kotak® Institutional Equities

INDIA DAILY

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News Roundup

Corporate

- Bajaj Auto, India's second-largest two-wheeler maker plans to price its first car between Rs0.2 mn and Rs0.5 mn *(BS).*
- BHEL and Germany-based MAN Turbo have bagged Rs1.1 bn order from Rashtriya Ispat Nigam (RINL) for supply and installation of turbo blower package *(BL).*
- The government has agreed to Cairn India's proposal to lay a "pre-heated" 580-km pipeline at a cost of $600 million to transport the crude oil from its Barmer oil fields in Rajasthan to Virangam in Gujarat *(BS).*
- Ranbaxy has launched the 80 mg generic version of the cholesterol lowering drug Pravastatin with six-month market exclusivity *(BL).*

Economic and political

- Meeting of the Energy Coordination Committee to discuss pricing and allocation of natural gas for the fertilizer sector has been postponed to July 12 *(BS).*

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

EQUITY MARKETS

		Change, %		
India	**25-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	14,488	0.1	1.0	10.4
Nifty	4,259	0.2	0.3	11.5
Global/Regional indices				
Dow Jones	13,352	(0.1)	(1.1)	7.1
Nasdaq Composite	2,577	(0.5)	0.8	4.9
FTSE	6,588	0.3	0.3	4.7
Nikkie	18,031	(0.3)	3.1	2.9
Hang Seng	21,863	0.2	6.5	10.6
KOSPI	1,754	(0.2)	6.7	21.0

Value traded - India

			Moving avg, Rs bn	
	25-Jun		**1-mo**	**3-mo**
Cash (NSE+BSE)	124.2		136.5	132.1
Derivatives (NSE)	402.6		425.3	336.2
Deri. open interest	780.6		663.3	591.6

Forex/money market

		Change, basis points		
	25-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.9	-	38	(243)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	-	-	20

Net investment (US$mn)

	21-Jun		**MTD**	**CYTD**
FIIs	403		109	4,056
MFs	(7)		26	(84)

Top movers -3mo basis

		Change, %		
Best performers	**25-Jun**	**1-day**	**1-mo**	**3-mo**
Balaji Telefilms	218	(3.3)	(1.8)	77.0
GESCO	348	1.7	36.3	74.8
Reliance Cap	1,099	0.7	12.5	65.7
Moser Baer	441	(1.9)	(0.6)	46.7
SBI	1,449	(0.5)	11.6	42.9
Worst performers				
Bajaj Auto	2,138	(1.7)	(1.5)	(14.8)
Polaris	155	(0.6)	(9.0)	(14.0)
Cipla	206	(1.8)	0.5	(13.3)
Wipro	515	(0.4)	(5.1)	(12.1)
Raymond	305	(0.4)	(7.1)	(10.5)

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Energy

ONGC.BO, Rs917	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,075
52W High -Low (Rs)	990 - 673
Market Cap (Rs bn)	1,961

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	969	996	984
Net Profit (Rs bn)	181.0	211.9	212.5
EPS (Rs)	84.4	99.1	99.3
EPS gth	*18.2*	*14.2*	*0.3*
P/E (x)	10.6	9.3	9.2
EV/EBITDA (x)	4.5	4.0	3.7
Div yield (%)	3.3	3.6	3.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	8.7	2.7	(3.9)
MFs	1.3	2.4	(4.2)
UTI	-	-	(6.6)
LIC	2.3	3.9	(2.7)

Oil & Natural Gas Corporation : Weak 4QFY07 results despite several one-off items in 'other income'

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- **Higher subsidy loss and employee costs dampen results**
- **Net income boosted by extraordinary adjustments**
- **Reviewing estimates but retain 12-month target price of Rs1,075**

