

## **INDIA DAILY**

December 29, 2008

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#### **New Release**

**Economy:** Indian State finances shapes up to slimming program but retention is unlikely

## **Updates**

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News Roundup

## Corporate

- In a sign that influential board members of Satyam Computer Services Ltd have decided to step in and take charge, independent director Vinod Dham said a board meeting next month would discuss a change in management, including the possible exit of chairman B. Ramalinga Raju, and induction of a professional chief executive or even a sale to another entity.
- Taking advantage of an extended annual plant maintenance shut down, General Motors India is cutting down production by up to 10% from its two plants—at Halol in Gujarat and at Talegaon in Maharashtra—as the auto mart reels under a demand slump. (FE)
- Jet Airways and Kingfisher have announced a reduction in fares following a steep fall in aviation turbine fuel prices. (The Telegraph)
- Tata Metaliks Ltd will raise Rs100 bn through non-convertible debentures from financial institutions. (The Telegraph)

## Economic and political

- The Reserve Bank of India may further trim key rates and reserve ratios in the coming weeks as it looks to make cheap credit available to borrowers and prevent the economic slowdown from gaining momentum, government officials said. (ET)
- The October 2008 landslide in stock prices, which caused a nearly 90% drop in India's equity derivatives business, has dealt a severe blow to Asia's oldest bourse, the Bombay Stock Exchange. In the past three months, 23 stock brokers have opted for voluntary closure of their derivatives business on the exchange and the daily turnover on the exchange is now as low as Rs8.5 mn, compared to Rs15 bn to Rs20 bn, when the market peaked in January this year. (BS)
- Prices of many food commodities in India are unlikely to come down in the current financial year, as record-high government procurement prices announced this year would keep these essential commodities dearer. (BS)

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

## **EQUITY MARKETS**

			nange,	70
India	26-Dec	1-day	1-mo	3-mo
Sensex	9,329	(2.5)	2.6	(25.9)
Nifty	2,857	(2.0)	3.7	(25.8)
Global/Regional in	ndices			
Dow Jones	8,516	0.6	(3.6)	(17.8)
FTSE	4,217	(0.9)	1.1	(18.9)
Nikkie	8,710	(0.3)	2.3	(25.8)
Hang Seng	14,184	(0.3)	10.1	(25.1)
KOSPI	1,095	(2.0)	1.8	(24.8)
Value traded - Ind	ia			
		Mo	oving av	g, Rs bn
	26-Dec		1-mo	3-mo
Cash (NSE+BSE)	103.8		139.2	144.4
Derivatives (NSE)	241.5		488.9	443
Deri. open interest	365.5		592	588

#### Forex/money market

		Chang	ge, basis	points
	26-Dec	1-day	1-mo	3-mo
Rs/US\$	48.4	0	(192)	146
6mo fwd prem, %	#WA Sec	######	######	######
10yr govt bond, %	5.1	(6)	(188)	(331)

#### Commodity market

			.hange,	%
	26-Dec	1-day	1-mo	3-mo
Gold (US\$/OZ)	889.8	2.4	8.8	(2.2)
Silver (US\$/OZ)	11.0	2.6	6.6	(16.4)
Crude (US\$/BBL)	37.5	10.1	(27.5)	(58.9)

## Net investment (US\$mn)

	24-Dec	MTD	CYTD
Fils	(29)	462	(13,201)
MFs	70	(52)	3,429

Change, %

#### Top movers -3mo basis

Best performers	26-Dec	1-day	1-mo	3-mo
Bharat Petroleum C	374	(2.8)	5.4	9.8
Punjab National Bar	499	(1.6)	11.9	8.4
Indian Oil Corporati	418	1.3	1.7	8.0
Mmtc Limited	20,823	(3.8)	108.1	6.4
Ntpc Limited	177	(0.6)	10.9	6.3
Worst performers				
Housing Developme	127	(2.4)	65.7	(23.4)
Unitech Limited	36	(2.8)	55.9	(66.7)
Aban Offshore Limi	671	(4.8)	(2.4)	(66.3)
Bajaj Finserv Ltd	134	5.0	39.9	(64.5)
Suzlon Energy Limit	57	(2.5)	36.5	(63.0)

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#### **Economy**

Sector coverage view N/A

# Indian State finances shapes up to slimming program but retention is unlikely

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- GFD/GDP ratio for states widens to 2.3% in FY2008 from a 30-year low of 1.9% in FY2007
- Ratio likely to slip ahead to 2.5% from budgeted 2.1% in FY2009 and to 3.3% in FY2010
- We expect State government borrowing at Rs820 bn in FY2009 against BE of Rs638 bn
- Our estimate: total fiscal gap in FY2009 likely to cross 9% of GDP (Centre's on-budget at 5% and off-budget at 1.6%; State's at 2.5%)

The annual RBI study on State finances released over the weekend throws some interesting data points—(1) State GFD/GDP ratio shrank to a 30-year low of 1.9% in FY2007 as per accounts (final) data released, (2) GFD/GDP ratio has widened to 2.3% in FY2008 as per revised estimate (RE), but it still lower when compared to 2.7% for RE of FY2007 and (3) GFD/GDP ratio in FY2008 was still less than half of 4.6% in FY2000 confirming that the State finances have shaped up to the slimming program or the fiscal reforms. However, like in any slimming program, the retention of inch loss is the most difficult part and we see reasons to expect sharp deterioration in State finances over the next 2-3 years, so that GFD/GDP ratio could widen to 3.3% by FY2010. We also expect State governments to borrow over Rs400 bn in 4QFY09, which along with unplanned market borrowing of Rs300 bn by Centre can moderate the falling G-sec yields.

India has a federal structure with fiscal powers constitutionally shared between the Union government and the sub-national governments which include 28 States and 7 Union Territories (UT). State finances, therefore, have important implications for (1) understanding the fiscal position of the country and (2) likely impact on interest rates and financial markets as a result of State government borrowings crowding out private investment.

## Deficits of the State governments have slimmed up

Various deficit indicators of the State governments have widened a bit in FY2008, but the data still suggests that State finances remain in good shape. Consider the following:

- 1) As per accounts data released for FY2007, GFD/GDP ratio had shrunk to a 30-year low of 1.9%. The ratio was 1.7% in FY1977 but had risen to 4.6% by FY2000 threatening Indian fiscal sustainability before a concentrated program of reforms of State finances was put in place (see Exhibit 1).
- 2) GFD/GDP ratio in FY2008 as per revised estimates (RE) was at 2.3%, same as the budget estimate. This suggests good fiscal marksmanship. Though the number reflects widening of fiscal gap when compared to accounts data for FY2007, the deficit is still lower when compared with 2.7% RE for 2007.
- 3) State governments have posted a revenue surplus for the second consecutive year. Revenue surplus at 0.5% in FY2008RE is broadly comparable with 0.6% in FY2007. States ran a revenue deficit from FY1988-FY2006 (see Exhibit 2).
- 4) After running a primary surplus of 0.4% of GDP for the first time, the 2008RE shows a slippage to marginal deficit of 0.1%. However, the data suggests that the revenue account for the States continue to be roughly in balance (see Exhibit 3).

#### Retention of lower deficits difficult in our view

As is typical in any weight loss program, retention of weight or the inch loss is the most difficult part, we see fiscal gaps for the States widening over at least the next two years—FY2009 and FY2010. FY2007 and FY2008 have turned out to be exceptionally good years for State finances. However, deterioration is likely over the 2-3 years due to following factors:

- 1) **Hike in wages and salaries of State government employees:** State government's administrative expenditures on wages and salaries of its employee's are budgeted to rise to Rs1.64 tn in FY2009 from Rs1.39 tn in FY2008RE. We project it to rise to over Rs2 tn in FY2010 and to over Rs2.4 tn in FY2011, putting sever strain on State finances (see Exhibit 4). Soaring wage bills for State governments look inevitable as they emulate the Sixth Central Pay Commission recommendations.
  - Some States have already announced implementation of the Sixth Central Pay Commission recommendations for its employees. These include the Uttar Pradesh, Madhya Pradesh, Chhattisgarh and Gujarat. However, the brunt of the implementation burden is more likely to take place in FY2010, where many States may also disburse arrears if they decide to implement the recommendations from April 2006 as has been the case with the Union government. Other States, like Orissa, have constituted committees to study implementation of the Central Pay Commission from the angle of fitment of pay scales or are setting up their own commissions on wage hikes. So while bulk of the burden would be in FY2010, some of it is also likely to spill over to FY2011.
- 2) Lower devolution of taxes from the centre to States: Centre's transfers to States have increased to Rs2.7 tn in FY2008RE from an average of Rs1.1 tn average in FY2001-05. As a percentage of GDP, they have gone up to 5.8% from 4.2% over the same periods. However, as Centre's tax collections decelerate over a 2-year cyclical slowdown, the transfers to States, especially in the form of sharable taxes would also decelerate. On this account, we expect a loss of over Rs100 bn to States in FY2009 and nearly Rs300 bn in FY2010
- 3) **Electoral cycle expenditure increase:** With seven States going to polls in FY2009 and general elections round the corner, we expect State expenditures to increase in FY2009 over the budget provision of Rs6.9 tn for FY2009. There are several plan expenditures which are borne in burden sharing form between Centre and States. As these are being pushed for quick implementation for the ensuing polls, there is likely to be an overshooting of over Rs100 bn in these

## States likely to overshoot market borrowing target and raise Rs400 bn in 4QFY09

In our assessment, state governments are likely to overshoot market borrowing in view of poor National Small Saving Fund (NSSF) collections for the second successive year. Against a BE for market borrowing of Rs638 bn, total market borrowing is likely to be around Rs800 bn.

