kotak® Institutional Equities

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News Roundup

Corporate

- The ∉14 bn French dairy major, Group Danone, has formally initiated arbitration proceedings to end its partnership with the Mumbai-based Wadia group. The French dairy major filed the petition in Bombay High Court on June 29, Friday. (BS)
- Naresh Goyal-promoted Jet Airways is believed to be in preliminary talks with leading international private equity players for offloading a minority stake in JetLite, the name given to Air Sahara that it acquired three months ago for Rs14.5 bn. (BS)
- Mumbai-based consumer durables major Videocon Industries Ltd is understood to have called off negotiations to acquire 97% stake in the South Korean company Daewoo Electronics, failing to come to an agreement over pricing. (FE)

Economic and political

- Normal life in Mumbai, the Indian financial capital, was disrupted yet again-thanks to heavy rains and the resultant water logging in various parts of the city. The road, air and train services in the city were severely affected. (BS)
- The Communication and IT Minister, Mr Andimuthu Raja, has rejected telecom industry's plea to reduce the collection for Universal Services Obligation fund, citing high tele-density gap in India. (ET)

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

EQUITY MARKETS

India	29-Jun	1-day	1-mo	3-mo
		Change, %		
Sensex	14,651	1.0	0.5	17.6
Nifty	4,318	0.8	0.5	18.8
Global/Regional indices				
Dow Jones	13,409	(0.1)	(1.9)	8.3
Nasdaq Composite	2,603	(0.2)	(0.4)	7.5
FTSE	6,608	0.6	(1.0)	4.6
Nikkie	18,121	(0.1)	0.9	6.4
Hang Seng	21,773	(0.8)	5.7	9.9
KOSPI	1,749	0.3	1.9	19.8

Value traded - India

	29-Jun		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	152.9		135.7	134.8
Derivatives (NSE)	354.6		432.9	509.6
Deri. open interest	612.4		693.3	637.8

Forex/money market

	29-Jun	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.7	-	18	(259)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	(3)	6	23

Net investment (US$mn)

	27-Jun		MTD	CYTD
FIIs	(115)		436	4,382
MFs	20		74	(39)

Top movers -3mo basis

Best performers	29-Jun	1-day	1-mo	3-mo
		Change, %		
BALAJI TELEFILMS L	224	(0.6)	1.1	83.0
GREAT EASTERN SH	356	5.0	21.9	77.3
RELIANCE CAPITAL	1,088	0.6	12.0	76.8
INDUS DVLP BANK C	119	5.3	21.4	65.6
TITAN INDUSTRIES L	1,339	(0.1)	17.4	64.4
Worst performers				
POLARIS SOFTWARI	153	0.7	(5.2)	(10.2)
PUNJAB TRACTORS	273	(4.0)	(12.7)	(10.0)
RAYMOND LIMITED	308	0.4	(3.3)	(8.2)
DR. REDDY'S LABOF	656	0.2	1.1	(7.8)
CIPLA LTD	208	2.7	(7.0)	(7.7)

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Infrastructure

GMRI.BO, Rs748	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	465
52W High -Low (Rs)	754 - 205
Market Cap (Rs bn)	247.6

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	14.7	15.4	28.4
Net Profit (Rs bn)	0.7	0.4	3.0
EPS (Rs)	2.0	1.1	9.0
EPS gth	*(24.8)*	*(45.5)*	*718.6*
P/E (x)	372.8	684.0	83.6
EV/EBITDA (x)	53.5	57.0	27.5
Div yield (%)	-	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.6	-	-
FIIs	8.9	0.2	0.2
MFs	0.2	0.0	0.0
UTI	-	-	-
LIC	-	-	-

GMR Infrastructure: Results first take—operating results In-Line with expectations, while real estate development has surprises

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- **Property development at Delhi and Hyderabad Airport moves forward with positive surprises**
- **Power exceeds estimates with higher PLF and lower depreciation**
- **Roads and airport PAT lower than estimates based on lower margins and higher depreciation/interest costs respectively**

GMR Infrastructure has reported operating performance broadly inline with our expectations, across all three segments. While the power segment has exceeded estimates based on lower depreciation and higher PLFs, the roads segment has missed PAT estimates because of lower margins. Airport segment revenues and EBITDA are in line, however, there is a possibility for some interest and/or depreciation cost for FY2007 that we have not factored in our model. The company has passed key milestones with regard to real estate development in both Delhi and Hyderabad airport. In the hospitality district in Delhi, the GMR consortium has offered an FSI of 3 against our assumption of 1.5, while the planned SEZs in Hyderabad are likely to accelerate real estate development versus our expectations. We expect to have more clarity on several aspects regarding real estate development such as likely pricing, FSI and development schedule from the management call, post which we would review our target price and rating.

Property development at Delhi and Hyderabad Airport—moves forward with positive surprises

Significant steps towards property development at Delhi and Hyderabad airport include (a) invitation of expression of interest from real estate developers/hospitality majors to develop a hospitality district on a land parcel of 45 acres and (b) approval from government for development of two SEZs (Multi-product and aviation sector specific) of 250 acres each in Hyderabad airport. GMR has offered a total built-up area of 5.9 mn sq. ft. on a 45 acres land parcel, implying an FSI of about 3. We had assumed an FSI of 1.5 for real estate development around Delhi Airport. Approvals for SEZs would accelerate the process of development of the total land available to GMR consortium around Hyderabad airport, in our view. We have assumed development spread through 10 years starting FY2010 for the real estate available at Hyderabad airport. Several SEZs across the country have faced problems related to land acquisition and thus SEZs to be developed by GMR consortium may have a head-start as they already have the land in possession.

Airports segment—Revenues and EBITDA in-line, PAT lower potentially because of depreciation and interest costs

GMR has reported revenues of Rs3,176 mn in the airports segment - in line with our expectation of Rs3,203 mn. EBITDA margins at 20.7% are slightly above our estimates of 20.1%. However, PAT margins at 11.6% are lower than our expectation of 13.9% - possibly due to higher interest costs than what we expected.

Power segment—exceed estimates based on higher PLF and depreciation adjustment

GMR has reported revenues of Rs12,170 mn in the power segment - about 20% higher than our expectation of Rs10,184 mn, mainly on account of higher Plant Load Factors (PLFs). PAT at 1,862 mn is higher than our estimate of Rs1,399 mn, partly due to adoption of depreciation rates pursuant to AS21 which has resulted in a lower depreciation charge. The Vemagiri power plant has reported a negative PAT of Rs851 mn, compared to our estimates of a loss of Rs687 mn.

Roads segment—margins lower than our expectations

GMR has reported revenues of Rs1,432 mn in the roads segment, in line with our expectation of Rs1,427 mn. However, EBITDA at Rs1,154 mn was lower than our expectation of Rs1,213 mn, mainly on account of reduction in contribution of additional works for NHAI. Similarly, reported PAT in roads segment is at Rs302 mn against our expectation of Rs373 mn, potentially due to higher depreciation or interest costs.

Project execution across all projects in the three sectors remain inline

GMR has made significant progress related to project execution across several sectors and key highlights are; (a) significant progress in revamping existing domestic and international terminal at Delhi, (b) start of work on new runway and integrated passenger terminal a Delhi, (c) near-completion of critical work at Hyderabad Airport such as runway, taxiway and passenger terminal building, (c) award of several key concessions in Delhi and Hyderabad airport and (d) 95-98% land acquisition for road projects under development.

Management is holding a conference call on July 2, 1007 at 2:30 PM where we expect to have more clarity on strategy for real estate development around Delhi and Hyderabad airport, a key component of valuation, versus our expectation related to pricing, FSI and development schedule etc.

