kotak® Institutional Equities

INDIA DAILY

February 20, 2008

EQUITY MARKETS

India	19-Feb	1-day	1-mo	3-mo
		Change, %		
Sensex	18,076	0.2	(4.9)	(6.3)
Nifty	5,281	0.1	(7.4)	(8.7)
Global/Regional indices				
Dow Jones	12,337	(0.1)	2.0	(5.2)
Nasdaq Composite	2,306	(0.7)	(1.4)	(11.2)
FTSE	5,967	0.3	1.1	(4.2)
Nikkie	13,652	(0.8)	(1.5)	(10.3)
Hang Seng	23,989	(0.6)	(4.8)	(13.6)
KOSPI	1,712	(0.5)	(1.3)	(8.6)

Value traded - India

	19-Feb		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	187.4		220.0	130.5
Derivatives (NSE)	364.0		728.5	518
Deri. open interest	753.5		1,310	1,063

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Corporate

- The Tata group is making its second investment in aviation with group company Indian Hotels Company Ltd investing 36-37% in a newly-floated company, BJETS, in partnership with Singapore-based Briley Group. (BS)
- Parsvnath Hotels, a wholly owned sunbsidiary of Delhi-based real estate developer Parsvnath Developers, has formed a JV with Bangalore-based Toyal Orchid Hotels. The JV will develop 10 hotels at ann investment of Rs500 crore. (ET)
- British Gas India, a subsidiary ofUK-based gas major British Gas, has picked up stake in two deepwater exploration blocks owned by Oil and Natural Gas Corporation. (BS)
- The four minority domestic investors of Sony Entertainment Television (SET) India, the Indian arm of the Japanese major, have taken the company to court over disagreements concerning demands on them for more capital (SET India had asked shareholders to infuse fresh equity of US$40 mn, which they turned down). (BS)
- The ONGC Tripura Power Corporation’s 740 MW gas-based power project received bids for its EPC contract only from Bharat Heavy Electricals Ltd and Alstom. Notably, leading EPC contractors Siemens, Reliance EPC and Larsen & Toubro have refrained from submitting bids. (FE)

Economic and political

- Indian employees received an average salary increase of 15.1%, the highest increase across 14 Asia Pacific countries, in the one-year period beginning January 2007, according to the 12th annual Asia-Paciofic Salarly Increase Survey conducted by Hewitt Associates. (BS)

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

Forex/money market

	19-Feb	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	39.9	0	38	57
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	4	3	(31)

Net investment (US$mn)

	18-Feb		MTD	CYTD
FIIs	(29)		1,249	(4,271)
MFs	(11)		(69)	1,923

Top movers -3mo basis

Best performers	19-Feb	1-day	1-mo	3-mo
		Change, %		
Punjab Tractors	250	(1.5)	(13.0)	25.1
BPCL	451	(3.2)	4.0	13.4
Asian Paints	1,116	(3.2)	7.4	11.1
HDFC	2,860	(1.4)	1.4	8.4
NALCO	404	3.7	(7.8)	8.4
Worst performers				
Tvs Motor	39	0.8	(35.9)	(42.5)
Moser Baer	170	0.1	(33.0)	(38.3)
Balaji Telefilms	218	0.0	(27.3)	(36.2)
MRF	4,662	(0.9)	(23.9)	(35.5)
Arvind Mills	50	(2.5)	(30.1)	(33.2)

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Industrials

ABB.BO, Rs1308	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,575
52W High -Low (Rs)	1670 - 638
Market Cap (Rs bn)	277.3

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	42.7	59.3	84.5
Net Profit (Rs bn)	3.4	4.9	7.3
EPS (Rs)	16.1	23.2	34.6
EPS gth	*55.6*	*44.5*	*49.2*
P/E (x)	81.5	56.4	37.8
EV/EBITDA (x)	49.2	33.7	22.3
Div yield (%)	0.2	0.2	0.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	17.8	0.6	(0.1)
MFs	4.0	0.8	0.1
UTI	-	-	(0.7)
LIC	8.2	1.5	0.8

ABB: Misses expectations with lower-than-expected growth in revenues and margins; Highlight continued strong yoy performance

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- **Misses expectations with lower-than-expected growth in revenues and margins**
- **Highlight continued strong performance year-on-year, optimized working capital further leading to strong cash generation**
- **Order booking remains in line with expectations**
- **Recent large order wins highlight potential for strong growth**
- **Marginal revision in earnings estimates based on lower execution and margins; maintain DCF-based target price of Rs1,575; reiterate ADD rating**

ABB reported revenues of Rs18.4 bn (up 29% yoy) and PAT of Rs1.8 bn (up 34% yoy) in 4QCY07, versus our expectation of Rs20.6 bn and Rs2.1 bn, respectively. Operating margins in 4QCY07 expanded by about 50 bps yoy to 14.1% (versus our expectation of 14.8%). We highlight that ABB has been delivering strong revenue growth, margin expansion and earnings growth year-on-year. Order booking in 4QFY07 was Rs20 bn, up 42% yoy, in-line with our expectation. Order backlog at the end of CY2007 was Rs50.3 bn, providing a visibility of seven months based on forward four quarter revenues. ABB has won certain large orders in recent times, highlighting potential for strong growth and possible margin expansion. We revise our y/e Dec'08 and Dec'09 earnings estimates to Rs34.6 and Rs45.6 respectively from Rs36 and Rs47 earlier based on a slightly lower execution and margins. We maintain our CY2008 DCF-based target price of Rs1,575. We reiterate our ADD rating based on strong sectoral momentum.

Misses expectations with lower-than-expected growth in revenues and margins

ABB reported revenues of Rs18.4 bn (up 29% yoy) and PAT of Rs1.8 bn (up 34% yoy) in 4QCY07, versus our expectation of Rs20.6 bn and Rs2.1 bn, respectively. Operating margins in 4QCY07 expanded by about 50 bps yoy to 14.1% (versus our expectation of 14.8%, Exhibit 1). We highlight that in 4QCY07, ABB maintained 4Q margin-levels of the past few years (Exhibit 2). The margin expansion is lower than our expectation despite (1) the decline in raw-material-to-sales ratio by 160 bps, potentially led by rupee appreciation, as ABB is a sizeable net importer of components and (2) operating leverage (employee expenses to sales ratio is down by 30 bps). Operating expenses to sales ratio has increased by 150 bps yoy, leading to the miss in our margin expectations. We would have expected other expenses to decline as a percentage of sales with strong top-line growth unless there are one-off expenses included under this head.

