: Consolidated interim results of AIA Engineering, March fiscal year-ends (Rs mn)

		yoy		qoq	
	1Q 2008	**1Q 2007**	***(% chg)***	**4Q 2007**	***(% chg)***
Net sales	**1,371**	**1,158**	***18.4***	**1,527**	***(10.2)***
Total expenditure	(1,099)	(874)	*25.7*	(1,183)	*(7.1)*
Inc/(Dec) in stock	(24)	14	*(275.7)*	135	*(117.7)*
Raw materials	(695)	(530)	*31.3*	(688)	*1.1*
Staff cost	(72)	(58)	*23.4*	(40)	*77.9*
Other expenditure	(308)	(300)	*2.7*	(589)	*(47.8)*
EBITDA	**272**	**284**	***(4.1)***	**344**	***(17.4)***
OPM (%)	**19.8**	**24.5**		**22.5**	
Other income	49	45	*9.5*	48	*1.9*
Interest	(5)	(8)	*(44.5)*	(4)	*10.8*
Depreciation	(22)	(18)	*20.9*	(24)	*(11.9)*
Pretax profits (before EO)	**295**	**302**	***(2.5)***	**363**	***(16.7)***
EO				**(30)**	
Pretax profits	**295**	**302**	***(2.5)***	**333**	***(9.2)***
Current taxation	(67)	(80)	*(15.9)*	(92)	*(27.3)*
Deferred taxation	(8)	1	*(1,153.7)*	(1)	*425.1*
FBT	(1)	(1)	*50.6*	(2)	*(23.3)*
Net income	**219**	**222**	***(1.6)***	**268**	***(16.9)***
Adjusted profits	**219**	**222**	***(1.6)***	**268**	***(16.9)***
Effective income tax rate (%)	*25.4*	*26.2*		*25.8*	
Minority Intt	(2)	(2)	*36.4*	(5)	*(55.2)*
Consolidated net income	**216**	**221**	***(1.9)***	**262**	***(15.9)***
As a %age of sales					
Raw materials	52.5	44.6		36.2	
Staff cost	5.2	5.0		2.6	
Other expenditure	22.4	25.9		38.6	
Consolidated production	17,716	16,719	*6.0*	18,046	*(1.8)*
Sales outside india	630	530	*18.9*		
%age of sales	*46*	*46*			
Domestic sales	741	628	*18.0*		

Source: Company, Kotak Institutional Equities estimates.

Exhibit 2: Sales to cement account for more than three-fourths of revenues
Consolidated revenue split for 1QFY08

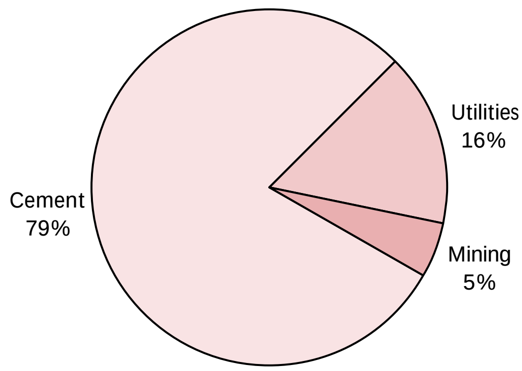

Exhibit 3: Our DCF-based target price for AIA Engineering is Rs1,750
Discounted cash flow analysis of AIA Engineering (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	1,861	2,701	3,751	4,391	4,981	5,573	6,125	6,609	6,985	7,312	7,605	7,909
Tax expense	(289)	(534)	(922)	(1,370)	(1,554)	(1,628)	(1,785)	(1,798)	(1,896)	(1,983)		
Changes in working capital	(1,030)	(1,339)	(1,672)	(1,320)	(894)	(862)	(794)	(685)	(540)	(466)		
Cash flow from operations	**541**	**828**	**1,156**	**1,701**	**2,533**	**3,083**	**3,547**	**4,126**	**4,548**	**4,864**		
Capital expenditure	**(1,080)**	**(560)**	**(200)**	**(189)**	**(548)**	**(530)**	**(488)**	**(421)**	**(332)**	**(286)**		
Free cash flow to the firm	**(539)**	**268**	**956**	**1,512**	**1,984**	**2,553**	**3,059**	**3,705**	**4,216**	**4,577**	**4,760**	**4,951**
Dicounted cash flow-now	(490)	216	687	965	1,125	1,287	1,371	1,476	1,492	1,440		
Discounted cash flow-1 year forward		243	772	1,086	1,266	1,448	1,542	1,660	1,679	1,620	1,497	
Discounted cash flow-2 year forward			869	1,221	1,425	1,629	1,735	1,867	1,889	1,823	1,685	1,557