Exhibit 1. GMR Infrastructure - Delhi Airport has started to contribute significantly to performance

GMR Infrastructure - 4QFY07 - segmental numbers (Rs mn)

			yoy			yoy			qoq	
	FY2007E	FY07	FY06	% change	4QFY07	4QFY06	% change	4QFY07	3QFY07	% change
Airports										
Gross revenues	5,930.2	5,880.0	-		1,754.0	-		1,754.0	1,632.0	7.5
Less: AAI rev share	(2,727.3)	(2,704.2)	-		(806.7)	-		(806.7)	(754.4)	6.9
Net revenue	3,202.9	3,175.8	-		947.3	-		947.3	877.6	7.9
EBIDTA	644.9	656.0	-		202.0	-		202.0	177.0	14.1
PAT	444.0	368.0	-		100.0	-		100.0	88.0	13.6
Power										
Gross revenues	10,183.9	12,170.0	9,033.0	34.7	4,727.0	3,151.0	50.0	4,727.0	2,311.4	104.5
EBIDTA	3,392.5	3,682.0	3,328.0	10.6	872.0	781.0	11.7	872.0	1,065.0	(18.1)
PAT	1,399.4	1,862.0	2,151.0	(13.4)	264.0	488.0	(45.9)	264.0	435.0	(39.3)
Roads										
Gross revenues	1,426.8	1,432.0	1,504.0	(4.8)	335.0	371.0	(9.7)	335.0	365.0	(8.2)
EBIDTA	1,212.8	1,154.0	1,217.0	(5.2)	275.0	318.0	(13.5)	275.0	283.0	(2.8)
PAT	373.2	302.0	97.0	211.3	75.0	85.0	(11.8)	75.0	73.0	2.7
Key ratios										
EBITDA Margins										
Airports	20.1	20.7			21.3			21.3	20.2	
Power	33.3	30.3	36.8		18.4	24.8		18.4	46.1	
Roads	85.0	80.6	80.9		82.1	85.7		82.1	77.5	
PAT Margins										
Airports	13.9	11.6			10.6			10.6	10.0	
Power	13.7	15.3	23.8		5.6	15.5		5.6	18.8	
Roads	26.2	21.1	6.4		22.4	22.9		22.4	20.0	

Source: Company data, Kotak Institutional Equities estimates

Exhibit 2. GMR Infrastructure - Progress is being made on awarding contracts related to various activities related to airport management

GMR Infrastructure - Status of commercial business development activities at Delhi & Hyderabad airports

	Delhi	Hyderabad
Duty Free Retail	Contract to Alpha Airport & Future Group consortium for 3.25 years	JV of Nuance Group & Shoppers Stop to set up, operate & maintain for 7 yrs
Advertisement	Contract to Times Innovative Media Pvt. Ltd. for 3 yrs Identifying new avenues for increasing revenues	
In-flight Kitchen Facilities	Existing contracts: Revising terms Additional capacity: Issuing RFP	LSG Sky Chefs & Sky Gourmet to Build, Operate & Maintain for 20 years
Fuel Farm	Formulating strategy	O&M concession to Reliance Industries for 7 yrs
Ground Handling	Awaiting policy	Concession to 2 consortiums - Menzies & Bobba and SATS, IA & IA for 7 yrs
Car Parking	Finalizing RFP	Management contract to Tenaga Parking (India) Pvt. Ltd.
F&B and Specialty Shops	Identifying retail mix	
Cargo Handling Operations		JV formed with Menzies Aviation Plc.
Business Class Hotel		Accor Hotels & Resorts, Singapore, to operate with Novotel Brand
Lounge Management		Tied up with Plaza Premium Lounge of KL to maintain and manage for 7 years
MRO		Land leased to Indian Airlines for shifting of existing facilities Term sheet signed for setting up a base maintenance MRO
SEZ		Approval received from GOI for setting up 2 SEZs

Source: Company data

Media

DSTV.BO, Rs107	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	120
52W High -Low (Rs)	143 - 97
Market Cap (Rs bn)	45.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.9	6.4	11.4
Net Profit (Rs bn)	(2.5)	(2.3)	(1.4)
EPS (Rs)	(5.9)	(5.5)	(3.2)
EPS gth	-	-	-
P/E (x)	(18.2)	(19.5)	(33.4)
EV/EBITDA (x)	(25.3)	(96.9)	40.1
Div yield (%)	-	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	-	-	-
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Dish TV: Weak but in-line FY2007 results

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- **Increase in ARPUs is key to profits, valuation**
- **Stock may stagnate at current levels until clarity emerges on pricing strategy of new entrants**
- **Better entry points possible over the next few months**

Dish TV reported a net loss of Rs2.52 bn in FY2007 in line with our Rs2.47 bn estimate. 4QFY07 net loss was Rs1 bn versus Rs1.52 bn in 9MFY07. We note that previous quarter results are not available as Dish TV listed in April 2007. We do not set much store by Dish current financials but would watch for (1) monthly subscriber additions, (2) evolution of ARPUs (still very low) and (3) pricing strategy of new entrants pertaining to monthly subscription rates and subsidy on consumer premise equipment (CPE). We have made moderate revisions to our earnings model based on FY2007 results but note that the estimates would depend on the aforementioned factors. Our revised EBITDA for FY2008E, FY2009E and FY2010E are -Rs515 mn, Rs1.3 bn and Rs3.2 bn versus -Rs345 mn, Rs1.6 bn and Rs3.4 bn, respectively, previously. Our revised DCF-based 12-month target price is Rs120 (Rs125 previously) with key risks being lower-than-expected ARPUs and higher-than-expected subsidies on CPE.

4QFY07 and FY2007 results—low ARPUs, high initial fixed costs contributed to large loss. We compute Dish's 4QFY07 and FY2007 ARPU at around Rs125 and Rs114, respectively. We find Dish's ARPU very low in the context of the monthly rates of its packages; we attribute this to 3-5 initial months of free service for new subscribers. Dish's FY2007 content cost was Rs1.56 bn (Rs229 mn in FY2006), not very different from its revenues of Rs1.91 bn. Similarly, marketing expenses were Rs535 mn (28% of revenues). We do not expect costs to increase in the same proportion of revenues (ARPUs) in the future.

Operating leverage to kick in from FY2008E; however, improvement in ARPU is key. We expect Dish's revenues to accelerate over the next few years backed by (1) growth in subscribers and (2) improvement in ARPUs. We model Dish's subscriber base to grow to 3 mn, 4.1 mn and 5.1 mn at end-FY2008E, end-FY2009E and end-FY2010E, respectively versus its current subscriber base of 2.1 mn. Dish TV management has guided to subscriber base of 3 mn by end-FY2008E. We model Dish's ARPUs to improve to Rs219, Rs268 and Rs299 for FY2008E, FY2009E and FY2010E, respectively based on increase in number of channels and inflation.

Competition and execution are key to volume growth and ARPUs, respectively. Our positive view on subscriber growth notwithstanding, we would watch evolution of ARPUs carefully given entry of new operators later in the year. We note that a small change in ARPUs has a large impact on profits and valuation (see Exhibit 1). We assume new entrants to be rational operators; however, we do not rule out an increase in subsidy and lower subscription monthly rates, which would result in significantly lower profits and valuation for Dish TV.

Additionally, Dish would need to execute well in order to consolidate its first-mover advantage and increase its subscriber base before others enter the market. Dish has a reasonable distribution network of 35,000 dealers and 400 distributors in 4,100 markets currently.

Two upsides not factored in our model as yet. On the upside, we expect subscriber growth to accelerate if the government were to allow adult content on addressable systems; this is being discussed by the government. Finally, Dish may be in a position to demand carriage fees from niche channels or negotiate better rates with content providers once its subscriber base increases to a meaningful level.

Pricing has a more significant impact on valuation of Dish TV than volume

Sensitivity of Dish TV's valuation to number of subscribers and subscription fees

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	145	20
10%	133	10
Base case	**121**	
-10%	**109**	(10)
-20%	**96**	(20)
Change in monthly subscription fees (%)		
20%	233	93
10%	177	47
Base case	**121**	
-10%	**63**	(48)

Source: Kotak Institutional Equities estimates.

