

## Contents

### New Release

**Economy:** Current account deficit set to widen amidst pressure on rupee

### Change in recommendations

**GSPL:** Use recent correction on concerns of profit-sharing as buying opportunity

### Updates

**ICICI Bank:** Valuations based on long-term RoE and dividend projections do not warrant downside, retain ADD

**Sun TV Network:** Glimpses of sun as monsoon clouds fade

## News Roundup

### Corporate

- Private equity giant **TPG Capital** is among several suitors who have lined up to invest over US\$400 mn for a substantial stake in **Kingfisher Airlines**. (ET)
- In an effort to bail out the bleeding airline, **Jet Airways** plans to raise capital through a stake sale of up to 10%. (BL)
- Mahindra Holidays and Resorts** (MHR) has announced two acquisitions: **Taj Garden Retreat Resort** at Thekkady in Kerala and a heritage property at Ooty in Tamil Nadu. Financial details have not been disclosed. (ET)
- Infosys Technologies** appears to have decided to forego its right to make a counter-offer for the UK-based SAP consulting firm **Axon** within 60 hours of the bid made by **HCL Technologies**. The latter had made a counter offer of GBP441 mn to acquire Axon (around 8% higher than Infosys' August bid). (FE)

### Economic and political

- US stocks plunged and the S&P's 500 Index tumbled 7.2% to 1,125.99, the most since 1987, after the House of Representatives voted down a US\$700 bn plan to rescue the financial system. (BS)
- India and the European Union agreed to conclude a broad-based trade and investment agreement by 2009 and double their trade turnover to Euro100 bn in the next five years. (BS)

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

## EQUITY MARKETS

India	Change, %			
	29-Sep	1-day	1-mo	3-mo
Sensex	12,596	(3.9)	(13.5)	(8.7)
Nifty	3,850	(3.4)	(11.7)	(6.9)

Global/Regional indices				
Dow Jones	10,365	(7.0)	(10.2)	(8.6)
FTSE	4,819	(5.3)	(14.5)	(12.9)
Nikkie	11,180	(4.8)	(14.5)	(17.1)
Hang Seng	17,881	(4.3)	(15.9)	(19.1)
KOSPI	1,402	(3.7)	(4.9)	(16.3)

Value traded - India				
	Moving avg, Rs bn			
	29-Sep	1-mo	3-mo	
Cash (NSE+BSE)	176.2	173.3	173.4	
Derivatives (NSE)	553.5	431.7	454	
Deri. open interest	606.4	646	615	

### Forex/money market

	Change, basis points			
	29-Sep	1-day	1-mo	3-mo
Rs/US\$	47.2	66	323	412
6mo fwd prem, %	0.7	(25)	71	24

### Net investment (US\$m)

	26-Sep	MTD	CYTD
FIs	(150)	(1,935)	(9,193)
MFs	(14)	437	3,091

### Top movers -3mo basis

Best performers	Change, %			
	29-Sep	1-day	1-mo	3-mo
BHARAT PETROLEU	341	1.8	12.7	52.4
BANK OF BARODA	287	(2.1)	1.2	41.1
HINDUSTAN PETRO	229	(0.5)	13.5	29.8
PUNJ LLOYD LIMITE	274	(3.3)	(8.9)	28.9
BAJAJ AUTO LIMITE	571	(3.5)	(2.9)	26.8
Worst performers				
RANBAXY LABORAT	255	(6.1)	(50.8)	(51.2)
HOUSING DEVELOP	166	(14.0)	(42.5)	(45.0)
JSW STEEL LIMITED	506	(11.8)	(33.7)	(43.8)
TATA STEEL LIMITE	446	(3.4)	(25.8)	(38.8)
STERILITE INDUSTRIE	432	(3.4)	(31.2)	(38.1)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

**Economy**

Sector coverage view

N/A

**Current account deficit set to widen amidst pressure on rupee**

Mridul Sagar : mridul.sagar@kotak.com, +91-22-6634-1245

- **CAD/GDP ratio likely to widen to 4.5% for 1QFY09**
- **Trade deficit may exceed 10.0% of GDP in 1Q as oil imports surge 66% yoy**
- **We expect capital flows to moderate 22% yoy in 1Q on account of FII outflows, lower ECB and neutral banking capital flows**
- **BOP more or less in balance with reserve accretion of about US\$1.0 bn**

1QFY09 balance of payment (BOP) estimates set to be released by RBI today (September 30) evening are likely to see a considerable widening of trade and current account deficit (CAD). Our estimates suggest that trade deficit may be in the vicinity of US\$32 bn, more than 10% of GDP in the 1QFY09. CAD may turn out to be around US\$13 bn (4.5% of GDP). These wide gaps still appear sustainable. In our calculation, with total capital account flows of US\$13-14 bn, the overall BOP balance may be only marginally positive (see Exhibit 1). We expect BOP to come under greater strain in 2QFY09 with some loss in reserves, but still withstand the external shock in FY2009.

**Oil price shock to drill a gapping hole in merchandise trade deficit**

The oil import bill mounted in 1QFY09 by 66% yoy, on back of a 80% surge in average oil price for the Indian basket of crude. Though we estimate exports to grow at an impressive 34% yoy in 1Q and non-oil imports to grow 20%, the merchandise trade deficit may be in the vicinity of US\$32 bn and exceed 10% of the GDP.

**Resilience to come from invisibles**

We expect invisibles to continue providing resilience to BOP, offsetting a substantial part of the wide merchandise trade deficit. We do not see any significant dent in software exports or private remittances in this quarter.

**Total capital account flows to moderate significantly**

Total capital account flows may moderate to below US\$15 bn in 1QFY09 from US\$25 bn in 4QFY08 and US\$17 bn in 1QFY08. In FY2008, India received total capital account flows of US\$108 bn. There are indications that:

- FDI inflows may hit a new high of about US\$8.0 bn in 1QFY09

However, moderation may come through

- FII net outflows of 5.2 bn in 1Q on top of US\$3.9 bn of outflows in 4QFY08
- Banking capital may show a marginal outflow of less than US\$1.0 bn in contrast with strong inflows of US\$5.8 bn in 4QFY08
- Lower ECB net inflows of about US\$3.0 bn (US\$7.0 bn in 1QFY08; US\$4.8 bn in 4QFY08)

**We expect overall BOP to be in balance**

We expect overall BOP in 1QFY09 to be more or less in balance with perhaps a small surplus of about US\$1.0 bn

**Rupee to remain in pressure in the near term**

The rupee exchange rate versus the US dollar (INR/USD) could remain under pressure in the near term in view of the 1QFY09 data which is expected to show a significant widening of trade and current account gaps. INR/USD hit a new low since mid-July 2006 of 46.96 at close of September 29, 2008 (see Exhibit 2). The rupee is likely to remain under pressure till either the US dollar starts weakening against global currencies in a big way or strong capital flows into India resume.

**Exhibit 1: Current account deficit set to widen in 1QFY09**

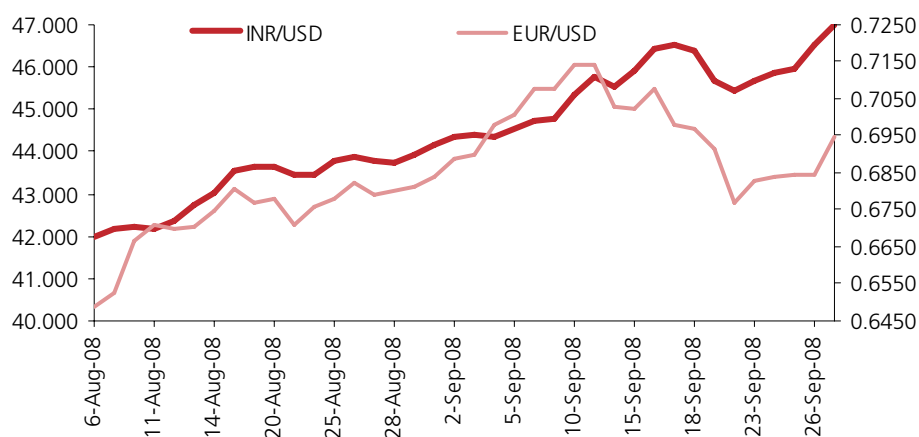
India's quarterly balance of payments (US\$bn)

	FY2008	1QFY08	4QFY08	1QFY09E
<b>Current account</b>	<b>(17.4)</b>	<b>(6.3)</b>	<b>(1.0)</b>	<b>(13.2)</b>
GDP	1,173	257	331	296
% of GDP	(1.5)	(2.4)	(0.3)	(4.5)
Trade balance	(90.1)	(20.7)	(23.8)	(31.9)
% of GDP	(7.7)	(8.0)	(7.2)	(10.8)
- Exports	158.5	35.8	42.8	43.8
- Imports	248.5	56.5	66.6	75.7
o/w Oil imports	72.3	17.0	19.0	28.2
o/w non-oil	176.2	39.5	47.7	47.5
Invisibles (net)	72.7	14.4	22.8	18.7
- Services	37.6	8.7	10.8	9.8
of which: Software	37.1	8.0	12.1	9.7
- transfers	41.0	7.5	13.4	10.0
- other invisibles	(4.8)	(1.8)	(1.4)	(1.1)
<b>Capital account</b>	<b>108.0</b>	<b>17.3</b>	<b>25.4</b>	<b>13.6</b>
Foreign investment	44.8	10.1	2.6	3.9
- FDI	15.5	2.7	6.4	8.1
- FII	20.7	7.1	(3.9)	(5.2)
- ADRs/GDRs	8.5	0.3	0.1	1.0
Banking capital	11.8	(0.9)	5.8	(0.7)
- NRI deposits	0.2	(0.4)	1.1	0.4
Short-term credit	17.7	1.8	6.3	3.9
ECBs	22.2	7.0	4.8	3.0
Other capital account items	11.6	(0.6)	5.9	3.5
E&O	1.5	0.2	0.6	0.7
<b>Overall balance</b>	<b>92.2</b>	<b>11.2</b>	<b>25.0</b>	<b>1.1</b>
memo: RBI's net forex purchases #	78.2	9.7	20.3	(0.8)
<b>Assumptions</b>				
Average exchange rate (Rs/US\$)	40.3	41.3	39.8	41.7
Average Indian crude basket price (US\$/b)	78.2	66.3	93.8	119.0

Source: RBI, Kotak Institutional Equities estimates.

