kotak® Institutional Equities

INDIA DAILY

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Contents

Results

Nalco: 2QFY2008—Alumina worries continue; maintain In-Line

Sun TV Network: Weak 2QFY08 results; reduced estimates; Retain U

India Infoline: Raising target price to factor in higher volumes, upgrade to IL

Castrol India: Strong qoq performance but net income lower than expected

TVS Motor Company: 2QFY08 net profit down 52% yoy as volumes decline sharply

Change in Recommendation

Godrej Consumer Products: Deteriorating visibility—downgraded to IL, reducing target price to Rs140

News Roundup

Corporate

- State-owned MMTC Ltd plans to set up a commodity exchange in partnership with Indiabulls Financial Services Ltd. (FE)
- ONGC has decided to sell up to 50% of its stake in a KG basin offshore block to Norwegian energy major Statoil Hydro and petrobras of Brazil. (ET)
- Dutch brewer Heineken may look for a foothold in United Breweries (UB) if its joint bid with Carlsberg for Scottish & Newcastle (D&N) goes through. (ET)
- Lilliput Kidswear has entered into a joint venture with Shenzhen New World Development Company for its retail venture in China. It will hold 60% in the new joint venture company. (ET)
- Marriott International Inc, a US-based hospitality firm, has chalked out plans to add 19 hotels to its existing portfolio of six hotels in India by FY2010. (ET)
- Domestic drug maker Wockhardt said that it has acquired US-based speciality drugs company Morton Grove Pharmaceuticals, which has annual sales of US$52 mn. Sources in the know said Wockhardt paid nearly US$38 mn for the Illinois-based company. (ET)

Economic and political

- Securities and Exchange Board of India (SEBI) Chairman, Mr. M Damodran, has said that all the 20 P-Note issuing proprietory sub-accounts have expressed intent to convert into foreign instituional investor (FII) status. (BL)
- The government is planning to codify class action as law. Once enacted, the provision will empower shareholders to hold companies and their rmanagements responsible for wrong-doing. (BS)

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

EQUITY MARKETS

	Change, %			
India	**24-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	18,513	0.1	9.5	17.9
Nifty	5,496	0.4	11.3	19.8
Global/Regional indices				
Dow Jones	13,675	(0.0)	(0.8)	(0.8)
Nasdaq Composite	2,775	(0.9)	3.4	4.8
FTSE	6,482	(0.5)	1.3	0.4
Nikkie	16,393	0.2	(0.1)	(8.2)
Hang Seng	29,771	1.5	12.6	27.4
KOSPI	1,969	1.9	2.6	(1.7)

Value traded - India

	Moving avg, Rs bn			
	24-Oct		**1-mo**	**3-mo**
Cash (NSE+BSE)	274.1		279.7	201.5
Derivatives (NSE)	1,075.0		794.0	642.8
Deri. open interest	1,066.4		984.8	943.1

Forex/money market

	Change, basis points			
	24-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.6	-	(10)	(69)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(1)	(5)	4

Net investment (US$mn)

	23-Oct		**MTD**	**CYTD**
FIIs	193		3,576	16,595
MFs	75		(896)	(223)

Top movers -3mo basis

	Change, %			
Best performers	**24-Oct**	**1-day**	**1-mo**	**3-mo**
Reliance Energy	1,654	8.6	52.1	112.6
Tata Power	1,093	3.2	30.7	59.7
SAIL	243	2.9	21.9	59.0
Arvind Mills	74	5.4	41.0	54.6
Neyveli Lignite	123	2.0	15.0	53.4
Worst performers				
i-Flex	1,583	0.1	(13.2)	(30.2)
Punjab Tractors	216	(1.1)	(7.3)	(20.5)
Glaxosmithkline	1,035	(0.3)	(7.8)	(17.5)
Container Corp	1,867	0.1	(15.2)	(16.4)
Pfizer	665	(0.4)	(2.3)	(15.1)

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Metals

NALU.BO, Rs283	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	315
52W High -Low (Rs)	335 - 193
Market Cap (Rs bn)	182.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	59.4	52.7	53.7
Net Profit (Rs bn)	23.8	17.9	16.2
EPS (Rs)	37.0	27.8	25.2
EPS gth	*55.4*	*(24.7)*	*(9.5)*
P/E (x)	7.6	10.2	11.2
EV/EBITDA (x)	3.7	4.9	5.7
Div yield (%)	2.7	2.7	2.7

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.1	-	-
FIIs	3.3	0.1	(0.4)
MFs	0.2	0.0	(0.5)
UTI	-	-	(0.5)
LIC	3.3	0.4	(0.1)

Nalco: 2QFY2008—Alumina worries continue; maintain In-Line

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- **Nalco's 2Q net profit at Rs4.4 bn declines 26% yoy and 2% qoq, as alumina earnings dwindle**
- **EBIDTA margins decline 35% yoy on account of the increase in power and employee costs**
- **We maintain our earnings estimates, In-Line rating with target price of Rs315**

In its 2QFY08 results, Nalco reported net earnings of Rs4.4 bn, down 26% yoy and 2% qoq, following lower profitability in its chemicals (alumina) business. EBITDA, at Rs5.7 bn (down 35% yoy), was also impacted by unusual (but operating) expense from higher power costs. In the absence of significant volume growth, earnings for 2HFY08E might also stay weak, if aluminium prices stay put and the rupee stays strong. We maintain estimates and In-Line rating with target price of Rs315.

2QFY08E net earnings fell 26% yoy and 2% on qoq basis following lower alumina/ aluminium realizations, stronger rupee as well as exceptional (but operating) costs of Rs398 mn (higher fuel imports and purchase of power from external sources). Net earnings were largely in line with consensus estimates.

Segmental EBIT reduced 26% yoy as well, largely following 68% de-growth in earnings from Chemicals segment (alumina). Higher electricity sales rescued the position to some extent, though. Earnings from Aluminium business increased 38% yoy following higher volumes; but were flattish qoq.

We expect profitability to remain weak in 2HFY08E as well given only moderate volume growth and stronger currency. Nalco's next round of capacity expansions will likely commercialize only towards FY2010E. Alumina realizations might improve over 2HFY08E, as alumina realizations have improved from its lows.

We maintain earnings estimates, In-Line rating with target price of Rs315. We continue to believe that Nalco is a pure price play as earnings are dependent entirely on LME aluminium prices. We maintain our earnings estimates and our In-Line rating on the stock with a target price of Rs315 (based on 7X FY2009E EV/EBITDA).

NALCO, Interim results, March fiscal year-ends (Rs mn)

	2Q 2008	1Q 2008	2Q 2007	% change qoq	% change yoy	2008E	1st half 1H 2008	1st half 1H 2007
Earnings drivers								
Average LME aluminium prices (US$/ton)	2,603	2,788	2,527	(6.6)	3.0	2,536	2,695	2,604
Average alumina spot prices (US$/ton)	331	343	272	(3.5)	21.7	330	337	406
Average INR:USD	40.5	41.3	46.4	(1.8)	(12.6)	43.0	40.9	45.9
Interim results								
Net revenues	**13,082**	**11,652**	**14,416**	**12.3**	**(9.3)**	**52,712**	**24,734**	**29,271**
Expenditure	**(7,397)**	**(5,488)**	**(5,665)**			(25,523)	**(12,885)**	**(11,177)**
Stock adjustment	(525)	542	356			151	17	368
Raw materials	(1,392)	(1,320)	(1,428)			(5,868)	(2,711)	(2,500)
Employee cost	(1,193)	(1,068)	(901)			(4,322)	(2,261)	(1,764)
Other costs	(4,287)	(3,643)	(3,692)			(15,485)	(6,261)	(7,281)
EBITDA	**5,685**	**6,164**	**8,751**	**(7.8)**	**(35.0)**	**27,188**	**11,849**	**18,095**
Other income	1,644	1,310	1,014	25.5	62.1	3,534	2,954	1,848
Depreciation	(683)	(692)	(771)	(1.2)	(11.4)	(3,654)	(1,375)	(1,558)
EBIT	**6,646**	**6,783**	**8,994**	**(2.0)**	**(26.1)**	**27,069**	**13,428**	**18,385**
Interest	(6)	(1)	-			-	(7)	-
Profit before tax	**6,639**	**6,782**	**8,994**	**(2.1)**	**(26.2)**	**27,069**	**13,421**	**18,385**
Taxes	(2,242)	(2,315)	(3,044)	(3.1)	(26.3)	(9,285)	(4,557)	(6,212)
Reported profits - as reported	**4,397**	**4,467**	**5,950**	**(1.6)**	**(26.1)**	**17,784**	**8,864**	**12,173**
Ratios								
Costs as % of revenue (%)	56.5	47.1	39.3			48.4	52.1	38.2
EBITDA margin (%)	43.5	52.9	60.7			51.6	47.9	61.8
ETR (%)	33.8	34.1	33.8			34.3	34.0	33.8
EPS (Rs/share)	6.8	6.9	9.2			27.6	13.8	18.9
Segmental results								
Chemicals	4,474	4,273	7,816	4.7	(42.8)		8,747	16,885
Aluminium	10,556	9,073	10,891	16.3	(3.1)		19,629	20,711
Electricity	1,966	2,100	1,609	(6.4)	22.2		4,066	3,686
Total	**16,996**	**15,446**	**20,315**	10.0	(16.3)		**32,442**	**41,282**
Less: Inter segment revenue	3,914	3,794	5,899				7,708	12,010
Net sales from operations	**13,082**	**11,652**	**14,416**				**24,734**	**29,271**
Segmental PBIT								
Chemicals	1,808	1,900	5,713	(4.9)	(68.4)		3,708	12,486
Aluminium	3,615	3,553	2,614	1.7	38.3		7,168	4,250
Electricity	310	661	170	(53.1)	82.7		971	854
Less: Interest & financing charges	6	1	-				7	-
Less: Other unallocated expenditure	(914)	(669)	(498)				(1,582)	(796)
Total Profit before tax	**6,639**	**6,782**	**8,994**	(2.1)	(26.2)		**13,421**	**18,385**
Segmental PBIT (%)								
Chemicals	40	44.5	73.1				42.4	73.9
Aluminium	34	39.2	24.0				36.5	20.5
Capital employed								
Chemicals	17,737	17,323	15,997				35,060	31,535
Aluminium	24,392	23,660	22,218				48,051	43,360
Electricity	9,829	9,104	7,908				18,932	15,810
Unallocated common assets	39,727	37,344	31,162				77,071	58,044
Total	**91,684**	**87,430**	**77,285**				**179,115**	**148,748**

