kotak® Institutional Equities

INDIA DAILY

October 23, 2007

EQUITY MARKETS

		Change, %		
India	**22-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	17,614	0.3	6.3	12.0
Nifty	5,184	(0.6)	7.2	12.2
Global/Regional indices				
Dow Jones	13,567	0.3	(1.8)	(2.7)
Nasdaq Composite	2,754	1.1	3.1	2.4
FTSE	6,459	(1.1)	0.0	(2.5)
Nikkie	16,495	0.3	1.1	(8.2)
Hang Seng	28,977	2.1	12.1	24.0
KOSPI	1,916	0.6	(0.2)	(3.9)

Value traded - India

			Moving avg, Rs bn	
	22-Oct		**1-mo**	**3-mo**
Cash (NSE+BSE)	229.7		279.0	200.2
Derivatives (NSE)	714.5		759.3	480.7
Deri. open interest	972.9		943.4	906.3

Forex/money market

		Change, basis points		
	22-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.9	-	21	(39)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(2)	-	7

Net investment (US$mn)

	19-Oct		**MTD**	**CYTD**
FIIs	(797)		3,684	16,703
MFs	(58)		(887)	(217)

Top movers -3mo basis

		Change, %		
Best performers	**22-Oct**	**1-day**	**1-mo**	**3-mo**
Reliance Energy	1,370	2.8	35.7	91.7
Tata Power	997	2.0	26.9	49.1
SAIL	213	(4.1)	10.6	36.4
Tata Tele	40	0.9	9.3	33.8
Arvind Mills	67	5.7	31.5	33.3
Worst performers				
i-Flex	1,584	(0.6)	(13.9)	(33.0)
Punjab Tractors	214	(1.4)	(10.8)	(21.7)
Britannia	1,400	1.0	(5.0)	(18.1)
Glaxosmithkline	1,027	(0.8)	(9.7)	(17.9)
Container Corp	1,859	(0.3)	(15.8)	(16.5)

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- ONGC-Mittal Energy Ltd has acquired 30 percent in an explorationblockin offshore block in offshore Turkmenistan in the Caspian Sea, located close to discovered and producing fields. (BS)
- Reliance Industries Ltd is in talks with Peru to buy a stake in two oil blocks in the South American country. (BS)
- The Tata group, which operates CDMA-technology mobile phone service, has applied for GSM spectrum in 20 circles. (BS)

Economic and political

- Commerce and Industry Minister Kamal Nath said India foresaw no difficulty in signing a free trade agreement (FTA) with the EU, notwithstanding wide differences over the Doha round of trade talks. (BS)

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

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Media

JAGP.BO, Rs583	
Rating	OP
Sector coverage view	Cautious
Target Price (Rs)	735
52W High -Low (Rs)	611 - 256
Market Cap (Rs bn)	35.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	6.0	7.5	9.4
Net Profit (Rs bn)	0.7	1.3	1.8
EPS (Rs)	12.2	21.0	29.8
EPS gth	*44.5*	*72.1*	*41.7*
P/E (x)	47.8	27.8	19.6
EV/EBITDA (x)	28.1	16.3	11.3
Div yield (%)	1.3	2.0	2.8

Jagran Prakashan: Initiating coverage with an OP rating; Wake up to this daily

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- **Growth drivers are in place—core business plus emerging new ones**
- **Likely strong growth in earnings led by operating leverage**
- **Key risks: Economy, competition, newsprint prices, execution**

We initiate coverage of Jagran Prakashan (JAGP), India's largest newspaper publishing company by readership, with a 12-month DCF-based target price of Rs735. We believe that JAGP is well positioned to benefit from (1) our strong expected growth in the Indian media and print sectors, (2) rationalization of advertisement rates in regional language newspapers and (3) rapid scale-up of its new initiatives in print, outdoor and digital media.

Growth drivers are in place—core business plus emerging new ones. We expect strong growth in JAGP's revenues, earnings and cash flows led by (1) its strong presence in several non-metro markets; we expect per capita income and advertisement spending to grow rapidly in these markets, (2) improved profitability of recent editions and (3) strong contribution from new initiatives.

Likely strong growth in earnings led by operating leverage. We model JAGP's EPS to increase to Rs38.9 in FY2010E from Rs12.4 in FY2007 led by (1) an increase in revenues to Rs11.3 bn in FY2010E from Rs6 bn in FY2007 and (2) improved profitability with EBITDA margin increasing to 35.7% in FY2010E from 20% in FY2007. We note that JAGP's 1QFY08 EBITDA margin was 28.1%.

Key risks: Economy, competition, newsprint prices, execution. Advertisements revenues depend on economic cycles and any slowdown would significantly affect revenues. Also, higher-than-expected competition may lead to lower-than-expected revenues and profits. JAGP may not be able to pass on higher-than-expected newsprint costs given the stickiness in cover prices. Finally, it needs to execute well to create value in its recent investments in print and alternative media.

Metals

HZNC.BO, Rs842	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	1,110
52W High -Low (Rs)	8050 - 1661
Market Cap (Rs bn)	355.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	85.6	88.4	97.0
Net Profit (Rs bn)	44.4	41.8	45.4
EPS (Rs)	105.1	98.9	107.5
EPS gth	*201.7*	*(5.9)*	*8.7*
P/E (x)	8.0	8.5	7.8
EV/EBITDA (x)	5.5	5.3	4.5
Div yield (%)	0.6	0.9	0.9

Hindustan Zinc: Higher volumes offset lower product prices; maintain Outperform

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- **Hindustan Zinc (HZ) reported flattish revenue and net earnings growth qoq**
- **Higher sales volume and increased concentrate sales mitigate the impact of lower Zinc prices and the stronger rupee**
- **2Q 2008 interim net earnings of Rs11.5 bn is better than street estimates (Rs10.5 bn)**
- **Tax write-back of Rs0.8 bn lowers ETR for current quarter; expect it to increase in 2H**
- **We maintain our earnings estimates, Outperform rating and target price of Rs1,110**

Hindustan Zinc, in its 2Q2008 results, reported a PAT of Rs11.5 bn, flattish on qoq basis but better than street expectation of Rs10.5 bn. Higher sales volumes countered the impact of lower Zinc prices and the stronger rupee. We maintain our earnings estimates for the next couple of years; retain our Outperform rating on the stock and target price of Rs1,110.

Higher production offsets lower zinc prices, stronger rupee

HZ reported net earnings of Rs11.5 bn (better than street estimates of Rs10.5 bn), down 12% on yoy basis and 3% on qoq basis. Refined zinc production improved 19% on yoy basis, but was flat on qoq basis. This, coupled with higher sale of concentrates, negated the 4%/12% drop in Zinc prices on yoy and qoq basis, respectively. Also, the rupee appreciated 13%/2% on a yoy and qoq basis, respectively, versus the US dollar.

Lower other income; lower effective tax rate

Other income, at Rs1.4 bn, was reduced on a qoq basis as 1Q2008 included a one-time royalty write-back of Rs1.3 bn. Effective tax rate for 2Q2008 (at 24%) is lower than our full year estimate of 33% owing to tax write-back of Rs0.8 bn. We expect ETR to increase in 2H2008, but our full-year estimate might turn out aggressive.

Brown-field projects on track; expect volumes to increase in 4Q2008

HZ communicated that it will likely commission Phase-II 170,000 tpa Chanderiya smelter by Dec-07, three months ahead of schedule (HZ has communicated this before as well). HZ has placed turnkey contracts for its 148.8 MW of wind power plants, which it expects to commission in Mar-08.

We maintain estimates and Outperform rating

We continue to believe that mining assets of HZ offer unique advantage of HZ, and expect net earnings to rise 10% in FY2009E (after staying flat in FY2008E). We maintain our earnings estimate for the next couple of years, an Outperform rating on the stock and a target price of Rs1,110 (5.5X FY2009E EV/EBITDA).

Hindustan Zinc, 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	Comments on interim results
Quantitative details (tons)									
Mined metal production	143,000	134,000	125,000	6.7	14.4	540,350	277,000	259,000	Higher production following increased production
Refined zinc production	94,000	93,000	79,000	1.1	19.0	394,665	187,000	172,000	from new hydro-metallurgical smelter
Zinc concentrate sales	85,000	50,000	90,000	70.0	(5.6)	228,899	135,000	140,000	Higher concentrate sales helps revenue growth on qoq basis
Lead concentrate sales	10,000	5,000	-	nm	na	59,050	15,000	5,000	
Earnings drivers									
Average LME Zinc (US/ton)	3,221	3,679	3,359	(12.4)	(4.1)	3,324	3,450	3,519	LME Zinc prices fell in 2Q 2008
Average LME Lead (US/ton)	3,094	2,184	1,194	41.7	159.1	1,500	2,639	1,689	whereas LME Lead prices increased sharply
Average INR:USD	40.53	41.26	46.37	(1.8)	(12.6)	41.00	40.89	43.82	Rupee was largely flattish on qoq basis, increased sharply on yoy basis
Interim results									
Net revenues	**19,840**	**19,700**	**24,410**	**0.7**	**(18.7)**	**88,385**	**39,540**	**44,110**	Higher production offsets lower zinc prices and stronger rupee
Expenditure	**(5,650)**	**(5,340)**	**(5,850)**			(24,534)	**(10,990)**	**(11,190)**	
Stock adjustment	(40)	470	(910)			-	430	(440)	
Raw materials	(2,840)	(2,920)	(1,970)			(3,616)	(5,760)	(4,890)	
Employee cost	(630)	(650)	(660)			(6,044)	(1,280)	(1,310)	
Other costs	(2,140)	(2,240)	(2,310)			(14,874)	(4,380)	(4,550)	
EBITDA	**14,190**	**14,360**	**18,560**	**(1.2)**	**(23.5)**	**63,851**	**28,550**	**32,920**	Lower costs, higher sales tonnage helps protect EBITDA
Other income	1,440	2,700	460			1,422	4,140	3,160	1Q 2008 includes one-time royalty write-back of Rs1.3 bn
Depreciation	(490)	(450)	(370)			(2,259)	(940)	(820)	New hydro-metallurgical smelter leads to higher depreciation
EBIT	15,140	16,610	18,650			63,014	31,750	35,260	
Interest	(60)	(70)	(100)			(0)	(130)	(170)	
Pre-tax profits - as reported	15,080	16,540	18,550			63,014	31,620	35,090	
Unusual or infrequent items	-	-	-			-	-	-	
Pre-tax profits - as adjusted	**15,080**	**16,540**	**18,550**	**(8.8)**	**(18.7)**	**63,014**	**31,620**	**35,090**	
Taxes	(3,600)	(4,690)	(5,570)			(21,236)	(8,290)	(10,260)	Tax-liability write-back of Rs0.8 bn lowers ETR
Current taxes	(3,360)	(4,410)	(5,480)			(20,522)	(7,770)	(9,890)	
Deferred taxes	(240)	(280)	(90)			(714)	(520)	(370)	
Reported profits - as reported	11,480	11,850	12,980			**41,778**	23,330	24,830	
Extra-ordinary items	-	-	-			-	-	-	
Reported profits - as adjusted	**11,480**	**11,850**	**12,980**	**(3.1)**	**(11.6)**	**41,778**	**23,330**	**24,830**	
Ratios									
Costs as % of revenue (%)	28.5	27.1	24.0			27.8	27.8	25.4	
EBITDA margin (%)	71.5	72.9	76.0			72.2	72.2	74.6	
ETR (%)	23.9	28.4	30.0			33.7	26.2	29.2	Expect ETR to increase in 2H; our ETR estimate might turn-out aggressive
EPS (Rs/share)	27.2	28.0	30.7			98.9	55.2	58.8	

