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Updates

Reliance Industries: On cycles, multiples and the full circle of life

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Zee Entertainment Enterprises: ZTV ratings decline; may impact ad revenues in FY2010E if ratings do not improve

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Telecom: August GSM net adds - second consecutive month of subscriber loss for Spice mars the month for Idea; largely status quo for others

News Roundup

Corporate

- India's Reliance Industries Ltd and the China National Petroleum Corp. were among the companies awarded Peruvian oil and natural-gas exploration blocks. The companies, which included India's Jindal Steel and Power Ltd and Vietnam Oil and Gas Group, won the bidding for 17 blocks in the Amazon jungle, north coast and southern highlands during the Andean nation's largest exploration bidding round, state oil-contracting agency Perupetro SA said on Thursday. (Mint)
- GMR Energy plans to invest over Rs100bn in setting up a 2,000-3,000 MW nuclear power plant in the country in the next 5-7 years. (FE)
- The UK-based Hinduja Group plans to set up nuclear power plants in India after the government opens the sector to private players. (BS)
- ESPN STAR, a joint venture between Disney and Rupert Murdoch's Star, has won the ten-year commercial rights for the Champions League Twenty20 for \$975 mn, pipping a Sony Entertainment Television India-Dubai Investment Council consortium and Abu Dhabi Sports Club to the post. (BS)

Economic and political

- Capital market regulator, SEBI, has proposed that in a rights share issue, the registrar will credit the rights entitlement in the given ratio into the demat accounts of eligible shareholders. Following this, the rights issue would open for subscription and renunciation/trading of RE electronically through the stock exchange platform. (ET)
- The government is planning to allow people of Indian origin to buy property in India without mandatory RBI approval and without the hassles of producing a valid visa. The current Foreign Exchange Management Act guidelines are also being amended to remove a 'gender bias' where non-residents whose mother or grandmother were citizens of India will also be allowed to buy real estate in the country. The existing rules permit only those PIOs to buy property in India whose father or grandfather were Indian citizens. (ET)

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

EQUITY MARKETS

| India | Change, % | | | |
|--------|-----------|-------|-------|-------|
| | 11-Sep | 1-day | 1-mo | 3-mo |
| Sensex | 14,324 | (2.3) | (5.8) | (6.1) |
| Nifty | 4,290 | (2.5) | (5.8) | (5.5) |

| Global/Regional indices | | | | |
|-------------------------|--------|-------|--------|--------|
| Dow Jones | 11,434 | 1.5 | (1.8) | (5.8) |
| FTSE | 5,318 | (0.9) | (3.9) | (8.2) |
| Nikkie | 12,225 | 1.0 | (8.1) | (12.0) |
| Hang Seng | 19,389 | (3.1) | (10.4) | (15.8) |
| KOSPI | 1,478 | 2.4 | (6.3) | (15.0) |

| Value traded - India | | | | |
|----------------------|-------------------|-------|-------|--|
| | Moving avg, Rs bn | | | |
| | 11-Sep | 1-mo | 3-mo | |
| Cash (NSE+BSE) | 153.9 | 168.6 | 176.2 | |
| Derivatives (NSE) | 503.7 | 397.0 | 458 | |
| Deri. open interest | 845.8 | 778 | 794 | |

Forex/money market

| | Change, basis points | | | |
|-----------------|----------------------|-------|------|------|
| | 11-Sep | 1-day | 1-mo | 3-mo |
| Rs/US\$ | 45.8 | 42 | 359 | 292 |
| 6mo fwd prem, % | 0.7 | (25) | 71 | 24 |

Net investment (US\$m)

| | 10-Sep | MTD | CYTD |
|-----|--------|-----|---------|
| FIs | (216) | - | (7,299) |
| MFs | 23 | - | 2,501 |

Top movers -3mo basis

| Best performers | Change, % | | | |
|--------------------|-----------|-------|--------|--------|
| | 11-Sep | 1-day | 1-mo | 3-mo |
| BANK OF BARODA | 309 | (0.2) | 8.5 | 30.6 |
| BHARAT PETROLEU | 348 | (0.4) | 6.5 | 29.2 |
| OIL & NATURAL GA | 1,036 | (3.9) | (4.8) | 24.4 |
| HINDUSTAN PETRO | 239 | (1.1) | 1.5 | 24.4 |
| UNION BANK OF INC | 148 | (1.7) | (0.9) | 19.7 |
| Worst performers | | | | |
| TATA STEEL LIMITE | 526 | (1.6) | (13.4) | (38.5) |
| STERLITE INDUSTRIE | 502 | (1.0) | (15.6) | (37.6) |
| ABAN OFFSHORE LI | 2,321 | (1.3) | (2.8) | (36.1) |
| HOUSING DEVELOP | 289 | (2.6) | (23.6) | (34.6) |
| JSW STEEL LIMITED | 667 | 0.8 | (14.0) | (33.1) |

Kotak Institutional Equities Research

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Energy**RELI.BO, Rs1997**

| | |
|----------------------|-------------|
| Rating | RS |
| Sector coverage view | Cautious |
| Target Price (Rs) | - |
| 52W High -Low (Rs) | 3298 - 1920 |
| Market Cap (Rs bn) | 2,625 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|-------|-------|-------|
| Sales (Rs bn) | 1,334 | 1,813 | 2,681 |
| Net Profit (Rs bn) | 142.5 | 160.2 | 249.0 |
| EPS (Rs) | 101.7 | 105.8 | 158.3 |
| EPS gth | 23.0 | 4.0 | 49.5 |
| P/E (x) | 19.6 | 18.9 | 12.6 |
| EV/EBITDA (x) | 11.8 | 9.4 | 5.7 |
| Div yield (%) | 0.6 | 0.7 | 1.0 |

Shareholding, June 2008

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 44.2 | - |
| FII's | 21.0 | 9.7 |
| MF's | 2.8 | 7.1 |
| UTI | - | (8.9) |
| LIC | 5.1 | 10.8 |

Reliance Industries: On cycles, multiples and the full circle of life

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- **Watch out for contraction in multiples as has happened in case of other commodity stocks**
- **Recent street earnings downgrades may just be the beginning, in our view**
- **Realistic multiples on realistic earnings and no option value = Rs1,700 fair value**

We see a likely contraction in multiples being accorded by the street for RIL's cyclical commodity businesses in light of (1) rising fears about commodity margins over the next two years led by global GDP growth concerns and (2) the sharp contraction in multiples of other commodity stocks. Our valuation exercise based on (1) use of realistic multiples for RIL's chemicals and refining businesses and (2) no option value for future oil and gas discoveries shows a fair value of Rs1,700. We have revised our FY2009E, FY2010E and FY2011E consolidated EPS to Rs106 (+9%), Rs158 (-8%) and Rs150 (-10%) to reflect lower refining margins (-ve for earnings), weaker rupee (+ve for earnings) and other changes to the model. We see new E&P discoveries as the only positive trigger for the stock in light of weakening fundamentals of the core businesses and possible negative developments in the ongoing RIL-RNRL legal dispute.

Street multiples appear to be still on the higher side; contraction likely. We believe the street is still according very high multiples (>6X EBITDA) to RIL's chemicals and refining businesses especially as we do not believe the street has lowered earnings sufficiently to reflect mid-cycle or below mid-cycle earnings. We have long argued against use of high multiples for peak-cycle or near-peak-cycle earnings for cyclical commodity businesses. We think 6X EBITDA multiple would be fair for mid-cycle earnings.

We believe RIL's multiples can contract further in light of (1) rising fears of a sharp slowdown in global GDP growth in CY2009E and (2) steep erosion in multiples of similar commodity stocks over the past few weeks. Exhibits 1-4 show valuation of global chemical, refining and E&P stocks. Exhibit 5 shows valuation of global metals stocks, which have corrected significantly of late. The uniformly low valuations across the entire commodity chain suggests that market is anticipating further earnings reduction led by slower-than-expected global GDP growth.

We do not believe the street estimates for RIL factor in the increasing likelihood of a steep deterioration in chemical and refining margins. Our earnings are well below consensus forecasts but we still find our earning projections significantly higher versus the average of the past 4-5 years (pro forma basis) or those suggested by current margins; for example, our refining margin estimates are well ahead of current margins despite a likely further deterioration in global refining supply-demand balance. In case of both chemicals and refining, we expect incremental global capacity/supply to be 2X of incremental global demand.

Realistic multiples on realistic earnings and no option value for new E&P gas discoveries = Rs1,700 fair value. Exhibit 6 shows a hypothetical valuation exercise for RIL based on (1) 6X EV/EBITDA multiple for chemicals and refining businesses, (2) average FY2005-08 EBITDA of refining segment, (3) 70% of FY2007-08 chemical segment EBITDA, (4) valuation of investment based on current market prices and (5) our estimated valuation of RIL's emerging businesses (upcoming E&P, retailing and SEZs).

Exhibit 7 shows our SOTP valuation model for RIL and Exhibit 8 is our simple valuation model for RIL based on 9X FY2010E EPS; FY2010E EPS will largely reflect full contribution from RIL's KG D-6 block and RPET. However, we note that on a 'as is' basis, FY2010E EPS will be significantly higher versus long-term recurring earnings due to (1) zero share of government of profit petroleum of KG D-6 block, (2) FY2010E E&P earnings being in perpetuity and (3) no payment of income tax on RPET's earnings.

Fine-tuned earnings. We have revised RIL's FY2009E, FY2010E, FY2011E and FY2012E EPS to reflect lower refining margins (-ve for earnings), weaker rupee (+ve for earnings) and other minor changes to the model. We discuss key assumptions and risks to earnings below.

1. Reduced refining margins. We have reduced FY2009E-FY2012E refining margin by roughly US\$1-2/bbl to US\$14.3/bbl, US\$12.9/bbl, US\$11.3/bbl and US\$11.2/bbl to reflect our more cautious view of refining margins. As discussed previously, we expect global addition to refining capacity and NGL supply to be around 6.5 mn b/d in CY2008-10E. This would be far ahead of likely cumulative demand growth of 3-3.2 mn b/d over the same period. Exhibit 9 gives details of new refining capacity additions and Exhibit 10 gives our oil supply-demand model.

In addition to supply-demand issues highlighted above, we also see additional risks to our/street refining margin assumptions from the following factors.

- a. RIL's refining margins will decline by around US\$4/bbl versus our base-case assumptions in case it is unable to use natural gas for internal refining processes due to any legal or regulatory reasons. The price of natural gas is significantly below the equivalent price of liquid fuels/crude oil.
- b. The continuing narrowing of differential between light, sweet and heavy, sour crude due to low current spread between gasoline and crude oil may partly negate RIL's historical advantage. The high premium for superior light, sweet crudes, which result in higher yield of light distillates, over the past few years primarily reflected high crack spreads of gasoline (See exhibit 11). This has been a major contributor to Reliance's premium margins versus regional/benchmark over the past few years.
- c. We believe adventitious/inventory gains contributed to around US\$3/bbl of RIL's US\$15/bbl in FY2008, which suggests that RIL's underlying margin was US\$12/bbl 'only' in FY2008. This may not repeat in the future unless crude prices spike up sharply in any particular year. However, the more important point is the street's likely computation of refining margins for future years relative to reported margins of FY2008 rather than underlying margins; we see scope for disappointment in the former case.

2. Rupee-US Dollar assumptions revised to reflect the recent sharp depreciation in the rupee. We now model rupee-US Dollar exchange rate at Rs43.25/US\$ for FY2009E (Rs42 previously) and Rs42.5/US\$ for FY2010E (Rs41.5). This has partly offset the impact of lower refining margins. Exhibit 12 shows the sensitivity of RIL's earnings to exchange rate, chemical margins and refining margins.

3. Chemical margins. We model a moderate decline in chemical margins in FY2009-12E and as can be seen in Exhibit 13, our assumptions are well above trough margins seen in FY2001-03. However, the likely trajectory of global utilization rate for ethylene is ominously reminiscent of the steep decline in utilization rates in CY2000-02 corresponding to FY2001-03. We have revised margins upward for FY2009E noting the spike in margins in July-August 2008; however, margins have come off since then.

4. Natural gas price and volume. We continue to model gas price at US\$4.2/mn BTU for the forecast years. We see possible significant downside risks to earnings if RIL has to sell 28-40 mcm/d of gas at a lower price (say, US\$2.34/mn BTU) to RNRL versus US\$4.2/mn BTU and yet compensate the government for royalty, income and share of government of profit petroleum at a higher price of US\$4.2/mn BTU. We model KG D-6 and MA-1 gas volumes for FY2009E, FY2010E and FY2011E at 20 mcm/d, 70 mcm/d and 90 mcm/d.