If the entire amount of budgeted NSSF resources to finance States' GFD of Rs220 bn is to be met by additional market borrowing, the total market borrowings of State governments would add up to Rs859 bn. However, their total market borrowing is more likely to be around Rs800 bn as they are likely to make good a part of the NSSF shortfall through increased recourse to reserve funds and other means.

States, however, have borrowed only Rs414 bn from the market till December 23, 2008 at an weighted average yield of 8.1%. Considering that States may end up borrowing Rs820 bn in FY2009, we expect a large borrowing of about Rs406 bn in 4QFY09 by States. If they are able to borrow this at a lower average yield of 5.9%, the weighted average cost for State borrowing in FY2009 could drop to about 7% (see Exhibit 5).

States are also likely to be forced to draw from their cash balances and investment accounts with RBI to meet most of their overshooting of the GFD itself to about Rs1,350 bn against a BE of Rs1,127 bn (see Exhibit 6). State government have cash balances of Rs749 bn as of December 19, 2008 invested in 14-day intermediate and auction T-bills of 91-day, 182-day and 364-day maturities.

# Fiscal responsibility legislations and increased devolution has turned around State finance

State finances have improved in the current decade so far, due mainly to the slimming program or the fiscal reforms which include: (1) fiscal responsibility legislations (FRL),

- (2) revenue enhancing user price reforms and fiscal consolidation measures and
- (3) increased devolution based on Finance Commission awards.
- 26 out of 28 States have enacted FRLs with Sikkim and West Bengal being the two exceptions.
- 2) 19 out of 28 States have adopted new pension scheme (NPS) with the nine States which have not adopted so far being Arunachal Pradesh, J&K, Kerala, Meghalaya, Mizoram, Nagaland, Punjab, Tripura and West Bengal.
- 3) 17 out of 28 States have imposed ceilings on guarantees, with 11 States which are yet to do so include Arunachal Pradesh, Bihar, HP, J&K, Jharkhand, Maharashtra, Meghalaya, Mizoram, Tripura, Uttarakhand and Uttar Pradesh.
- 4) 20 out of 28 States have set up Consolidated Sinking Funds (CSF), with 8 States which are yet to do so include Bihar, HP, J&K, Jharkhand, Karnataka, MP, Rajasthan and Uttar Pradesh.
- 5) 11 out of 28 States have set up Guarantee Redemption Fund (GRF), with 17 States which are yet to do so include Arunachal Pradesh, Assam, Bihar, Chattisgarh, HP, Jharkhand, Karnataka, Kerala, Maharashtra, Meghalaya, Mizoram, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal.

## Difficulties ahead in keeping with fiscal responsibility obligations

Though the FRL targets for FY2008 in respect of revenue deficit (elimination by FY2009) as well as GFD (reduction to 3% of GSDP by FY2010) have been met, the State governments are likely to face difficulties in meeting the FRL obligations ahead. The 13<sup>th</sup> Finance Commission would need to work out more reforms for State finances. These could include:

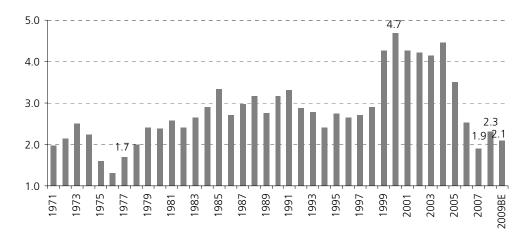
- Incentive compatible schemes to encourage States to enhance revenues as well as contain expenditures, rather than mainly revenue enhancing approach adopted so far.
- Further user price reforms to not only recover costs but generate reasonable returns
- Restructuring public administration to save on wage bill is necessary
- Scheme to use State government cash balances or improve returns thereon through
  auction of such balances if necessary. Currently State governments are bearing a
  negative carry as they raise market borrowings at higher yield than they earn T-bills, but
  are still reluctant to reduce market borrowing. The Centre also benefits from this
  inefficient scheme as they get to use State cash balances. Alternatively, incentives could
  be provided for use of cash balances to retire debt through buybacks as has been done
  in the case of Orissa and Tamil Nadu.

## Combined fiscal gap may exceed 9% of GDP in FY2009

With the above assessment of State finances, it is now clear that the combined fiscal gap of the Centre and States is likely to add up to over 9% of GDP in FY2009. On current reckoning, the on-budget GFD of the Centre and States are likely to be about 5% and 2.5% of GDP, respectively, which could be a deterioration of nearly 1.3 ppt from the preceding year. We had earlier seen similar 9% plus combined deficits from FY1999-FY2003 as well as in three earlier years.

Exhibit 1: GFD/GDP ratio shrinks to 30-year low of 1.9% in FY2007

Gross fiscal deficit/GDP, March fiscal year-ends, 1971-2009BE (%)

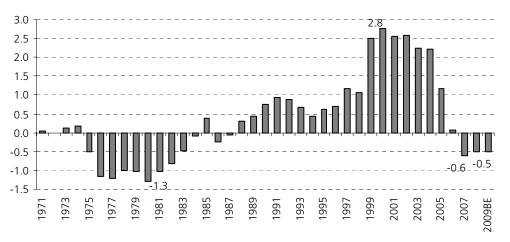


Note: Gross fiscal deficit (GFD) is aggregate disbursement (revenue expenditure+capital disbursements, excluding repayment of WMA and overdraft from RBI) less revenue receipts, non-debt capital receipts and recovery of loans and advances

Source: Reserve Bank of India

Exhibit 2: Return to revenue surpluses for second succesive year in FY2008

revenue deficit/GDP, March fiscal year-ends, 1971-2009BE (%)

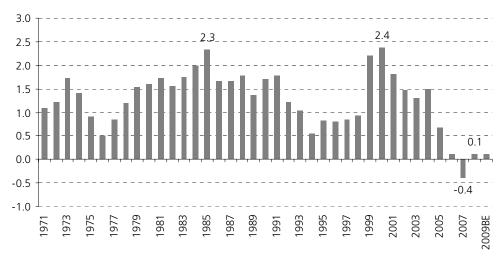


Note: revenue deficit is revenue expenditure minus revenue receipts

Source: Reserve Bank of India

Exhibit 3: Primary deficit nearly in balance for third succesive year in FY2008

Primary deficit/GDP, March fiscal year-ends, 1971-2009BE (%)

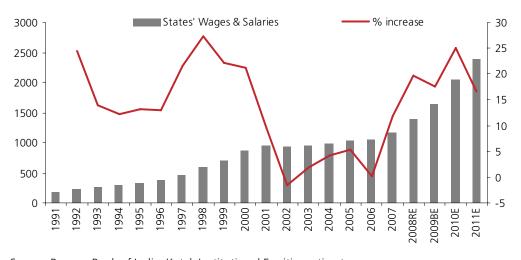


Note: Primary deficit is GFD less interest payments

Source: Reserve Bank of India

Exhibit 4: Wage bill increase likely to put strain on State finances

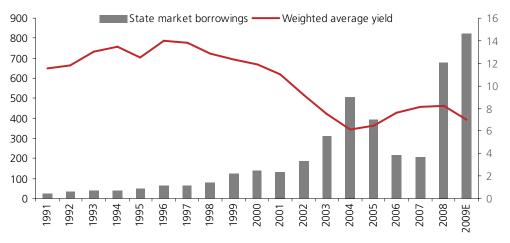
State government's expenses on wages and salaries (Rs bn) on LHS; increase (%) on RHS



Source: Reserve Bank of India; Kotak Institutional Equities estimates

Exhibit 5: States borrowing more at lesser costs

State government's market borrowing (Rs bn) on LHS; weighted average yield (%) on RHS



Source: Reserve Bank of India; Kotak Institutional Equities estimates

**Exhibit 6: State's increased GFD likely to be financed by additional market borrowing and decrease in cash balances** Financing of State's gross fiscal deficit (Rs bn)