Source: Company data, Kotak Institutional Equities estimates

NALCO, Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**59,402**	**52,712**	**53,704**	**66,503**
Expenditure	**(24,043)**	**(25,523)**	**(27,066)**	**(32,049)**
Raw materials	(5,301)	(5,717)	(6,076)	(7,688)
Employee expenses	(3,929)	(4,322)	(4,646)	(5,110)
Other expenditure	(14,813)	(15,485)	(16,344)	(19,251)
Operating other income	906	1,040	1,193	1,370
EBITDA	**36,265**	**28,228**	**27,832**	**35,824**
Non-operating income	3,110	2,494	1,136	2,096
Depreciation	(3,171)	(3,654)	(4,794)	(6,675)
EBIT	36,204	27,069	24,175	31,245
Interest expenses	-	-	-	-
Adjusted pre-tax profits	36,204	27,069	24,175	31,245
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	36,204	27,069	24,175	31,245
Current taxes	(12,563)	(9,415)	(8,408)	(10,867)
Deferred taxes	173	130	116	150
Reported net income	23,814	17,784	15,883	20,528
Adjusted net income	**23,814**	**17,784**	**15,883**	**20,528**
EPS (Rs), based on wtd avg shares	**37.0**	**27.6**	**24.7**	**31.9**
EPS (Rs), based on fully diluted shares	**37.0**	**27.6**	**24.7**	**31.9**
Year-end shares outstanding (mn)	644.3	644.3	644.3	644.3
Weighted average shares outstanding (mn)	644.3	644.3	644.3	644.3
Fully diluted shares outstanding (mn)	644.3	644.3	644.3	644.3

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	36,204	27,069	24,175	31,245
Add: Depreciation	3,212	3,654	4,794	6,675
Add: Non cash expenses	125	-	-	-
Less: net interest	-	-	-	-
Less: Taxes paid	(12,732)	(9,415)	(8,408)	(10,867)
Less: Other income	-	(2,494)	(1,136)	(2,096)
Add: Working capital changes	417	376	(56)	(719)
Total operating cash flow	**27,225**	**19,189**	**19,368**	**24,238**
Operating Cash flow w/o working capital	26,809	18,814	19,424	24,957
Cash flow from investing activities				
Capital expenditure	(6,419)	(24,045)	(32,955)	(2,000)
Investments	-	-	-	-
Interest and dividend received	-	2,494	1,136	2,096
Total investing cash flow	**(6,419)**	**(21,551)**	**(31,819)**	**96**
Cash flow from financing activities				
Share issuances	-	-	-	-
Loans	-	-	-	-
Less: Dividends paid (including dividend tax)	(5,877)	(5,654)	(5,654)	(5,654)
Interest and finance charges paid	-	-	-	-
Total financing cash flow	**(5,877)**	**(5,654)**	**(5,654)**	**(5,654)**
Net change in cash				
Opening cash	21,937	36,865	28,850	10,746
Closing cash	**36,865**	**28,850**	**10,746**	**29,426**

Balance sheet	2007	2008E	2009E	2010E
Equity capital	6,443	6,443	6,443	6,443
Reserves and surplus	70,509	82,639	92,868	107,743
Deferred tax liability	6,127	5,997	5,881	5,731
Total Equity	**83,080**	**95,080**	**105,193**	**119,917**
Secured loans	-	-	-	-
Unsecured loans	-	-	-	-
Total borrowings	**-**	**-**	**-**	**-**
Current liabilities	12,186	11,808	11,864	12,587
Total capital	**95,266**	**106,888**	**117,057**	**132,504**
Cash	36,865	28,850	10,746	29,426
Inventory	6,350	5,634	5,741	7,109
Debtors	341	303	309	382
Other current assets	6,185	6,185	6,185	6,185
Total current assets	**49,741**	**40,972**	**22,980**	**43,102**
Gross block	90,341	92,341	147,341	149,341
Less: Depreciation	(53,232)	(56,885)	(61,679)	(68,354)
Net block	37,109	35,455	85,662	80,986
Add: Capital work-in-process	8,416	30,461	8,416	8,416
Total fixed assets	**45,525**	**65,916**	**94,078**	**89,402**
Investments	-	-	-	-
Miscellaneous expenditure	-	-	-	-
Total assets	**95,266**	**106,888**	**117,057**	**132,504**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	34.2	34.3	34.3	34.3
EBITDA margins	61.1	53.6	51.8	53.9
EBIT margins	60.9	51.4	45.0	47.0
Net debt/equity	(0.4)	(0.3)	(0.1)	(0.2)
Net debt/capitalization	(0.4)	(0.3)	(0.1)	(0.2)
ROACE	32.1	20.0	15.9	18.2
ROAE	32.1	20.0	15.9	18.2

Key assumptions	2007	2008E	2009E	2010E
Alumina sales ('000 tons)	779,104	818,199	821,600	1,159,830
Aluminium metal sales ('000 tons)	356,616	365,909	384,204	460,000
Average LME aluminium price (US$/ton)	2,663	2,536	2,522	2,562

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	7.8	10.4	11.6	9.0
EV/EBITDA	4.1	5.5	6.3	4.3
EV/Sales	2.5	3.0	3.2	2.3
M.cap/Sales	3.1	3.5	3.4	2.8
Price to book	2.2	1.9	1.8	1.5

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	37.0	27.6	24.7	31.9
Diluted Earnings	37.0	27.6	24.7	31.9
Cash earnings	41.9	33.3	32.1	42.2
Free cash	32.3	(7.5)	(21.1)	34.5
Book	128.9	147.6	163.3	186.1

Source: Company data, Kotak Institutional Equities estimates

Media

SUTV.BO, Rs326	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	300
52W High -Low (Rs)	462 - 278
Market Cap (Rs bn)	128.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	6.8	9.2	11.6
Net Profit (Rs bn)	2.5	3.7	4.8
EPS (Rs)	6.3	9.3	12.2
EPS gth	*20.8*	*46.3*	*31.3*
P/E (x)	51.3	35.1	26.7
EV/EBITDA (x)	28.6	19.2	14.4
Div yield (%)	0.5	0.8	1.2

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	93.0	-	-
FIIs	4.4	0.0	(0.1)
MFs	0.9	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Sun TV Network: Weak 2QFY08 results; reduced estimates; Retain U

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- **Weaker-than-expected results with net income declining 14% qoq**
- **Cut estimates but downside risks still exist given the entry of several new players**
- **Retain U on stock in light of emerging competition, rich valuations**

Sun TV Network reported 2QFY08 net income at Rs802 mn (-14% qoq) well below our expected Rs1.04 bn. Revenues dropped 4% qoq to Rs1.95 bn, below our Rs2.2 bn estimate. We note that yoy comparisons are not valid as 2QFY08 figures include contributions from Gemini and Udaya, which merged with Sun TV in 4QFY07. The company has not provided a precise breakup of revenues, which makes it difficult for us to analyze the results; the management has provided guidance on the breakup, which we have used to draw conclusions. We have cut FY2008E, FY2009E and FY2010E EPS to Rs9.3 (-7%), Rs12.2 (-9%) and Rs15.1 (-12%), respectively. Our 12-month DCF-based target price is Rs300 versus Rs310 previously; key upside risks stem from higher-than-expected ad and subscription revenues.

Key highlights of 2QFY08 result

Ad revenues declined qoq. Sun's ad revenues dropped by 5.4% qoq to Rs1.04 bn (our best estimate based on discussion with the management), which is a negative surprise. The management attributed this to impact of cricket (T20 World Cup) in the quarter. Typically, 2Q of a year is better than 1Q in terms of ad revenues and we do not think Sun would have been impacted by the entry of Kalaignar TV in the Tamil market in 2QFY08; we see the impact in future quarters if Kalaignar continues to gain traction at the expense of Sun TV. We also think there may have been some erosion in revenues in the Telugu market due to the strong performance of new entrant Maa TV in the Telugu market. We fear more negative impact on Sun's advertisement revenues from the emergence of new competition in its larger Tamil and Telugu markets. Exhibits 3-6 show the performance of Sun Network channels in the four South Indian language markets.

Subscription revenues also declined qoq with domestic pay-TV revenues disappointingly flat. Sun's domestic pay-TV subscription revenues were flat at Rs514 mn (our estimate) compared to Rs522 mn in 1QFY08. We suspect Sun's domestic pay-TV revenues may have been disrupted by the standoff between cable operators in Tamil Nadu and Sun Group's DTH service. We suspect cable operators may not have made payments to Sun TV.