Discount rate	12.5
Growth from 2017 to perpetuity	4.0

Fiscal Year end	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19
Discount factor at WACC	**0.91**	**0.81**	**0.72**	**0.64**	**0.57**	**0.50**	**0.45**	**0.40**	**0.35**	**0.31**	**0.28**	**0.25**

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**12,813**	**41%**	**15,700**	**45%**
FCF in terminal year	4,951		5,149	
Exit FCF multiple (X)	11.8		11.8	
Terminal value	58,241		60,571	
PV of terminal value (b)	**18,321**	**59%**	**19,054**	**55%**
EV (a) + (b)	**31,135**		**34,754**	
EV (US$ mn)	**759**		**848**	
Net debt	(1,718)		(1,953)	
Equity value	**32,853**		**36,707**	
Implied share price (Rs)	**1,748**		**1,953**	
Exit EV/EBITDA multiple (X)	7.7		7.7	

Sensitivty of share price to different levels of WACC and growth rate (Rs)

	WACC (%)						
Growth rate (%)	**11.0**	**12.0**	**12.5**	**13.0**	**13.5**	**14.0**	**15.0**
0.0	1,623	1,456	1,383	1,316	1,255	1,198	1,097
1.0	1,721	1,532	1,450	1,376	1,308	1,246	1,136
2.0	1,841	1,623	1,531	1,447	1,371	1,302	1,181
3.0	1,990	1,735	1,628	1,532	1,446	1,368	1,233
4.0	2,183	1,874	**1,748**	1,636	1,537	1,448	1,295
5.0	2,439	2,053	1,900	1,766	1,649	1,545	1,369
6.0	2,798	2,292	2,099	1,933	1,791	1,666	1,460
7.0	3,336	2,627	2,370	2,156	1,976	1,822	1,573
8.0	4,233	3,129	2,762	2,468	2,229	2,030	1,719

Source: Kotak Institutional Equities estimates.

Exhibit 4: Consolidated Profit model, March fiscal year -ends, 2005-2010E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Net sales	**2,937**	**4,070**	**5,230**	**7,753**	**11,349**	**15,628**
Operating costs	(2,057)	(2,593)	(3,735)	(4,830)	(7,116)	(9,830)
Employee costs	(157)	(226)	(222)	(349)	(488)	(641)
S&A costs	(334)	(436)	-	(713)	(1,044)	(1,407)
EBITDA	**389**	**815**	**1,274**	**1,861**	**2,701**	**3,751**
Other income	80	104	164	130	110	110
Interest	(28)	(53)	(24)	(19)	(9)	(9)
Depreciation	(33)	(71)	(82)	(182)	(267)	(315)
Pretax profits	**407**	**795**	**1,331**	**1,791**	**2,536**	**3,538**
Extraordinaries	—	—	(30)	—	—	—
Tax	(137)	(257)	(346)	(290)	(537)	(924)
Deferred taxation	(2)	5	1	(161)	(127)	(142)
Reported net profits	**269**	**543**	**956**	**1,339**	**1,873**	**2,472**
Adjusted net profits	**269**	**543**	**978**	**1,339**	**1,873**	**2,472**
Minority interest	**(3)**	**(20)**	**(12)**	**(15)**	**(15)**	**(15)**
Reported consolidated net profits	**266**	**524**	**943**	**1,324**	**1,858**	**2,457**
Adjusted consolidated net profits	**266**	**524**	**965**	**1,324**	**1,858**	**2,457**
Shares outstanding (net) (mn)						
Year end	13.1	17.8	18.8	18.8	18.8	18.8
Primary weighted average	13.1	14.6	18.1	18.8	18.8	18.8
Fully diluted	13.1	17.8	18.8	18.8	18.8	18.8
Adjusted EPS (Rs)						
Primary	20.3	35.9	53.4	70.4	98.8	130.7
Fully diluted	**20.3**	**29.5**	**51.4**	**70.4**	**98.8**	**130.7**
CEPS (Rs)						
Primary	23.1	40.5	57.9	88.7	119.7	155.0
Fully diluted	23.1	33.2	55.7	88.7	119.7	155.0
Growth (%)						
Revenues		38.6	28.5	48.2	46.4	37.7
EBITDA		109.7	56.2	46.1	45.2	38.9
Net profits		96.8	84.4	37.1	40.3	32.3
EPS		44.7	74.4	37.1	40.3	32.3
Ratios						
EBITDA margin (%)	13.2	20.0	24.3	24.0	23.8	24.0
Cash tax rate (%)	33.5	32.3	26.0	16.2	21.2	26.1
Effective tax rate (%)	34.0	31.7	26.0	25.2	26.2	30.1
DPS (Rs)		2.5	3.5	6.0	10.0	13.5
Dividend pay-out ratio (%)		9.6	7.7	10.0	11.8	12.1