Dish TV consolidated interim results (Rs mn)

		qoq			yoy			yoy		
	2008E	4Q 2007	3Q 2007	% chg.	4Q 2007	4Q 2006	% chg.	2007	2006	% chg.
Net sales	**6,447**	**659**	—	—	**659**	—	—	**1,909**	**315**	***507***
DTH services	6,447	634	—	—	634	—	—	1,798	208	*764*
Trading	—	2	—	—	2	—	—	7	57	*(88)*
Teleport services	—	23	—	—	23	—	—	105	49	*113*
Total expenditure	**(6,963)**	**(1,299)**	—	—	**(1,299)**	—	—	**(3,761)**	**(1,144)**	***229***
Content cost	(3,436)	(502)	—	—	(502)	—	—	(1,556)	(229)	*579*
Staff cost	(265)	(52)	—	—	(52)	—	—	(149)	(21)	*592*
Other operating cost	(1,860)	(194)	—	—	(194)	—	—	(692)	(552)	*25*
Selling, administrative & other costs	(1,402)	(551)	—	—	(551)	—	—	(1,364)	(341)	*300*
EBITDA	**(515)**	**(640)**	—	—	**(640)**	—	—	**(1,852)**	**(830)**	***123***
EBITDA margin (%)	**(8.0)**	**(97.1)**	—	—	**(97.1)**	—	—	**(97.0)**	**(263.7)**	—
Other income	36	8	—	—	8	—	—	34	—	—
Interest	(232)	(75)	—	—	(75)	—	—	(118)	(17)	*604*
Depreciation and amortisation	(1,537)	(292)	—	—	(292)	—	—	(575)	(28)	*1,929*
Pretax profits	**(2,249)**	**(999)**	—	—	**(999)**	—	—	**(2,511)**	**(875)**	***187***
Extraordinaries	—	(2)	—	—	(2)	—	—	(5)	(1,203)	*100—*
Current tax	—	(1)	—	—	(1)	—	—	(3)	(0)	*661*
Deferred tax	**93—**	—	—	—	—	—	—	—	—	—
Net income	**(2,342)**	**(1,002)**	—	—	**(1,002)**	—	—	**(2,519)**	**(2,078)**	***21***
Tax rate (%)	(4.2)	(0.1)	—	—	(0.1)	—	—	(0.1)	(0.0)	—

Source: Company, Kotak Insitutional Equities estimates.

Profit model, balance sheet, cash model of Dish TV 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	6,447	11,396	16,492	21,770	27,549
EBITDA	**(830)**	**(1,857)**	**(515)**	**1,313**	**3,231**	**4,936**	**6,966**
Other income	—	34	36	42	43	40	45
Interest (expense)/income	(17)	(118)	(232)	(397)	(560)	(540)	(323)
Depreciation	(28)	(565)	(1,527)	(2,323)	(2,980)	(3,490)	(3,066)
Amortization	—	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,516)**	**(2,249)**	**(1,375)**	**(275)**	**937**	**3,612**
Extraordinary items	(1,203)	(11)	—	—	—	—	—
Tax	—	(3)	—	—	—	(106)	(409)
Deferred taxation	—	—	(93)	4	148	289	142
Net income	**(2,078)**	**(2,530)**	**(2,342)**	**(1,371)**	**(128)**	**1,120**	**3,345**
Earnings per share (Rs)	**—**	**(5.9)**	**(5.5)**	**(3.2)**	**(0.3)**	**2.6**	**7.8**
Balance sheet							
Total equity	1,915	(609)	(2,951)	(4,322)	(4,450)	(3,455)	(862)
Deferred taxation liability	—	—	93	89	(58)	(347)	(489)
Total borrowings	84	2,241	5,241	8,241	8,491	6,741	1,385
Current liabilities	1,820	8,577	8,889	8,595	9,273	10,293	13,502
Total liabilities and equity	**3,819**	**10,209**	**11,272**	**12,603**	**13,256**	**13,231**	**13,536**
Cash	59	107	87	298	137	208	280
Other current assets	1,528	2,413	1,701	1,710	2,237	2,797	3,400
Total fixed assets	1,067	6,209	8,013	9,135	9,431	8,785	8,426
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	965	965	965	965	965	965
Total assets	**3,819**	**10,209**	**11,272**	**12,603**	**13,256**	**13,231**	**13,536**
Free cash flow							
Operating cash flow, excl. working capital	—	(1,983)	(747)	916	2,672	4,291	6,234
Working capital changes	—	5,873	1,023	(302)	151	459	2,607
Capital expenditure	—	(5,706)	(3,332)	(3,444)	(3,277)	(2,844)	(2,706)
Investments	—	(327)	—	—	—	—	—
Other income	—	34	36	42	43	40	45
Free cash flow	**—**	**(1,816)**	**(3,056)**	**(2,830)**	**(454)**	**1,906**	**6,134**
Ratios (%)							
Debt/equity	4.4	(367.9)	(177.6)	(190.7)	(190.8)	(195.1)	(160.7)
Net debt/equity	1.3	(350.4)	(174.6)	(183.8)	(187.7)	(189.1)	(128.3)
ROAE (%)	(217.0)	(387.3)	135.1	38.7	2.9	(27.0)	(129.8)
ROACE (%)	**(89.6)**	**(325.2)**	**(414.0)**	**(57.5)**	**3.4**	**40.7**	**87.5**

Source: Kotak Institutional Equities estimates.

DCF valuation for Dish TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	**(515)**	**1,313**	**3,231**	**4,936**	**6,966**	**8,829**	**10,471**	**12,022**	**13,529**	**14,940**	**15,836**	**16,786**	**17,793**
Tax expense	0	0	0	(167)	(446)	(1,039)	(2,486)	(2,998)	(3,572)	(4,327)			
Working capital changes	788	80	895	593	1,791	1,484	1,081	664	370	80			
Cash flow from operations	**273**	**1,393**	**4,126**	**5,362**	**8,311**	**9,274**	**9,066**	**9,688**	**10,326**	**10,692**			
Capital expenditure	(3,332)	(3,444)	(3,277)	(2,844)	(2,706)	(4,854)	(4,617)	(4,186)	(3,587)	(3,447)			
Free cash flow to the firm	**(3,059)**	**(2,051)**	**849**	**2,518**	**5,605**	**4,420**	**4,449**	**5,502**	**6,739**	**7,245**	**7,680**	**8,140**	**8,629**
Discount factor at WACC	**0.92**	**0.81**	**0.72**	**0.64**	**0.57**	**0.51**	**0.45**	**0.40**	**0.36**	**0.32**	**0.28**		
Discounted cash flow	(2,801)	(1,669)	614	1,620	3,203	2,245	2,009	2,208	2,404	2,297	2,164		
Discounted cash flow-1 year forward		(1,878)	691	1,822	3,604	2,526	2,260	2,484	2,705	2,584	2,435	2,294	
Discounted cash flow-2 year forward			777	2,050	4,055	2,843	2,543	2,795	3,043	2,908	2,739	2,581	2,432

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**14,294**	**21,527**	**28,764**
FCF one-year forward	7,680	8,140	8,629
Terminal value	118,147	125,235	132,750
PV of terminal value (b)	**33,293**	**35,291**	**37,408**
Total PV (a) + (b)	**47,587**	**56,818**	**66,172**
Net debt	2,134	5,154	7,942
Equity value	45,453	51,664	58,230
Equity value (US$ mn)	**1,004**	**1,230**	**1,386**
Shares outstanding (mn)	428	428	428
Equity value/per share (Rs)	**106**	**121**	**136**

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

Growth rate (%)	WACC (%) 11.0	11.5	12.0	12.5	13.0	13.5	14.0
4.5	**136**	**123**	112	103	95	88	81
5.0	**144**	**130**	118	108	99	91	84
5.5	**155**	**139**	**125**	114	104	95	88
6.0	**167**	**149**	**134**	**121**	110	100	92
6.5	**182**	**161**	**143**	**128**	116	106	96
7.0	**201**	**175**	**155**	**138**	**124**	112	102
7.5	**225**	**193**	**169**	**149**	**132**	119	107
8.0	**258**	**217**	**186**	**162**	**143**	**127**	114

Discount rate (%)	12.5
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	15.4
Exit EBITDA multiple (X)	7.9