**Exhibit 2: Rupee continues to depreciates, though US dollar appreciation has abated**

INR/USD on LHS, EUR/USD on RHS, August-September 2008



Source: Bloomberg

**Energy****GSPT.BO, Rs46**

Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	65
52W High -Low (Rs)	114 - 43
Market Cap (Rs bn)	26.0

**Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.2	5.9	9.0
Net Profit (Rs bn)	1.0	1.7	2.4
EPS (Rs)	1.8	3.0	4.2
EPS <i>gth</i>	10.1	66.1	39.9
P/E (x)	26	15.4	11.0
EV/EBITDA (x)	8.4	7.2	5.1
Div yield (%)	1.1	1.8	2.5

**Shareholding, June 2008**

	% of Pattern Portfolio	Over/(under) weight
Promoters	37.8	-
FIs	16.3	0.1 (0.0)
MFs	4.8	0.1 0.0
UTI	-	- (0.1)
LIC	1.0	0.0 (0.1)

**GSPL: Use recent correction on concerns of profit-sharing as buying opportunity**

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

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

- **Reiterate positive view given favorable risk-reward balance; potential upside (41%) from current levels**
- **Concerns on profit sharing with Gujarat government and inimical regulations may be overdone**
- **Upgraded to BUY (from ADD) with 12-month DCF-based fair valuation of Rs65 (Rs69 previously)**

We reiterate our positive view on GSPL and would that recommend investors use the recent correction in the stock price as a buying opportunity. GSPL stock has declined by 26% over the past one month on concerns of (1) likely sharing of 30% of pre-tax profits with Gujarat government for socio-economic development, (2) delay in production of gas from RIL's KG D-6 block and (3) likely negative impact of impending regulations. However, we believe that risks arising from the above-mentioned concerns are largely overdone and factored in our estimates and the current stock price. Even if we assume that the Gujarat government takes away 30% of PBT of GSPL in perpetuity, our DCF value would decline to Rs46 (the CMP coincidentally) from Rs65. Key downside risk stems from lower-than-expected gas supply.

**Attractive risk-reward balance.** We believe GSPL stock offers a good entry opportunity after its recent steep correction. GSPL stock has declined by 26% over the past one month and now offers 41% potential upside to our 12-month DCF-based target price of Rs65. At 1.6X P/B (FY20010E book) and 10.9X FY2010E EPS, GSPL's valuations appear reasonable given the nature of its accounting (high upfront depreciation of pipelines). We focus on cash flow valuation parameters (P/CEPS or DCF) and find the valuations attractive with the stock currently trading at 1.2X FY2009E GCI (EV/GCI) and 1X FY2010E GCI.

**Addressing some key concerns—26% correction in the past one month reflects key concerns and more**

**Profit sharing with the Gujarat government—stock has corrected to reflect 'lost' profits in perpetuity.** We believe that GSPL's current stock price is already discounting this eventuality. Our DCF value would decline to Rs46 if we assume that the Gujarat government takes away 30% of PBT of GSPL in perpetuity. We note that the issue of sharing profits with the government has not been included in the agenda of the annual general meeting of shareholders as against certain other Gujarat government-owned companies.

We note that GSPL is not directly owned by the Gujarat government but by a government-owned company (GSPC). However, this need not preclude GSPL from the ambit of the profit-sharing proposal of the government. We highlight that shareholders of Gujarat Mineral Development Corporation (GMDC) have decided to file a case against the Gujarat government's decision to take away 30% of PBT GMDC for socio-economic development.

**Delay in gas from RIL's KG D-6 block—not material for DCF valuation.** We see a modest impact on FY2009E earnings but do not see this as material in the context of GSPL's DCF-based fair value. We doubt that GSPL would invoke the take-or-pay agreement with RIL for its supply of gas from KG D-6 block for a delay of 1-2 months; the take-or-pay agreement becomes operational from November 2008. We factor supply of gas from RIL KG D-6 from 4QFY09 in our earnings model. RIL management has stated that gas production from KG D-6 block (D1 and D3 discoveries) will commence from 1QCY09, which would suggest a delay of 1-2 months versus previous disclosures. However, we do not rule out further delay in the supply of RIL's gas to GSPL.

**Imminent regulations.** We see limited downside risks to our earnings estimates from imminent regulations. We expect 14% post-tax ROCE on capital employed (gross block less accumulated depreciation plus normative working capital) for gas transmission as has been fixed by the regulator for city gas distribution business. We see no downside risks to our earnings estimate for GSPL if the regulator allows 14% post-tax ROCE or 21.21% pre-tax ROCE. On a capital employed base of Rs30.5 bn for FY2009E (gross block plus working capital), we compute, GSPL's EBIT at Rs6.5 bn, which is significantly higher than our FY2009E and FY2010E EBIT of Rs2.9 bn and Rs4.8 bn. Even if the capital employed used by the regulator factors in reasonable depreciation (GSPL has an aggressive depreciation policy with a rate of 8.33%), we compute that 'allowed' EBIT will likely be higher versus our estimates.

### Earnings revision

We have revised FY2009E, FY2010E and FY2011E EPS to Rs3, Rs4.2 and Rs5.1 from Rs3.6, Rs5.1 and Rs6.3 previously to reflect (1) delay in supply from RIL's gas, which impacts FY2009E EPS, (2) higher volumes and corresponding capital expenditure on expansion of pipeline network for subsequent years and (3) information in FY2008 annual report. We expect gas transmission volumes for FY2009E-12E to scale up to 24.8 mcm/d, 47.1 mcm/d, 62.6mcm/d and 75.6 mcm/d versus 16.8 mcm/d in FY2008.

### DCF valuation of GSPL (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	5,201	7,956	9,143	10,232	10,390	10,302	10,282	10,261	10,238	10,216	10,216	10,216
Adjusted tax expense	(495)	(1,074)	(1,809)	(2,435)	(2,681)	(2,800)	(2,910)	(2,998)	(3,057)	(3,101)		
Change in working capital	2,140	(4,273)	(1,995)	(68)	(11)	4	—	—	—	—		
<b>Operating cash flow</b>	<b>6,846</b>	<b>2,609</b>	<b>5,338</b>	<b>7,729</b>	<b>7,699</b>	<b>7,506</b>	<b>7,372</b>	<b>7,263</b>	<b>7,182</b>	<b>7,114</b>		
Capital expenditure	(11098)	(3708)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,677)		
<b>Free cash flow</b>	<b>(4253)</b>	<b>(1099)</b>	<b>5088</b>	<b>7479</b>	<b>7,449</b>	<b>7,256</b>	<b>7,122</b>	<b>7,013</b>	<b>6,932</b>	<b>5,437</b>	<b>5,437</b>	<b>5,437</b>
<b>Discounted cash flow</b>	<b>(4019)</b>	<b>(928)</b>	<b>3833</b>	<b>5029</b>	<b>4,472</b>	<b>3,890</b>	<b>3,409</b>	<b>2,996</b>	<b>2,644</b>	<b>1,852</b>		
Discounted cash flow-1 year forward		(1039)	4293	5635	5,009	4,357	3,818	3,357	2,961	1,852	1,653	
Discounted cash flow-2 year forward			4809	6311	5,612	4,879	4,276	3,759	3,318	2,323	2,074	1,852

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.0	12.0	12.0
Total PV of free cash flow	23,179	31,896	39,213
<b>Terminal value assumption</b>			
Growth to perpetuity (%)	—	—	—
FCF in 2018E	5,437	5,437	5,437
Exit FCF multiple (X)	8.3	8.3	8.3
Exit EV/EBITDA multiple (X)	4.4	4.4	4.4
Terminal value	45,309	45,309	45,309
PV of terminal value	17,283	17,283	17,283
<b>Total company value</b>	<b>40,463</b>	<b>49,179</b>	<b>56,496</b>
Net debt	7,091	12,663	15,533
Equity value	33,371	36,516	40,963
Shares outstanding (mn)	562	562	563
<b>Estimated share price using DCF</b>	<b>59.4</b>	<b>64.9</b>	<b>72.8</b>

Fiscal Year end (March 31, XXXX)	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08	30-Sep-08
<b>Days left</b>	182	547	912	1,278	1,643	2,008	2,373	2,739	3,104	3,469	3,834	4,200
<b>Years left</b>	0.50	1.50	2.50	3.50	4.50	5.50	6.50	7.50	8.50	9.50	10.50	11.51
<b>Discount factor at WACC</b>	<b>0.95</b>	<b>0.84</b>	<b>0.75</b>	<b>0.67</b>	<b>0.60</b>	<b>0.54</b>	<b>0.48</b>	<b>0.43</b>	<b>0.38</b>	<b>0.34</b>	<b>0.30</b>	<b>0.27</b>

Source: Kotak Institutional Equities estimates

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

	2005	2006	2007	2008	2009E	2010E	2011E
<b>Profit model (Rs mn)</b>							
Net sales	2,035	2,635	3,176	4,179	5,925	8,960	10,309
<b>EBITDA</b>	<b>1,293</b>	<b>1,942</b>	<b>2,677</b>	<b>3,645</b>	<b>5,201</b>	<b>7,956</b>	<b>9,143</b>
Other income	20	45	175	294	197	153	151
Interest	(363)	(413)	(457)	(815)	(985)	(1,383)	(1,559)
Depreciation	(656)	(791)	(1,026)	(1,632)	(2,284)	(3,153)	(3,399)
Pretax profits	293	783	1,369	1,491	2,129	3,574	4,336
Tax	(15)	(2)	(70)	(389)	(339)	(774)	(1,331)
Deferred taxation	(119)	(315)	(409)	(82)	(105)	(441)	(143)
<b>Net profits</b>	<b>160</b>	<b>467</b>	<b>894</b>	<b>999</b>	<b>1,686</b>	<b>2,359</b>	<b>2,862</b>
<b>Earnings per share (Rs)</b>	<b>0.6</b>	<b>1.2</b>	<b>1.6</b>	<b>1.8</b>	<b>3.0</b>	<b>4.2</b>	<b>5.1</b>
<b>Balance sheet (Rs mn)</b>							
Total equity	4,037	9,075	9,659	11,410	12,554	14,153	13,667
Deferred tax liability	193	508	917	999	1,104	1,544	1,687
Total borrowings	4,436	5,786	8,638	9,660	14,150	16,650	16,150
Current liabilities	571	1,771	1,845	5,106	7,159	3,055	1,134
<b>Total liabilities and equity</b>	<b>9,237</b>	<b>17,140</b>	<b>21,059</b>	<b>27,175</b>	<b>34,967</b>	<b>35,402</b>	<b>32,638</b>
Cash	426	2,372	1,811	2,569	1,487	1,117	1,428
Current assets	408	995	2,126	2,928	2,840	3,009	3,084
Total fixed assets	8,392	13,651	17,029	21,259	30,220	30,857	27,708
Investments	—	—	—	356	356	356	356
Deferred expenditure	11	123	93	63	63	63	63
<b>Total assets</b>	<b>9,237</b>	<b>17,140</b>	<b>21,059</b>	<b>27,175</b>	<b>34,967</b>	<b>35,402</b>	<b>32,638</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capital	844	1,562	2,212	2,743	3,731	5,718	6,253
Working capital changes	(193)	471	(1,058)	2,460	2,140	(4,273)	(1,995)
Capital expenditure	(1,799)	(6,049)	(4,404)	(5,863)	(11,098)	(3,708)	(250)
Investments	—	—	—	(356)	—	—	—
Other income	10	40	146	—	197	153	151
<b>Free cash flow</b>	<b>(1,138)</b>	<b>(3,976)</b>	<b>(3,103)</b>	<b>(659)</b>	<b>(5,031)</b>	<b>(2,110)</b>	<b>4,159</b>
<b>Ratios (%)</b>							
Debt/equity	104.9	60.4	81.7	77.9	103.6	106.1	105.2
Net debt/equity	51.2	37.6	45.0	43.8	50.9	51.5	51.3
RoAE	4.6	6.8	8.8	8.8	12.9	16.1	18.4
<b>RoACE</b>	<b>8.0</b>	<b>9.9</b>	<b>10.0</b>	<b>8.2</b>	<b>10.5</b>	<b>12.9</b>	<b>12.8</b>
<b>CROCI</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>14</b>	<b>17</b>	<b>17</b>
<b>Key assumptions</b>							
Volumes-old pipelines (mcm/d)	8.3	10.4	12.6	12.7	17.0	20.0	25.0
Volumes-new pipelines (mcm/d)	—	—	1.7	4.1	7.8	27.1	37.6
<b>Volumes (mcm/d)</b>	<b>8.3</b>	<b>10.5</b>	<b>14.3</b>	<b>16.8</b>	<b>24.8</b>	<b>47.1</b>	<b>62.6</b>