Source: Kotak Institutional Equities estimates

Exhibit 5: Consolidated Cash flow model, March fiscal year-ends, 2005-2010E (Rs mn)

	2006	2007E	2008E	2009E	2010E
Operating					
Profit before tax	795	1,331	1,791	2,536	3,538
DD&A	71	82	182	267	315
Taxes	(581)	(346)	(290)	(537)	(924)
Interest expenses	53	24	19	9	9
Interest paid	(53)	(24)	(19)	(9)	(9)
Other income	(19)	(164)	(130)	(110)	(110)
Extraordinaries/others	2	(30)	—	—	—
Working capital (a)	(10)	259	(1,030)	(1,339)	(1,672)
Total operating	**258**	**1,132**	**521**	**817**	**1,146**
Operating, excl. working capital (b)	**268**	**873**	**1,552**	**2,156**	**2,818**
Investing					
Capital expenditure (c)	(414)	(900)	(1,080)	(560)	(200)
Investments	(1,083)	—	—	—	—
Advances to subsidiaries	—	—	—	—	—
Asset sales	—	—	—	—	—
Interest/dividends received (d)	19	164	130	110	110
Total investing	**(1,478)**	**(736)**	**(950)**	**(450)**	**(90)**
Financing					
Share issuance	1,405	1,212	—	—	—
Loans (net)	(70)	(200)	(200)	—	—
Dividends (e)	(54)	(52)	(75)	(132)	(219)
Others	—	—	—	—	—
Total financing	**1,281**	**960**	**(275)**	**(132)**	**(219)**
Net change in cash	**61**	**1,356**	**(704)**	**235**	**837**
Opening cash	123	185	1,541	837	1,072
Closing cash	**185**	**1,541**	**837**	**1,072**	**1,908**
Gross cash flow (b)	268	873	1,552	2,156	2,818
Free cash flow (b)+(a)+(c)+(d)	**(137)**	**396**	**(429)**	**367**	**1,056**
Excess cash flow (b)+(a)+(c)+(d)+(e)	(191)	344	(504)	235	837

Source: Kotak Institutional Equities estimates

Exhibit 6: Consolidated Balance Sheet, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Equity						
Share capital-equity	131	178	188	188	188	188
Reserves and surplus	745	2,563	4,634	5,825	7,464	9,624
Total equity	**876**	**2,741**	**4,822**	**6,013**	**7,651**	**9,812**
Deferred taxation liability	21	20	19	180	307	449
Minority Interest	32	70	83	98	113	128
Liabilities						
Long term borrowings	310	133	—	—	—	—
Short term borrowings	246	352	285	85	85	85
Total borrowings	**555**	**485**	**285**	**85**	**85**	**85**
Current liabilities	401	1,112	1,265	1,560	1,970	2,464
Total capital	**1,884**	**4,428**	**6,473**	**7,936**	**10,126**	**12,936**
Assets						
Cash	**123**	**185**	**1,541**	**837**	**1,072**	**1,908**
Current assets	1,448	2,705	2,576	3,845	5,506	7,595
Gross block	532	940	1,307	2,687	3,147	3,727
Less: acumulated depreciation	252	436	518	700	966	1,281
Net fixed assets	**279**	**504**	**789**	**1,988**	**2,181**	**2,447**
Capital work-in-progress	20	68	600	300	400	20
Total fixed assets	299	571	1,389	2,288	2,581	2,467
Investments	14	967	967	967	967	967
Total assets	**1,884**	**4,428**	**6,473**	**7,936**	**10,126**	**12,936**
Leverage ratios (%)						
Debt/equity		28.8	10.2	3.4	1.2	1.0
Debt/capitalization		16.5	7.1	2.6	0.9	0.7
Net debt/equity		(6.9)	(38.2)	(36.4)	(26.9)	(27.2)
Net debt/capitalization		(3.9)	(26.5)	(27.4)	(20.3)	(20.6)
RoAE		**29.0**	**25.4**	**24.0**	**26.3**	**27.0**
RoACE		**35.3**	**22.6**	**26.2**	**27.7**	**28.2**

