kotak® Institutional Equities

# INDIA DAILY

March 17, 2008

## Contents

### Updates

**GAIL (India), GSPL:** MRTPC action on IGL highlights risks to earnings from gas distribution and transmission businesses

**Banks/Financial Institutions:** Banks to get cash against agri loan waivers, likely more than earlier estimated - short-term bonanza

**Cement:** Despatch growth rate improves, but still short of expectations

## News Roundup

### Corporate

- An inter-ministerial group (IMG) has cleared the US$8 bn CTL project of the Tata group and its partner Sasol of South Africa, the world's largest producer of oil from coal. (FE)
- Reliance Power has struck a deal to buy out a coal mine in Indonesia located in South Sumatra and valued at an estimated Rs20,000 crore. (ET)
- Global premium lifestyle brand Tommy Hilfiger, controlled by buyout private equity partners Apax Partners, is looking at direct ownership of its India operations by bringing in the maximum permissible 51% foreign direct investment (FDI) allowed in single brand retail. (ET)
- US giant AT&T is eyeing a stake in Videocon's subsidiary Datacom, which has been issued a licence recently to offer mobile services throughout India. (ET)

### Economic and political

- The entertainment & media (E&M) industry has recorded a growth of 17% in 2007 with an estimated Rs51,300 crore in 2007, according to a FICCI-PricewaterhouseCoopers 2008 report on the Indian entertainment and media industry. (FE) Meanwhile, international media research company Media Partners Asia (MPA) maintains that the television sector will grow about 16% between 2008 and 2012 as opposed to 22% predicted by the FICCI-PricewaterhouseCoopers report. (BS)

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

## EQUITY MARKETS

| | | Change, % | | |
|---|---|---|---|---|
| **India** | **14-Mar** | **1-day** | **1-mo** | **3-mo** |
| Sensex | 15,761 | 2.6 | (13.0) | (18.2) |
| Nifty | 4,746 | 2.6 | (10.5) | (17.9) |
| **Global/Regional indices** | | | | |
| Dow Jones | 11,951 | (1.6) | (3.2) | (9.2) |
| Nasdaq Composite | 2,212 | (2.3) | (4.7) | (14.1) |
| FTSE | 5,632 | (1.1) | (2.7) | (10.3) |
| Nikkie | 11,727 | (4.2) | (13.9) | (23.1) |
| Hang Seng | 21,130 | (5.0) | (12.5) | (20.6) |
| KOSPI | 1,553 | (3.0) | (8.4) | (15.6) |

**Value traded - India**

| | | | Moving avg, Rs bn | |
|---|---|---|---|---|
| | **14-Mar** | | **1-mo** | **3-mo** |
| Cash (NSE+BSE) | 193.4 | | 189.4 | 189.5 |
| Derivatives (NSE) | 401.9 | | 379.7 | 613 |
| Deri. open interest | 678.8 | | 718 | 1,156 |

**Forex/money market**

| | | Change, basis points | | |
|---|---|---|---|---|
| | **14-Mar** | **1-day** | **1-mo** | **3-mo** |
| Rs/US$ | 40.5 | 0 | 69 | 93 |
| 6mo fwd prem, % | 0.7 | (25) | 71 | 24 |
| 10yr govt bond, % | 7.7 | 4 | 13 | (26) |

**Net investment (US$mn)**

| | **13-Mar** | | **MTD** | **CYTD** |
|---|---|---|---|---|
| FIIs | (43) | | 317 | (4,306) |
| MFs | (94) | | (409) | 1,908 |