		Loans	Special securities	Loans	Small			Decrease in cash balance/	Increase	Gross fiscal
	Market	from	issued to	from banks	savings,	Reserve	0.1	investment	in WMA/	deficit
year	borrowing	centre	NSSF	& FIs	PFs	funds	Others	account	OD	(GFD)
1991	26	100	_	2	31	11	19	-2	1	188
1992	33	94	_	0	29	13	18	-1	2	189
1993	35	89	_	0	36	15	52	-16	-2	209
1994	36	94	_	1	43	15	9	4	0	204
1995	41	143	_	21	48	17	49	-25	-20	273
1996	59	141	_	6	49	21	61	-41	12	309
1997	65	167	—	7	54	24	-22	64	7	366
1998	73	226	_	15	62	29	50	-2	-19	435
1999	105	304	_	24	120	36	110	-7	42	733
2000	127	122	264	34	179	26	119	6	25	901
2001	125	83	326	46	131	31	161	-16	-8	879
2002	172	109	356	63	102	45	61	6	29	943
2003	285	-4	490	49	99	48	77	23	-69	997
2004	473	139	180	41	93	64	221	-1	-5	1206
2005	346	-98	642	0	89	71	132	-87	-18	1078
2006	153	0	738	41	105	52	152	-329	-10	901
2007	131	-89	560	39	104	76	117	-165	2	775
2008RE	636	34	95	74	121	-96	-26	240	1	1080
2009BE	638	69	220	74	130	12	6	-24	1	1127
2009KIE	820	60	10	80	118	50	115	97	1	1350

Source: Reserve Bank of India; Kotak Instititional Equities estimates

Energy	
RPET.BO, Rs85	***************************************
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	80
52W High -Low (Rs)	260 - 68
Market Cap (Rs bn)	381.4

#### **Financials**

March y/e	2008	2009E	2010E
Sales (Rs bn)	0.0	0.0	833.6
Net Profit (Rs bn)	(4.7)	(0.1)	44.6
EPS (Rs)	(1.1)	(0.0)	9.9
EPS gth	-	-	-
P/E (x)	-	-	8.5
EV/EBITDA (x)	-	-	7.6
Div yield (%)	-	-	2.4

#### **Pricing performance**

Perf-1m	Perf-3m	Perf-6m	Perf-1y
15.7	(40.8)	(51.2)	(62.0)

#### Shareholding, September 2008

		,o o.	O ver/ (under)
	Pattern	Portfolio	weight
Promoters	75.4	-	-
Flls	1.4	0.2	(1.8)
MFs	0.8	0.4	(1.5)
UTI	-	-	(2.0)
LIC	1.9	0.9	(1.1)

% of

Over/(under)

# Reliance Petroleum: Refinery commissioned in the midst of weakening refining cycle

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- Refinery commissioned; 'commercial production' will likely begin from April 1, 2009
- Weak refining cycle led by large capacity additions plus demand weakness
- No change in valuations (12-month DCF-based target price of Rs80) or view (REDUCE rating) based on announcement

We see the December 25 announcements regarding commissioning of RPET's refinery at Jamnagar on expected lines. We highlight that the refinery has been commissioned and we expect the 'commercial production' to commence from April 1, 2009, to take advantage of full year of 100% tax exemption. We are bemused by the spurt in stock price by 6.3% on the day of commissioning, given that the announcement was largely expected by the street. Although, we are impressed by the management's execution capability for completion of the project of such scale and complexity within a period of 36 months, we believe that stock performance will likely be determined by the likely strength/weakness of refining cycle. We expect supply-demand imbalance to persist for the next 2-3 years given large capacity additions and likely weak demand until FY2010E. We retain our REDUCE rating and 12-month DCF-based target price of Rs80. Key upside risk to our negative view stems from a sharp recovery in global GDP leading to higher-than-expected refining margins.

Announcement of commissioning on expected lines; downside risk to earnings from weaker-than-expected refining cycle. We view the announcement of commissioning of RPET's 580,000 b/d refinery at Jamnagar on expected lines. We note that refinery is yet to commence 'commercial production' from the refinery. We expect RPET to start commercial production from 1QFY10E to take advantage of a full year of 100% income tax exemption rather than for a few months in FY2009E at a time of very weak refining margins. We clarify that even one day of operations is counted as a full year for taxation purposes under the SEZ Act.

We would rather focus on deteriorating demand-supply balance which poses downside risks to our earnings estimates RPET as the earnings have high leverage to refining margins and weaker-than-expected margins could significantly impact their earnings negatively. Exhibit 2 shows the sensitivity of RPET's EPS to changes in refining margins, respectively. A US\$1/bbl lower refining margin versus our expectation will impact RPET's FY2010E EPS by 23%. We currently model refining margins for RPET's refinery at US\$8.6/bbl for FY2010E and FY2011E.

**Slowdown in demand turning out to be far worse than earlier anticipated.** Exhibit 3 gives our supply-demand estimates for oil but we do not rule out downside risks to global demand. The IEA currently projects CY2009E global oil demand growth at 0.5 mn b/d with degrowth of -0.6 mn b/d in OECD countries chipping off the non-OECD demand growth of 1.1 mn b/d. We see greater downside to non-OECD demand growth as the recession in the US and Euro-zone would likely impact exports from emerging Asian countries resulting in lower GDP growth in those countries, particularly China and East Asia.

The IEA now expects degrowth for CY2008E at -0.2 mn b/d (down from demand growth of 2 mn b/d in January 2008) reflecting demand compression in the OECD countries primarily. In particular, US demand continues to be weak with December demand declining by 5% yoy led by economic slowdown and ongoing financial crisis; demand contracted 8% yoy in November 2008 and October 2008 (Exhibit 4).

**Significant capacity addition due in CY2009-10E**. We expect significant addition to refining capacity from 4QCY08, which includes capacity addition of 0.95 mb/d in China and RPET's 580,000 b/d refinery (see Exhibit 5). We expect refining capacity addition of 0.6 mb/d, 2.4 mb/d and 1.7 mb/d in CY2008E, CY2009E and CY2010E (see Exhibit 6). In addition, we expect natural gas liquids (NGLs) supply to increase by 0.2 mb/d, 0.6 mb/d and 0.6 mb/d in CY2008E, CY2009E and CY2010E led by start of several gas-processing plants associated with gas developments in Iran (Phase 6-10 of South Pars development), Qatar (four new LNG trains of Qatargas 2 and RasGas), Saudi Arabia and Nigeria.

**Refining margins turn positive but remain weak.** Exhibit 7 shows that refining margins have bounced back in December 2008 from negative levels seen in November 2008. We had highlighted that the margins would likely bounce back from negative territory but expected them to remain weak. We would focus less on short-term volatility in refining margins and more on the deterioration in supply-demand balance of refined products which has started emerging from 2HCY08.

## Our DCF-based fair value for RPL is Rs80

DCF valuation for Reliance Petroleum (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	_	71,330	69,257	74,963	79,747	79,469	79,163	78,828	78,464	78,071	77,648	77,648	77,648	77,648
Tax expense		(77)	(67)	(73)	(73)	(73)	(8,804)	(10,856)	(11,539)	(12,098)	(12,561)	(23,284)		
Working capital changes	(1,883)	(65,940)	1,312	707	745	109	(11)	(9)	(7)	(10)	(14)	(9)		
Cash flow from operations	(1,883)	5,312	70,502	75,597	80,418	79,505	70,348	67,962	66,918	65,963	65,073	54,355		
Capital expenditure	(39,097)	_	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)		
Free cash flow to the firm	(40,980)	5,312	68,502	73,597	78,418	77,505	68,348	65,962	64,918	63,963	63,073	52,355	52,355	52,355
Discount factor at WACC	0.96	0.86	0.76	0.68	0.60	0.53	0.48	0.42	0.38	0.33	0.30	0.26		
Discounted cash flow	(39,513)	4,553	52,187	49,823	47,188	41,456	32,496	27,868	24,380	21,352	18,715			
Discounted cash flow-1 year forward		5,122	58,710	56,069	53,086	46,639	36,558	31,362	27,427	24,021	21,055	15,535		
Discounted cash flow-2 year forward	000F000000000000F0000000000		66,049	63,077	59,741	52,468	41,128	35,282	30,866	27,024	23,687	17,477	15,535	
	Now		+ 1-year	+	2-years		Sensitiv	ity of sha	re price to			/ACC and	growth rat	te (Rs)
Total PV of free cash flow (a)	280,506		389,389		446,139					V	VACC (%)			
FCF one-year forward	52,355		52,355		52,355			11.0	11.5	12.0	12.5	13.0	13.5	14.0
Terminal value	418,842		418,842		418,842		-	95	89	85	80	76	72	68
PV of terminal value (b)	139,817		139,817		139,817	(% 	1.0	100	94	89	84	79	75	71
Total PV (a) + (b)	420,324		529,207		585,957	, e	2.0	106	100	94	88	83	78	74
Net debt	128,253		169,184		187,029	rate	3.0	114	107	100	93	88	82	78
Equity value	292,071		360,022		398,927	× th	4.0	125	115	107	100	93	87	82
Equity value (US\$ mn)	6,490		7,500		8,488	٥,	5.0	138	127	117	108	100	93	87
Shares outstanding (mn)	4,500		4,500		4,500	פֿ	6.0	157	142	130	119	109	101	94
Equity value/per share (Rs)	65		80		89		7.0	186	165	147	133	121	111	102
Discount rate (%)	12.5													
Growth from 2020 to perpetuity (%)								····	····		Lunioni Lunioni			
Exit free cash multiple (X)	8.0													
Exit EBITDA multiple (X)	5.4													