Source: Company data, Kotak Institutional Equities estimates

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

Income statement	2007	2008E	2009E	2010E
Net revenues	**85,602**	**88,385**	**97,015**	**98,507**
Expenditure	**(21,533)**	**(24,534)**	**(27,347)**	**(30,128)**
Raw materials	(2,718)	(3,616)	(3,978)	(4,375)
Employee expenses	(5,259)	(6,044)	(6,805)	(7,485)
Other expenditure	(13,556)	(14,874)	(16,565)	(18,267)
EBITDA	**64,069**	**63,851**	**69,668**	**68,379**
Non-operating income	2,313	1,422	1,836	2,373
Depreciation	(1,561)	(2,259)	(3,024)	(3,531)
EBIT	64,821	63,014	68,481	67,222
Interest expenses	(284)	(0)	(0)	(0)
Adjusted pre-tax profits	64,537	63,014	68,480	67,221
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	**64,537**	**63,014**	**68,480**	**67,221**
Current taxes	(19,524)	(20,522)	(22,221)	(21,625)
Deferred taxes	(595)	(714)	(857)	(1,028)
Reported net income	**44,418**	**41,778**	**45,402**	**44,568**
Adjusted net income	**44,418**	**41,778**	**45,402**	**44,568**
EPS (Rs), based on wtd avg shares	**105.1**	**98.9**	**107.5**	**105.5**
EPS (Rs), based on fully diluted shares	**105.1**	**98.9**	**107.5**	**105.5**
Year-end shares outstanding (mn)	422.5	422.5	422.5	422.5
Weighted average shares outstanding (mn)	422.5	422.5	422.5	422.5
Fully diluted shares outstanding (mn)	422.5	422.5	422.5	422.5

Balance sheet	2007	2008E	2009E	2010E
Equity capital	4,225	4,225	4,225	4,225
Reserves and surplus	72,045	110,655	152,888	193,231
Deferred tax liability	3,006	3,720	4,577	5,605
Total Equity	**79,277**	**118,600**	**161,690**	**203,061**
Secured loans	-	-	-	-
Unsecured loans	4	4	4	4
Total borrowings	**4**	**4**	**4**	**4**
Current liabilities	8,268	8,369	7,276	7,297
Total capital	**87,548**	**126,972**	**168,970**	**210,362**
Cash	1,197	18,554	45,255	79,830
Inventory	4,993	6,054	9,303	9,446
Debtors	5,566	8,475	13,290	13,494
Other current assets	3,054	3,054	3,054	3,054
Total current assets	**14,810**	**36,137**	**70,902**	**105,823**
Gross block	34,998	55,354	65,611	75,611
Less: Depreciation	(12,642)	(14,901)	(17,925)	(21,455)
Net block	22,356	40,453	47,686	54,156
Add: Capital work-in-process	6,350	6,350	6,350	6,350
Total fixed assets	**28,706**	**46,803**	**54,036**	**60,505**
Investments	44,033	44,033	44,033	44,033
Miscellaneous expenditure	-	-	-	-
Total assets	**87,548**	**126,973**	**168,971**	**210,362**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	64,537	63,014	68,480	67,221
Add: Depreciation	1,569	2,259	3,024	3,531
Add: Non cash expenses	(1,020)	-	-	-
Less: net interest	(418)	-	-	-
Less: Taxes paid	(19,582)	(20,522)	(22,221)	(21,625)
Add: Working capital changes	960	(3,869)	(9,156)	(327)
Total operating cash flow	**46,046**	**40,882**	**40,127**	**48,800**
Operating Cash flow w/o working capital	45,086	44,751	49,283	49,126
Cash flow from investing activities				
Capital expenditure	(11,103)	(20,356)	(10,257)	(10,000)
Investments	(26,894)	-	-	-
Interest and dividend received	697	-	-	-
Misc expenditure not written off	-	-	-	-
Total investing cash flow	**(37,299)**	**(20,356)**	**(10,257)**	**(10,000)**
Cash flow from financing activities				
Share issuances	-	-	-	-
Loans	(5,576)	-	-	-
Less: Dividends paid (including dividend tax)	(2,405)	(3,169)	(3,169)	(4,225)
Other long term liabilities	-	-	-	-
Interest and finance charges paid	(309)	-	-	-
Total financing cash flow	**(8,290)**	**(3,169)**	**(3,169)**	**(4,225)**
Net change in cash	**457**	**17,357**	**26,701**	**34,575**
Opening cash	740	1,197	18,554	45,255
Closing cash	**1,197**	**18,554**	**45,255**	**79,830**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	30.3	32.6	32.4	32.2
EBITDA margins	74.8	72.2	71.8	69.4
EBIT margins	75.7	71.3	70.6	68.2
Net debt/equity	(1.5)	(15.6)	(28.0)	(39.3)
Net debt/capitalization	(1.5)	(18.5)	(38.9)	(64.8)
ROACE	73.4	42.2	32.4	24.4
ROAE	76.6	42.2	32.4	24.4

Key assumptions	2007	2008E	2009E	2010E
Mine production (tons)	5,139,915	5,499,709	6,324,665	7,273,365
Zinc ingot production (tons)	348,567	394,665	568,650	635,550
Lead ingot production (tons)	50,187	60,450	69,750	79,050
LME Zinc prices (US/ton)	3,580	3,324	3,179	2,800

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	8.0	8.5	7.8	8.0
EV/EBITDA	4.9	4.6	3.9	3.5
EV/Sales	3.7	3.4	2.8	2.4
M.cap/Sales	4.2	4.0	3.7	3.6
Price to book	4.5	3.0	2.2	1.8

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	105.1	98.9	107.5	105.5
Diluted Earnings	105.1	98.9	107.5	105.5
Cash earnings	108.8	104.2	114.6	113.8
Free cash	82.7	48.6	70.7	91.8
Book	187.6	280.7	382.7	480.6

Source: Company data, Kotak Institutional Equities estimates

Cement

ICMN.BO, Rs278	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	270
52W High -Low (Rs)	317 - 145
Market Cap (Rs bn)	72.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	22.4	31.2	34.4
Net Profit (Rs bn)	5.8	8.3	7.9
EPS (Rs)	26.1	32.0	30.4
EPS gth	*1,635*	*22.6*	*(4.9)*
P/E (x)	10.6	8.7	9.1
EV/EBITDA (x)	12.1	7.1	5.8
Div yield (%)	0.4	0.7	0.8

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	26.9	-	-
FIIs	30.7	0.2	0.1
MFs	12.0	0.5	0.3
UTI	-	-	(0.1)
LIC	7.1	0.3	0.1

India Cements: 2QFY08—higher realizations reflect in improved profitability; retain IL with target price of Rs270/share

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- **Sales growth of 47.4% yoy due to merger of Visaka Cements, volumes growth of 5% on like-to-like basis**
- **Profitability at Rs1,328/tonne;16% qoq improvement**
- **Targeting capacity of 15 mn tpa by FY2009**
- **Retain IL rating with a target price of Rs270/share**

India Cements reported 47.4% yoy increase in sales at Rs7.6 bn (our est. Rs7.7 bn), 78% yoy increase in EBITDA at Rs3 bn (our est. Rs3 bn) and a 90% increase in net income at Rs2.2 bn (our est. Rs2 bn) for 2QFY08. Cement despatches were up 23% yoy, mainly due to the merger of Visaka Cements excluding which despatches grew at 5% yoy. The operating profits of the company improved sharply on the back of higher cement prices in South India. As per management, the capacity expansion programme is on track and the company will reach a capacity of 15 mn tpa by October 2008. We have revised our EPS estimates for FY2008 to Rs32/share (Rs29.6 previously) and Rs30.4 (Rs27.7 previously) for FY2009. Our estimates now factor in volumes of 9.8 mn tonnes during FY2008 and 10.8 mn tonnes during FY2009. We retain our In Line rating with a target price of Rs270/share (Rs230/share previously). Our target price implies an EV/tonne of US$181 on FY2009E production and US$130 on a capacity of 15 mn tpa.

Sales growth of 47.4% yoy due to merger of Visaka Cements, volumes growth of 5% on like-to-like basis. India Cements reported 47.4% yoy growth in revenues, aided by 23% growth in volumes and 19.4% improvement in realizations. The volume growth was mainly due to the merger of Visaka Cements, exclusive of which growth in volumes was ~5%. India Cements sold 2.3 mn tonnes of cement during the quarter with an average realization of Rs3,289/tonne, an improvement of 8% on qoq basis. We note that monsoons are not very active in India Cement's key markets—Tamil Nadu and Kerala—during the September quarter and the cement prices had increased during this period.

Profitability at Rs1,328/tonne—16% qoq improvement. 8.2% qoq improvement in realizations accompanied by a higher blending ratio helped the company post a record profitability of Rs1,328/ tonne. The improvement in profitability was despite one-time employment costs of Rs243.9 mn—towards provisions as per revised Accounting Standard-15 (Rs150.2 mn) and estimated costs for ESOP scheme (Rs93.7 mn). In our view increasing international coal prices will pressurize profitability in the coming quarters, as ICL does not have long-term contracts for supply of imported coal. Management indicated the imported coal prices (which account for 70% of the company's coal consumption) were up 6% qoq and 10% yoy during the quarter.

Targeting capacity of 15 mn tpa by FY2009. India Cements plans to increase its capacity to 15 mn tpa from the current 9 mn tpa. The capex requires an outlay of Rs4.6 bn in FY2008 and Rs3.8 bn in FY2009. The company intends to fund this expenditure through the FCCB (US$75 mn or Rs3.3 bn) issued earlier and balance through internal accruals. Management has ruled out any further dilution of equity or raising of additional debt to meet the capex plans. The increased capacity would be a mix of grinding units and kiln capacity. The conversion of the Sankaridurg (0.7 mn tpa) unit from wet process to dry process has been completed during the quarter, while two additional grinding units of 1mn tpa capacity each are expected to be commissioned at Parli and Chennai by March 2008. The company also plans to set up an integrated plant at Malkapur (1.2 mn tpa). ICL has also been awarded a mining lease in Rajasthan and is conducting feasibility studies for setting up its plant in Himachal Pradesh.

Absorbing tax losses—corporate tax rate applicable from FY2009. India Cements provided Rs320 mn for tax during the quarter, thereby increasing the effective tax rate to 12.6% from 0.3% in the previous year. The company expects to maintain this tax rate for FY2008 as it has tax credits and unabsorbed losses from its merger with Visaka Cements. The effective tax rate from FY2009 is expected to be the marginal corporate tax rate.