Fiscal Year end (March 31, XXXX)	March-08	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07	2-Jul-07
Days left	273	638	1,003	1,368	1,734	2,099	2,464	2,829	3,195	3,560	3,925	4,290	4,656
Years left	0.7	1.7	2.7	3.7	4.8	5.8	6.8	7.8	8.8	9.8	10.8	11.8	12.8

Technology

INFY.BO, Rs1929	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	2,300
52W High -Low (Rs)	2439 - 1532
Market Cap (Rs bn)	1,107

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	138.9	180.1	232.1
Net Profit (Rs bn)	37.5	48.2	59.5
EPS (Rs)	67.0	83.8	103.4
EPS gth	*48.7*	*25.1*	*23.5*
P/E (x)	28.8	23.0	18.7
EV/EBITDA (x)	23.8	18.5	14.1
Div yield (%)	0.7	0.9	1.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	16.5	-	-
FIIs	51.7	9.8	5.7
MFs	3.3	3.9	(0.1)
UTI	-	-	(4.0)
LIC	1.9	2.0	(2.1)

Infosys Technologies: What does Infosys need to do to maintain EPS guidance for FY2008?... raise US$ revenue growth guidance to 41%

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- **We expect FY2008 EPS guidance to be revised downwards by 5-7% to Rs76-78 for FY2008 from Rs81.6**
- **Infosys need to raise revenue growth guidance to 41% in US$ terms to maintain current EPS guidance**
- **US$ EPS guidance may be maintained**
- **Current stock price expectations factor in reduction of EPS guidance.**

We believe that Infosys needs to increase US$ revenue growth guidance to 41% for FY2008 (from 30% at the upper end earlier), if it has to maintain its annual EPS guidance of Rs81.59 (at the upper end), unrealistic in our view. This view is based on end June 2007 Re/US$ rate of 40.7. We further believe that to protect US$ EPS guidance, Infosys needs to increase US$ revenue growth guidance to 34% (from 30% earlier), possible in our view. As a result, we believe that it is realistic to expect reduction in Re EPS guidance for FY2008 though the company may be able to protect US$ EPS guidance. Given that the consensus estimates are already down significantly, we do not view the potential downward revision in guidance as negative. The stock has corrected 14% in the last three months and is now trading at 22x 12-month forward valuations, 12% lower than the normal historic range. We maintain our Outperform rating with an end-March 2009 DCF based target price of Rs2,300. Note that the entire discussion below is assumed at the upper end of the guidance range.

Maintaining EPS guidance in the current rupee scenario unlikely: Exhibit 1 depicts our estimates of revenue growth required under Re/US$ scenarios of 41 and 40.7 to maintain EPS guidance. Infosys based its FY2008 guidance on Re/US$ rate of 43.1 earlier; likely revised guidance at 40.7 means an appreciation of 5.6% and incremental operating margin pressure of 220 bps. We believe that the company would be able to set off 160 bps on the back of (a) lower variable compensation benefiting the company by 70-80 bps and (b) likely higher pricing from 4QFY07 levels, which was not factored in the guidance by the company. However incremental 60 bps still remains unaddressed relative to the guidance, which in our view will impact the guidance. We expect the eventual Re EPS guidance to be revised down to Rs76-78 based on revenue growth assumption of 32-34% in US$ terms for FY2008 (see Exhibit 2).

US$ EPS guidance may be protected. We believe that Infosys may be able to protect upper end of FY2008 EPS guidance of US$1.89. Based on our calculations, the company needs to increase revenue guidance to 34% (see Exhibit 3) at the upper end of the band assuming that the guidance for the remainder of the year is based on Re/US$ rate of 40.7. Exhibit 4 details the revision in US$ revenue growth guidance by Infosys in the past after June quarter results. We note that Infosys has revised its initial revenue guidance by 0.6-8.7% after 1Q results over the past four fiscals.

Variable compensation of Infosys is well defined: Infosys pays out nearly 4% of its revenues as variable offshore compensation, 30-40% of which is linked to operating profitability. Effectively, this leaves 120-150 bps of operating margin leverage related to OPM performance, which if not met (due to currency appreciation or otherwise) would reduce the variable compensation pool partially. Infosys has a fairly transparent variable compensation structure; they would be able to pass on some of the burden to the employees. This view is reinforced by the fact that the company paid more than 100% of normal variable compensation in good times of FY2007 and less than 100% during the weak year of FY2006.

Exhibit 1: Infosys would need 41% (US$ terms) revenue growth in FY2008 to meet its Re EPS guidance at average Re/US$ rate of 40.7

Derivation of EPS growth guidance for Infosys for FY2008

At Re/US$ rate of 41		FY2008E (a)		FY2008E growth (%)	
	FY2007	Current	Required	Current	Required
Revenues (US$ mn)	**3,089**	**4,016**	**4,289**	**30**	**39**
Rupee /US$ rate	45.0	43.1	41.0	(4)	(9)
Revenues (Rs mn)	**138,930**	**173,090**	**175,865**	**25**	**27**
EBITDA margin (%)	31.6	31.1	30.5		
EBITDA (Rs mn)	43,910	53,831	53,639	23	22
Depreciation (Rs mn)	(5,140)	(5,600)	(5,700)		
Other income (Rs mn)	3,750	5,000	5,280		
Provision for taxation (Rs mn)	(5,100)	(6,398)	(6,386)		
Net profit (Rs mn)	**37,310**	**46,833**	**46,833**	**26**	**26**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS /share (Rs)	**67.0**	**81.6**	**81.6**	**22**	**22**

At Re/US$ rate of 40.7		FY2008E (a)		FY2008E growth (%)	
	FY2007	Current	Required	Current	Required
Revenues (US$ mn)	**3,089**	**4,016**	**4,346**	**30**	**41**
Rupee /US$ rate	45.0	43.1	40.7	(4)	(10)
Revenues (Rs mn)	**138,930**	**173,090**	**176,894**	**25**	**27**
EBITDA margin (%)	31.6	31.1	30.3		
EBITDA (Rs mn)	43,910	53,831	53,599	23	22
Depreciation (Rs mn)	(5,140)	(5,600)	(5,700)		
Other income (Rs mn)	3,750	5,000	5,320		
Provision for taxation (Rs mn)	(5,100)	(6,398)	(6,386)		
Net profit (Rs mn)	**37,310**	**46,833**	**46,833**	**26**	**26**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS /share (Rs)	**67.0**	**81.6**	**81.6**	**22**	**22**

Source: Kotak Institutional Equities estimates.

Exhibit 2: Infosys's likely Re EPS guidance would be Rs76-78 for FY2008

Derivation of likely revised FY2008 EPS guidance of Infosys

At Re/US$ rate of 40.7		FY2008E (a)		FY2008E growth (%)	
	FY2007	Lower end	Upper end	Lower end	Upper end
Revenues (US$ mn)	**3,089**	**4,077**	**4,139**	**32**	**34**
Rupee /US$ rate	45.0	40.7	40.7	(10)	(10)
Revenues (Rs mn)	**138,930**	**165,953**	**168,468**	**19**	**21**
EBITDA margin (%)	31.6	29.8	30.3		
EBITDA (Rs mn)	43,910	49,454	51,046	13	16
Depreciation (Rs mn)	(5,140)	(5,600)	(5,700)		
Other income (Rs mn)	3,750	5,280	5,320		
Provision for taxation (Rs mn)	(5,100)	(5,405)	(6,080)		
Net profit (Rs mn)	**37,310**	**43,729**	**44,586**	**17**	**20**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS /share (Rs)	**67.0**	**76.2**	**77.7**	**14**	**16**

Infosys will likely maintain US$ EPS guidance for FY2008

Derivation of likely FY2008 EPS guidance of Infosys

At Re/US$ rate of 40.7		FY2008E (a)		FY2008E growth (%)	
	FY2007	Lower end	Upper end	Lower end	Upper end
Revenues (US$ mn)	**3,089**	**4,077**	**4,145**	**32**	**34**
EBIT margin (%)	27.6	26.4	26.8		
EBIT (US$ mn)	852	1,076	1,111	26	30
Other income	84	122	122		
Provision for taxation	(112)	(132)	(148)		
Net profit (Rs mn)	**822**	**1,067**	**1,085**	**30**	**32**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS /share (Rs)	**1.48**	**1.86**	**1.89**	**26**	**28**

Source: Kotak Institutional Equities estimates.