Highlight continued strong performance year-on-year, optimized working capital even further leading to strong cash generation

ABB's CY2007 revenues of Rs59 bn have increased 39% yoy and PAT of Rs5 bn has increased 45% yoy. Operating profit margins have expanded by about 100 bps yoy to 12.2%. The EBIT margin expansion has been across segments—(1) Power Products—160 bps to 13%, (2) Automation Products—90 bps to 13.4% and (3) Process Automation—170 bps to 12.5%. Power Systems segment EBIT margins have however contracted by 50 bps yoy to 10.3%. We highlight that ABB's PAT has grown at CAGR of 51% during the period CY2004-06 led by revenue growth of 38% and operating profit margin expansion from 9.4% in CY2004 to 11.2% in CY2006. We believe that such robust yoy growth in revenues and earnings highlights strong execution expertise and the capability to leverage the buoyant demand environment. ABB has highlighted operating cash flow of Rs5,435 mn, reflecting that actual working capital utilization has declined, despite 39% topline growth.

Order booking remains in line with expectations

Order booking in 4QFY07 was Rs20 bn, up 42% yoy, in line with our expectations (we had highlighted in our note yesterday that we expect ABB to book orders of about US$550 mn in the quarter). Our order inflow assumption for CY2007 was Rs79 bn and ABB achieved Rs77 bn. Order backlog at the end of CY2007 was Rs50.3 bn, providing a visibility of seven months based on forward four quarter revenues (Exhibit 3). This visibility slightly exceeds the visibility achieved at the end of the past few calendar years despite the growing base, underscoring the sectoral growth momentum.

Recent large order wins highlight potential for strong growth

ABB won a large order worth Rs5 bn in 4QCY07 from the JSW group for Electrical Balance of Plant (E-BoP) and other works. In 1QCY08, ABB won a large order from Powergrid worth Rs3.3 bn (Exhibit 4). The concept of a separate package for E-BoP work in power project development is fast gaining ground and has the potential for tremendous growth led by (1) significant power capacity addition by central/state utilities and private sector players, (2) increased unbundling of power projects by developers into BTG island, E-BOP and other BOP (enabling cost reduction versus placing a single EPC contract as well as ease of managing fewer contractors versus separate contractors for each individual component of BOP .

Marginal revision in earnings estimates based on lower margins; maintain DCF-based target price of Rs1,575

We revise our y/e Dec'08 and Dec'09 earnings estimates to Rs34.6 and Rs45.6, respectively, from Rs36 and Rs47 earlier, based on slightly lower execution and margins. We highlight that ABB has achieved revenues of about Rs23 bn, Rs30 bn, Rs43 bn and Rs59 bn over CY2004-07, with order backlogs of about Rs11 bn, Rs13 bn, Rs21 bn and Rs34 bn at the beginning of the respective years. The order backlog at the start of CY2008 is about Rs50 bn. We maintain our earnings estimates for Dec'09 at Rs47.2, factoring in revenues of Rs111 bn (yoy growth of 30%) and an operating margin of 13.3%. We maintain our CY2008 DCF-based target price to Rs1,575 (Exhibit 5). We believe that the buoyant demand environment, ABB's strong execution abilities and the potential improvement in margins (as highlighted in our note yesterday) will enable ABB to deliver robust performance.

Reiterate ADD rating based on strong sectoral momentum

We reiterate our ADD rating. We highlight strong investment momentum in power transmission and distribution led by (1) power capacity addition, (2) investment in increasing inter-regional transmission capacity to optimize utilization of generation capacity as well as improve national grid reliability, (3) investment in distribution segment led by regulation (open access) and government schemes such as rural electrification. Industrial capital expenditure also remains strong across several industries such as cement, metals, oil & gas, and petrochemicals providing opportunities for growth of both power as well as automation solutions businesses.

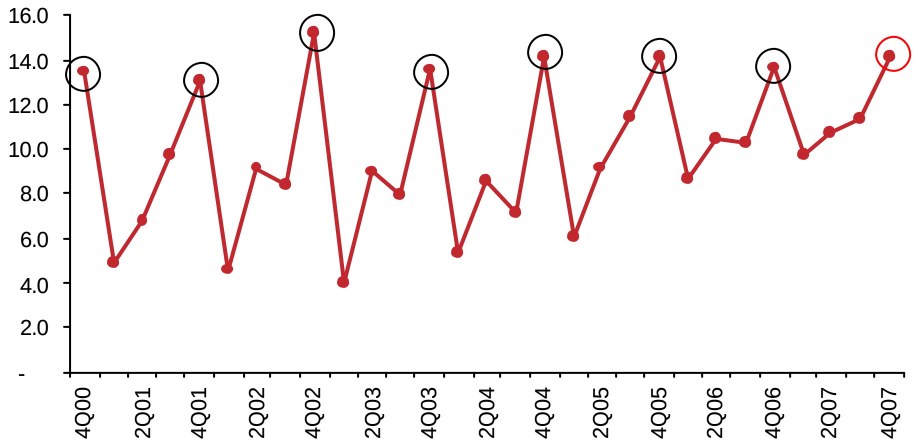
Exhibit 1. ABB - 4QCY07 - key numbers (Rs mn)