Retain IL rating with a target price of Rs270/share. We have revised earnings estimates to reflect higher cement production from expanded capacities in FY2009. Management expects the company to produce and sell 9.5 mn tonnes of cement in FY2008 and 11 mn tonnes in FY2009. Our revised EPS estimates are Rs32 for FY2008E (Rs29.6 previously) and Rs30.4 for FY2009E (Rs27.7 previously). We retain our In-Line rating with a revised target price of Rs270/share (Rs230/share previously).

India Cements, Quarterly results, March yearends

(Rs mn)

	y-o-y			*q-o-q*		
	2Q 2008	**2Q 2007**	***% change***	**2Q 2008**	**1Q 2008E**	***% change***
Net sales	7,612	5,164	*47.4*	7,612	7,012	*8.6*
Raw materials	(595)	(484)		(595)	(768)	
Employee costs	(534)	(253)		(534)	(319)	
Power & fuel costs	(1,658)	(1,281)		(1,658)	(1,506)	
Freight costs	(996)	(803)		(996)	(1,069)	
Other costs	(756)	(617)		(756)	(707)	
EBITDA	3,074	1,726	*78.1*	3,074	2,643	*16.3*
EBITDA (%)	**40.4**	**33.4**		**40.4**	**37.7**	
Other income	59	8		59	97	
Interest	(283)	(364)		(283)	(314)	
Depreciation	(303)	(193)		(303)	(275)	
Pre-tax profits	**2,546**	**1,177**		**2,546**	**2,151**	
Tax	(320)	(4)		(320)	(317)	
Net income	**2,227**	**1,173**	90	**2,227**	**1,834**	21
Extraordinaries	-	-		-	-	
Reported net income	**2,227**	**1,173**		**2,227**	**1,834**	
Tax rate (%)	*12.6*	*0.3*		*12.6*	*14.8*	
Despatch, '000 Tonnes	**2,314**	**1,875**	23.4	**2,314**	**2,306**	0.4
Realization (Rs/tonne)	3,289	2,754	19.4	3,289	3,041	8.2
Cost (Rs/tonne)	1,961	1,833		1,961	1,895	
Raw materials	257	258		257	333	
Employee costs	231	135		231	138	
Power & fuel costs	717	683		717	653	
Freight costs	430	428		430	463	
Other costs	327	329		327	307	
Profitability (Rs/tonne)	1,328	920	44.3	1,328	1,146	15.9

Source: Company data, Kotak Institutional Equities.

India Cements, Consolidated profit model, March Fiscal year-ends, 2005-2009E
(Rs million)

	2005	2006	2007	2008E	2009E
Average realization (Rs per bag)	104.6	105.1	132.4	159.4	159.7
Change (%)	*27.3*	*0.5*	*25.9*	*20.4*	*0.1*
Volume (mn tonnes)	6.3	7.3	8.4	9.8	10.8
Change (%)	*8.6*	*15.8*	*15.4*	*16.2*	*10.1*
Net sales	**11,362**	**15,023**	**22,366**	**31,204**	**34,400**
Raw materials	(1,437)	(2,137)	(2,384)	(3,307)	(3,761)
Power costs	(4,352)	(4,844)	(5,502)	(6,931)	(7,396)
Freight cost	(1,641)	(2,750)	(3,258)	(4,513)	(4,943)
Employee costs	(792)	(816)	(1,027)	(1,491)	(1,376)
Other expenses	(2,090)	(2,333)	(3,047)	(3,097)	(3,358)
Operating profits	**1,051**	**2,144**	**7,147**	**11,864**	**13,567**
Sales tax benefits	293	415	198	281	280
Other income	181	89	129	201	190
EBITDA	**1,524**	**2,647**	**7,475**	**12,346**	**14,037**
EBITDA margin, %	**13.4**	**17.6**	**33.4**	**39.6**	**40.8**
Interest	(1,636)	(1,490)	(1,498)	(1,483)	(1,293)
Depreciation	(790)	(791)	(1,028)	(1,407)	(1,601)
Pretax profits	**(902)**	**367**	**4,949**	**9,457**	**11,142**
Tax	(0)	(24)	(18)	(1,214)	(3,330)
Provision for deferred taxes	0	(23)	(114)	94	115
Proportionate profit /loss of associate com	(37)	12	964	0	0
Adjusted net profits	**(938)**	**332**	**5,782**	**8,337**	**7,927**
Extraordinaries	934	96	0	0	0
Net profits	**(4)**	**427**	**5,782**	**8,337**	**7,927**
Diluted EPS (Rs)	(6.8)	1.5	26.1	32.0	30.4
Fully diluted shares outstanding (mn)	138.6	220.4	221.4	260.4	260.4
Growth (%)					
Sales	14.6	32.2	48.9	39.5	10.2
EBITDA	46.6	73.7	182.4	65.2	13.7
Net income	(100)	(10,209)	1,252.7	44.2	(4.9)
EPS	(23)	(122)	1,635.1	22.6	(4.9)

Source: Company data, Kotak Institutional Equities estimates

Valuation of India Cements
Calculation of target prices using our multi-stage valuation process

	India Cements
March 2008 CROGCI/WACC (X)	1.47
Assigned premium of EV/GCI to CROGCI/WACC (%)	(15)
Assigned EV/GCI (X)	1.3
GCI (Rs bn)	66.2
EV (Rs bn)	83.2
Net debt (Rs bn)	9.7
Market capitalization (Rs bn)	73.5
Number of shares (fully diluted)	261
Target price (Rs)	**270**

Source: Kotak Institutional Equities estimates

Media

DSTV.BO, Rs64	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	80
52W High -Low (Rs)	143 - 60
Market Cap (Rs bn)	27.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.9	3.9	8.1
Net Profit (Rs bn)	(2.5)	(3.5)	(3.1)
EPS (Rs)	(5.9)	(8.1)	(7.2)
EPS gth	-	-	-
P/E (x)	(11.0)	(8.0)	(9.0)
EV/EBITDA (x)	(15.3)	(19.1)	(123)
Div yield (%)	-	-	-

Dish TV: Somewhat disappointing 2QFY08 results; downgraded to IL

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- **2QFY08 net loss at Rs0.92 bn; higher than 1QFY08 loss**
- **Business yet to gain traction in terms of ARPUs**
- **Downgraded to IL and reduced 12-month DCF-based target price to Rs80 (Rs100 previously)**

Dish TV reported modestly disappointing 2QFY08 results with a net loss of Rs919 mn, higher than 1QFY08 loss of Rs898 mn and our Rs849 mn estimate. Reported revenues declined 15% qoq to Rs755 mn and were below our estimate of Rs1.1 bn. Dish TV's management attributed the decline to different treatment of revenues (carriage fees) of Rs95 mn booked in 1QFY08; the same has been reversed in 2QFY08 and the amount pertaining to 2QFY08 (Rs100 mn) netted against content costs. We have adjusted 1QFY08 and 2QFY08 revenues and costs for the revised treatment. On a like-to-like comparison, 2QFY08 revenues increased 6.5% to Rs850 mn. We have been concerned about Dish's ARPUs (and its impact on valuations) given likely more pressure on (1) ARPUs and (2) costs (higher subsidy on CPE) when new operators start operations over the next few months. Our 12-month DCF-based target price is now Rs80 versus Rs100 previously to reflect lower ARPUs and higher WACC (higher risk). Key downside risks to our earnings and TP stem from lower-than-expected ARPUs. We would look to buying the stock on market volatility due to the good long-term prospects of the business.

Valuation becoming extremely tricky. We note the valuation of Dish is becoming extremely tricky given (1) Dish's sluggish ARPUs (2QFY08 ARPU was Rs121 versus Rs125 in 1QFY08 after adjusting for carriage charges), (2) the entry of more players with potentially aggressive pricing strategies, (3) lack of earnings for the next few quarters and (4) very high sensitivity of valuations to ARPUs. We like the business and expect DTH subscriber volumes to grow strongly over the next several years led by rising affordability. However, we are increasingly concerned by the pricing strategies being adopted by extant and new players. We reiterate that Dish's valuations are very sensitive to ARPUs (see Exhibit 3) and its earnings and cash flows could swing dramatically based on ARPUs, which would depend on market conditions. We have raised WACC to 13% from 12.5% previously to reflect higher risks to cash flows from uncertainty on ARPUs.

2QFY08 net adds picked up versus 1QFY08. Dish added 0.28 mn subscribers in 2QFY08 (taking end-1HFY08 subscriber base to 2.39 mn) versus 0.18 mn in 1QFY08. We model Dish reaching 2.95 mn subs by end-FY2008 and it would need to add 93,000 subs every month in 2HFY08 to reach our target. The key would be to maintain net monthly adds once new operators (Sun Direct, Reliance ADAG, Bharti Airtel and Videocon) start operations over the next few months. The other key variable to watch out for would be ARPU.

Reduced FY2008-10E revenues on back of lower ARPUs and change in accounting treatment. We have reduced FY2008E revenues to Rs3.9 bn from Rs5 bn previously with ARPU at Rs133 versus Rs175 previously. Dish's 1HFY08 ARPU is Rs121 only and represents a very modest improvement over FY2007's Rs107. It appears that Dish is continuing to give several months of free service, which will pull down its overall ARPUs. Our FY2008E net loss is now Rs3.5 bn versus Rs3.3 bn previously, which primarily reflects lower revenues but largely lower costs as well.

We model FY2009E and FY2010E net loss at Rs3.1 bn and Rs1.2 bn, respectively, versus Rs2.6 bn and Rs1.6 bn previously. The higher net loss for FY2009E reflects lower revenues on back of low ARPUs. We model FY2009E and FY2010E revenues at Rs8.1 bn and Rs14.1 bn versus Rs9.5 bn and Rs14.3 bn, respectively, previously. For FY2009E and FY2010E, we model ARPU at Rs191 and Rs250 versus Rs233 and Rs264 previously but we see potential downside risks to ARPUs. We expect longer-term ARPUs to accelerate from current low levels once DTH operators phase out promotional pricing schemes (but not before another 4-6 quarters); this largely explains the sharp jump in FY2010E ARPU versus FY2009E ARPU. Exhibit 4 gives our key assumptions behind our earnings model for Dish.

We note that our lower ARPU assumptions may translate into lower payments to content providers eventually and we see this as a negative for broadcasters also. If a competitive market results in low ARPUs for DTH operators, we expect them to negotiate lower channel rates with content providers (broadcasters). DTH operators now have more flexibility to choose channels following unbundling of channels at the wholesale level (between broadcasters and DTH operators).