Source: Kotak Institutional Equities estimates

Auto Components

RAUT.BO, Rs38

Rico Auto Industries: 1QFY08 net profit declines 61% despite increase in margins

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

- **1Q net profit at Rs27 mn declines 61% yoy and 49% qoq**
- **EBITDA margin at 12.1% remains flat yoy**
- **Interest cost doubles to Rs53 mn**

Rico Auto reported 1Q net profit at Rs27 mn, a 61% yoy and 49% qoq decline. The EBITDA margin at 12.1% remained flat on a yoy basis as net sales at Rs1.8 bn dropped 4% yoy. Domestic sales declined 8% yoy while export sales grew 23% yoy. The EBITDA margin remained flat despite a 360 bps improvement in raw material-to-sales at 61% as employee costs and other expenditure increased 14% and 7%, respectively, thus negating savings in raw material costs. Despite EBITDA margins remaining flat, net profit at Rs27 mn declined 61% yoy mainly on account of double of interest cost to Rs53 mn from Rs26 mn in the previous quarter of the corresponding period.

Rico Auto: 1QFY2008 results (Rs mn)

				% chg.		
	1QFY07	4QFY07	1QFY08	qoq	yoy	FY07
Net sales	**1,873**	**2,004**	**1,801**	**(10.1)**	**(3.9)**	**7,704**
Operating costs	**(1,652)**	**(1,781)**	**(1,582)**	**(11.2)**	**(4.2)**	**(6,857)**
Inc/(dec) in Stock	21	(18)	20	(212.8)	(1.9)	72
Raw materials	(1,231)	(1,196)	(1,118)	(6.5)	(9.1)	(4,945)
Staff cost	(143)	(177)	(163)	(7.7)	14.3	(632)
Other expenditure	(299)	(390)	(321)	(17.8)	7.3	(1,351)
EBITDA	**221**	**223**	**219**	**(1.8)**	**(1.0)**	**847**
Other income	11	21	5	(76.4)	(53.3)	118
Interest costs	(26)	(41)	(53)	28.5	103.1	(152)
Depreciation	(95)	(116)	(121)	4.6	27.9	(425)
Extraordinaries	(3)	(4)	2			(19)
PBT	**108**	**83**	**51**	**(38.3)**	**(52.9)**	**370**
Taxes	(38)	(30)	(24)	(19.9)	(38.1)	(111)
PAT	**70**	**53**	**27**	**(48.5)**	**(60.9)**	**258**
Key ratios						
RM/Net sales (%)	64.6	60.6	61.0	0.4	(3.6)	63.3
RM/VOP (%)	65.0	60.2	61.4	1.2	(3.6)	63.6
EBITDA margin (%)	11.8	11.1	12.1	1.0	0.3	11.0
PAT margin (%)	3.7	2.6	1.5	(1.1)	(2.2)	3.4
Effective tax rate (%)	35.4	35.8	46.5	10.6	11.1	30.1

Source: Company data, Kotak Institutional Equities

Banking

SRTR.BO, Rs157	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	200
52W High -Low (Rs)	171 - 84
Market Cap (Rs bn)	30.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	6.9	9.7	12.1
Net Profit (Rs bn)	1.9	2.6	3.2
EPS (Rs)	10.3	13.7	16.5
EPS gth	*23.5*	*32.7*	*20.5*
P/E (x)	15.2	11.4	9.5
P/B (x)	2.9	2.3	2.0
Div yield (%)	1.8	2.5	3.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	42.6	-	-
FIIs	15.9	0.1	0.1
MFs	0.9	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Shriram Transport Finance: Used-vehicle finance drives profit growth, retain OP

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588
Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

- **PAT (1QFY08) up 87% yoy to Rs767 mn**
- **Used-vehicle disbursements up 77%; spreads likely stable**
- **We revise estimates, increase target price to Rs200, retain OP**

STFC reported 87% growth in net profit (53% above estimates) on the back of strong growth in used commercial vehicles (CV) finance and likely stable spreads, although growth in new vehicles was subdued on the back of a slowdown in the auto industry. We are revising our estimates by 14% and 13% for FY2008 and FY2009, respectively, to factor higher loan growth and income from securitized assets; raise target price to Rs200 from Rs180 earlier. We believe that STFC is amongst the best NBFCs that offer a 'sub-prime' play; reiterate OP rating.