	yoy			qoq			yoy		
	4QCY07	4QCY06	% change	4QCY07	3QCY07	% change	CY2007	CY2006	% change
Sales	**18,394**	**14,263**	***29.0***	**18,394**	**13,775**	***33.5***	**59,303**	**42,740**	***38.8***
Expenses	(15,792)	(12,316)	*28.2*	(15,792)	(12,051)	*31.0*	(52,057)	(37,973)	*37.1*
Stock	266	(71)		266	6		521	530	
RM	(13,509)	(10,431)	*29.5*	(13,509)	(9,937)	*35.9*	(43,441)	(31,976)	*35.9*
Employee	(785)	(657)	*19.4*	(785)	(788)	*(0.3)*	(3,061)	(2,414)	*26.8*
Other expenses	(1,764)	(1,157)	*52.5*	(1,764)	(1,333)	*32.4*	(6,076)	(4,113)	*47.7*
Operating profit	**2,602**	**1,947**	***33.7***	**2,602**	**1,724**	***50.9***	**7,246**	**4,767**	***52.0***
Other income	254	174	*45.7*	254	158	*60.8*	710	737	*(3.6)*
EBIDT	2,856	2,121	*34.7*	2,856	1,882	*51.8*	7,957	5,504	*44.6*
Interest	(20)	(1)	*1,710.3*	(20)	(16)	*26.9*	(68)	(7)	*839.4*
Depreciation	(82)	(71)	*14.7*	(82)	(79)	*2.9*	(324)	(265)	*22.4*
PBT	**2,755**	**2,049**	***34.5***	**2,755**	**1,787**	***54.2***	**7,565**	**5,232**	***44.6***
Tax	(947)	(699)	*35.4*	(947)	(630)	*50.3*	(2,648)	(1,829)	*44.8*
Net profit	**1,808**	**1,350**	***34.0***	**1,808**	**1,157**	***56.3***	**4,917**	**3,403**	***44.5***
Key ratios (%)									
RM / Sales	72.0	73.6		72.0	72.1		72.4	73.6	
Empl / Sales	4.3	4.6		4.3	5.7		5.2	5.6	
Other exp / Sales	9.6	8.1		9.6	9.7		10.2	9.6	
OPM	14.1	13.6		14.1	12.5		12.2	11.2	
PBT Margin	15.0	14.4		15.0	13.0		12.8	12.2	
Tax rate	34.4	34.1		34.4	35.3		35.0	35.0	
Order inflow & backlog									
Order booking	20,033	14,126	*41.8*	20,033	16,683	*20.1*	76,682	56,236	*36.4*
Order backlog	50,260	33,723	*49.0*	50,260	49,270	*2.0*	50,260	33,723	*49.0*
Segment results									
Revenues									
Power Products	4,874	3,878	*25.7*	4,874	3,617	*34.8*	16,326	12,130	*34.6*
Power Systems	7,402	4,976	*48.8*	7,402	5,135	*44.2*	22,514	15,096	*49.1*
Automation Products	4,159	2,857	*45.6*	4,159	3,283	*26.7*	13,332	9,179	*45.2*
Process Automation	3,126	3,489	*(10.4)*	3,126	2,496	*25.3*	10,666	9,140	*16.7*
Others	158	63	*149.4*	158	59	*168.5*	344	147	*134.3*
Revenue mix (%)									
Power Products	24.7	25.4		24.7	24.1		25.8	26.5	
Power Systems	37.5	32.6		37.5	34.3		35.6	33.0	
Automation Products	21.1	18.7		21.1	21.9		21.1	20.1	
Process Automation	15.9	22.9		15.9	16.7		16.9	20.0	
Others	0.8	0.4		0.8	0.4		0.5	0.3	
EBIT Margin (%)									
Power Products	17.0	15.8		17.0	11.3		13.0	11.4	
Power Systems	13.0	14.8		13.0	9.6		10.3	10.8	
Automation Products	14.9	15.0		14.9	14.4		13.4	12.5	
Process Automation	14.4	10.6		14.4	13.2		12.5	10.8	
Others	6.3	10.3		6.3	5.2		3.6	6.4	

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2. 4QCY07 margins are similar to fourth quarter margins achieved in recent years

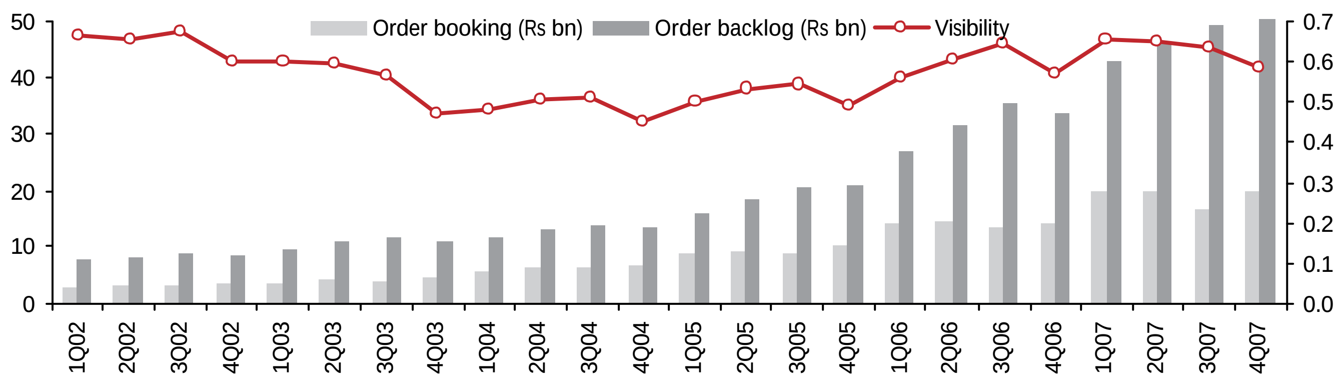
Quarterly margin pattern for ABB for last six years



Source: Company data, Kotak Institutional equities estimates.

Exhibit 3: Visibility, based on forward four quarter revenues, at the end of 4QCY07 has been maintained at levels of the past few years

Order booking, Order backlog & visibility trend for ABB for last five years



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: Order inflows have been strong for ABB, with certain large orders

Key orders won by ABB since CY06

Announcement date	Customer/Project	Contract value (Rs mn)	Scope of order
8-Feb-08	Powergrid Corporation of India Ltd	3,300	Supply and installation of substations and other power equipment
18-Oct-07	JSW group	5,120	Turnkey power and automation solutions for steel and power plants
26-Sep-07	KHD Humboldt Wedag GmbH, Germany	933	Turnkey electrics and automation solution for cement plant in Jordan
28-May-07	Delhi Metro Rail Corporation Ltd.	2,890	Turnkey electrification package for Phase II
8-Feb-07	Grasim Industries' cement division and Ultratech Cement	3,110	Power and automation products and systems for cement capacity expansions
16-Jan-07	Karnataka Power Transmission Corporation Ltd	1,860	Integrated power distribution management system
9-Jan-07	JSW group	2,500	Turnkey solutions and power and automation products for steel and power plant expansions
	Total	**19,713**	

Source: News reports, Kotak Institutional Equities estimates.