## Reliance Petroleum's earnings have high leverage to refining margins

Sensitivity of RPL's earnings to key variables

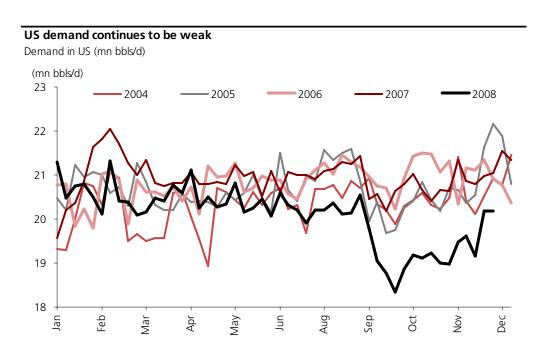
	Fiscal 2010E			F	iscal 2011E		Fiscal 2012E			
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside	
Rupee-dollar exchange rate										
Rupee-dollar exchange rate	47.0	48.0	49.0	46.0	47.0	48.0	45.0	46.0	47.0	
Net profits (Rs mn)	42,676	44,620	46,565	40,895	42,840	44,786	48,763	50,880	52,997	
EPS (Rs)	9.5	9.9	10.3	9.1	9.5	10.0	10.8	11.3	11.8	
% upside/(downside)	(4.4)		4.4	(4.5)		4.5	(4.2)		4.2	
Refining margins (US\$/bbl)						****				
Margins (US\$/bbl)	7.6	8.6	9.6	7.6	8.6	9.6	8.4	9.4	10.4	
Net profits (Rs mn)	34,472	44,620	54,768	32,903	42,840	52,778	41,154	50,880	60,606	
EPS (Rs)	7.7	9.9	12.2	7.3	9.5	11.7	9.1	11.3	13.5	
% upside/(downside)	(22.7)		22.7	(23.2)	I	23.2	(19.1)		19.1	

Source: Kotak Institutional Equities estimates

We expect sharp deterioration in global-supply demand balance over the next few years Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)										
Total demand	82.5	84.0	85.1	86.0	85.8	86.3	87.4	88.5	89.6	91.2
Yoy growth	3.3	1.5	1.1	0.9	(0.2)	0.5	1.1	1.1	1.1	1.6
Supply (mb/d)										
Non-OPEC	48.8	48.7	49.2	49.7	49.6	50.1	50.1	50.3	50.5	50.8
Yoy growth	0.6	(0.1)	0.5	0.5	(0.1)	0.5	0.0	0.2	0.2	0.3
OPEC						occord Lancourant Control	vocano Lancono Constituido de la Constituida de			
Crude	29.5	30.8	31.3	31.6	31.2	30.6	31.1	31.7	32.3	33.4
NGLs	4.2	4.5	4.6	4.8	5.0	5.6	6.2	6.5	6.8	7.0
Total OPEC	33.7	35.3	35.9	36.4	36.2	36.2	37.3	38.2	39.1	40.4
Total supply	83.4	84.7	85.5	86.1	85.8	86.3	87.4	88.5	89.6	91.2
Total stock change	1.0	0.7	0.8							
OPEC crude capacity				34.4	35.3	36.4	37.4	37.3	37.6	37.9
Implied OPEC spare capacity				2.8	4.1	5.8	6.3	5.6	5.3	4.5
Demand growth (yoy, %)	4.2	1.8	1.3	1.1	(0.2)	0.6	1.3	1.3	1.2	1.8
Supply growth (yoy, %)		-	v.				~~~	-	ononononakon onononononako	
Non-OPEC	1.2	(0.2)	1.0	1.0	(0.2)	1.0	0.0	0.4	0.4	0.6
OPEC	8.4	4.6	1.9	1.2	(0.5)	0.0	3.0	2.4	2.4	3.3
Total	4.4	1.6	0.9	0.7	(0.3)	0.6	1.3	1.3	1.2	1.8
Dated Brent (US\$/bbl)	38.3	54.4	65.8	72.7	102.0	73.0	75.0	75.0	75.0	75.0

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources



Source: EIA, Kotak Institutional Equities

## Significant refining capacity to come onstream in China and India from 2HCY08

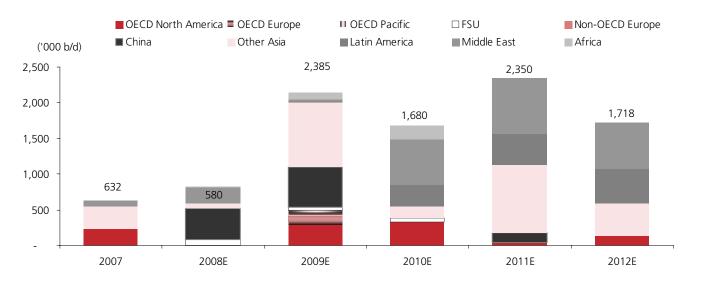
Upcoming refining capacity addition (b/d)

		Capacity addition	Expected	
Company	Location	(b/d)	completion	Comments
Sinopec	Qingdao, China	200,000	4QCY08	Commissioned
Fujian Petrochemical	Quangang, Quanzhou City, China	160,000	1QCY09	
CNOOC	Daya Bay, Huizhou, Guangdong, China	240,000	1QCY09	Delay of seven months from original schedule
Sinopec	Tianjin, China	150,000	1QCY09	Start-up delayed to March 2009
Petrochina	Dagang, Quinzhou, China	200,000	1QCY09	Expected to be commissioned on time
Petrovietnam	Dung Quat, Vietnam	121,000	1QCY09	Expected to be commissioned on Feb 25, 2009
Reliance Petroleum	Jamnagar, India	580,000	2QCY09	Commissioned but commercial production yet to start
Total capacity addition		1,651,000		

Source: Oil & Gas journal, Kotak Institutional Equities estimates

## Significant supply additions to global refining capacity

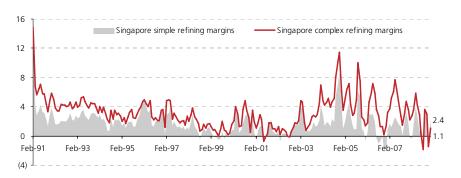
Global refinery capacity addition, calendar year ends, 2007-2012E ('000 b/d)



Source: IEA, Kotak Institutional Equities estimates.

#### Refining margins continue to remain weak

Singapore refining margins (US\$/bbl)



Simple ref										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	(0.32)	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25	2.40
2Q	(0.08)	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.71
3Q	0.14	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32	1.31
4Q	1.86	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.25	
Average	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.81

Weekly n		rgins			
Curren	t	-1 Wk	-2 Wk		-4 Wk
4.31		2.58	1.93	0.80	(1.17)

Singapore	refining	g margi	ns, Mar	ch fisca	year-ei	าds (USร	S/bbl)			-0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0.0
	2000	2001	2002	2003	2004	2005	2006	2007		2009 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.81
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	1.97

Singapore	refinin	g margi	ns, Mar	ch fiscal	year-er	nds (US\$	/bbl)			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.81
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	1.97

Complex	refining	margins	s, March	fiscal ye	ear-ends	(US\$/b	bl)			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	0.43	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58	4.31
2Q	1.19	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	0.66
3Q	0.41	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91	1.04
4Q	2.64	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.78	
Average	1.17	2.42	0.95	1.55	3.06	6.10	4.44	3.45	4.05	1.97

Weekly ma	argins	gins			
Current			2 Wk	-3 Wk	-4 Wk
3.48	1.52	1.52	0.24	(1.01)	(2.53)