Taxation rate increased sharply and also pulled down profits but will likely normalize. Sun's 2QFY08 effective taxation rate increased to 37.3%, which is above the corporate tax rate of 34%. We expect this to normalize in future quarters

Key changes to the assumptions behind our earnings model

1. **TV ad revenues to grow at 20% CAGR between FY2007-10E.** We have reduced FY2008E, FY2009E and FY2010E TV ad revenues modestly, to Rs4.5 bn, Rs5.3 bn and Rs6 bn from Rs4.6 bn, Rs5.4 bn and Rs6.2 bn, respectively, to reflect 1HFY08 performance. Nonetheless, we model 20% CAGR in ad revenues led by (1) strong growth in industry revenues, (2) start of new channels and (3) continued high ratings and market share of Sun's channels. We see the greatest risk to our estimates from the third driver if Kalaignar TV in the Tamil market and other new entrants in the Tamil, Telugu and Kannada markets are able to establish themselves at the expense of market leader Sun TV.

2. **Lower risk to domestic pay-TV subscription revenues; model 31% CAGR between FY2007-10E.** We have cut FY2008E, FY2009E and FY2010E revenues to Rs2.4 bn, Rs3.1 bn and Rs3.7 bn, respectively, from Rs2.5 bn, Rs3.6 bn and Rs4.4 bn, respectively. Sun TV reported domestic pay-TV revenues of Rs522 mn in 1QFY08 but seems to have lost traction in 2QFY08 due to reasons discussed above. However, we see these as temporary factors and expect growth in the future to be driven by (1) higher number of paying subs due to spread of a CAS on cable systems and DTH, (2) higher number of declared subscribers in cable systems, (3) increase in subscription rates, (4) start of new pay-TV channels and (5) conversion of extant FTA Malayalam channels to pay mode (assumed from April 2008).

Sun TV consolidated interim results (Rs mn)

		qoq			yoy			yoy		
	2008E	**2Q 2008**	**1Q 2008**	***% chg.***	**2Q 2008**	**2Q 2007**	***% chg.***	**1H 2008**	**1H 2007**	***% chg.***
Net sales	**9,152**	**1,945**	**2,023**	***(3.9)***	**1,945**	**945**	***105.8***	**3,968**	**1,839**	***115.8***
Advertising income (incl radio)	5,087	1,043	1,102	*(5)*	1,043	602	*73*	2,145	1,198	*79*
Broadcast fee	1,250	300	307	*(2)*	300	156	*92*	607	306	*98*
Program licensing income/International revenues	347	85	88	*(3)*	85	74	*15*	173	118	*47*
Cable distribution revenues	—	—	—		—	—		—	—	
Income from pay channels	2,399	514	522	*(2)*	514	109	*372*	1,036	218	*375*
Others	70	3	3	*0*	3	4	*(23)*	6	9	*(35)*
Total expenditure	**(3,416)**	**(546)**	**(494)**	***10.5***	**(546)**	**(230)**	***137.9***	**(1,040)**	**(431)**	***141.3***
Transmission and programming cost	(2,022)	(152)	(132)	*15*	(152)	(47)	*224*	(283)	(106)	*168*
Staff cost	(855)	(175)	(225)	*(22)*	(175)	(106)	*65*	(400)	(200)	*100*
Administrative & other costs	(539)	(219)	(138)	*59*	(219)	(77)	*186*	(358)	(125)	*186*
EBITDA	**5,736**	**1,398**	**1,529**	***(8.5)***	**1,398**	**715**	***95.5***	**2,927**	**1,408**	***107.9***
EBITDA margin (%)	**62.7**	**71.9**	**75.6**		**71.9**	**75.7**		74	**76.6**	
Other income	623	143	149	*(4)*	143	114	*25*	292	211	*39*
Interest	(35)	(15)	(5)	*206*	(15)	(2)	*717*	(20)	(13)	*49*
Depreciation and amortisation	(759)	(248)	(243)	*2*	(248)	(110)	*125*	(491)	(237)	*107*
Pretax profits	**5,565**	**1,279**	**1,430**	***(10.6)***	**1,279**	**717**	***78.3***	**2,709**	**1,368**	***98.0***
Extraordinaries	—	—	—		—	—		—	—	
Current tax	(1,915)	(440)	(485)	*(9)*	(440)	(237)	*86*	(925)	(463)	*100*
Fringe benefit tax	—	(9)	(8)	*14*	(9)	(2)		(17)	(3)	
Deferred tax	(18)	(27)	(7)	*301*	(27)	1		(34)	—	
Net income	**3,650**	**802**	**930**	***(13.8)***	**802**	**480**	***67.2***	**1,732**	**902**	***92.1***
Tax rate (%)	34.4	37.3	34.9		37.3	33.1		36.1	34.1	

Note:
(a) 1QFY08, 2QFY08 and 1HFY08 data is for merged entity; yoy comparisons are not valid.
(b) Sun TV shows film amoritzation in depreciation and amortization; we show it under transmission and programming costs.
(c) Three radio channels are in Sun TV parent company and quarterly results include the three channels.
(d) FY2008E data is consolidated for radio subsidiaries.

Source: Company, Kotak Insitutional Equities estimates.

Our DCF-based target price for Sun TV is Rs300

DCF analysis of SunTV Network (Rs mn)

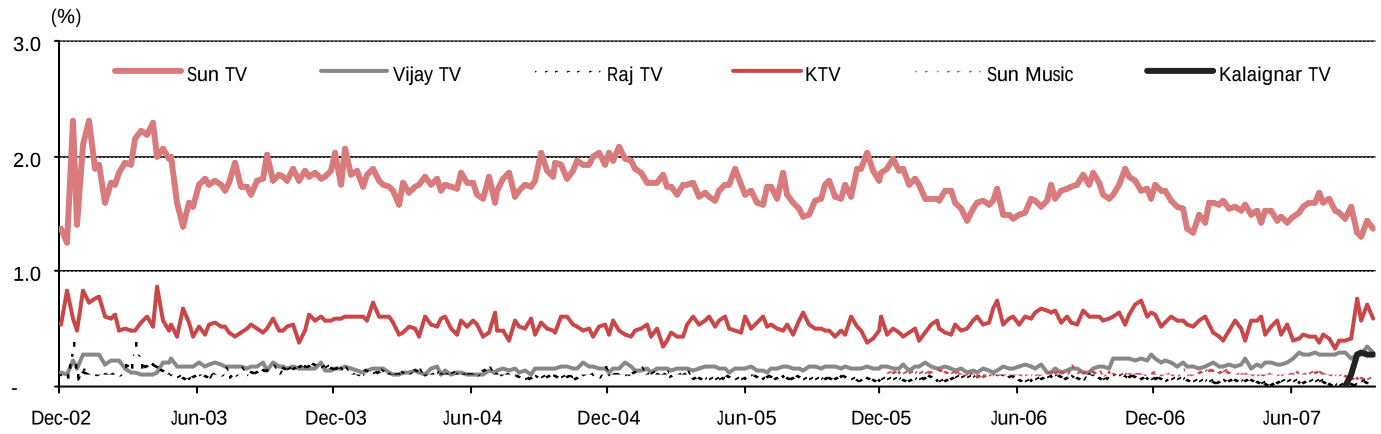
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**5,736**	**7,540**	**9,131**	**10,712**	**12,312**	**13,722**	**15,184**	**16,749**	**18,455**	**20,509**	**20,144**	—
Tax expense	(1,713)	(2,349)	(2,915)	(3,469)	(4,035)	(4,520)	(5,020)	(5,553)	(6,132)	(6,845)	(6,768)	—
Changes in working capital	(1,861)	(948)	(837)	(854)	(879)	(816)	(861)	(930)	(1,016)	(1,157)	(137)	—
Cash flow from operations	**2,163**	**4,243**	**5,378**	**6,389**	**7,397**	**8,386**	**9,303**	**10,267**	**11,307**	**12,507**	**13,239**	—
Capital expenditure	(793)	(200)	(200)	(225)	(250)	(275)	(300)	(325)	(350)	(375)	(400)	—
Cash flow to minority shareholders	23	(27)	(50)	(70)	(94)	(101)	(108)	(116)	(124)	(152)	(10)	—
Free cash flow	**1,393**	**4,017**	**5,128**	**6,094**	**7,053**	**8,010**	**8,895**	**9,826**	**10,833**	**11,980**	**12,830**	**13,535**
PV of free cash flow	**1,323**	**3,393**	**3,850**	**4,067**	**4,183**	**4,223**	**4,168**	**4,093**	**4,010**	**3,941**	**3,752**	—
Discounted cash flow-1 year forward		3,817	4,332	4,576	4,707	4,750	4,689	4,604	4,512	4,434	4,221	—
Discounted cash flow-2 year forward			4,873	5,148	5,296	5,346	5,275	5,180	5,076	4,990	4,749	4,453

	Now	+ 1-year	+ 2-years	
Total PV of free cash flow (a)	37,251	44,643	50,385	
FCF in terminal year	11,980	12,830	13,535	
Adjusted FCF in terminal year	10,305	12,734	13,535	Adjusting for FM radio business, which will end in FY2016/FY2017
Terminal value in terminal year	147,220	181,912	193,361	
PV of terminal value (b)	54,491	67,331	71,569	
Total company value (a) + (b)	**91,742**	**111,974**	**121,955**	
Value per share of Sun TV (Rs)	233	284	309	
Net debt/(cash)	(5,627)	(6,190)	(8,920)	
Value to equity holders	**97,369**	**118,164**	**130,875**	
Value to equity holders (Rs/Sun TV share)	**247**	**300**	**332**	

Source: Kotak Institutional Equities estimates.