Exhibit 3: Infosys would need 34% (US$ terms) revenue growth in FY2008 to meet its $-EPS guidance at average Re/US$ rate of 40.7

Derivation of EPS growth guidance for Infosys for FY2008

At Re/US$ rate of 41		FY2008E (a)		FY2008E growth (%)	
	FY2007	Current	Required	Current	Required
Revenues (US$ mn)	**3,089**	**4,016**	**4,099**	**30**	**33**
Rupee /US$ rate	45.0	43.1	41.0	(4)	(9)
EBIT margin (%)	27.6	27.6	27.1		
EBIT (US$ mn)	852	1,108	1,111	30	30
Other income	84	116	122		
Provision for taxation	(112)	(140)	(148)		
Net income (US$ mn)	**822**	**1,085**	**1,085**	**32**	**32**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS (US$)	**1.48**	**1.89**	**1.89**	**28**	**28**

At Re/US$ rate of 40.7		FY2008E (a)		FY2008E growth (%)	
	FY2007	Current	Required	Current	Required
Revenues (US$ mn)	**3,089**	**4,016**	**4,145**	**30**	**34**
Rupee /US$ rate	45.0	43.1	40.7	(4)	(10)
EBIT margin (%)	27.6	27.6	26.8		
EBIT (US$ mn)	852	1,108	1,111	30	30
Other income	84	116	122		
Provision for taxation	(112)	(140)	(148)		
Net profit (Rs mn)	**822**	**1,085**	**1,085**	**32**	**32**
Equity shares- weighted average (mn)	555.1	574.0	574.0	3	3
EPS /share (Rs)	**1.48**	**1.89**	**1.89**	**28**	**28**

Source: Kotak Institutional Equities estimates.

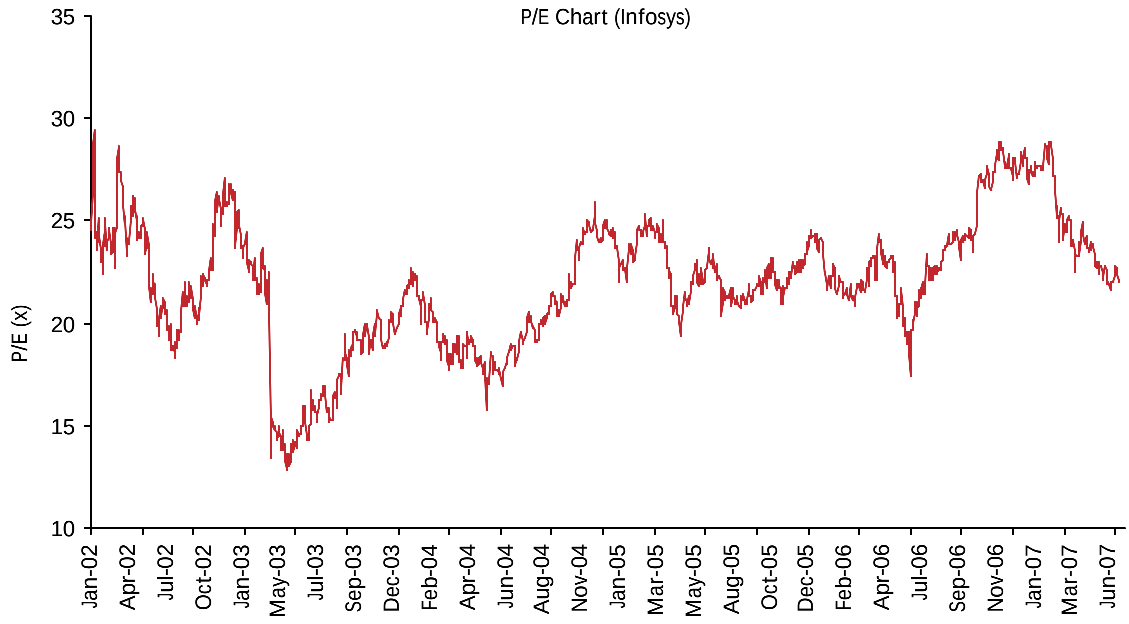
Exhibit 4: Infosys has raised its US$-revenue guidance by 0.6-8.7% after 1Q over the past four fiscals

Infosys' guidance revision history

	Guidance					Guidance	Deviation from initial guidance (% pts)		
FY2007	Initial	End of 1Q	End of 2Q	End of 3Q	Actual	initial (%)	After 1Q	After 2Q	After 3Q
Revenues (US$ mn)	2,800	2,920	3,040	3,090	3,092	30.2	**5.6**	11.2	13.5
Revenues (Rs bn)	124.5	134.0	139.0	139.2	138.9	30.7	10.0	15.3	15.5
EPS (Rs)	57.8	62.9	66.0	66.6	66.9	28.4	11.2	18.2	19.6
FY2006									
Revenues (US$ mn)	2,070	2,080	2,140	2,140	2,150	30.0	**0.6**	4.4	4.4
Revenues (Rs bn)	90.3	90.5	93.8	95.0	95.2	26.6	0.3	5.0	6.5
EPS (Rs)	43.0	43.0	44.7	45.2	45.0	21.9	0.1	5.0	6.2
FY2005									
Revenues (US$ mn)	1,392	1,485	1,561	1,591	1,592	31.0	**8.7**	15.9	18.7
Revenues (Rs bn)	60.4	67.7	71.6	71.1	71.3	26.9	15.4	23.5	22.4
EPS (Rs)	28.0	31.4	33.5	34.4	35.2	19.5	14.3	23.5	27.1
FY2004									
Revenues (US$ mn)	963	982	1,015	1,053	1,063	27.8	**2.5**	6.9	11.9
Revenues (Rs bn)	45.7	45.7	46.6	47.2	47.6	26.0	0.1	2.6	4.3
EPS (Rs)	20.5	21.2	22.4	23.3	23.4	13.4	4.0	10.6	15.7

Source: Company reports, Kotak Institutional Equities

Exhibit 5: Infosys is trading at the lower end of its historical 12-month forward PE band



Source: Bloomberg, Kotak Institutional Equities estimates

Industrials

SUZL.BO, Rs1494	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,635
52W High -Low (Rs)	1555 - 903
Market Cap (Rs bn)	429.4

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	79.9	128.9	173.7
Net Profit (Rs bn)	8.7	15.6	21.8
EPS (Rs)	30.1	52.9	74.1
EPS gth	*14.4*	*75.9*	*39.9*
P/E (x)	49.6	28.2	20.2
EV/EBITDA (x)	33.4	20.0	14.0
Div yield (%)	0.5	0.5	0.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.7	-	-
FIIs	21.3	1.0	(0.0)
MFs	0.5	0.1	(0.9)
UTI	-	-	(1.0)
LIC	-	-	(1.0)

Suzlon Energy: Further orders for deliveries in CY2009 builds visibility beyond the date of potential PTC expiry

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- **Continues the streak of winning large orders from US utilities**
- **Orders for delivery in CY2009 build revenue visibility beyond the date of potential PTC expiry in USA**
- **Revise estimates based on higher deliveries in US market, raise target price to Rs1,635 (from Rs1,390 earlier)**
- **Maintain Outperform rating based on favorable sector momentum and Suzlon's positioning to ride that**

Suzlon has extended its earlier agreement with PPM energy of USA to supply an additional 300 MW in CY2009. This additional order comes close on the heels of another 630 MW order from Edison Mission Group. We believe that large orders from US utilities/wind power developers is a reaffirmation of growth momentum in wind power equipment demand and Suzlon's positioning to take advantage of that. With this order, Suzlon's order book has grown to 2,890 MW, gross of execution in 1QFY08. We have revised our estimate of total deliveries by Suzlon in FY2009 to 3,183 MW from 2,914 MW earlier, based on recent large orders. We have revised our FY2009 EPS upwards by about 15% to Rs74.1 from Rs64.5 earlier without changing our FY2008 estimates. We revise our target price to Rs1,635/share from Rs1,390 earlier. Our target price is based on 22X FY2009E earnings which is in line with our target FY2009E P/E multiple for the industrial sector coverage universe. We maintain our Outperform rating based on favorable sector momentum and Suzlon's positioning to ride that.

