kotak Institutional Equities

INDIA DAILY

April 19, 2007

EQUITY MARKETS

	Change, %			
India	18-Apr	1-day	1-mo	3-mo
Sensex	13,672	0.5	8.1	(3.6)
Nifty	4,012	0.7	9.0	(1.9)
Global/Regional indices				
Dow Jones	12,804	0.2	4.7	1.9
Nasdaq Composite	2,511	(0.3)	4.8	2.4
FTSE	6,449	(0.7)	4.2	3.4
Nikkie	17,412	(1.4)	2.4	0.6
Hang Seng	20,582	(0.9)	6.8	1.3
KOSPI	1,522	(0.8)	5.5	11.9

Value traded - India

		Moving avg, Rs bn	
	18-Apr	1-mo	3-mo
Cash (NSE+BSE)	124.3	109.3	124.9
Derivatives (NSE)	279.5	304.4	395.3
Deri. open interest	566.4	571.9	619.6

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New Release

Dish TV: Initiating coverage with an OP rating; A tasty dish if cooked well

News Roundup

Corporate

- Reliance Industries, the country's largest private sector company, has discovered significant amounts of gas in an offshore block in Saurashtra. (BS)
- Essar Global today announced the acquisition of Minnesota Steel, a US-based privately held company with iron ore reserves of 1.4 bn tonne, for an undisclosed amount. Industry sources said Essar would pay around Rs350 crore for the acquisition. (BS)
- The proposed sale of Malvika Steel seems to have hit a temporary hurdle, with promoter Vinay Rai objecting to the sale. Rai has moved the Debt Recovery Tribunal, which is auctioning the company to settle the dues that it owes to IFCI (BS)
- Reliance Communications will be investing around Rs150 bn to set up and install an additional 15,000 base transceiver stations (BTSs) in the country. The company intends to complete the rollout of the BTSs in three months, making it the fastest telecom infrastructure rollout in the country. (BS)
- GAIL India's ambitious pipeline project — Dahej Uran Pipeline project (DUPL) – has been delayed beyond its set deadline of March 31, 2007. Over Rs18 bn has been lined up for the project. With this, the gas supply to Ratnagiri Gas and Power has been delayed further.(BS)
- Construction and engineering major Larsen & Toubro (L&T) is planning to set up facilities for manufacturing machines for switchgear, valves, tyre-curing and pressing and coal gasification in China. (BL)
- Reliance Industries (RIL) plans to significantly increase its investment in the proposed gas pipeline project in West Bengal. The company plans to pump in between Rs50 bn and Rs80 bn to build an 1,100-km pipeline to bring natural gas from the Krishna Godavari basin to West Bengal. The project is slated to be completed by 2009 (ET)

Economic and political

- The commerce ministry today hinted that the 5,000-hectare cap on the land size of Special Economic Zones (SEZs) could be relaxed. (BS)

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

Forex/money market

		Change, basis points		
	18-Apr	1-day	1-mo	3-mo
Rs/US$	42.0	-	(207)	(227)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	(3)	4	30

Net investment (US$mn)

	17-Apr	MTD	CYTD
FIIs	147	673	40
MFs	(60)	(11)	(303)

Top movers -3mo basis

	Change, %			
Best performers	18-Apr	1-day	1-mo	3-mo
BEL	1,694	1.4	16.0	30.6
SAIL	125	1.3	21.6	29.6
Punjab Tractors	300	0.8	(3.3)	25.4
Balaji Telefilms	166	3.6	42.8	24.3
Bharti Tele	813	1.6	10.8	19.1
Worst performers				
Tvs Motor	58	(1.2)	(8.3)	(26.8)
Acc	817	1.2	10.5	(26.1)
Ingersoll Rand	281	0.2	(4.4)	(25.6)
Century Tex	565	0.3	9.0	(24.6)
Tata Motors	722	(1.2)	(6.4)	(24.0)

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Media

DSTV.BO, Rs103	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	125
52W High -Low (Rs)	103 - 103
Market Cap (Rs bn)	43.9

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.9	6.6	11.6
Net Profit (Rs bn)	(2.5)	(2.3)	(1.4)
EPS (Rs)	(5.8)	(5.4)	(3.2)
EPS gth	-	-	-
P/E (x)	(17.8)	(18.9)	(32.2)
EV/EBITDA (x)	(26.5)	(139.1)	31.3
Div yield (%)	-	-	-

Dish TV: Initiating coverage with an OP rating; A tasty dish if cooked well

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- **Strong growth in subscribers and improvement in ARPUs.**
- **EBITDA positive in FY2009E, net income in FY2010E; weak balance sheet.**
- **Key risks: Volumes, competition, execution.**