Energy

CAST.BO, Rs282	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	290
52W High -Low (Rs)	374 - 206
Market Cap (Rs bn)	34.9

Financials

December y/e	2006	2007	2008E
Sales (Rs bn)	17.5	18.9	19.5
Net Profit (Rs bn)	1.5	2.2	2.4
EPS (Rs)	12.2	17.6	19.4
EPS gth	*3.2*	*44.4*	*10.0*
P/E (x)	23.1	16.0	14.6
EV/EBITDA (x)	13.4	9.3	8.5
Div yield (%)	3.2	5.0	5.3

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	71.0	-	-
FIIs	2.1	0.0	(0.1)
MFs	1.8	0.0	(0.0)
UTI	-	-	(0.1)
LIC	5.7	0.1	0.0

Castrol India: Weaker-than-expected results due to disappointing volume growth

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- **4QCY07 net income up 44% (adjusted basis); margins decline moderately qoq**
- **Fine-tuned estimates to reflect lower volumes and higher LOBS prices**
- **Maintain REDUCE with a 12-month target price of Rs 290 (Rs310 previously) based on 15X CY2008E EPS**

Castrol reported 4QCY07 net income at Rs568 mn (+4.7% qoq, +49% yoy) but below our estimate of Rs652 mn. The variance was primarily due to lower-than-expected revenues, which surprisingly declined 1.2% yoy to Rs4.7 bn versus our expected Rs5.4 bn; revenues increased 10.2% qoq as the third quarter is seasonally weaker. 4QCY07 EBIT margins improved moderately to 16.8% for the automotive segment and 19.8% for the industrial segment compared to 14.8%and 14.5%, respectively, in 4QCY06. We have reduced our CY2008E and CY2009E EPS estimates to Rs19.4 and Rs20.8, respectively, from Rs20.4 and Rs22.2, respectively, to reflect (1) higher LOBS prices due to likely higher crude prices and (2) moderately lower revenues due to lower volumes. We maintain our REDUCE rating on the stock with a revised 12-month target price of Rs290 (Rs310 previously) based on 15X CY2008E EPS. Key downside risk stems from higher-than-expected LOBS prices due to high crude oil prices.

Weaker-than-expected 4QCY07 results due to lower-than-expected revenues. Castrol reported 4QCY07 adjusted net income at Rs568 mn (+4.7% qoq, +49% yoy). However, revenues for 4QCY07 declined 1.2% yoy to Rs4.7 bn; management attributed the decline in revenues to decline in volumes (-1% yoy). We highlight that qoq comparisons are not valid due to the seasonality factor; 3Q coincides with the monsoon and weaker transportation activity. Net revenues for CY2007 also grew moderately to Rs18.9 bn (+7.8% yoy) pulled down by 3% decline in volumes.

Decline in automotive division revenues; margins remain strong. Castrol's 4QCY07 automotive lubes segment's revenues declined marginally by 2.2% yoy to Rs4 bn led by decline in volumes. EBIT grew 11% yoy to Rs669 mn. We do not look at qoq comparisons since automobile lubes sales are seasonal—2Q and 4Q in a calendar year being the best quarters. The automotive segment's EBIT margin remained robust at 16.8% in 4QCY07 compared to 14.8% in 4QCY06.

Industrial segment maintains its strong performance. Castrol's industrial lubes segment reported a 4.4% yoy growth in revenues to Rs772 mn but an impressive 43% yoy increase in EBIT to Rs153 mn. The industrial segment's EBIT margin remained robust at 19.8% in 4QCY07 compared to 14.5% in 4QCY06.

Update on LOBS prices. LOBS prices have moved up in the past few weeks (Exhibit 2) due to a tightening of base oil availability as most of the producers have cut operating rates for base oils and increased fuel production instead to maximize returns. Prices have increased US$20-25/ton over the past 2-3 weeks. In India, HPCL and IOCL have raised prices by Rs1.20-1.50/kg for base oils in the recent month. The prices of LOBS had remained flat in the past three months, prior to the recent increase, despite a sharp surge in crude prices which increased by US$15/bbl over the same period. This was on account of ample supply of LOBS and relatively weak demand in China. However, we expect LOBS prices to rise moderately despite very high crude prices due to significant addition to capacity coming up (in Korea).

Earnings revisions

CY2008. We have revised Castrol's CY2008E EPS to Rs19.4 from Rs20.4 previously on account of (1) higher LOBS prices (US$810/ton from US$795/ton previously) to reflect likely higher crude prices and (2) lower revenues due to lower volumes. The yoy growth in earnings reflects lower LOBS prices in rupee terms due to lower import tariffs (currently at 10.3%, which we expect to be cut to 7.73% in the Union Budget on February 29) and stronger rupee yoy (Rs39/US$ for CY2008E versus Rs41.3/US$ in CY2007).

CY2009. We have revised Castrol's CY2008E EPS to Rs20.8 from Rs22.2 previously on account of (1) higher LOBS prices (US$800/ton from US$780/ton previously) to reflect likely higher crude prices and (2) lower revenues. The yoy growth in earnings reflects a decline of US$10/ton in assumed LOBS prices, lower import tariffs on LOBS and stronger rupee.

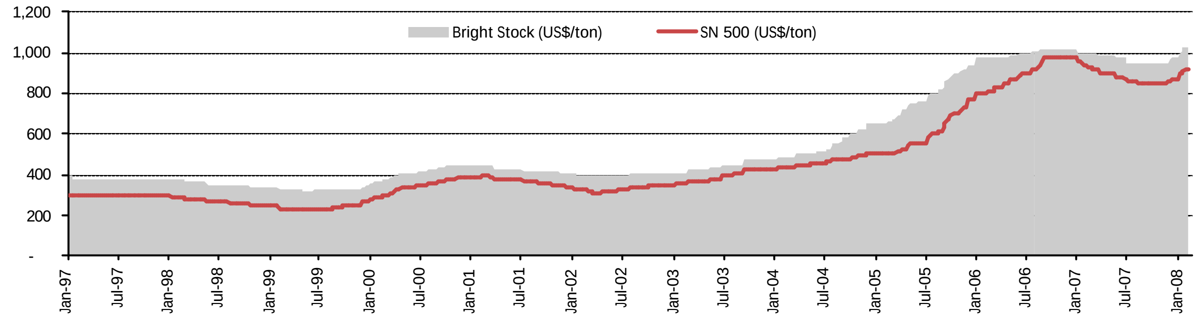
Final dividend announced; good dividend yield. Castrol announced a final dividend of Rs9.5, thus taking the total dividend to Rs14 for CY2007 compared to Rs9 for CY2006. Castrol stock offers a decent dividend yield of 5.3% at current levels. We model Rs15 and Rs16 dividend for CY2008E and CY2009E, respectively.