**Top movers -3mo basis**

| | | Change, % | | |
|---|---|---|---|---|
| **Best performers** | **14-Mar** | **1-day** | **1-mo** | **3-mo** |
| Sun Pharma | 1,295 | 5.6 | 16.3 | 18.3 |
| Asian Paints | 1,159 | 1.8 | 0.1 | 16.5 |
| Ranbaxy | 464 | 1.5 | 17.2 | 14.4 |
| NALCO | 462 | (1.3) | 27.6 | 10.3 |
| BPCL | 408 | 0.1 | (13.0) | 2.7 |
| **Worst performers** | | | | |
| Arvind Mills | 40 | 2.8 | (20.4) | (50.0) |
| Moser Baer | 150 | 1.5 | (16.0) | (48.2) |
| Tata Tele | 31 | 3.3 | (16.0) | (45.8) |
| Neyveli Lignite | 128 | 2.1 | (17.3) | (44.9) |
| Tvs Motor | 39 | 3.3 | (2.3) | (44.7) |

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| Energy | |
|---|---|
| **GAIL.BO, Rs422** | |
| Rating | REDUCE |
| Sector coverage view | Neutral |
| Target Price (Rs) | 400 |
| 52W High -Low (Rs) | 555 - 257 |
| Market Cap (Rs bn) | 356.5 |

**Financials**

| March y/e | 2007 | 2008E | 2009E |
|---|---|---|---|
| Sales (Rs bn) | 160.5 | 210.9 | 225.7 |
| Net Profit (Rs bn) | 21.4 | 26.0 | 26.1 |
| EPS (Rs) | 25.3 | 30.8 | 30.9 |
| *EPS gth* | *(9.5)* | *21.8* | *0.2* |
| P/E (x) | 16.7 | 13.7 | 13.7 |
| EV/EBITDA (x) | 9.7 | 8.1 | 7.4 |
| Div yield (%) | 2.4 | 2.4 | 2.6 |

**Shareholding, December 2007**

| | Pattern | % of Portfolio | Over/(under) weight |
|---|---|---|---|
| Promoters | 57.3 | - | - |
| FIIs | 20.0 | 0.9 | (0.1) |
| MFs | 3.3 | 0.8 | (0.1) |
| UTI | - | - | (0.9) |
| LIC | 6.0 | 1.4 | 0.5 |

| Energy | |
|---|---|
| **GSPT.BO, Rs61** | |
| Rating | SELL |
| Sector coverage view | Neutral |
| Target Price (Rs) | 65 |
| 52W High -Low (Rs) | 114 - 46 |
| Market Cap (Rs bn) | 33.0 |

**Financials**

| March y/e | 2007 | 2008E | 2009E |
|---|---|---|---|
| Sales (Rs bn) | 3.2 | 4.1 | 7.1 |
| Net Profit (Rs bn) | 0.9 | 0.9 | 2.6 |
| EPS (Rs) | 1.6 | 1.7 | 4.9 |
| *EPS gth* | *40.0* | *3.1* | *188.3* |
| P/E (x) | 37.0 | 35.9 | 12.5 |
| EV/EBITDA (x) | 14.0 | 11.0 | 6.4 |
| Div yield (%) | 0.8 | 0.8 | 2.4 |

**Shareholding, December 2007**

| | Pattern | % of Portfolio | Over/(under) weight |
|---|---|---|---|
| Promoters | 37.8 | - | - |
| FIIs | 21.3 | 0.1 | 0.0 |
| MFs | 3.3 | 0.1 | (0.0) |
| UTI | - | - | (0.1) |
| LIC | - | - | (0.1) |

## GAIL (India), GSPL: MRTPC action on IGL highlights risks to earnings from gas distribution and transmission businesses

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- **Anti-monopoly regulator (MRTPC) initiates action against IGL**
- **Enquiry may raise issues about high earnings of other players too**
- **An unfavorable outcome could quash street's optimism on high returns for gas distribution and transmission companies**

The Indian anti-monopoly body (Monopoly and Restrictive Trade Practices Commission, MRTPC) has started a judicial enquiry in the pricing policies of IGL (NC) as per a report in the HT Mumbai edition dated March 16, 2008. The MRTPC will consider a report submitted by the Director General of Investigations and Registration (DGIR); the DGIR's report mentions IGL taking 'undue advantage' of its monopoly status of gas supplier in the National Capital Region of Delhi. We have long been uncomfortable with IGL's pricing given its very high financial returns compared to the nature of its business. In addition to the MRTPC action against IGL, we see imminent regulations likely capping returns on gas distribution companies such as IGL, Gujarat Gas (NC) and transmission companies (GAIL, GSPL). We would cut positions in IGL and related gas stocks.