Sun TV leads the lucrative Tamil market; Kalaignar TV has made an impressive entry

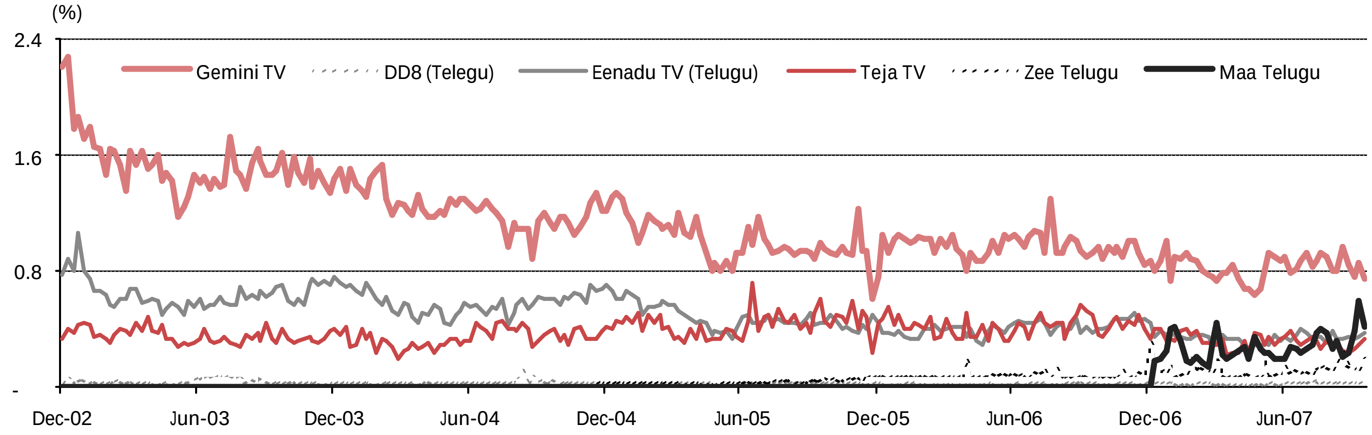
Prime-time (7:30-11:30 PM) ratings of major Tamil channels (%)



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

Sun's Gemini TV has seen its ratings decline over the last few months

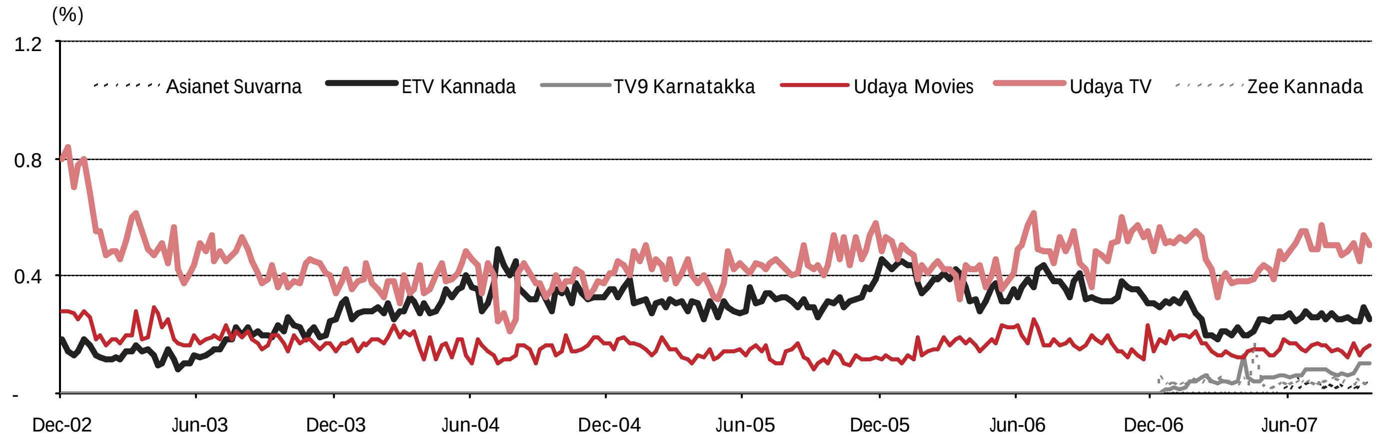
Prime-time (7:30-11:30 PM) ratings of major Telugu channels (%)



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

Sun's Udaya TV has maintained its ratings performance in the face of competition

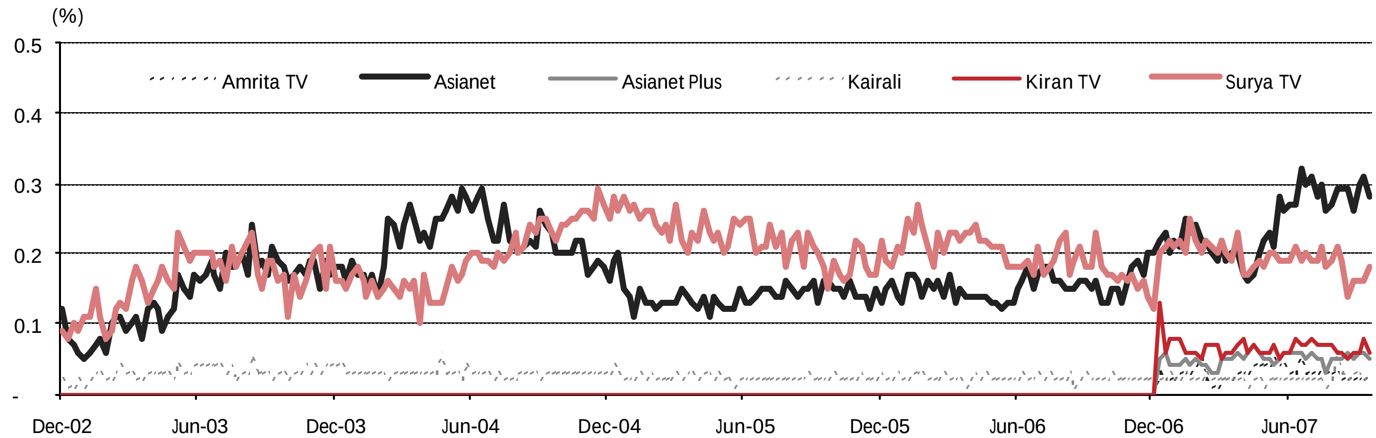
Prime-time (7:30-11:30 PM) ratings of major Kannada channels (%)



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

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

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



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

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

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

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Advertisement revenues									
Sun TV	1,038	1,085	1,491	1,804	2,069	2,373	2,720	3,058	3,438
K TV	100	123	141	162	182	205	226	248	273
Sun News	28	39	47	55	62	70	78	86	95
Sun Music	2	94	122	163	183	206	232	255	281
Sun Kids	—	—	—	101	139	166	198	230	266
Sun Documentary	—	—	—	64	164	196	233	271	313
Sun Sports	—	—	9	51	58	65	73	81	89
Surya TV	226	386	476	574	663	764	881	1,003	1,142
Kiran TV	3	28	40	59	82	92	104	114	125
Gemini TV	—	—	467	613	705	811	933	1,061	1,207
Teja TV	—	—	44	51	57	64	70	77	85
Gemini News	—	—	35	41	46	52	58	64	70
Gemini Music	—	—	75	100	113	127	142	157	172
Udaya TV	—	—	428	535	615	708	814	926	1,053
Udaya Movies	—	—	43	49	55	62	68	75	82
Udaya Varthegulu (News)	—	—	25	29	33	37	42	46	50
Udaya TV 2	—	—	30	40	45	51	57	63	69
Total TV ad revenues	**1,397**	**1,755**	**3,472**	**4,490**	**5,271**	**6,048**	**6,930**	**7,814**	**8,812**
Radio	144	158	168	597	1,375	1,862	2,304	2,816	3,027
Total advertisement revenues	**1,542**	**1,913**	**3,640**	**5,087**	**6,646**	**7,910**	**9,234**	**10,630**	**11,839**
Broadcast revenues (or slot sales)									
Sun TV	455	531	607	698	768	845	930	1,023	1,125
Surya TV	38	60	60	69	75	83	91	100	111
Gemini TV	—	—	332	381	419	461	507	558	614
Udaya TV	—	—	86	101	111	123	135	148	163
Total broadcast revenues	**493**	**591**	**1,085**	**1,250**	**1,375**	**1,512**	**1,663**	**1,830**	**2,012**
Total ad and broadcast revenues	**2,034**	**2,504**	**4,725**	**6,337**	**8,021**	**9,422**	**10,897**	**12,460**	**13,851**
Pay-TV revenues									
Sun TV	398	447	667	1,234	1,712	2,054	2,377	2,671	2,955
Surya TV	—	—	—	—	111	147	182	213	241
Gemini TV	—	—	693	802	907	1,047	1,171	1,293	1,410
Udaya TV	—	—	310	363	417	490	556	622	685
Total pay-TV revenues	**398**	**447**	**1,669**	**2,399**	**3,147**	**3,738**	**4,287**	**4,800**	**5,291**
International revenues	88	183	339	347	354	360	372	382	388
Others	10	18	42	70	100	130	154	178	203
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
Total revenues	**2,886**	**3,152**	**6,775**	**9,152**	**11,622**	**13,650**	**15,709**	**17,820**	**19,734**
Growth (%)	**7**	**9**	**115**	**35**	**27**	**17**	**15**	**13**	**11**

Source: Company, Kotak Institutional Equities estimates.

