

Contents

Results

Corporation Bank: Profit ahead of estimate, core lower, retain IL

Updates

Zee Entertainment Enterprises: When announcements create market capitalization, a few more can only help

Telecom: 5.4 mn GSM net add in June 2007; Bharti and Vodafone-Essar excel, Idea joins the party too

Consumer Products: World cereal fundamentals favorable for Indian farm income

Cement: Heavy rains impact cement despatches in June

News Roundup

Corporate

- Bank of Baroda (BoB) will venture into mutual fund business very soon. Bank of Baroda Asset Management Company, a subsidiary of the BoB in collaboration with the Italian company 'Pioneer' will form a joint venture for mutual fund business (BS)
- Tata Sky, a joint venture between the Tata group and Star, is approaching the one-million subscriber mark in the country. The company will be the first direct-to-home (DTH) operator to achieve the feat. (BS)
- Dubai International Capital (DIC), the investment arm of Dubai Holding, has bought 2.87 per cent stake in ICICI, India's second largest bank. (FE)
- Dubai based realty major Emaar is setting up a 100% subsidiary in India, though it has an equal joint venture with Delhi-based MGF, a real estate developer and financier (BS)
- Credit Suisse is picking up a minority stake for \$55 million (Rs 220 crore) in the Park Hotels chain. The deal puts the valuation of the closely-held Apeejay Surrendra Hotels, which owns and manages The Park chain in six cities, among the top five hotel companies in the country. The Swiss firm will acquire 10-15% stake in the hotel chain (BS)

Economic and political

- The government is mulling a proposal to waive countervailing duty (CVD) on import of technical textile machinery that is used to produce specialised items like optical and glass stable fibres. (BS)
- New Communications Minister A Raja is likely to opt for a global auction of third generation technology (3G) licences, a move that will allow virtually any global operator to bid for offering this service in India. The telecom department is also likely to consider levying a one-time fee on existing operators for the additional second generation (2G) spectrum they have been allotted over the years. (BS)

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

EQUITY MARKETS

India	Change, %			
	13-Jul	1-day	1-mo	3-mo
Sensex	15,273	1.2	7.8	11.5
Nifty	4,505	1.3	8.0	12.2
Global/Regional indices				
Dow Jones	13,907	0.3	2.0	9.3
Nasdaq Composite	2,707	0.2	3.1	7.5
FTSE	6,717	0.3	(0.2)	3.1
Nikkie	18,239	1.4	1.5	3.5
Hang Seng	23,099	1.3	9.9	11.3
KOSPI	1,961	(0.1)	10.6	28.0
Value traded - India				
		Moving avg, Rs bn		
	13-Jul	1-mo	3-mo	
Cash (NSE+BSE)	213.0	154.0	143.9	
Derivatives (NSE)	488.8	340.1	332.2	
Deri. open interest	817.7	662.1	518.8	

Forex/money market

	Change, basis points			
	13-Jul	1-day	1-mo	3-mo
Rs/US\$	40.4	-	(25)	(149)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	-	(34)	(16)

Net investment (US\$m)

	12-Jul	MTD	CYTD
FIs	172	1,759	7,100
MFs	31	112	(218)

Top movers -3mo basis

Best performers	Change, %			
	13-Jul	1-day	1-mo	3-mo
BALAJI TELEFILMS L	257	(3.3)	14.8	68.3
RELIANCE CAPITAL	1,191	2.1	16.5	68.1
STATE BANK OF INDIA	1,554	(0.2)	17.4	53.3
GREAT EASTERN SH	347	(0.2)	16.3	51.7
ABB LTD INDIA	1,124	0.7	24.2	50.5
Worst performers				
POLARIS SOFTWARE	150	(1.2)	(5.4)	(23.8)
WIPRO LTD	513	0.3	(3.4)	(12.6)
BAJAJ AUTO LIMITED	2,175	(0.9)	3.1	(12.3)
ESSEL PROPAC LT	65	0.2	(1.6)	(11.3)
RAYMOND LIMITED	300	(0.4)	(3.3)	(10.9)

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Banking**CRBK.BO, Rs360**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	360
52W High -Low (Rs)	445 - 205
Market Cap (Rs bn)	52

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	20.2	21.0	24.2
Net Profit (Rs bn)	5.4	5.9	6.4
EPS (Rs)	37.4	40.9	44.6
EPS gth	20.6	9.4	9.1
P/E (x)	9.6	8.8	8.1
P/B (x)	1.4	1.3	1.1
Div yield (%)	2.5	2.7	3.1

Shareholding, March 2007

	% of Pattern	Over/(under) Portfolio weight	
Promoters	57.2	-	-
FIs	9.9	0.1	(0.1)
MFs	2.3	0.1	(0.0)
UTI	-	-	(0.1)
LIC	26.3	1.0	0.9

Corporation Bank: Profit ahead of estimate, core lower, retain IL

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- **Profit ahead of estimate, core lower, retain IL**
- **PAT much above estimate, though core profit is below estimate**
- **Slowdown in asset growth a positive, will likely enable improve core performance**

Corporation Bank reported a PAT of Rs1.8 bn in 1QFY08 (23% yoy growth) and 26% ahead of our estimates. However, core income was 9% below our estimate. Key financial highlights for the current quarter were as follows: (a) decline in NIM to 3.0% in 1QFY08 compared to 3.4% in 1QFY07 and 3.2% in 4QFY07; (b) lower growth in balance sheet yoy and flat qoq; (c) provision of Rs270 mn made on an estimate basis to be compliant with AS-15 revised guidelines; (d) write back of investment depreciation provisions. Strong loan growth in the past has been a key reason for lower margin for the bank, recent slowdown therefore should be considered a positive and may reflect in better margins in the coming quarters. We are marginally reducing our FY2009 and FY2010 estimates by 5%, while maintaining IL rating and target price of Rs360 per share.

NII growth disappoints. Corporation Bank's NII for 1QFY08 was Rs3.7 bn (15% yoy growth) and 5% lower than our estimates. There was a prior period entry of Rs222 mn in the interest on advances in the current quarter. This extraordinary amount being the claim receivable from Central Government / designated State Governments in respect of relief measures provided for debt stressed farmers in States of Karnataka, Andhra Pradesh and Kerala as per designated schemes. Adjusted for this entry, yoy growth in NII was lower at just 8%.

Margin shrinks—a cause of concern. The lower NII growth was likely a result of the sharp reduction in NIM to 3.0% in 1QFY08 from 3.4% in 1QFY07 and 3.2% in 4QFY07. This was primarily driven by the sharp rise in cost of deposits, which increased to 6.6% in 1QFY08 compared to 4.7% in 1QFY07 and 4.8% in 4QFY07 respectively. We believe lower CASA ratio of 29% as of June 2007 compared to 33% as of June 2006 and 34% as of March 2007 and dependence on bulk borrowing were the key reasons for the higher cost of funds.

Loan growth slows – likely indicates a change in strategy. Loan growth at Corporation Bank reduced significantly in 1QFY08 to 18% yoy. This compares with over 25% yoy loan growth witnessed in the last 12 quarters. While the company has shown a high 27% growth in deposit yoy, it seemed to have reduced borrowings sharply by 37% qoq and 12% yoy. We view this as a positive and believe that a loan growth in line with core deposit. Our key concern on the stock has been its focus on asset expansion at the cost of its margins. Recent moderation of asset growth could thus lead to better margin in the future quarters.

Core non-interest income growth remains moderate. Corporation Bank's non-interest income (ex-treasury) was Rs1.2 bn (10% yoy growth) but 4% below our estimate. The bank made bad debt recovery of Rs240 mn in the current quarter— comparable to the run-rate observed under this head in the past few quarters. However, the overall non-interest income declined to Rs1.4 in the current quarter from Rs1.9 bn in 1QFY07. Corporation Bank booked lower treasury gains of Rs196 mn in the current quarter compared to Rs796 mn in 1QFY07.

Additional provisions towards AS-15 revised guidelines and investment depreciation write-back—other highlights for the quarter. Corporation Bank made a provision of Rs270 mn on an estimated basis to meet its liabilities for employee benefits under the AS-15 (revised) guidelines. Bank is yet to carry out a full actuarial valuation of its pension liabilities pending which this adhoc provision was made. Corporation Bank reported an investment depreciation write back of Rs182 mn in 1QFY08, which helped reduce the over-all provision burden by a hefty 63% yoy in the current quarter. Quality of Corporation Bank's loan book is healthy; it had a gross NPL ratio of 2.1% and a net NPL ratio of 0.5% as of June 2007.