Source: Kotak Institutional Equities estimates

**Banking****ICBK.BO, Rs493**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	650
52W High -Low (Rs)	1465 - 483
Market Cap (Rs bn)	548.9

**Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	169.5	178.3	219.3
Net Profit (Rs bn)	41.6	35.2	42.0
EPS (Rs)	39.9	31.7	37.7
EPS <i>gth</i>	15.4	(20.7)	19.0
P/E (x)	12.4	15.6	13.1
P/B (x)	1.2	1.1	1.1
Div yield (%)	2.2	1.6	1.9

**Shareholding, June 2008**

	% of Pattern Portfolio	Over/(under) weight
Promoters	-	-
FIs	67.7	7.2
MFs	6.0	3.4
UTI	-	(2.0)
LIC	8.2	4.0

**ICICI Bank: Valuations based on long-term RoE and dividend projections do not warrant downside, retain ADD**

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

- **Significant correction in ICICI Bank stock likely on the back of developments in international financial markets**
- **Street assuming very low long-term profitability and growth, unwarranted in our view**
- **Retain ADD rating with price target of Rs650**

ICICI Bank stock has corrected sharply by 13% yesterday and 23% over the past week on likely concerns of its exposure to the international banks and high NPLs in its domestic retail book. It is difficult to estimate the precise quantum of losses for ICICI Bank from the international financial markets given the nature of inter-linkages amongst various institutions and the fast unfolding developments. We believe that the market is assuming rather low levels of normalized profits in perpetuity even if the company writes off (1) most of the investments in international financial markets (US\$2.5 bn out of US\$4.6 bn) and (2) 50% of current net NPLs (incl. restructured assets) and Rs25 bn of likely additional NPLs in remainder of FY2009E. The financial impact in more normal times would have been market-to-market (MTM) and NPL provisions rather than write down these assets. While we believe that there may be near-term pressure on stock price, valuation of the company based on long-term projections of RoE and growth in dividends do not warrant a downside. Our stress case analysis of the company's valuations suggests that the market is assuming RoE of around 9.7% in perpetuity for the standalone banking business (for a cost of equity of 14%) while assuming no growth in dividends. We retain our ADD rating with a target price of Rs650.

**Our base-case valuation of ICICI Bank is conservative.** In our base case, we have assumed that ICICI Bank would have to take a hit of US\$2.5 bn on the investments in the international markets and that there would be no value accruing to the parent company on account of investments in the international banking subsidiaries (UK and Canada subsidiaries). Further, we have also assumed that the company will write down, (1) 50% of incremental NPLs of Rs25 bn, i.e. Rs12.5 bn (retail gross NPL book was Rs63 bn as of June 2008), (2) 50% of Rs88 bn of net NPLs and restructured assets as of June 2008 against its networth in the current year, without changing the credit provision assumptions for the future years. We find that the current stock price of ICICI Bank is below the value of the company derived after these adjustments.

**Details on the investments by ICICI Bank's UK subsidiary.** ICICI Bank's UK subsidiary has US\$4.6 bn of non-India investments as per the company's press release. This includes:

- US\$1.1 bn of investments are in the inter-bank and commercial deposit market and none of these is to American banks
- Profile of the remainder - US\$3.5 bn
  - 98% of investments are in investment grade (by S&P, Moody's and Fitch)
  - There are no exposures to credit derivatives, i.e. CDO/CLN in this book
  - Exposure to US financial sector is 18%
- Capital adequacy of the UK subsidiary is 17.4% as of June 2008



Assuming that the investment book of US\$3.5 bn (excluding US\$1.1 bn of investments in inter-bank and commercial deposit market) has a duration of 3-3.5 years and the yields on these securities widen by 100-150 bps compared to June 2008, MTM losses will likely range between US\$100-200 mn on this book in 2QFY09.

**The market is currently factoring low profitability and high of cost of equity in perpetuity.** ICICI Bank's current stock price implies a normalized RoE of 9.7%, assuming a cost of equity (CoE) of 14% and nil growth in dividends. The sensitivity of normalized RoE to varying levels of dividend growth is shown in Exhibit 4 based on Gordon Growth model. The market also appears to be assuming a 17% of cost of equity against our current estimate of 14%, implying high levels of risk aversion in perpetuity, which is not justified, in our view.

**Exhibit 1: SOTP based valuation of ICICI Bank**

	ICICI Share (%)	Value per share (Rs)	Valuation methodology adopted
<b>Value of ICICI standalone</b>	100	381	Based on residual income model
<b>Subsidiaries</b>			
ICICI Prudential Life	74	175	18X NBAP+EV
General Insurance	74	15	2X FY2008 PBR
Mutual Fund	51	14	5% of FY2009 AUMs of Rs600 bn
ICICI Securities Ltd	100	20	PER of 15X FY2008 EPS
ICICI Securities Primary Dealer	100	1	PBR of 1X FY2007 BVPS
ICICI Homes Ltd	100	16	PBR of 2X FY2008 BVPS
ICICI Bank UK	100	0	NA
ICICI Bank Canada	100	0	NA
ICICI Bank Euroasia	100	4	PBR of 2X FY2007 BVPS
3i	11	1	Market value
Venture capital/MF	100	11	12% of AUM current AUM estimated at US\$2.6bn
ICICI One Source	25	3	Market value
ARCIL	30	2	Based on value assigned by IDFC at Rs7.15bn
NSE	6	6	Based on value assigned by recent divestment to FT. NSE valued @ Rs125 bn
<b>Value of subsidiaries</b>		<b>269</b>	
Value of company		<b>650</b>	

Source: Company, Kotak Institutional Equities estimates.

**Exhibit 2: Forecasts and valuation for ICICI Bank**

March fiscal year-ends, 2005-2010E.

	PAT (Rs bn)	EPS (Rs)	P/E (X)	BVPS (Rs)	P/B (X)	RoE (%)	EPS excl. dividend (Rs)	P/E (standalone) (X)	BVPS (standalone) (Rs)	P/B (standalone) (X)
2005	20.1	27.2	17.9	170.3	2.9	19.5	24.7	8.9	142.3	1.5
2006	25.4	32.8	14.9	249.6	2.0	14.6	28.4	7.7	217.4	1.0
2007	31.1	34.6	14.1	270.4	1.8	13.4	29.6	7.4	225.1	1.0
2008	41.6	39.9	12.2	417.6	1.2	11.7	28.9	7.6	263.6	0.8
2009E	35.2	31.7	15.4	440.1	1.1	7.4	26.7	8.2	274.8	0.8
2010E	42.0	37.7	13.0	466.7	1.0	8.3	32.3	6.8	297.0	0.7

Source: Company, Bloomberg, Kotak Institutional Equities.



---

**Exhibit 3: Yields have increased by 60-250 bps for bonds issued by financial companies**

YTM for bonds originated by global finance companies, June 2008 and September 2008 (%)

Bank	30-Jun-08	29-Sep-08	Maturity
HSBC	4.8	6.5	June 2011
CSFB	5.4	6.0	August 2011
UBS	2.4	3.4	June 2011
Citibank	5.2	7.6	September 2011

Source: Bloomberg.

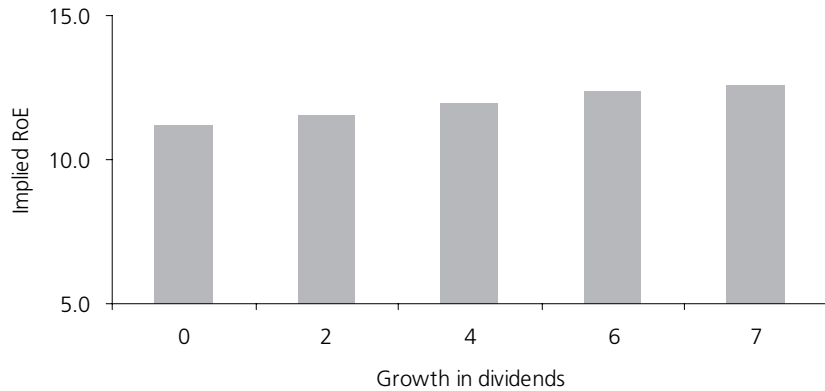
---



---

**Exhibit 4: Implied RoE for ICICI Bank in perpetuity is rather low**

Sensitivity of implied long-term RoE and assumed dividend growth of ICICI Bank (%)



Note:

RoE calculated using the Gordon Growth model, cost of equity assumed is 14%.

Source: Kotak Institutional Equities estimates.

---

**Media****SUTV.BO, Rs193**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	245
52W High -Low (Rs)	443 - 190
Market Cap (Rs bn)	76.1

**Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	8.7	10.9	13.0
Net Profit (Rs bn)	3.3	3.7	4.6
EPS (Rs)	8.3	9.5	11.6
EPS gth	30.7	14.2	22.0
P/E (x)	23.3	20.4	16.7
EV/EBITDA (x)	12.2	10.3	8.5
Div yield (%)	1.3	1.6	3.1

**Shareholding, June 2008**

	% of Pattern Portfolio	Over/(under) weight
Promoters	77.0	-
FIs	7.2	(0.2)
MFs	1.4	(0.2)
UTI	-	(0.3)
LIC	-	(0.3)

**Sun TV Network: Glimpses of sun as monsoon clouds fade**

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

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392

- **Valuations look more reasonable now; 16.1X FY2010E standalone EPS**
- **Ad revenue visibility in radio improves post ad rate hikes across the industry**
- **Upgrade rating to ADD; DCF-based 12-month TP of Rs245 (Rs260 previously)**

We upgrade the Sun TV stock to ADD rating (from REDUCE), noting significant under-performance versus the BSE-30 Index over the past three (-25%) and six (-11%) months. We do not believe Sun has overcome all issues on broadcasting (competition) and distribution (political uncertainty) but we have assumed moderate and below-market 14% and 19% ad and subscription revenue CAGR (FY2008-FY2011E). We highlight (1) Sun's leadership position in key South Indian broadcasting markets and the launch of niche channels to support the existing bouquet, (2) impressive traction in subscriber addition volume for its sister DTH concern, Sun Direct, as well as Dish TV and (3) improved visibility in its radio business post ad rate hikes across the industry as key positives. We have revised our 12-month DCF-based TP to Rs245 (Rs260 previously) and reduced our FY2009E and FY2010E earnings estimates to Rs9.5 (Rs9.7 previously) and Rs11.6 (Rs12) on moderate changes to our ad revenue estimates. Key risks include stronger-than-expectation competition and political uncertainty.

**Reward-risk balance in favor after steep correction.** Sun TV's stock price has declined significantly from its peak in January 2008 (-56%) and has underperformed the local index (BSE-30 Index) in the past three (-25%) and six (-11%) months, largely due to weaker-than-expected 1QFY09 results that disappointed with a 33% qoq decline in domestic pay-TV revenues due to (1) likely impact of start of competing cable TV services—Arasu Cable, an MSO started by the Tamil Nadu government, and Royal Cable and (2) the start of Sun Direct (the group's DTH operations) and aggressive pricing tactics that may have upset cable operators, who have been hitherto loyal affiliates of Sun Group's MSO company, SCV; these LCOs reduced payments to Sun TV.