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

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	3,219	6,780	9,152	11,622	13,650	15,709	17,820
EBITDA	**2,035**	**3,874**	**5,736**	**7,540**	**9,131**	**10,712**	**12,312**
Other income	172	411	623	720	803	779	749
Interest (expense)/income	(65)	(64)	(35)	17—	—	—	—
Depreciation	(147)	(294)	(525)	(638)	(535)	(461)	(411)
Amortization	—	(56)	(235)	(235)	(235)	(235)	(195)
Pretax profits	**1,995**	**3,871**	**5,565**	**7,372**	**9,164**	**10,796**	**12,454**
Tax-cash	(709)	(1,509)	(1,915)	(2,597)	(3,196)	(3,739)	(4,294)
Tax-deferred	16	108	(18)	49	39	27	18
Minority interest	—	(9)	23	(27)	(50)	(70)	(94)
Net profits after minority interests	**1,302**	**2,461**	**3,655**	**4,797**	**5,958**	**7,014**	**8,085**
Earnings per share (Rs)	**5.3**	**6.3**	**9.3**	**12.2**	**15.1**	**17.8**	**20.5**
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,436	17,505	17,538	17,577	17,621
Deferred Tax	32	(56)	(38)	(87)	(125)	(153)	(171)
Total borrowings	2,333	867	401	—	—	—	—
Currrent liabilities	741	1,693	1,631	1,760	1,837	1,920	2,011
Total capital	**6,209**	**14,478**	**16,449**	**19,223**	**19,343**	**19,508**	**19,720**
Cash	732	6,494	6,591	8,920	8,657	8,316	7,914
Current assets	2,440	3,221	5,020	6,097	7,011	7,948	8,918
Total fixed assets	2,830	3,543	2,910	2,472	2,138	1,902	1,740
Intangible assets	206	1,220	1,927	1,732	1,537	1,342	1,146
Total assets	**6,209**	**14,478**	**16,449**	**19,223**	**19,343**	**19,508**	**19,720**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,607	6,055	7,177	8,339	9,521
Working capital	(251)	(1,992)	(1,861)	(948)	(837)	(854)	(879)
Capital expenditure	(2,091)	(433)	(793)	(200)	(200)	(225)	(250)
Investments	(326)	(849)	(821)	(1,129)	(1,242)	(1,366)	(1,503)
Other income	80	402	623	720	803	779	749
Free cash flow	**(619)**	**814**	**1,953**	**4,907**	**6,139**	**7,260**	**8,392**
Ratios (%)							
Debt/equity	76.0	7.3	2.8	—	—	—	—
Net debt/equity	52.1	(47.2)	(42.9)	(51.0)	(49.4)	(47.3)	(44.9)
RoAE	36.1	32.9	27.8	30.2	34.2	40.3	46.4
RoACE	**26.6**	**26.8**	**27.8**	**30.7**	**35.2**	**41.4**	**47.5**

Source: Company, Kotak Institutional Equities estimates.

Banking

IIFL.BO, Rs944	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,050
52W High -Low (Rs)	1082 - 193
Market Cap (Rs bn)	50.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.3	7.9	13.2
Net Profit (Rs bn)	0.8	1.2	3.0
EPS (Rs)	15.1	23.3	45.0
EPS gth	*39*	*54.3*	*93.5*
P/E (x)	62.6	40.6	21.0
P/B (x)	15.6	9.7	3.9
Div yield (%)	0.3	-	-

India Infoline: Raising target price to factor in higher volumes, upgrade to IL

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- **Net profit at Rs360 mn—up 157% yoy, 26% above estimates**
- **Strong growth in brokerage business, insurance income above estimates**
- **We revise earnings estimates—factor in robust equity market volumes and traction in institutional equities business**
- **Raise target price to Rs1,050, upgrade to In-Line**

India Infoline (IIL) reported net profit of Rs360 mn for 2QFY08, up 157% yoy on the back of high growth in equity market volumes and income from distribution of insurance products - which was higher than our expectations.

We are raising our earnings estimates by 21% for FY2008 and 46% for FY2009. Key reasons for revision—(a) increase in market volumes, (b) higher expectations from institutional business—7% market share by FY2010 (5% earlier) and (c) likely higher interest income from financing business. We are raising our target price to Rs1,050 (from Rs670 earlier) to factor higher earnings estimates and are assuming a higher exit multiple of 18X (as against 15X earlier) on FY2010 EPS, discounted back to FY2009 - a higher multiple to factor in growth in business. Key risk: Given its high operating leverage, a decline or slower growth in volumes will likely impact both earnings and valuation multiples.

Broking income has grown considerably. IIL's 2QFY08 broking income has increased to Rs1.12 bn (up 126% yoy,63% qoq) on the back of (1) expansion in brokerage margins to 8.3 bps from 8 bps in 1QFY08, (2) increase in market share to 3.3% from 3% in 1QFY08 and (3) high growth in overall market volumes, 108% in 2QFY08 as compared to 8% in 1QFY08. Higher growth in volumes compared to the market and increase in margins likely reflects some contribution from institutional business.

Retail business—expect stable market share. We expect overall market volumes to increase by 45% (40% cash and 50% F&O) in 2HFY08 and about 20-25% yoy in FY2009 and FY2010. IIL's management has indicated that its branch expansion drive may slow down hereon. We therefore expect IIL's volumes in the retail business to grow in line with the markets.

Higher expectations from institutional business. IIL has commenced its institutional equities business which is rapidly gaining traction. We now factor in 5% market share for IIL in this segment by FY2009 (up from 2.5% earlier) and 7% by 2010 (up from 5%). We expect the overall market volumes in the institutional segment to increase by 60% in FY2008 (40% earlier) and 30% yoy in FY2009 and FY2010.

Finance business has commenced operations. IIL's management has indicated that its retail finance business has commenced operations and the company had a nominal portfolio of Rs243 mn as on September 2007. IIL proposes to offer home equity and personal loans in addition to the margin funding book. The senior management team comprises ex-employees of Citi Financial Consumer Finance. We are factoring a loan book of Rs23 bn in FY2009E and Rs29 bn in FY2010E in our estimates. The company proposes to infuse private investment into its financing business, which will likely enable the company to increase its leverage beyond 1X—a likely constraint for brokerages.

Indiainfoline- Quarterly results

In Rs mn	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	YoY(%)	2Q08E	Actual vs KS(%)
Total income	**881**	**795**	**1145**	**1,436**	**1,334**	**1,953**	**146**	**1,811**	8
Equity brokerages	568	499	606	641	693	1,128	126	1,118	1
Distribution of MFs	47	26	33	43	34	31	18	35	(11)
Commodities brokerage	26	25	32	37	39	36	43	40	(10)
Life insurance distribution	86	108	160	240	159	287	167	183	57
Online and media income	75	80	149	342	202	179	124	215	(17)
Financing income	52	31	114	86	158	208	575	170	22
Loan distribution	2	6	9	11	10	9	39	10	(10)
Merchant banking income			18	10	2	21		10.0	109
Other income	26	20	25	26	37	55	180	30	83
Operating expenses	**522**	**542**	**804**	**977**	**887**	**1,285**	**137**	**1285**	0
Direct expenses	188	161	**239**	331	281	422	163	447	(6)
Employees expenses	170	204	310	379	346	502	146	555	(10)
Administration expneses	165	177	255	267	261	361	104	283	28
EBDITA	**359**	**253**	**341**	**459**	**447**	**668**	**164**	**526**	**27**
Depreciation	25	33	45	46	59	66	98	60	11
EBITA	335	220	296	413	387	601	174	466	29
Interest	34	12	26	45	44	65	432	50	29
PBT	**301**	**208**	**269**	**368**	**343**	**537**	**158**	**416**	**29**
Exceptional item					440	0		0	
PBT (after exceptional item)	**301**	**208**	**269**	**368**	**(97)**	**537**		**416**	**29**
Taxation	112	67	89	122	(25)	176	162	130	36
PAT	**189**	**140**	**181**	**246**	**(72)**	**360**	**157**	**286**	**26**
Key operational data									
IIL ave. daily vol. (Rs bn)	8.7	7.2	9.4	10.0	14.0	21.3	196	20	8
Market share (reported)		2.1%	2.3%	2.3%	2.9%	3.3%		2.9%	
Number of days (x)	61	63	61	60	62	64		64	
Overall margins (bps)	10.70	11.00	10.57	10.7	8.0	8.3		8.0	3
Total IIL vol (Rs bn)	531	454	573	600	868	1,363	201	1,264	
Branches (x)	236	404	559	560	585	596		600	

Source: Company, Kotak Insitutional equities estimates.