Corporation Bank (Rs mn)

	4Q06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	% chg	1QFY08 KS	Actual Vs Kotak
Interest income	7,054	7,301	8,325	8,868	9,807	11,201	53.4		
Advances	4,568	5,063	5,736	6,221	6,678	7,478	47.7		
Investments	2,079	1,987	2,301	2,275	2,431	2,676	34.7		
Others	408	251	288	372	698	1,047	316.7		
Interest expenses	3,945	4,053	5,158	5,536	5,777	7,479	84.5		
Net interest income	3,109	3,248	3,167	3,333	4,029	3,722	14.6	3,897	(4.5)
Non-interest income	1,574	1,875	1,131	1,593	1,800	1,384	(26.2)	1,460	(5.2)
Invts gains	113	796	(54)	400	122	196	(75.3)	272	(27.8)
Bad debt recovery	254	214	282	259	397	240	12.3	250	(4.0)
Other income excluding treasury	1,461	1,080	1,184	1,192	1,678	1,188	10.0	1,188	(0.0)
Total income	4,683	5,123	4,297	4,926	5,830	5,106	(0.3)	5,357	(4.7)
Operating expenses	1,992	1,883	1,941	1,995	2,217	2,154	14.4	2,071	4.0
Employee cost	929	898	912	936	1,037	1,080	20.3	987	9.4
Other cost	1,063	985	1,028	1,059	1,180	1,074	9.0	1,084	(0.9)
Pre-tax and pre-provision profit	2,692	3,240	2,357	2,931	3,612	2,953	(8.9)	3,286	(10.2)
Provisions	1,089	1,063	387	832	1,694	397	(62.7)	1,124	(64.7)
NPLs	586	570	452	668	570	345	(39.5)	600	(42.5)
Inv. Depreciation	503	257	(64)	9	338	(182)	(170.7)	324	(156.2)
Inv. amortization	244	225		149	181	197	(12.3)	200	(1.5)
PBT	1,602	2,177	1,970	2,099	1,918	2,556	17.4	2,163	18.2
Tax	600	735	700	635	735	785	6.8	757	3.7
Net profit	1,003	1,442	1,270	1,464	1,184	1,771	22.8	1,406	26.0
Effective tax rate (%)	37	34	36	30	38	31		35	
PBT-invnt gains+invnt depreciation	1,593	1,639	1,960	1,708	2,134	2,178	32.9	2,215	35.1
PBT+prov-tradg profits +/- ext.	2,179	2,209	2,412	2,376	2,704	2,523	14.2	2,815	27.4

Balance sheet (Rs mn)

Capital	1,434	1,434	1,434	1,434	1,434	1,434			
Reserves and surplus	32,315	32,315	32,315	36,746	36,220	36,220	12.1		
Deposits	328,765	339,398	380,174	396,490	423,569	432,314	27.4		
CASA	112,861	110,435	113,381	122,937	144,291	124,064	12.3		
Current	47,465	42,285	41,769	49,156	67,773	47,565	12.5		
Savings	65,396	68,150	71,612	73,781	76,518	76,499	12.3		
CASA ratio (%)	34	33	30	31	34	29			
Borrowings	16,601	21,677	20,862	23,774	30,210	18,975	(12.5)		
Other liabilities and provisions	25,951	24,099	25,362	27,752	35,773	30,070	24.8		
P and L account balance	-	1,442	2,713	(95)	-	1,771	22.8		
Total Liabilities	405,066	420,365	462,860	486,100	527,206	520,785	23.9		
Cash and balances with RBI	16,398	23,489	22,614	34,662	29,837	35,106	49.5		
Bal with banks, money at call and short notice	24,489	11,291	7,978	30,015	37,352	30,309	168.4		
Investments	106,520	114,532	136,629	118,030	144,175	135,983	18.7		
Advances	239,624	258,248	280,046	288,550	299,497	303,505	17.5		
priority sector	94,270	90,360	110,060	113,550	115,640	122,850	36.0		
Retail	60,830	67,130	69,950	68,480	76,610	74,730	11.3		
Housing	36,690	37,680	39,360	NA	41,950	42,030	11.5		
Housing/retail (%)	60.3	56.1	56.3	NA	54.8	56.2			
Retail advances to total advances (%)	25.4	26.0	25.0	23.7	25.6	24.6			
Fixed assets	2,559	2,528	2,632	2,657	2,810	2,774	9.7		
Other assets	15,477	10,277	12,961	12,187	13,536	13,108	27.5		
Total assets	405,066	420,365	462,860	486,100	527,207	520,785	23.9		

Asset quality details

Gross NPLs Rs mn	6,256	6,200	6,163	6,249	6,246	6,369	2.7		
Gross NPLs (%)	2.6	2.4	2.2	2.1	2.1	2.1			
Net NPLs Rs mn	1,540	1,415	1,344	1,364	1,408	1,396	(1.3)		
Net NPLs (%)	0.64	0.55	0.48	0.47	0.47	0.46			

Yield management measures (%)

Yield on funds	7.8	7.7	7.8	7.9	NA	9.1			
Yield on advances	8.3	8.6	8.7	8.9	9.1	10.2			
Yield on investments	7.9	7.7	7.6	7.7	7.7	8.2			
Cost of deposits (%)	4.6	4.7	5.0	5.2	5.3	6.6			
Cost of funds	3.9	4.3	4.6	4.8	4.8	6.0			
NIM	3.6	3.4	3.2	3.2	3.2	3.0			
Interest spread to AWF									

Capital adequacy details (%)

CAR	13.9	13.9	13.3	13.7	12.8	13.3			
Tier I	12.4	12.4	NA	12.3	11.3	11.8			
Tier II	1.5	1.5	NA	1.4	1.5	1.5			

Other details

Branches	835	NA	861	878	901	918			
ATMs	901	NA	917	924	929	932			

Source: Company, Kotak Institutional Equities.

Media**ZEE.BO, Rs343**

Rating	U
Sector coverage view	Cautious
Target Price (Rs)	215
52W High -Low (Rs)	348 - 156
Market Cap (Rs bn)	149.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	14.4	17.1	19.6
Net Profit (Rs bn)	2.2	3.8	4.9
EPS (Rs)	5.0	8.6	11.3
EPS gth	2.9	71.0	31.1
P/E (x)	68.0	39.7	30.3
EV/EBITDA (x)	47.6	26.6	20.1
Div yield (%)	0.3	0.5	0.7

Shareholding, March 2007

	% of	Over/(under)
	Pattern	Portfolio
		weight
Promoters	43.2	-
FIs	30.2	0.2
MFs	10.4	0.4
UTI	-	(0.1)
LIC	4.9	0.2

Zee Entertainment Enterprises: When announcements create market capitalization, a few more can only help

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- **Zee and Sahara to launch flanking channels in the Hindi general entertainment segment**
- **Flanking strategy has not really clicked (cases being Star One and Sony SAB)**
- **Frothy sector valuations; you might as well be the first one to prick the bubble**

ZEEL and Sahara One have announced their second channels in the general entertainment (GE) segment (likely in the next 6-12 months). We believe that this step, taken possibly to reduce dependence on the flagship channel, would further increase the ongoing fragmentation in the Hindi GE segment. We are not sure about the success of this strategy as earlier attempts by Star TV and Sony have not been very fruitful. We note that the flanking channels do not have much to show either in terms of ratings or revenues.

Valuations are frothy, make no mistake. We are puzzled by the street's propensity to reward announcements of new channels by television broadcasting companies through instantaneous creation of market capitalization. ZEEL's market capitalization increased by Rs9 bn on July 13 following the news of a second Hindi GE channel although Friday was also an unusual trading day. We would focus on the impact of increasing market fragmentation on (1) a channel's advertisement revenues and (2) cost of programming and distribution and if one has the time and inclination on valuations also. We find valuations of ZEEL frothy at 25X FY2010E EPS (after a 2.75X jump in EPS between FY2007 and FY2010E); this is true of the entire media space. We maintain our U rating on ZEEL with a 12-month DCF-based target price of Rs215. Key upside risks stem from higher-than-expected advertisement and subscription revenues.