Global chemical valuations

| | Price | Market cap | EV | P/E (X) | | | EV/EBITDA (X) | | |
|------------------------------------|--------|------------|-----------|---------|-------|-------|---------------|-------|-------|
| | 11-Sep | (US\$ mn) | (US\$ mn) | 2008E | 2009E | 2010E | 2008E | 2009E | 2010E |
| China | | | | | | | | | |
| Sinopec Shanghai Petrochem (CNY) | 4.8 | 3,982 | 4,774 | NA | 17.9 | 15.7 | NA | 12.0 | - |
| Sinopec Yizheng Chemical Fib (CNY) | 3.5 | 1,454 | 1,220 | NA | NA | 63.1 | 27.3 | 26.7 | 7.7 |
| Hong Kong | | | | | | | | | |
| Sinofert Holdings Ltd (HK\$) | 3.7 | 3,342 | 3,758 | 10.8 | 8.2 | 6.9 | 8.7 | 7.0 | 6.3 |
| India | | | | | | | | | |
| Reliance Industries Limited (Rs) | 1,997 | 63,281 | 74,246 | 17.1 | 11.2 | 10.1 | 11.2 | 7.5 | 7.1 |
| Japan | | | | | | | | | |
| Mitsui Chemicals Inc (JPY) | 523 | 3,886 | 8,907 | 15.5 | 13.2 | 14.4 | 6.8 | 6.3 | 6.3 |
| Mitsubishi Chemical Holdings (JPY) | 564 | 7,970 | 16,491 | 13.0 | 12.3 | 11.8 | 6.8 | 6.3 | 6.1 |
| Sumitomo Chemical Co Ltd (JPY) | 553 | 8,589 | 16,443 | 17.6 | 9.1 | 8.2 | 7.7 | 7.6 | 7.5 |
| Tosoh Corp (JPY) | 357 | 2,013 | 5,779 | 9.2 | 8.0 | 7.5 | 6.0 | 6.2 | 6.3 |
| Korea | | | | | | | | | |
| Daelim Industrial Co Ltd (W) | 74,500 | 2,333 | 3,756 | 7.0 | 5.7 | 6.0 | 8.0 | 6.0 | 6.1 |
| Hanwha Chemical Corp (W) | 10,300 | 1,300 | 2,300 | 4.9 | 6.6 | 11.6 | 7.6 | 7.7 | 7.6 |
| Honam Petrochemical Corp (W) | 67,800 | 1,943 | 1,572 | 5.5 | 5.4 | 8.4 | 6.0 | 7.4 | 9.1 |
| LG Chem Ltd (W) | 88,000 | 5,957 | 6,888 | 5.2 | 11.0 | 13.7 | 3.4 | 5.9 | 6.5 |
| Malaysia | | | | | | | | | |
| Titan Chemicals Corp Bhd (MYR) | 1.0 | 505 | 903 | 4.1 | 4.0 | 3.8 | 3.6 | 3.6 | 3.5 |
| Thailand | | | | | | | | | |
| Ptt Chemical Pcl (Bt) | 68.0 | 2,927 | 3,132 | 5.4 | 6.6 | 5.0 | 4.0 | 4.3 | 3.5 |
| Thai Plastic & Chemicals Pcl (Bt) | 20.2 | 508 | 683 | 6.6 | 6.5 | 6.2 | 5.8 | 5.7 | 5.9 |
| USA | | | | | | | | | |
| Dow Chemical (US\$) | 35.6 | 32,936 | 43,445 | 11.5 | 12.1 | 11.6 | 6.6 | 7.2 | 7.0 |
| Du Pont (E.I.) De Nemours (US\$) | 44.9 | 40,534 | 49,492 | 12.7 | 12.1 | 12.2 | 8.3 | 7.9 | 7.8 |
| Eastman Chemical Company (US\$) | 57.6 | 4,399 | 5,277 | 10.8 | 10.5 | 10.8 | 5.7 | 5.6 | 5.6 |
| Nova Chemicals Corp (US\$) | 25.7 | 2,140 | 3,882 | 9.0 | 9.9 | 18.4 | 5.0 | 5.5 | 6.5 |
| Olin Corp (US\$) | 22.2 | 1,677 | 1,719 | 9.8 | 9.8 | 12.3 | 4.9 | 4.7 | 6.3 |

Source: Bloomberg, Kotak Institutional Equities

Global energy valuations

| | Price 11-Sep | Market cap (US\$ mn) | EV (US\$ mn) | P/E (X) | | | EV/EBITDA (X) | | |
|-------------------------------------|-----------------|-------------------------|-----------------|---------|-------|-------|---------------|-------|-------|
| | | | | 2008E | 2009E | 2010E | 2008E | 2009E | 2010E |
| International majors | | | | | | | | | |
| Chevron Corp (US\$) | 80 | 165,303 | 163,626 | 6.6 | 6.4 | 6.0 | 2.9 | 2.7 | 2.6 |
| Exxon Mobil Corp (US\$) | 74 | 386,382 | 356,315 | 8.0 | 7.4 | 6.7 | 3.5 | 3.5 | 3.4 |
| Royal Dutch Shell Plc-A Shs (GBP) | 1,723 | 187,051 | 232,347 | 5.9 | 6.1 | 5.8 | 2.9 | 3.0 | 2.9 |
| Bp Plc (GBP) | 501 | 164,519 | 237,691 | 5.7 | 5.8 | 5.7 | 3.3 | 3.3 | 3.2 |
| Total Sa (EUR) | 45 | 146,818 | 165,153 | 6.9 | 6.6 | 6.2 | 3.2 | 3.0 | 2.9 |
| Regional majors | | | | | | | | | |
| Occidental Petroleum Corp (US\$) | 68 | 55,618 | 55,930 | 6.4 | 6.2 | 5.6 | 3.1 | 2.9 | 2.9 |
| Conocophillips (US\$) | 71 | 107,861 | 130,142 | 5.4 | 5.2 | 4.7 | 2.8 | 2.7 | 2.8 |
| Marathon Oil Corp (US\$) | 42 | 29,443 | 36,300 | 6.6 | 5.6 | 5.2 | 3.4 | 2.7 | 2.7 |
| Eni Spa (EUR) | 20 | 112,654 | 140,070 | 6.7 | 6.6 | 6.8 | 3.3 | 3.2 | 3.2 |
| Repsol YPF Sa (EUR) | 19 | 32,012 | 45,522 | 7.1 | 7.2 | 6.8 | 3.6 | 3.4 | 3.3 |
| Emerging market oils | | | | | | | | | |
| CNOOC Ltd (HK\$) | 9 | 53,845 | 41,936 | | 8.1 | 7.8 | 4.4 | 4.1 | 4.1 |
| Lukoil-Cls (US\$) | 60 | 50,864 | 57,115 | 3.5 | 3.6 | 3.7 | 2.6 | 2.7 | 2.6 |
| Gail India Ltd (Rs) | 427 | 7,912 | 7,715 | 11.6 | 11.0 | 10.8 | 7.5 | 7.0 | 6.5 |
| Oil & Natural Gas Corp. Ltd (Rs) | 1,036 | 48,515 | 44,616 | 8.7 | 8.7 | 8.3 | 4.2 | 4.2 | 4.0 |
| Petrochina Co Ltd-H (HK\$) | 9 | 276,573 | 246,661 | 11.7 | 9.8 | 9.7 | 7.5 | 6.5 | 6.2 |
| PTT Pcl (Bt) | 240 | 19,490 | 25,128 | 6.7 | 6.5 | 6.2 | 5.0 | 4.6 | 4.5 |
| PTT Explor & Prod Public Co. (Bt) | 134 | 12,742 | 12,596 | 9.9 | 9.0 | 9.2 | 4.3 | 3.8 | 3.7 |
| Santos Ltd (A\$) | 18 | 8,590 | 10,477 | 16.9 | 16.3 | 18.6 | 7.0 | 7.3 | 8.0 |
| China Petroleum & Chemical-H (HK\$) | 7 | 103,229 | 123,707 | 15.6 | 10.2 | 8.6 | 11.6 | 7.7 | 6.5 |
| Woodside Petroleum Ltd (A\$) | 52 | 28,415 | 29,971 | 14.2 | 13.5 | 15.3 | 7.9 | 7.0 | 7.6 |
| Reliance Industries Limited (Rs) | 1,997 | 63,579 | 74,596 | 17.0 | 11.1 | 10.0 | 11.2 | 7.7 | 7.0 |
| Nippon Oil Corp. (JPY) | 588 | 8,104 | 20,834 | 7.9 | 11.2 | 11.3 | 6.4 | 7.6 | 6.7 |

Source: Bloomberg, Kotak Institutional Equities

Global refiners valuations

| | Price 11-Sep | Market cap. (US\$ mn) | EV (US\$ mn) | P/E (X) | | | EV/EBITDA (X) | | |
|-----------------------------------|-----------------|--------------------------|-----------------|---------|-------|-------|---------------|-------|-------|
| | | | | 2008E | 2009E | 2010E | 2008E | 2009E | 2010E |
| Taiwan | | | | | | | | | |
| Formosa Petrochemical Corp (NT\$) | 71 | 20,434 | 25,175 | 10.7 | 13.0 | 16.9 | 7.9 | 9.0 | 8.5 |
| Korea | | | | | | | | | |
| Gs Holdings Corp (W) | 27,700 | 2,317 | 2,763 | 5.5 | 5.2 | 5.8 | 6.2 | 6.0 | 6.1 |
| S-Oil Corporation (W) | 62,800 | 6,364 | 7,558 | 7.5 | 12.2 | 16.1 | 4.5 | 7.1 | 8.0 |
| Sk Holdings Co Ltd (W) | 105,000 | 4,438 | 6,403 | 8.6 | 7.0 | 5.9 | 9.1 | 7.6 | 7.0 |
| Singapore | | | | | | | | | |
| Singapore Petroleum Co Ltd (SG\$) | 5 | 1,624 | 1,931 | 4.4 | 5.0 | 6.2 | 3.5 | 3.8 | 4.3 |
| Thailand | | | | | | | | | |
| Thai Oil Pcl (Bt) | 47 | 2,728 | 3,216 | 5.0 | 5.4 | 5.9 | 3.4 | 3.8 | 3.9 |
| Bangchak Petroleum Pcl (Bt) | 10 | 322 | 637 | 9.1 | 4.3 | 4.1 | 5.8 | 3.8 | 4.1 |
| Japan | | | | | | | | | |
| Nippon Mining Holdings Inc (JPY) | 476 | 4,159 | 12,845 | 5.1 | 6.4 | 5.8 | 7.2 | 8.2 | 7.3 |
| Nippon Oil Corp (JPY) | 588 | 8,104 | 20,834 | 7.9 | 11.2 | 11.3 | 6.4 | 7.6 | 6.7 |
| Tonengeneral Sekiyu Kk (JPY) | 808 | 4,297 | 5,318 | 32.9 | 17.3 | 17.6 | 8.6 | 7.2 | 7.1 |
| Cosmo Oil Company Ltd (JPY) | 272 | 2,170 | 7,091 | 5.7 | 9.0 | 8.3 | 6.7 | 7.7 | 6.5 |
| US | | | | | | | | | |
| Ashland Inc (US\$) | 37 | 2,350 | 1,562 | 12.7 | 11.7 | 8.8 | 4.2 | 2.5 | 1.7 |
| Sunoco Inc (US\$) | 44 | 5,166 | 7,216 | 54.8 | 14.5 | 10.9 | 8.8 | 5.7 | 4.8 |
| Frontier Oil Corp (US\$) | 20 | 2,040 | 1,975 | 14.4 | 6.7 | 5.7 | 5.0 | 3.6 | 2.3 |
| Tesoro Corp (US\$) | 17 | 2,387 | 4,151 | (32.0) | 10.7 | 6.5 | 11.1 | 4.5 | 3.6 |
| Valero Energy Corp (US\$) | 32 | 16,610 | 21,444 | 9.2 | 7.5 | 6.0 | 4.6 | 3.9 | 3.4 |
| Western Refining Inc (US\$) | 10 | 699 | 2,097 | NA | 14.8 | 12.3 | 12.0 | 7.1 | 6.0 |
| Cheniere Energy Inc (US\$) | 3 | 132 | 3,090 | (0.5) | (1.2) | (4.1) | (18.6) | 25.5 | 11.6 |
| India | | | | | | | | | |
| Bharat Petroleum Corp Ltd (Rs) | 348 | 2,754 | 4,188 | 9.4 | 8.3 | 8.0 | 6.4 | 5.4 | 4.6 |
| Hindustan Petroleum Corp (Rs) | 239 | 1,775 | 5,390 | 7.1 | 7.3 | 5.6 | 9.7 | 7.7 | 6.2 |
| Indian Oil Corporation Ltd (Rs) | 411 | 10,742 | 16,018 | 8.4 | 7.6 | 10.4 | 6.5 | 5.7 | 5.1 |
| Reliance Petroleum Ltd (Rs) | 155 | 15,278 | 17,552 | 19.6 | 7.6 | 7.7 | 19.2 | 6.9 | 7.2 |