Continue the streak of winning large orders from US utilities

Suzlon has extended its earlier agreement with PPM energy of USA to supply an additional 300 MW in CY2009. Along with the previous agreement for supply of 300MW in CY2008 and 100MW in CY2009, Suzlon's contract with PPM energy is for a total of 700 MW now. This additional order comes close on the heels of another 630 MW order from Edison Mission Group. With this order, Suzlon's order book has grown to 2,890 MW, gross of execution in 1QFY08. Suzlon's order book from USA is about 2,129 MW to be delivered before end FY2010, while its current capacity is only 600 MW per year (Exhibits 1 and 2). Thus Suzlon would need to expand blade manufacturing capacity in USA, while rest of the components could be exported from integrated facilities in India and China.

Orders for delivery in CY2009 builds revenue visibility beyond the date of potential PTC expiry in USA

Recent two orders in USA include large proportion of deliveries to be made in CY2009, for exp; (a) 300 MW to be delivered to PPM Energy and (b) 315 MW out of 630 MW order for Edison Mission Group. Thus utilities/wind power developers in USA are not waiting for renewal of PTC (set to expire on December 31, 2008) before committing to add capacity in CY2009. This implies that they are confident that PTC would be extended and wind based power would continue to find favor with regulators and governments.

Revise estimates based on higher share of market in USA, raise target price to Rs1,635 (from Rs1,390 earlier)

We have revised our total deliveries by Suzlon in FY2009 to 3,183 MW from 2,914 MW earlier, based on large orders from US utilities. We expect that Suzlon would have higher market share of about 20% in the US over the medium term versus our earlier expectation of 15%. We have maintained our estimate that USA would add about 5,400 MW of wind based power capacity in FY2009. We have revised our FY2009E EPS upwards by about 15% to Rs74.1 from Rs64.5 earlier. We have not changed our FY2008 estimates (Exhibit 3).

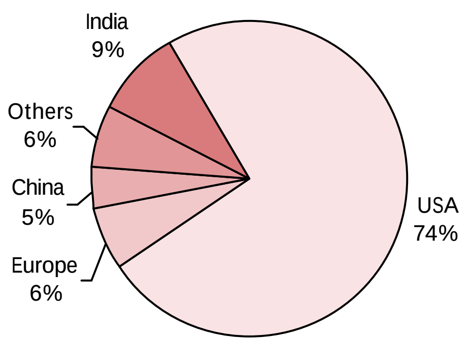
We revise our target price to Rs1,635/share from Rs1,390 earlier. Our target price is based on 22X FY2009E earnings which is in-line with our target FY2009E P/E multiple for industrial sector coverage universe.

Maintain outperform rating based on favorable sector momentum and Suzlon's positioning to ride that

We maintain our long term positive stance on Suzlon based on a) expectation that worse is behind us in terms of margin disappointment, b) continued robustness in global demand momentum for the company, catalyzed by increasing concern towards environment and (c) Suzlon's favorable positioning with vertically integrated manufacturing in low cost locations at times when competitors are facing component bottlenecks.

Exhibit 1. Suzlon's order book is dominated by large orders from windpower developer/utilities in USA

Geographical description of Sulon's order book (MW)



Note: This includes recent orders of 630 MW and 300 MW from USA and is gross of execution in 1QFY08

Source: Company data, Kotak Institutional Equities

Exhibit 2. Breakup of Suzlon's order book in Rs mn and MW terms between domestic and export markets

		1Q07	2Q07	3Q07	4Q07
Physical MW	Domestic	207	206	372	267
	Export	610	1,237	1,271	1,692
Rs mn	Domestic	8,000	8,242	15,443	14,083
	Export	29,590	58,137	61,719	80,780

Note: Suzlon has declared further order wins of 930MW after 4QFY07

Source: Company data, Kotak Institutional Equities

Exhibit 3. Suzlon's deliveries are expected to double between FY2007-09 from 1,548 MW to 3,183 MW, led by large orders from US utilities

Key nos for Suzlon's revenue mix, March fiscal year-ends 2005-2009E

	2005	2006	2007	2008E	2009E
New installed capacity (MW)					
India	1,112	1,736	1,800	2,328	2,647
USA	389	2,399	3,660	5,123	5,380
China	198	491	756	1,512	1,764
Australia / others	4,750	6,360	7,102	8,342	9,140
Market share (%)					
India	46	51	55	50	48
USA	0	4	10	10	22
China	0	0	10	10	10
Product sales (MW)					
India	507	882	990	1,164	1,257
USA	0	100	366	512	1,184
China	0	0	76	151	176
Australia / others	0	0	116	568	566
Total	507	982	1,548	2,395	3,183
Product revenues (Rs mn)					
India	19,154	34,758	40,450	40,566	43,822
USA	0	3,514	15,370	22,379	52,213
China	0	0	3,175	6,604	7,782
Australia / others	0	0	4,890	24,815	24,968
Total	19,154	38,272	63,885	94,365	128,785
Domestic (Rs mn)	19,154	34,758	40,450	40,566	43,822
Export (Rs mn)	0	3,514	23,436	53,799	84,963
Domestic (%)	100	91	63	43	34
Export (%)	0	9	37	57	66
O&M revenues (Rs mn)		**571**	**1,096**	**1,864**	**2,860**
Revenues of Hansen Transmission(Rs mn)			**18,750**	**20,787**	**28,063**
Total revenues (Rs mn)	**19,425**	**38,410**	**79,857**	**128,879**	**173,673**

Source: Company data, Kotak Institutional Equities estimates

Media

SUTV.BO, Rs1595	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	1,200
52W High -Low (Rs)	1849 - 1000
Market Cap (Rs bn)	109.9

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	4.1	6.3	8.6
Net Profit (Rs bn)	1.7	2.6	4.0
EPS (Rs)	25.3	38.0	58.8
EPS gth	*20.4*	*50.1*	*54.8*
P/E (x)	63.1	42.0	27.1
EV/EBITDA (x)	35.3	22.4	15.0
Div yield (%)	0.3	0.6	0.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	90.0	-	-
FIIs	6.5	0.1	(0.3)
MFs	1.7	0.2	(0.2)
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Sun TV: Solving the 'Sudoku' puzzle of FY2007 results raises issues about performance, disclosures

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- **Cut EPS estimates sharply to reflect likely lower pay-TV revenues, radio profits**
- **Disclosures need to improve significantly, in our view**
- **Maintain U rating and 12-month DCF-based target price of Rs1,200**

We are puzzled by Sun TV's 4QFY07 and FY2007 results and would prefer more disclosures to assess the performance of Sun TV (on pre-merger basis) and the merging entities. It is difficult to appreciate the performance and understand underlying trends and reasons for shortfall in revenues and profits versus expectations otherwise. We do not like to do a 'Sudoku' puzzle on historical numbers (we are content doing so for the future) to fill in the blanks for the numbers for various entities/segments; however, our exercise raises issues about the performance of either one or all of Sun TV's merging entities. We have cut our FY2008E, FY2009E and FY2010E EPS to Rs38, Rs58.8, Rs75.2, respectively from Rs46.2, Rs64.5 and Rs81.1, respectively to reflect (1) cut in pay-TV revenues and (2) lower profits in the radio segment. We continue to model Sun TV on a pre-merger basis pending availability of FY2007 annual report (for merged entity) or more details of financials of Gemini TV and Udaya TV. Our 12-month DCF-based target remains Rs1,200 (rollover of DCF partly compensating for lower earnings and cash flows).