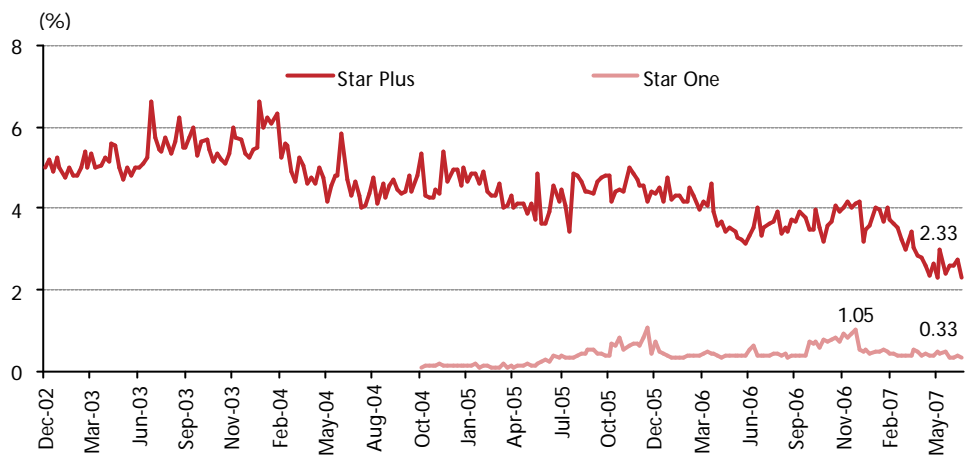
Higher costs is a given but not ratings or revenues. We highlight that the strategy of starting a second channel by players in the GE category as a flanking channel has not worked in the past. In both the cases (Star TV and Sony), the strategy of starting flanking channels has proved to be largely futile and has so far resulted in additional programming costs without a commensurate increasing in revenues. Star One, launched by Star TV in November 2004, as a flanking channel to Star Plus, has failed to provide any support to the falling market share of Star Plus due to its lackluster ratings (see Exhibit 1). In fact, after its initial high ratings, STAR One's ratings have declined to negligible levels. Similarly, SAB TV, acquired by Sony TV from Sri Adhikari Brothers in March 2005, has also reported nominal ratings (see Exhibit 2) and thus, failed to help the ailing Sony TV. SAB TV has lately been repositioned to include cricket broadcasting which has helped push ratings. However, considering the prohibitive cost of cricket programming in India, we are skeptical whether these transitory ratings will translate into consistent profitability for the channel or the network.

Get that pin out now before somebody else pricks the bubble. We are becoming increasingly skeptical about our projected strong growth in earnings of ZEEL (see Exhibit 3) over the next few years in the context of increasing fragmentation in television broadcasting and its impact on advertising revenues. Also, there are limited signs of a steep increase in domestic subscription revenues given the tardy progress in implementation of a CAS on cable systems. We may have to review our estimates for subscription revenues.

106 new channels will start operations over the next few months (see Exhibits 4 & 5). We do not think the street is anticipating any major negatives from either (1) increased fragmentation or (2) enhanced programming costs. We are apprehensive about the ability of the market to support so many players. To put things in perspective, the total size of the Hindi general entertainment market (advertisement and subscription) is about Rs20 bn, six new Hindi GE channels (including Zee Next and Sahara's channels) will start operations in the next 9-12 months and the annual operating cost of a channel is about Rs4-5 bn. However, we note that the flanking channels will have much lower operating costs versus the main channels.

Star One, sister channels of Star Plus, failed to sustain initial rating gains

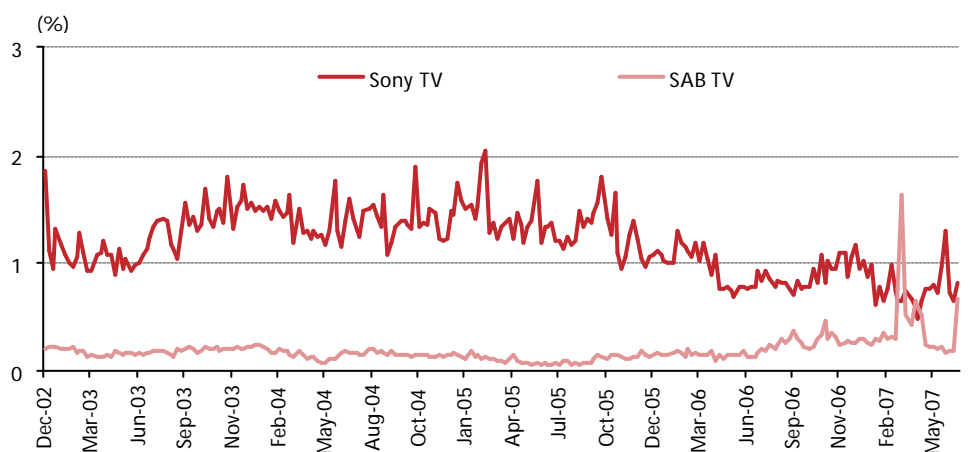
Prime time (7.30-11.30 pm) ratings of Hindi general entertainment channels from the Star network stable (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Sony SAB channel has very low ratings normally except during telecast of cricket matches

Prime time (7.30-11.30 pm) ratings of Hindi general entertainment channels from the Sony network stable (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Consolidated profit and loss statement for Zee Telefilms, March fiscal year-ends, 2004-2006, ZEEL, 2007-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Revenues							
National Hindi (Zee TV)	2,539	1,826	2,119	3,088	3,846	4,240	4,886
National Hindi (Zee Cinema)	756	914	996	1,271	1,469	1,707	1,968
Niche channels (News, English, Music, ETC Music and ZED)	965	956	1,081	417	519	618	731
Regional channels (incl. ETC Punjabi)	1,365	1,324	1,486	—	—	—	—
Zee Sports	—	—	72	1,619	1,736	2,054	2,318
Cable TV (Siti)	220	266	261	—	—	—	—
Overseas - ZMWL	482	530	590	667	672	692	713
Others	28	(117)	(40)	—	—	—	—
Advertisement	6,355	5,698	6,566	7,062	8,242	9,312	10,616
Domestic pay-TV	2,173	2,696	2,742	3,064	3,825	4,916	6,076
Overseas	2,620	2,964	3,097	3,543	4,296	4,571	4,813
Domestic subscription	1,168	1,002	978	—	—	—	—
Others	64	(129)	356	—	—	—	—
Subscription	6,026	6,533	7,174	6,607	8,121	9,487	10,890
Education	131	106	162	302	318	334	351
Others	1,190	742	2,641	440	461	484	507
Total revenues	13,702	13,079	16,544	14,412	17,141	19,617	22,363
Programming/Content	(2,520)	(2,611)	(4,247)	(5,051)	(5,281)	(5,747)	(6,358)
Broadcasting	(618)	(675)	(515)	(508)	(497)	(506)	(515)
Distribution	(1,837)	(1,534)	(2,565)	(1,473)	(1,548)	(1,649)	(1,733)
Other direct operating	—	—	(262)	(322)	(338)	(355)	(373)
Employees	(727)	(858)	(1,089)	(1,008)	(1,100)	(1,174)	(1,253)
SG&A	(3,691)	(3,051)	(3,431)	(2,863)	(2,790)	(2,973)	(3,158)
Total expenses	(9,393)	(8,728)	(13,848)	(11,224)	(11,554)	(12,404)	(13,390)
EBITDA	4,309	4,351	2,695	3,188	5,587	7,212	8,972
Other income	776	521	639	630	634	716	909
Interest expense	(583)	(207)	(188)	(219)	(210)	(37)	(2)
Depreciation	(320)	(329)	(360)	(228)	(274)	(287)	(299)
Amortization	—	—	—	—	—	—	—
Pretax profits	4,183	4,336	2,787	3,371	5,737	7,605	9,581
Extraordinary items	26	(140)	19	—	—	—	—
Tax	(1,103)	(1,123)	(528)	(984)	(1,814)	(2,480)	(3,296)
Deferred tax	54	99	(9)	20	19	19	19
Minority interest	(192)	(50)	(117)	(212)	(187)	(223)	(261)
Net income	2,969	3,123	2,153	2,195	3,754	4,921	6,043
Recurring net income	2,942	3,263	2,134	2,195	3,754	4,921	6,043
Fully diluted EPS	7.1	7.5	4.9	5.0	8.6	11.3	13.9
Key ratios							
EBITDA growth (%)	14.7	1.0	(38.1)	18.3	75.3	29.1	24.4
EPS growth (%)	18.2	5.2	(34.6)	2.9	71.0	31.1	22.8
EBITDA margin (%)	31.5	33.3	16.3	22.1	32.6	36.8	40.1
Tax rate (%)	24.9	24.4	19.1	28.6	31.3	32.4	34.2
Shares o/s year end (mn)	412	412	413	435	435	435	435
Shares o/s fully diluted (mn)	412	435	435	435	435	435	435

Source: Kotak Institutional Equities estimates.