Strong disbursements growth despite industry slowdown. STFC has reported 55% growth in disbursements (31% above estimates) mainly backed by used vehicles (77% growth) while growth in new vehicles was low (4% growth). During the previous year (1Q07), STFC was in the process of merging its group companies with itself and hence the disbursements were low. Thus, STFC has delivered high growth on a low base. We expect disbursements growth to moderate to 30% over the next nine months.

Income from securitized assets will likely remain high. STFC securitized Rs22 bn of assets in 4Q07, mainly in the last week of March. Loans backed by CVs are classified under 'priority sector' for Banks. In March, Banks generally offer competitive rates for buying CV loans, since their appetite for priority sector increases. STFC defers the income from securitisation of these loans over their original tenure. As such, STFC booked Rs255 mn of income on securitized assets in 1Q08. We expect the contribution of this income stream to remain strong over the next few quarters.

Spreads likely stable. STFC's reported spreads were stable at 7.2% for 1Q08 and 1Q07. Its outstanding yield has reduced to 17.1% in 1Q08 from 17.7% in 1Q07 likely on account of (a) higher proportion of new vehicles and (b) higher proportion of younger used vehicles in its books. While STFC finances used vehicles of 4-10 years, the rate of interest is lower on younger vehicles.

STFC's cost of borrowings has also reduced to 10% from 10.5% over the last one year. A change in the funding mix from high cost retail funds to more competitive institutional borrowings is one of the likely reasons. However, the reason for 160 bps qoq decline in the borrowings cost is not clear.

NPLs remain low, may be early to comment. STFC's gross NPL's stood at 2.07% in June 2007 as against 2.05% in June 2006. The management has however highlighted that its loan book had considerably grown over the last few quarters and slippages might increase, as the portfolio gets seasoned.

Shriram Transport Finance - Old and new estimates
In Rs mn

	Old estimates		New estimates		% change	
Rs mn	**FY08E**	**FY09E**	**FY08E**	**FY09E**	**FY08E**	**FY09E**
Net interest income *(a)*	8,950	11,181	9,459	11,855	5.7	6.0
Loan growth (%)	29	21	38	23		
NIM (%)	7.8	8.1	7.8	7.9		
Income on securitised assets	742	877	968	1,261	30.5	43.8
NPL provisions	2,397	2,928	2,502	3,173	4.3	8.4
Other income	204	229	204	229	0.0	0.0
Operating expenses	3,256	4,207	3,159	4,090	-3.0	-2.8
Employee	1,045	1,364	1,071	1,285	2.5	-5.7
Others	2,211	2,843	2,088	2,805	-5.6	-1.3
PBT	3,499	4,275	4,002	4,821	14.4	12.8
Tax	1,207	1,475	1,381	1,663	14.4	12.8
PAT	2,292	2,800	2,621	3,158	14.4	12.8

(a) includes income on securitised assets

Source: Kotak Institutional Equities estimates.