ONGC reported weak 4QFY07 results with standalone net income at Rs26.8 bn (-43 % qoq and -13% yoy) lower than our estimate of Rs32 bn. ONGC's standalone EBITDA for 4QFY07 was at Rs44.1 bn (-51% qoq and -34% yoy) lower than our estimate of Rs71 bn primarily due to (1) higher subsidy loss of Rs46.7 bn (+112% yoy and +37% qoq) and (2) higher employee costs of Rs15.5 bn; this includes Rs12.9 bn of arrears pertaining to prior period incentives and other one-off adjustments. Net income also includes extraordinary income of Rs4.8 bn arising due to insurance claims and Rs11.6 bn included in other income due to transfer of surplus in Gas Pool Account to the company. ONGC's reported FY2007 standalone net income was Rs156 bn against Rs144 bn in FY2006 and our estimate of Rs162 bn. ONGC reported a subsidy loss of Rs170 bn for FY2007 which was in-line with our estimate. The net profit for the group (ONGC, OVL and MRPL) on a gross basis was reported at Rs178 bn for FY2007 against Rs154 bn in FY2006. We are reviewing our estimates pending discussion with the management and retain our 9X normalized FCF-based 12-month target price of Rs1,075, which does not include any valuation for new discoveries. Key downside risks are (1) lower-than-expected commodity prices and (2) higher-than-expected subsidy losses.

Higher subsidy loss and employee costs dampen results. ONGC's standalone EBITDA declined by 50.5% qoq to Rs44.1 bn pulled down primarily by higher subsidy loss and higher employee costs. ONGC reported subsidy loss of Rs46.7 bn for 4QFY07 (+112% yoy and +37% qoq). The subsidy loss was higher on account of discount to refiners rising to US$24.8/bbl in 4QFY07 from US$19.5/bbl in 4QFY06. Sales revenue declined to Rs124 bn in 4QFY07 (-20% qoq) due to (1) lower sales volume for crude oil (-1.9% qoq) and gas (-1.1% qoq) and (2) lower crude price (US$58.1/bbl in 4QFY07 versus US$59.9/bbl in 3QFY07 for Dated Brent). However sales revenue improved marginally on a yoy basis as lower crude prices (US$58.1/bbl in 4QFY07 versus US$60.1/bbl in 4QFY06) were compensated by a rise in volumes of crude oil (+ 5.6% yoy) as production at ONGC's key Mumbai fields was recovering from a fire accident in 4QFY06. Employee costs increased to Rs15.5 bn (+210% qoq and 209% yoy); however, this includes Rs12.9 bn of arrears pertaining to prior period incentives and other one-off adjustments.

Net income boosted by extraordinary adjustments. ONGC has booked Rs4.8 bn of extraordinary income in 4QFY07 pertaining to the settlement of an insurance claim relating to the July 2005 fire accident at its Mumbai High North platform. The figure represents the difference between Rs8.7 bn of insurance income and Rs3.9 bn of book value of the destroyed assets. In addition, ONGC has also booked Rs11.6 bn as other income on account of transfer of surplus in Gas Pool Account to partly compensate its claim for higher price towards richer fraction of gas supply to GAIL since July 2005.

Operating details for FY2007

ONGC recorded In-place Reserves accretion (ONGC operated areas) of 169.52 mn tonnes in FY2007. Ultimate reserve accretion was recorded at 65.56 mn tonnes. Crude oil sales were higher at 24.4 mn tonnes (+8.8 yoy) while gas sales were marginally down at 20.3 bcm (-0.9% yoy). Crude oil production went up by 9% to 26.05 mn tonnes in FY2007 compared to 24.4 mn tonnes in FY2006. Natural gas production was maintained at 22.44 bcm compared to 22.57 bcm in FY2006, despite disruptions of operations at Hazira due to floods.

ONGC standalone interim results, March fiscal year-ends (Rs mn)