38 new channels will start operations in the most common genres

List of extant and proposed channels in the general entertainment, news, cinema, sports genres

	Hindi - GE	English - GE	Hindi - News	English - News	Cinema	Music	Sports	Religious	Niche
Existing									
	BBC Enter.	Dubai One	Aaj Tak	BBC	Arirang	Atn Bangla	DD Sports	Aastha	7 Star Care
	Channel Siti	Star World	Awaaz	Bloomberg TV	AXN	B4U Music	ESPN	Aastha Int.	Action TV
	DD Bharati	Zee Cafe	DD News	Channel News Asia	B4U Movies	Channel G	Neo Sports	Angle TV	Adventure One
	DD National		Dilli Aaj Tak	CNBC TV18	CCC Cine	Channel V	Neo Sports Plus	Day Star TV	Animal Planet
	SAB		IBN 7	CNN	CVO	CMM Music	Star Sports	EWTN	Animax
	Sahara One		India TV	CNN IBN	FILMY	Enter10	Ten Sports	GOD	Australia Network
	Siti Cable		Jain TV	Headlines Today	Hallmark	ETC	Zee Sports	Miracle TV	Bhaarath TV
	Sony TV		Janmat	NDTV 24x7	HBO	ITV		Peace TV	Cartoon Network
	Star One		NDTV India	NDTV Profit	Jhankarr Movies	Jhankar TV		PowerVision TV	CBeebies
	Star Plus		S1 TV	Times Now	MAX	Jukebox TV		QTV	CT Buzz
	Star Utsav		Sahara Samay (6)	Total TV	PIX	Lemon TV		Sadhna	Discovery
	Zee Smile		Star News		Siti Cinema	MH1		Sanskar	Discovery T&L
	Zee TV		Sudarshan TV		Star Gold	MTV		Satsang	Disney Channel
	Zoom		TEZ		Star Movies	Music India		Shalom TV	Fashion TV
			Zee Business		Zee Action	Siti Music		TCT World	History
			Zee News		Zee Cinema	SS Music		Zee Jagran	Hum TV
					Zee Classic	Sur Sangeet			Hungama TV
					Zee Premier	The Musik			Life & Style
					Zee Studio	Trace TV			Living Asia
						VH1			Nat Geo Channel
						YO Music			Nickelodeon
						Zee Music			POGO
									Reality TV
									Shakti TV
									Shop 24/7 Multiplex
									Toon Disney
									Ujala TV
									Voyager TV
									Zee Interactive
									Zee Trendz
									Zone Reality
Total existing channels	14	3	21	11	19	22	7	16	31
Proposed									
	INX Group	NDTV Life	MH1 News	EuroNews	C Music	9X	Star Cricket	Pragya	13th Street
	NDTV Imagine		NCR9 Delhi	News X	NDTV Imagine	9X Music			Alliance Real Estate
	Sahara		NDTV regional (4)	Sky News	Olive TV	RK Music			Luxe TV
	UTV Bindass		Triveni News	UTV Biz	Viacom-18	TraceTV			MarineBiz TV
	Viacom-18		TV9 Mumbai						Real Estate TV
	Zee Next								Sahara Real Estate
									Sanskriti
									Universal Channel
									Weather Channel
Total proposed channels	6	1	8	4	4	4	1	1	9
Total existing and proposed	20	4	29	15	23	26	8	17	40

Source: Kotak Institutional Equities estimates.

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

List of extant and proposed regional language channels

	Tamil	Telugu	Marathi	Kannada	Malayalam	Punjabi	Bengali	Gujarati	Others
Existing									
	Aasirvatham	DD8 Saptagiri	DD10 Sahyadri	DD9 Chandana	Amrita TV	Balle Balle	24 Ghanta TV	DD11 Gujarati	ARY Digital
	Brindavan TV	Eenadu TV	ETV Marathi	ETV Kannada	Asianet	DD Punjabi	Aakaash Bangla	ETV Gujarati	C Channel
	Chutti TV	ETV2 News	Mi Marathi	TV9 Karnataka	Asianet News	ETC Punjabi	Atn Bangla	Gurjari	Channel Nepal
	DD5 Podhigai	Gemini Music	Star Majha	U2	Asianet Plus	Lashkara TV	Bangla Akhon	Zee Gujarati	CTVN AKD Plus
	Imayam	Gemini News	Zee 24 Taas	Udaya Movies	Asianet Interactive	NRI TV	BTW World		DD regional (8)
	Jaya TV	Gemini TV	Zee Marathi	Udaya TV	DD4 Malayalam	PBC TV	DD7 Bangla		Dish TV Interactive
	KTV	Maa Telugu		Udaya Varthegalu	Indiavision	PTC News	ETV Bangla		Dubai TV
	Makkal TV	Manna Telugu		Ushe TV	Jeevan TV	Punjab News	Kolkata TV		DW-TV
	Raj Digital Plus	Siti Telugu		Zee Kannada	Kairali	Punjab TV	NTV		ETV regional (6)
	Raj Musix	Teja TV			Kiran TV	Zee Punjabi	Sangeet Bangla		Fe-TV
	Raj TV	TV9 News			Manorama News		Star Ananda		IN Mumbai
	Sun Music	Vissa			People TV		Tara Muzik		Indus Vision
	Sun News	Zee Telugu			Surya TV		Tara Newz		KTN
	Sun TV						Zee Bangla		Lok Sabha TV
	Vijay TV								NE Hi Fi
	Win TV								NE TV
									Nepal One
									NHK
									NOW TV
									OTV
									PTV
									Real Madrid TV
									Ren TV
									Sindh TV
									Taaza TV
									TBN TV
									TV5 Monde
									TVE
									We TV
Total existing channels	16	13	6	9	13	10	14	4	41
Proposed									
	Asianet	Asianet	Asianet	Kasturi	Sun Kids	Gurbani	INX Group	INX Group	BAG Films (4)
	Kalaighnar TV	Bhakti	IBN Lokmat	Sun Kids		INX Group		TV9 Gujarat	BIL Bhojpuri
	Raj Musix	N TV	NDTV Mumbai	Suvarna					INX regionals (5)
	Raj Youth	STAR-Balaji							Raj TV (11)
	Zee News (Tamil)	Sun Kids							STAR - Balaji (4)
		TV1							Triveni Media (17)
									TV18 (3)
Total proposed channels	5	6	3	3	1	2	1	2	45
Total existing and proposed	21	19	9	12	14	12	15	6	86

Source: Kotak Institutional Equities estimates.

Telecom

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		13-Jul	Target
Bharti	U	881	600
Rcom	U	555	400
MTNL	U	163	135
VSNL	OP	480	560
Idea Cellular	U	121	100

5.4 mn GSM net add in June 2007; Bharti and Vodafone-Essar excel, Idea joins the party too

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- **GSM operators (excluding RCL's GSM operations) add 5.4 mn subs in May 2007 led by Bharti and Vodafone-Essar**
- **Total subs addition may be over 7 mn in June; CDMA data not yet available**
- **100 mn of net additions over the next 12 months at US\$75/sub is not material enough for valuations**

GSM operators (excluding RCL) added 5.4 mn subs in Jun 2007, an increase from 5.3 mn in May 2007 (5 mn excluding RCL) led by strong subscriber additions by Bharti and Vodafone-Essar. We believe that the total subs addition for June 2007 may have crossed 7 mn. The acceleration in net additions is led by continued reduction in price points and declining handset costs. Nonetheless, we note that the new subs may not contribute significantly to valuation; we value a new subscriber in the Rs495 lifelong validity plan at US\$70-80 (ignoring networking impact). In the context of a US\$100 bn market capitalization of the Indian wireless sector, we are not excited about the incremental contribution from even say, 100 mn new 'low-end' subscribers. At the same time, weakening price momentum may inflict more damage on cash flows and valuations.

Moderate tinkering to volumes required but not change in view. We are reviewing our total industry wireless subs addition estimates, which currently stands at 6.75 mn for the remaining nine months of FY2008. We may also reallocate market share in favor of Bharti and RCL noting (1) continued delays in spectrum allocation for existing operators (including Idea Cellular) looking to expand into new circles and (2) likely further delay in award of BSNL's GSM tender. We retain maintain our Cautious coverage view on the sector and Underperform ratings on Bharti, RCL, Idea and MTNL. Key risk is level of profitability.