Source: Bloomberg

## Profit model, balance sheet, cash model of Reliance Petroleum, March fiscal year-ends, 2010-15E (Rs mn)

Profit model Net revenues  EBITDA Other income Interest (expense)/income Depreciation Pretax profits Extraordinary items Tax Deferred taxation Net income Earnings per share (Rs)	833,643 71,330 85 (12,730) (14,005) 44,680 — (60) — 44,620 9.9	816,346 69,257 72 (11,645) (14,791) 42,893 — (53) — 42,840 9.5	806,849 74,963 66 (9,188) (14,899) 50,942 (62) 50,880 11.3	796,460 79,747 67 (8,360) (15,007) 56,446 — (64) — 56,383 12.5	796,460 79,469 96 (3,012) (15,116) 61,438 — (69) — 61,368 13.6	796,460 79,163 125 (3,012) (15,224) 61,052 (8,390) 918 53,581 11.9
EBITDA Other income Interest (expense)/income Depreciation Pretax profits Extraordinary items Tax Deferred taxation Net income	71,330 85 (12,730) (14,005) 44,680 — (60) — 44,620 9.9	69,257 72 (11,645) (14,791) 42,893 — (53) — 42,840 9.5	74,963 66 (9,188) (14,899) 50,942 — (62) — 50,880	79,747 67 (8,360) (15,007) 56,446 — (64) — 56,383	79,469 96 (3,012) (15,116) 61,438 — (69) — 61,368	79,163 125 (3,012) (15,224) 61,052 — (8,390) 918 53,581
Other income Interest (expense)/income Depreciation Pretax profits Extraordinary items Tax Deferred taxation Net income	85 (12,730) (14,005) <b>44,680</b> — (60) — <b>44,620</b> <b>9.9</b>	72 (11,645) (14,791) <b>42,893</b> — (53) — <b>42,840</b> <b>9.5</b>	66 (9,188) (14,899) <b>50,942</b> — (62) — <b>50,880</b>	67 (8,360) (15,007) <b>56,446</b> — (64) — <b>56,383</b>	96 (3,012) (15,116) <b>61,438</b> — (69) — <b>61,368</b>	125 (3,012) (15,224) <b>61,052</b> — (8,390) 918 <b>53,581</b>
Interest (expense)/income Depreciation Pretax profits Extraordinary items Tax Deferred taxation Net income	(12,730) (14,005) <b>44,680</b> — (60) — <b>44,620</b> <b>9.9</b>	(11,645) (14,791) <b>42,893</b> — (53) — <b>42,840</b> <b>9.5</b>	(9,188) (14,899) <b>50,942</b> — (62) — <b>50,880</b>	(8,360) (15,007) <b>56,446</b> — (64) — <b>56,383</b>	(3,012) (15,116) <b>61,438</b> — (69) — <b>61,368</b>	(3,012) (15,224) <b>61,052</b> — (8,390) 918 <b>53,581</b>
Depreciation  Pretax profits  Extraordinary items  Tax  Deferred taxation  Net income	(14,005)  44,680  (60)  44,620  9.9	(14,791) <b>42,893</b> (53) — <b>42,840</b> <b>9.5</b>	(14,899) <b>50,942</b> — (62) — <b>50,880</b>	(15,007) 56,446 — (64) — 56,383	(15,116) 61,438 — (69) — 61,368	(15,224) <b>61,052</b> — (8,390) 918 <b>53,581</b>
Pretax profits Extraordinary items Tax Deferred taxation Net income	44,680 — (60) — 44,620 9.9	42,893 — (53) — 42,840 9.5	50,942 — (62) — 50,880	56,446 ——————————————————————————————————	61,438 — (69) — 61,368	61,052 — (8,390) 918 53,581
Extraordinary items Tax Deferred taxation Net income	(60) — 44,620 9.9	(53) 	(62) — <b>50,880</b>	(64) — 56,383	(69) — <b>61,368</b>	— (8,390) 918 <b>53,581</b>
Tax Deferred taxation <b>Net income</b>	44,620 9.9	42,840 9.5	50,880	56,383	61,368	918 <b>53,581</b>
Deferred taxation  Net income	44,620 9.9	42,840 9.5	50,880	56,383	61,368	918 <b>53,581</b>
Net income	9.9	9.5				53,581
	9.9	9.5				kaanaan kaanaan kaanaa
Earnings per share (Rs)			11.3	12.5	13.6	11.9
	168,518	200.820				
Balance sheet	168,518	200 820				
Total equity		200,023	209,591	200,009	189,579	180,473
Deferred taxation liability						(918)
Total borrowings	188,275	141,775	119,275	115,275	113,275	110,275
Current liabilities	61,941	60,686	59,431	58,175	58,175	58,175
Total liabilities and equity	418,735	403,290	388,297	373,459	361,030	348,005
Cash	1,246	1,160	1,028	1,197	1,992	2,181
Other current assets	135,381	132,814	130,851	128,851	128,743	128,753
Net fixed assets	257,724	244,934	232,035	219,027	205,912	192,688
Capital work-in-progress						
Investments	24,383	24,383	24,383	24,383	24,383	24,383
Deferred expenditure						
Total assets	418,735	403,290	388,297	373,459	361,030	348,005
Free cash flow						<u>kononononokonononokononon</u>
Operating cash flow, excl. working capital	58,540	57,559	65,713	71,323	76,388	67,761
Working capital changes	(65,940)	1,312	707	745	109	(11)
Capital expenditure		(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Investments						
Other income	85	72	66	67	96	125
Free cash flow	(7,315)	56,943	64,486	70,135	74,593	65,875
Ratios (%)		Low				
Debt/equity	111.7	70.6	56.9	57.6	59.8	61.1
Net debt/equity	111.7	70.0	56.4	57.0	58.7	59.9
ROAE (%)	29.5	23.2	24.8	27.5	31.5	29.0
ROACE (%)	17.3	15.6	17.9	20.1	20.8	19.0
Source: Kotak Institutional Equities estimates						