Source: Bloomberg, Kotak Institutional Equities

Global upstream valuations

| | Price | Market cap | EV | P/E (X) | | | EV/EBITDA (X) | | |
|-------------------------------------|--------|------------|-----------|---------|-------|-------|---------------|-------|-------|
| | 11-Sep | (US\$m) | (US\$ mn) | 2008E | 2009E | 2010E | 2008E | 2009E | 2010E |
| US large/mid-cap | | | | | | | | | |
| Anadarko Petroleum Corp (US\$) | 53 | 25,049 | 35,914 | 8.6 | 9.2 | 8.0 | 3.8 | 3.6 | 3.4 |
| Apache Corp (US\$) | 104 | 34,883 | 38,020 | 6.6 | 6.4 | 5.7 | 3.3 | 3.1 | 2.9 |
| Chesapeake Energy Corp (US\$) | 39 | 22,593 | 36,982 | 10.0 | 8.8 | 7.3 | 8.5 | 5.0 | 4.1 |
| Devon Energy Corporation (US\$) | 90 | 39,554 | 42,544 | 7.3 | 6.8 | 6.0 | 3.7 | 3.2 | 2.9 |
| Eog Resources Inc (US\$) | 85 | 21,113 | 22,150 | 9.3 | 8.2 | 6.9 | 4.3 | 3.5 | 3.1 |
| Murphy Oil Corp (US\$) | 67 | 12,698 | 12,780 | 6.5 | 6.1 | 5.7 | 3.0 | 2.7 | 2.5 |
| Xto Energy Inc (US\$) | 46 | 25,307 | 33,253 | 10.8 | 8.5 | 7.6 | 5.5 | 4.0 | 3.6 |
| US small-cap | | | | | | | | | |
| Noble Energy Inc (US\$) | 58 | 9,949 | 10,831 | 6.9 | 5.6 | 5.3 | 3.5 | 2.7 | 2.6 |
| Ultra Petroleum Corp (US\$) | 54 | 8,170 | 8,410 | 17.7 | 13.9 | 11.3 | 8.8 | 6.7 | 5.5 |
| Newfield Exploration Co (US\$) | 35 | 4,680 | 6,567 | 7.9 | 5.5 | 5.0 | 3.9 | 2.9 | 2.6 |
| Pioneer Natural Resources Co (US\$) | 52 | 6,166 | 8,816 | 9.8 | 6.9 | 5.5 | 4.8 | 3.7 | 3.2 |
| Southwestern Energy Co (US\$) | 30 | 10,196 | 10,766 | 17.9 | 14.7 | 11.4 | 7.9 | 6.2 | 5.2 |
| Russia | | | | | | | | | |
| Lukoil-Cls (US\$) | 60 | 50,864 | 57,115 | 3.5 | 3.6 | 3.7 | 2.6 | 2.7 | 2.6 |
| Gazprom Neft-Cls (US\$) | 5 | 22,237 | 24,768 | 3.5 | 4.1 | 3.9 | 2.9 | 3.1 | 2.9 |
| Europe | | | | | | | | | |
| Statoilhydro Asa (Nkr) | 140 | 76,712 | 78,271 | 6.5 | 6.2 | 6.1 | 1.7 | 1.6 | 1.6 |
| Bg Group Plc (GBP) | 1,099 | 64,456 | 63,648 | 11.3 | 11.2 | 11.2 | 5.6 | 5.3 | 5.2 |
| Cairn Energy Plc (GBP) | 2,558 | 5,884 | 9,635 | 125.0 | 20.3 | 4.2 | 26.3 | 7.3 | 1.7 |
| Tullow Oil Plc (GBP) | 738 | 9,373 | 10,142 | 27.1 | 26.2 | 22.0 | 10.0 | 10.6 | 10.3 |
| Asia | | | | | | | | | |
| Cnooc Ltd (HK\$) | 9 | 53,845 | 41,936 | 8.4 | 8.1 | 7.8 | 4.4 | 4.1 | 4.1 |
| Oil & Natural Gas Corp Ltd (Rs) | 1,036 | 48,515 | 44,616 | 8.7 | 8.7 | 8.3 | 4.2 | 4.2 | 4.0 |
| Ptt Explor & Prod Public Co (Bt) | 134 | 12,742 | 12,596 | 9.9 | 9.0 | 9.2 | 4.3 | 3.8 | 3.7 |
| Petrochina Co Ltd-H (HK\$) | 9 | 276,573 | 246,661 | 11.7 | 9.8 | 9.7 | 7.5 | 6.5 | 6.2 |
| Hindustan Petroleum Corp (Rs) | 239 | 1,775 | 5,390 | 7.1 | 7.3 | 5.6 | 9.7 | 7.7 | 6.2 |
| Indian Oil Corporation Ltd (Rs) | 411 | 10,742 | 16,018 | 8.4 | 7.6 | 10.4 | 6.5 | 5.7 | 5.1 |

Source: Bloomberg, Kotak Institutional Equities

Global metals valuations

| | Price | M-cap | EV | EV / EBITDA | | | P/E | |
|-----------------------|--------|---------------|---------------|-------------|------------|------------|------------|------------|
| | 11-Sep | (US\$ mn) | (US\$ mn) | 2007 | 2008E | 2009E | 2008E | 2009E |
| Asia | | | | | | | | |
| Nippon Steel | 4.15 | 28,216 | 44,225 | 6.9 | 5.7 | 6.0 | 8.0 | 9.2 |
| POSCO | 374.84 | 32,681 | 32,131 | 4.8 | 4.4 | 4.4 | 7.0 | 6.9 |
| Baoshan Iron & Steel | 0.94 | 16,523 | 23,050 | 4.5 | 4.0 | 3.7 | 6.7 | 6.1 |
| Tata Steel | 11.58 | 8,457 | 22,335 | 12.9 | 5.4 | 4.5 | 5.6 | 4.1 |
| SAIL | 2.99 | 12,329 | 9,595 | 4.1 | 3.4 | 3.4 | 6.9 | 6.8 |
| JSW Steel | 14.60 | 2,732 | 6,274 | 10.1 | 7.7 | 6.2 | 6.6 | 6.7 |
| JFE Holdings | 37.90 | 23,285 | 37,353 | 6.5 | 5.3 | 5.2 | 8.8 | 7.7 |
| Angang Steel | 1.20 | 8,436 | 11,622 | 4.9 | 4.0 | 3.5 | 5.6 | 4.6 |
| Maanshan Iron & Steel | 0.57 | 3,447 | 6,256 | 6.8 | 4.5 | 4.3 | 7.7 | 7.3 |
| Hyundai Steel | 48.69 | 4,134 | 6,951 | 7.1 | 5.4 | 5.6 | 6.1 | 6.2 |
| Mean | | 14,024 | 19,979 | 6.9 | 5.0 | 4.7 | 6.9 | 6.6 |
| Median | | 10,393 | 16,979 | 6.6 | 4.9 | 4.5 | 6.8 | 6.7 |
| Europe | | | | | | | | |
| Arcelor Mittal | 60.43 | 87,545 | 122,345 | 6.3 | 4.1 | 4.1 | 4.5 | 4.5 |
| Evrz Group | 59.80 | 21,225 | 27,876 | 6.6 | 3.5 | 3.4 | 5.0 | 4.5 |
| Thyssenkrupp AG | 38.40 | 19,755 | 25,233 | 3.1 | 3.5 | 3.1 | 6.2 | 5.6 |
| Severstal | 12.75 | 12,848 | 14,376 | 3.7 | 2.7 | 2.6 | 4.0 | 4.0 |
| Mean | | 35,343 | 47,457 | 5.8 | 4.1 | 4.0 | 4.2 | 4.7 |
| Median | | 20,490 | 26,554 | 6.6 | 4.1 | 4.1 | 4.5 | 4.5 |
| America | | | | | | | | |
| CSN | 24.94 | 20,053 | 25,333 | 8.8 | 6.1 | 4.4 | 8.8 | 6.6 |
| Nucor Corp | 44.25 | 14,009 | 14,800 | 5.0 | 3.4 | 3.1 | 6.2 | 5.7 |
| US Steel | 100.05 | 11,755 | 14,757 | 7.9 | 3.5 | 3.0 | 4.7 | 4.2 |
| Mean | | 15,272 | 18,296 | 7.2 | 4.3 | 3.5 | 6.6 | 5.5 |
| Median | | 14,009 | 14,800 | 7.9 | 3.5 | 3.1 | 6.2 | 5.7 |
| World | | | | | | | | |
| Mean | | | 26,148 | 6.5 | 4.5 | 4.1 | 6.1 | 5.9 |
| Median | | | 22,335 | 6.5 | 4.1 | 4.1 | 6.2 | 6.1 |

Note:

(a) Thyssenkrupp AG has a September year ending

(b) All other companies are March year ending companies

Source: Bloomberg, Kotak Institutional Equities

Our hypothetical exercise shows a fair value of Rs1,700 per share on FY2010E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

| | Valuation base (Rs bn) | | Multiple (X) | | EV (Rs bn) | Value share (Rs) |
|---|------------------------|--------|--------------|-----------|---------------|------------------------|
| | Other | EBITDA | Multiple | EV/EBITDA | | |
| Chemicals (based on 70% of average EBITDA of FY2007-08) | | 67 | | 6.0 | 403 | 293 |
| Refining & Marketing (based on average EBITDA of FY2005-08) | | 88 | | 5.5 | 483 | 352 |
| Oil and gas—producing | | 33 | | 4.0 | 133 | 97 |
| Gas—developing (DCF-based) (a) | 572 | — | 100% | — | 572 | 416 |
| Oil—KG-DWN-98/3 (b) | 97 | — | 100% | — | 97 | 71 |
| Investments | | | | | | |
| RPL (3.167 bn shares at Rs155) | 491 | — | 100% | — | 491 | 357 |
| Others | 2 | — | 100% | — | 2 | 1 |
| Retailing | 42 | — | 2.0 | — | 84 | 61 |
| SEZ development | 75 | — | 100% | — | 75 | 54 |
| Total | | | | | 2,242 | 1,702 |
| PV of refining division's future sales tax incentives | | | | | 2 | 2 |
| Total value | | | | | 2,244 | 1,704 |
| Net debt (c) | | | | | 26 | 19 |
| Implied equity value | | | | | 2,218 | 1,685 |

Note:

- (a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.
(d) We use 1.374 bn shares (excluding treasury shares) for our per share computation.

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is Rs1,750 per share on FY2010E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

| | Valuation base (Rs bn) | | Multiple (X) | | EV (Rs bn) | Value share (Rs) |
|---|------------------------|--------|--------------|-----------|---------------|------------------------|
| | Other | EBITDA | Multiple | EV/EBITDA | | |
| Chemicals | | 66 | | 6.0 | 397 | 289 |
| Refining & Marketing | | 100 | | 5.5 | 551 | 401 |
| Oil and gas—producing | | 33 | | 4.0 | 133 | 97 |
| Gas—developing (DCF-based) (a) | 572 | — | 100% | — | 572 | 416 |
| Oil—KG-DWN-98/3 (b) | 97 | — | 100% | — | 97 | 71 |
| Investments | | | | | | |
| RPL (3.167 bn shares at Rs155) | 491 | — | 100% | — | 491 | 357 |
| Others | 2 | — | 100% | — | 2 | 1 |
| Retailing | 42 | — | 2.0 | — | 84 | 61 |
| SEZ development | 75 | — | 100% | — | 75 | 54 |
| Total | | | | | 2,304 | 1,747 |
| PV of refining division's future sales tax incentives | | | | | 2 | 2 |
| Total value | | | | | 2,306 | 1,749 |
| Net debt (c) | | | | | 26 | 19 |
| Implied equity value | | | | | 2,281 | 1,731 |

Note:

- (a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.
(d) We use 1.374 bn shares (excluding treasury shares) for our per share computation.

Source: Kotak Institutional Equities estimates

Valuation of Reliance Industries stock (Rs)

| | FY2010E EPS (Rs) | P/E (X) | Valuation (Rs/share) | Comments |
|--|----------------------------|-------------------|--------------------------------|--|
| Chemicals, refining, E&P (a) (b) | 181 | 9 | 1,631 | Consolidated FY2010E EPS including Reliance Petroleum |
| Valuation based on FY2010E EPS | | | 1,538 | 12.5% discount rate; discounted to September, 2009 |
| E&P (higher reserves in KG-DWN-98/3, other blocks) | | | — | We model 0.93 tcf of gas per annum production in perpetuity |
| E&P (NEC-25, CBM) | | | 88 | Based on KG D-6 reserves and valuation |
| New chemical projects (PX, new olefins complex) | | | 26 | |
| Investments | | | 122 | |
| Other investments | | | 1 | |
| Retailing | | | 61 | US\$2 bn valuation based on 2X amount invested in Reliance Retail as of end-FY2008 |
| SEZ development | | | 60 | SEZs will require investment for the first few years |
| 12-month fair valuation | | | 1,773 | |

Notes:

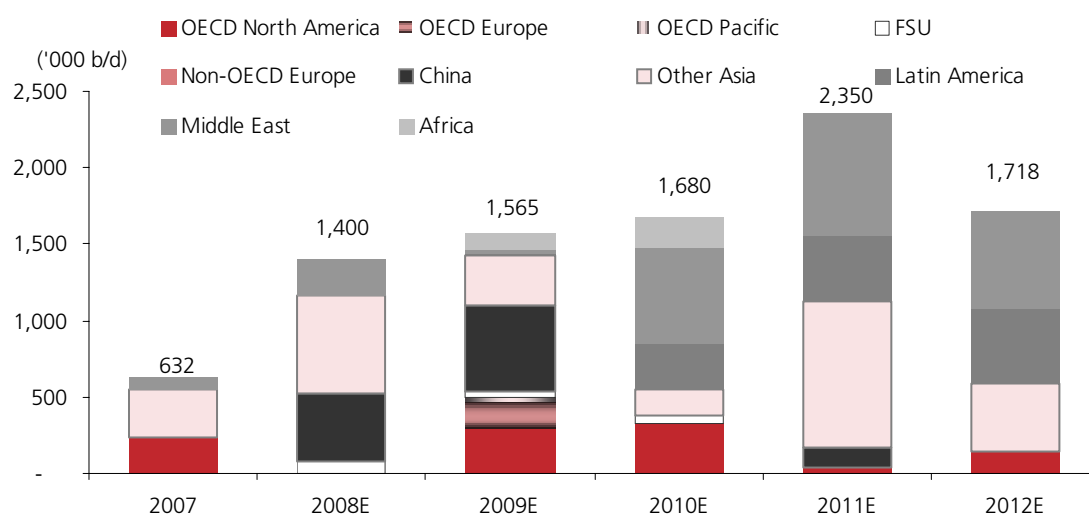
(a) FY2010E EPS is Rs158 on 1.573 bn shares after considering conversion of 120 mn warrants issued to the major shareholder.

(b) FY2010E EPS is adjusted for treasury shares or computed using 1.372 bn shares.

Source: Kotak Institutional Equities estimates.