Dish TV consolidated interim results, March fiscal year-ends (Rs mn)

			qoq			yoy			yoy	
	2008E	2Q 2008	1Q 2008	% chg.	2Q 2008	2Q 2007	% chg.	1H 2008	1H 2007	% chg.
Net sales	**3,861**	**850**	**798**	***7***	**850**	—		**1,648**	—	
DTH services	3,861	810	746	*9*	810	—		1,556	—	
Trading	—	12	25	*(51)*	12	—		38	—	
Teleport services	—	27	27	*3*	27	—		54	—	
Total expenditure	**(5,570)**	**(1,322)**	**(1,286)**	***3***	**(1,322)**	—		**(2,608)**	—	
Direct operating cost & connectivity	(2,721)	(748)	(892)	*(16)*	(748)	—		(1,640)	—	
Advertisement expenses	(865)	(198)	—	—	(198)	—		(198)	—	
Cost of goods sold	—	(13)	—	—	(13)	—		(13)	—	
Staff cost	(305)	(72)	(70)	*3*	(72)	—		(142)	—	
Administrative & other costs	(1,679)	(86)	(324)	*(74)*	(86)	—		(410)	—	
Selling and distribution expenditure	—	(205)	—	—	(205)	—		(205)	—	
EBITDA	**(1,709)**	**(472)**	**(488)**	***(3)***	**(472)**	—		**(960)**	—	
EBITDA margin (%)	**(44.3)**	**(55.6)**	**(61.2)**	—	**(55.6)**	—		**(58.3)**	—	
Other income	42	20	1	—	20	—		21	—	
Interest	(283)	(110)	(81)	*35*	(110)	—		(191)	—	
Depreciation and amortisation	(1,431)	(357)	(328)	*9*	(357)	—		(685)	—	
Pretax profits	**(3,381)**	**(918)**	**(897)**	***2***	**(918)**	—		**(1,815)**	—	
Extraordinaries	—	—	—		—	—		—	—	
Current tax	—	(1)	(1)	*16*	(1)	—		(2)	—	
Deferred tax	(78)	—	—	—	—	—		—	—	
Net income	**(3,459)**	**(919)**	**(898)**	***2***	**(919)**	—		**(1,817)**	—	
Tax rate (%)	(2.3)	(0.1)	(0.1)	—	(0.1)	—		(0.1)	—	
Other details										
# of subs (mn)	3.0	2.4	2.1	14	2.4	—		2.4	—	
ARPU (Rs/sub/month)	133	121	125	(3)	121	—		120.9	—	

Source: Company, Kotak Insitutional Equities estimates.

Our DCF-based target price for Dish TV is Rs80

Discounted cash flow analysis of Dish TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**(1,709)**	**(300)**	**2,386**	**4,114**	**5,756**	**6,864**	**8,093**	**9,272**	**10,421**	**11,299**
Tax expense	—	—	—	—	(291)	(410)	(529)	(948)	(2,362)	(2,766)
Working capital changes	(2,229)	243	912	461	1,682	1,323	1,142	731	117	132
Cash flow from operations	**(3,938)**	**(57)**	**3,297**	**4,575**	**7,148**	**7,778**	**8,707**	**9,055**	**8,176**	**8,665**
Capital expenditure	(3,292)	(3,566)	(3,118)	(2,706)	(4,854)	(4,498)	(4,413)	(3,805)	(3,238)	(2,912)
Free cash flow to the firm	**(7,230)**	**(3,623)**	**179**	**1,868**	**2,294**	**3,280**	**4,293**	**5,250**	**4,938**	**5,753**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**3,832**	**13,879**	**21,476**
FCF one-year forward	6,098	6,464	6,852
Terminal value	87,113	92,340	97,880
PV of terminal value (b)	**24,307**	**25,766**	**27,312**
Total PV (a) + (b)	**28,139**	**39,645**	**48,788**
Net debt	1,638	5,942	10,276
Equity value	26,502	33,703	38,512
Equity value (US$ mn)	**586**	**843**	**987**
Shares outstanding (mn)	428	428	428
Equity value/per share (Rs)	**62**	**79**	**90**

Discount rate (%)	13.0
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	14.3
Exit EBITDA multiple (X)	7.7

Source: Kotak Institutional Equities estimates.

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

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

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	96	21
10%	87	11
Base case	**79**	
-10%	**70**	(11)
-20%	**61**	(22)
Change in monthly subscription fees (%)		
20%	167	112
10%	123	56
Base case	**79**	
-10%	**45**	(43)

Source: Kotak Institutional Equities estimates.

Dish's subscribers will likely increase to over 5 mn by FY2010E and to 9 mn by FY2015E
Key financial and operating data of Dish TV, March fiscal year-ends, 2007E-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs bn)	1.9	3.9	8.1	14.1	19.0	23.8	28.1	32.7	37.1	41.5	45.8
EBITDA (Rs bn)	(1.9)	(1.7)	(0.3)	2.4	4.1	5.8	6.9	8.1	9.3	10.4	11.3
EBITDA margin (%)	**(97.0)**	**(44.3)**	**(3.7)**	**16.9**	**21.7**	**24.2**	**24.4**	**24.8**	**25.0**	**25.1**	**24.7**
Year-end # of paying subscribers (mn)	**1.9**	**3.0**	**4.2**	**5.3**	**6.3**	**7.2**	**8.0**	**8.7**	**9.3**	**9.8**	**10.3**
Increase/(decrease) in number of subs	1.0	1.1	1.2	1.1	1.0	0.9	0.8	0.7	0.6	0.5	0.5
Average # of paying subscribers (mn)	1.4	2.4	3.6	4.7	5.8	6.7	7.6	8.3	9.0	9.5	10.0
Subscription fees per month (Rs/sub/month)	95	107	163	221	247	267	283	302	321	340	361
ARPU (Rs/sub/month)	**136**	**133**	**191**	**250**	**275**	**296**	**310**	**328**	**346**	**364**	**382**

Source: Kotak Institutional Equities estimates.

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

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	3,861	8,138	14,080	18,957	23,810
EBITDA	**(830)**	**(1,852)**	**(1,709)**	**(300)**	**2,386**	**4,114**	**5,756**
Other income	—	34	42	46	47	52	53
Interest (expense)/income	(17)	(118)	(283)	(609)	(897)	(933)	(838)
Depreciation	(18)	(565)	(1,421)	(2,206)	(2,861)	(3,342)	(3,234)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(3,381)**	**(3,080)**	**(1,335)**	**(118)**	**1,727**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	—	(196)
Deferred taxation	—	—	(78)	5	142	276	122
Net income	**(2,078)**	**(2,519)**	**(3,459)**	**(3,075)**	**(1,194)**	**158**	**1,654**
Earnings per share (Rs)	**—**	**(5.9)**	**(8.1)**	**(7.2)**	**(2.8)**	**0.4**	**3.9**
Balance sheet							
Total equity	1,915	(395)	(3,854)	(6,928)	(8,122)	(7,964)	(6,561)
Deferred taxation liability	—	—	78	73	(69)	(345)	(468)
Total borrowings	84	1,751	6,244	10,494	11,994	11,244	8,994
Current liabilities	1,820	8,596	8,492	8,479	9,246	9,983	12,997
Total liabilities and equity	**3,819**	**9,952**	**10,960**	**12,118**	**13,049**	**12,917**	**14,962**
Cash	59	113	302	218	347	398	381
Other current assets	1,528	2,271	1,230	1,122	1,678	2,140	2,593
Total fixed assets	1,067	6,107	7,977	9,337	9,593	8,958	10,578
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**10,960**	**12,118**	**13,049**	**12,917**	**14,962**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(1,992)	(909)	1,489	3,181	4,722
Working capital changes	599	3,507	938	95	212	274	2,562
Capital expenditure	(1,025)	(2,921)	(3,292)	(3,566)	(3,118)	(2,706)	(4,854)
Investments	185	(451)	—	—	—	—	—
Other income	3	5	42	46	47	52	53
Free cash flow	**(1,088)**	**(1,674)**	**(4,304)**	**(4,334)**	**(1,371)**	**801**	**2,483**
Ratios (%)							
Debt/equity	4.4	(443.6)	(162.0)	(151.5)	(147.7)	(141.2)	(137.1)
Net debt/equity	1.3	(414.9)	(154.2)	(148.3)	(143.4)	(136.2)	(131.3)
ROAE (%)	(217.0)	(331.3)	165.9	57.8	15.9	(1.9)	(21.6)
ROACE (%)	**(89.6)**	**(283.2)**	**948.0**	**(265.8)**	**(13.2)**	**(29.0)**	**68.7**

Source: Kotak Institutional Equities estimates.

Banking

LICH.BO, Rs226	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	270
52W High -Low (Rs)	258 - 128
Market Cap (Rs bn)	19.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.7	6.4	7.6
Net Profit (Rs bn)	2.8	3.6	3.9
EPS (Rs)	32.8	41.9	46.1
EPS gth	*34.9*	*28.5*	*10.1*
P/E (x)	6.9	5.4	4.9
P/B (x)	1.5	1.1	0.9
Div yield (%)	3.5	3.5	4.9

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	40.5	-	-
FIIs	30.2	0.1	0.0
MFs	1.5	0.0	(0.0)
UTI	-	-	(0.1)
LIC	40.5	0.5	0.5

LIC Housing Finance: Healthy performance drives earnings, retain OP

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- **Net Profit up 53% yoy to Rs1.16 bn, 48% above estimates**
- **Strong growth in disbursements (18% on individual loans), increase in margins, improvement in collection efficiency**
- **Raising estimates and target price to Rs270, retain OP**

LIC Housing Finance (LICHF) reported net profit of Rs1.16 bn for 2QFY08, up 53% yoy. Net operating income grew by 43% yoy to Rs1.76 bn; on account of higher spreads, strong loan growth (20% yoy) and higher other (investment) income. With the reduction in gross NPLs, the company made a net write-back of provisions which contained its expenses. We are raising our estimates by 17% for FY2008 and 18% for FY2009 mainly to factor lower borrowing costs and reduction in provisioning burden on the back of improvement in collection efficiency. We raise our target price to Rs270 (from Rs240 earlier) and retain OP.

Key highlights

Healthy disbursement growth. LICHF delivered 18% growth in disbursements of individual loans during 2QFY08 on the back of 3% de-growth in 2QFY07. The overall disbursements growth, including loans to developers, was however higher at 36%. We expect LICHF to deliver 16% yoy growth in overall disbursements for 2HFY08 on the back of just 7% growth in 2HFY07.

Improving loan mix and reducing borrowings cost aid spreads. LICHF reported spreads of 1.75% for 2QFY08 v/s 1.25% in 2QFY07 and 1.37% in 1QFY08. Its average yield on loans increased to 10.3% from 9% in 2QFY07 and 10% in 1QFY08 likely due to the re-pricing of existing home loans and increasing proportion of new loans that carry a higher rate. A reduction in the cost of bulk borrowings also helped LICHF on the liability side. We expect the company to benefit in the near term as the bulk borrowing costs remain low.

Low NPLs reduce provisioning burden. LICHF's gross NPLs reduced by 9% yoy and 27% qoq to 2.8% of gross advances v/s 3.8% in 2QFY07 and 4% in 1QFY08. With improvement in collection efficiency, the company made a net provision write-back of Rs136 mn in 2QFY08. We expect the company to make provisions of Rs355 mn in 2HFY08 as compared to Rs224 mn in 1HFY08. The company has highlighted that a large portion of its slippages in 1QFY08 (when NPL's were up 63% qoq) were akin to delinquencies and are now on track.

LICHF proposes to raise capital of Rs5-6 bn, capital adequacy however remains healthy. LICHF has proposed to raise equity of Rs5-6 bn by December 2007. Its Tier 'I' CAR however, was healthy at about 12% in September 2007 as against 9.9% in June 2007. The increase in September was on account of reduction in risk weights for individual home loans by NHB to 50% from 75% earlier.