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

	qoq			yoy			yoy		
	4Q 2007	**3Q 2007**	***% chg***	**4Q 2007**	**4Q 2006**	***% chg***	**2007**	**2006**	***% chg***
Net sales	**4,750**	**4,311**	***10.2***	**4,750**	**4,805**	***(1.2)***	**18,883**	**17,524**	***7.8***
Raw materials	2,668	2,364	*12.9*	2,668	3,123	*(14.6)*	10,977	11,631	*(5.6)*
Employees	255	249	*2.5*	255	181	*40.8*	909	703	*29.3*
Others	1,007	868	*16.0*	1,007	789	*27.6*	3,701	2,990	*23.8*
Advertisement	278	190	*46.4*	278	162	*71.3*	913	648	*40.9*
CIF costs	138	130	*6.6*	138	166	*(16.7)*	633	659	*(3.8)*
Other exp	592	549	*7.8*	592	462	*28.2*	2,154	1,683	*28.0*
Total expenditure	3,931	3,481	*12.9*	3,931	4,094	*(4.0)*	15,587	15,324	*1.7*
EBITDA	**819**	**830**	***(1.3)***	**819**	**711**	***15.2***	**3,296**	**2,200**	***49.8***
EBITDA margin (%)	**17.2**	**19.3**		**17.2**	**14.8**		**17.5**	**12.6**	
Other income	111	86	*29.2*	111	48	*130.8*	348	189	*83.9*
Interest	1	7	*(81.4)*	1	22	*(94.0)*	38	41	*(7.8)*
Depreciation	59	51	*14.6*	59	47	*24.8*	208	180	*15.4*
Pre-tax profits	**870**	**857**	***1.5***	**870**	**691**	***26.0***	**3,398**	**2,168**	***56.7***
Extraordinaries	—	—	—	—	(25)	—	5	208	—
Tax	302	315	*(4.1)*	302	285	*6.1*	1,219	831	*46.7*
Deferred tax	—	—	—	—	—	—	—	—	—
Net income	**568**	**542**	***4.7***	**568**	**381**	***49.1***	**2,184**	**1,545**	***41.4***
Adjusted net income	**568**	**542**	***4.7***	**568**	**395**	***43.6***	**2,181**	**1,416**	***54.0***
Effective tax rate (%)	34.8	36.8		34.8	41.3		35.9	38.3	
Segment details									
Revenues									
Automotive	3,978	3,574	*11.3*	3,978	4,066	*(2.2)*	15,828	14,821	*6.8*
Non-automotive	772	737	*4.8*	772	740	*4.4*	3,054	2,703	*13.0*
Total	**4,750**	**4,311**	***10.2***	**4,750**	**4,805**	***(1.2)***	**18,883**	**17,524**	***7.8***
EBIT									
Automotive	669	641	*4.3*	669	602	*11.0*	2,649	1,951	*35.8*
Non-automotive	153	175	*(12.7)*	153	107	*42.8*	625	369	*69.5*
Total	**822**	**816**	***0.7***	**822**	**710**	***15.8***	**3,274**	**2,320**	***41.1***
EBIT margin (%)									
Automotive	16.8	17.9		16.8	14.8		16.7	13.2	
Non-automotive	19.8	23.8		19.8	14.5		20.5	13.6	
Total	**17.3**	**18.9**		**17.3**	**14.8**		**17.3**	**13.2**	
Capital employed									
Automotive	1,417	1,840		1,417	2,880		1,417	2,880	
Non-automotive	8,630	911		8,630	892		863	892	
Unallocable assets less liabilities	2,022	2,373		2,022	405		2,022	405	
Total	**12,069**	**5,124**		**12,069**	**4,177**		**4,302**	**4,177**	

Source: Company, Kotak Institutional Equities estimates.

LOBS prices have moved up in the past few weeks
Singapore base oil price (US$/ton)



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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	372	328	371	444	400	414	484	660	965	996	1,006
2Q	359	319	405	423	398	427	501	737	980	976	
3Q	347	322	424	415	406	456	552	812	1,005	945	
4Q	341	334	448	413	410	470	623	913	1,013	952	
Average	**355**	**326**	**412**	**424**	**403**	**442**	**540**	**780**	**991**	**967**	**1,006**

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
1,025	1,020	1,015	1,015	1,005

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	283	239	296	386	320	358	436	502	805	930	899
2Q	271	230	335	375	316	373	452	540	867	889	
3Q	262	237	359	362	333	405	473	613	935	853	
4Q	256	257	383	345	345	423	491	728	967	856	
Average	**268**	**241**	**343**	**367**	**329**	**390**	**463**	**596**	**894**	**882**	**899**

Weekly prices (US$/ton)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
920	910	910	905	890

Source: ICIS, Kotak Institutional Equities.

Castrol has high leverage to exchange rate and raw material prices
Sensitivity of Castrol's earnings to key variables

	CY2007E			CY2008E			CY2009E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Exchange rate									
Rupee dollar	42.3	41.3	40.3	40.0	39.0	38.0	39.0	38.0	37.0
Net profits (Rs mn)	2,014	2,184	2,354	2,284	2,399	2,515	2,451	2,567	2,684
EPS (Rs)	16.3	17.7	19.0	18.5	19.4	20.3	19.8	20.8	21.7
% upside/(downside)	**(7.8)**		**7.8**	**(4.8)**		**4.8**	**(4.5)**		**4.5**
Raw material price									
Raw material price (US$/ton)	830	805	780	835	810	785	825	800	775
Net profits (Rs mn)	1,966	2,184	2,402	2,260	2,399	2,539	2,429	2,567	2,706
EPS (Rs)	15.9	17.7	19.4	18.3	19.4	20.5	19.6	20.8	21.9
% upside/(downside)	**(10.0)**		**10.0**	**(5.8)**		**5.8**	**(5.4)**		**5.4**

Source: Kotak Institutional Equities estimates.