**MRTPC action is not surprising—IGL has been earning very high returns.** We are not surprised by the conclusions of the DGIR's report. The report mentions that IGL was buying gas at Rs5.29/cu m and selling it to customers at Rs13.52/cu m, "which does not seem reasonable." We have long harbored concerns about the pricing policy of IGL for CNG sold by it in the Delhi market, which results in supernormal profitability, earnings and returns. We note that IGL's FY2007 ROAE, ROACE and CROCI were 30.3%, 30.4% and 32.8%, which is well above likely regulated returns for a gas distribution business; IGL's profits could potentially halve in a regulated environment.

As highlighted previously, IGL benefits from three forms of arbitrage—(1) low pricing of gas versus crude oil; IGL prices its CNG relative to liquid fuels (though not fully), whose prices depend on crude oil prices; (2) subsidized APM gas versus free market price gas; and (3) 12% sales tax on diesel versus nil on CNG. We think this is probably true for other gas distribution companies in India.

**MRTPC action may quash undue street optimism about high returns in the gas distribution and transmission businesses.** We see the MRTPC action as likely quashing the street's undue optimism about limited price controls and regulations for the gas distribution business. A section of the street believes that the draft regulations proposed by the Petroleum and Natural Gas Regulatory Board (PNRGB) will regulate returns (tariffs for distribution) only but not the retail prices for gas distribution companies. As per one interpretation of the draft regulations, the final policy will allow gas distribution companies to fix 'high' prices and earn higher-than-regulated returns.

We are somewhat puzzled by this expectation as the regulations will regulate returns or tariffs, which will automatically restrict the company's ability to charge any price for compressed natural gas (CNG) or piped natural gas (PNG). We interpret the draft policy to mean that gas distribution companies are allowed to set retail prices based on raw material price and regulated tariffs (returns). However, we do not believe that the pricing freedom means that gas distribution companies can charge any price—this would defeat the point of regulating returns at all.

We are equally puzzled by the street's expectation that gas transmission companies will make high returns in a regulated environment. A section of the street believes that earnings of gas transmission companies such as GSPL will increase sharply as gas transmission volumes increase in India, led by increases in the supply of gas. We believe this is only partly true as returns will be linked to investment/asset, which will automatically curtail future profits—profits may not increase in line with increases in volumes. We believe transmission tariffs will adjust downwards to factor in any increase in transportation volumes.

**Significant risks to earnings of city gas distribution (CGD) companies exist.** We believe that earnings of CGD companies will be significantly impacted once the PNGRB finalizes regulations for city or local gas distribution networks (CLGD). We doubt that companies engaged in CGD will be able to sustain their current very high ROAE and ROACE in a regulated environment. Even though the regulator is yet to finalize the reasonable rate of return (RROR), we doubt it will be so high as to fetch returns on par with the current returns of CGD companies. We expect earnings of CGD companies to come off significantly once the regulator finalizes regulations.