India Infoline : Change in estimates

March fiscal years, 2008E-2010E (Rs mn)

	Old estimates			New estimates			Old vs new estimates (%)		
	2008E	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**
IIL - volume (Rs bn)	4,664	6,781	10,648	5,047	8,658	13,039	8	28	22
Retail business (Rs bn)	4,079	5,426	6,876	4,643	6,465	8,626	14	19	25
Insitutional equities business (Rs bn)	584	1,355	3,772	404	2,193	4,414	(31)	62	17
Cash markets (Rs bn)	256	589	1,628	404	1,078	1,810	58	83	11
F&O (Rs bn)	328	766	2,144	-	1,116	2,603	(100)	46	21
Total income	**7,128**	**10,439**	**15,604**	**7,904**	**13,248**	**19,046**	**11**	**27**	**22**
Broking commission and interest income	4,414	6,396	9,710	5,097	8,987	12,899	15	41	33
Insurance, MF and loan disbribution	1,345	1,976	2,701	1,373	1,997	2,724	2	1	1
Other income	1,369	2,066	3,193	1,433	2,264	3,423	5	10	7
Operating expenses	**5,127**	**7,331**	**10,610**	**5,571**	**8,707**	**12,291**	**9**	**19**	**16**
Direct brokerage expenses	1,056	1,323	1,619	1,226	1,907	2,732	16	44	69
Employee expenses	1,752	2,268	2,784	2,006	3,089	4,244	14	36	52
Others expenses	2,319	3,739	6,206	2,339	3,712	5,315	1	(1)	(14)
PBT	**2,001**	**3,108**	**4,994**	**2,333**	**4,541**	**6,755**	**17**	**46**	**35**
Exceptional item	440			440					
Tax	528	1,050	1,681	644	1,544	2,296	22	47	37
PAT	**1,033**	**2,058**	**3,314**	**1,250**	**2,997**	**4,459**	**21**	**46**	**35**

Source: Kotak Institutional Equities estimates.

India Infoline - Fair value under various scenarios

(Rs/share)

Valuation multiple\ Market share of insitutional equities business (CM)	2.5%	5%	7.0%	10%	15%
15X	763	829	876	948	1,079
18X	916	995	1,051	1,137	1,295
20X	1,018	1,106	1,168	1,264	1,439

Source:Kotak Insitutional equities estimates.

Energy

CAST.BO, Rs286	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	310
52W High -Low (Rs)	315 - 205
Market Cap (Rs bn)	35.4

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	17.5	19.5	20.2
Net Profit (Rs bn)	1.5	2.3	2.5
EPS (Rs)	12.2	18.3	20.4
EPS gth	*3.2*	*50.1*	*11.3*
P/E (x)	23.4	15.6	14.0
EV/EBITDA (x)	13.6	9.0	8
Div yield (%)	3.1	4.2	4.9

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	71.0	-	-
FIIs	2.1	0.0	(0.1)
MFs	1.9	0.1	(0.1)
UTI	-	-	(0.1)
LIC	5.4	0.1	0.0

Castrol India: Strong qoq performance but net income lower than expected

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- **3QCY07 net income up 76% (adjusted basis); margins strong**
- **Fine-tuned estimates to reflect higher LOBS prices and stronger rupee**
- **Downgraded to IL; stock trading near target price**

Castrol reported strong 3QCY07 net income at Rs542 mn (-17% qoq, +76% yoy) but below our estimate of Rs654 mn. Castrol's 3QCY07 revenues grew moderately to Rs4.3 bn (+2.8% yoy) versus our expected Rs4.65 bn; revenues declined 20% qoq as the third quarter is a seasonally weaker quarter. However, 3QCY07 EBIT margins were robust at 17.9% for the automotive segment and 23.8% for the industrial segment compared to 9.1%and 13.2%, respectively, in 3QCY06. We have fine-tuned CY2007E and CY2008E EPS estimates to Rs18.3 and Rs20.4, respectively, from Rs18.2 and Rs20.7, respectively, to reflect (1) higher LOBS prices due to likely higher crude prices, (2) moderately lower revenues and (3) stronger rupee. We have downgraded the stock to but retain our 12-month target price of Rs310 (15X CY2008E EPS of Rs20.4). Key downside risk stems from higher-than-expected LOBS prices due to high crude oil prices.

Weaker-than-expected 3QCY07 results due to lower-than-expected revenues. Castrol's 3QCY07 adjusted net income increased 76% yoy (reported +60%) to Rs542 mn, primarily due to lower LOBS prices and higher lube prices. However, revenues grew moderately to Rs4.3 bn (+2.8% yoy) due to likely lower volume growth. Castrol does not give quarterly sales volumes but our talks with industry people confirm likely lower volume growth for lubes in the quarter. We highlight that qoq result comparisons are not valid due to seasonality; 3Q coincides with the monsoon and weaker transportation activity.

Moderate growth in automotive division revenues; margins remain strong. Castrol's 3QCY07 automotive lubes segment's revenues increased marginally by 3.3% yoy, led by price increased taken in CY2007. EBIT grew 104% yoy to Rs641 mn. The automotive segment's EBIT margin has also expanded significantly to 17.9% in 3QCY07 from 9.1% in 3QCY06. We do not look at qoq comparison since automobile lubes sales are seasonal—2Q and 4Q of the calendar year are typically the best quarters.

Industrial segment maintains its strong performance. Castrol's industrial lubes segment reported a moderate 0.6% yoy growth in revenues to Rs737 mn but an impressive 82% yoy increase in EBIT to Rs175 mn. The industrial segment's EBIT margin has expanded to 23.8% in 3QCY07 from 13.2% in 3QCY06. Castrol has invested in this business significantly in the past and is seeing the benefits in the form of increased traction among industrial customers.

Update on LOBS prices. Global LOBS prices have remained stable despite the recent surge in crude prices. This can be explained by the slack demand as well as ample supply. With more capacity coming up (in Korea), we expect LOBS prices to remain flat despite very high crude prices. Domestic base oils prices also declined due to competitive import prices resulting from appreciation in the rupee against the dollar.

Earnings revisions

CY2007. We have fine-tuned Castrol's CY2007E EPS to Rs18.3 from Rs18.2, previously, to reflect (1) moderately lower revenues, (2) higher employee costs and other administrative expenses, and (3) stronger rupee (Rs41.5 from 43.0 previously). We note that a Re1/US$ change impacts Castrol's EPS by Rs1.

CY2008. We have revised Castrol's CY2008E EPS to Rs20.4 from Rs20.7 previously on account of (1) higher LOBS prices(US$795/ton from US$775/ton previously) to reflect likely higher crude prices, (2) lower revenues and (3) stronger rupee (Rs38 from 41.0 previously); the first two have a negative impact and the third factor is a positive. The yoy growth in earnings reflects a decline of US$15/ton (US$50/ton assumed previously) in assumed LOBS prices.

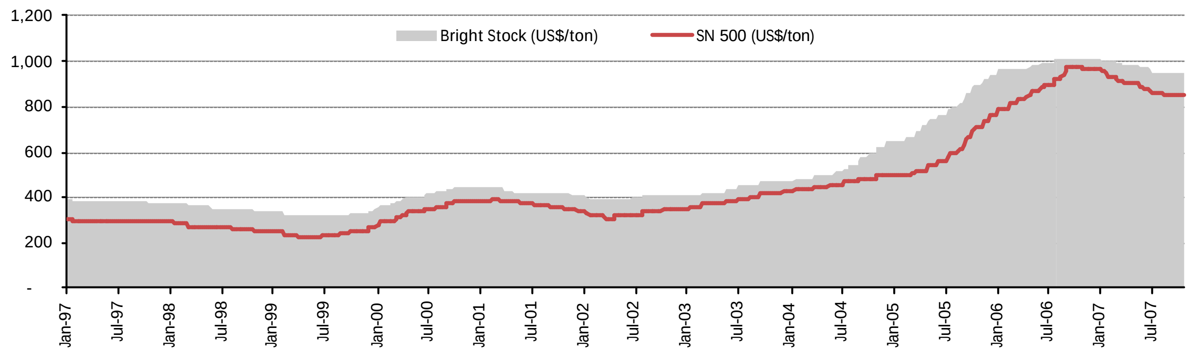
Interim results of Castrol, calendar year-ends (Rs mn)