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

	2004	2005	2006	2007E	2008E	2009E
Profit model (Rs mn)						
Net sales	13,051	14,304	17,524	18,883	19,452	20,080
EBITDA	**2,082**	**2,117**	**2,200**	**3,296**	**3,683**	**3,941**
Other income	221	201	344	348	320	320
Interest	(29)	(30)	(41)	(38)	(62)	(61)
Depreciation	(249)	(189)	(180)	(208)	(193)	(197)
Pretax profits	2,026	2,098	2,322	3,398	3,749	4,003
Tax	(687)	(694)	(889)	(1,250)	(1,385)	(1,475)
Deferred taxation	9	56	57	31	36	39
Net profits	**1,275**	**1,468**	**1,545**	**2,184**	**2,399**	**2,567**
Earnings per share (Rs)	**10.7**	**11.8**	**12.2**	**17.6**	**19.4**	**20.8**
Balance sheet (Rs mn)						
Total equity	3,601	3,901	4,177	4,336	4,565	4,818
Deferred taxation liability	174	119	61	31	(5)	(44)
Total borrowings	37	28	28	23	19	16
Currrent liabilities	2,830	3,238	3,619	3,309	3,304	3,318
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**7,698**	**7,883**	**8,108**
Cash	297	399	892	930	1,059	1,204
Current assets	3,558	4,422	5,271	5,004	5,103	5,229
Total fixed assets	1,498	1,383	1,297	1,339	1,296	1,250
Investments	1,289	1,081	425	425	425	425
Total assets	**6,642**	**7,285**	**7,885**	**7,698**	**7,883**	**8,108**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,013	2,236	2,405
Working capital	24	(465)	(506)	(44)	(103)	(112)
Capital expenditure	(57)	(89)	63	(250)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**1,719**	**1,983**	**2,143**
Investments	(402)	258	687	—	—	—
Other income	37	25	9	348	320	320
Ratios (%)						
Debt/equity	0.99	0.69	0.66	0.53	0.42	0.34
Net debt/equity	0.98	0.69	0.65	0.53	0.42	0.34
RoAE	34.3	37.7	37.4	50.8	53.8	55.0
RoACE	**35.7**	**37.7**	**37.0**	**51.0**	**54.4**	**55.6**

Source: Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs66	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	75
52W High -Low (Rs)	143 - 51
Market Cap (Rs bn)	29.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.9	4.1	7.8
Net Profit (Rs bn)	(2.5)	(4.0)	(4.0)
EPS (Rs)	(5.8)	(9.0)	(8.9)
EPS gth	-	-	-
P/E (x)	(11.4)	(7.4)	(7.4)
EV/EBITDA (x)	(16.2)	(16.6)	(34.6)
Div yield (%)	-	-	-

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	19.1	0.1	(0.0)
MFs	5.2	0.1	0.0
UTI	-	-	(0.1)
LIC	2.7	0.1	(0.0)

Dish TV: Extant DTH operators face regulatory headwinds but competitive intensity on expected lines

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- **TRAI recommendations on inter-operability a likely negative, if implemented**
- **Irrational competitive threat from new entrants subsides based on preliminary reports**
- **Retain Cautious view on Dish TV stock with 12-month DCF-based target price of Rs75**

The TRAI recently released its recommendations on technical inter-operability of DTH set-top boxes (STBs) and we believe they will have a negative impact on the operations of extant DTH operators Dish TV and Tata Sky, if accepted. The TRAI has recommended that technical inter-operability requirements be maintained and updated to include advanced technologies (MPEG-4); the higher cost of advanced STBs will be borne by extant DTH operators without any commensurate benefit of savings in transmission cost. However, the government does not seem to agree with the TRAI and thus, the TRAI's recommendations may not be implemented. The more important issue is the impact of emerging competition in the medium term. However, preliminary media reports on the entry of Reliance Communications (Big TV) indicate that DTH pricing may not deteriorate substantially; the offering of Big TV is similar to the schemes of extant operators. However, certain industry (long-term ARPUs, taxes) and firm-specific (capital) factors constrain a more positive view on the stock; we retain our estimates and 12-month DCF-based target price of Rs75.

TRAI recommendations on inter-operability. The TRAI recently declared its views on the technical inter-operability of set-top boxes (STBs) for DTH platforms. The key issue is the lack of compatibility between MPEG-2 STBs with MPEG-4 STBs. New entrants will use MPEG-4 streaming technology while Dish TV and Tata Sky use MPEG-2 technology. The DTH license mandates a DTH operator to provide BIS (Bureau of Indian Standards) standard-based STB to consumers to ensure technical inter-operability; subscribers can switch from one DTH platform to another using the same STB as a result of this requirement. MPEG-4 being the latest version of the streaming technology is backward-compatible with MPEG-2; Sun Direct subscribers can seamlessly switch to Dish TV or Tata Sky service using the MPEG-4 STBs. However, the converse is not possible; existing Dish TV or Tata Sky subscribers cannot switch to Sun Direct or Big TV services using their MPEG-2 STBs, despite the fact that the STBs confirm to extant BIS specifications. The key highlights of the recommendations by the TRAI are discussed below.

- **Need for technical inter-operability maintained**—TRAI recommended continuation of technical inter-operability requirement given the limited competition in DTH segment in India currently and to ensure flexibility for consumers to switch platforms.
- **Revision in BIS standards**—TRAI also recommended that BIS update the present specifications for DTH STBs to include advanced technologies (MPEG-4).
- **Applicability of revised standards to existing and new subscribers**—TRAI also mandated that the revised specification should apply to existing DTH operators after six months from the date of revision. However, DTH operators are not required to upgrade their existing subscriber base to new STBs, though they are free to do so voluntarily.