	26-Dec-08		Mk+ can	GE C	shares		FPS (B	-	-	PS Grow	(%)		DER (X)	Ş	ď	V/FRITDA	8		Price/RV	٤		and viels	(%)		ROF (%)		nrice U	Unside	3mo
Company	Price (Rs)	Rating	(Rs mn)	(UM \$SD)	(mn)	2008	8 2009	E 2010E		2008 2009	2009E 2010E	E 2008		E 2010E	20	108 2009E 2010E	E 2010E	200	2008 2009E	8 2009E 2010E		2008 2009E 2010E	2010E	2008	2009E	1010E	(Rs)	(%)	(US\$ mn)
Bajaj Auto	375	REDUCE	54,300	1,121	145		3 57.4	1 58.5		(53.4) (3.2)	2) 1.9	6.3		5 6.4	4.7						5.3	5.3	5.3	21.0	37.1	32.2	300	(20.1)	I
Hero Honda	791	REDUCE	157,913	3,260	200									11.4	10.3						2.4	2.5	2.5	34.0	34.8	32.3	800	1.2	10.1
Mahindra & Mahindra	265	ADD	68,436	1,413	258								13.1	1 13.3	5.7	7 10.4	8.7	1.6	1.3	1.1	4.1	3.5	3.6	27.8	14.5	12.2	365	37.7	0.9
Maruti Suzuki	510	REDUCE	147,448	3,044	587	5.50 5.50 5.50								9.0	2.4						0.1	0.1	0.1	27.77	13.0	14.2	435	(14.7)	13.2
Automobiles	961	Cautions	526.410	2,050	100									0.7	5.0						. C. E.	3.7	0.6 7.8	24.7	15.1	13.6	071	(6.77)	4.
Banks/Financial Institutions		Canada	200	2000						1					ń						7:5	ì	ì	24.0		2			
Andhra Bank	26	REDUCE	27,039	258	485	11.9										1	1	6.0	0.8	0.7	7.2	5.2	5.4	18.0		15.3	65	16.6	0.7
Axis Bank	483	REDUCE	172,702	3,566	358	32.2										1	1	2.1	1.8	1.6	1.2	1.6	2.0	17.6		17.5	750	55.3	59.7
Bank of Baroda	263	ADD	96,152	1,985	366	39.3									T	T	1	1.1	1.0	6.0	3.0	3.2	3.4	14.6		12.7	330	25.5	7.8
Bank of India	279	BUY	146,756	3,030	526										1	1	1	1.5	1.4	1.2	1.4	1.8	1.7	27.6		20.1	370	32.6	19.4
Canara Bank	189	REDUCE	77,408	1,598	410										T	T	1				4.2	3.2	3.2	15.0		12.6	220	16.5	4.5
Central Bank of India	39	SELL	15,559	321	404										1	1	1				5.2	I	I	15.3		16.7	22	45.9	0.4
Corporation Bank	183	BUY	26,271	542	143										1	1	1				2.7	5.7	5.8	18.4		14.6	310	69.3	0.4
Federal Bank	157	BUY	26,869	222	171										I	1	1				2.5	3.1	3.5	13.6		11.4	300	91.0	1.6
Future Capital Holdings	165	BUY	10,426	215	63	(4.5)			_	_	٠,				1	1	1				1	1	1	(6.7)		21.4	440	8.991	0.5
HDFC	1,449	ADD	126,415	8,587	/87										1	1	1				7.7		/	27.8		0.7	056,1	34.0	4. 70
HUFC Bank	9/3	BUY	411,//4	8,502	473	46.0									1		1				0.7	1.0	7.7	11.7		17.1	1,350	38.8	150.5
ICICI Bank	/14	ADD	464,376	9,588	1,113										1	1					9.7	0 0	2.0	11.7		7.5	450	8. 6	200.5
DFC India Infolina	90	ADD	17,076	186,1	700	7.0									,	,	1 0				0.2	y. 0	2.1	0.71		13.0	00 2	1.24	0.0
dia monne	2,000	ADD	12,372	1 134	/07	•									9'	7.5	7.0				0.7	0.0	- 0.0	20.7		16.3	0,7	0.20	2.0
Indian Overseas Bank	69	AUD RIIV	37,836	781	5.45	22.5		20.5										ا ان «		6.0	5.4	7.3	2.3	27.7		17.7	130	2.62	5. 6
I&K Bank	350	ADD	16.963	350	84										1	1	1				4.4	4.6	4.3	16.8		13.1	200	42.9	0.1
UC Housing Finance	218	ADD	18,512	382	8 8												1				4.6	5.5	5.7	1		1	325	49.2	4.9
Mahindra & Mahindra Financial	1 207	SELL	19,737	407	95	20.8									1	1	1				2.2	2.0	2.7	16.9		14.2	190	(8.3)	0.2
Oriental Bank of Commerce		ADD	36,904	762	251										1	1	1				3.2	0.9	4.1	6.2		10.9	200	35.8	2.0
	123	ADD	141,405	2,919	1,148										1	1	1				2.8	1.4	1.7	13.5		14.8	140	13.6	2.0
Punjab National Bank	499	BUY	157,194	3,245	315																2.6	E. C.	7.5	18.0		18.0	950	30.4	10.6
Shriifam iransport	195	ADD	19,601	100	116																2.0	0. t	7.4	23.1		12.8	100	7.07	
State Bank of India	1.243	BILY	784 981	16.207	631	106.6	-	-													1.7	1.7	20 0	16.8		11.6	1.600	28.7	128.8
Union Bank	157	BUY	79,354	1,638	505		5 30.9		64.1	12.6	.6 0.2	5.7	7 5.1	1 5.1			1	1.1	0.9	0.8	2.5	3.0	3.0	26.8	24.9	20.7	220	40.0	5.0
Banks/Financial Institutions		Attractive	3,372,979	68)69					36						1	1	1	1.6	4.1	1.2	2.1	2.0	2.2	15.4		13.6			
Cement																													
00	457	REDUCE	86,180	1,779	189	-		•						•							5.1	5.1	5.1	33.3	23.5	16.4	220	20.4	5.1
Ambuja Cements	1 103	REDUCE	100,172	2,068	1,522	7.6		-	_					`							9.0	4.5	3.2	26.6	21.0	12.7	1 400	(8.8)	m. 1
India Cements	1,132	BIIV	26.580	549	787		•														1.9	2.3	2.3	75.8	18.6	14.5	145	2 2 2	1 0
Shree Cement	470	BUY	16,373	338	35		2 109.0	70.5													1.7	1.7	1.7	56.9	46.6	22.6	820	6.08	0.1
UltraTech Cement	361	BUY	45,194	933	125					28.5 (12.9)	(24.9)	4.4	1.2	1 6.8	3.4	4 3.7	4.2	1.4	1.1	1.0	2.1	2.3	2.3	45.2	28.7	17.7	220	52.4	1.3
Cement		Cautious	383,781	7,924					15										i		3.4	3.6	3.3	26.8	19.8	13.7			
Consumer (Discretionary)		1011010		00.7																	0			.:	-		į	6	0
Kadico Khaitan	99	REDUCE	10,736	139	102	2.2									11.5						6.0	I	I	711.7	6.7	11.7	105	(0.8)	0.0
United Spirits	894	BUY	83.748	1.729	8 8	7	2.2	52.4		50.8 0.1	1 30.9	22.3	3 22.3	3 17.1	12.5	5 11.0	6.7	3.5	0.5	2.6	0.0	0.0	0.0	18.8	15.9	17.7	1.050	17.4	7.5
Consumer (Discretionary)		Neutral	109,195	2,254											12.4						0.1	0.0	0.0	14.4	11.2	13.0			
Consumer products	-	4	101 00		000																,					0 00	100	0	
Asian Paints Colgate-Palmolive (India)	405	RFDLICE	55.091	1.137	136	17.1									19.7						3.2	4.0	4.6	100.4	141.4	159.6	400	5.5	1.0
GlaxoSmithkline Consumer (a)	531	ADD	22,325	461	42										6.9						2.3	2.7	3.1	27.4	26.5	25.1	700	31.9	0.2
Godrej Consumer Products	144	ADD	37,193	768	258		1 7.3	8.7		18.7 3.0	.0 20.3	20.4	4 19.8	3 16.5	17.6	5 17.6	13.3	20.9	5.5	4.8	2.5	2.8	2.8	109.6	45.0	42.2	140	(2.8)	0.3
Hindustan Unilever	252	REDUCE	548,938	11,334	2,177										25.2						4.2	3.4	4.0	85.2	133.3	145.6	245	(2.8)	28.6
II C	1/1	ADD	5,113	13,2/8	3,769										13.1						2.1	2.2	2.3	17.7	15.0	25.6	700	17.2	27.4
Nestle India (a)	1,410	ADD	135,946	2,807	2 %										19.0						1.9	2.4	2.9	94.8	91.4	85.4	1,740	23.4	1.3
Tata Tea	277	BUY	35,697	737	62										4.1						2.6	3.0	3.2	9.7	9.4	9.4	1,100	9.06	1.
Consumer products		Cautious	1,566,575	32,344					17					ì	15.4		`				2.9	2.7	3.1	30.6	29.7	30.2			
Constructions Consolidated Construction Co	199	ADD	7 371	152	37										7.						13	2.0	2.4	777	20.1	21.1	290	45.4	0.1
MRCL	144	BUY	19,491	402	135										9.6						1.0	0.5	0.5	14.4	13.0	12.8	230	59.7	13.1
Nagarjuna Construction Co.	29	BUY	15,257	315	229	7.2	2 7.5	5 9.1		14.5 4.6	.6 22.1	9.3	3 8.9	9 7.3	7.4	4 6.8	6.2	1.0	1.8	0.8	1.7	2.0	2.4	12.6	10.5	11.7	115	72.7	3.1
Punj Llayd	142	REDUCE	45,962	949	323				,						9.0						0.2	0.5	9.0	16.8	19.2	16.5	180	26.7	31.2