**Banking**

| Sector coverage view | | | Attractive |
|---|---|---|---|

| | | Price, Rs | |
|---|---|---|---|
| **Company** | **Rating** | **14-Mar** | **Target** |
| HDFC | ADD | 2,503 | 2,550 |
| HDFC Bank | BUY | 1,316 | 1,500 |
| ICICI Bank | ADD | 878 | 1,200 |
| Corp Bk | BUY | 255 | 470 |
| BoB | ADD | 288 | 400 |
| PNB | BUY | 473 | 650 |
| OBC | SELL | 192 | 240 |
| Canara Bk | REDUCE | 222 | 250 |
| LIC Housing | BUY | 274 | 350 |
| Axis Bank | REDUCE | 861 | 850 |
| IOB | ADD | 139 | 150 |
| Shriram Transp | REDUCE | 334 | 335 |
| SREI | BUY | 146 | 240 |
| MMFSL | REDUCE | 290 | 290 |
| Andhra | BUY | 82 | 115 |
| IDFC | REDUCE | 155 | 150 |
| PFC | SELL | 151 | 150 |
| Centurion Bank | REDUCE | 42 | 45 |
| Federal Bank | BUY | 242 | 340 |
| J&K Bank | ADD | 659 | 850 |
| India Infoline | ADD | 806 | 1,400 |
| Indian Bank | SELL | 172 | 170 |
| Union Bank | BUY | 147 | 250 |

## Banks to get cash against agri loan waivers, likely more than earlier estimated—short-term bonanza

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- **Government will provide for loan waiver in cash over a four-year period**
- **Estimated loan waiver for scheduled commercial banks twice as much as earlier estimated**
- **Short-term positive, long-term concerns on growth and NPLs remain**

On Friday, March 14, the Finance Ministry announced that banks will be paid the amount of farm loans waived in cash over a four-year period. The fist installment of Rs250 bn will be released in July 2008. However, in terms of up-front payment, preference will be given to co-operative and regional rural banks. According to the scheme, the share of scheduled commercial banks (SCBs) in the total loan waiver scheme of Rs603 bn is 35% or Rs210 bn. The amount of payment to SCBs is higher than our earlier estimate of around Rs85-100 bn and an incremental positive. While the payment is in cash, we would not be surprised if banks are asked to deploy these funds in bonds. In the short term, this is a clear positive as banks NPLs on agri loans will be wiped off. However, we find it difficult to assess the long-term impact of such a move on the banking sector's agri lending (banks may pull back) or NPLs (regular payers may start defaulting). Bank stocks have come off significantly over the past few weeks both due to turmoil in global markets (where banks stocks have been hit the most) and concerns relating to the loan waiver scheme. We find significant value across most banks and believe there is limited downside risk (PSU banks trading at 1X to 1.2X PBR), however, near-term performance will likely be influenced by global factors and the wait could be long.

**Amount higher than estimated for SCB, a clear positive.** Based on the RBI report, the total amount of non-performing loans for SCBs in March 2007 was Rs75 bn—it now appears they will be paid Rs210 bn. The difference in amount could be due to the inclusion of overdue and rescheduled loans not classified as NPLs and an increase in NPLs post March 2007. Apparently, allocations to co-operative banks are lower as they have less exposure to small and marginal farmers.

**Upside to earnings may still remain at 2-4**%. While the amount of loan compensation is higher, we believe the impact on profit will still likely be limited at around 2-4%. This as the banks will likely be holding provisions only against NPLs and not against overdue amounts and rescheduled loans. It is also not clear when banks will write-back the provisions made on these loans—i.e., at the time of write-off or when the government pays up the cash. We have therefore not changed our earnings estimates.

**Payment schedule for SCB still unclear.** The Finance Minister has indicated that the co-operative and regional rural banks will be given priority in payment. The payment therefore to PSU and private banks could be back ended. Based on the declared schedule the government will pay up Rs250 bn in July 2008, Rs150 bn in FY2010, Rs120 bn in FY2011 and Rs80 bn in FY2012.

**Marginal farmers expected to benefit:** Nearly 84% of the total amount or Rs505 bn will be allocated towards small and marginal farmers and balance towards other farmers. The provisional figure of Rs603 bn could be revised once RBI and NABARD submit branch-wise details of overdue accounts by March 2008. RBI/NABARD will be conducting sample audits to verify the data.

**Moral hazard risk remains.** In the near term, bank NPLs will likely reduce and earnings increase, but we believe this move may turn regular 'paying' borrowers into defaulters as well, increasing the risk of NPLs on agri-sector lending. Additionally, banks will likely become more cautious in their agri lending business, in turn adversely impacting the rural economy.