TRAI's strange (and tragic, if we may deferentially add) logic potential negative for extant DTH operators. We find little logic behind TRAI recommendations on technical inter-operability given (1) TRAI already mandates commercial inter-operability, which provides an effective exit route to consumers (see our comment *"TRAI lays out more stringent QoS norms for DTH"* dated September 3, 2007), (2) the recommendations do not provide any exit route to the existing subscriber base of Dish TV and Tata Sky and (3) the competitive intensity in the cable and DTH segments in India is higher than in most developed countries. Additionally, even the government and its technical arms (BECIL & BIS) are not in favor of technical inter-operability given (1) higher cost of STB, which may have to be born by the consumer and (2) strict adherence to one standard inhibits advancement. In fact, the government had requested TRAI for its recommendations on commercial inter-operability for these very reasons.

The recommendations are a potential negative for extant operators such as Dish TV and Tata Sky since MPEG-4 based STBs are usually priced at a premium of Rs800-900 to MPEG-2 (BIS specification) STBs and will increase the cost of DTH operations. MPEG-4 does have the advantage of savings in transmission bandwidth and thus, lower operating costs; however, these savings will not be available to extant DTH operators unless they move their entire service offering (and not just STBs) to MPEG-4 technology. Exhibit 1 shows that the extant DTH operators will be at a considerable disadvantage to new entrants as they will bear the higher cost of MPEG-4 STBs without the commensurate savings in transmission costs. However, given the views of the government in this regard and the unnecessary penalty on extant DTH operators, we doubt if the government would consider these recommendations.

Competitive intensity likely on expected lines. We have been concerned lately about the pricing strategies (ARPU and subsidy on CPE) likely to be adopted by new entrants. However, preliminary media reports indicate limited threat of irrational competition. Big TV, likely to start commercial services in March 2008, has started test run of its DTH service for R-ADAG group employees. It is offering the service at an upfront cost of Rs1,000 (STB + antenna + installation) and monthly ARPU of Rs300. The initial cost to the consumer implies an upfront subsidy of Rs2,000-2,200 but does not include any initial months of free service. This is similar to the subsidy assumed by us (Rs1,800-2,000) for Dish TV accounting for the content and service costs during the initial months of free service. We view this development as positive for the industry as a whole and further note that all operators (Dish TV, Tata Sky) are moving towards subsidizing only the initial setup cost (STB + antenna + installation) for the subscriber, which is the biggest obstacle to DTH adoption beyond the metros.

Some moving parts still constrain a more positive view on the stock. We note the renewed focus of Dish TV on execution (brand building campaign on TV, distribution tie-up with Future Group), which will help it participate further in our expected strong growth in DTH subscriber volumes in India. However, the valuation of Dish TV stock is highly sensitive to long-term ARPUs and the sluggish growth in ARPUs in the recent past (see Exhibits 2 & 3) is a key reason behind our cautious view on the stock. We model Dish TV ARPUs at Rs250-350 (effective cost to consumer Rs300-400, including taxes) for FY2010E and beyond. The weak balance sheet of Dish and the need to raise substantial funds to effectively compete against strong well-capitalized competition are other areas of concern.

Dish TV will have to bear additional costs if the TRAI recommendations are accepted

Economics of operations for Dish TV under various scenarios (Rs mn)

	MPEG-4 STB only (a)	MPEG-4 service (b)
Existing subscriber base		
Dish TV existing subscriber base (end-FY2008E) (mn)	3.0	3.0
Cost of MPEG-4 STB (Rs)	2,600	2,600
Additional cost of existing subscribers	**—**	**7,800**
Future subscriber addition		
Dish TV subscriber addition over 5 years (FY2009E-FY2014E) (mn)	5.0	5.0
Incremental cost of MPEG-4 STB over MPEG-2 STB (Rs)	800	800
Additional cost of new subscribers	**4,000**	**4,000**
Transmission bandwidth		
Number of channels on DTH platform in perpetuity (#)	300	300
Channels per transponder (#)	15	25
Number of transponders required (#)	20	12
Cost per transponder	40	40
Transmission cost per year	800	480
Saving in transmission cost per year	—	320
NPV of savings in transmission cost in perpetuity (c)	**—**	**(3,200)**
Effective additional cost burden	**4,000**	**8,600**

Note:

(a) Dish TV keeps its MPEG-2 service but shifts to MPEG-4 STBs.

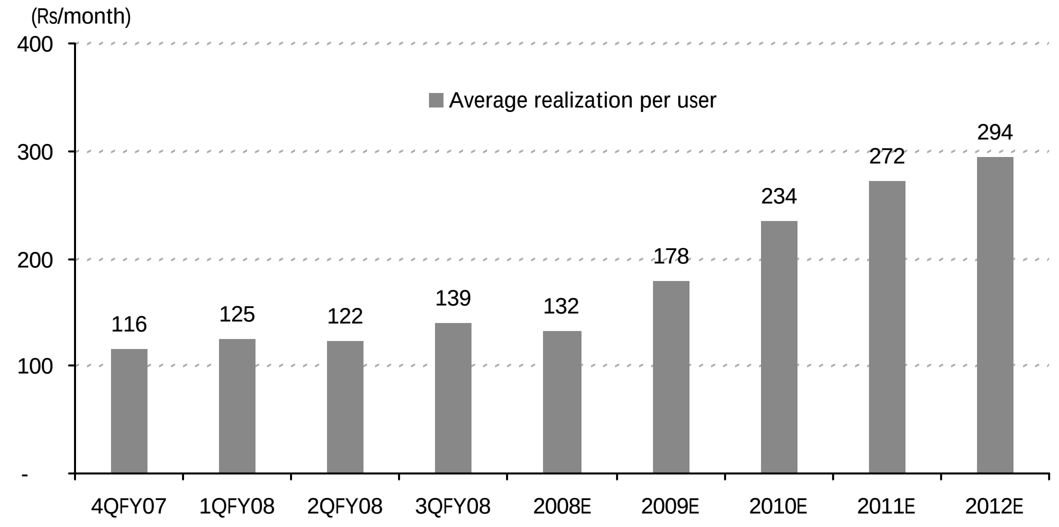
(b) Dish TV shifts its entire service to MPEG-4 technology.

(c) Assuming discount rate of 10% given savings are assured.

Source: Kotak Institutional Equities estimates.