Significant supply additions to global refining capacity

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



Source: IEA, Kotak Institutional Equities estimates

Estimated global crude demand, supply and prices, Calendar year-ends

| | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|------------------------------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Demand (mb/d) | | | | | | | | | | |
| Total demand | 82.5 | 84.0 | 85.1 | 86.1 | 86.8 | 87.6 | 89.1 | 90.6 | 92.3 | 94.0 |
| Yoy growth | 3.3 | 1.5 | 1.1 | 1.0 | 0.7 | 0.8 | 1.5 | 1.5 | 1.7 | 1.8 |
| Supply (mb/d) | | | | | | | | | | |
| Non-OPEC | 48.8 | 48.7 | 49.2 | 49.6 | 49.9 | 50.7 | 50.9 | 51.0 | 51.0 | 51.4 |
| Yoy growth | 0.6 | (0.1) | 0.5 | 0.4 | 0.3 | 0.8 | 0.2 | 0.1 | 0.0 | 0.4 |
| OPEC | | | | | | | | | | |
| Crude | 29.5 | 30.8 | 31.3 | 31.7 | 31.8 | 31.1 | 31.8 | 33.1 | 34.5 | 35.7 |
| NGLs | 4.2 | 4.5 | 4.6 | 4.8 | 5.1 | 5.8 | 6.4 | 6.5 | 6.8 | 6.9 |
| Total OPEC | 33.7 | 35.3 | 35.9 | 36.5 | 36.9 | 36.9 | 38.2 | 39.6 | 41.3 | 42.6 |
| Total supply | 83.4 | 84.7 | 85.5 | 86.1 | 86.8 | 87.6 | 89.1 | 90.6 | 92.3 | 94.0 |
| Total stock change | 1.0 | 0.7 | 0.8 | | | | | | | |
| OPEC crude capacity | | | | 34.4 | 35.3 | 36.4 | 37.4 | 37.3 | 37.6 | 37.9 |
| Implied OPEC spare capacity | | | | 2.7 | 3.6 | 5.3 | 5.6 | 4.1 | 3.1 | 2.1 |
| Demand growth (yoy, %) | 4.2 | 1.8 | 1.3 | 1.2 | 0.8 | 0.9 | 1.7 | 1.7 | 1.8 | 1.9 |
| Supply growth (yoy, %) | | | | | | | | | | |
| Non-OPEC | 1.2 | (0.2) | 1.0 | 0.8 | 0.6 | 1.6 | 0.4 | 0.2 | 0.0 | 0.8 |
| OPEC | 8.4 | 4.6 | 1.9 | 1.5 | 1.2 | (0.0) | 3.5 | 3.8 | 4.2 | 3.3 |
| Total | 4.4 | 1.6 | 0.9 | 0.7 | 0.8 | 0.9 | 1.7 | 1.7 | 1.8 | 1.9 |
| Dated Brent (US\$/bbl) | 38.3 | 54.4 | 65.8 | 72.7 | 110.0 | 95.0 | 90.0 | 90.0 | 90.0 | 75.0 |

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

High differential between light and heavy crude has been the major contributor to RIL's premium margins versus regional/benchmark margins

Refining margins and light-heavy differential

| | 2004 | 2005 | 2006 | 2007 | 2008 | Average 2004-2008 |
|---|--------|--------|--------|--------|---------|----------------------|
| Reported refining margins (US\$/bbl) (a) | 5.4 | 8.4 | 10.0 | 11.5 | 15.0 | 10.1 |
| Singapore margins as computed by IEA (US\$/bbl) (b) | 2.8 | 4.0 | 3.2 | 2.6 | 3.4 | 3.2 |
| Light-heavy differential (Brent versus Arab Heavy) (US\$/bbl) | 2.3 | 8.7 | 8.7 | 9.3 | 9.1 | 7.6 |
| Light-heavy differential (Brent versus Dubai) (US\$/bbl) | 2.1 | 5.8 | 4.5 | 3.7 | 5.1 | 4.2 |
| RIL's refining segment EBITDA (Rs mn) | 40,260 | 60,952 | 70,186 | 95,065 | 125,243 | 78,341 |
| RIL's chemical segment EBITDA (Rs mn) | 47,658 | 51,107 | 58,748 | 93,703 | 97,976 | 69,838 |

Note:

(a) Refining margins are excluded sales tax incentives.

(b) Singapore hydrocracking margins over Dubai.

Source: IEA, company, Kotak Institutional Equities

Reliance has high leverage to refining margins

Sensitivity of RIL's standalone (without RPET) earnings to key variables

| | Fiscal 2009E | | | Fiscal 2010E | | | Fiscal 2011E | | |
|------------------------------------|--------------|-----------|------------|--------------|-----------|------------|--------------|-----------|------------|
| | Downside | Base case | Upside | Downside | Base case | Upside | Downside | Base case | Upside |
| Rupee-dollar exchange rate | | | | | | | | | |
| Rupee-dollar exchange rate | 42.3 | 43.3 | 44.3 | 41.5 | 42.5 | 43.5 | 41.0 | 42.0 | 43.0 |
| Net profits (Rs mn) | 146,963 | 152,681 | 158,400 | 189,140 | 195,396 | 201,656 | 184,849 | 191,046 | 197,252 |
| EPS (Rs) | 97.1 | 100.9 | 104.7 | 120.2 | 124.2 | 128.2 | 117.5 | 121.4 | 125.4 |
| % upside/(downside) | (3.7) | | 3.7 | (3.2) | | 3.2 | (3.2) | | 3.2 |
| Chemical prices | | | | | | | | | |
| Change in prices (%) | (5.0) | | 5.0 | (5.0) | | 5.0 | (5.0) | | 5.0 |
| Net profits (Rs mn) | 148,754 | 152,681 | 156,609 | 191,667 | 195,396 | 199,126 | 187,365 | 191,046 | 194,727 |
| EPS (Rs) | 98.3 | 100.9 | 103.5 | 121.8 | 124.2 | 126.6 | 119.1 | 121.4 | 123.8 |
| % upside/(downside) | (2.6) | | 2.6 | (1.9) | | 1.9 | (1.9) | | 1.9 |
| Refining margins (US\$/bbl) | | | | | | | | | |
| Margins (US\$/bbl) | 13.3 | 14.3 | 15.3 | 11.9 | 12.9 | 13.9 | 10.3 | 11.3 | 12.3 |
| Net profits (Rs mn) | 143,292 | 152,681 | 162,071 | 188,759 | 195,396 | 202,034 | 184,487 | 191,046 | 197,606 |
| EPS (Rs) | 94.7 | 100.9 | 107.1 | 120.0 | 124.2 | 128.4 | 117.3 | 121.4 | 125.6 |
| % upside/(downside) | (6.1) | | 6.1 | (3.4) | | 3.4 | (3.4) | | 3.4 |

Source: Kotak Institutional Equities estimates.

Our assumptions for chemical margins are well above trough margins seen in FY2001-03

Regional and Reliance chemical margins, March fiscal year-ends, 2000-2010E (US\$/ton)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E | 2012E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|
| HDPE (HDPE – naphtha) | | | | | | | | | | | | | |
| Asia margin | 400 | 410 | 390 | 365 | 450 | 600 | 655 | 820 | 850 | 795 | 650 | 575 | 550 |
| Exchange rate (Rs/US\$) | 43.3 | 45.6 | 47.6 | 48.4 | 46.0 | 45.0 | 44.3 | 45.3 | 40.3 | 43.3 | 42.5 | 42.0 | 41.0 |
| Import tariff (%) | 45.4 | 44.9 | 41.3 | 36.0 | 28.4 | 17.3 | 9.8 | 5.1 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 |
| India margin (Rs/ton) | 29,044 | 32,095 | 29,514 | 27,055 | 28,666 | 33,381 | 32,892 | 40,227 | 37,496 | 36,155 | 29,048 | 25,394 | 23,711 |
| India margin | 670 | 704 | 620 | 559 | 624 | 742 | 743 | 889 | 931 | 836 | 683 | 605 | 578 |
| Difference (India – Asia) | 270 | 294 | 230 | 194 | 174 | 142 | 88 | 69 | 81 | 41 | 33 | 30 | 28 |
| PP (PP – naphtha) | | | | | | | | | | | | | |
| Asia margin | 340 | 335 | 330 | 430 | 500 | 610 | 700 | 820 | 745 | 845 | 625 | 550 | 525 |
| Exchange rate (Rs/US\$) | 43.3 | 45.6 | 47.6 | 48.4 | 46.0 | 45.0 | 44.3 | 45.3 | 40.3 | 43.3 | 42.5 | 42.0 | 41.0 |
| Import tariff (%) | 45.4 | 44.9 | 41.3 | 36.0 | 28.4 | 17.3 | 9.8 | 5.1 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 |
| India margin (Rs/ton) | 25,264 | 27,140 | 25,477 | 31,335 | 31,617 | 33,909 | 35,079 | 40,227 | 33,050 | 38,428 | 27,930 | 24,290 | 22,634 |
| India margin | 583 | 595 | 535 | 647 | 688 | 754 | 792 | 889 | 821 | 889 | 657 | 578 | 552 |
| Difference (India – Asia) | 243 | 260 | 205 | 217 | 188 | 144 | 92 | 69 | 76 | 44 | 32 | 28 | 27 |
| PSF (PSF – naphtha) | | | | | | | | | | | | | |
| Asia margin | 590 | 635 | 545 | 660 | 800 | 785 | 795 | 830 | 750 | 545 | 600 | 650 | 650 |
| Exchange rate (Rs/US\$) | 43.3 | 45.6 | 47.6 | 48.4 | 46.0 | 45.0 | 44.3 | 45.3 | 40.3 | 43.3 | 42.5 | 42.0 | 41.0 |
| Import tariff (%) | 45.1 | 27.8 | 25.7 | 25.7 | 24.4 | 19.9 | 14.9 | 10.0 | 6.9 | 5.2 | 5.2 | 5.2 | 5.2 |
| India margin (Rs/ton) | 40,903 | 39,847 | 34,265 | 41,970 | 47,406 | 44,496 | 42,551 | 43,712 | 34,281 | 24,785 | 26,813 | 28,706 | 28,022 |
| India margin | 944 | 874 | 719 | 867 | 1,031 | 989 | 961 | 966 | 851 | 573 | 631 | 683 | 683 |
| Difference (India – Asia) | 354 | 239 | 174 | 207 | 231 | 204 | 166 | 136 | 101 | 28 | 31 | 33 | 33 |
| PFY (PFY – naphtha) | | | | | | | | | | | | | |
| Asia margin | 730 | 745 | 720 | 810 | 960 | 910 | 880 | 870 | 825 | 645 | 700 | 750 | 750 |
| Exchange rate (Rs/US\$) | 43.3 | 45.6 | 47.6 | 48.4 | 46.0 | 45.0 | 44.3 | 45.3 | 40.3 | 43.3 | 42.5 | 42.0 | 41.0 |
| Import tariff (%) | 46.0 | 28.7 | 26.6 | 26.6 | 24.7 | 19.9 | 14.9 | 10.0 | 6.9 | 5.2 | 5.2 | 5.2 | 5.2 |
| India margin (Rs/ton) | 50,069 | 46,672 | 45,135 | 51,543 | 56,747 | 51,238 | 46,874 | 45,703 | 37,509 | 29,333 | 31,282 | 33,122 | 32,334 |
| India margin | 1,156 | 1,024 | 948 | 1,065 | 1,234 | 1,139 | 1,059 | 1,010 | 931 | 678 | 736 | 789 | 789 |
| Difference (India – Asia) | 426 | 279 | 228 | 255 | 274 | 229 | 179 | 140 | 106 | 33 | 36 | 39 | 39 |

Source: Kotak Institutional Equities estimates.

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E | 2012E |
|--|-----------------|----------------|----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Profit model (Rs mn) | | | | | | | | | | |
| Net sales | 451,133 | 510,715 | 656,223 | 809,113 | 1,114,927 | 1,334,430 | 1,813,149 | 2,681,280 | 2,636,824 | 2,612,150 |
| EBITDA | 75,808 | 91,148 | 123,820 | 139,991 | 198,462 | 233,056 | 273,966 | 443,110 | 416,725 | 426,986 |
| Other income | 10,012 | 11,381 | 14,498 | 6,829 | 4,783 | 8,953 | 13,065 | 12,379 | 14,503 | 22,151 |
| Interest | (15,552) | (14,347) | (14,687) | (8,770) | (13,247) | (15,509) | (22,624) | (20,903) | (7,730) | 4,387 |
| Depreciation & depletion | (28,371) | (32,470) | (37,235) | (34,009) | (48,152) | (48,471) | (62,663) | (87,513) | (93,730) | (100,714) |
| Pretax profits | 41,897 | 55,711 | 86,397 | 104,041 | 141,846 | 178,028 | 201,744 | 347,072 | 329,769 | 352,810 |
| Extraordinary items | 7,845 | 7,300 | 4,290 | 3,000 | 2,000 | 47,335 | — | — | — | — |
| Tax | (2,459) | (3,510) | (7,050) | (9,307) | (16,574) | (26,520) | (39,739) | (76,555) | (80,542) | (91,381) |
| Deferred taxation | (6,240) | (7,900) | (7,920) | (7,040) | (9,196) | (8,999) | 1,294 | 1,039 | 5,558 | 9,114 |
| Minority interest | — | — | — | — | — | — | (3,145) | (22,559) | (18,879) | (19,554) |
| Net profits | 41,043 | 51,601 | 75,717 | 90,693 | 118,076 | 189,844 | 160,154 | 248,998 | 235,905 | 250,988 |
| Adjusted net profits | 34,570 | 45,623 | 72,135 | 88,152 | 116,434 | 147,869 | 160,154 | 248,998 | 235,905 | 250,988 |
| Earnings per share (Rs) | 24.8 | 32.7 | 51.7 | 63.3 | 80.1 | 101.7 | 105.8 | 158.3 | 149.9 | 159.5 |
| Balance sheet (Rs mn) | | | | | | | | | | |
| Total equity | 303,744 | 344,525 | 404,033 | 430,543 | 673,037 | 847,853 | 1,137,402 | 1,349,861 | 1,548,655 | 1,738,945 |
| Deferred taxation liability | 26,848 | 34,748 | 42,668 | 49,708 | 69,820 | 78,725 | 77,432 | 76,393 | 70,836 | 61,722 |
| Minority interest | — | — | — | — | 33,622 | 33,622 | 36,277 | 52,684 | 65,986 | 71,961 |
| Total borrowings | 197,583 | 209,447 | 187,846 | 218,656 | 332,927 | 493,072 | 361,633 | 245,126 | 115,804 | 75,477 |
| Current liabilities | 109,666 | 122,855 | 171,315 | 164,545 | 192,305 | 251,427 | 316,168 | 362,576 | 356,672 | 348,781 |
| Total liabilities and equity | 637,842 | 711,574 | 805,863 | 863,452 | 1,301,712 | 1,704,700 | 1,928,911 | 2,086,642 | 2,157,953 | 2,296,885 |
| Cash | 1,472 | 2,242 | 36,087 | 21,461 | 18,449 | 42,822 | 32,955 | 31,859 | 66,745 | 149,204 |
| Current assets | 227,809 | 218,159 | 248,438 | 224,283 | 286,566 | 402,721 | 509,224 | 628,918 | 622,056 | 614,726 |
| Total fixed assets | 340,863 | 351,460 | 350,823 | 626,745 | 899,403 | 1,081,638 | 1,176,712 | 1,178,345 | 1,181,633 | 1,230,435 |
| Investments | 67,227 | 139,714 | 170,515 | (9,038) | 97,294 | 177,519 | 210,019 | 247,519 | 287,519 | 302,519 |
| Deferred expenditure | 472 | — | — | — | — | — | — | — | — | — |
| Total assets | 637,842 | 711,574 | 805,863 | 863,452 | 1,301,712 | 1,704,700 | 1,928,911 | 2,086,641 | 2,157,953 | 2,296,885 |
| Free cash flow (Rs mn) | | | | | | | | | | |
| Operating cash flow, excl. working cap | 67,072 | 83,301 | 107,002 | 119,520 | 164,285 | 180,718 | 202,104 | 339,114 | 318,111 | 324,895 |
| Working capital | (17,614) | 20,265 | 46,875 | (32,188) | (13,075) | (31,071) | (41,763) | (73,286) | 958 | (561) |
| Capital expenditure | (37,043) | (43,191) | (52,440) | (94,273) | (247,274) | (239,691) | (137,877) | (83,838) | (86,675) | (134,420) |
| Investments | (34,204) | (68,430) | (48,192) | (32,364) | (105,760) | (78,953) | (32,500) | (37,500) | (40,000) | (15,000) |
| Other income | 5,219 | 5,902 | 3,032 | 5,159 | 4,143 | 6,132 | 13,065 | 12,379 | 14,503 | 22,151 |
| Free cash flow | (16,569) | (2,153) | 56,276 | (34,146) | (197,681) | (162,865) | 3,029 | 156,869 | 206,897 | 197,064 |
| Ratios (%) | | | | | | | | | | |
| Debt/equity | 59.8 | 55.2 | 42.1 | 45.5 | 44.8 | 53.2 | 29.8 | 17.2 | 7.2 | 4.2 |
| Net debt/equity | 59.3 | 54.6 | 34.0 | 41.1 | 42.3 | 48.6 | 27.1 | 15.0 | 3.0 | (4.1) |
| RoAE | 10.7 | 12.7 | 17.6 | 19.9 | 20.1 | 18.3 | 15.3 | 19.2 | 15.7 | 14.8 |
| RoACE | 8.8 | 9.7 | 13.0 | 13.8 | 13.9 | 12.6 | 11.7 | 17.1 | 14.8 | 14.4 |