LIC Housing Finance Ltd

Quarterly Results, (Rs mn)	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	YoY(%)	2Q08E	Actual vs KS(%)
Operating income	3,401	3,843	4,051	4,537	4,635	5,265	37	4,997	5
Interest on loans	3,222	3,657	3,851	4,260	4,422	4,998	37	4,827	4
Fees and other charges	107	115	110	150	107	127	10	120	6
Other income	73	71	90	127	106	140	97	50	180
Interest expenses	2,565	2,607	2,816	3,026	3,378	3,498	34	3,572	(2)
Net operating income	**836**	**1,236**	**1,236**	**1,511**	**1,258**	**1,767**	**43**	**1,426**	**24**
Net operating income extraordinary item	836	1,236	1,236	1,511	1,258	1,767	43	1,426	24
Total Fund based income	3,295	3,728	3,941	4,387	4,529	5,138	38	4,877	5
Net interest income	656	1,050	1,036	1,233	1,045	1,500	43	1,256	19
Other exp.	**405**	**282**	**261**	**292**	**625**	**191**	**(32)**	**370**	**(48)**
Establishment exp.	142	194	193	207	168	265	37	210	26
Staff expenses	55	86	63	65	97	62	(28)	70	(12)
Provisions	208	2	5	21	360	(136)		90	(251)
PBDT	**431**	**954**	**974**	**1,218**	**632**	**1,576**	**65**	**1,056**	**49**
Depreciation	8	8	8	15	8	9	14	10	(10)
PBT	423	946	966	1,204	624	1,567	66	1,046	50
Tax	49	186	200	311	157	404	117	261	55
PAT	**374**	**759**	**766**	**893**	**467**	**1,163**	**53**	**784**	**48**
Tax rate	12	20	21	26	25	26	31	25	3
PBT excl. extraordinary item+provisions	631	948	972	1,224	984	1,431	51	1,136	26

Other details	**1Q07**	**2Q07**	**3Q07**	**4Q07**	**1Q08**	**2Q08**	**YoY(%)**
Approval for the quarter (Rs bn)	10.7	13.4	12.2	24.8	11.6	22.7	69
Disbursements (Rs bn)	10.9	11.7	11.0	17.6	12.2	16.0	36
Individual (Rs bn)	10.6	11.4	10.5		11.1	13.4	18
Outstanding portfolio (Rs bn)	153.9	159.6	164.5	175.6	181.9	191.4	20
Individual (Rs bn)		154.3	159.5	170.1	175.8	183.4	19
Floating rate basis (Rs bn)			145.2	154.8	163.4	178.0	
NPLs							
Gross NPLs (Rs mn)	5,790	5,985	5,857	4,520	7,390	5,425	(9)
Gross NPL ratio (%)	3.8	3.8	3.6	2.6	4.0	2.8	
Net NPLs (Rs mn)		3,352		2,210	4,000	3,145	(6)
Net NPL ratio (%)	2.0	2.1	1.97	1.3	2.6	1.6	
CAR (%)		14.2		14.19	12.9	15.3	
Tier I (%)		10.4		10.4	9.9	12.0	
Average spread (%)	0.9	1.3	1.3	1.3	1.4	1.8	
NIM (%)	1.7	2.7			2.4	3.2	
Average cost of funds (%)	7.6	7.7	7.9	8.3	8.6	8.6	
Incremental cost of fund (%)	8.5			9.3	10.0	9.1	
Average lending rate (%)	8.5	9.0	9.2	9.6	10.0	10.3	
Incremental lending rate (%)	9.5	9.5	9.5	11.0	11.3	11.3	

Source: Company, Kotak Institutional Equities estimates

LIC Housing Finance (Old and new estimates Rsmn)

	Old estimates			New estimates			% change			YoY(%)	
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2009E	FY2010E
Net interest income	5,630	6,275	7,106	5,907	7,057	8,115	4.9	12.5	14.2	19.5	15.0
Other income	653	681	713	880	713	744	34.9	4.6	4.4	(19.0)	4.4
Fee income	510	541	573	510	541	573	0.0	0.0	0.0	6.0	6.0
Other income	142	141	139	370	172	171	159.9	22.4	22.6	(53.5)	(0.8)
Total income	6,283	6,956	7,818	6,787	7,770	8,859	8.0	11.7	13.3	14.5	14.0
Loan loss provisions	767	899	1,041	579	800	933	(24.5)	(11.0)	(10.4)	38.2	16.6
Operating expenses	1,258	1,426	1,617	1,370	1,606	1,883	8.9	12.6	16.5	17.2	17.3
Employee expenses	300	336	376	300	336	376	0.0	0.0	0.0	12.0	12.0
Other expenses	958	1,090	1,241	1,070	1,270	1,507	11.7	16.5	21.5	18.6	18.7
PBT	4,258	4,631	5,160	4,838	5,365	6,043	13.6	15.8	17.1	10.9	12.6
Tax	1,206	1,327	1,488	1,273	1,449	1,639	5.6	9.2	10.1	13.8	13.2
PAT	**3,052**	**3,304**	**3,672**	**3,565**	**3,916**	**4,403**	**16.8**	**18.5**	**19.9**	**9.8**	**12.4**
PBT+provisions	5,025	5,530	6,201	5,417	6,165	6,976	7.8	11.5	12.5	13.8	13.2
Housing loan growth (%)	**18.2**	**16.5**	**15.3**	**19.7**	**17.5**	**15.9**					

Source: Kotak Institutional Equities estimates.

Pipes

PSLH.BO, Rs384	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	460
52W High -Low (Rs)	409 - 182
Market Cap (Rs bn)	15.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	14.4	19.9	29.7
Net Profit (Rs bn)	0.7	1.0	1.8
EPS (Rs)	20.2	26.4	43.5
EPS gth	*16.7*	*30.4*	*64.7*
P/E (x)	19.0	14.6	8.8
EV/EBITDA (x)	11.1	8.6	5.8
Div yield (%)	1.1	1.4	1.7

PSL: 2QFY08 results marginally below estimates; maintain OP and raise target to Rs460

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- **2QFY08 revenues and EBITDA in line with estimates; volumes and PAT marginally lower than expected**
- **Revise PAT lower by 4% and tweak EBITDA margin to 11.4% from 11.3% earlier for FY2008E**
- **Better realisations and improving receivables to improve cash flows; maintain OP and raise target price to Rs460 from Rs420 earlier**

PSL's 2QFY08 results were marginally below estimates due to slightly lower volumes, large inventories build up and higher interest cost. Despite lower-than-expected volumes, gross revenues were marginally ahead of estimates at Rs5 bn as against estimated Rs4.7 bn on account of better realisations. Revenues increased 61% yoy to Rs5 bn from Rs3.1 bn in Q2FY07. EBITDA margin for 2QFY08 was significantly lower at 10.7% as against 12.2% last year on account of large inventory build-up. During 1HFY08, inventory increased by Rs2,184 mn. Net earnings during 2QFY08 were higher by 41.5% yoy, though below estimates (17%) on account of higher interest cost (Rs162 mn vs estimated Rs100 mn). We revise our estimates for FY2008E for marginally lower volumes, higher realisations, slightly higher EBITDA margins but marginally lower net earnings. We revise net earnings lower by 4% on account of revision in assumptions for UAE operations and higher depreciation. We revise our FY2009 and FY2010 estimates upwards for improving working capital cycle and higher realisations. We revise our fully diluted EPS estimates for FY2008E, FY2009E and FY2010E to Rs24.2, Rs43.6 and Rs61.2 from Rs25.2, Rs41.1 and Rs58, earlier, respectively. We maintain our OP rating on the stock and raise our target price to Rs460 from Rs420 earlier.

2QFY08 results—revenues higher than expected; higher interest cost hitting the bottom line

PSL's 2QFY08 results were marginally lower than estimates on account of higher interest cost. Net earnings for the quarter increased 41.5% yoy to Rs191 mn from Rs135 mn in 2QFY07. Net revenues during quarter were higher by 64% yoy to Rs4.7 bn from Rs2.8 bn in 2QFY07. Revenues and EBITDA margin could have been higher but for the large inventory build-up, which we believe to get realised in the second half of FY2008. Adjusted EBITDA margins (adjusted for excise duty) for 2QFY08 were lower at 10.7% from 12.2% in 2QFY07, mainly on account of the unsold inventory. We model EBITDA margins to improve significantly in 2HFY08. Order book at end of the 2QFY08 increased to Rs23.5 bn from Rs22 bn at the beginning of the quarter.

Revise estimates marginally lower for FY2008; revise upwards for FY2009 and FY2010

FY2008—We revise our net earnings estimates lower by 4% for FY2008 to Rs999 mn from Rs1,044 mn mainly on account of higher depreciation (reflecting latest annual report changes). We revise volumes lower by 16% but raise our realisation estimates, but keeping the conversion margins intact for increasing raw coil prices. We revise working capital cycle lower following the sharp reduction in debtors as per the FY2007 annual report (see Exhibit 2).

FY2009—We raise our net earnings estimates by 6% to Rs1,803 mn from Rs1,697 mn earlier, mainly on account of slightly higher realisations and EBITDA margins. We revise working capital lower for lower debtor days (see Exhibit 2).

FY2010—We raise our net earnings estimates by 6% to Rs2,532 mn from Rs2,397 mn earlier, mainly on account of slightly higher realisations and EBITDA margins.

Maintain OP rating; revise target higher to Rs460 from Rs420 earlier

We maintain our OP rating on the stock considering the strong demand for linepipes globally and the large expansions planned domestically. We expect PSL to be a significant beneficiary of the domestic gas/crude pipeline infrastructure build-up on account of its large and economical capacities. Improving working capital cycle and marginally higher earnings increase our DCF-based target price to Rs460 from Rs420 earlier.

Exhibit 1: PSL, Interim results, March fiscal year-ends, (Rs mn)

		qoq		yoy			yoy	
	2Q 2008	1Q 2008	*(% chg)*	2Q 2007	*(% chg)*	1H 2008	1H 2007	*(% chg)*
Gross revenues	**4,965**	**4,101**	***21.0***	**3,086**	***60.9***	**9,066**	**6,831**	***(54.8)***
less:excise	(316)	(249)		(245)		(564)	(466)	
Net sales	**4,649**	**3,852**	***20.7***	**2,841**	***63.6***	**8,501**	**6,365**	***33.6***
Total expenditure	**(4,150)**	**(3,446)**	***20.4***	**(2,494)**	***66.4***	**(7,596)**	**(5,653)**	***34.4***
Inc/(Dec) in stock	1,764	420	*320.6*	264	*569.3*	2,184	(190)	*(1,247.0)*
Raw materials	(5,228)	(2,978)	*75.6*	(1,871)	*179.4*	(8,205)	(3,752)	*118.7*
Staff cost	(121)	(103)	*18.1*	(95)	*28.1*	(224)	(186)	*20.4*
Other expenditure	(565)	(786)	*(28.1)*	(792)	*(28.7)*	(1,351)	(1,525)	*(11.5)*
EBITDA	**499**	**406**	***22.9***	**347**	***43.8***	**906**	**712**	***27.2***
OPM (%)	**10.7**	**10.5**		**12.2**		**10.7**	**11.2**	
Other income	67	44	*51.7*	66	*1.8*	112	88	*27.0*
Interest	(162)	(94)	*71.3*	(102)	*58.0*	(256)	(194)	*31.7*
Depreciation	(130)	(130)	*0.1*	(106)	*22.9*	(260)	(212)	*22.8*
Pretax profits	**275**	**226**	***21.5***	**205**	***34.1***	**501**	**394**	***27.3***
EO	—	—		—		—	—	
EBIT%	**9.4**	**8.3**		**10.8**		**8.9**	**9.2**	
Tax	(84)	(55)	*52.0*	(70)	*19.8*	(139)	(110)	*26.2*
Net income	**191**	**171**	***11.7***	**135**	***41.5***	**363**	**284**	***27.7***
Adjusted profits	**191**	**171**	***11.7***	**135**	***41.5***	**363**	**284**	***27.7***
Income tax rate (%)	*30.4*	*24.3*		*34.0*		*27.7*	*27.9*	

Source: Company data, Kotak Institutional Equities.