Filling the 'Sudoko' puzzle of 4QFY07 and FY2007 results. From our analysis in Exhibit 1, we can conclude either of the following two scenarios, both of which do not augur well for the future revenues of Sun TV. (1) Sun TV's 4QFY07 revenues (only Tamil and Malayalam channels corresponding to pre-merger Sun TV) have grown moderately qoq in 4QFY07 despite Sun TV channel going pay in December 2006 and three radio channels starting operations; radio revenues are yet to pick up with the three new channels (until end-FY2007) in the subsidiaries contributing only Rs10 mn in 4QFY07 (consolidated revenues of Rs6.78 bn less standalone revenues of Rs6.77 bn). (2) Combined revenues of Gemini and Udaya TV have declined significantly or grown modestly at best, which raises issues about the merger of the two entities with Sun TV.

As highlighted in our June 29 note on Sun's results, we found the results intriguing and disappointing versus expectations (pro forma 15% growth in FY2007 revenues and 33% growth in FY2007 net income). We are also disappointed by the meager disclosures from the company; it is difficult to analyze the trends and understand reasons for shortfall in revenues and earnings versus our estimates from the limited data available. We (and surely investors would also) would prefer more disclosures on the merging entities and the pre-merger entity at a time when the company has merged two private companies with the listed entity. A section of the street has speculated on amortization of goodwill as a possible reason for the weak performance. We do not believe this is the case and the company has confirmed so; we note that the company has accounted for the amalgamation on a pooling of interests method. This does not result in creation of goodwill, let alone amortization of 'goodwill'.

Merger does not appear to be a good one for minority shareholders. Sun TV's pro forma net income has grown 33% in FY2007; on the other hand, Sun TV's outstanding shares have increased 43% following the merger of Gemini TV and Udaya TV with Sun TV. We do not know the reasons for the slippage in FY2007 net income; hence we will not belabor this point. Nonetheless, we note that the combined net income of Gemini and Udaya TV will need to grow very rapidly over the next few years for the merger to be EPS-accretive (see Exhibit 2) as we had highlighted in our December 4, 2006 note on the merger. We doubt this would be the case and think our EPS estimates will likely decline once we factor in Gemini TV and Udaya TV in our earnings model.

Stretched valuations despite strong earnings growth. We like Sun TV's business model but not its valuations. Its rich valuations (27X FY2009E EPS after a 133% growth in EPS between FY2007 and FY2009) leave little scope for any disappointment in revenues and/or execution. Sun TV's FY2007 revenues and profits have already disappointed significantly versus our estimates; the company reported FY2007 EPS at Rs25.3, well below our estimate of Rs29.2.

We have cut our EPS estimates for FY2008E, FY2009E and FY2010E by 17.8%, 8.9% and 7.4% respectively to reflect (1) slower-than-expected roll-out in radio operations; it has been able to start only five new channels out of the 41 licenses for new channels and (2) lower pay-TV revenues. We have cut pay-TV revenues for FY2008E, FY2009E and FY2010E to Rs1.4 bn, Rs2.4 bn and Rs2.9 bn, respectively from Rs1.8 bn, Rs2.7 bn, Rs3.2 bn, respectively, previously. We believe Sun TV is facing difficulty in getting paid for its Sun TV main channel from local cable operators. We have also delayed the conversion of new Tamil (kids, documentary) and extant Malayalam channels by 3-6 months noting delay in launch of Tamil channels and no let-up in competitive intensity in the small Malayalam market. It would be difficult for Sun TV to convert its channels to pay mode without cooperation from its close competitor, Asianet.

High profitability leaves very little margin for error. Despite our reductions to earnings, we continue to model 70% plus EBITDA margin throughout our forecast period. This leave limited scope for disappointment in revenues and higher costs. The recent development in state politics in Tamil Nadu and the start of a competing channel (Kalaignar TV) from the ruling party may impact Sun TV's revenues and costs negatively. We expect Sun TV to face tough competition for good quality programming from Kalaignar TV; note this budding channel has already purchased the telecast rights for 'Sivaji', Tamil language's biggest blockbuster film and presumably has paid a very high price for it. From Sun's perspective, it will be some time before 'Sivaji' hits the small screen.

The 'Sudoku' puzzle of FY2007 results throws up intriguing issues

Scenario analysis of FY2007 revenues, March fiscal year-ends, 2006-2007 (Rs mn)

	2007	9MFY07	3QFY07	2006	Comments
1. Scenario 1					
Sun TV (pre-merger)	**4,119**	2,979	1,140	3,219	Assuming 4QFY07 revenues are same as 3QFY07 revenues
Sun TV merged revenues as reported	6,770				Standalone Sun TV
Gemini TV (FY2006 given)				1,747	
Udaya TV				943	
Gemini TV + Udaya TV				2,690	
Gemini TV + Udaya TV	**2,650**				FY2007 revenues show a modest decline versus FY2006 revenues
2. Scenario 2					
Sun TV (pre-merger)	**4,498**	2,979	1,140	3,219	FY2007 revenues = our estimates on consolidated numbers
Sun TV merged revenues as reported	6,780				Consolidated Sun TV including radio operations in subsdiaries
Gemini TV (FY2006 given)				1,747	
Udaya TV				943	
Gemini TV + Udaya TV				2,690	
Gemini TV + Udaya TV	**2,282**				FY2007 revenues show a large decline versus FY2006 revenues

Note:
(a) Highlighted figures are assumed/computed figures.

Source: Company data, Kotak Institutional Equities estimates.

Combined profits of Gemini TV and Udaya TV will need to grow strongly for the merger to be value accretive

Estimation of future profits of Gemini TV and Udaya TV for neutral impact on EPS, March fiscal year-ends (Rs mn)

	2006	2007E	2008E	2009E
Combined Gemini and Udaya net income (a)	703	**734**	**1,118**	**1,728**
Growth in net income required (%)		**4**	**52**	**55**
Sun TV net income pre-merger	1,302	1,735	2,623	4,056
Sun TV pre-merger number of shares	62	69	69	69
Merged entity net income	2,006	2,469	3,741	5,784
Merged entity number of shares	91.6	98.2	98.2	98.2
EPS of Sun TV pre-merger	21.0	25.3	38.1	58.9
EPS of Sun TV post-merger (b)	**21.9**	**25.1**	**38.1**	**58.9**

Note:
(a) Future net income is computed so as to make the proposed merger EPS neutral; these are not estimates.
(b) EPS kept same as our pre-merger estimate for Sun TV for this exercise.

Souorce: Kotak Insititutional 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 (pre-merger basis), March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E	2011E
Advertisement revenues							
Sun TV	1,038	1,085	1,491	1,779	2,040	2,339	2,680
K TV	100	123	141	159	178	201	221
Sun News	28	39	47	55	62	70	78
Sun Music	2	94	122	163	183	206	232
Sun Kids	—	—	—	151	209	249	297
Sun Documentary	—	—	—	96	164	196	233
Sun Sports	—	—	9	58	65	73	82
Surya TV	226	386	476	550	634	732	844
Kiran TV	3	28	40	58	80	90	101
Total TV	**1,397**	**1,755**	**2,325**	**3,068**	**3,616**	**4,156**	**4,769**
Radio	144	158	168	658	1,375	1,862	2,304
Total advertisement	**1,542**	**1,913**	**2,493**	**3,726**	**4,991**	**6,018**	**7,073**
Broadcast revenues (or slot sales)							
Sun TV	455	531	607	668	735	808	889
Surya TV	38	60	66	72	79	87	96
Total broadcast	**493**	**591**	**673**	**740**	**814**	**896**	**985**
Total ad and broadcast revenues	**2,034**	**2,504**	**3,166**	**4,466**	**5,805**	**6,913**	**8,059**
International revenues	88	183	287	333	349	364	377
Pay-TV revenues	**398**	**468**	**625**	**1,431**	**2,370**	**2,952**	**3,440**
Others	10	64	18	95	118	141	165
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—
Total	**2,886**	**3,219**	**4,096**	**6,325**	**8,643**	**10,371**	**12,041**
Growth (%)		*11.5*	*27.2*	*54.4*	*36.6*	*20.0*	*16.1*

Source: Company, Kotak Institutional Equities estimates.