Source: Kotak Institutional Equities estimates.

Energy**RPET.BO, Rs155**

| | |
|----------------------|-----------|
| Rating | REDUCE |
| Sector coverage view | Cautious |
| Target Price (Rs) | 150 |
| 52W High -Low (Rs) | 295 - 107 |
| Market Cap (Rs bn) | 697.7 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|-------|-------|-------|
| Sales (Rs bn) | 0.0 | 178.0 | 984.7 |
| Net Profit (Rs bn) | (4.7) | 10.6 | 76.2 |
| EPS (Rs) | (1.1) | 2.4 | 16.9 |
| EPS gth | - | - | 635.9 |
| P/E (x) | - | - | 9.2 |
| EV/EBITDA (x) | - | - | 7.5 |
| Div yield (%) | - | - | 1.3 |

Shareholding, June 2008

| | % of | Over/(under) |
|-----------|-------------------|--------------|
| | Pattern Portfolio | weight |
| Promoters | 75.4 | - |
| FII's | 1.5 | (2.1) |
| MFs | 1.2 | (1.5) |
| UTI | - | (2.2) |
| LIC | 1.7 | (1.3) |

Reliance Petroleum: Cut earnings and 12-month target price to Rs150

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- **Weak global GDP growth means chances of demand recovery increasingly low**
- **Increase in supply (new refining capacity, NGLs) is a given**
- **Cut earnings to reflect lower refining margins; retain REDUCE rating**

We have cut RPET's FY2010-12E to Rs16.9, Rs14.2 and Rs14.7 to reflect lower (US\$1.4-1.7/bbl) refining margins. We have been concerned about the deterioration in global supply-demand balance for the past few months. However, increasing concerns about global GDP growth in 2HCY08 and CY2009 have led us to cut refining margins further. Our revised 12-month target price of RPET is Rs150 (9X FY2010E EPS) versus Rs170 previously. However, our valuation methodology implicitly assumes FY2010E earnings sustain in perpetuity, which implies reinvestment of cash flows. RPET's earnings will likely decline from FY2014E after its five-year 100% income tax exemption gets over. Our 12-month DCF value for RPET comes to Rs99.

Cut refining margins. We have cut refining margin for FY2010E, FY2011E and FY2012E to US\$13.3/bbl, US\$11.9/bbl and US\$11.7/bbl from US\$14.7/bbl, US\$13.6/bbl and US\$13.4/bbl. This is our second reduction in the past three months; we were modeling US\$16.1/bbl margin for FY2010E in June 2008. We have also reduced throughput for FY2009E to 5 mn tons from 6 mn tons to reflect a later-than-expected commissioning of RPET's 580,000 mb/d refinery. Exhibit 1 shows the sensitivity of RPET's earnings to refining margins and exchange rate.

Supply-demand balance set to deteriorate meaningfully over CY2008-10E. We expect refining margins to remain weak for the next 18-24 months led by (1) likely weak demand and (2) large refining capacity additions from 2HCY08. Exhibit 2 shows that Singapore refining margins have improved from abysmal levels in the past month but still continue to be very weak.

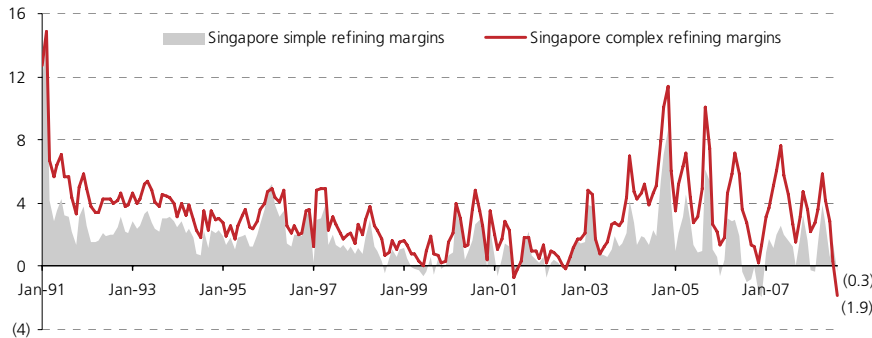
- 1. Demand may surprise negatively.** Weaker-than-expected global GDP growth may result in weaker-than-expected demand for oil. Exhibit 3 shows the IMF's GDP growth projections for major areas in CY2008E and CY2009E. The IEA recently cut its demand growth for CY2008E again to 0.69 mb/d, which reflects demand compression in the OECD countries primarily. This figure is down from 2 mb/d at the beginning of the year. In particular, US demand continues to be weak with year-to-August demand down 0.8 mb/d or 3.9%; demand contracted 4.5% yoy in August 2008 and 4% yoy in July 2008. Exhibit 4 gives our supply-demand for oil.
- 2. Significant capacity addition is a given.** We expect significant addition to refining capacity from 4QCY08, which includes capacity addition of 0.95 mb/d in China and RPET's 580,000 b/d refinery (see Exhibit 5). We expect refining capacity addition of 1.4 mb/d, 1.6 mb/d and 1.7 mb/d in CY2008E, CY2009E and CY2010E (see Exhibit 6). In addition, we expect natural gas liquids (NGLs) supply to increase by 0.3 mb/d, 0.7 mb/d and 0.6 mb/d in CY2008E, CY2009E and CY2010E led by start of several gas-processing plants associated with gas developments in Iran (Phase 6-10 of South Pars development), Qatar (four new LNG trains of Qatargas 2 and RasGas), Saudi Arabia and Nigeria.

Reliance Petroleum has high leverage to refining margins

Sensitivity of RPL's earnings to key variables

| | Fiscal 2009E | | | Fiscal 2010E | | | Fiscal 2011E | | |
|------------------------------------|---------------|-----------|-------------|---------------|-----------|-------------|---------------|-----------|-------------|
| | Downside | Base case | Upside | Downside | Base case | Upside | Downside | Base case | Upside |
| Rupee-dollar exchange rate | | | | | | | | | |
| Rupee-dollar exchange rate | 42.3 | 43.3 | 44.3 | 41.5 | 42.5 | 43.5 | 41.0 | 42.0 | 43.0 |
| Net profits (Rs mn) | 9,909 | 10,617 | 11,325 | 73,060 | 76,160 | 79,260 | 61,001 | 63,739 | 66,477 |
| EPS (Rs) | 2.2 | 2.4 | 2.5 | 16.2 | 16.9 | 17.6 | 13.6 | 14.2 | 14.8 |
| % upside/(downside) | (6.7) | | 6.7 | (4.1) | | 4.1 | (4.3) | | 4.3 |
| Refining margins (US\$/bbl) | | | | | | | | | |
| Margins (US\$/bbl) | 13.6 | 14.6 | 15.6 | 12.3 | 13.3 | 14.3 | 10.9 | 11.9 | 12.9 |
| Net profits (Rs mn) | 9,041 | 10,617 | 12,193 | 67,175 | 76,160 | 85,145 | 54,856 | 63,739 | 72,622 |
| EPS (Rs) | 2.0 | 2.4 | 2.7 | 14.9 | 16.9 | 18.9 | 12.2 | 14.2 | 16.1 |
| % upside/(downside) | (14.8) | | 14.8 | (11.8) | | 11.8 | (13.9) | | 13.9 |

Source: Kotak Institutional Equities estimates

Singapore refining margins have declined sharply in the recent weeks

| Simple refining margins, March fiscal year-ends (US\$/bbl) | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 YTD |
| 1Q | (0.32) | 1.29 | 0.51 | 0.30 | 1.05 | 1.69 | 3.02 | 2.52 | 2.25 | 2.40 |
| 2Q | (0.08) | 2.47 | 0.45 | 0.07 | 1.20 | 3.13 | 2.78 | (0.70) | 0.99 | 0.70 |
| 3Q | 0.14 | 1.74 | 1.06 | 1.44 | 1.57 | 6.46 | 2.22 | (1.25) | 2.32 | |
| 4Q | 1.86 | 0.21 | (0.03) | 2.98 | 2.88 | 2.08 | 1.09 | 1.25 | 0.25 | |
| Average | 0.40 | 1.43 | 0.50 | 1.20 | 1.67 | 3.34 | 2.28 | 0.45 | 1.45 | 1.71 |

| Weekly margins | | | | |
|----------------|--------|--------|-------|-------|
| Current | -1 Wk | -2 Wk | -3 Wk | -4 Wk |
| 0.69 | (1.51) | (0.63) | 0.15 | 2.58 |

| Singapore refining margins, March fiscal year-ends (US\$/bbl) | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|----------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 YTD |
| Simple | 0.40 | 1.43 | 0.50 | 1.20 | 1.67 | 3.34 | 2.28 | 0.45 | 1.45 | 1.71 |
| Complex | 0.43 | 1.86 | 1.34 | 0.79 | 1.24 | 4.57 | 4.93 | 3.45 | 4.05 | 2.28 |

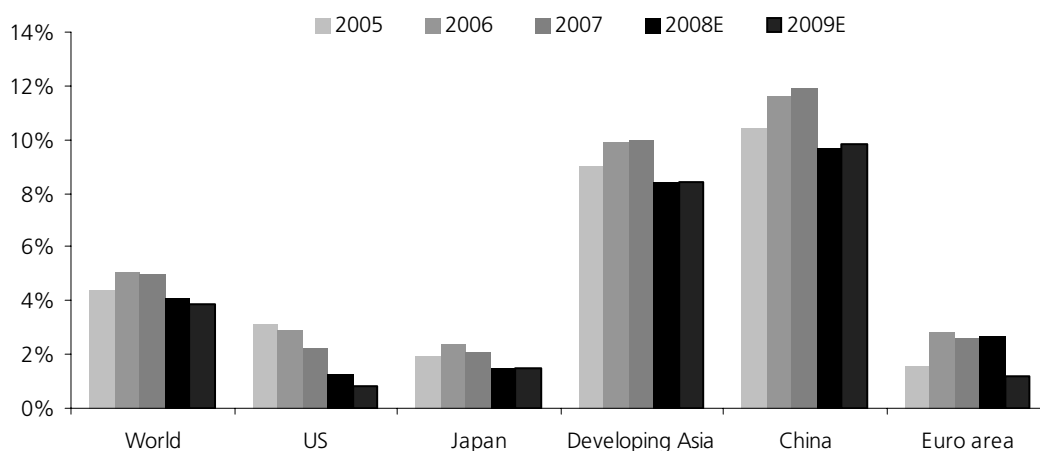
| Complex refining margins, March fiscal year-ends (US\$/bbl) | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 YTD |
| 1Q | 0.43 | 1.86 | 1.34 | 0.79 | 1.24 | 4.57 | 4.93 | 6.24 | 6.58 | 4.31 |
| 2Q | 1.19 | 3.96 | 0.58 | 0.14 | 2.35 | 5.80 | 6.11 | 2.46 | 2.91 | (0.67) |
| 3Q | 0.41 | 2.25 | 1.22 | 1.56 | 3.23 | 9.04 | 3.94 | 0.98 | 3.91 | |
| 4Q | 2.64 | 1.60 | 0.65 | 3.70 | 5.44 | 5.02 | 2.77 | 4.11 | 2.78 | |
| Average | 1.17 | 2.42 | 0.95 | 1.55 | 3.06 | 6.10 | 4.44 | 3.45 | 4.05 | 2.28 |

| Weekly margins | | | | |
|----------------|--------|--------|--------|-------|
| Current | -1 Wk | -2 Wk | -3 Wk | -4 Wk |
| (1.00) | (2.74) | (1.61) | (2.10) | 0.02 |