Shriram Transport Finance - Quarterly results

In Rs mn

	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)	1Q08E	Actual vs Ks(%)
Total operational income	2,709	3,349	3,749	4,221	4,635	71	3,995	16
Income on securitised loans	11			39	255		190	34
Total interest expense	1,384	1,644	1,842	2,392	2,306	67	2,093	10
Interest expenditure	1,384	1,591	1,902	2,392	2,306	67	2,093	10
Mark to market loss on Swaps	-	53	(60)	-				
Net operational income(before provisions)	**1,325**	**1,705**	**1,907**	**1,829**	**2,329**	**76**	**1,902**	**22**
Net operational income (without Swap losses)	1,325	1,758	1,847	1,829	2,329	76		
Net operational income (before securitisation income)	**1,314**	**1,758**	**1,847**	**1,790**	**2,074**	**58**	**1,712**	**21**
Provision and credit costs	300	439	420	542	543	81	509	7
Net operational income after provisions	**1,025**	**1,265**	**1,487**	**1,287**	**1,786**	**74**	**1,393**	**28**
Other income	42	21	8	50	76	81	20	280
Total income	**1,367**	**1,725**	**1,914**	**1,879**	**2,405**	**76**	**1,922**	**25**
Operating expenses	**435**	**592**	**620**	**645**	**697**	**60**	**654**	**7**
Employee expenses	159	206	180	210	254	60	200	27
ESOP cost		75						
Other expenses	251	361	414	396	401	59	424	(6)
Depreciation	25	25	27	40	42	70	30	41
Pretax income	**632**	**694**	**874**	**692**	**1,165**	**84**	**758**	**54**
Tax provisions	222	229	299	208	398	79	258	54
Net Profit	**410**	**465**	**576**	**484**	**767**	**87**	**501**	**53**
PBT + Swap losses+ESOP expense	632	822	814	692	1,165	84	758	54
Tax rate (%)	35	33	34	30	34		34	
Other details								
Disbursements (Rs mn)	13,000	17,000	17,926	18,155	20,110	55	15,340	31
Used CVs	8,155				14,468	77		
New CVs	5,442				5,648	4		
Securitisation during the period (Rs mn)		4,400	5,110	22,490	-			
O/s Truck assets (Rs mn)	63,452	68,060	80,964	83,830	95,846	51		
Off balance sheet truck assets (Rs mn)	16,949	19,280	20,463	36,630	33,480	98		
Total truck assets under management (Rs mn)	80,401	87,340	101,427	120,460	129,326	61		
Yield on assets (%)	17.7		18.6	18.4	17.1			
Cost of funds (%)	10.5		10.1	11.7	10.0			
Spread (%)	7.2	-	8.5	6.7	7.2			
Gross NPLs(%)	2.05		1.21	1.97	2.07			
Net NPLs(%)	1.30		0.48	1.19	1.22			
Capital adequacy ratio (%)			16.1	13.5	13.0			

Source: Company, Kotak instutional equities estimates.

Automobiles

Jul 07 sales: New launches drive passenger car volumes as 2-wheelers continue to bleed

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

- **Bajaj Auto: Volumes suffer yet again as product develops fatigue**
- **Hero Honda: Volumes decline in line with industry peers**
- **TVS Motor: Volumes continue to bleed**
- **Maruti: Volumes zoom driven by exports and new launches**
- **M&M: Improved UV sales led to growth in overall volumes; tractor sales decline**
- **Tata Motors: Domestic M&HCV volumes disappoint; ACE continues to do well**

Two-wheeler volumes continued to decline in July across all players in a slowing industry. While Bajaj's volume declined 7% yoy, Hero Honda posted its largest yoy decline of 15% in recent months. TVS also declined 35% yoy. In the 4-wheeler segment, Maruti continued to ride the success of its recent launches-—Zen Estilo, Swift and SX4 while Mahindra-Renault's Logan recorded an increase in volumes after last month's fall in volumes. The UV sales for M&M grew 30% yoy while tractor sales continued to disappoint with a 7% yoy decline.

Bajaj Auto: Volumes suffer yet again as product develops fatigue

Bajaj Auto reported a 7% yoy decline in motorcycle sales in July. Three-wheeler sales for Bajaj were down 13%yoy in July. However, total exports at 53,718 vehicles grew 26% yoy. Overall volumes for Bajaj dropped 7%. Bajaj, in their press release has mentioned that the slowdown in motorcycle sales is due to product fatigue. As indicated earlier, Bajaj is shifting its focus to the 125cc bikes and has announced that it will launch a new engine in August and the new non-100cc motorcycle with its path-breaking DTS-Si technology in September'2007. The company aims to achieve a target of 50,000 bikes-a-month by January 2008. We currently estimate a 5% growth in motorcycles and an overall volume growth of 5%. We see downside risk to this estimate in the event of delay in the launch of the new bike.

Hero Honda: Volumes decline in line with industry peers

Hero Honda's July 2W sales declined 15% yoy and 21% mom. This is the largest fall reported by Hero Honda in the recent months amidst slowing industry and eroding volumes. Hero Honda, in its press release has mentioned that the decline is due to the continuing interest rate scenario and the monsoon when the demand traditionally slows down. It believes that the demand should pick post the monsoons when the festival season begins. In July, the company further augmented its presence in the deluxe segment with the launch of the Passion Plus and Super Splendor. Our estimates factor in 7.4% growth for Hero Honda in motorcycles in FY2008. We see downside risk to this estimate keeping in mind slowing 2W industry as witnessed from declining volume growth across players.