We initiate coverage on Dish TV with an OP rating and target price of Rs125 (12-month forward based on DCF). We believe Dish is in a strong position to consolidate its first-mover advantage and participate in our strong expected growth in subscribers and revenues in the Indian DTH market. We expect Dish TV's net revenues to increase to Rs17 bn in FY2010E against Rs0.3 bn in FY2006, driven by a strong growth in subscriber base to 5.1 mn (1.9 mn currently) and ARPU to Rs309 (Rs111 currently) over the same period. We believe Dish's execution would be critical as it will face competition from formidable players, who have strong financials and excellent execution capabilities (Sun TV group, Reliance ADAE group and Bharti Airtel). Key risks stem from weaker-than-expected subscriber growth, increased price competition and weak execution.

Strong growth in subscribers and improvement in ARPUs. We expect Dish's subscriber base to increase to 5.1 mn by FY2010E (33% market share) and to 9.1 mn by FY2015E (26%) driven by higher affordability and roll-out of services by several players. We model Dish's ARPU to increase to Rs309 in FY2010E and to Rs435 in FY2015E led by an increase in number of channels, value-added services and inflation.

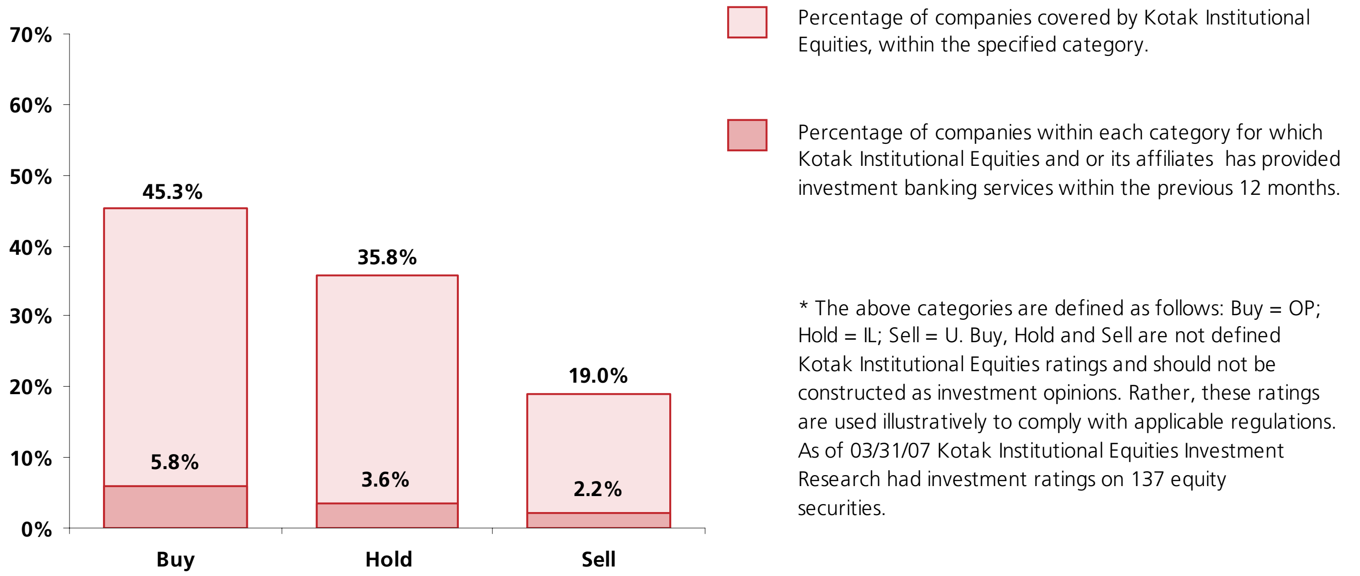
EBITDA positive in FY2009E, net income in FY2010E; weak balance sheet. We model Dish's EBITDA to increase to Rs3.4 bn in FY2010E from –Rs1.7 bn in FY2007E led by an increase in revenues to Rs17 bn from Rs1.85 bn over the same period. However, we do not advocate use of EBITDA given it includes CPE lease rentals. We expect a small net loss in FY2010E. We model capex in FY2007-2010E at Rs15.8 bn; we believe Dish would need to raise equity over the next two years given likely large losses.

Key risks: Volumes, competition, execution. A slower-than-expected adoption of DTH in India due to competition from cable will be negative for Dish's revenues and earnings. Also, competition may result in lower ARPUs and higher subsidies. Finally, Dish may not execute well against very competent and financially strong competitors, which may result in lower-than-expected market share and earnings

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

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

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

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

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

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