Source: Bloomberg, Kotak Institutional Equities

Expect moderate growth in global GDP

Growth in real GDP (yoy) for world and key economies, 2005-2009E



Source: IMF estimates

Estimated global crude demand, supply and prices, Calendar year-ends

| | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|------------------------------------|-------------|--------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|
| Demand (mb/d) | | | | | | | | | | |
| Total demand | 82.5 | 84.0 | 85.1 | 86.1 | 86.8 | 87.6 | 89.1 | 90.6 | 92.3 | 94.0 |
| Yoy growth | 3.3 | 1.5 | 1.1 | 1.0 | 0.7 | 0.8 | 1.5 | 1.5 | 1.7 | 1.8 |
| Supply (mb/d) | | | | | | | | | | |
| Non-OPEC | 48.8 | 48.7 | 49.2 | 49.6 | 49.9 | 50.7 | 50.9 | 51.0 | 51.0 | 51.4 |
| Yoy growth | 0.6 | (0.1) | 0.5 | 0.4 | 0.3 | 0.8 | 0.2 | 0.1 | 0.0 | 0.4 |
| OPEC | | | | | | | | | | |
| Crude | 29.5 | 30.8 | 31.3 | 31.7 | 31.8 | 31.1 | 31.8 | 33.1 | 34.5 | 35.7 |
| NGLs | 4.2 | 4.5 | 4.6 | 4.8 | 5.1 | 5.8 | 6.4 | 6.5 | 6.8 | 6.9 |
| Total OPEC | 33.7 | 35.3 | 35.9 | 36.5 | 36.9 | 36.9 | 38.2 | 39.6 | 41.3 | 42.6 |
| Total supply | 83.4 | 84.7 | 85.5 | 86.1 | 86.8 | 87.6 | 89.1 | 90.6 | 92.3 | 94.0 |
| Total stock change | 1.0 | 0.7 | 0.8 | | | | | | | |
| OPEC crude capacity | | | | 34.4 | 35.3 | 36.4 | 37.4 | 37.3 | 37.6 | 37.9 |
| Implied OPEC spare capacity | | | | 2.7 | 3.6 | 5.3 | 5.6 | 4.1 | 3.1 | 2.1 |
| Demand growth (yoy, %) | | | | | | | | | | |
| | 4.2 | 1.8 | 1.3 | 1.2 | 0.8 | 0.9 | 1.7 | 1.7 | 1.8 | 1.9 |
| Supply growth (yoy, %) | | | | | | | | | | |
| Non-OPEC | 1.2 | (0.2) | 1.0 | 0.8 | 0.6 | 1.6 | 0.4 | 0.2 | 0.0 | 0.8 |
| OPEC | 8.4 | 4.6 | 1.9 | 1.5 | 1.2 | (0.0) | 3.5 | 3.8 | 4.2 | 3.3 |
| Total | 4.4 | 1.6 | 0.9 | 0.7 | 0.8 | 0.9 | 1.7 | 1.7 | 1.8 | 1.9 |
| Dated Brent (US\$/bbl) | | | | | | | | | | |
| | 38.3 | 54.4 | 65.8 | 72.7 | 110.0 | 95.0 | 90.0 | 90.0 | 90.0 | 75.0 |

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

Significant refining capacity to come onstream in China and India from 2H CY08

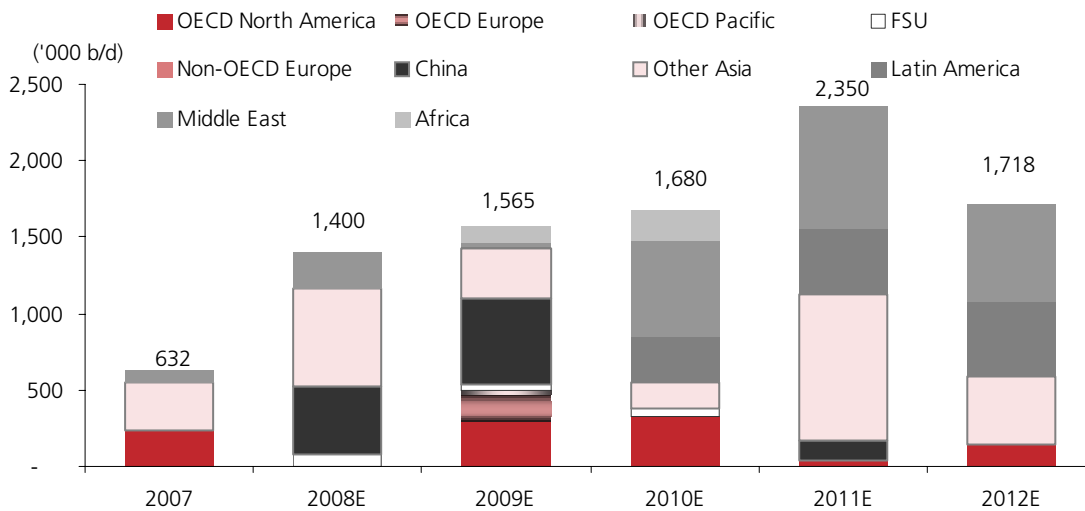
Upcoming refining capacity addition (b/d)

| Company | Location | Capacity addition (b/d) | Expected completion |
|--------------------------------|-------------------------------------|-------------------------|---------------------|
| Reliance Petroleum | Jamnagar, India | 580,000 | 3QCY08 |
| CNOOC | Daya Bay, Huizhou, Guangdong, China | 240,000 | 3QCY08 |
| Sinopec | Qingdao, China | 200,000 | 4QCY08 |
| Fujian Petrochemical | Quangang, Quanzhou City, China | 160,000 | 1QCY09 |
| Sinopec | Tianjin, China | 150,000 | 1QCY09 |
| Petrochina | Dagang, Quinzhou, China | 200,000 | 1QCY09 |
| Petrovietnam | Dung Quat, Vietnam | 121,000 | 1QCY09 |
| Total capacity addition | | 1,651,000 | |

Source: Oil & Gas journal, Kotak Institutional Equities estimates

Significant supply additions to global refining capacity

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



Source: IEA, Kotak Institutional Equities estimates

Our DCF-based fair value for RPL is Rs99

DCF valuation for Reliance Petroleum (Rs mn)

| | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E |
|---|-----------------|-----------------|------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBITDA | 26,402 | 110,001 | 93,006 | 89,150 | 83,931 | 82,779 | 82,487 | 82,168 | 81,822 | 81,447 | 81,043 | 81,043 | 81,043 | 81,043 |
| Tax expense | (57) | (126) | (73) | (70) | (60) | (8,688) | (10,825) | (11,608) | (12,253) | (12,774) | (24,217) | (24,455) | | |
| Working capital changes | (15,734) | (63,690) | 2,253 | 1,934 | 1,967 | 125 | (7) | (6) | (5) | (3) | (2) | (1) | | |
| Cash flow from operations | 10,611 | 46,186 | 95,185 | 91,014 | 85,837 | 74,216 | 71,655 | 70,554 | 69,564 | 68,669 | 56,823 | 56,587 | | |
| Capital expenditure | (39,097) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) | | |
| Free cash flow to the firm | (28,486) | 44,186 | 93,185 | 89,014 | 83,837 | 72,216 | 69,655 | 68,554 | 67,564 | 66,669 | 54,823 | 54,587 | 54,587 | 54,587 |
| Discount factor at WACC | 0.94 | 0.84 | 0.75 | 0.67 | 0.60 | 0.53 | 0.48 | 0.42 | 0.38 | 0.34 | 0.30 | 0.27 | — | — |
| Discounted cash flow | (26,770) | 37,076 | 69,814 | 59,525 | 50,056 | 38,498 | 33,154 | 29,125 | 25,629 | 22,580 | 16,579 | | | |
| Discounted cash flow-1 year forward | | 41,525 | 78,192 | 66,689 | 56,063 | 43,118 | 37,133 | 32,630 | 28,705 | 25,290 | 18,568 | 16,507 | | |
| Discounted cash flow-2 year forward | | | 87,575 | 74,692 | 62,810 | 48,292 | 41,589 | 36,546 | 32,159 | 28,324 | 20,796 | 18,488 | 16,507 | |
| | Now | + 1-year | + 2-years | | | | | | | | | | | |
| Total PV of free cash flow (a) | 355,267 | 459,154 | 482,512 | | | | | | | | | | | |
| FCF one-year forward | 54,587 | 54,587 | 54,587 | | | | | | | | | | | |
| Terminal value | 454,889 | 454,889 | 454,889 | | | | | | | | | | | |
| PV of terminal value (b) | 154,065 | 154,065 | 154,065 | | | | | | | | | | | |
| Total PV (a) + (b) | 509,332 | 613,219 | 636,577 | | | | | | | | | | | |
| Net debt | 128,253 | 167,481 | 152,750 | | | | | | | | | | | |
| Equity value | 381,079 | 445,738 | 483,828 | | | | | | | | | | | |
| Equity value (US\$ mn) | 8,811 | 10,488 | 11,520 | | | | | | | | | | | |
| Shares outstanding (mn) | 4,500 | 4,500 | 4,500 | | | | | | | | | | | |
| Equity value/per share (Rs) | 85 | 99 | 108 | | | | | | | | | | | |
| Discount rate (%) | 12.0 | | | | | | | | | | | | | |
| Growth from 2020 to perpetuity (%) | — | | | | | | | | | | | | | |
| Exit free cash multiple (X) | 8.3 | | | | | | | | | | | | | |
| Exit EBITDA multiple (X) | 5.6 | | | | | | | | | | | | | |

| | | Sensitivity of share price to different levels of WACC and growth rate (Rs) | | | | | | | |
|-----------------|-----|---|------|------|------|------|------|------|--|
| | | WACC (%) | | | | | | | |
| | | 11.0 | 11.5 | 12.0 | 12.5 | 13.0 | 13.5 | 14.0 | |
| Growth rate (%) | - | 110 | 104 | 99 | 94 | 90 | 86 | 82 | |
| | 1.0 | 115 | 109 | 103 | 98 | 93 | 89 | 85 | |
| | 2.0 | 122 | 115 | 108 | 102 | 97 | 92 | 88 | |
| | 3.0 | 130 | 122 | 114 | 108 | 102 | 96 | 91 | |
| | 4.0 | 140 | 130 | 122 | 114 | 108 | 101 | 96 | |
| | 5.0 | 154 | 142 | 132 | 123 | 115 | 108 | 101 | |
| | 6.0 | 173 | 158 | 145 | 134 | 124 | 115 | 108 | |
| | 7.0 | 202 | 180 | 163 | 148 | 136 | 126 | 116 | |

Source: Kotak Institutional Equities

RPL earnings model assumptions, March fiscal year-ends, 2009E-2015E

| | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Rs/US\$ | 43.3 | 42.5 | 42.0 | 41.0 | 40.0 | 40.0 | 40.0 |
| Import tariff on crude oil (%) | 0.1 | — | — | — | — | — | — |
| Refinery yield (US\$/bbl) | 107.8 | 106.4 | 105.0 | 104.8 | 104.7 | 104.7 | 104.7 |
| Cost of crude (US\$/bbl) | 93.1 | 93.1 | 93.1 | 93.1 | 93.1 | 93.1 | 93.1 |
| Landed cost of crude (US\$/bbl) | 93.2 | 93.1 | 93.1 | 93.1 | 93.1 | 93.1 | 93.1 |
| Net refining margin (US\$/bbl) | 14.6 | 13.3 | 11.9 | 11.7 | 11.6 | 11.6 | 11.6 |
| Crude throughput (mn tons) | 5.0 | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 | 29.0 |
| Fuel and loss (mn tons) | 0.4 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Production of main products (mn tons) | 4.6 | 28.2 | 28.2 | 28.2 | 28.2 | 28.2 | 28.2 |
| Fuel and loss-own fuel used (%) | 8.0 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Fuel & loss equivalent-gas used (%) | — | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 | 5.4 |
| Cost of natural gas (US\$/mn BTU) | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 |

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Reliance Petroleum 2009-2014E, March fiscal year-ends (Rs mn)

| | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|--|-----------------|----------------|----------------|----------------|----------------|----------------|
| Profit model | | | | | | |
| Net revenues | 177,985 | 984,662 | 957,747 | 934,021 | 908,951 | 908,051 |
| EBITDA | 26,402 | 110,001 | 93,006 | 89,150 | 83,931 | 82,779 |
| Other income | 25 | 55 | 72 | 78 | 75 | 72 |
| Interest (expense)/income | (10,796) | (19,005) | (14,381) | (8,143) | (5,440) | (2,748) |
| Depreciation | (4,986) | (14,791) | (14,899) | (15,007) | (15,116) | (15,224) |
| Pretax profits | 10,645 | 76,261 | 63,798 | 66,078 | 63,450 | 64,879 |
| Extraordinary items | — | — | — | — | — | — |
| Tax | (28) | (101) | (60) | (62) | (56) | (8,335) |
| Deferred taxation | — | — | — | — | — | 1,624 |
| Net income | 10,617 | 76,160 | 63,739 | 66,016 | 63,394 | 58,168 |
| Earnings per share (Rs) | 2.4 | 16.9 | 14.2 | 14.7 | 14.1 | 12.9 |
| Balance sheet | | | | | | |
| Total equity | 145,106 | 210,737 | 263,946 | 287,843 | 277,070 | 267,184 |
| Deferred taxation liability | — | — | — | — | — | (1,624) |
| Total borrowings | 168,275 | 153,775 | 85,775 | 46,775 | 42,525 | 40,525 |
| Current liabilities | 13,939 | 71,463 | 70,642 | 69,000 | 67,359 | 67,359 |
| Total liabilities and equity | 327,321 | 435,975 | 420,363 | 403,619 | 386,953 | 373,443 |
| Cash | 794 | 1,025 | 1,386 | 1,225 | 1,283 | 1,123 |
| Other current assets | 35,289 | 156,504 | 153,430 | 149,854 | 146,246 | 146,120 |
| Net fixed assets | 266,854 | 254,063 | 241,164 | 228,157 | 215,041 | 201,817 |
| Capital work-in-progress | — | — | — | — | — | — |
| Investments | 24,383 | 24,383 | 24,383 | 24,383 | 24,383 | 24,383 |
| Deferred expenditure | — | — | — | — | — | — |
| Total assets | 327,321 | 435,975 | 420,363 | 403,619 | 386,953 | 373,443 |
| Free cash flow | | | | | | |
| Operating cash flow, excl. working capital | 15,578 | 90,896 | 78,565 | 80,945 | 78,435 | 71,696 |
| Working capital changes | (15,734) | (63,690) | 2,253 | 1,934 | 1,967 | 125 |
| Capital expenditure | (39,097) | (2,000) | (2,000) | (2,000) | (2,000) | (2,000) |
| Investments | — | — | — | — | — | — |
| Other income | 25 | 55 | 72 | 78 | 75 | 72 |
| Free cash flow | (39,228) | 25,261 | 78,890 | 80,957 | 78,477 | 69,893 |
| Ratios (%) | | | | | | |
| Debt/equity | 116.0 | 73.0 | 32.5 | 16.3 | 15.3 | 15.2 |
| Net debt/equity | 115.4 | 72.5 | 32.0 | 15.8 | 14.9 | 14.7 |
| ROAE (%) | 7.6 | 42.8 | 26.9 | 23.9 | 22.4 | 21.4 |
| ROACE (%) | 7.4 | 28.1 | 21.9 | 21.7 | 21.0 | 19.4 |