TVS Motor: Volumes continue to bleed

Motorcycle sales for TVS Motor declined 35% yoy in July while it had recorded a 37%yoy decline in June as well. Total 2-wheeler volumes dropped 13% yoy. The decline in motorcycle sales continues as TVS is unable to respond to competitive pressures and the industry slowdown as it gets sandwiched between the larger players. TVS has announced a spate of new launches in the coming months to counter its declining volumes. It plans to launch 11 new models including 3-wheelers in a bid to improve its volumes.

Maruti: Volumes zoom driven by exports and new launches

Domestic car sales for Maruti grew 18% yoy in July while export volumes zoomed to 5,070 vehicles growing 189% yoy and 30% qoq. Consequently, total volumes for Maruti increased 25% yoy in July. The growth in domestic volumes was across all car segments. The compact-car segment comprising the Zen, Alto, Wagon-R and Swift grew 19% yoy driven by the continued success of the Zen Estilo and Swift (both diesel and petrol). The mid-size car segment grew 105% yoy led by the continued success of the SX4. The M-800 reported a marginal drop in volumes while the Van-segment grew 5% yoy. In our opinion, the recently launched Sx4 sedan and the Swift should continue to do well as it faces no competition in the immediate future. Maruti launched the Grand Vitara in July thus establishing its presence across the entire passenger car and SUV segment.

We believe that going forward Maruti's volumes will continue to depend upon its recent launches – SX4, Zen Estilo and Swift (both diesel and petrol). We estimate a 11% growth in volumes for FY2008 for Maruti which has upside risk considering its performance till date and the future prospects.

M&M: Improved UV sales led to growth in overall volumes; tractor sales decline

M&M reported a 30% yoy growth for UVs in July. Scorpio has reported a yoy growth of 23%. The LCV volumes at 1,030 vehicles have grown at 59% yoy in July. Meanwhile, tractor sales growth continued to disappoint with a 7% yoy decline in July. While domestic tractor volumes declined 9% yoy, tractor exports increased 18%. 3wheeler sales grew at 5%yoy for M&M. Logan which was launched in May saw a sales volume of 2,890 vehicles which was 21% higher than 2,389 cars for June.

Tata Motors: Domestic M&HCV volumes disappoint; ACE continues to do well

Tata Motors' domestic CV sales declined 4% yoy in July. The M&HCV sales dropped 15% yoy and 12% qoq. The LCV segment, however, continues to do well with a 10% yoy growth in volumes. Domestic passenger car volumes dropped 6% as volumes for Indica declined 7% yoy while domestic UV volumes declined 10% yoy. The company believes that the sluggishness in the domestic market continues to be on account of the prevailing high interest rates. We believe that volumes growth would remain muted in 2Q and volumes would pick up once demand picks up post 2Q. Our FY2008 estimates for Tata Motors factor in domestic growth of 2.5% for M&HCVs, 10% for LCVs and 7.5% for cars and UVs.

Reported monthly sales of top two-wheeler companies - July 2007

	Jul-07	Jul-06	yoy %	Jun-07	mom %	YTD, FY2008	YTD, FY2007	yoy %	FY2008 growth forecast
Bajaj Auto									
Geared Scooters	-	696	-100.0%	-		-	5,253	-100.0%	-100.0%
Ungeared Scooters	2,920	1,347	116.8%	2,505	16.6%	9,132	4,822	89.4%	100.0%
Step thrus	-	-		-	0.0%	-	-		-
Motorcycles	159,881	171,115	-6.6%	162,253	-1.5%	653,446	739,302	-11.6%	5.2%
Total 2-Wheelers	**162,801**	**173,158**	**-6.0%**	**164,758**	**-1.2%**	**662,578**	**749,377**	**-11.6%**	**5.3%**
3 Wheelers	23,089	26,663	-13.4%	22,866	1.0%	94,425	97,538	-3.2%	1.9%
TVS Motor									
Motorcycles	44,392	68,335	-35.0%	47,380	-6.3%	194,922	302,151	-35.5%	8.2%
Total 2-Wheelers	**105,366**	**121,462**	**-13.3%**	**107,117**	**-1.6%**	**364,553**	**497,736**	**-26.8%**	**7.9%**
Hero Honda									
Total 2-Wheelers	201,191	235,314	-14.5%	255,200	-21.2%	1,004,044	1,068,006	-6.0%	7.4%

Source: Company, Kotak Institutional Equities.