We do not believe that concerns over competition (and its impact on Sun's ad revenues) and Sun's domestic cable subscription revenues have disappeared; however, a number of cable operators have lately restarted payments for its popular bouquet of channels. However, we do believe several factors uniquely position the company to benefit from strong double-digit ad revenue growth in regional TV and radio broadcasting markets and increasing addressability in the Indian C&S segment—(1) continued leadership of Sun channels in key markets, to be further reinforced by upcoming launch of niche channels (kids) and exclusive content agreement with Balaji Telefilms, (2) renewed traction in DTH subscriber additions (Sun Direct and Dish TV) and (3) improved visibility in the radio business post ad rate hikes across the industry.

**Continued leadership of Sun's channels in South India.** We note that Sun TV has maintained its leadership position in key South Indian markets despite strong competition from new and existing broadcasters (see Exhibit 1-4). We note that Sun TV and KTV retain the number one and two positions in the lucrative Rs6.5 bn Tamil ad revenue market. Sun TV channels also dominate the Rs4.5 bn Telugu and Rs2.5 bn Kannada ad revenue market, largely on the basis of a very strong content slate as it does not enjoy the benefits of a strong distribution network such as sister company SCV in the Tamil market. Sun also plans to launch niche channels (kids) to complement its strong bouquet of general entertainment (GE) and films in all its markets, which will enable it to better monetize its existing network.

**Increasing addressability in Indian C&S segment.** We highlight the strong ramp-up in DTH subscriber additions in the South Indian market with (1) over 1.3 mn subscribers added by Sun TV in the first nine months of its operation, (2) Dish TV quarterly run-rate increasing to about 0.5 mn subscribers with 25% coming on South India regional language packages versus 15% previously and (3) launch of Big TV DTH service, with region-specific South India packages, in August 2008. We expect strong growth in DTH subscriber base in India (see Exhibit 5) driven by the demand for niche, premium (including regional) content. Moreover, the digitalization policy of the Indian government may provide further upside to Sun's domestic subscription revenues.

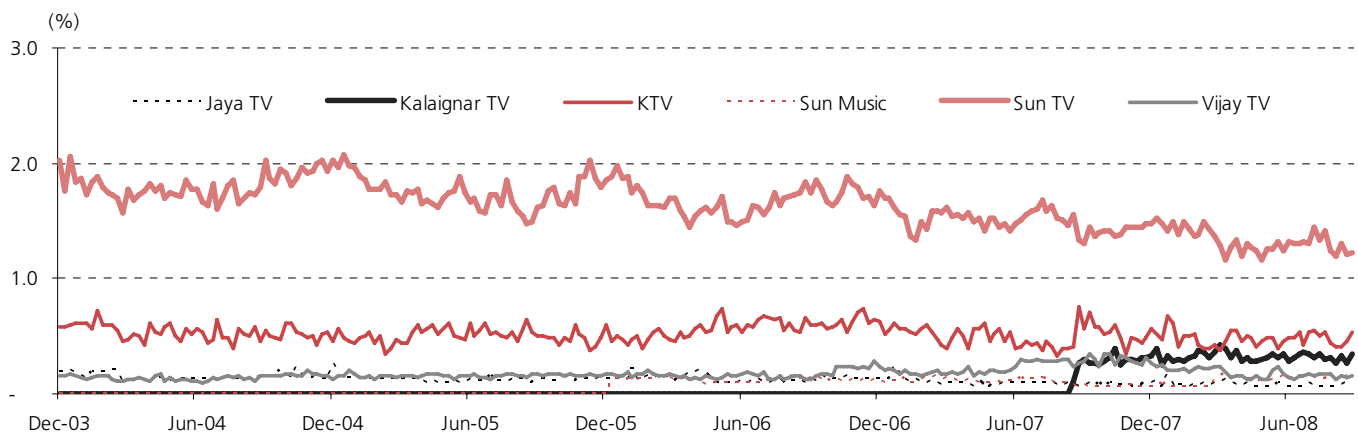
**Radio—looks promising given industry ad rate hike, improving utilization levels.** Three large metro-based radio networks—Radio Mirchi (ENIL), Radio One and Red FM—have recently announced ad rate hikes of about 15-20% in their respective key markets. The ad rate hikes are driven by (1) improving inventory utilization levels and (2) ad rate increases in print media, which competes with radio for local ad revenues. We note that Sun TV owns a 49% stake in Red FM, which has three radio stations in the metro markets of Delhi, Mumbai and Kolkata that are performing well (see Exhibit 6). Sun TV has been a laggard as regards its own radio station rollout (South-Asia FM and Kal Radio) but it has now completed the launch of all its stations. We expect Sun's radio business to report losses of Rs631 mn in FY2009E on account of the delayed launches, but achieve breakeven by FY2010E.

We see radio's presence increasing in media planning of large metro-oriented advertisers following the rollout of Radio Audience Measurement (RAM) system. This has helped advertisers measure the efficacy of their radio campaigns. The sharp increase in the number of FM radio players had previously led to a deluge of ad inventory into the market, which resulted in existing players being unable to increase ad rates for a very long period of time.

**Moderate revisions to earnings estimates; valuations look promising now.** We have revised our FY2009E and FY2010E Sun TV earnings estimates to Rs9.5 (Rs9.7 previously) and Rs11.6 (Rs12) on (1) modest reduction in Sun's FY2009E and FY2010E ad revenues to Rs6.2 bn (Rs6.3 bn previously) and Rs7.7 bn (Rs7.8 bn) and (2) modest increase in FY2009E and FY2010E employee costs to Rs1.21 bn (Rs1.16 bn previously) and Rs1.44 bn (Rs1.39 bn), largely due to intensifying competition in the South Indian broadcasting market. The stock looks fairly valued at 20.4X FY2009E and 16.7X FY2010E consolidated EPS estimates. We note that consolidated valuations are exaggerated by radio business losses; Sun TV is valued at 17.7X FY2009E and 16.1X FY2010E standalone EPS estimates.

#### Sun TV leads the lucrative Tamil market; Kalaigarnar TV has been unable to leverage upon its impressive entry

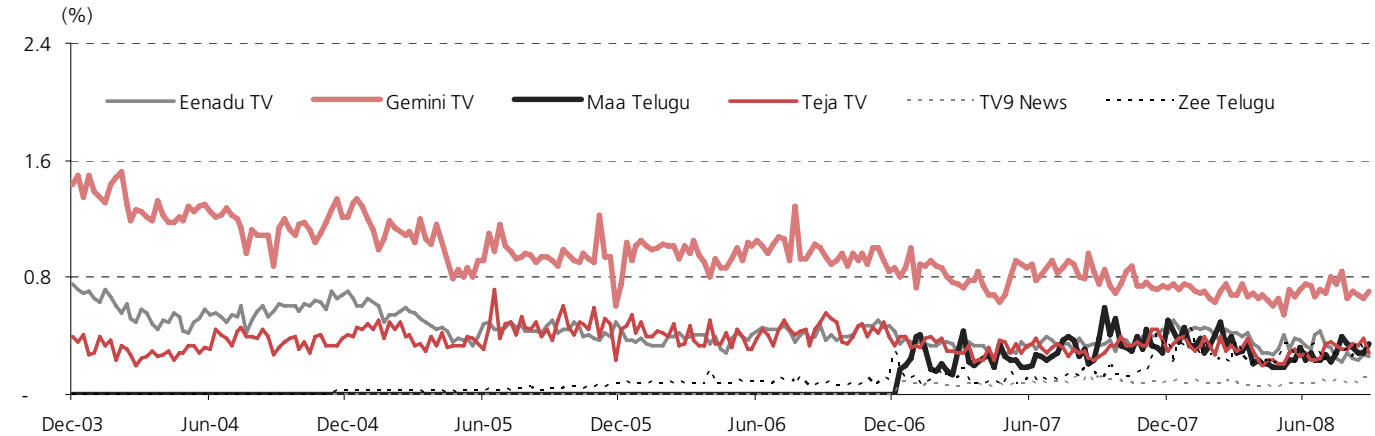
Prime-time (7:30-11:30 PM) ratings of major Tamil channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

**Sun's Gemini TV ratings have picked up in the last few months; new competition (Maa Telugu and Zee telugu) is not far behind**

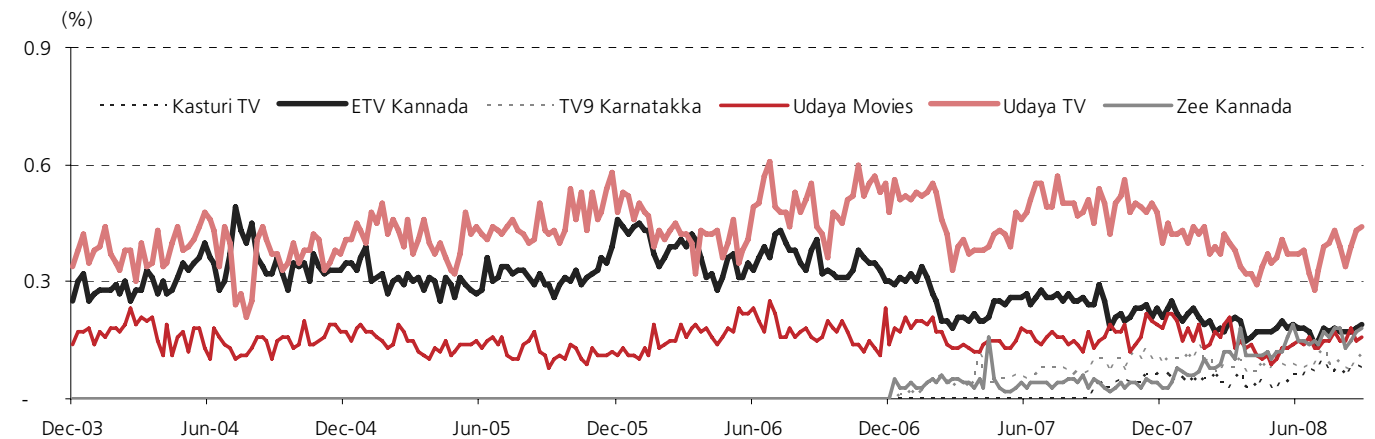
Prime-time (7:30-11:30 PM) ratings of major Telugu channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