	qoq			yoy			yoy		
	4Q 2007	**3Q 2007**	***% chg***	**4Q 2007**	**4Q 2006**	***% chg***	**2007**	**2006**	***% chg***
Net sales	123,970	155,645	*(20.4)*	123,970	118,984	*4.2*	566,328	479,229	*18.2*
Total expenditure	(79,825)	(66,553)	*19.9*	(79,825)	(51,730)	*54.3*	(281,598)	(205,770)	*36.9*
Change in stock in trade	(209)	514		(209)	2,091		(197)	2,116	
Raw materials (a)	(894)	(1,618)	*(44.8)*	(894)	(2,365)	*(62.2)*	(3,928)	(3,732)	*5.2*
Trading purchase	(12,543)	(13,788)	*(9.0)*	(12,543)	(7,571)	*65.7*	(59,401)	(34,338)	*73.0*
Staff expenditure	(15,549)	(5,020)	*209.7*	(15,549)	(5,027)	*209.3*	(29,818)	(12,727)	*134.3*
Statutory levies	(28,392)	(30,582)	*(7.2)*	(28,392)	(18,275)	*55.4*	(119,930)	(96,957)	*23.7*
Other expenditure	(22,239)	(16,058)	*38.5*	(22,239)	(20,582)	*8.1*	(68,324)	(60,133)	*13.6*
EBITDA	**44,145**	**89,093**	***(50.5)***	**44,145**	**67,254**	***(34.4)***	**284,731**	**273,459**	***4.1***
Other income	21,790	7,045	*209.3*	21,790	6,299	*245.9*	42,431	23,550	*80.2*
Interest	(65)	(77)	*(15.9)*	(65)	(323)	*(80.0)*	(215)	(470)	*(54.2)*
Depreciation	(28,637)	(25,576)	*12.0*	(28,637)	(31,574)	*(9.3)*	(94,994)	(84,573)	*12.3*
Pretax profits	**37,232**	**70,485**	***(47.2)***	**37,232**	**41,656**	***(10.6)***	**231,952**	**211,966**	***9.4***
Extraordinary/Prior period adjustment	4,751	—		4,751	6,405		4,751	6,405	
Tax	(8,183)	(24,861)	*(67.1)*	(8,183)	(7,228)	*13.2*	(78,403)	(64,951)	*20.7*
Deferred tax	(6,983)	1,059	*(759.4)*	(6,983)	(9,974)	*(30.0)*	(1,870)	(9,113)	*(79.5)*
Net income	**26,816**	**46,683**	***(42.6)***	**26,816**	**30,859**	***(13.1)***	**156,430**	**144,308**	***8.4***
Tax rate (%)	36.1	33.8		36.1	35.8		33.9	33.9	
Volume data									
Subsidy loss	46,680	22,040	*111.8*	46,680	34,069	*37.0*	170,240	119,565	*42.4*
Crude sales ('000 tonnes)	6,110	6,230	*(1.9)*	6,110	5,720	*6.8*	24,410	22,440	*8.8*
Gas sales (mcm)	5,170	5,230	*(1.1)*	5,170	5,140	*0.6*	20,300	20,490	*(0.9)*
LPG (000 tonnes)	263	280	*(6.1)*	263	277	*(5.1)*	1,033	1,081	*(4.4)*
Naphtha/NGL	396	385	*2.9*	396	295	*34.2*	1,442	1,578	*(8.6)*
C2/C3	141	148	*(4.7)*	141	141	*0.0*	548	533	*2.8*
SKO	42	42	*0.0*	42	38	*10.5*	156	175	*(10.9)*

(a) represents consumption of stores & spares

Source: Company data, Kotak Institutional Equities estimates.