Exhibit 2: PSL Ltd., change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2008E	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**
Revenue	19,933	29,666	38,391	20,014	28,065	36,131	(0.4)	5.7	6.3
EBITDA	2,280	3,542	4,551	2,262	3,309	4,276	0.8	7.0	6.4
EBITDA margin (%)	11.4	11.9	11.9	11.3	11.8	11.8	—	—	—
Net profit	999	1,803	2,532	1,044	1,697	2,397	(4.3)	6.2	5.6
Diluted EPS	24.2	43.6	61.2	25.2	41.1	58.0	(4.3)	6.2	5.6

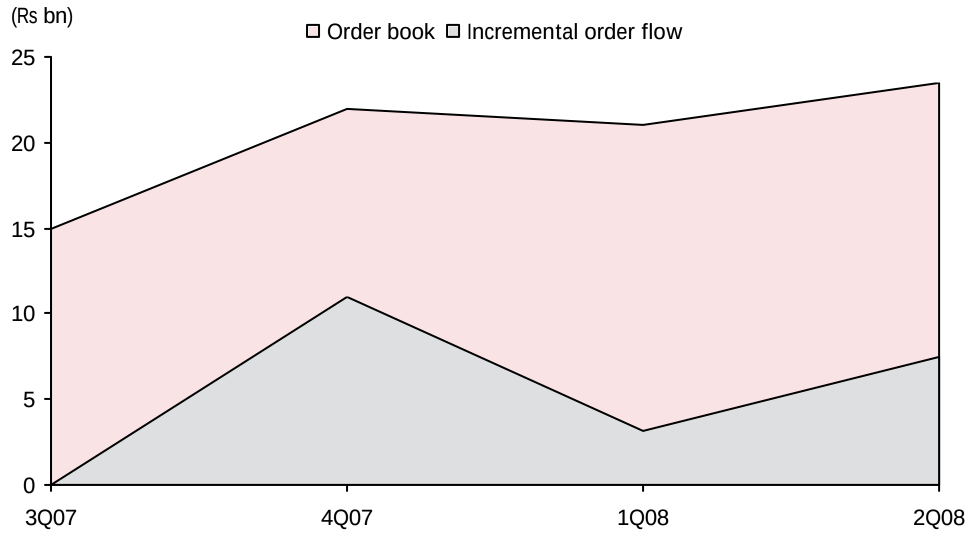
Source: Kotak Institutional Equities estimates.

Exhibit 3: PSL Ltd, Change in volume and pricing assumptions

	Revised estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Sales ('000 tons)									
India	297	413	523	352	440	550	(15.6)	(6.3)	(5.0)
UAE	11	32	38	13	34	41	(14.3)	(5.6)	(9.1)
USA	—	56	105		56	105	—	—	—
Realisation (US$/ton)									
India	1,291	1,316	1,336	1,170	1,193	1,211	10.3	10.3	10.3
UAE	900	1,356	1,376	1,250	1,275	1,294	(28.0)	6.3	6.3
USA	—	1,400	1,421	—	1,300	1,320	—	7.7	7.7
Raw material cost (US$/ton)									
HR coil	784	800	808	708	719	726	10.7	11.3	11.3

Source: Kotak Institutional Equities estimates.

Exhibit 4: PSL Ltd, Quarterly order book position and incremental order flow, March fiscal year-ends, 2007-08



Source: Company data

Our DCF-based valuation for PSL Ltd is Rs462

DCF valuation of PSL Ltd, March fiscal year-ends

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal Value
EBITDA	2,280	3,542	4,551	4,973	4,462	4,488	4,452	4,406	4,406	4,406	
Tax expense	(492)	(855)	(964)	(957)	(797)	(748)	(782)	(782)	(801)	(748)	
Changes in working capital	(1,113)	(2,335)	(1,049)	217	1,330	543	180	121	—	—	
Cash flow from operations	**674**	**352**	**2,538**	**4,233**	**4,994**	**4,283**	**3,850**	**3,745**	**3,605**	**3,658**	
Capital expenditure	(2,313)	(784)	(157)	(159)	(161)	(218)	(223)	(284)	(291)	(835)	
Free cash flow to the firm	**(1,639)**	**(432)**	**2,381**	**4,074**	**4,833**	**4,064**	**3,627**	**3,461**	**3,314**	**2,823**	**24,792**
Dicounted cash flow-now	(1,516)	(355)	1,740	2,646	2,791	2,086	1,655	1,404	1,195	904	
Discounted cash flow-1 year forward	—	(400)	1,958	2,977	3,139	2,347	1,862	1,579	1,344	1,018	
Discounted cash flow-2 year forward	0.0%	—	2,202	3,349	3,532	2,640	2,094	1,776	1,512	1,145	
Discount rate	12.5%										
Growth from 2017 to perpetuity	1.0%										
Discount factor at WACC	**0.92**	**0.82**	**0.73**	**0.65**	**0.58**	**0.51**	**0.46**	**0.41**	**0.36**	**0.32**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**15,823**	**64%**	**18,251**	**64%**
PV of terminal value (b)	8,937	36%	10,054	36%
EV (a) + (b)	24,760		28,305	
EV (US$ mn)	**611**		**699**	
Net debt	5,645		6,441	
Equity value	**19,115**		**21,864**	
No. of shares	41.3		41.3	
Implied share price (Rs)	**462**		**529**	
Exit EV/EBITDA multiple (X)	5.6			
Exit FCF multiple (X)	**8.7**			

Sensitivity of DCF value to WACC and growth rate (Rs)

Growth Rate	WACC 11.5%	12.0%	12.5%	13.0%	13.5%
-0.5%	483	458	435	413	393
0.0%	494	467	443	421	400
0.5%	505	478	452	429	407
1.0%	518	489	**462**	438	415
1.5%	532	502	473	447	424
2.0%	548	515	485	458	433
2.5%	565	530	498	470	443

Source: Company data, Kotak Institutional Equities estimates.

PSL Ltd., Income statement, March fiscal-year ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Net revenues	**8,347**	**14,092**	**14,503**	**14,433**	**19,933**	**29,666**	**38,391**
Operating expenses							
Change in stock	305	2,210	68	773	—	—	—
Raw materials consumed	(6,108)	(11,509)	(10,142)	(10,152)	(13,284)	(19,723)	(25,708)
Stores consumed	(278)	(743)	(465)	(448)	(586)	(743)	(909)
Manufacturing & process expense	(783)	(1,952)	(1,576)	(1,955)	(2,598)	(3,695)	(4,675)
Employee costs	(296)	(307)	(342)	(470)	(540)	(916)	(1,154)
Other expenses	(296)	(617)	(496)	(539)	(644)	(1,048)	(1,395)
Total expenditure	**(7,456)**	**(12,919)**	**(12,953)**	**(12,792)**	**(17,653)**	**(26,125)**	**(33,841)**
EBITDA	**891**	**1,173**	**1,550**	**1,642**	**2,280**	**3,542**	**4,551**
EBITDA Margin (%)	10.7	8.3	10.7	11.4	11.4	11.9	11.9
Net finance cost	(415)	(648)	(690)	(563)	(517)	(537)	(506)
Other income	189	170	193	274	209	324	394
PBDT	**666**	**695**	**1,053**	**1,353**	**1,972**	**3,328**	**4,439**
Depreciation and amortisation	(170)	(240)	(344)	(445)	(546)	(719)	(831)
Pretax profits before extra-ordinaries	**496**	**454**	**708**	**908**	**1,426**	**2,610**	**3,608**
Exceptional items	—	—	—	—	—	—	—
Profit before tax	**496**	**454**	**708**	**908**	**1,426**	**2,610**	**3,608**
Current tax	(114)	(102)	(184)	(271)	(358)	(706)	(843)
FBT	—	—	(8)	(9)	(12)	(15)	(25)
Deferred tax	(2)	(20)	3	25	(57)	(68)	(53)
Minority/associate earnings	—	—	—	—	—	(17)	(156)
Reported net profit	**380**	**333**	**519**	**653**	**999**	**1,803**	**2,532**
Adjusted net profit	**380**	**333**	**519**	**653**	**999**	**1,803**	**2,532**
Primary EPS	13.1	11.5	17.3	20.2	26.4	43.5	61.0
Diluted EPS	13.1	11.5	14.1	15.8	24.2	43.6	61.2
Year end no. of shares (mn)	29.1	29.1	32.1	34.2	41.5	41.5	41.5
Weighted avg. no. of shares (mn)	29.1	29.1	29.9	32.3	37.8	41.5	41.5
Fully diluted no. of shares (mn)	29.1	29.1	36.8	41.3	41.3	41.3	41.3
Margins (%)							
EBITDA margin	10.7	8.3	10.7	11.4	11.4	11.9	11.9
PBT margin	5.9	3.2	4.9	6.3	7.2	8.8	9.4
Net profit margin (w/o extraordinaries)	4.6	2.4	3.6	4.5	5.0	6.1	6.6
Effective tax rate (%)	23.3	26.7	26.7	28.1	30.0	30.3	25.5
Growth yoy (%)							
Revenues	—	68.8	2.9	(0.5)	38.1	48.8	29.4
EBITDA	—	31.6	32.1	5.9	38.9	55.3	28.5
PBT	—	(8.3)	55.8	28.2	57.0	83.0	38.3
Net profit (w/o extraordinaries)	—	(12.4)	55.9	25.8	53.0	80.6	40.4
Diluted EPS	—	(12.4)	23.1	12.0	53.0	80.6	40.4

Source: Company data, Kotak Institutional Equities estimates.