**Sun's Udaya TV ratings have been volatile over the last few months; Zee Kannada has done well in the last few months**

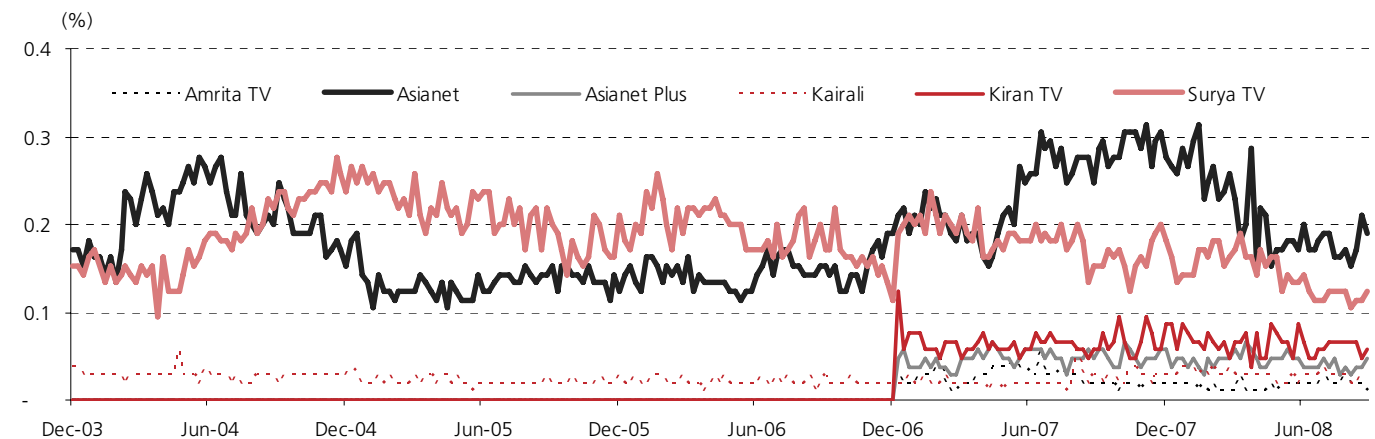
Prime-time (7:30-11:30 PM) ratings of major Kannada channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

**Asianet leads the Malayalam market, ahead of Sun's Surya and Kiran TV channels**

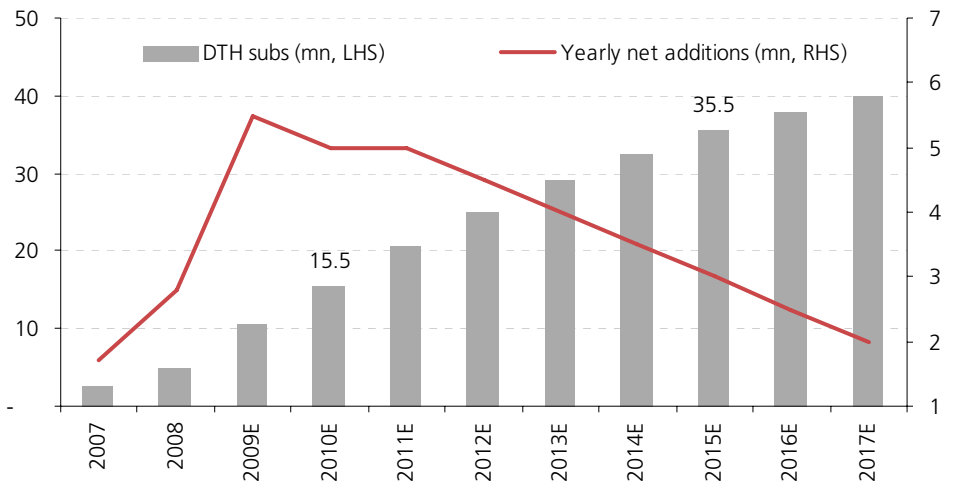
Prime-time (7:30-11:30 PM) ratings of major Malayalam channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

**We expect the number of DTH subscribers to increase to 15.5 mn by end-FY2010E**

DTH subscribers in India, March fiscal year-ends, 2007-2017E (mn)



Source: Kotak Institutional Equities estimates.

**Top-five radio networks in metro markets, August 24-August 30, 2008**

Rank (#)	Mumbai	Delhi	Kolkata
1	<b>Red FM</b>	Radio Mirchi	Radio Mirchi
2	Radio City	Fever FM	Big FM
3	Radio Mirchi	Radio One	<b>Red FM</b>
4	Big FM	AIR FM2-Gold	Friends FM
5	Radio One	Big FM	Fever FM

Source: RAM Media Research, compiled by Kotak Institutional Equities

**Our DCF-based target price for Sun TV is I**

DCF analysis of SunTV Network (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>EBITDA</b>	<b>6,357</b>	<b>7,557</b>	<b>8,925</b>	<b>10,240</b>	<b>11,540</b>	<b>12,840</b>	<b>14,232</b>	<b>15,750</b>	<b>17,262</b>	<b>17,686</b>	—	—
Tax expense	(2,018)	(2,229)	(2,729)	(3,209)	(3,662)	(4,110)	(4,585)	(5,099)	(5,609)	(5,798)	—	—
Changes in working capital	(1,582)	(830)	(816)	(841)	(866)	(898)	(950)	(1,033)	(1,097)	(388)	—	—
<b>Cash flow from operations</b>	<b>2,757</b>	<b>4,498</b>	<b>5,379</b>	<b>6,190</b>	<b>7,012</b>	<b>7,833</b>	<b>8,698</b>	<b>9,618</b>	<b>10,557</b>	<b>11,501</b>	—	—
Capital expenditure	(1,050)	(400)	(450)	(500)	(550)	(600)	(650)	(700)	(750)	(775)	—	—
Cash flow to minority shareholders	189	0	(52)	(88)	(98)	(109)	(122)	(145)	(167)	12	—	—
<b>Free cash flow</b>	<b>1,896</b>	<b>4,098</b>	<b>4,877</b>	<b>5,602</b>	<b>6,364</b>	<b>7,124</b>	<b>7,926</b>	<b>8,774</b>	<b>9,640</b>	<b>10,738</b>	<b>11,328</b>	<b>11,952</b>
<b>PV of free cash flow</b>	<b>1,784</b>	<b>3,412</b>	<b>3,594</b>	<b>3,651</b>	<b>3,671</b>	<b>3,637</b>	<b>3,581</b>	<b>3,506</b>	<b>3,409</b>	<b>3,361</b>	—	—
Discounted cash flow-1 year forward		3,856	4,061	4,128	4,148	4,109	4,046	3,964	3,853	3,798	3,546	—
Discounted cash flow-2 year forward			4,589	4,664	4,689	4,644	4,572	4,479	4,355	4,292	4,007	3,741
	<b>Now</b>	<b>+ 1-year</b>		<b>+ 2-years</b>								
Total PV of free cash flow (a)	33,606	39,508		44,031								
FCF in terminal year	10,738	11,328		11,952								
Adjusted FCF in terminal year	10,728	11,328		11,952		Adjusting for FM radio business, which will end in FY2017						
Terminal value in terminal year	143,040	151,046		159,353								
PV of terminal value (b)	50,591	53,422		56,361								
<b>Total company value (a) + (b)</b>	<b>84,197</b>	<b>92,930</b>		<b>100,391</b>								
<b>Value per share of Sun TV (Rs)</b>	214	236		255								
<b>Net debt/(cash)</b>	(5,627)	(3,602)		(4,075)								
<b>Value to equity holders</b>	<b>89,824</b>	<b>96,533</b>		<b>104,466</b>								
<b>Value to equity holders (Rs/Sun TV share)</b>	<b>228</b>	<b>245</b>		<b>265</b>								

Source: Kotak Institutional Equities estimates

**We model Sun's revenues to grow strongly led by growth in pay-TV and FM radio revenues**

Derivation of revenues of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
<b>Advertisement revenues</b>									
Sun TV	1,038	1,085	1,491	1,902	2,229	2,500	2,802	3,150	3,542
K TV	100	123	141	162	186	210	231	254	279
Sun News	28	39	47	55	63	71	80	88	97
Sun Music	2	94	122	163	188	211	237	261	287
Sun Kids	—	—	—	101	136	159	185	215	249
Sun Documentary	—	—	—	64	160	187	218	253	293
Sun Sports	—	—	9	103	142	140	137	151	166
Surya TV	226	386	476	574	633	698	787	876	975
Kiran TV	3	28	40	59	70	83	97	107	117
Gemini TV	—	—	467	625	736	828	931	1,035	1,151
Teja TV	—	—	44	51	58	65	72	79	87
Gemini News	—	—	35	41	47	53	59	65	72
Gemini Music	—	—	75	100	115	129	146	160	176
Udaya TV	—	—	428	538	615	692	778	865	962
Udaya Movies	—	—	43	49	56	63	70	77	84
Udaya Varthegulu (News)	—	—	25	29	34	38	42	47	51
Udaya TV 2	—	—	30	40	46	52	58	64	70
<b>Total TV ad revenues</b>	<b>1,397</b>	<b>1,755</b>	<b>3,472</b>	<b>4,655</b>	<b>5,514</b>	<b>6,178</b>	<b>6,930</b>	<b>7,746</b>	<b>8,659</b>
Radio	144	158	135	89	683	1,514	1,769	2,060	2,215
<b>Total advertisement revenues</b>	<b>1,542</b>	<b>1,913</b>	<b>3,608</b>	<b>4,745</b>	<b>6,197</b>	<b>7,692</b>	<b>8,699</b>	<b>9,807</b>	<b>10,873</b>
<b>Broadcast revenues (or slot sales)</b>									
Sun TV	455	531	607	721	829	912	1,004	1,104	1,214
Surya TV	38	60	60	73	77	84	93	102	112
Gemini TV	—	—	332	385	442	486	535	589	647
Udaya TV	—	—	86	117	130	143	157	173	190
<b>Total broadcast revenues</b>	<b>493</b>	<b>591</b>	<b>1,085</b>	<b>1,296</b>	<b>1,478</b>	<b>1,626</b>	<b>1,788</b>	<b>1,967</b>	<b>2,164</b>
<b>Total ad and broadcast revenues</b>	<b>2,034</b>	<b>2,504</b>	<b>4,692</b>	<b>6,041</b>	<b>7,675</b>	<b>9,318</b>	<b>10,487</b>	<b>11,774</b>	<b>13,037</b>
<b>Pay-TV revenues</b>									
Sun TV	398	447	667	1,106	1,340	1,604	1,951	2,306	2,685
Surya TV	—	—	—	—	47	78	198	242	290
Gemini TV	—	—	693	816	898	1,020	1,193	1,349	1,495
Udaya TV	—	—	310	393	434	492	589	687	778
<b>Total pay-TV revenues</b>	<b>398</b>	<b>447</b>	<b>1,669</b>	<b>2,315</b>	<b>2,718</b>	<b>3,194</b>	<b>3,932</b>	<b>4,584</b>	<b>5,249</b>
International revenues	88	183	339	370	474	482	486	494	503
Others	10	18	42	12	37	52	65	78	91
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
<b>Total revenues</b>	<b>2,886</b>	<b>3,152</b>	<b>6,742</b>	<b>8,738</b>	<b>10,904</b>	<b>13,046</b>	<b>14,969</b>	<b>16,930</b>	<b>18,880</b>
<b>Growth (%)</b>	<b>7</b>	<b>9</b>	<b>114</b>	<b>30</b>	<b>25</b>	<b>20</b>	<b>15</b>	<b>13</b>	<b>12</b>