		qoq			yoy			yoy		
	2007E	3Q 2007	2Q 2007	*% chg*	3Q 2007	3Q 2006	*% chg*	9M 2007	9M 2006	*% chg*
Net sales	**19,525**	**4,311**	**5,401**	***(20.2)***	**4,311**	**4,193**	***2.8***	**14,133**	**12,719**	***11.1***
Raw materials	11,708	2,364	3,158	*(25.1)*	2,364	2,861	*(17.4)*	8,309	8,508	*(2.3)*
Employees	857	249	214	*16.2*	249	178	*39.6*	654	522	*25.3*
Others	3,500	868	1,022	*(15.1)*	868	741	*17.2*	2,693	2,200	*22.4*
Advertisement	—	190	280	*(32.2)*	190	189	*0.1*	636	486	*30.8*
CIF costs	—	130	203	*(36.2)*	130	162	*(19.9)*	495	493	*0.5*
Other exp	—	549	540	*1.8*	549	390	*40.8*	1,562	1,222	*27.9*
Total expenditure	16,065	3,481	4,395	*(20.8)*	3,481	3,780	*(7.9)*	11,656	11,230	*3.8*
EBITDA	**3,460**	**830**	**1,006**	***(17.5)***	**830**	**413**	***100.9***	**2,477**	**1,489**	***66.4***
EBITDA margin (%)	**17.7**	**19.3**	**18.6**		**19.3**	**9.9**		**17.5**	**11.7**	
Other income	320	86	79	*9.3*	86	52	*64.2*	237	141	*68.0*
Interest	47	7	21	*(66.8)*	7	6	*16.7*	37	20	*87.7*
Depreciation	190	51	50	*3.4*	51	45	*13.5*	149	133	*12.0*
Pre-tax profits	**3,543**	**857**	**1,014**	***(15.4)***	**857**	**414**	***107.1***	**2,528**	**1,477**	***71.1***
Extraordinaries	5	—	15	—	—	43	—	5	233	—
Tax	1,310	315	370	*(14.7)*	315	118	*167.7*	917	546	*67.8*
Deferred tax	(31)	—	—	—	—	—	—	—	—	—
Net income	**2,269**	**542**	**659**	***(17.8)***	**542**	**340**	***59.6***	**1,617**	**1,164**	***38.9***
Adjusted net income	**2,266**	**542**	**650**	***(16.5)***	**542**	**309**	***75.7***	**1,613**	**1,017**	***58.6***
Effective tax rate (%)	36.1	36.8	36.5		36.8	28.4		36.3	37.0	
Segment details										
Revenues										
Automotive		3,574	4,631	*(22.8)*	3,574	3,461	*3.3*	11,851	10,755	*10.2*
Non-automotive		737	769	*(4.2)*	737	733	*0.6*	2,282	1,964	*16.2*
Total		**4,311**	**5,401**	***(20.2)***	**4,311**	**4,193**	***2.8***	**14,133**	**12,719**	***11.1***
EBIT										
Automotive		641	850	*(24.6)*	641	315	*103.6*	1,980	1,348	*46.8*
Non-automotive		175	149	*17.6*	175	96	*81.8*	472	262	*80.5*
Total		**816**	**999**	***(18.3)***	**816**	**411**	***98.5***	**2,452**	**1,610**	***52.3***
EBIT margin (%)										
Automotive		17.9	18.3		17.9	9.1		16.7	12.5	
Non-automotive		23.8	19.4		23.8	13.2		20.7	13.3	
Total		**18.9**	**18.5**		**18.9**	**9.8**		**17.4**	**12.7**	
Capital employed										
Automotive		1,840	2,054	*(10.4)*	1,840	3,169	*(41.9)*	1,840	3,169	*(41.9)*
Non-automotive		911	867	*5.1*	911	961	*(5.2)*	911	961	*(5.2)*
Unallocable assets less liabilities		2,373	1,662	*42.8*	2,373	371	*539.9*	2,373	371	*539.9*
Total		**5,124**	**4,582**	***11.8***	**5,124**	**4,501**	***13.8***	**5,124**	**4,501**	***13.8***

Source: Company, Kotak Institutional Equities estimates.

Lube oil prices are stable despite surge in crude oil prices

Singapore lube oil prices fob (US$/ton)



Bright Stock, December calendar year-ends (US$/ton)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
1Q	382	372	328	371	444	400	414	484	660	965	996
2Q	380	359	319	405	423	398	427	501	737	980	976
3Q	380	347	322	424	415	406	456	552	812	1,005	945
4Q	376	341	334	448	413	410	470	623	913	1,013	
Average	**380**	**355**	**326**	**412**	**424**	**403**	**442**	**540**	**780**	**991**	**970**

SN500, December calendar year-ends (US$/ton)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
1Q	297	283	239	296	386	320	358	436	502	805	930
2Q	295	271	230	335	375	316	373	452	540	867	889
3Q	293	262	237	359	362	333	405	473	613	935	852
4Q	293	256	257	383	345	345	423	491	728	967	
Average	**294**	**268**	**241**	**343**	**367**	**329**	**390**	**463**	**596**	**894**	**887**

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
945	945	945	945	945

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
850	850	850	850	850

Source: ICIS, Kotak Institutional Equities.

Castrol has high leverage to exchange rate and raw material prices

Sensitivity of Castrol's earnings to key variables

	CY2007E			CY2008E			CY2009E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Exchange rate									
Rupee dollar	41.5	40.5	39.5	40.0	39.0	38.0	39.0	38.0	37.0
Net profits (Rs mn)	2,148	2,269	2,390	2,399	2,521	2,643	2,617	2,739	2,861
EPS (Rs)		18.4			20.4			22.2	
% upside/(downside)	**(5.3)**		**5.3**	**(4.8)**		**4.8**	**(4.5)**		**4.5**
Raw material price									
Raw material price (US$/ton)	835	810	785	820	795	770	805	780	755
Net profits (Rs mn)	2,117	2,269	2,421	2,371	2,521	2,670	2,590	2,739	2,887
EPS (Rs)		18.4			20.4			22.2	
% upside/(downside)	**(6.7)**		**6.7**	**(5.9)**		**5.9**	**(5.4)**		**5.4**

Source: Kotak Institutional Equities estimates.

Castrol: Profit model, balance sheet, cash model, December year-ends, 2004-2009E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E
Profit model (Rs mn)						
Net sales	13,051	14,304	17,524	19,525	20,154	20,805
EBITDA	**2,082**	**2,117**	**2,200**	**3,460**	**3,867**	**4,200**
Other income	221	201	344	320	320	320
Interest	(29)	(30)	(41)	(47)	(62)	(61)
Depreciation	(249)	(189)	(180)	(190)	(193)	(197)
Pretax profits	2,026	2,098	2,322	3,543	3,932	4,262
Tax	(687)	(694)	(889)	(1,310)	(1,448)	(1,563)
Deferred taxation	9	56	57	31	36	39
Net profits	**1,275**	**1,468**	**1,545**	**2,269**	**2,521**	**2,739**
Earnings per share (Rs)	**10.7**	**11.8**	**12.2**	**18.3**	**20.4**	**22.2**
Balance sheet (Rs mn)						
Total equity	3,601	3,901	4,177	4,710	5,205	5,630
Deferred taxation liability	174	119	61	31	(5)	(44)
Total borrowings	37	28	28	23	19	16
Currrent liabilities	2,830	3,238	3,619	3,494	3,482	3,487
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**8,258**	**8,701**	**9,088**
Cash	297	399	892	1,294	1,675	1,987
Current assets	3,558	4,422	5,271	5,182	5,287	5,409
Total fixed assets	1,498	1,383	1,297	1,357	1,314	1,268
Investments	1,289	1,081	425	425	425	425
Total assets	**6,642**	**7,285**	**7,885**	**8,258**	**8,701**	**9,088**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,108	2,357	2,576
Working capital	24	(465)	(506)	(36)	(118)	(116)
Capital expenditure	(57)	(89)	63	(250)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**1,822**	**2,090**	**2,310**
Investments	(402)	258	687	—	—	—
Other income	37	25	9	320	320	320
Ratios (%)						
Debt/equity	0.99	0.69	0.66	0.49	0.37	0.29
Net debt/equity	0.98	0.69	0.65	0.49	0.37	0.29
RoAE	34.3	37.7	37.4	50.5	50.7	50.8
RoACE	**35.7**	**37.7**	**37.0**	**50.9**	**51.3**	**51.3**

Source: Kotak Institutional Equities estimates.

Automobiles

TVSM.BO, Rs57

TVS Motor Company: 2QFY08 net profit down 52% yoy as volumes decline sharply

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- **2Q net profit at Rs119 mn drops 52% yoy as volumes decline 25% yoy**
- **EBITDA margin declines 280 bps yoy**

TVS Motor (TVS) 2Q net profit at Rs119 mn declined 52% yoy but grew 58% qoq. The sharp drop in net profit was on account of a 25% yoy decline is 2Q sales volume. EBITDA margin at 2.4% declines 280 bps yoy as raw material and employee costs increase. TVS reported exchange gains on account of restatement of ECB liabilities resulting in higher net profit (2QFY08 net profit after adjusting extraordinary income at Rs53 mn).

EBITDA margin declines as raw material and employee costs rise

EBITDA margin at 2.4% declined 280 bps yoy but was flat on a qoq basis despite a 1% increase in average realizations. The decline in margins was mainly on account of a 150 bps yoy increase in employee costs—employee costs as a percentage of net sales increased to 5.8% in 2QFY08 from 4.3% in 2QFY07. Raw material costs also increased 10 bps yoy and 350 bps qoq.

Foreign exchange gains stem sharp decline in net profits

TVS reported an extraordinary gain of Rs102 mn comprising (1) exchange gain of Rs293 mn on account of re-statement of ECB liabilities and (2) accelerated amortization of deferred expenses of Rs191 mn. Adjusted net profit (after adjusting for extraordinary income) at Rs53 mn declined 78% yoy.

Expect sales to be under pressure as competition heats up

We believe that going forward, sales would be under pressure as competition heats up in the industry with Bajaj and Hero Honda launching new bikes and cutting prices in a bid to boost volumes in the festive ahead. TVS plans to launch a new 125 cc bike in November in a bid to compete with peers—however, TVS is facing a dispute with Bajaj on account of patent infringement with regards to the technology used for the bike.