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

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	2,725	2,903	3,219	4,096	6,325	8,643	10,371
EBITDA	**1,293**	**1,306**	**2,035**	**2,574**	**4,073**	**6,062**	**7,512**
Other income	67	107	172	441	610	766	989
Interest (expense)/income	(9)	(35)	(65)	(16)	—	—	—
Depreciation	(137)	(153)	(147)	(349)	(560)	(459)	(388)
Amortization	—	—	—	(49)	(195)	(195)	(195)
Pretax profits	**1,213**	**1,224**	**1,995**	**2,601**	**3,928**	**6,174**	**7,918**
Tax-cash	(430)	(454)	(709)	(874)	(1,389)	(2,142)	(2,724)
Tax-deferred	(6)	(3)	16	(12)	44	33	23
Minority interest	—	—	—	19	32	(18)	(43)
Net profits after minority interests	**777**	**768**	**1,302**	**1,735**	**2,615**	**4,047**	**5,174**
Earnings per share (Rs)	**17.3**	**12.4**	**21.0**	**25.3**	**38.0**	**58.8**	**75.1**
Balance sheet (Rs mn)							
Total equity	3,296	4,063	3,071	10,539	12,348	15,187	18,668
Deferred Tax	45	48	32	43	(1)	(34)	(56)
Total borrowings	—	424	2,333	—	—	—	—
Currrent liabilities	287	372	741	765	894	940	986
Total capital	**3,627**	**4,907**	**6,209**	**11,361**	**13,223**	**16,093**	**19,641**
Cash	1,141	1,853	732	3,421	4,955	7,329	10,529
Current assets	1,538	1,461	2,440	2,950	3,934	4,958	5,739
Total fixed assets	945	1,501	1,027	3,001	2,541	2,207	1,970
Intangible assets	—	88	2,009	1,989	1,794	1,599	1,403
Total assets	**3,627**	**4,907**	**6,209**	**11,362**	**13,224**	**16,094**	**19,642**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,152	1,239	1,722	2,097	3,139	4,420	5,337
Working capital	30	26	(251)	(485)	(855)	(979)	(734)
Capital expenditure	(219)	(680)	(2,091)	(2,323)	(100)	(125)	(150)
Investments	(335)	(287)	(326)	(413)	(454)	(500)	(550)
Other income	—	(7)	80	441	610	766	989
Free cash flow	**962**	**585**	**(619)**	**(711)**	**2,184**	**3,316**	**4,453**
Ratios (%)							
Debt/equity	—	10.4	76.0	—	—	—	—
Net debt/equity	(34.6)	(35.2)	52.1	(32.5)	(40.1)	(48.3)	(56.4)
RoAE	26.4	20.6	36.1	25.4	22.8	29.4	30.6
RoACE	**26.5**	**20.1**	**26.6**	**22.1**	**23.2**	**30.3**	**31.5**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for Sun TV is

DCF analysis of Sun TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**4,073**	**6,062**	**7,512**	**8,877**	**10,085**	**11,091**	**12,117**	**13,177**	**14,313**	**14,801**	**14,534**	**-**
Tax expense	(1,389)	(2,142)	(2,724)	(3,294)	(3,825)	(4,306)	(4,808)	(5,338)	(5,910)	(6,300)	(6,486)	-
Changes in working capital	(855)	(979)	(734)	(712)	(656)	(570)	(591)	(620)	(669)	(231)	222	-
Cash flow from operations	**1,829**	**2,942**	**4,053**	**4,871**	**5,603**	**6,216**	**6,718**	**7,219**	**7,735**	**8,270**	**8,270**	**-**
Capital expenditure	(100)	(125)	(150)	(175)	(200)	(225)	(250)	(275)	(300)	(300)	(300)	-
Cash flow to minority shareholders	32	(18)	(43)	(65)	(90)	(98)	(105)	(114)	(123)	(84)	-	-
Free cash flow	**1,762**	**2,798**	**3,860**	**4,631**	**5,313**	**5,893**	**6,363**	**6,830**	**7,312**	**7,886**	**7,970**	**8,488**
PV of free cash flow	**1,613**	**2,278**	**2,793**	**2,978**	**3,036**	**2,994**	**2,873**	**2,741**	**2,608**	**2,500**	**2,246**	**-**
Discounted cash flow-1 year forward		2,562	3,142	3,351	3,417	3,368	3,232	3,084	2,935	2,813	2,527	-
Discounted cash flow-2 year forward				3,535	3,770	3,844	3,790	3,636	3,470	3,302	3,165	2,843

	Now	+ 1-year	+ 2-years	
Total PV of free cash flow (a)	26,414	30,430	34,044	
FCF in Year 2017	7,886	7,970	8,488	
Adjusted FCF in FY2017	6,752	7,970	8,488	Adjusting for FM radio business, which will end in FY2016/FY2017
Terminal value in FY2017	112,537	132,836	141,470	
PV of terminal value (b)	40,136	47,376	50,455	
Total company value (a) + (b)	**66,550**	**77,806**	**84,499**	
Value per share of Sun TV (Rs)	1,073	1,129	1,227	
Net debt/(cash)	(3,421)	(4,955)	(7,329)	
Value to equity holders	**69,971**	**82,760**	**91,828**	
Value to equity holders (Rs/Sun TV share)	**1,129**	**1,201**	**1,333**	

Source: Kotak Institutional Equities estimates.

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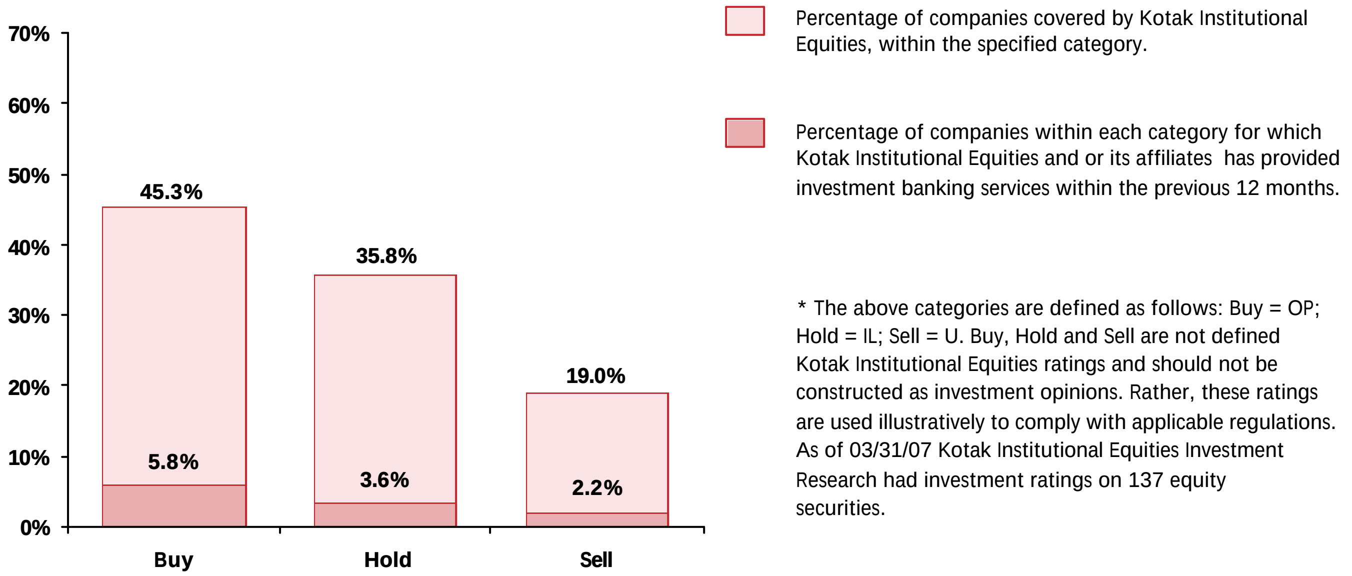

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