**Exhibit 1: Impact of the write-off of agricultural loans on banks is likely to be marginally positive in the near term**

March fiscal year-ends, 2007 & 2009E

| | 2007 | | | | 2009 | | |
|---|---|---|---|---|---|---|---|
| | Agri loans | Agri loan as % of total loans | Gross NPL in agri | NPLs in agri loans | NPL write-back | As % of PAT | Revised PAT |
| | (Rs mn) | (%) | (Rs mn) | (%) | (Rs mn) | (%) | (Rs mn) |
| Andhra Bank | 51,490 | 18.5 | 187 | 0.4 | 22 | 0.4 | 6,074 |
| BoB | 103,650 | 12.4 | 4,039 | 3.9 | 473 | 3.4 | 14,461 |
| Canara Bank | 155,210 | 15.8 | 2,284 | 1.5 | 267 | 2.3 | 12,052 |
| Central Bank of India | 92,519 | 17.9 | 4,507 | 4.9 | 527 | 8.7 | 6,595 |
| Corporation Bank | 26,217 | 8.8 | 649 | 2.5 | 76 | 1.1 | 6,916 |
| Indian Bank | 56,561 | 19.5 | 627 | 1.1 | 73 | 0.7 | 10,847 |
| IOB | 78,902 | 16.8 | 853 | 1.1 | 100 | 0.8 | 12,120 |
| OBC | 57,323 | 13.0 | 1,291 | 2.3 | 151 | 2.6 | 5,901 |
| PNB | 185,710 | 19.2 | 6,474 | 3.5 | 757 | 4.0 | 19,698 |
| Union Bank | 106,748 | 17.1 | 3,303 | 3.1 | 386 | 3.1 | 13,013 |
| **Old private banks** | | | | | | | |
| Federal Bank | 22,314 | 15.0 | 204 | 0.9 | 24 | 0.4 | 5,514 |
| J&K Bank | 6,951 | 4.1 | 285 | 4.1 | 33 | 0.9 | 3,652 |
| **New private banks** | | | | | | | |
| Axis Bank | 50,948 | 13.8 | 830 | 1.6 | 97 | 0.6 | 15,060 |
| CBOP | 22,034 | 19.6 | 317 | 1.4 | 37 | 1.3 | 2,953 |
| HDFC Bank | 84,619 | 18.0 | 329 | 0.4 | 38 | 0.2 | 23,840 |
| ICICI Bank | 189,269 | 9.7 | 4,038 | 2.1 | 472 | 0.9 | 50,980 |

Note:

(1) Calculations have been performed assuming that banks receive the government compensation in FY2009.

(2) Calculations assume that the banks have a provision coverage of 18% on their agriculture NPLs.

Source: RBI, Companies, Kotak Institutional Equities estimates.

**Cement**

| Sector coverage view | Cautious |
|---|---|

| | | Price, Rs | |
|---|---|---|---|
| **Company** | **Rating** | **14-Mar** | **Target** |
| Gujarat Ambuj | REDUCE | 120 | 117 |
| ACC | REDUCE | 800 | 800 |
| Grasim | ADD | 2,858 | 3,400 |
| India Cements | REDUCE | 189 | 270 |
| UltraTech Cem | REDUCE | 841 | 850 |
| Shree Cement | ADD | 1,093 | 1,600 |

## Despatch growth rate improves, but still short of expectations

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- **Despatch growth of 13.1% yoy in February 2008 certainly not a big leap; YTD 8.1%**
- **All India average cement prices stable at Rs231/bag**
- **Stable cement prices despite cost increases**
- **We retain our Cautious view on the sector**

**Despatch growth of 13.1% yoy in February 2008 certainly not a big leap.** Cement despatches recorded headline growth of 13.1% yoy during February 2008. Adjusting for the extra day of the leap year, despatch growth at 9.7% was still better than the growth rates clocked by the industry during the last few months. The YTD growth for the industry now stands at 8.1%, lower than our estimate of 10% for FY2008. ACC and Grasim reported growth in double-digits, while Ambuja Cement and UltraTech continue to report lackluster growth. Shree Cement and Madras Cement reported a pick-up in despatches as production from the new lines started contributing.