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

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	433,264	635,956	742,532	968,720	977,104	966,158	1,009,554
EBITDA	**192,480**	**269,526**	**318,069**	**358,008**	**384,694**	**379,424**	**422,114**
Other income	18,220	21,811	28,446	21,848	21,335	21,965	23,127
Interest	(6,964)	(3,950)	(955)	(1,417)	(941)	(777)	(555)
Depreciation and depletion	(65,480)	(73,466)	(98,007)	(110,238)	(104,941)	(104,331)	(101,834)
Pretax profits	138,255	213,921	247,553	268,201	300,148	296,281	342,852
Tax	(46,101)	(74,003)	(71,523)	(99,651)	(104,273)	(101,225)	(123,520)
Deferred tax	(4,218)	(770)	(16,585)	3,299	6,713	8,056	10,591
Net profits	86,811	138,943	159,706	171,849	202,588	203,112	229,922
Net profits after minority interests	**87,979**	**137,639**	**157,201**	**170,794**	**200,693**	**201,656**	**227,577**
Earnings per share (Rs)	**41.1**	**64.4**	**73.5**	**79.9**	**93.8**	**94.3**	**106.4**
Balance sheet (Rs mn)							
Total equity	415,582	488,912	578,830	674,765	790,311	910,140	1,029,938
Deferred tax liability	54,250	57,911	71,557	70,184	62,528	51,632	41,535
Liability for abandonment cost	80,292	80,941	128,675	128,675	128,675	128,675	128,675
Total borrowings	60,961	39,028	22,259	18,584	16,484	7,192	45,491
Currrent liabilities	85,376	128,346	152,162	88,107	88,008	88,418	87,063
Total liabilities and equity	**696,461**	**795,138**	**953,483**	**980,315**	**1,086,006**	**1,186,057**	**1,332,702**
Cash	95,721	101,843	91,132	116,100	241,903	364,702	487,982
Current assets	133,039	178,421	240,479	201,253	171,136	162,097	166,002
Total fixed assets	419,213	471,543	568,252	609,340	619,345	605,637	625,129
Goodwill	11,661	10,753	14,172	14,172	14,172	14,172	14,172
Investments	30,811	26,961	35,480	35,480	35,480	35,480	35,753
Deferred expenditure	6,017	5,617	3,969	3,969	3,969	3,969	3,663
Total assets	**696,461**	**795,138**	**953,484**	**980,314**	**1,086,005**	**1,186,056**	**1,332,701**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	120,499	178,158	225,995	202,169	228,806	226,108	247,099
Working capital changes	24,950	18,839	44,082	(10,204)	27,175	(52,695)	35,091
Capital expenditure	(56,366)	(102,727)	(110,836)	(103,311)	(65,780)	(41,550)	(32,550)
Investments	(10,608)	(9,887)	(28,640)	—	—	—	—
Other income	9,765	12,964	14,539	22,573	21,990	22,340	23,127
Free cash flow	**88,240**	**97,347**	**145,141**	**111,227**	**212,191**	**154,203**	**272,767**
Ratios (%)							
Debt/equity	14.7	8.0	3.8	2.8	2.1	0.8	4.4
Net debt/equity	(8.4)	(12.8)	(11.9)	(14.5)	(28.5)	(39.3)	(43.0)
RoAE	20.2	27.4	26.5	24.7	25.4	22.5	22.6
RoACE	**19.2**	**24.1**	**22.8**	**20.9**	**21.9**	**19.7**	**20.1**
Key assumptions							
Rs/dollar rate	46.0	45.0	44.3	45.3	42.0	42.0	42.0
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	65.0	60.0	60.0
Ceiling natural gas price (Rs/'000 cm)	2,850	2,850	3,515	3,750	4,000	4,500	5,000
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	150.0	120.0	90.0

Source: Kotak Institutional Equities estimates.

Pharmaceuticals

CADI.BO, Rs373	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	420
52W High -Low (Rs)	412 - 256
Market Cap (Rs bn)	47

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	17.9	21.1	24.2
Net Profit (Rs bn)	2.1	2.7	3.1
EPS (Rs)	17.0	21.3	24.9
EPS gth	*40.3*	*24.9*	*17.4*
P/E (x)	21.9	17.6	15.0
EV/EBITDA (x)	14.1	11.9	10.3
Div yield (%)	1.1	1.4	1.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	72.0	-	-
FIIs	5.0	0.0	(0.1)
MFs	6.0	0.3	0.1
UTI	-	-	(0.1)
LIC	6.8	0.3	0.1

Cadila Healthcare : Acquires a mid-sized company in Brazil; part of global expansion strategy

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- **Acquires small company in Brazil; now present in both branded and unbranded generics market in Brazil**
- **Adds about 5% to revenues; and price of 1X sales seems attractive**
- **This is Zydus's second overseas acquisition this year, and is a part of the company's global expansion strategy. Maintain OP.**

Zydus Cadila has acquired a 100% stake in Nikkho, a mid-sized, privately held company in Brazil. Nikkho is profit making and posted sales of US$26 mn in CY2006. The acquisition price is around 1X sales, and seems to be attractive (Cadila trades at FY2007 EV/Sales of 3X). This is Zydus's second overseas acquisition this year, after one in Japan, and is a part of the global expansion strategy. More such acquisitions are possible in the medium term. For FY2008, we estimate revenue growth of 18% and net profit growth of 25%. This acquisition will add about 5% to revenues. We have an OP rating on Cadila, with a DCF-based target price of Rs420, or 17x FY2009 earnings.