PSL Ltd., Balance sheet, March fiscal-year ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Equity							
Share capital	289	289	320	341	413	413	413
Reserves and surplus	1,534	1,536	2,458	3,178	5,916	7,452	9,669
Net worth	**1,823**	**1,825**	**2,777**	**3,519**	**6,330**	**7,866**	**10,082**
Minority interest	—	—	—	—	—	287	443
Deferred tax liability	**15**	**35**	**32**	**7**	**64**	**132**	**185**
Debt	**2,061**	**6,490**	**6,810**	**6,698**	**6,645**	**7,154**	**5,103**
Secured	2,061	6,490	5,110	4,989	6,645	7,154	5,103
Unsecured	—	—	1,701	1,709	—	—	—
Current liability and provisions	2,585	4,817	5,898	5,791	7,020	9,612	12,173
Total capital	**6,484**	**13,168**	**15,518**	**16,015**	**20,059**	**25,051**	**27,986**
Assets							
Cash and cash equivalents	615	1,796	1,199	1,263	1,000	1,000	1,000
Inventory	1,857	4,598	5,206	6,226	7,645	10,973	13,674
Sundry debtors	1,550	3,116	4,229	2,157	3,277	4,877	5,785
Loans and advances	561	763	1,218	1,213	1,213	1,213	1,213
Gross block	2,819	4,119	5,181	6,119	7,526	10,436	10,593
Less: Accumulated depreciation	1,189	1,429	1,764	2,208	2,754	3,473	4,303
Net fixed assets	1,630	2,690	3,417	3,911	4,772	6,964	6,290
Capital -WIP	225	102	146	1,220	2,126	—	—
Net fixed assets (incl. C-WIP)	**1,854**	**2,793**	**3,564**	**5,131**	**6,898**	**6,964**	**6,290**
Investments	46	102	102	25	25	25	25
Miscallenous expenditure	—	—	—	—	—	—	—
Total assets	**6,484**	**13,168**	**15,518**	**16,015**	**20,059**	**25,051**	**27,987**
Leverage and return ratios (x)							
Debt/Equity	1.1	3.5	2.4	1.9	1.0	0.9	0.5
Debt/Capitalisation	0.5	0.8	0.7	0.7	0.5	0.5	0.4
Net debt/Equity	0.8	2.5	2.0	1.5	0.9	0.8	0.4
Net debt/Capitalisation	0.4	0.7	0.7	0.6	0.5	0.4	0.3
Net debt/EBITDA	1.6	4.0	3.6	3.3	2.5	1.8	1.0
ROAE (%)	20.8	18.3	22.6	20.7	20.3	25.4	28.2
ROACE (%)	17.9	13.2	11.4	10.7	11.7	15.3	18.5

Source: Company data, Kotak Institutional Equities estimates.

PSL Ltd., Cash flow statement, March fiscal-year ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Operating							
Pre-tax and pre extraordinary income	496	454	708	908	1,426	2,610	3,608
Depreciation & amortization	170	240	344	445	546	719	831
Taxes paid	(76)	(170)	(111)	(169)	(370)	(721)	(868)
Dividend and other income	(40)	—	(31)	—	(209)	(324)	(394)
Interest expense	278	313	484	435	517	537	506
Interest paid	(297)	(325)	(485)	(577)	(517)	(537)	(506)
Foreign exchange loss/(gain)	—	—	—	—	—	—	—
Extra-ordinary	(87)	(172)	—	—	—	—	—
Other non-cash items	—	—	(9)	—	—	—	—
Working capital changes	319	(2,179)	(1,267)	695	(1,113)	(2,335)	(1,049)
Cash flow from operations	**763**	**(1,837)**	**(367)**	**1,737**	**279**	**(52)**	**2,128**
Operating, excl. working capital	**444**	**342**	**900**	**1,042**	**1,393**	**2,283**	**3,177**
Investing							
Capital investment	(452)	(1,180)	(1,115)	(2,012)	(2,313)	(784)	(157)
Purchase/ sale of assets/ business	—	—	—	—	—	—	—
Investment changes	68	(56)	—	77	—	—	—
Advances to subsidiary	—	—	—	—	—	—	—
Interest/dividend received	59	12	41	142	209	324	394
Cash flow from investing	**(325)**	**(1,223)**	**(1,074)**	**(1,794)**	**(2,104)**	**(460)**	**237**
Financing							
Equity issues	—	—	698	435	—	270	—
Net proceeds from borrowings	60	4,429	320	(113)	1,656	509	(2,050)
Effect of forex changes	—	—	—	—	—	—	—
Dividends paid (incl. tax)	(234)	(187)	(174)	(201)	(94)	(267)	(315)
Cash flow from financing	**(174)**	**4,242**	**844**	**121**	**1,562**	**512**	**(2,366)**
Net change in CCE	264	1,182	(597)	64	(263)	—	—
Beginning cash	350	615	1,796	1,199	1,263	1,000	1,000
Ending cash	**615**	**1,796**	**1,199**	**1,263**	**1,000**	**1,000**	**1,000**
Discretionary cash flow	31	994	(771)	(137)	(357)	(267)	(315)
Free cash flow	**77**	**(3,204)**	**(1,656)**	**(476)**	**(2,128)**	**(1,103)**	**1,656**

Source: Company data, Kotak Institutional Equities estimates.

Telecom

RLCM.BO, Rs720	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	500
52W High -Low (Rs)	797 - 365
Market Cap (Rs bn)	1,473

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	144.7	204.2	278.1
Net Profit (Rs bn)	30.9	51.6	69.3
EPS (Rs)	14.2	23.9	32.1
EPS gth	*554.4*	*68.4*	*34.4*
P/E (x)	50.8	30.1	22.4
EV/EBITDA (x)	26.2	17.4	12.7
Div yield (%)	0.1	0.1	0.2

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	66.8	-	-
FIIs	14.2	2.2	(1.2)
MFs	2.9	2.6	(0.8)
UTI	-	-	(3.4)
LIC	3.5	2.9	(0.5)

Reliance Communications: Positive GSM 'license' news in the price; use the recent rise in price to reduce positions

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- **Our subscriber forecast for RCOM is neutral to its choice of technology platforms**
- **Assuming a best case scenario of 2% market share gain, our target price on RCOM can increase by 14% to Rs570**
- **RCOM stock trading at significant premium to Bharti**

We do not view DOT's recent policy decision resulting in likely issue of GSM spectrum to RCOM as material enough to warrant a change in our view on the stock. Our subscriber forecast and valuations for RCOM are technology neutral and assume that the company would retain its market share over the longer term; however, we note that there would be more operators entering the market, not just RCOM. Our target price would increase by a marginal 7% even if we were to assume a 1% gain in long term market share on the back of GSM operations and without assuming higher capex and overheads in running dual technology networks. We find it difficult to justify RCOM's valuations using an absolute DCF-based valuation model. RCOM's relative valuations versus peers are even more difficult to justify given that the stock is trading at 20% premium to Bharti on FY2010E EV/EBITDA. We maintain U rating with a 12-month DCF based target price of Rs500; we will review after 2QFY08 results.

Our subscriber forecast for RCOM is neutral to its choice of technology platforms. Exhibit 1 gives details of our long term subscriber forecast and likely market share of various operators. In our view, RCOM’s subscriber growth will depend on the growth of the market, number of players, RCOM’s execution and pricing relative to competition; it would depend less on the underlying technology. However, GSM technology may place it on a similar footing with its key competitors in terms of handset choice and roaming. Our valuations would change by 7% for 1% and 14% for 2% increase in long term market share in hypothetical scenarios.

RCOM may be able to start GSM operations in 6-9 months. We believe that RCOM may be able to start GSM operations within 6-9 months of receipt of spectrum. Our channel checks indicate that spectrum may be allocated by January 2008, implying that the RCOM can start GSM operations in the second half of 2008 at the earliest. This assumption is based on availability of existing infrastructure with RCOM to start GSM operations (passive infrastructure), well established distribution channel and strong back end systems such as billing, customer service.

License fees paid to DOT makes RCOM ‘technically’ eligible for further GSM spectrum allocation in all circles. RCOM has paid Rs16.5 bn to DOT and is now eligible to roll out GSM network in all 23 circles in India, subject to availability of spectrum. Technically, RCOM is eligible for initial 4.4 MHz of spectrum in all 23 circles even though it already has GSM operations in 8 circles through its subsidiary Reliance Telecom. We however believe that DOT may not allow this and is not practically feasible as (1) fresh license may lead to roll out obligations even in circles where RCOM has GSM operations; and (2) substantial equity holding limit in a UASL clause prohibits a firm from holding more than 10% equity in another firm.

Update on Swan Telecom and Luxfield Enterprises. Newspaper reports indicate that RCOM had made application for GSM license through group companies such as Swan Telecom and Cheetah. While it is logical that these entities would not be eligible for a GSM license, the more important issue is the status of investments made by RCOM in these entities. As at end-March 2007, RCOM has invested Rs Rs9.9 bn and Rs1.09 bn in the preference shares of Swan Telecom and Luxfield Enterprises, respectively. These investments are classified as long-term investments but we are unaware of the nature of business and shareholding pattern of these companies.

Comparison of key operating metrics of RCOM and Bharti

	RCOM	Bharti
Market capitalization (US$ bn)	**35.9**	**42.9**
Enterprise value (FY2008E)	38.3	44.5
Wireless subs (mn)- Sep' 07	36.3	48.9
Wireline subs (mn)- Sep ' 07	0.7	2.1
No of towers (FY2008E)	40,000	65,000

Source: Kotak Institutional Equities estimates.

Wireless subscriber base and market share forecasts, march fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Subscribers (mn)											
Bharti	37	62	83	97	106	114	120	126	132	137	142
Vodafone-Essar	26	45	60	71	78	84	90	94	99	103	106
Reliance (GSM + CDMA)	29	45	60	70	77	83	88	93	97	101	104
BSNL	27	34	47	56	63	69	74	78	82	86	90
Idea	14	23	34	41	47	52	56	59	62	66	68
TTSL	11	18	25	30	34	37	39	42	44	46	48
Others	12	19	25	29	31	33	35	37	38	40	41
Total	**158**	**248**	**333**	**394**	**438**	**472**	**502**	**529**	**554**	**577**	**599**
Market share (%)											
Bharti	23.6	25.2	24.9	24.5	24.3	24.1	24.0	23.9	23.8	23.8	23.7
Vodafone-Essar	16.8	18.1	18.0	17.9	17.9	17.9	17.8	17.8	17.8	17.8	17.8
Reliance (GSM + CDMA)	18.4	18.2	17.9	17.8	17.6	17.6	17.5	17.5	17.5	17.4	17.4
BSNL	17.4	13.9	14.0	14.3	14.5	14.6	14.7	14.8	14.9	14.9	15.0
Idea	8.9	9.4	10.1	10.5	10.8	11.0	11.1	11.2	11.3	11.4	11.4
TTSL	7.2	7.4	7.6	7.7	7.8	7.8	7.9	7.9	7.9	7.9	7.9
Others	7.8	7.8	7.5	7.3	7.1	7.0	7.0	6.9	6.9	6.8	6.8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Kotak Institutional Equities estimates.

RCOM is trading at a 20% premium to Bharti on FY2010E EV/EBITDA multiple

Valuation summary of Indian wireless stocks, FY2006-FY2010E

	Price	Target	P/E (X)					EV/EBITDA (X)				
	22-Oct-07	Price	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Bharti	928	750	87	43	26.9	20.2	16.5	43.5	24.3	15.7	11.4	**9.1**
Idea	138	110	156	63	28.0	23.0	19.0	37.0	26.5	16.2	12.2	**9.4**
RCL	720	500	332	51	30.1	22.4	18.3	65.9	27.5	18.3	13.4	**10.9**

	KS	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
	rating	(US$ bn)	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Bharti	U	42.9	117	184	276	368	445	42	74	116	159	195
Idea	U	8.9	30	44	70	101	130	11	15	25	34	45
RCL	U	35.9	106	145	204	278	341	23	57	86	119	146

	Net profit (Rs bn)					EPS (Rs)				
	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Bharti	20	41	65	86	105	10.7	21.4	34.4	45.8	56.3
Idea	2	5	13	16	19	0.9	2.2	4.9	6.0	7.3
RCL	5	31	52	69	85	2.2	14.2	23.9	32.1	39.3

Source: Bloomberg, Kotak Institutional Equities estimates.