**Cement prices remain stable at Rs231/bag.** All India average cement prices during February 2008 remained stable at Rs231/bag (Rs230/bag in January 2008). All India average cement prices have hovered around the Rs230-231/bag level since August 2007 with the last big price increases of Rs14/bag coming after last year's union budget (following excise increase) and Rs7/bag during June-August 2007. Cement prices were stable across regions except improvement in Central India where the market recovered the pricing loss during January 2008.

**We retain our Cautious view on the sector.** We note new capacities getting commissioned in FY2009 will likely result in incremental supply exceeding increase in demand, reducing the capacity utilization levels. We estimate 30 mn tpa of new capacity will get commissioned in FY2009, far exceeding the incremental cement demand. In the absence of price increases, profitability of cement companies will likely be further constrained by cost-side pressures from (1) increase in domestic coal prices; (2) reduced allocation of domestic coal at regulated prices; (3) firm upward trend of international coal prices and petroleum coke; and (4) higher freight cost due to upward revision of domestic fuel prices. We retain our 'Cautious' view on the sector.

**Exhibit 1: Headline growth aided by an extra day in February**

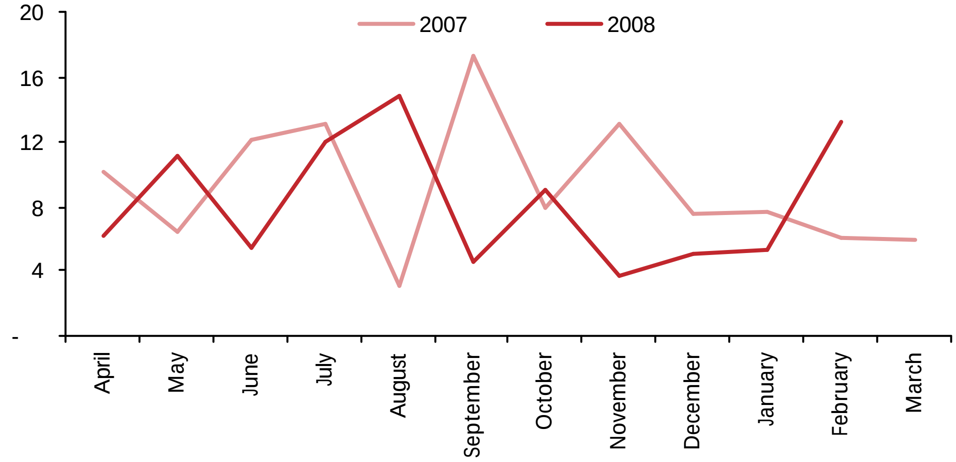
Cement despatch growth rates for major companies

| | Feb-08 | Growth (%) | |
|---|---|---|---|
| | (mn tons) | y-o-y | YTD |
| ACC | 1.67 | 17.5 | 8.0 |
| Gujarat Ambuja | 1.46 | 7.4 | 3.7 |
| UltraTech | 1.33 | 0.8 | 3.0 |
| Grasim Industries | 1.39 | 10.0 | 5.2 |
| Shree Cement | 0.65 | 71.0 | 28.7 |
| India Cements | 0.82 | 6.1 | 5.8 |
| Madras Cements | 0.48 | 16.6 | 2.7 |
| **Industry** | **14.7** | **13.3** | **8.1** |

Source: CMA, Kotak Institutional Equities.