Inniay Eligilicalling		2	7	11	2										11						1 0	77.0	23	16.3	10.6	300	000	3000	5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of K	nal Equ	uities: \	Valuation	Summ s	ary o	f Ke	/ Indian		Companies	nies															Tarriet		.TVO
Company	26-Dec-08 Price (Rs)	Rating	Mkt cap. (Rs mn) (U	JS\$ mn)	shares (mn)	E 2008	PS (Rs) 2009E 2	2010E	EPS grd 2008 20	owth (%)	0E 2008	PER ()	X) : 2010E	EV/E 2008	EV/EBITDA (X) 2008 2009E 2010E	X) 2010E	Pric 2008_2	e/BV (X)	Di 20	Dividend yield ( 2008 2009E 2	eld (%) E 2010E	2008	RoE (%) 2009E	) 2010E	price U	Upside (C)	3mo (US\$ mn)
Energy Bharat Petroleum	374	REDUCE	122,737	2,534	328	41.3	30.4	42.8						4.2	4.7	3.5	0.9					11.8	7.9	10.1	370	(1.2)	7.0
Cairn india	160		298,309	6,159	1,868	(0.1)		12.5	~		=			36.8	23.7	8.4	1.0					(0.1)	2.1	6.9	240	50.3	17.2
CAIL (India)	326	REDUCE	40,276	5,239	1,268	20.4		25.8	21.0	22.9 3.	3.1 9.8	8 8.0	7.7	4.9	4.7	5.8	2.8	1.6	9.0 4 1.3 3	3.3 4.0	6.1	18.1	19.6	17.4	380	10.0	13.4
GSPL	30		16,602	343	263	1.8		3.7						0.9	5.8	4.2	1.3					80 80	11.5	14.2	09	103.4	1.2
Hindustan Petroleum	271	REDUCE	91,923	1,898	339	33.5		33.6						7.2	5.6	9.6	0.8					9.6	6.8	8.0	270	(0.4)	7.1
Oil & Natural Gas Corporation	643		1.375.197	28.393	2.139	92.7	_	39.6						2.4	0.0	0.0	1.4					19.6	23.9	22.1	1.075	67.2	49.2
Petronet LNG	37		28,088	280	750	6.3		7.1						4.0	5.4	4.2	1.5					26.7	50.6	20.3	09	60.2	1.4
Reliance Industries	1,210		1,661,536	34,304	1,373	101.7	-	20.1					`	7.8	8.1	4.6	1.9					18.5	12.4	15.6	1,325	9.5	274.7
Foerax	0	Neutral	4.763.169	98.341	4,300	1.5								- L	#DWD#	3.9	2.0					14.6	13.5	16.2	8	(0.0)	42.0
Industrials														;	;	}	}					2	2				
ABB RGR Energy Systems	436	REDUCE	92,371	1,907	212	23.2	25.5	29.8	(67.4)	10.0 16.	16.6 18.8	17.1	14.6	10.7	9.6	7.9	5.7	1.8	3.5 0	0.5 0.6	5 0.8	34.8	29.2	26.9	500	14.7	6.1
Bork Energy systems Bharat Electropics	141		10,163	1.137	7/ 08	102.0	_	11.8						2.4	0.0	0.1	1.6					27.7	24.2	20.8	026	38.1	1.1
Bharat Heavy Electricals	1,301		636,670	13,145	490	58.4		0.86					_	11.6	9.1	8.9	5.9					29.2	29.2	31.5	1,475	13.4	78.1
Larsen & Toubro	745	~	441,324	9,112	593	37.9		60.4					-	13.3	9.3	8.1	3.7					22.7	22.5	20.7	840	12.8	83.2
Maharashtra Seamless	143		10,065	208	71	29.4		37.9						2.9	2.4	2.2	6.0					19.7	21.1	18.0	250	75.2	0.5
Siemens	269	~	90,713	1,873	337	18.2		18.7	_				_	8.2	8.3	7.1	4.9					39.9	23.1	24.8	275	2.2	6.4
Suzkon Energy	57		89,081	1,839	1,567	9.9		10.2		•			•	0.3	7.6	0.5	1.0	- 1				16.3	11.8	14.9	125	119.9	28.7
Industrials		Nenda	1,423,439	29,430										0.0	7.0	6.7	C.					60.02	50.3	7.1.7			
IRB Infrastructure	131	ADD	43,523	899	332	3.4	7.0	14.0	150.9 10	04.8 99.7	.7 38.2	2 18.7	9.3	13.7	11.4	0.9	2.6	2.3	8	1	Ľ	10.7	13.1	21.4	130	(0.7)	0.4
Media				0		9	9	2						ĺ	1	f	î						i i	1	2	ı	
Disni V	61	REDUCE	12,206	333	23.4	(9.6)	3.1	(4.2)	_					(9.7)	(4.3)	(16.7)	1.0					12.3	3/5.0	NA V	130	5.5	L. C
lagran Prakashan	57.5		17,031	352	301	 	3.5	0.0						0 0	10.0	2.0	3.2					18.7	17.3	73.7	8 %	48.5	0.0
Sun TV Network	165		64,846	1,339	394	8.3	9.2	11.1						10.2	9.1	7.6	4.3					24.8	23.3	25.0	210	27.6	2.2
Zee Entertainment Enterprises	138		59,941	1,238	434	8.9	9.6	10.8	62.6	8.5 12.2	.2 15.6	6 14.4	12.8	11.5	9.5	8.5	2.0	1.8 1.	1.6 1	1.4 1.8		14.2	13.7	13.8	175	56.6	5.7
Zee News	35		8,380	173	240	1.5	1.8	2.2						12.2	10.6	9.8	4.0					19.2	19.5	20.2	40	14.4	0.3
Media		Attractive	178,496	3,685					~					13.5	12.0	8.8	3.2					9.5	6.9	11.5			
Metals	1		000 10	177.	1 177	40.00	L	1						U			,						0,00	,	ş	()	L ( *
Mational Aliminium Co	180	SELL	85,089	7,757	544	75.3	2.6	71.3						0.0	υ, α	4.0	1.2					14.4	12.3	1.7	230	(17.6)	16.5
Jindal Steel and Power	862		132,707	2,740	72	101.8	87.5	7.77					-	7.3	9.9	7.0	3.1					43.8	27.2	19.1	1.250	45.0	18.9
JSW Steel	211		39,542	816	187	86.1	8.9	16.4					1	4.5	7.2	7.5	0.4	ľ				20.7	6.6	3.1	140	(33.8)	8.1
Hindustan Zinc	328		138,717	2,864	423	104.0	77.2	55.9						2.3	2.9	4.2	1.1	-				43.6	23.5	14.3	400	21.8	2.1
Sesa Goa	81		63,570	1,312	787	18.9	22.0	13.3						2.9	2.3	3.4	2.2					67.7	50.5	24.4	100	23.8	16.0
Tata Steel	249	BUY	174.262	3.598	822	75.7	130.0	95.6	43.8	71.6 (17.5)	5) 2.8	8 1.6	2.0	n 00	2.8	2.9	0.5	0.4	0.3	68 6.1	1 9	46.3	38.0	27.6	350	65.1	53.2
Metals		z	926,629	19,131										3.9	3.8	4.3	8.0	Ī				19.9	16.7	11.7			
Pharmaceutical																											
Biocon	118	BUY	23,610	7 487	200	23.3	10.3	14.8	126.0 (9	(58.5) 52.8	3 202	1 12.2	8.0	14.8	13.2	11.0	3.8	1.4 1.	1.3 0	0.1 0.1	1.6	17.6	12.3	710	230	94.8	5.0
Dishman Pharma & chemicals	141		11,464	237	18	14.7		28.1						80	8.3	5.1	2.0					26.8	19.9	29.0	400	183.8	0.3
Divi's Laboratories	1,284		82,905	1,712	92	53.2	_	01.4						19.6	12.8	9.7	9.7					49.8	47.4	40.0	1,980	54.2	3.1
Glenmark Pharmaceuticak	298		79,223	1,635	266	75.8		30.b						103	6.7	5.1	5.7					57.4	5.5 C. 1	35.5	7.75	143.4	1.0
Jubilant Organosys	116		21,010	434	181	22.1		29.6						6.1	10.1	5.0	1.6					37.0	14.9	32.2	475	309.7	0.4
Lupin	230	BUY	52,242	1,079	68	49.8		29.7						14.1	10.0	8.1	4.1					37.9	28.4	24.2	920	61.1	2.7
Piramal Healthcare	233		48,645	1,004	209	17.7		24.7						9.9	9.5	7.0	4.4					30.9	28.7	33.2	410	76.2	1.0
Kanbaxy Laboratories Sun Pharmaceuticak	1057		90,896	1,8//	419	74.7		12.2						11.8	24.2	9.6	3.0					29.88	3.3	8.0	340	56.8	219
Pharmaceuticals		¥	849,501	17,539							Ì		-	10.8	6.6	7.3	3.5					24.5	17.7	18.0			
Property						1																				1	
DLF Housing Development & Infrastruc		BUY	34 974	9,695	1,705	46.1	44.6	47.4						3.7	6.0	3.9	1.0					66.5	33.4	27.6	380	59.7	82.2
Indiabulls Real Estate			33,222	989	258	16.4	5.5	5.0 2.						(1,033.4)	(8.6)	3.6	9.0					10.6	2.3	1.9	200	55.1	41.6
IVR Prime Urban Developers	39		2,473	51	28	27.0	2.9	9.7		"				0.2	17.9	7.2	0.2		Ì			31.9	1.8	6.3	170	341.0	0.1
Mahindra Life Space Developer	178	BUY	7,477	154	42	16.8	13.1	17.1	307.7 (3	(22.2) 30.9	9 10.6	6 13.6	10.4	19.3	13.3	9.9	6.0	0.8	0.8	1.5 2.2	2.7	8.4	6.1	7.6	200	181.2	0.4
Phoenix Mills Puravankara Projects	0-1		10,138	209	713	11.2	10.1	12.U						7.7	10.4	9.4	0.9			'		34.2	17.0	16.2	120	247.6	0.5
Sobha	102	~	7,425	153	73	31.7	30.8	33.5						6.7	6.5	5.7	0.7					25.3	20.3	18.7	250	145.5	9.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