Bharti and Vodafone—Essar at full throttle with BSNL in the pit lane. Bharti and Vodafone-Essar together contributed to 65% of June 2007 GSM net add (ex-RCL), a substantial uptick from their combined 55% (57.5% ex-RCL) net add market share in FY2007. We note that Bharti and Vodafone-Essar have been aggressive with their new plan launches in the past two months introducing (1) lifetime prepaid at Rs495 against Rs999 previously, (2) Bharti's happy recharge plan and (3) Vodafone-Essar's monthly Rs99 monthly recharge plan. The delay in spectrum allocation and delay in BSNL's contract award have meant reduced competitive intensity benefiting Bharti, Vodafone-Essar and RCL, in our view.

Bharti—another month of market share gain and record net adds. Bharti had another record month adding 1.96 mn subs in June 2007, higher than 1.85 mn in May 2007. Bharti's share of overall GSM subscriber base increased to 31.5%, up 210 bps from 29.4% at the end of June 2006. Bharti may exceed the 1.94 mn monthly subscriber net additions required from July 2007 to March 2008 to meet our end-FY2008 estimate of 60.2 mn subs. We will review our subscriber estimates and revise our FY2008-end market share assumptions at the time of 1QFY08 results (July 26). We estimate Bharti's 1QFY08 net income and EBITDA at Rs15 bn (+9.1% qoq and +96% yoy) and Rs25.2 bn (+11.2% qoq and +59% yoy), respectively.

Vodafone—Essar-continues to keep pace with Bharti, impressive in our view.

Vodafone-Essar had another month of impressive performance, adding 1.54 mn subscribers (28.6% of GSM market net additions). We find Vodafone-Essar's pace impressive given its limited presence (16 out of 23 circles); we believe Vodafone's sub addition pace may increase once it gets spectrum for the balance seven circles and establishes a pan-India presence.

Idea Cellular—stellar month, consistency is the key. Idea added 860,000 subs (16% of GSM market net adds and the highest for the company since November 2006). More important, Idea had strong net addition in circles, where it had started services recently (Himachal Pradesh, Rajasthan and Uttar Pradesh [East]); it added 147,000 subs, a 130% increase from 64,000 net adds in the previous month. Idea would need to add 640,000 subs for the remaining nine months of FY2008 to reach our end-FY2008 estimate of 21.9 mn subs.

Idea will likely exceed our end-FY2008 subscriber estimate at the current pace but we note that it is critical for Idea to get spectrum for its new circles (Bihar, Mumbai and others). It may otherwise lose momentum over the next few months especially given the scorching pace of Bharti and others in Idea's new circles. For example, in Bihar, Bharti has upped its net additions to almost 200,000 subs/month. Although wireless penetration in Bihar is very low (5.7% at end-June 2007), the addressable market may not be very large and may be largely penetrated by incumbents by the time Idea starts operations. Similarly, Mumbai with 45% wireless penetration and around 200,000 monthly net additions may not provide a meaningful opportunity for Idea.

BSNL—few more yards lost. BSNL improved on its May 2007 performance adding 429,000 subs (as against 239,000 in May 2007) but continues to struggle with capacity constraints. The award of its 45 mn line GSM contract looks to be delayed further with (1) the minister seeking a review of the tender and/or (2) a fresh tender being called. Newspaper reports indicate BSNL may start afresh or reduce the order size in the current tender. Accordingly, BSNL's capacity expansion is likely to happen in FY2009. We would re-align market share assumptions of the wireless operators accordingly.

Others—Reliance yet to report June 2007 GSM numbers, weak month for other players. Aircel and Spice added 366,000 and 163,000 subs, respectively or 6.8% and 3% of GSM net add (down from 9.1% and 3.6% net add share in the previous month). MTNL had another average month with net add of 61,000 for the month. Reliance is yet to report its GSM subs numbers for the month.

Subscriber details of leading GSM cellular operators ('000)

	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Subs ('000)													
Bharti Airtel	23,073	24,338	25,649	27,061	28,612	30,262	31,974	33,732	35,440	37,141	38,892	40,744	42,704
Vodafone-Essar	17,544	18,399	19,380	20,357	21,267	22,275	23,306	24,414	25,343	26,442	27,703	29,209	30,752
IDEA Cellular	8,537	9,122	9,735	10,364	10,980	11,841	12,442	13,072	13,640	14,011	14,563	15,267	16,126
BPL	1,297	1,285	1,043	1,045	1,049	1,053	1,056	1,062	1,066	1,071	1,077	1,082	1,088
Spice Telecom	2,055	2,095	2,148	2,197	2,266	2,357	2,450	2,520	2,579	2,729	2,815	3,007	3,170
Reliance	2,317	2,517	2,737	2,958	3,184	3,410	3,641	3,876	4,111	4,348	4,625	4,864	5,126
MTNL	2,170	2,238	2,264	2,290	2,326	2,375	2,425	2,498	2,579	2,747	2,484	2,548	2,609
BSNL	18,294	19,031	20,063	20,936	22,054	22,975	23,619	24,442	25,444	27,429	27,756	27,994	28,423
Others	3,199	3,391	3,601	3,804	4,005	4,238	4,513	4,802	5,095	5,514	5,928	6,409	6,775
Total market	78,485	82,415	86,620	91,014	95,742	100,786	105,425	110,420	115,297	121,431	124,843	130,124	135,512
Market share of subs (%)													
Bharti Airtel	29.4	29.5	29.6	29.7	29.9	30.0	30.3	30.5	30.7	30.6	31.2	31.3	31.5
Vodafone-Essar	22.4	22.3	22.4	22.4	22.2	22.1	22.1	22.1	22.0	21.8	22.2	22.4	22.7
IDEA Cellular	10.9	11.1	11.2	11.4	11.5	11.7	11.8	11.8	11.8	11.5	11.7	11.7	11.9
BPL	1.7	1.6	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8
Spice Telecom	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.3	2.3	2.3
Reliance	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.5	3.6	3.6	2.9	3.0	2.9
MTNL	2.8	2.7	2.6	2.5	2.4	2.4	2.3	2.3	2.2	2.3	2.0	2.0	1.9
BSNL	23.3	23.1	23.2	23.0	23.0	22.8	22.4	22.1	22.1	22.6	22.2	21.5	21.0
Others	4.1	4.1	4.2	4.2	4.2	4.2	4.3	4.3	4.4	4.5	4.7	4.9	5.0
Growth (%)													
Bharti Airtel	5.5	5.5	5.4	5.5	5.7	5.8	5.7	5.5	5.1	4.8	4.7	4.8	4.8
Vodafone-Essar	4.6	4.9	5.3	5.0	4.5	4.7	4.6	4.8	3.8	4.3	4.8	5.4	5.3
IDEA Cellular	5.9	6.8	6.7	6.5	5.9	7.8	5.1	5.1	4.3	2.7	3.9	4.8	5.6
BPL	0.4	(1.0)	(18.8)	0.2	0.4	0.3	0.3	0.6	0.3	0.5	0.6	0.5	0.5
Spice Telecom	1.3	2.0	2.5	2.3	3.1	4.0	3.9	2.9	2.3	5.8	3.1	6.8	5.4
Reliance	7.5	8.6	8.7	8.1	7.6	7.1	6.8	6.5	6.0	5.8	(16.6)	6.6	-
MTNL	3.4	3.1	1.2	1.2	1.5	2.1	2.1	3.0	3.2	6.5	(9.6)	2.6	2.4
BSNL	1.6	4.0	5.4	4.4	5.3	4.2	2.8	3.5	4.1	7.8	1.2	0.9	1.5
Others	5.8	6.0	6.2	5.6	5.3	5.8	6.5	6.4	6.1	8.2	7.5	8.1	5.7
Total market	4.2	5.0	5.1	5.1	5.2	5.3	4.6	4.7	4.4	5.3	2.8	4.2	4.1
Net monthly adds ('000)													
Bharti Airtel	1,212	1,265	1,311	1,413	1,551	1,650	1,712	1,758	1,708	1,701	1,751	1,851	1,960
Vodafone-Essar	777	855	981	977	910	1,008	1,032	1,108	929	1,099	1,261	1,506	1,542
IDEA Cellular	474	584	613	629	616	862	601	629	568	371	553	703	860
BPL	5	(13)	(242)	3	4	4	4	6	4	5	6	5	6
Spice Telecom	27	40	53	49	69	91	92	70	59	150	86	192	163
Reliance	161	200	220	222	225	226	231	235	235	237	(723)	239	-
MTNL	72	68	26	26	35	49	50	74	81	168	(263)	64	61
BSNL	293	737	1,032	873	1,118	921	643	824	1,002	1,985	327	239	429
Others	174	193	210	203	201	233	275	290	292	420	413	481	366
Total market	3,195	3,930	4,205	4,394	4,728	5,044	4,639	4,994	4,877	6,135	3,412	5,282	5,387
Market share of net adds (%)													
Bharti Airtel	37.9	32.2	31.2	32.1	32.8	32.7	36.9	35.2	35.0	27.7	51.3	35.1	36.4
Vodafone-Essar	24.3	21.8	23.3	22.2	19.2	20.0	22.2	22.2	19.0	17.9	37.0	28.5	28.6
IDEA Cellular	14.8	14.9	14.6	14.3	13.0	17.1	13.0	12.6	11.6	6.0	16.2	13.3	16.0
BPL	0.1	(0.3)	(5.8)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1
Spice Telecom	0.8	1.0	1.3	1.1	1.5	1.8	2.0	1.4	1.2	2.5	2.5	3.6	3.0
Reliance	5.0	5.1	5.2	5.0	4.8	4.5	5.0	4.7	4.8	3.9	(21.2)	4.5	-
MTNL	2.3	1.7	0.6	0.6	0.7	1.0	1.1	1.5	1.7	2.7	(7.7)	1.2	1.1
BSNL	9.2	18.8	24.6	19.9	23.6	18.3	13.9	16.5	20.5	32.4	9.6	4.5	8.0
Others	5.4	4.9	5.0	4.6	4.2	4.6	5.9	5.8	6.0	6.8	12.1	9.1	6.8
Circwise subs ('000)													
Metros	17,104	17,577	17,924	18,525	18,977	19,472	20,072	20,634	21,322	21,959	22,082	22,784	23,491
Circle A	27,813	29,359	30,825	32,443	34,191	36,059	37,443	39,237	40,717	42,680	44,453	46,252	48,139
Circle B	25,951	27,512	29,462	31,101	33,073	35,097	37,130	39,137	41,072	43,543	44,724	46,794	49,129
Circle C	7,616	7,966	8,409	8,945	9,501	10,159	10,779	11,412	12,185	13,250	13,828	14,411	14,753
Total	78,485	82,415	86,620	91,014	95,742	100,786	105,425	110,420	115,297	121,431	124,843	130,124	135,512
Circwise net adds ('000)													
Metros	450	473	347	600	452	495	601	561	688	637	124	702	707
Circle A	1,167	1,546	1,465	1,618	1,749	1,867	1,385	1,794	1,480	1,963	1,772	1,800	1,886
Circle B	1,163	1,561	1,949	1,639	1,972	2,024	2,033	2,007	1,935	2,470	1,181	2,070	2,335
Circle C	415	350	443	536	555	659	620	632	774	1,064	578	583	342
Total	3,195	3,930	4,205	4,394	4,728	5,044	4,639	4,994	4,877	6,135	3,412	5,282	5,387
Circwise subs (%)													
Metros	22	21	21	20	20	19	19	19	18	18	18	18	17
Circle A	35	36	36	36	36	36	36	36	35	35	36	36	36
Circle B	33	33	34	34	35	35	35	35	36	36	36	36	36
Circle C	10	10	10	10	10	10	10	10	11	11	11	11	11
Circwise net adds (%)													
Metros	14	12	8	14	10	10	13	11	14	10	4	13	13
Circle A	37	39	35	37	37	37	30	36	30	32	52	34	35
Circle B	36	40	46	37	42	40	44	40	40	40	35	39	43
Circle C	13	9	11	12	12	13	13	13	16	17	17	11	6