**Exhibit 2: Base benefit also kicking in for higher growth**

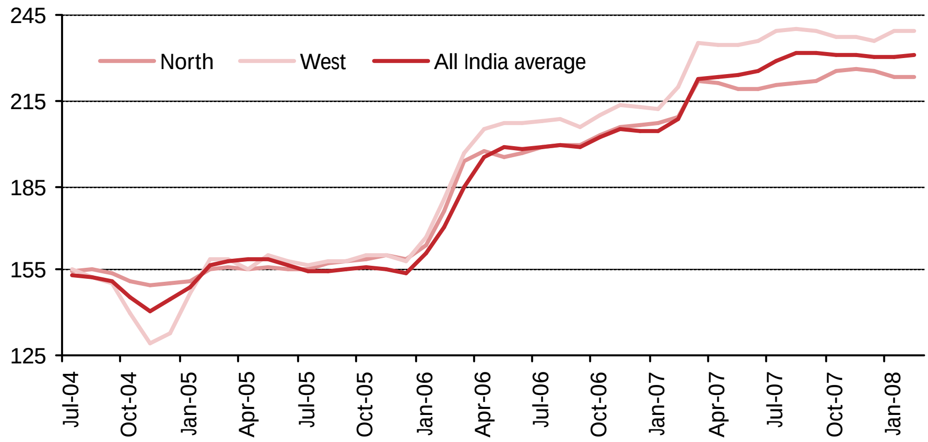
Yoy growth (%) in monthly despatches




Source: CMA, Kotak Institutional Equities.

**Exhibit 3: Cement prices have hovered around Rs230-231/bag for the last six months**

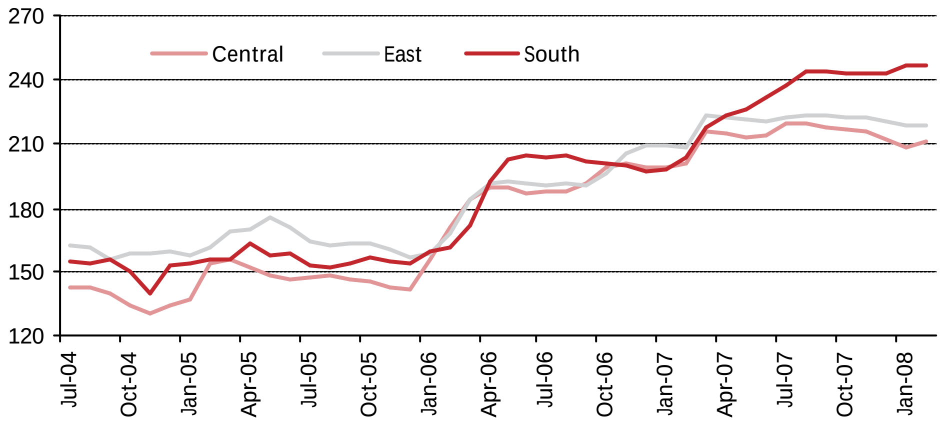
Regional cement prices (Rs per 50 kg bag)




Source: CMA, Kotak Institutional Equities.

**Exhibit 4: Marginal improvement in cement prices in Central India**

Regional cement prices (Rs per 50 kg bag)




Source: CMA, Kotak Institutional Equities.

**Exhibit 5: Cement comparative valuation**

| Company | Market cap. (US$ mn) | CMP (Rs) 14-Mar | Target price | Rating | EPS (Rs) 2006 | 2007 | 2008E | 2009E | P/E (X) 2006 | 2007 | 2008E | 2009E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ACC | 3,631 | 779 | 800 | REDUCE | 29.3 | 56.7 | 65.1 | 68.8 | 26.6 | 13.7 | 12.0 | 11.3 |
| Ambuja Cement | 4,525 | 121 | 117 | REDUCE | 4.9 | 8.5 | 8.8 | 9.1 | 24.4 | 14.1 | 13.8 | 13.2 |
| Grasim Industries | 6,324 | 2,792 | 3,400 | ADD | 107.9 | 214.6 | 271.8 | 305.3 | 25.9 | 13.0 | 10.3 | 9.1 |
| UltraTech Cement | 2,583 | 840 | 850 | REDUCE | 17.8 | 63.1 | 84.0 | 86.7 | 47.1 | 13.3 | 10.0 | 9.7 |
| Shree Cement | 940 | 1,093 | 1,600 | ADD | 48.0 | 45.2 | 112.5 | 132.3 | 22.7 | 24.2 | 9.7 | 8.3 |
| India Cements | 1,182 | 184 | 270 | REDUCE | 1.5 | 26.1 | 25.4 | 27.9 | 122.1 | 7.0 | 7.2 | 6.6 |