Source: Company, Kotak Institutional Equities estimates

**Consolidated profit model of Sun TV/SunTV Network, March fiscal year-ends, 2005-2013E (Rs mn)**

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E
<b>Net sales</b>	<b>2,903</b>	<b>3,219</b>	<b>6,780</b>	<b>8,699</b>	<b>10,904</b>	<b>13,046</b>	<b>14,969</b>	<b>16,930</b>
Broadcasting costs	(75)	(71)	(95)	(112)	(135)	(131)	(128)	(128)
Production costs	(1,009)	(683)	(1,608)	(1,444)	(2,099)	(2,687)	(3,050)	(3,426)
Employee costs	(419)	(300)	(698)	(958)	(1,208)	(1,442)	(1,598)	(1,771)
SG&A costs	(95)	(131)	(506)	(924)	(1,105)	(1,229)	(1,268)	(1,365)
<b>EBITDA</b>	<b>1,306</b>	<b>2,035</b>	<b>3,874</b>	<b>5,261</b>	<b>6,357</b>	<b>7,557</b>	<b>8,925</b>	<b>10,240</b>
Other income	107	172	411	556	435	489	569	602
Interest (expense)/income	(35)	(65)	(64)	(159)	(138)	(52)	—	—
Depreciation	(153)	(147)	(294)	(377)	(624)	(797)	(729)	(682)
Amortization	—	—	(56)	(148)	(235)	(235)	(235)	(195)
<b>Pretax profits</b>	<b>1,224</b>	<b>1,995</b>	<b>3,871</b>	<b>5,133</b>	<b>5,796</b>	<b>6,963</b>	<b>8,530</b>	<b>9,965</b>
Extraordinary inc/(chrg)	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—
Tax-cash	(454)	(709)	(1,509)	(1,947)	(2,127)	(2,378)	(2,924)	(3,416)
Tax-deferred	(3)	16	108	(67)	(126)	(30)	(17)	(13)
Minority interest	—	—	(9)	148	189	—	(52)	(88)
<b>Net income</b>	<b>768</b>	<b>1,302</b>	<b>2,461</b>	<b>3,267</b>	<b>3,732</b>	<b>4,555</b>	<b>5,536</b>	<b>6,448</b>
Shares outstanding year-end (mn)	248.0	248.0	394.1	394.1	394.1	394.1	394.1	394.1
Shares primary (mn)	248.0	248.0	388.1	394.1	394.1	394.1	394.1	394.1
Shares fully diluted (mn)	248.0	248.0	388.1	394.1	394.1	394.1	394.1	394.1
<b>EPS primary (Rs)</b>	<b>3.1</b>	<b>5.3</b>	<b>6.3</b>	<b>8.3</b>	<b>9.5</b>	<b>11.6</b>	<b>14.0</b>	<b>16.4</b>
<b>EPS fully diluted (Rs)</b>	<b>3.1</b>	<b>5.3</b>	<b>6.3</b>	<b>8.3</b>	<b>9.5</b>	<b>11.6</b>	<b>14.0</b>	<b>16.4</b>
<b>Cash flow per share (Rs)</b>	<b>5.0</b>	<b>6.9</b>	<b>8.3</b>	<b>10.4</b>	<b>12.6</b>	<b>16.1</b>	<b>18.8</b>	<b>21.5</b>
<b>Growth (%)</b>								
Net income	(1)	70	89	33	14	22	22	16
EPS	(28)	70	21	31	14	22	22	16
Gross cash flow	8	39	88	26	21	28	17	14
<b>Tax rate-cash (%)</b>	<b>37</b>	<b>36</b>	<b>39</b>	<b>38</b>	<b>37</b>	<b>34</b>	<b>34</b>	<b>34</b>
<b>Tax rate-effective (%)</b>	<b>37</b>	<b>35</b>	<b>36</b>	<b>39</b>	<b>39</b>	<b>35</b>	<b>34</b>	<b>34</b>
Dividend per share (Rs)	—	2	2	3	3	6	11	12
Dividend pay-out ratio (%)	—	45	24	30	32	52	75	75

Source: Company, Kotak Institutional Equities estimates



**Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and SunTV Network for 2007-2012E, March fiscal year-ends (Rs mn)**

	2006	2007	2008	2009E	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>							
Net sales	3,219	6,780	8,699	10,904	13,046	14,969	16,930
<b>EBITDA</b>	<b>2,035</b>	<b>3,874</b>	<b>5,261</b>	<b>6,357</b>	<b>7,557</b>	<b>8,925</b>	<b>10,240</b>
Other income	172	411	556	435	489	569	602
Interest (expense)/income	(65)	(64)	(159)	(138)	(52)	—	—
Depreciation	(147)	(294)	(377)	(624)	(797)	(729)	(682)
Amortization	—	(56)	(148)	(235)	(235)	(235)	(195)
<b>Pretax profits</b>	<b>1,995</b>	<b>3,871</b>	<b>5,133</b>	<b>5,796</b>	<b>6,963</b>	<b>8,530</b>	<b>9,965</b>
Tax-cash	(709)	(1,509)	(1,947)	(2,127)	(2,378)	(2,924)	(3,416)
Tax-deferred	16	108	(67)	(126)	(30)	(17)	(13)
Minority interest	—	(9)	148	189	—	(52)	(88)
<b>Net profits after minority interests</b>	<b>1,302</b>	<b>2,461</b>	<b>3,267</b>	<b>3,732</b>	<b>4,555</b>	<b>5,536</b>	<b>6,448</b>
<b>Earnings per share (Rs)</b>	<b>5.3</b>	<b>6.3</b>	<b>8.3</b>	<b>9.5</b>	<b>11.6</b>	<b>14.0</b>	<b>16.4</b>
<b>Balance sheet (Rs mn)</b>							
Total equity	3,071	11,932	14,485	16,835	18,624	19,302	20,092
Deferred Tax	32	(56)	11	137	167	185	198
Total borrowings	2,333	867	695	—	—	—	—
Current liabilities	741	1,693	2,516	2,652	2,814	2,914	3,018
<b>Total capital</b>	<b>6,209</b>	<b>14,478</b>	<b>18,311</b>	<b>20,039</b>	<b>22,019</b>	<b>22,867</b>	<b>23,863</b>
Cash	732	6,494	4,297	4,075	5,655	6,061	6,489
Current assets	2,440	3,221	4,542	6,260	7,253	8,169	9,115
Total fixed assets	2,830	3,543	5,048	5,681	5,284	5,005	4,823
Intangible assets	206	1,220	2,620	2,219	2,024	1,829	1,633
<b>Total assets</b>	<b>6,209</b>	<b>14,478</b>	<b>18,311</b>	<b>20,039</b>	<b>22,019</b>	<b>22,867</b>	<b>23,863</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capital	1,722	3,239	4,091	4,964	6,336	7,422	8,463
Working capital	(251)	(1,992)	(1,235)	(1,582)	(830)	(816)	(841)
Capital expenditure	(2,091)	(433)	(1,811)	(1,050)	(400)	(450)	(500)
Investments	(326)	(849)	(3,837)	(872)	(1,208)	(1,422)	(1,639)
Other income	80	402	523	435	489	569	602
<b>Free cash flow</b>	<b>(619)</b>	<b>814</b>	<b>1,046</b>	<b>2,332</b>	<b>5,105</b>	<b>6,156</b>	<b>7,123</b>
<b>Ratios (%)</b>							
Debt/equity	76.0	7.3	4.8	—	—	—	—
Net debt/equity	52.1	(47.2)	(24.9)	(24.2)	(30.4)	(31.4)	(32.3)
RoAE	36.1	32.9	24.8	23.7	25.5	28.9	32.4
<b>RoACE</b>	<b>26.6</b>	<b>26.8</b>	<b>24.2</b>	<b>24.3</b>	<b>26.7</b>	<b>30.1</b>	<b>33.6</b>