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

New subscribers may not be very valuable; we value a 'lifelong' subscriber at about US\$70-80

NPV and IRR analysis for a prepaid subscriber under the Rs495 lifelong validity plan (Rs)

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
Revenues	1,200	1,320	1,440	1,512	1,588	1,667	1,750	1,838	1,930	2,026	2,128	2,234	2,346	2,463	2,586	2,715	
Monthly ARPU	100	110	120	126	132	139	146	153	161	169	177	186	195	205	216	226	
EBITDA margin (%)	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	45	
Tax rate (%)	11	11	11	11	11	12	12	12	12	12	34	34	34	34	34	34	
Operating cash flow	506	553	601	630	660	686	719	753	790	828	712	744	697	732	768	807	
Initial capex	(2,835)																
Maintenance capex									(57)	(57)	(57)	(57)	(57)	(57)	(57)	(272)	
Change in working capital	441	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Free cash flow	(1,889)	553	601	630	660	686	719	753	733	771	656	687	640	675	711	535	4,280
Terminal growth rate (%)	0	5															
WACC (%)	12.5	12.5															
NPV (Rs)	2,775	3,208															
NPV (US\$)	68	78															

Note:

(a) Maintenance capex taken as 2% of initial capex.

(b) Life of equipment taken at 12 years for computation of book depreciation.

Source: Kotak Institutional Equities estimates.

Consumer Products

Sector coverage view Attractive

Company	Rating	Price, Rs	
		13-Jul	Target
Hindustan Levt	IL	203	230
ITC	OP	156	215
Nestle India	IL	1,140	1,000
Colgate-Palmo	U	382	300
SmithKilne Cor	IL	578	625
Asian Paints	IL	864	850
Lakshmi	OP	190	338
Tata Tea	IL	864	992
Godrej Consun	IL	136	185

World cereal fundamentals favorable for Indian farm income

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- **Higher utilization from biofuel and animal feed sectors. Firm global price trend influencing domestic prices and aiding farm income**
- **Monsoons-temporal and spatial distribution determines the crop output.**

The global prices of cereals continue to exhibit a firm trend, which bodes well for the Indian farm income and sales of FMCG companies. While the Food and Agriculture organization of the UN (FAO) forecasts a record output of cereals globally in 2007-08, utilization growth is also expected to remain firm. The global end-of-season cereal stocks in 2007-08 are expected to close 2.1% higher from the opening level, but will remain inadequately low at world cereal stocks-to-use ratio of 19.6%, well below the 28% at the beginning of the decade. Cereals account for 21% of agricultural output value in India. We believe the continuing firm trend in cereal prices (globally and domestically) combined with the trickle down benefit (in milk and fruits & vegetables) from a buoyant urban economy will aid farm income growth.

Higher utilization from biofuel and animal feed sectors. FAO estimates total cereal utilization in 2007-08 to increase by 2% to 2,144 mn tonnes, about 1.4% above the 10-year trend. The increased rate of consumption is attributed to strong demand from the biofuel and animal feed sectors. Large supplies of maize are being used in US domestically for production of ethanol. As per USDA estimates (May 2007), 86 mn tonnes of maize would be used for production of ethanol in 2007/08, an increase of about 60% over record usage in 2006-07. Strong coarse grain prices are driving increased use of wheat for animal feed. Industrial use of wheat is also expected to increase, reflecting its usage for conversion into bio-fuels in Canada and the EU.

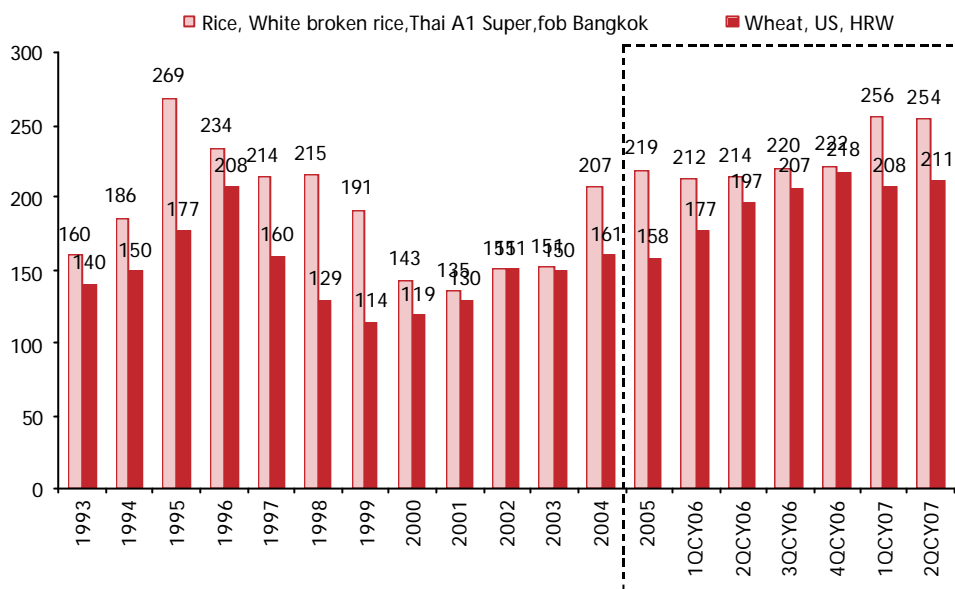
Subsidies have helped China increase grain production over the last three years-just matching the increased consumption. Direct grain subsidies given by China since 2004 to encourage grain production and improve farmers' income has helped China in increasing the food grain output. FAO estimates production of cereals in China to match the increased utilization of cereals. However, the inventory of cereals is likely to remain near its 25-year low.