Source: Kotak Institutional Equities estimates

Pharmaceuticals**REDY.BO, Rs559**

| | |
|----------------------|------------|
| Rating | BUY |
| Sector coverage view | Attractive |
| Target Price (Rs) | 790 |
| 52W High -Low (Rs) | 763 - 424 |
| Market Cap (Rs bn) | 94.1 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|--------|-------|-------|
| Sales (Rs bn) | 49.1 | 63.5 | 70.3 |
| Net Profit (Rs bn) | 4.4 | 5.7 | 6.9 |
| EPS (Rs) | 26.1 | 33.8 | 41.0 |
| EPS gth | (57.2) | 29.6 | 21.5 |
| P/E (x) | 21.5 | 16.6 | 13.6 |
| EV/EBITDA (x) | 10.2 | 8.1 | 6.9 |
| Div yield (%) | 0.7 | 0.7 | 0.7 |

Shareholding, June 2008

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 25.1 | - |
| FIs | 40.0 | 0.7 |
| MFs | 8.0 | 0.7 |
| UTI | - | (0.3) |
| LIC | 12.3 | 1.0 |

Dr. Reddy's Laboratories: Betapharm to bid for AOK contract, margins to inch upwards on the basis of lower costs

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- **Germany's largest insurance company, AOK, opens a two-year Euro2.3 bn tender**
- **Pricing trends in Germany likely to be determined by this tender, other insurance companies may seek comparable prices**
- **DRL eligible to bid for 62 out of 64 APIs and likely to expand margins due to cost cutting measures**
- **Management maintains guidance of US\$39 mn EBITDA for Betapharm in FY2009E**
- **We believe investors are paying too much attention on Betapharm that accounts for 16% of revenues; growth outlook for other businesses remains intact**
- **Maintain BUY with SOTP-based price target of Rs790**

We spoke to the DRL CFO, Saumen Chakraborty, to understand DRL's strategy for the upcoming AOK tender. Germany's largest insurance company, AOK, opens a two-year Euro2.3 bn drug tender. Pricing trends are likely to be determined by this tender, other insurance companies may seek comparable prices based on the new pricing set by this tender. DRL is eligible to bid for 62 out of 64 APIs and is in a much better position to improve margins on the back of lower cost of production and sales force restructuring. Management maintains guidance of US\$39 mn EBITDA for Betapharm, in line with KIE. We believe investors are focusing too much on Betapharm which accounted for 16% of revenues in FY2008. Other businesses are set to see good growth in FY2009E led by USA, Russia, CIS branded business and expansion into new markets. The stock trades at 17X FY2009E and 14X FY2010E earnings. Maintain BUY rating with a SOTP-based price target of Rs790.

Germany's largest insurance company, AOK, opens a two-year Euro2.3 bn drug tender starting Jan '09. The German health fund represents over 25 million of about 70 million publicly insured people in Germany. The tenders are for 64 APIs and will close on Oct 6, '08.

Pricing trends to be determined by this tender, other insurance companies may seek comparable prices. Given that AOK is the largest insurance fund covering 35% of the insured population and given the size of the tender, other insurance companies who do not follow the tender route may seek higher rebates following the pricing determined by this tender. Currently, it is impossible to determine the likely price decline. However, management mentioned that the pricing in Germany is still higher than distribution driven markets such as the UK, USA.

DRL eligible to bid for 62 out of 64 APIs; in a much better position to expand margins. As per the FY2008 annual report, 85% of Betapharm's sales are driven by prescriptions covered by insurance funds and Betapharm has rebate contracts with insurance funds covering 77% of insured population. According to the management, Betapharm's market share in Germany is between 2-3%. Management believes they are in a better position to handle AOK tenders and will improve margins due to

1) Lower cost of production. As a measure to improve margin in Germany, 100 products have been transferred to DRL's own supply chain out of which 14 products have been transferred to India. By August end, products manufactured from Indian facility comprised 40-50% of Betapharm sales. DRL has already reduced its dependence on Salutas to around 5% of revenues. Salutas' contract expires in Oct '08, post which there will be no dependence on this manufacturing site. The transfer of products to India continues and DRL expects to eliminate its dependence on Salutas completely in the coming quarter.

2) Sales force restructuring. DRL has reduced the combined sales force of Betapharm to 120 from the acquisition levels of 250 and has absorbed all costs of restructuring the sales force. This allays fear that it may have to take a large one-off restructuring cost in FY2009E.

The company has three sales units targeting doctors, insurance funds and chemists. Management believes that as the German market moves towards a distribution-driven market from doctor-driven market, the need for large sales force will be reduced resulting in further sales force rationalization. The company may rationalize further in order to protect its margins in light of the pricing regime in the German market.

Management maintains guidance of US\$39 mn EBITDA for Betapharm in FY2009E, in line with KIE. Betapharm reported sales of Euro145 mn and EBITDA margins of 14% (US\$28 mn) in FY2008. We forecast yoy increase of 2% in EBITDA margins to 16% (US\$37 mn) in FY2009E with sales remaining constant at FY2008E levels. It is important to note that in 1QFY09, Betapharm grew 20% yoy to reach Rs2.5 bn of sales due to volume growth of 33% yoy.

Generic gross margins improved to 58% in 1QFY09 from 51% previous quarter driven by better performance of the US generics market and cost control measures undertaken at Betapharm. This is for the US and German market but separate numbers for Germany are not available.

We believe investors are focusing too much on Betapharm which accounted for 16% of revenues in FY2008; growth outlook for other businesses remains intact. We forecast revenue growth of 29% (including the three new businesses acquired) and continuing business growth of 26% in FY2009E in line with company guidance of 25%. Betapharm will account for only 16% of revenues and 10% of total EBITDA in FY2009E according to our estimates. We forecast constant sales for Betapharm in FY2009E (Euro145 mn) and believe growth will be driven by

- 1) US generics/OTC business: DRL received 13 ANDA approvals in FY2008 (highest annual number for the company) in FY2008. As of March 31, 2008 it had 70 ANDAs pending with USFDA. DRL commenced its OTC business in the US in 2008 through the launch of two products with Rs263m sales in 4QFY08 and Rs231m in 1QFY09. We forecast US\$12 mn of sales from its OTC business and US\$225 mn of sales from its generics business in FY2009E (FY2008 sales were US\$203 mn). DRL has also set up a specialty branded business under a subsidiary, Promius Pharma which will begin selling branded dermatology products by the year-end in the US. We do not factor in revenues from this business in our estimates currently.
- 2) CIS, Russia RoW: DRL witnessed strong growth at 36% in branded markets of CIS, Russia, RoW in FY2008. It crossed US\$100 mn in sales in Russia with OTC/hospitals segment comprising 30%. The company is going to expand into three markets every year targeting US\$1 mn per month from these new markets. The markets it is looking at entering in FY2009-10E are South Africa, Brazil, New Zealand and Australia.
- 3) India: Although 1QFY09 sales growth for India was poor at 9%, we forecast 16% sales growth in FY2009E (same as FY2008) led by new product introductions.
- 4) CPS business: We forecast CPS Mexico revenues to stay constant at US\$75m in FY2009E with growth driven by CPS India (13% sales growth in FY2009E compared to 50% in FY2008).

We estimate FY2009E EBITDA margins before R&D at 24%. (FY2008 EBITDA margins before R&D at 22.5%). EBITDA margin expansion over the next three quarters will be seen due to stable absolute level of marketing expenses with higher sales, improving profitability of Betapharm and authorized generic version of Sumatriptan to be launched in 2HFY09E.

Maintain BUY with SOTP-based target price at Rs790. We leave our FY2009-10E estimates unchanged. We will review our estimates on the German business post finalization of AOK tenders and 2QFY09 results. The stock trades at 17X FY2009E and 14X FY2010E earnings. DRL has the maximum upside among KIE large cap generics.

Key Calls

| | Market Cap. (US\$ mn) | Sales (US\$ mn) | Current price (Rs) | Target price (Rs) | Rating | Upside/(downside) (%) | FY2009 P/E (X) | FY2010 P/E (X) |
|------------|--------------------------|--------------------|-----------------------|----------------------|--------|--------------------------|-------------------|-------------------|
| DRL | 2,060 | 1,220 | 559 | 790 | BUY | 41 | 17 | 14 |
| Sun Pharma | 6,702 | 833 | 1,486 | 1,780 | BUY | 20 | 18 | 19 |
| Glenmark | 3,582 | 995 | 654 | 770 | ADD | 18 | 20 | 16 |
| Ranbaxy | 3,746 | 1,674 | 458 | 520 | REDUCE | 14 | 40 | 25 |

Forecasts and valuation, March fiscal year-ends, 2006-2010E

| | Net sales | | Adjusted EBITDA | | Net Profit | | EPS | ROCE | ROE | P/E |
|-------|-----------|-----------|-----------------|-----------|------------|-----------|------|------|------|------|
| | (Rs mn) | Growth(%) | (Rs mn) | Growth(%) | (Rs mn) | Growth(%) | (Rs) | (%) | (%) | (x) |
| 2006 | 23,466 | 27.8 | 4,988 | 34.9 | 1,467 | 345.9 | 9.6 | 4.3 | 7.3 | 58.5 |
| 2007 | 64,229 | 173.7 | 18,164 | 264.1 | 9,659 | 558.3 | 60.9 | 21.9 | 31.8 | 9.2 |
| 2008 | 49,142 | (23.5) | 11,061 | (39.1) | 4,381 | (54.6) | 26.1 | 6.7 | 10.3 | 21.5 |
| 2009E | 63,468 | 29.2 | 15,330 | 38.6 | 5,680 | 29.6 | 33.8 | 10.1 | 12.0 | 16.6 |
| 2010E | 70,302 | 10.8 | 17,274 | 12.7 | 6,902 | 21.5 | 41.0 | 11.1 | 13.0 | 13.6 |

Source: Kotak Institutional Equities estimates.

Breakup of estimates

| | FY2009E | FY2010E | | FY2009E | FY2010E |
|---------------------------|---------------|---------------|----------------------|--------------|--------------|
| Gross revenues | | | PAT before MI | | |
| Base | 51,729 | 59,898 | Base | 5,180 | 6,487 |
| Imitrex | 2,684 | | Imitrex | 262 | |
| Betapharm | 9,728 | 11,168 | Betapharm | 248 | 435 |
| Total | 64,140 | 71,066 | Total | 5,690 | 6,922 |
| EBITDA pre R&D | | | EPS | | |
| Base | 13,103 | 15,375 | Base | 31 | 39 |
| Imitrex | 671 | | Imitrex | 2 | |
| Betapharm | 1,556 | 1,899 | Betapharm | 1 | 3 |
| Total | 15,330 | 17,274 | Total | 34 | 41 |
| EBITDA, % | | | P/E | | |
| Base | 25 | 26 | Base | 18.2 | 14.5 |
| Imitrex | 25 | | Base+Betapharm | 18.2 | 13.6 |
| Betapharm | 16 | 17 | Base+Betapharm+Imit | 16.5 | 13.6 |
| Total | 24 | 24 | | | |

Source: Kotak Institutional Equities estimates.

Media**ZEE.BO, Rs223**

| | |
|----------------------|------------|
| Rating | ADD |
| Sector coverage view | Attractive |
| Target Price (Rs) | 260 |
| 52W High -Low (Rs) | 410 - 169 |
| Market Cap (Rs bn) | 96.9 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|------|-------|-------|
| Sales (Rs bn) | 18.4 | 21.9 | 25.5 |
| Net Profit (Rs bn) | 3.9 | 4.5 | 6.0 |
| EPS (Rs) | 8.9 | 10.5 | 13.9 |
| EPS gth | 62.6 | 17.8 | 32.7 |
| P/E (x) | 25.2 | 21.4 | 16.1 |
| EV/EBITDA (x) | 18.3 | 13.8 | 10.5 |
| Div yield (%) | 0.9 | 1.1 | 1.6 |

Shareholding, June 2008

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 41.5 | - |
| FIs | 26.0 | 0.3 |
| MFs | 12.6 | 0.9 |
| UTI | - | (0.3) |
| LIC | 8.2 | 0.5 |

Zee Entertainment Enterprises: ZTV ratings decline; may impact ad revenues in FY2010E if ratings do not improve

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- **ZTV losing momentum as GRPs decline again, even without the overhang of cricket**
- **Assumptions of moderate ad revenue growth may be at risk, especially for FY2010E**
- **Retain ADD rating with 12-month DCF-based target price of Rs260**

ZTV, ZEEL's flagship Hindi general entertainment (GE) channel has lost momentum over the past two weeks; its GRPs declined to 195 from 205 in the previous week versus moderate gains posted by the other Hindi GE channels. ZTV plans to launch new shows and revamp its flagship weekend program 'SaReGaMePa Challenge 2009' in order to boost its currently weak weekend programming. ZEEL may also need to step up its marketing efforts given the strong entry of new players; Colors, the Viacom-18 channel, maintained its third position and GRPs for the most recent week. We maintain our earnings estimates for now and would watch ZTV's progress over the next few weeks. We retain ADD rating on ZEEL and 12-month DCF-based TP of Rs260 in light of (1) likely strong growth in subscription revenues driven by DTH and (2) possible management action on Zee Next. Key risks are further decline in ZTV/ZEEL ratings and thus, lower-than-expected ad revenues.