Nikkho caters exclusively to the Brazilian prescription drugs market, and has been in existence for over four decades. Zydus is already present in the pure generics market in Brazil (US$4 mn revenues in FY2007) and this acquisition helps it enter the 'branded generics'. This agreement will come into effect after the satisfaction of closing conditions.

Nikkho's sales force of 125 people covers all the major markets in Brazil and the product basket comprises a wide range of therapeutic segments such as general medicine, pediatrics, gynecology, neurology, gastroenterology, otolaryngology, respiratory, dermatology, and others. Nikkho currently markets 22 products under 13 different brands. It also has nearly 50 registered brands, which are yet to be launched.

The Brazilian pharma market is the largest amongst the Latin American markets and is estimated at US$8 bn. Nikkho can serve as a platform for the company's LatAm strategy, which is a emerging pharmaceutical market in the world. Zydus already has a QC laboratory in Brazil, and this acquisition adds manufacturing capacity (injectables and tablets). With the changing regulatory landscape in Brazil, Zydus believes that it could become mandatory to have a manufacturing base in the country.

Expect earnings growth of 21% compounded over next two years. Cadila's revenues will likely grow by 16% over the next two years and net profit by 21% compounded. We expect a strong 25% earnings growth in FY2008 on the back of 18% revenue growth. This acquisition will add about 5% to revenues. Our model assumes margins of 17.9% in FY2008 and 17.8% in FY2009, up from 17.3% in FY2007.

JV with Mayne could make up for lost profits from Zydus Altana in FY2009 and FY2010. Investors are usually concerned about the company's dependence on Zydus Altana, the JV that makes intermediates of Protonix. Patents on Protonix expire in 2010 in the US and 2009 in other parts of the world. Cadila's share of profits was Rs663 mn in FY2007, which we believe will come down to Rs538 mn in FY2008 and Rs300 mn in FY2009. We expect contribution of Zydus Altana to drop to 20% in FY2008, from 31% in FY2007. To reduce dependence on this JV, the company has signed over twenty manufacturing contracts, with peak revenue potential of US$75 mn. The most prominent is a JV with Hospira for manufacturing seven oncology products, with peak revenue potential of US$50 mn by 2010. In absolute terms, the management reiterated that the Mayne JV will likely exceed lost profits of Zydus Altana.

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

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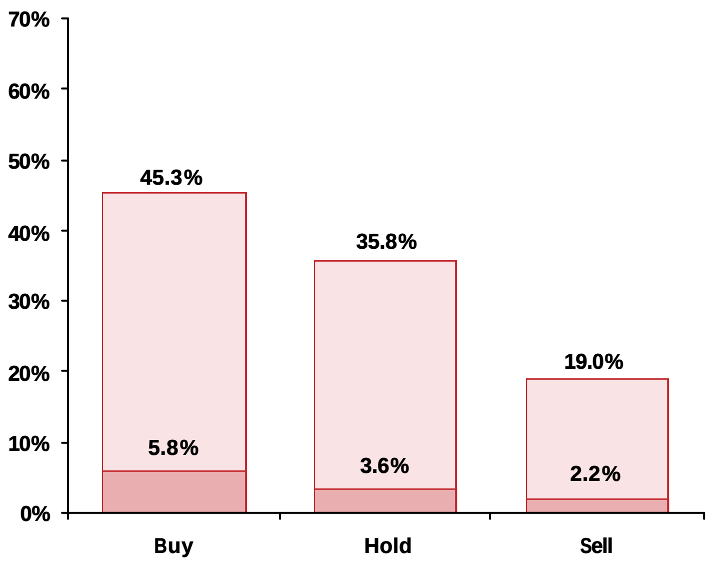
Distribution of ratings/investment banking relationships



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

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

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

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

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