4-wheelers July 2007 sales performance

	Jul-07	Jul-06	yoy %	Jun-07	mom %	YTD, FY2008	YTD, FY2007	yoy %	FY2008 growth estimate
Tata Motors									
M&HCV	10,367	12,139	-14.6%	11,763	-11.9%	43,022	48,254	-10.8%	2.5%
LCV	10,338	9,395	10.0%	9,654	7.1%	39,382	35,930	9.6%	10.0%
Domestic CV sales	20,705	21,534	-3.8%	21,417	-3.3%	82,404	84,184	-2.1%	5.7%
CV Exports	4,382	3,161	38.6%	3,678	19.1%	13,974	10,896	28.2%	14.2%
Total CV	**25,087**	**24,695**	**1.6%**	**25,095**	**0.0%**	**96,378**	**95,080**	**1.4%**	**6.6%**
UV	3,323	3,976	-16.4%	3,791	-12.3%	13,958	12,899	8.2%	7.6%
Passenger Cars	13,688	16,385	-16.5%	15,431	-11.3%	59,123	62,739	-5.8%	7.8%
Total	**42,098**	**45,056**	**-6.6%**	**44,317**	**-5.0%**	**169,459**	**170,718**	**-0.7%**	**7.0%**
Mahindra & Mahindra									
UVs	11,567	8,915	29.7%	10,597	9.2%	42,738	34,131	25.2%	12.5%
LCVs	1,030	647	59.2%	1,033	-0.3%	3,711	2,577	44.0%	-
Logan	2,890			2,389	21.0%	8,065	-		-
Tractors	6,987	7,526	-7.2%	10,089	-30.7%	34,278	7,526	355.5%	10.0%
3 Wheelers	3,049	2,919	4.5%	2,795	9.1%	10,385	30,285	-65.7%	**15.0%**
Total	**25,523**	**20,007**	**27.6%**	**26,903**	**-5.1%**	**99,177**	**74,519**	**33.1%**	**11.8%**
						-	-		
Maruti Udyog									
Entry (A) segment	5,970	6,040	-1.2%	6,214	-3.9%	23,964	26,340	-9.0%	-24.0%
Van-segment	7,214	6,899	4.6%	8,017	-10.0%	27,845	23,708	17.4%	7.7%
Compact (B) segment	34,737	29,326	18.5%	37,646	-7.7%	145,150	120,776	20.2%	19.0%
Mid-size (C) segment	4,394	2,142	105.1%	3,923	12.0%	15,450	9,713	59.1%	11.1%
MUV	524	246	113.0%	200	162.0%	1,034	1,220	-15.2%	**9.4%**
Domestic	**52,839**	**44,653**	**18.3%**	**56,000**	**-5.6%**	**213,443**	**181,757**	**17.4%**	11.7%
Exports	5,070	1,755	188.9%	3,917	29.4%	14,135	9,599	47.3%	**1.8%**
Total	**57,909**	**46,408**	**24.8%**	**59,917**	**-3.4%**	**227,578**	**191,356**	**18.9%**	**11.1%**

Source: Company, Kotak Institutional Equities.

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

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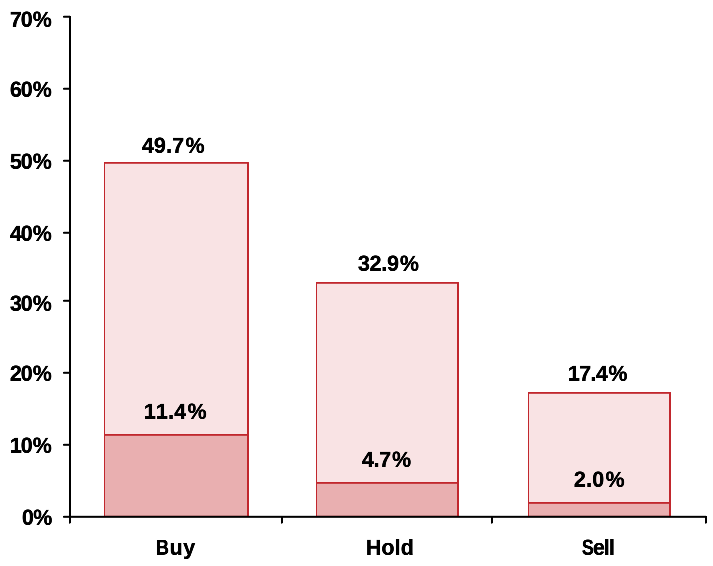

Percentage of companies covered by Kotak Institutional Equities, within the specified category.

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 06/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of June 30, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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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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