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	29-Sep-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Shares (mm)	EPS (Rs)		EPS growth (%)		P/BV (X)		EVERITDA (X)		Dividend yield (%)		RoE (%)		Target Price (Rs)	Upside (%)	ADV-3mo (US\$ mn)												
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E															
<b>Automobiles</b>																															
Bajaj Auto	571	ADD	82,614	1,760	145	59.3	58.7	63.2	(33.4)	(1.1)	7.8	9.6	9.7	9.0	6.7	6.8	6.2	5.2	4.2	3.4	3.5	3.5	3.5	2.1	4.1	36.4	630	10.3	—		
Hero Honda	846	REDUCE	168,996	3,600	200	48.5	59.9	66.1	12.8	23.5	10.4	17.5	14.1	12.8	11.0	10.0	9.0	5.4	4.4	3.6	2.2	2.4	2.4	2.4	3.4	34.6	31.1	790	(66)	7.4	
Mahindra & Mahindra	504	ADD	129,993	2,769	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	13.2	13.6	13.5	9.7	9.6	8.8	2.9	2.3	1.9	2.2	1.8	1.9	2.7	2.8	22.0	17.8	640	27.1	5.4	
Maruti Suzuki	663	ADD	191,564	4,080	289	59.9	60.0	65.1	10.8	0.2	8.4	11.1	11.0	10.2	6.2	6.0	5.4	2.2	1.9	1.6	0.7	0.7	0.7	0.7	22.1	18.3	168	790	19.2	15.4	
Tata Motors	355	SELL	206,123	4,390	581	47.4	25.1	22.3	0.9	(47.1)	(3.0)	7.5	14.1	15.2	7.4	8.7	8.7	2.3	0.8	1.1	2.8	3.6	3.6	2.4	3.8	24.3	9.8	7.4	425	19.9	9.0
<b>Automotives</b>																															
<b>Banking/Financial Institutions</b>																															
Axis Bank	54	REDUCE	26,190	558	485	11.9	10.1	11.6	7.0	(15.0)	15.0	4.6	5.4	4.7	—	—	—	0.9	0.8	0.7	7.4	4.7	5.4	4.7	18.0	14.3	14.8	65	20.4	0.8	
Bank of Baroda	672	REDUCE	240,220	5,117	358	32.2	35.8	55.1	37.7	(11.6)	53.9	20.8	18.8	12.2	—	—	—	1.2	1.1	1.0	2.8	1.0	2.8	2.5	3.0	14.6	11.1	12.6	310	8.0	7.4
Bank of India	287	ADD	104,888	2,234	368	39.3	34.7	42.6	39.6	(11.6)	32.6	7.3	8.3	6.7	—	—	—	1.8	1.4	1.2	1.5	1.6	1.9	2.7	2.2	2.2	2.0	375	38.4	23.6	
Central Bank of India	182	REDUCE	142,497	3,035	526	40.6	41.6	49.8	76.6	2.4	19.6	6.7	6.5	5.4	—	—	—	1.0	0.9	0.8	4.4	3.8	4.1	15.0	8.9	13.6	210	15.4	3.7		
Corporation Bank	49	SELL	19,572	1,589	410	38.2	23.4	36.6	10.1	(88.6)	64.7	4.8	7.8	4.7	—	—	—	0.9	0.7	0.5	4.1	—	—	15.3	7.9	16.7	55	12.7	0.5		
Federal Bank	201	ADD	37,437	797	143	51.3	44.8	53.6	37.2	(12.5)	19.6	5.1	5.8	4.9	—	—	—	0.9	0.8	0.7	4.0	3.5	4.2	18.4	14.4	15.4	355	36.0	0.4		
Future Capital Holdings	279	BUY	34,455	734	171	34.4	20.8	32.4	0.5	(29.4)	55.6	5.9	9.7	6.2	—	—	—	0.9	0.8	0.7	2.0	1.9	3.0	13.6	8.8	12.5	275	36.5	1.7		
HDPC	2,032	ADD	583,188	12,422	287	85.8	83.7	100.1	38.2	(2.4)	19.6	23.7	24.3	20.3	—	—	—	4.9	4.2	3.7	1.2	1.2	1.5	2.7	2.8	18.6	19.3	2,350	15.7	68.7	
ICICI Bank	1,200	BUY	508,093	10,822	423	46.0	52.5	67.4	28.7	14.1	28.4	26.1	22.9	17.8	—	—	—	4.4	3.5	2.4	0.6	0.8	1.0	1.7	1.7	17.0	16.9	1,300	8.3	48.8	
IDFC	493	ADD	548,884	11,691	1,113	39.9	31.7	37.7	15.4	(20.7)	19.0	12.4	15.6	13.1	—	—	—	1.2	1.1	1.1	2.2	1.6	1.9	1.1	1.7	7.4	8.3	650	31.8	151.5	
Indian Infotek	94	ADD	32,872	700	350	5.6	6.7	9.8	85.6	19.1	47.4	16.8	14.1	9.6	6.4	7.1	5.4	2.7	1.7	1.5	1.0	1.5	2.3	2.0	14.9	17.0	155	65.0	4.6		
Indian Overseas Bank	119	ADD	51,315	1,093	430	22.5	19.5	25.6	33.9	(13.3)	30.8	5.3	6.1	4.7	—	—	—	1.2	1.0	0.9	2.5	2.1	2.7	23.4	16.4	18.4	140	17.3	2.8		
J&K Bank	453	ADD	21,952	468	48	74.2	75.7	77.5	19.2	2.0	2.4	6.1	6.0	5.8	—	—	—	1.1	0.9	0.8	4.1	5.4	6.0	27.2	19.7	20.1	130	42.4	1.1		
LIC Housing Finance	279	ADD	23,701	505	85	45.5	56.5	59.5	38.7	24.1	5.3	6.1	4.9	4.7	—	—	—	1.2	1.0	0.9	3.6	4.5	3.6	16.8	15.2	13.9	750	65.7	0.4		
Mahindra & Mahindra Financial	253	SELL	24,092	513	95	20.8	22.9	27.2	32.6	10.1	18.7	12.1	11.0	9.3	—	—	—	1.9	1.7	1.5	1.8	2.3	2.7	16.9	15.7	16.6	215	(15.0)	0.1		
Oriental Bank of Commerce	146	ADD	36,591	779	251	23.9	26.3	30.7	(27.6)	10.3	16.4	6.1	5.5	4.8	—	—	—	0.7	0.6	0.6	3.2	3.6	4.2	6.2	10.9	11.7	200	36.9	1.8		
PFC	126	REDUCE	144,389	3,078	1,148	11.4	13.0	15.8	2.6	14.3	2.1	11.0	9.7	8.0	—	—	—	1.4	1.3	1.1	1.3	1.4	1.7	13.4	13.6	14.6	130	3.3	3.4		
Punjab National Bank	460	BUY	144,992	3,088	315	65.0	69.2	79.8	33.0	6.5	15.2	7.1	6.6	5.8	—	—	—	1.5	1.2	1.1	2.8	3.0	3.5	18.0	16.7	17.1	650	41.4	10.2		
SREI	1,405	BUY	8,126	173	134	11.4	5.5	8.1	57.4	(51.8)	47.8	5.3	11.0	7.4	—	—	—	1.3	0.7	0.6	1.7	3.8	4.6	2.3	1.6	12.5	160	164.0	0.7		
State Bank of India	1,405	ADD	887,500	18,904	631	106.6	93.5	119.2	23.5	(22.2)	27.4	13.2	15.0	11.8	—	—	—	2.1	1.9	1.6	1.5	1.5	1.6	1.6	16.8	11.5	13.4	1,700	21.0	81.5	
Union Bank	138	BUY	69,883	1,489	505	27.5	20.8	29.3	64.1	(24.2)	40.9	5.0	6.6	4.7	—	—	—	1.0	0.9	0.8	2.9	2.3	3.2	26.8	17.4	20.9	200	44.6	3.8		
<b>Banks/Financial Institutions</b>																															
<b>Consumer</b>																															
ACC	613	REDUCE	115,665	2,464	189	64.1	61.2	47.7	(13.0)	(4.5)	(22.0)	9.6	10.0	12.9	5.0	5.1	6.6	2.6	2.2	2.0	3.8	3.8	3.8	3.3	3.8	25.3	17.5	610	(0.5)	7.2	
Ambuja Cements	78	REDUCE	118,517	2,524	1,522	7.6	8.0	6.6	(11.2)	6.4	(17.5)	10.3	9.7	11.7	5.2	5.9	6.4	2.4	1.9	1.7	3.8	3.8	3.7	2.6	2.1	15.4	95	22.0	2.9		
Grasim Industries	1,732	ADD	158,807	3,383	92	284.6	257.6	240.4	32.6	(9.5)	(6.7)	6.1	6.7	7.2	3.6	3.7	3.5	1.4	1.1	1.0	1.8	1.9	1.9	25.3	18.3	14.5	2,320	33.9	4.4		
India Cements	121	ADD	34,007	724	282	24.5	19.1	19.9	n/a	(21.8)	4.1	4.9	6.3	6.1	3.7	4.0	3.4	1.0	0.9	0.8	1.5	1.8	1.8	25.9	15.8	14.4	160	32.6	2.5		
Shree Cement	515	BUY	17,932	382	35	85.9	98.5	60.0	90.0	14.7	(39.0)	6.0	5.2	8.6	2.5	2.2	2.2	2.7	1.9	1.6	1.4	1.6	1.6	1.6	5.3	4.2	20.5	1,080	109.8	0.4	
Ultra Tech Cement	515	BUY	64,534	1,375	125	81.4	80.6	59.1	28.5	(0.9)	(26.7)	6.3	6.4	8.7	4.4	4.4	5.1	2.0	1.5	1.3	1.5	1.5	1.6	1.6	1.6	45.2	32.1	18.9	700	35.9	0.9
<b>Consumer</b>																															
<b>Consumer (Discretionary)</b>																															
Radio Khatan	61	REDUCE	7,141	152	118	3.4	3.2	3.8	8.4	(7.0)	21.5	17.9	19.2	15.8	8.8	8.8	8.0	1.4	1.3	1.2	0.7	0.7	0.7	9.4	8.1	9.0	91	49.9	0.4		
United Breweries	134	REDUCE	32,118	684	240	1.9	2.4	4.4	(11.6)	25.7	82.1	70.2	59.9	30.7	17.5	13.5	10.2	5.6	3.1	2.8	—	—	—	8.3	7.1	9.6	160	19.6	0.2		
United Spirits	1,232	BUY	115,351	2,457	94	40.0	45.5	59.1	50.8	13.7	29.8	30.8	27.1	20.9	15.3	13.4	11.6	4.9	3.9	3.5	0.0	0.0	0.0	18.8	17.9	19.4	1,600	29.9	7.1		
<b>Consumer (Discretionary)</b>																															
<b>Consumer products</b>																															
Asian Paints	1,183	ADD	113,487	2,417	96	38.3	44.3	52.4	36.1	15.8	18.2	30.9	26.7	22.6	18.6	15.7	13.0	11.7	9.4	7.6	1.3	1.5	1.7	4.3	4.0	3.8	1,240	4.8	0.7		
Colgate-Palmolive (India)	411	REDUCE	55,839	1,189	136	17.3	19.2	22.4	18.4	10.6	17.0	23.7	21.4	18.3	18.7	15.8	13.3	2.9	2.5	2.1	3.2	3.5	4.1	100.8	128.5	128.3	420	2.3	0.9		
GlaxoSmithKline Consumer (a)	622	BUY	26,159	557	42	38.5	45.5	53.8	27.4	18.4	18.3	16.2	13.7	11.6	8.4	6.9	5.6	3.9	3.4	2.9	2.0	2.4	2.9	2.7	2.3	27.3	27.3	800	28.6	0.1	
Godrej Consumer Products	110	ADD	28,263	602	258	7.3	8.0	8.5	22.9	9.0	6.9	15.0	13.8	12.9	13.1	10.3	9.2	13.2	4.1	3.6	3.2	4.1	3.6	3.7	100.9	46.1	39.3	140	27.9	0.1	
Hindustan Unilever	255	ADD	554,491	11,811	2,177	8.1	9.2	10.8	15.4	12.9	17.9	31.3	27.8	23.5	25.4	21.2	17.4	38.5	35.8	33.1	4.2	3.4	4.0	85.2	134.3	146.7	280	10.0	16.9		



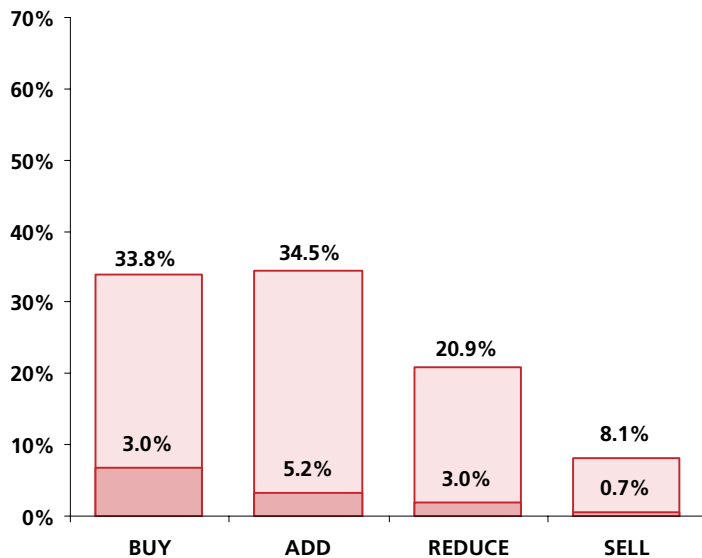
**Kotak Institutional Equities: Valuation Summary of Key Indian Companies**