Firm global price trend influencing domestic prices and aiding farm income. Cereals account for about 21% of the Indian agricultural output in value terms. A firm trend in global wheat and rice prices suggest the likelihood of a sustained firm trend in Indian farm gate prices as well. With the Indian food grain output expected to grow at 1-2% p.a., we expect firm cereal prices to benefit farm income. India's rural economy witnessed tremendous demand buoyancy in the mid 1990s, when domestic cereal prices ruled firm. A buoyant rural economy augurs well for the sales growth of FMCG companies.

Monsoons-temporal and spatial distribution determines the crop output. The cumulative seasonal rainfall (from 1st June to 11th July, 2007) was excess or normal in 29 and deficient in only 7 meteorological sub-divisions. The total rainfall has been 18% higher than normal at 310.8 mm compared to normal rainfall of 262.6 mm. However, distribution of rainfall during the sowing month of July for the autumn crop is critical for the crop outcome. The crop acreage (till June 29, 2007) is yet to pick up, with area under rice and other coarse grains lower by 7.8% and 21.8% respectively over last year. India Meteorological Department's Long Range Forecast for the 2007 South-West Monsoon Season (June-September) for the country as a whole is 93% of the Long Period Average (LPA) with a model error of ? 4%.

Global food grain prices continue to rule firm

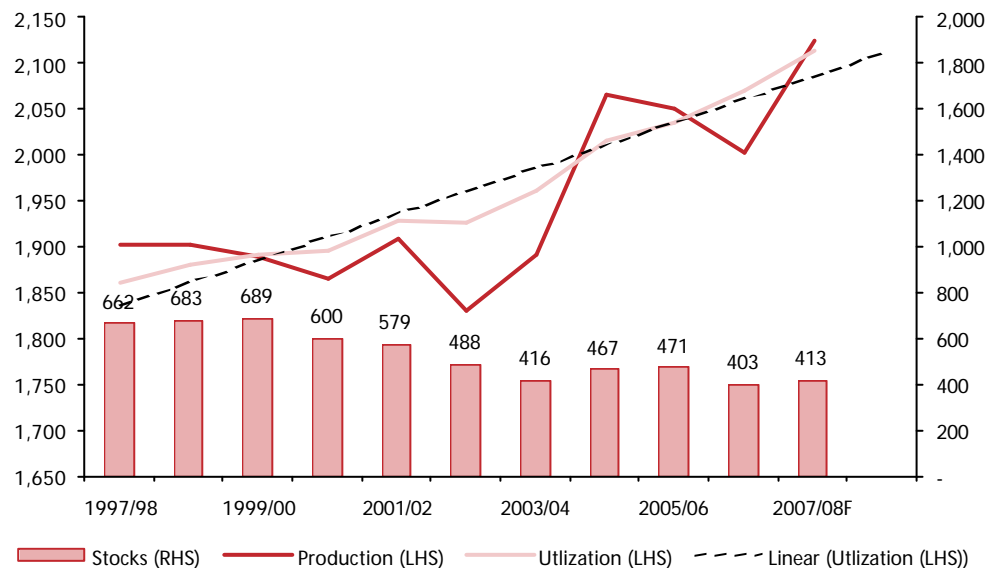
Global food grain prices (US\$/tonne)



Source: FAO.

World cereal stocks expected to remain low as utilization continues above trend

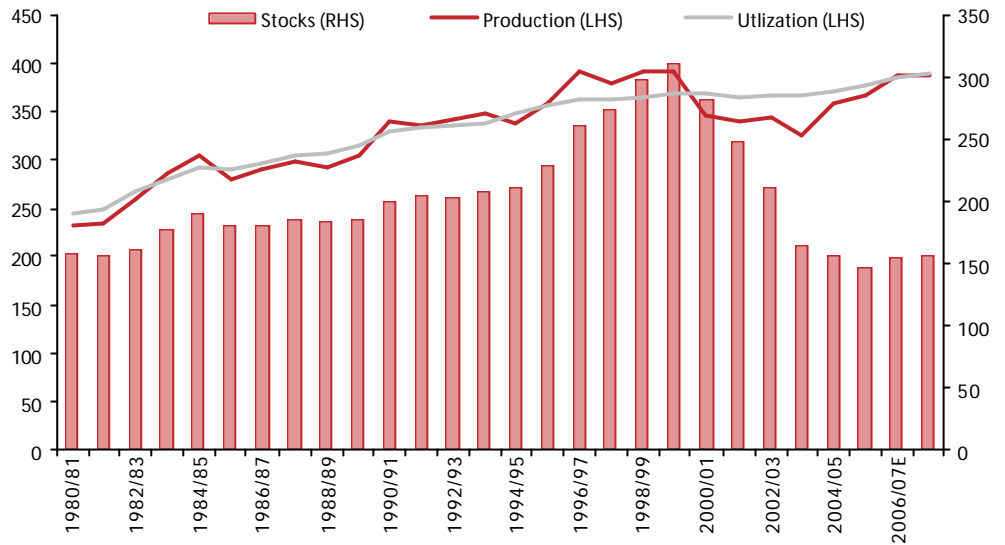
World cereal production and utilization (mn tonnes)



Source: FAO's Crop prospects & food situation June 2007.

Continuing production shortfall in China cereals since 2000

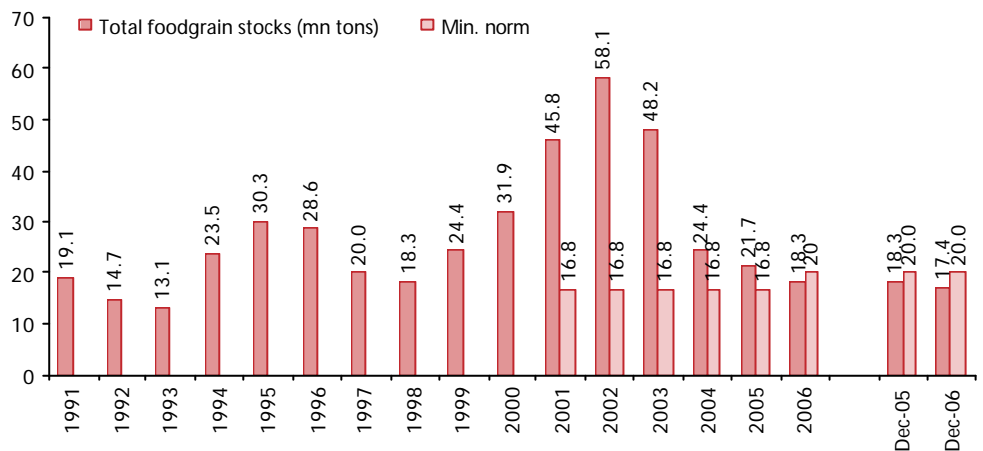
China cereal production and utilization (mn tonnes)



Source: FAO.

Foodgrain stocks with central and state agencies remain low

Domestic foodgrain stocks (mn tonnes)



Source: Ministry of agriculture, Monthly Bulletin of Ministry of consumer affair and public distribution.

Monsoon has been fairly active this year as compared to recent past

No. of sub-divisions with rainfall	For the period from 1 st June to					
	10-Jul-02	9-Jul-03	14-Jul-04	13-Jul-05	12-Jul-06	11-Jul-07
Excess	6	7	5	11	3	19
Normal	10	25	15	17	24	10
Total	16	32	20	28	27	29
Deficient	20	4	16	8	8	7
Scanty	0	0	0	0	1	0
No rain	0	0	0	0	0	0
Total	20	4	16	8	9	7
Total sub-divisions	36	36	36	36	36	36

Source: IMD.