TVS Motors, Quarterly results, March fiscal year-ends (Rs mn)

	qoq			yoy		
	2Q 2008	1Q 2008	Change (%)	2Q 2008	2Q 2007	Change (%)
Net sales	**8,234**	**7,833**	**5.1**	**8,234**	**10,779**	**(23.6)**
Expenditure	(8,036)	(7,642)	5.2	(8,036)	(10,219)	(21.4)
(Increase)/decrease in stocks	(124)	(378)	(67.0)	(124)	66	(289.3)
Consumption of raw materials	(6,146)	(5,576)	10.2	(6,146)	(8,033)	(23.5)
Staff cost	(480)	(467)	2.8	(480)	(461)	4.2
Other expenditure	(1,285)	(1,222)	5.2	(1,285)	(1,791)	(28.2)
EBITDA	**199**	**191**	**3.8**	**199**	**560**	**(64.5)**
Other income	179	182	(1.8)	179	109	64.8
Interest (net)	(70)	(98)	(28.1)	(70)	(62)	13.8
Depreciation	(240)	(239)	0.4	(240)	(244)	(1.7)
Profit before extra-ordinary items	**67**	**37**	**83.1**	**67**	**362**	**(81.5)**
Extra-ordinary items	102	72	41.3	102	-	
Profit before tax	**169**	**109**	**55.4**	**169**	**362**	**(53.3)**
Tax	(50)	(34)	49.3	(50)	(114)	(56.2)
Profit after tax	**119**	**75**	**58.1**	**119**	**248**	**(52.0)**
Adjusted profit	**53**	**28**	**85.8**	**53**	**248**	**(78.7)**
Sales volume (number of vehicles)	**316,101**	**320,161**	**(1.3)**	**316,101**	**418,695**	**(24.5)**
Average net realisation (Rs/vehicle)	26,049	24,467	6.5	26,049	25,744	1.2
Margins (%)						
EBITDA margin	2.4	2.4	(0.03)	2.4	5.2	(2.78)
Net profit margin	1.4	1.0	0.49	1.4	2.3	(0.86)
Key ratios						
RM costs (% of net sales)	74.6	71.2	3.46	74.6	74.5	0.12
Staff costs (% of net sales)	5.8	6.0	(0.13)	5.8	4.3	1.56
Effective tax rate (%)	29.6	30.8	(1.21)	29.6	31.5	(1.95)

Source: Company data, Kotak Institutional Equities estimates.

Consumer Products

GOCP.BO, Rs117	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	140
52W High -Low (Rs)	193 - 117
Market Cap (Rs bn)	26.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	9.5	11.1	12.3
Net Profit (Rs bn)	1.3	1.7	1.9
EPS (Rs)	5.9	7.5	8.3
EPS gth	*12.5*	*25.7*	*11.6*
P/E (x)	19.7	15.7	14.0
EV/EBITDA (x)	15.1	12.0	10.5
Div yield (%)	3.2	3.4	3.4

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.8	-	-
FIIs	19.0	0.1	(0.0)
MFs	1.3	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Godrej Consumer Products: Deteriorating visibility—downgraded to IL, reducing target price to Rs140

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- **Visibility for medium term has reduced significantly**
- **Shades of grey in hair color**
- **Not much lather in soaps**
- **Revise estimates to factor in better near-term margins from soaps**
- **Target price reduced to Rs140/share**

After the analyst conference call, we have factored in higher margins in soaps driven by price increases and revised our EPS estimates to Rs7.5 for FY08 (from Rs7.0) and Rs8.3 for FY2009 (from Rs8.1). However, deteriorating visibility for medium term - moderating volume growth in soaps and continued market share loss in the hair color business has resulted in a reduction in our growth estimates for the medium term. We have also factored in the potential impact on growth because of ITC's entry into the segment as well. We have revised our target price to Rs140/share (from Rs185/share previously). Our target price is based on 15% discount to DCF valuation. Noting little upside to our target price as well as the poor visibility regarding medium term performance, we downgrade our rating to In line.

Visibility for medium term has reduced significantly. We believe the medium term visibility for GCPL's domestic businesses has gone down significantly. We attribute this to moderating volume growth in soaps and continued market share loss in hair color business.

Shades of grey in hair color. Though the management sounded very optimistic about the company's ability to have a presence and garner higher incremental share in the top-end fashion hair color market, we believe that substantial back-end and front-end investments would be required to mark an entry. We note that planned relaunch of powder hair dye and communication regarding newer consumer benefits can positively impact sales in the next two quarters.

Not much lather in soaps. We refer to our comment dated October 18, 2007, *"ITC launches shampoo and soaps - HUL's bastions under attack?"*. We believe that for GCPL in soaps, growth may get tougher in a more competitive scenario. Over the past year, measured price hikes by HUL and GCPL have helped mitigate higher palm prices (up over 70%). However, ITC's entry could possibly cap further price increases and the requirement for higher ad spends could adversely impact the margin profile as well. We believe that incremental growth will come at significantly higher cost than before. ITC has recently launched the 'Superia' brand of soaps at the lower end ('popular' segment) of the category in four variants. The product and pricing is in direct competition with GCPL's 'Godrej No.1' (estimated sales about Rs3 bn) and HUL's Lifebuoy (estimated sales Rs9 bn), Breeze (estimated sales Rs2 bn). Moreover, market sources indicate that ITC will enter all the segments in soaps in the near term.

The management expects the impact of 'Superia' on 'Godrej No.1' will not be significant as Godrej No.1 is a Grade 1 soap and the direct competition brands are having lower oil content (Please refer Exhibit 3). We believe that even though the TFM/oil content is important, attributes like product feel, perception, value proposition, wear rate (number of baths/soap tablet) and most importantly the perfume quality influences purchase decisions for soaps. We keenly await market response to ITC's new launches.

Revise estimates to factor in better near-term margins from soaps. We have revised our FY2008 EPS estimates upwards by 6.8% to Rs7.5 mainly on account of strong 1H FY08 performance. Our FY2009 EPS estimates are now higher by 2.8% to Rs8.3 on account of lower depreciation outgo as the company indicated lower capex for next two years.

Target price reduced to Rs140/share. We model soap and hair color to grow at 12% and 10% respectively in FY2009E and FY2010E. Modest growth of 2.7% in soaps and higher penetration and upgradation driven growth rates of 24.5% is considered for the hair color business during FY2011-15E, see Exhibits 1 and 2 for change in our estimates. We have reduced our target price to Rs140/share (from Rs185/share previously). Our target price implies a P/E of 18.7X on FY2008E and 16.7X on FY2009E. Our one-year forward DCF value works out to Rs161/share. Considering the expected heightened competitive activity in both the categories GCPL operates in - particularly soaps, we believe that the stock will trade at a significant discount to DCF value. We have assumed a 15% discount.

Key risks to our estimates include softening of palm prices, lesser than expected impact of ITC's soap launches, ITC gaining market share from Nirma and HUL brands, upsides due to GCPL pursuing inorganic route to growth.

Exhibit 1: Godrej Consumer, change in estimates, March fiscal year-ends, (Rs mn)

	FY08			FY09			FY10		
Rs mn	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Net Sales	11,052	11,148	(0.9)	12,334	12,632	(2.4)	13,640	14,013	(2.7)
EBITDA	2,163	2,118	2.1	2,363	2,385	(0.9)	2,591	2,634	(1.6)
Net profit	1,686	1,578	6.8	1,882	1,831	2.8	2,088	2,054	1.6
EPS (Rs)	7.5	7.0	6.8	8.3	8.1	2.8	9.2	9.1	1.6
Sales growth (%)	15.9	20.4		11.6	13.3		10.6	10.9	
Domestic sales growth (%)	17.2	18.5		11.5	15.2		10.7	10.9	
EPS growth (%)	25.7	18.9		11.6	16.0		10.9	12.2	

Source: Kotak Institutional Equities estimates.

Exhibit 2: Moderated growth in medium term (2009E & 2010E), we built-in higher growth rates for hair color in later years
GCPL sales growth rate (%)

	2008E	2009E	2010E	2011-15
Soaps	19.8	12.0	12.0	2.7
Hair Color	10.5	10.0	10.0	24.5
Toiletries	25.0	15.0	5.0	5.7
Liquid Detergents	8.0	8.0	5.4	5.4
Total Godrej Brands	**17.2**	**11.5**	**10.7**	**9.1**

Source: Kotak Institutional Equities estimates.

Exhibit 3: Competitive positioning in soaps
Soaps (Low-end / Popular segment) - Brands and price points

Brand	Company	MRP for 75 gm (Rs)	TFM (c) (%)
Breeze (a)	HUL	6.25	66
Godrej No.1	GCPL	6.75	76
Superia	ITC	6.50	70

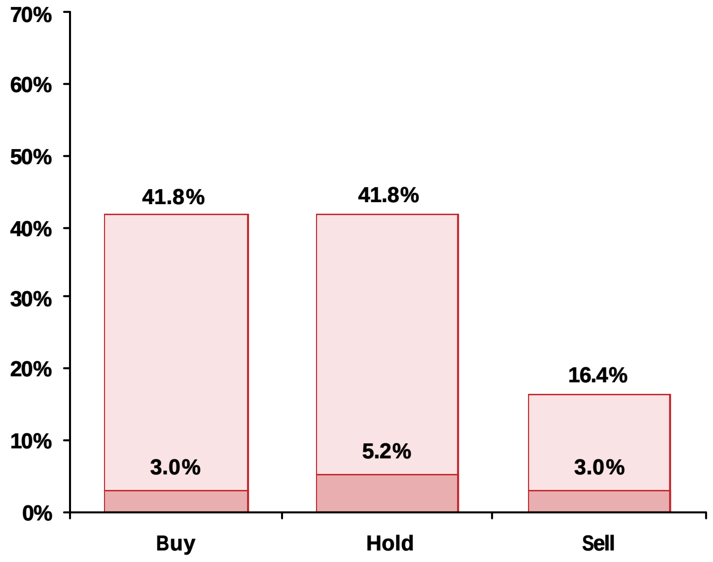
(a) Banded pack of 4 soaps of 75 gm for Rs 25
(b) Banded pack of 4 soaps of 75 gm for Rs 27
(c) Total Fatty Matter (TFM) content indicates the oil content in soap.
Typical consumer perception is higher TFM = higher quality

Source: Company, Kotak Institutional Equities.

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 06/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

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

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

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