| Company | EV/EBITDA (X) 2006 | 2007 | 2008E | 2009E | EV/ton production (US $) 2007 | 2008E | 2009E | EV/ton - capacity (US $) 2008E | 2009E |
|---|---|---|---|---|---|---|---|---|---|
| ACC | 15.8 | 8.2 | 6.6 | 6.2 | 187.7 | 166.9 | 155.2 | 144.3 | 128.6 |
| Ambuja Cement | 15.8 | 10.2 | 7.8 | 7.5 | 315.0 | 251.4 | 212.2 | 235.4 | 205.8 |
| Grasim Industries | 12.3 | 6.8 | 5.3 | 4.6 | NA | NA | NA | NA | NA |
| UltraTech Cement | 19.2 | 8.1 | 6.2 | 5.9 | 168.1 | 165.6 | 155.5 | 128.7 | 128.0 |
| Shree Cement | 17.3 | 7.1 | 4.2 | 3.4 | 396.5 | 355.1 | 302.7 | 111.7 | 101.0 |
| India Cements | 23.7 | 8.8 | 5.0 | 4.1 | 194.1 | 154.2 | 122.6 | 131.7 | 97.6 |

Note:

(a) Gujarat Ambuja - assumed exercise of put option for stake in ACIL.

(b) ACC - 2006 numbers for 12 months ending March 2006 (adjusted) and 2007 numbers for 12 months ending Dec 2006.

(c) Gujarat Ambuja - 2006 numbers for 12 months ending June 2006 and 2007 numbers for 12 months ending Dec 2006 (adjusted).

Source: Company reports, Kotak Institutional Equities estimates.

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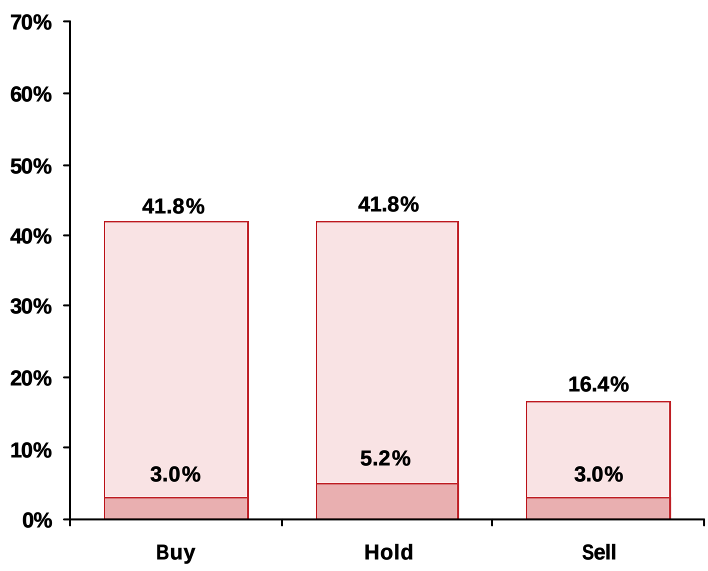
Distribution of ratings/investment banking relationships




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

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

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 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).

### 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.
**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.
**NC = Not Covered.** Kotak Securities does not cover this company.
**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.
**NM = Not Meaningful.** The information is not meaningful and is therefore excluded.

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