Foodgrain output is estimated to post modest growth

Domestic agricultural production (mn tonnes)

	FY04	FY05	FY06	FY07E	FY08E
Foodgrain	213.5	198.4	208.6	211.8	214.3
Cereals	198.5	185.2	195.2	197.7	
- Rice	88.3	83.1	91.8	91.0	91.2
- Wheat	72.1	68.6	69.3	73.7	74.2
Pulses	14.9	13.1	13.4	14.1	14.2
Oilseeds	25.3	24.4	28.0	23.3	26.9
Cotton (bales)	13.8	17.1	16.5	16.5	
Sugarcane	233.9	237.1	281.2	322.9	310.0

Source: CMIE, Ministry of Agriculture.

Cement

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		13-Jul	Target
Gujarat Ambuj	IL	129	130
ACC	U	1,096	900
Grasim	IL	2,871	2,850
India Cements	IL	227	190
UltraTech Cem	U	929	750
Shree Cement	IL	1,368	1,300

Heavy rains impact cement despatches in June

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Cement despatch growth rate slipped back into single digits, recording a 5.4% yoy growth during June 2007. Strong monsoon rains in several parts of the country resulted in a slowdown in growth rates. Cement despatch growth during 1QFY08 now stands at 7.6%, significantly lower than 9.3% growth recorded during 1QFY07. Our optimistic scenario for FY2008 builds in a 10% growth in domestic cement consumption and stagnant export volumes. Despatch growth for ACC (additional capacity through debottlenecking/ brownfield) and Grasim (increased blending) has been better than industry average. UltraTech and Ambuja Cement were impacted by heavy rains in their key Western India market, as well as a significant yoy decline in export volumes.

Cement prices move up to Rs226/bag (Rs224/bag in May) led by price increases in South India. All India average cement prices during June 2007 increased to Rs226/bag, after remaining at Rs224/bag for the last two months. Cement price increases were led by price increase of Rs5/bag in South India. The statement of Finance Minister ruling out any direct intervention to curb cement prices and a sedate inflationary environment prompted the cement manufacturers to take price increases in other regions as well. We note that the current supply-demand balance remains in favor of cement manufacturers, who are likely to retain their pricing power (barring any government intervention) till the first few months of FY2009. Commissioning of new capacities in 1QFY2009 will likely change this pricing equation, in our view.

We retain our Cautious view on the sector. We note that while the next few quarters will be good for cement manufacturers, new capacities getting commissioned in FY2009 will likely change the currently favorable demand-supply environment. We estimate 30 mn tpa of new capacity to get commissioned in FY2009, far exceeding the incremental cement demand. Government intervention remains a key risk to the sector in the interim.

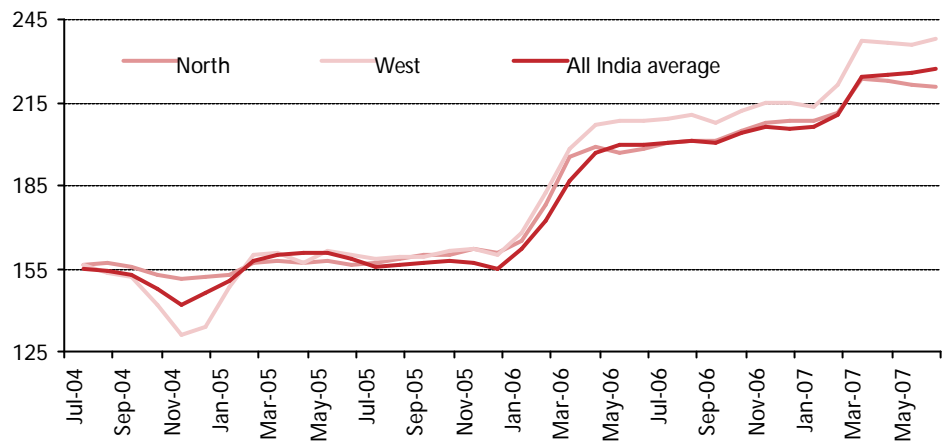
Exhibit 1: Cement despatch growth rates for major companies

	Jun-07 (mn tons)	Growth (%)	
		y-o-y	YTD
ACC	1.68	9.0	10.0
Gujarat Ambuja	1.39	0.4	(0.1)
UltraTech	1.18	(3.7)	(0.7)
Grasim Industries	1.34	8.8	8.8
Shree Cement	0.48	22.4	23.0
India Cements	0.74	0.4	3.9
Madras Cements	0.47	15.5	12.8
Industry	13.5	5.4	7.6

Source: CMA, Kotak Institutional Equities.

Exhibit 2: Cement prices moved up marginally during June

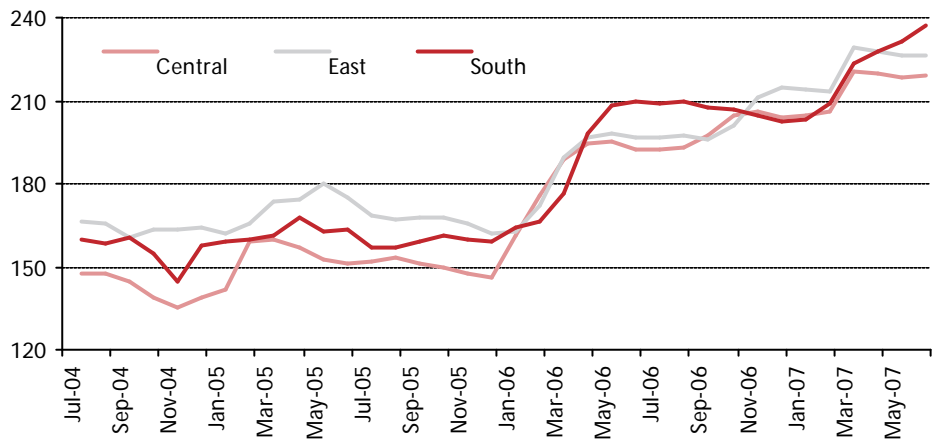
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities.

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

Regional cement prices (Rs per 50 kg bag)

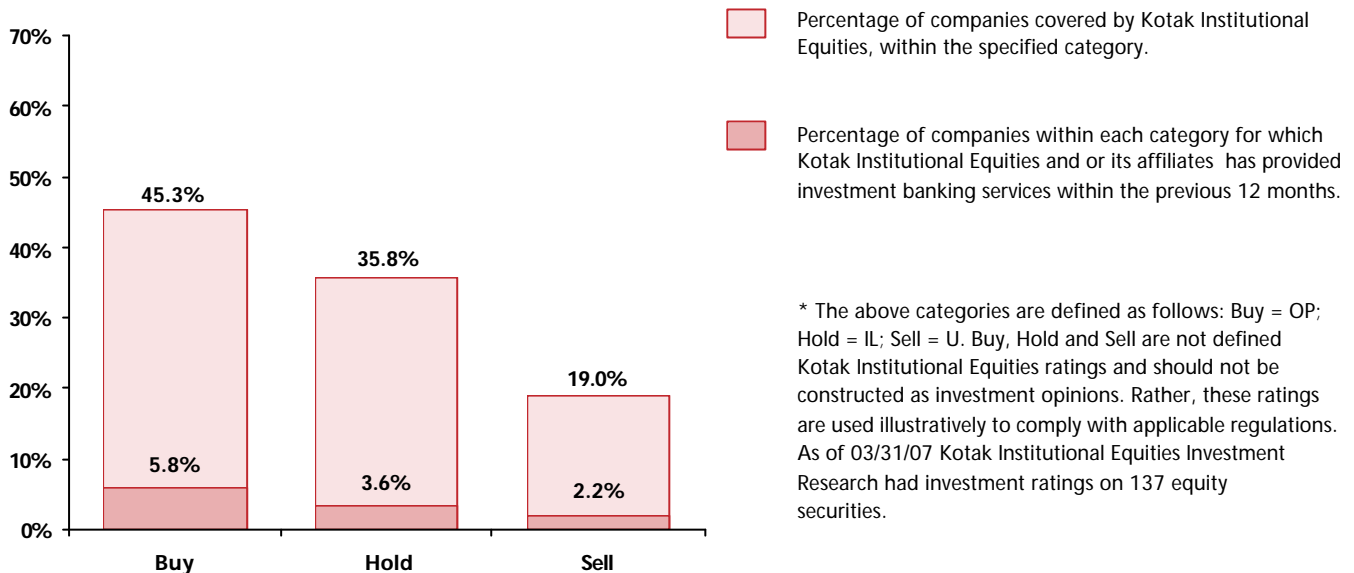


Source: CMA, Kotak Institutional Equities.

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Source: Kotak Institutional Equities.

As of March 31, 2007

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IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

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

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