Company	Price (Rs)	Rating	(Rs mm)	(US\$ mm)	(mm)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US\$ mm)												
<b>Retail</b>																																
Pantabon Retail	268	BUY	46,074	981	172	8.0	12.1	18.4	93.1	50.4	52.2	33.3	22.2	14.6	12.5	8.6	7.0	2.7	1.7	1.6	0.2	0.3	0.4	8.5	9.1	10.8	400	49.3	1.2			
Titan Industries	1,085	BUY	48,182	1,026	44	35.1	41.1	49.8	55.2	17.3	21.0	26.4	21.8	20.8	16.2	13.0	10.2	7.8	6.1	0.7	0.9	1.0	0.7	0.9	1.0	37.7	33.6	31.6	1,350	24.4	2.2	
Vishal Retail	270	ADD	6,042	129	22	18.1	21.6	35.6	37.2	19.2	25.2	14.9	12.5	7.6	8.7	6.2	4.8	2.2	1.9	1.5	-	-	-	-	20.2	16.2	22.1	485	79.8	0.2		
			<b>100,298</b>	<b>2,136</b>					<b>318</b>	<b>362</b>	<b>40.7</b>	<b>31.1</b>	<b>28.9</b>	<b>16.3</b>	<b>14.3</b>	<b>10.1</b>	<b>7.9</b>	<b>4.1</b>	<b>2.8</b>	<b>2.4</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.4</b>	<b>13.2</b>	<b>12.2</b>	<b>14.9</b>					
<b>Technology</b>																																
HCL Technologies	195	REDUCE	135,803	2,899	695	15.3	22.3	25.4	(19.0)	46.0	13.8	12.8	8.8	7.7	7.0	5.5	4.6	2.8	2.3	1.9	4.1	4.1	4.1	4.1	21.4	28.1	27.3	250	27.9	4.4		
Hexaware Technologies	33	SELL	4,733	101	142	7.7	4.7	5.6	(13.7)	(88.2)	18.5	4.3	7.0	5.9	1.3	1.0	0.5	0.7	0.6	0.6	4.8	4.8	4.8	4.8	15.1	9.4	10.4	50	50.2	0.3		
Infosys Technologies	1,393	BUY	799,754	17,035	574	79.1	102.1	118.1	18.0	29.1	15.7	17.6	13.6	11.8	13.7	10.2	8.2	5.8	4.4	3.5	2.4	1.8	2.1	3.6	36.1	36.8	33.1	2,100	50.7	77.2		
Mphasis BFL	180	SELL	37,549	800	208	12.2	15.6	18.5	67.6	27.3	18.8	14.7	11.6	9.7	8.8	6.9	5.5	3.2	0.4	2.3	1.9	2.2	2.5	2.3	2.6	25.6	25.4	220	22.2	2.0		
Mindtree	314	BUY	12,331	263	39	26.1	35.7	43.4	14.8	36.5	17.7	12.0	8.8	7.2	10.1	6.2	4.6	2.3	1.8	1.5	0.8	1.1	1.4	2.1	2.4	21.3	23.5	22.9	550	74.9	0.5	
Patni Computer Systems	183	SELL	25,486	543	139	33.4	25.2	29.7	29.7	(24.5)	17.7	5.5	7.3	6.2	2.5	2.1	1.4	0.9	0.9	0.8	1.1	1.3	1.5	1.9	1.2	11.7	12.7	260	41.8	1.6		
Polaris Software Lab	67	SELL	6,566	140	98	7.4	10.1	11.8	(27.6)	36.0	16.2	9.0	6.6	5.7	4.0	2.8	2.1	1.0	0.9	0.8	2.6	2.6	2.6	2.6	11.7	14.3	14.8	90	34.7	5.5		
Satyam Computer Services	293	BUY	199,865	4,257	682	25.2	32.2	37.5	17.7	27.6	16.5	11.6	9.1	7.8	8.6	6.0	4.7	2.8	2.2	1.8	3.3	4.1	4.8	26.0	27.1	25.7	500	70.6	39.4			
TCS	620	REDUCE	606,738	12,924	979	51.3	58.7	67.9	21.5	14.5	15.6	12.1	10.6	9.1	9.7	8.1	6.7	4.9	3.8	3.1	2.3	3.3	4.4	47.0	40.8	37.8	900	45.2	23.4			
Tech Mahindra	610	BUY	75,985	1,618	125	59.1	74.8	89.4	25.7	26.7	19.4	10.3	8.1	6.8	9.1	5.6	4.0	6.0	3.4	2.3	0.6	-	-	1.0	70.7	55.8	41.6	900	47.6	3.9		
Wipro	343	ADD	487,495	10,597	1,450	22.2	27.5	35.5	12.6	23.6	21.8	15.4	12.5	10.2	12.3	9.1	7.1	3.8	3.1	2.6	1.8	2.4	3.0	27.9	27.6	27.4	490	42.8	11.5			
			<b>2,402,306</b>	<b>51,169</b>					<b>16.1</b>	<b>23.8</b>	<b>17.0</b>	<b>13.9</b>	<b>11.2</b>	<b>9.6</b>	<b>10.5</b>	<b>8.1</b>	<b>6.5</b>	<b>4.1</b>	<b>3.3</b>	<b>2.6</b>	<b>2.3</b>	<b>2.6</b>	<b>3.2</b>	<b>2.6</b>	<b>2.5</b>	<b>29.5</b>	<b>29.0</b>	<b>27.6</b>				
<b>Telecom</b>																																
Bharti Airtel Ltd	750	REDUCE	1,423,899	30,329	1,898	35.3	47.0	57.0	65.0	33.2	21.1	21.2	16.0	13.2	12.9	9.4	7.2	6.3	4.5	3.3	-	-	0.5	0.8	39.1	32.9	29.1	840	12.0	80.6		
IDEA	71	REDUCE	186,718	3,977	2,639	3.9	4.6	5.5	78.5	15.7	20.8	17.9	15.5	12.8	10.7	8.1	6.8	5.3	3.9	3.0	-	-	-	-	36.4	29.1	26.6	100	41.3	14.2		
MTNL	84	REDUCE	53,109	1,131	630	6.0	6.5	7.0	(25.2)	7.7	8.2	14.0	13.0	12.0	0.8	0.9	0.8	0.5	0.5	0.5	7.1	7.1	7.1	7.1	2.7	2.9	3.2	100	18.6	3.1		
Reliance Communications	326	SELL	673,690	14,350	2,064	25.0	28.6	34.8	76.4	14.1	21.9	13.0	11.4	9.4	9.4	8.1	6.4	2.4	2.0	1.6	0.2	-	-	-	16.1	19.9	19.8	390	19.5	79.3		
Tata Communications	471	REDUCE	134,321	2,861	285	10.9	12.0	13.3	(56.3)	9.2	11.2	43.0	39.4	35.5	17.9	16.7	14.5	2.0	1.9	1.0	1.1	1.4	4.4	4.7	4.9	4.9	4.9	4.9	4.9	4.9	4.9	
			<b>2,471,736</b>	<b>52,648</b>					<b>61.9</b>	<b>23.9</b>	<b>20.6</b>	<b>17.5</b>	<b>14.1</b>	<b>11.7</b>	<b>11.2</b>	<b>8.8</b>	<b>6.9</b>	<b>3.4</b>	<b>2.8</b>	<b>2.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>19.4</b>	<b>19.6</b>	<b>19.3</b>					
<b>Transportation</b>																																
Container Corporation	840	ADD	109,196	2,326	130	57.7	67.5	75.0	7.8	17.0	11.0	14.5	12.4	11.2	9.9	8.4	7.0	3.4	2.8	2.4	1.5	1.7	1.9	1.9	25.8	24.9	23.1	950	13.1	1.1		
Gateway Distriparks	84	BUY	9,704	207	115	6.4	8.1	10.8	(5.0)	26.5	33.5	13.1	10.4	7.8	9.1	6.8	5.2	1.4	1.3	1.2	3.5	3.9	4.1	10.8	12.9	15.8	125	48.7	0.7			
GE Shipping	285	BUY	43,465	926	152	105.9	72.7	48.2	77.6	(61.3)	(33.7)	2.7	3.9	5.9	4.1	5.1	5.8	1.0	0.8	0.8	5.3	6.4	4.2	43.2	23.4	13.7	500	75.2	2.6			
Jet Airways	395	SELL	34,074	726	86	(76.5)	(123.3)	96.4	(2,857)	-71	206.7	(5.2)	(3.2)	4.1	56.0	16.7	5.9	0.7	1.0	0.8	-	-	-	-	1.8	(19.5)	(26.5)	450	16.3	1.1		
			<b>196,440</b>	<b>4,184</b>					<b>3.9</b>	<b>(42.9)</b>	<b>162.9</b>	<b>11.1</b>	<b>19.4</b>	<b>7.4</b>	<b>11.3</b>	<b>9.4</b>	<b>6.1</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>2.2</b>	<b>2.6</b>	<b>2.5</b>	<b>13.9</b>	<b>7.7</b>	<b>17.4</b>			
<b>Utilities</b>																																
CEFC	282	BUY	35,188	750	125	27.8	28.2	31.1	(23.3)	1.4	10.4	10.1	10.0	9.0	5.2	6.0	7.0	1.1	1.0	0.9	1.4	1.4	1.4	1.8	12.5	10.6	10.5	500	77.5	1.3		
Lanco InfraTech	181	BUY	40,203	856	222	16.0	18.7	31.3	88.4	17.4	67.1	11.3	9.7	5.8	10.8	14.5	12.4	2.0	1.7	1.3	(3.2)	-	-	20.2	18.9	25.2	530	193.1	14.5			
NTPC	166	REDUCE	1,370,808	29,198	8,245	8.9	9.5	10.3	3.5	6.7	8.0	18.6	17.4	16.1	13.5	14.6	14.7	2.6	2.4	2.2	2.2	2.3	3.1	14.4	14.2	14.3	179	7.7	30.9			
Reliance Infrastructure	794	BUY	183,273	3,904	231	37.6	49.4	50.0	13.9	31.3	1.2	21.1	16.1	15.9	27.7	25.1	23.1	1.1	1.1	1.0	0.8	0.9	1.0	-	-	-	1,250	57.5	97.4			
Reliance Power	152	REDUCE	364,553	7,765	2,397	0.4	2.1	2.6	-	443.9	25.2	399.9	73.5	58.7	-	-	-	-	-	-	2.7	2.5	2.5	-	-	-	1.2	3.5	4.3			
Tata Power	915	BUY	213,286	4,543	233	29.7	38.1	39.9	11.6	28.5	4.6	30.8	24.0	23.0	21.7	19.4	20.0	2.8	2.2	1.9	1.0	1.0	1.0	1.0	10.0	10.3	9.0	1,540	68.2	27.2		
			<b>2,207,312</b>	<b>47,016</b>					<b>8.8</b>	<b>14.8</b>	<b>10.1</b>	<b>22.7</b>	<b>19.8</b>	<b>18.0</b>	<b>16.2</b>	<b>17.9</b>	<b>18.7</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>1.4</b>	<b>1.6</b>	<b>2.1</b>	<b>1.6</b>	<b>1.6</b>	<b>10.1</b>	<b>10.7</b>	<b>11.0</b>				
<b>Others</b>																																
Aban Offshore	1,990	ADD	76,920	1,638	39	72.3	263.4	482.1	(1,066)	264.4	83.0	27.5	7.6	4.1	15.8	7.6	4.9	8.8	3.7	2.0	0.2	0.5	0.8	51.7	59.4	53.6	2,700	35.7	17.4			
Aditya Birla Nuvo	921	ADD	85,948	1,831	93	22.9	26.6	29.2	(5.6)	16.0	9.8	40.2	34.7	31.6	18.5	16.7	15.4	2.5	2.4	2.3	0.7	0.7	0.7	6.4	7.1	7.4	2,000	117.1	2.6			
Educomp Solutions	3,257	ADD	61,952	1,320	19	35.2	46.2																									

"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: Mridul Saggur, Sanjeev Prasad, Ramnath Venkateswaran."

### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



- Percentage of companies covered by Kotak Institutional Equities, within the specified category.
- Percentage of companies within each category for which Kotak Institutional Equities and/or its affiliates has provided investment banking services within the previous 12 months.

\* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2008

### Ratings and other definitions/identifiers

#### Rating system

Definitions of ratings

**BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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

#### Other definitions

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

#### Other ratings/identifiers

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

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

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

**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

**NM = Not Meaningful.** The information is not meaningful and is therefore excluded.

---

**Corporate Office**  
**Kotak Securities Ltd.**

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

**Overseas Offices**  
**Kotak Mahindra (UK) Ltd.**

6th Floor, 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

---

Copyright 2008 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

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

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

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

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

**Kotak Securities Ltd.**

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

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