Telecom

Sector coverage view			Cautious

		Price, Rs	
Company	Rating	22-Oct	Target
Bharti	U	928	750
Rcom	U	720	500
MTNL	U	176	135
VSNL	OP	509	550
Idea Cellular	U	138	110

MNP, if implemented, can spoil the party further for incumbent GSM operators

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- **More serious push for MNP likely**
- **MNP may work in India even if not successful globally**
- **MNP may result in higher pricing pressure and increase in SG&A costs**
- **Potentially huge negative for the sector; RCOM is in a better position than others**

The Competition Commission of India (CCI) has recommended that the DOT introduce Mobile Number Portability (MNP), citing the unhappiness of consumers with existing service providers. The TRAI is already in favor of MNP and the telecom minister has expressed his desire to explore MNP after GSM operators increased tariffs in Delhi circle. We believe that MNP would be eventually introduced in India and would take about 18 months to implement from the date of initiation (the earliest MNP would be live is March 2009). We expect the introduction of MNP to change the competitive landscape in three ways—(1) higher spend on customer retention; (2) greater emphasis on quality of service implying higher capex spend; and (3) pressure on tariffs due to extant operators (including RCOM) using pricing aggressively to target high ARPU customers of incumbents. We highlight that these policy changes are potentially negative for the incumbent GSM operators like Bharti, Idea and Vodafone-Essar while marginally positive for RCOM. We retain our cautious view of the Indian telecom sector. Our DCF-based 12-month target prices of Bharti, Idea and RCOM, respectively, are Rs750, Rs110 and Rs500, respectively.

MNP may work in India even if not successful globally. We expect MNP to be a success in India due to (1) absence of long-term service contracts between service providers and subscribers and (2) price-sensitive nature of the market. We expect MNP to be negative for Bharti, Idea and Vodafone but positive for RCL. Global experience suggests that certain hygiene factors need to be in place for MNP to be successful including (1) low cost of port (2) time within which port, if accepted, should be low and (3) easy administrative procedures. We would refer readers to our report *Change is bad* dated October 4, 2007 for more details.

Globally MNP has been introduced after mobile penetration crossed 50% in most cases. Exhibit 1 presents data on the mobile penetration in various countries at the time of implementation of MNP. In the developed markets, MNP has been implemented after mobile penetration has crossed 50%. We are, however, not sure about the mobile penetration when the regulator initiated the MNP process. In most countries, it has taken at-least 18-24 from the date of initiation of MNP process to implementation. We believe that it may take a similar time to implement MNP in India, effectively implying that MNP would not become a reality before March 2009. We expect mobile penetration in India to reach ~30 by that time. However, we would note that mobile penetration in metros and large cities is near or above 50%, suggesting that conditions are ripe for introduction of MNP in a phased-manner.

Cost and capex may vary depending on the call routing method employed but is negligible in the context of market cap. of the sector. Direct routing of call ("All Call Query") involves higher set-up costs and capex but has lower operational costs. Pakistan implemented "All Call Query" system at a capex of approximately US$80 mn in March 2007 for 55.7 mn subscribers (each operator contributed US$10-12 mn). Extrapolating this capex to India, it would cost US$450-500 mn for implementation (based on FY2009E subs). On the other hand, UK adopted onward routing which has a lower upfront capex but higher administration costs. In UK, MNP implementation had upfront costs of US$12 mn for 15 mn subs, assuming that the set up costs remain the same, capex for Indian vendors could be US$270 mn.

Implications for Indian telecom operators

India is different from other countries in that long-term service contracts and handset subsidies are virtually non-existent. The only other country which is similar to India is Finland, where the regulator does not allow handset bundling. After the introduction of MNP, the churn rate in Finland increased by >10 pps within a short timeframe. ARPU for Telia Sonera, the largest operator in Finland, declined 16% within four quarters of the launch of MNP. Exhibit 2 discusses the Finland case in detail. We expect the impact on Indian players in the following ways:

1. **Sales and marketing spend will go up**. We believe MNP will lead to higher sales expenses to retain customers. In addition, operators may be forced to invest in network and improve the quality of service. Further, telecom operators may enter into long-term service contracts by bundling or providing handset subsidies to subscribers.
2. **Price competition will increase**. MNP would perhaps remove the last possible barrier to competition. In our view, price competition will likely intensify given that there is very little difference between service providers. Further, pricing will quickly settle around the lowest price offered by a service provider in a region.

We note that India is a very price-sensitive market and subscribers would have no qualms about changing their service provider for a cheaper service as long as they can retain their numbers. Even without MNP, churn is quite high in India (prepaid and postpaid monthly churn for Bharti was 3.6% and 4%, respectively, in 1QFY08), which demonstrates either (1) dissatisfaction with service providers and/or (2) propensity to change operators based on relative pricing.

RCOM is in a better position versus others. We believe that the eventual implementation of MNP will be a large negative development for the sector, especially now that GSM spectrum allocation to 'new' players including RCOM looks more likely (see Exhibit 3 for the priority order of spectrum allocation of GSM spectrum). We expect RCOM to be a in a relatively better position versus others under a MNP regime. RCOM can churn out extant GSM subscribers of incumbent operators under MNP while largely retaining its CDMA subscriber. A CDMA subscriber of RCOM will not be in a position to migrate to a GSM operator (technology compatibility issues). A CDMA subscriber would have limited options to migrate given fewer (two only) number of CDMA players.

MNP launch time and mobile penetration at the time of launch in various countries

Country	Year of launch	Mobile penetration at the time of launch (%)
Australia	Jun-01	57
Austria	Oct-04	97
Belgium	Sep-02	73
Canada	Mar-07	58
Denmark	Jul-01	65
Finland	Jul-03	89
France	Jun-03	64
Germany	Sep-02	71
Hong Kong	Mar-99	48
Ireland	Jul-03	83
Italy	Sep-02	91
Japan	Oct-06	74
Korea	Jan-04	70
Netherlands	Apr-99	27
Norway	Nov-01	82
Pakistan	Mar-07	33
Portugal	Jan-02	76
Singapore	Apr-97	16
Spain	Oct-00	58
Sweden	Sep-01	78
Switzerland	Mar-00	55
UK	Jan-99	51
US	Mar-03	51

Source: Industry sources, Kotak Institutional Equities.

Introduction of MNP saw a sharp increase in churn and substantial pricing pressure for the Finnish telecom operators
MNP case study: Finland

	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05
# of subscribers	4,749	4,789	4,829	4,891	4,950	5,066	5,128	5,209	5,292
# of mobile number portings		381	300	211	321	564	366	319	215
Portings as % of subs base		**8.0**	**6.2**	**4.3**	**6.5**	**11.3**	**7.2**	**6.2**	**4.1**
Blended churn, leading operator (%)	**20**	**37**	**31**	**22**	**26**	**34**	**29**	**25**	**18**
Blended ARPU, leading operator (US$/sub/month)	**46**	**47**	**48**	**47**	**44**	**40**	**38**	**37**	**35**
MOU, leading operator (min/sub/month)	**164**	**236**	**249**	**258**	**267**	**265**	**285**	**278**	**281**
RPM, leading operator (US cents)	**28.2**	**20.0**	**19.1**	**18.4**	**16.4**	**15.0**	**13.3**	**13.1**	**12.6**
EBITDA margin of the leading operator (%)	**35.3**	**38.4**	**38.8**	**40.5**	**33.0**	**33.3**	**27.8**	**35.0**	**29.5**

Increased churn led to severe pricing competition resulting in a sharp decline in revenue per minute (RPM) of the leading operator, Teliasonera

Note:
(1) MNP was launched in Finland in July 2003.
(2) Handset subsidy on 2G handsets is banned in Finland. 3G handset subsidies have been allowed since April 2006.
(3) Finland is among the few countries in the world where handset bundling is not allowed/ popular. This reflected in the high number of ports in Finland compared to other countries.

Source: NUMPAC 2006, Telegeography, Kotak Institutional Equities.

RCOM and Idea likely to get GSM spectrum assuming 20 Mhz spectrum is released by the defence department and TRAI's revised spectrum policy is accepted

New entrants and likely order of receipt of spectrum based on chronological order

	Bharti	Reliance	BSNL/MTNL	VOD/Essar	Idea	TTSL	Aircel	Spice	Others
Metro									
Calcutta					2		1	3	
Chennai		2			1			3	
Delhi		2					1	3	
Mumbai		3			2		1	4	
Circle A									
Andhra Pradesh		2					1	3	
Gujarat		2					1	3	
Karnataka		2			2		1		
Maharashtra		2					1	3	
Tamil Nadu		2			1			3	
Circle B									
Haryana		2					1	3	
Kerala		2					1	3	
Madhya Pradesh				2			1	3	
Punjab		2			2		1		
Rajasthan		2					1	3	
Uttar Pradesh (east)		2					1	3	
Uttar Pradesh (west)		2					1	3	
West Bengal and A&N islands					2			3	1
Circle C									
Assam				1	3			4	2
Bihar				1	2			4	3
Himachal Pradesh				1				2	
North East				1	2			4	3
Orissa				1	2			4	3
J&K				1	2			3	

Existing operations
License acquired but spectrum not available
License applied for
Existing CDMA operations, GSM license received, spectrum awaited

Source: COAI, AUSPI, DOT, compiled by Kotak Institutional Equities.

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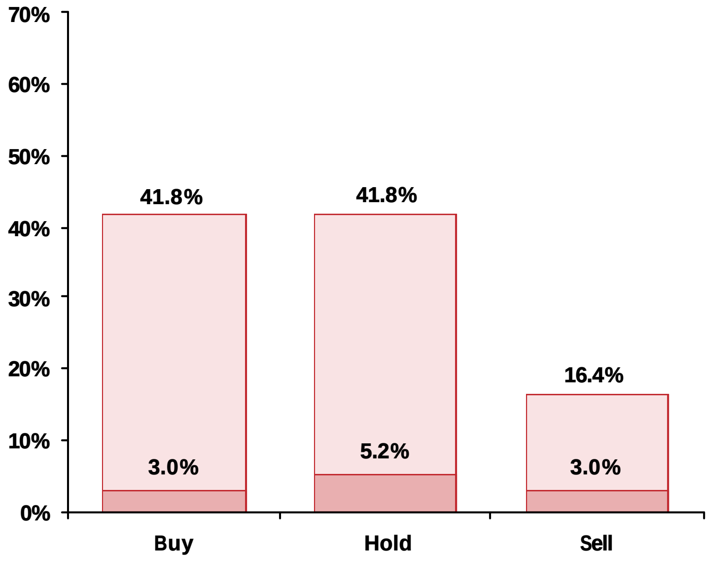

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Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

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

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