	Notak Institutional Equities, valuation Summary of Ney	7				,											.,										
State   Stat	Property		Cautions	935,566	13,122	i,			- 193	.3 (8.1	4.8	2.2	5.7 5.4	8.0	2.8	4.8	7.	2	·	.0 7	3.4	32.1	73.3	50.5			į
Marie   Mari		26-Dec-08		Mkt ca	ģ	O/S shares	EP	; (Rs)	ш	PS growt	(%) ہ	_	УER (X)	ā	/EBITDA (	8	Price	9/BV (X)	ģ	idend y.	ield (%)		RoE (9				3mo
Marcha   M	ompany	Price (Rs)	Rating		(US\$ mn)	(mn)	2008 2			08 2009	£ 2010E		2009E 2010E	20	2009E	2010E	2008 2	109E 201		108 200	9E 2010E			2010E	1	. 1	S\$ mn)
control sign sign sign sign sign sign sign sign	etail	205	BUY	35.207	727	172						25.5		10.1		92	2.1					80		10.8	370	80.7	13
The control of the co	tan Industries	901	BUY	39,977	825	44	ľ					25.7		17.4		10.0	8.5					37.7		32.6	1,280	42.1	3.3
	shal Retail	92	ADD	2,064	43	22						5.1				3.5	0.8					20.2		14.0	125	35.6	0.1
Proposition (1.1)	etail			77,248	1,595							24.0				6.5	3.2					13.2		14.6			
The property of the property o	schnology																										
Free Free Free Free Free Free Free Free	2L Technologies	113	REDUCE	78,500	1,621	969						7.4				3.8	1.6							20.4	160	41.7	4.5
Technopsis: 1516 BM7 Signation BM7 Signation BM8 Signation BM8 Signation BM8 Signation BM9 Signation	xaware Technologies	20	SELL	2,807	28	142						2.6				0.5	0.4							7.4	25	26.6	0.1
legge sign sign sign sign sign sign sign sign	osys Technologies	1,109	BUY	636,710	13,146	574						14.0				6.7	4.6							30.9	1,500	35.2	62.8
separation	ohasis BFL	151	REDUCE	31,378	648	208						12.3				3.4	2.7							28.4	190	26.2	0.7
Particle Signation of the signature state of	ndtree	234	BUY	9,261	191	40						80.00				3.6	1.7							17.8	450	91.9	0.2
Schware be seed to seed the seed t	tni Computer Systems	128	SELL	16,411	339	129						3.8				(0.2)	9.0							12.0	160	25.4	0.5
Comparisone   Fire State   S	aris Software Lab	37	SELL	3,632	75	86						5.0				0.5	9.0							14.1	70	89.4	9.0
Mainthing   Main	tyam Computer Services	136	SELL	92,516	1,910	682					_	5.4				13	1.3							19.9	150	ı	50.0
Particular   Par	19	472	REDUCE	461,561	9,530	626						9.2				5.3	3.7							35.6	650	37.8	56.9
California   Cal	th Mahindra	236	BUY	29,424	209	125						4.0				1.5	2.3							35.7	450	9.06	2.1
Charle   C	oro	227	ADD	331,362	6,841	1,462						10.2				5.3	5.6							23.1	280	23.5	12.0
Maintain	chnology		Cautions	1,693,561	34,966				16			8.6				4.9	2.9							24.7			
The communications of	ecom	900	210	1 202 710	300 30	4 000						10.4		110		0	O L							000	000	9 9 9	07.4
From the protocol (1) (2) (2) (2) (2) (2) (2) (2) (2) (2) (2	ווו אוופו דוח	080	PEDIICE	1,502,719	2,0,830	2 236						12.5		0.10		C. C.	0.0							0.00	2000	10.0	- 6
Proportion of the control of the con	( 2	20 42	REDITOR	50.023	1.033	630						11 1				2.0	70							200	2 8	200	0. 1
The control of the co	iance Communications	205	SEII	30,022	7778	2 064						7.8		2.2		5.2 7.7	t r.							18.7	265	20.0	63.7
multiplication (a) Caucitous (b) Caucitous (c) Caucitous (	a Communications	202		142 457	2 941	2,004						45.7		19.0		14.2	2.1							7.0	400	(20.07)	2.7
Transcription (Curicious) (1) (EDUCT) (1) (2) (2) (3) (4) (4) (4) (4) (4) (4) (4) (4) (4) (4	mose mose			2 074 063	42 822							14.4		86		6.4	28							17.3		ì	
Cution   C	Insportation																										
Marchinate   Mar	ntainer Corporation	610	REDUCE	79,288	1,637	130						10.6		6.7	5.3	4.7	2.5							22.8	800	31.1	1.1
Friedrich Friedr	Insportation		Cautious	79,288	1,637				^			10.6		6.7	5.3	4.7	2.5							21.0			
Figure 1.25 BLV 2940 607 125 726 124 175 75 60 123) High 185 BS 74 4 4 1 13 6 2 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	lities																										
FEDUCE 1,457,796   2,596   2,426   2,596   2,297   2,99	SC	235	BUY	29,410	209	125						8.5		4.4		5.2	6.0					12.5		11.9	450	91.2	1.1
The Reduce   List   According   Registered   List   Regi	nco Infratech	136	BUY	30,133	622	222						9.1		8.6		10.2	1.6					19.7		23.0	370	173.0	9.5
Eleminatry Lating Buy 15,396 2,589 231 376 536 68 139 426 60 144 115 69 167 07 07 12 12 15 15 15 15 15 15 15 15 15 15 15 15 15	Ç	177	REDUCE	1,457,798	30,098	8,245						19.0		13.2		13.4	2.7					14.9		13.1	160	(6.5)	34.4
FEDOME 124, 428 5,566 2,397 0.4 2.1 2.6 — 4.45 12.5 301.1 55.4 4.12	iance Infrastructure	543		125,396	2,589	231						14.4		21.1		16.7	0.8					4.3		9.9	1,250	130.2	79.3
Attractive 1,009,749 4,293 13.8 699 1034 195 196 479 22.9 104 71 15 80 73 19 16 13 15 16 96 104 11.20 684 14.8 14.8 14.8 14.8 14.8 14.8 14.8 14	ance Power	115		274,428	2,666	2,397		1		•		301.1	•	1		1	2.0					1.3		4.3	180	57.2	17.0
Attactive 2,079,449 42,939 42,	ta Power	730	BUY	162,584	3,357	223		_				22.9		11.3		7.3	1.9					9.6		20.1	1,230	68.4	14.9
Friendly Figure 671 BUY 55,423 525 38 723 1475, 4107 (1,066) 104.0 1785 9.3 4.6 1.6 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.6 1.8 7.3 4.1 2.9 1.8 1.6 1.8 7.3 7.2 2.3 1.8 1.8 1.8 1.8 1.8 1.8 1.8 1.8 1.8 1.8	lities		Attractive	2,079,749	42,939				12			20.7		14.4		14.4	2.1					10.3		11.5			
Anticological State of the control o	an Offshore	671	≥ ia	25,423	525	OC.					ı.	0 0		0,11		7.1	2.0							57.4		0 2 9	15.6
Trigonomy 1/2 BVY 1/25 G 15 G	Solutions	2.408	- N	45.802	946	5 0						2 2 2		0 2 2		2.0	14.9							24.3		0 0	27.0
ash Associates 34 BUY 18364 282 C 1,13 I 1,40 C 10 C	vells India	122	BUY	7,359	152	61						4.6		5.2		3.5	1.1							22.2		200.2	0.4
awy 223 BUY 13.64 282 61 666 869 82.9 (47) 33.0 (47) 33.2 62 2.7 (29 15 12 12 12 12 12 12 12 12 12 12 12 12 12	prakash Associates	74	BUY	103,365	2,134	1,403						15.0		11.9		8.9	2.1							16.2		42.6	42.2
74 BUY 3,240 67 44 21,1 435 583 4 1062 34,1 35 1,7 1,3 33 2,9 2,0 0.6 0.4 0.3 6.9 8,1 10,1 113 149 17,5 280 2766 Modified BUY 30,081 633 163 195 234 312 58 196 335 9,7 8,1 6,1 9.0 6.4 4,5 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0 1,0	dalSaw	223	BUY	13,664	282	19						3.3		2.9		1.2	0.5							12.3		124.4	0.7
189 BUY 30,681 633 163 195 234 312 58 196 335 9,7 8,1 6,1 9,0 6,4 45 19 12 1,1 0,4 0,7 1,0 14,0 14,8 159 460 1436 in digitari Stafflichten 101 BUY 19,123 189 206 259 366 94 59 19 2,8 6 18 5,1 1 0,8 0,6 18 3,7 39 266 20 1172 in digitari Stafflichten 101 BUY 19,123 189 206 259 366 94 35 14 14 14 14 14 14 16 10 1,2 14,4 18,2 18 18 18 18 18 18 18 18 18 18 18 18 18	17	74	BUY	3,240	29	44						3.5		3.3		2.0	9.0				Ċ			17.5		576.6	0.2
101 BUY 19123 395 189 206 259 366 94 259 416 4.9 3.9 28 63 81 25 11 08 06 18 37 39 271 239 266 220 1172 24 24 24 24 24 24 24 24 24 24 24 24 24	ntex	189	BUY	30,681	633	163						9.7		9.0		4.5	1.9							15.9		143.6	1.6
L48.658 5,134 2.86 63.0 51.9 12.7 7.8 5.1 9.6 6.8 5.1 1.8 1.4 1.1 0.6 1.0 1.2 144 182.  12,125,380 433,159 2.56 8.2 13.5 10.7 9.9 8.7 7.0 6.6 5.7 1.9 1.6 1.4 2.0 2.2 2.5 17.9 16.2 2.5 17.9 17.0 17.0 17.0 17.0 17.0 17.0 17.0 17.0	elspun Gujarat Stahl Rohren	101	BUY	19,123	395	189						4.9		6.3		2.5	1.							56.6		117.2	3.8
16,125,380 436,159 256 82 13.5 10,7 9,9 8,7 7,0 66 5,7 1,9 1,6 1,4 2,0 2,2 2,5 1,9 16,2 1,8 1,8 1,8 1,8 1,9 16,2 1,9 16,2 1,9 16,2 1,9 16,2 1,9 16,2 1,9 1,9 16,2 1,9 1,9 1,9 1,9 1,9 1,9 1,9 1,9 1,9 1,9	thers			248,658	5,134				28			12.7		9.6		5.1	1.8							21.8			
16-862,11 337,818 30.8 81 65,5 10.9 10.1 9.5 7.9 7.8 68 2.1 1.7 1.5 1.9 2.1 2.3 19.3 17.3 17.3 17.3 17.3 17.3 17.3 17.3 17	universe (b)			21,125,380	436,159				25			10.7		7.0		5.7	1.9							16.0			
15 NET STATES AND THE TRANSPORT OF THE	universe (b) ex-Energy			16,362,211	337,818				m			10.9		6.7		8 1	2.1							16.0			

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Note:

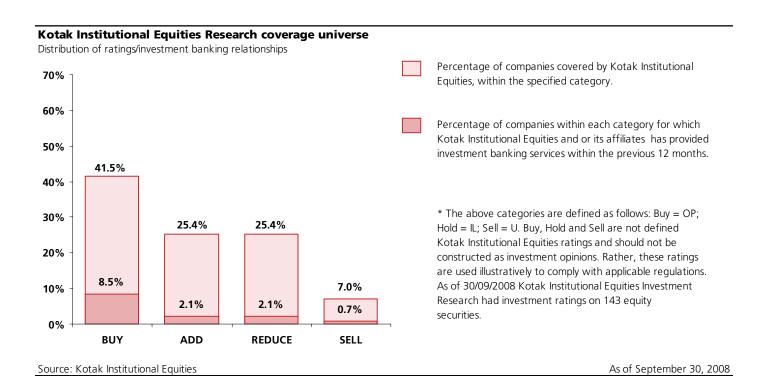
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.

(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(c) Rupee-US Dollar exchange rate (RS/US\$)= 48.44

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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



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Definitions of ratings

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

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

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

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

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

## Other definitions

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

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