Dish TV ARPUs need to increase sharply for current low levels for any meaningful value creation

Average revenue per user for Dish TV DTH services, March fiscal year-ends, 2007-2013E (Rs/month)



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%	91	24
10%	82	11
Base case	**74**	
-10%	65	(11)
-20%	57	(23)
Change in monthly subscription fees (%)		
20%	163	122
10%	119	61
Base case	**74**	
-10%	38	(49)

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, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs bn)	1.9	4.1	7.8	13.5	19.0	23.9	28.2	32.8	37.2	41.7	45.9
EBITDA (Rs bn)	(1.9)	(2.0)	(1.1)	1.3	3.9	5.5	6.6	7.8	9.0	10.1	11.0
EBITDA margin (%)	**(97.0)**	**(49.0)**	**(14.3)**	**9.9**	**20.2**	**23.0**	**23.4**	**23.8**	**24.1**	**24.2**	**23.9**
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	111	154	209	247	267	283	302	321	340	361
ARPU (Rs/sub/month)	**108**	**132**	**178**	**234**	**272**	**294**	**308**	**326**	**344**	**363**	**380**

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	4,105	7,806	13,467	19,042	23,900
EBITDA	**(830)**	**(1,852)**	**(2,011)**	**(1,117)**	**1,328**	**3,851**	**5,496**
Other income	—	34	48	58	63	59	54
Interest (expense)/income	(17)	(118)	(439)	(719)	(967)	(1,003)	(864)
Depreciation	(18)	(565)	(1,478)	(2,222)	(2,876)	(3,357)	(3,249)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(3,890)**	**(4,010)**	**(2,462)**	**(461)**	**1,427**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	—	(162)
Deferred taxation	—	—	(63)	5	143	278	125
Net income	**(2,078)**	**(2,519)**	**(3,953)**	**(4,005)**	**(2,320)**	**(182)**	**1,391**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.0)**	**(9.1)**	**(5.2)**	**(0.4)**	**3.1**
Balance sheet							
Total equity	1,915	(395)	(2,972)	(6,977)	(8,172)	(8,354)	(6,964)
Deferred taxation liability	—	—	63	58	(85)	(363)	(488)
Total borrowings	84	1,751	5,494	10,744	12,244	11,494	9,494
Current liabilities	1,820	8,596	8,589	8,495	9,312	10,014	13,019
Total liabilities and equity	**3,819**	**9,952**	**11,173**	**12,320**	**13,299**	**12,790**	**15,061**
Cash	59	113	481	445	663	289	512
Other current assets	1,528	2,271	1,244	1,093	1,623	2,148	2,601
Total fixed assets	1,067	6,107	7,997	9,341	9,583	8,932	10,537
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**11,173**	**12,320**	**13,299**	**12,790**	**15,061**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,450)	(1,836)	361	2,848	4,470
Working capital changes	599	3,507	1,020	58	287	176	2,553
Capital expenditure	(1,025)	(2,921)	(3,368)	(3,566)	(3,118)	(2,706)	(4,854)
Investments	185	(451)	—	—	—	—	—
Other income	3	5	48	58	63	59	54
Free cash flow	**(1,088)**	**(1,674)**	**(4,750)**	**(5,286)**	**(2,407)**	**376**	**2,223**
Ratios (%)							
Debt/equity	4.4	(443.6)	(184.8)	(154.0)	(149.8)	(137.6)	(136.3)
Net debt/equity	1.3	(414.9)	(168.6)	(147.6)	(141.7)	(134.1)	(129.0)
ROAE (%)	(217.0)	(331.3)	239.2	81.5	30.6	2.1	(17.2)
ROACE (%)	**(89.6)**	**(283.2)**	**(178.0)**	**(102.6)**	**(36.1)**	**6.3**	**92.7**

Source: Kotak Institutional Equities estimates.

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

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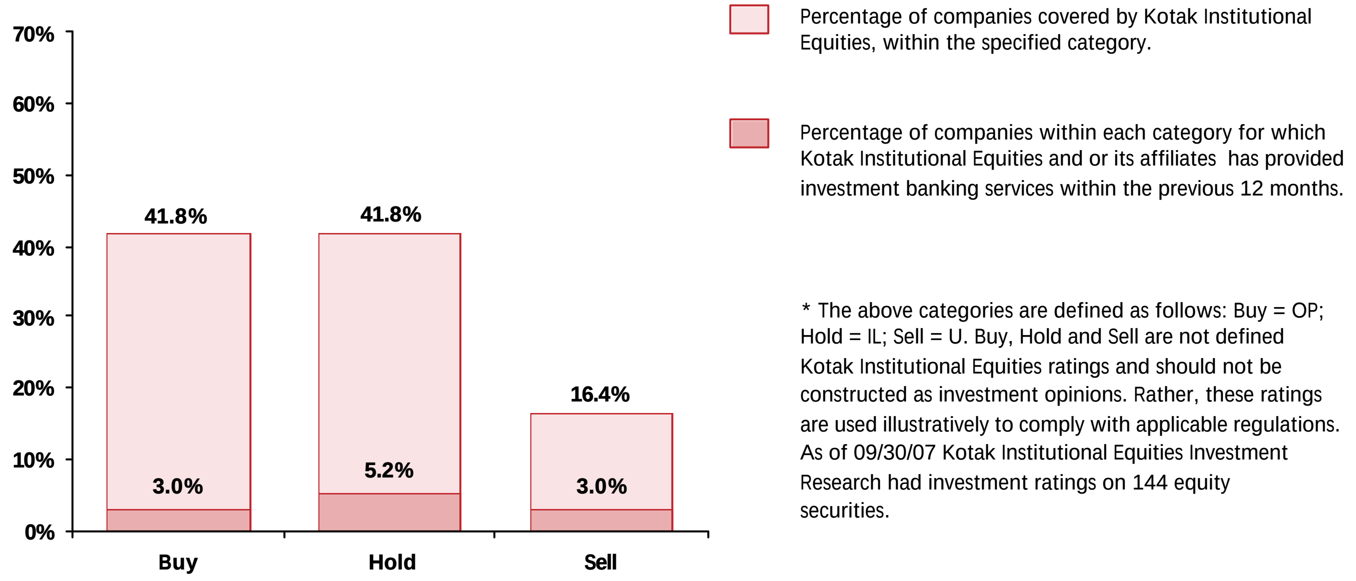

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

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

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Old 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).

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