ZTV losing momentum. Exhibit 1 shows the decline in the GRPs of ZTV, the flagship Hindi general entertainment channel of ZEEL, as per TAM data for the most recent week. We note that the decline in ZTV GRPs to 205 from 220 last week was due to the India-Sri Lanka cricket series, which impacted the GRPs of all Hindi GE channels. We expected the ratings to recover this week and a modest recovery was visible in Colors and Star Plus, the other leading Hindi GE channels. However, ZTV GRPs declined by another 10 points, increasing the gap with Star Plus and reducing the gap with Colors, which is negative.

We model moderate and below-market 15% and 17% CAGR (in FY2009-2011E) ad revenue growth for ZTV and ZEEL, respectively, to factor in an increasingly competitive broadcasting environment. ZTV had already taken a 15-20% ad rate hike in 1QFY09, which will likely protect its ad revenues in FY2009E. However, its ad revenues for FY2010E and beyond may be at risk (see Exhibit 2), if it is unable to improve its ratings. We note that Star Plus and ZTV command premium rates from advertisers given the large and unique reach they deliver; we highlight that the gap between ZTV and Colors has reduced to less than 50 GRPs now and thus, the risk to its position has increased.

Time to rethink content/marketing, in our view. We note that ZTV has a very strong fiction portfolio on weekdays (see Exhibit 3), which delivers a loyal women audience to the channel and advertisers (FMCG, for example). We have previously highlighted the weakness of ZTV in weekend and non-fiction content; we expected its flagship program, 'SaReGaMaPa Challenge 2009' to help pull up its weekend ratings. However, the program did not deliver as per expectations and the channel has done a revamp of the show. ZTV also plans to launch four new shows in weekend primetime as replacement programming. Given the high-decibel marketing and promotion of new channels, we believe ZTV's marketing plan for the new programs will at least be as important as the content itself.

Colors has consolidated its third position in Hindi GE segment with 15 programs (see Exhibit 4) in the list of top 100 Hindi GE programs. We highlight (1) innovative and differentiated content and (2) aggressive distribution and marketing as the two key features of the launch. The cost of aggressive distribution and marketing is high, but we believe ZEEL is much better positioned in this respect since it derives subscription revenues from distribution and thus has a greater potential for reinvestment into content and marketing. The success of alternative genres (mythology, reality, thrillers, game shows), adopted by new channels, shows the immense scope for differentiation and audience expansion.

Potential positive surprises may support valuation, if they materialize. We expect strong growth (29% CAGR for FY2009-2011E) in ZEEL's domestic subscription revenues driven by adoption of DTH. We note that ZEEL has a strong bouquet of channels including Hindi GEC (ZTV), Cinema (Zee Cinema), Sports (Ten Sports and Zee Sports) and English (Zee Café and Zee Studio), which will provide support to its ad revenues and help it garner a large share of the subscription revenues from an increasingly addressable subscriber base.

We also expect a change in strategy for Zee Next, the flanking Hindi GE channel of ZEEL. The management has already stated its plan to restructure the channel, where it will restrict its investment to Rs2 bn and sell a majority stake to a strategic partner to fund the rest. We note that our earnings model incorporates Zee Next's financials (losses) in perpetuity; our FY2009E and FY2010E EPS estimates increase to Rs11.6 and Rs15 from Rs10.5 and Rs13.9 without the expected losses from Zee Next. We note that the stock is valued on our FY2010E earnings estimates at 16.1X EPS and 10.8X EBITDA.

GRPs (gross rating points) of Hindi general entertainment channels based on 30-minute slots

| Week beginning: | 29-Jun-08 | 06-Jul-08 | 13-Jul-08 | 20-Jul-08 | 27-Jul-08 | 03-Aug-08 | 10-Aug-08 | 17-Aug-08 | 24-Aug-08 | 31-Aug-08 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Hindi GE GRPs post-Colors launch | | | | | | | | | | |
| 1 9X | 87 | 86 | 84 | 87 | 86 | 81 | 75 | 81 | 62 | 61 |
| 2 Colors | — | — | — | 81 | 116 | 137 | 128 | 163 | 153 | 159 |
| 3 NDTV Imagine | 78 | 90 | 86 | 94 | 87 | 91 | 90 | 91 | 75 | 76 |
| 4 Sahara One | 65 | 77 | 77 | 69 | 62 | 76 | 61 | 70 | 74 | 66 |
| 5 Sony TV | 93 | 94 | 118 | 99 | 96 | 99 | 130 | 96 | 86 | 90 |
| 6 Star One | 79 | 77 | 89 | 87 | 89 | 93 | 93 | 87 | 79 | 84 |
| 7 Star Plus | 357 | 366 | 348 | 315 | 321 | 316 | 311 | 312 | 275 | 282 |
| 8 UTV Bindass | 15 | 17 | 17 | 18 | 17 | 16 | 18 | 16 | 15 | 17 |
| 9 Zee TV | 234 | 231 | 225 | 216 | 217 | 212 | 209 | 220 | 205 | 195 |
| Total | 1,009 | 1,038 | 1,045 | 1,066 | 1,090 | 1,120 | 1,116 | 1,135 | 1,025 | 1,029 |

Source: TAM Media Research, compiled by Kotak Institutional Equities

Sensitivity of ZEEL's valuation and earnings estimates to ad revenue growth

| | DCF value (Rs/share) | EPS (Rs/share) | P/E (X) | EBITDA (Rs bn) | EV/EBITDA (X) |
|--|-------------------------|-------------------|-------------|-------------------|------------------|
| Change in FY2010E ad revenue growth versus base-case assumption | | | | | |
| -20% | 226 | 12.3 | 18.2 | 7.9 | 12.3 |
| -15% | 235 | 12.7 | 17.6 | 8.2 | 11.9 |
| -10% | 243 | 13.1 | 17.1 | 8.4 | 11.5 |
| -5% | 252 | 13.5 | 16.6 | 8.7 | 11.2 |
| Base case (13.2%) | 260 | 13.9 | 16.1 | 9.0 | 10.8 |

Source: Kotak Institutional Equities estimates.

Weekday and weekend primetime (7:30-11:30 PM) ratings of Hindi GE channels (%)

| Week beginning: | 29-Jun-08 | 06-Jul-08 | 13-Jul-08 | 20-Jul-08 | 27-Jul-08 | 03-Aug-08 | 10-Aug-08 | 17-Aug-08 | 24-Aug-08 | 31-Aug-08 | |
|--|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Weekday (Monday-Friday) primetime (7.30 - 11.30 PM) | | | | | | | | | | | |
| 1 | 9X | 0.34 | 0.52 | 0.51 | 0.44 | 0.41 | 0.40 | 0.38 | 0.39 | 0.27 | 0.30 |
| 2 | Colors | — | — | — | 0.66 | 0.82 | 0.94 | 0.90 | 1.14 | 1.19 | 1.26 |
| 3 | NDTV Imagine | 0.52 | 0.59 | 0.61 | 0.55 | 0.55 | 0.59 | 0.61 | 0.58 | 0.48 | 0.52 |
| 4 | Sahara One | 0.39 | 0.52 | 0.55 | 0.46 | 0.43 | 0.52 | 0.41 | 0.51 | 0.59 | 0.49 |
| 5 | Sony TV | 0.63 | 0.53 | 0.53 | 0.58 | 0.52 | 0.53 | 0.53 | 0.50 | 0.39 | 0.46 |
| 6 | Star One | 0.38 | 0.40 | 0.60 | 0.65 | 0.62 | 0.61 | 0.65 | 0.65 | 0.61 | 0.60 |
| 7 | Star Plus | 2.31 | 2.53 | 2.53 | 2.30 | 2.31 | 2.40 | 2.40 | 2.43 | 2.06 | 2.09 |
| 8 | UTV Bindass | 0.05 | 0.05 | 0.07 | 0.04 | 0.05 | 0.05 | 0.04 | 0.04 | 0.06 | 0.06 |
| 9 | Zee TV | 1.93 | 2.09 | 2.12 | 2.02 | 1.98 | 1.99 | 1.96 | 2.13 | 1.86 | 1.81 |
| | Total | 6.55 | 7.23 | 7.52 | 7.70 | 7.69 | 8.03 | 7.88 | 8.37 | 7.51 | 7.59 |
| Weekend (Sunday-Saturday) primetime (7.30 - 11.30 PM) | | | | | | | | | | | |
| 1 | 9X | 1.05 | 0.47 | 0.59 | 0.76 | 0.90 | 0.52 | 0.38 | 0.65 | 0.40 | 0.56 |
| 2 | Colors | — | — | — | 0.17 | 0.33 | 0.47 | 0.41 | 1.03 | 0.59 | 0.45 |
| 3 | NDTV Imagine | 0.22 | 0.34 | 0.30 | 0.58 | 0.27 | 0.38 | 0.31 | 0.38 | 0.35 | 0.34 |
| 4 | Sahara One | 0.19 | 0.21 | 0.27 | 0.22 | 0.15 | 0.17 | 0.14 | 0.17 | 0.14 | 0.20 |
| 5 | Sony TV | 0.80 | 0.96 | 1.68 | 0.89 | 1.00 | 1.09 | 2.22 | 1.00 | 0.90 | 0.91 |
| 6 | Star One | 0.49 | 0.50 | 0.50 | 0.59 | 0.57 | 0.65 | 0.54 | 0.48 | 0.40 | 0.39 |
| 7 | Star Plus | 2.92 | 2.40 | 1.55 | 1.60 | 1.82 | 1.66 | 1.32 | 1.28 | 1.34 | 1.40 |
| 8 | UTV Bindass | 0.06 | 0.05 | 0.08 | 0.15 | 0.06 | 0.05 | 0.08 | 0.06 | 0.05 | 0.07 |
| 9 | Zee TV | 1.13 | 1.15 | 1.25 | 1.14 | 1.01 | 1.01 | 1.02 | 0.95 | 0.96 | 0.91 |
| | Total | 6.86 | 6.08 | 6.22 | 6.10 | 6.11 | 6.00 | 6.42 | 6.00 | 5.13 | 5.23 |

Source: TAM Media Research, compiled by Kotak Institutional Equities

TRP ratings of top 100 programs on Hindi general entertainment channels, Aug31 - Sep06, 2008 (%)

| Rank | Channel | Date | Day | Start Time | End Time | Programme | Dur (min.) | Genre | TVR (%) |
|------|-----------|----------|-----|------------|----------|--------------------------------|------------|---------|---------|
| 1 | Star Plus | 4/9/2008 | Thu | 21:01 | 21:29 | BIDAYI | 29 | Serials | 3.85 |
| 2 | Star Plus | 2/9/2008 | Tue | 21:03 | 21:31 | BIDAYI | 29 | Serials | 3.79 |
| 3 | Star Plus | 3/9/2008 | Wed | 21:01 | 21:30 | BIDAYI | 30 | Serials | 3.68 |
| 4 | Star Plus | 1/9/2008 | Mon | 20:59 | 21:28 | BIDAYI | 30 | Serials | 3.53 |
| 5 | Colors | 4/9/2008 | Thu | 20:00 | 20:30 | BALIKA VADHU | 31 | Serials | 2.92 |
| 6 | Star Plus | 2/9/2008 | Tue | 20:32 | 21:03 | KIS DESH MEIN HAI MERA DIL | 32 | Serials | 2.81 |
| 7 | Zee TV | 4/9/2008 | Thu | 20:30 | 21:00 | MAAYKA | 31 | Serials | 2.67 |
| 8 | Colors | 5/9/2008 | Fri | 20:00 | 20:29 | BALIKA VADHU | 30 | Serials | 2.66 |
| 9 | Colors | 2/9/2008 | Tue | 19:59 | 20:29 | BALIKA VADHU | 31 | Serials | 2.62 |
| 10 | Zee TV | 4/9/2008 | Thu | 20:01 | 20:30 | BANOO MAIN TERI DULHAAN | 30 | Serials | 2.58 |
| 11 | Star Plus | 2/9/2008 | Tue | 21:32 | 22:02 | KASTURI | 31 | Serials | 2.58 |
| 12 | Zee TV | 2/9/2008 | Tue | 20:00 | 20:30 | BANOO MAIN TERI DULHAAN | 31 | Serials | 2.56 |
| 13 | Star Plus | 4/9/2008 | Thu | 22:32 | 23:03 | KYUNKI SAAS BHI KABHI BAHU THI | 32 | Serials | 2.56 |
| 14 | Star Plus | 1/9/2008 | Mon | 20:30 | 20:59 | KIS DESH MEIN HAI MERA DIL | 30 | Serials | 2.52 |
| 15 | Colors | 3/9/2008 | Wed | 20:00 | 20:29 | BALIKA VADHU | 30 | Serials | 2.51 |
| 16 | Zee TV | 1/9/2008 | Mon | 19:59 | 20:30 | BANOO MAIN TERI DULHAAN | 32 | Serials | 2.49 |
| 17 | Zee TV | 2/9/2008 | Tue | 20:30 | 21:00 | MAAYKA | 31 | Serials | 2.49 |
| 18 | Star Plus | 1/9/2008 | Mon | 22:29 | 23:01 | KYUNKI SAAS BHI KABHI BAHU THI | 33 | Serials | 2.45 |
| 19 | Zee TV | 1/9/2008 | Mon | 20:30 | 21:01 | MAAYKA | 32 | Serials | 2.43 |
| 20 | Zee TV | 5/9/2008 | Fri | 20:30 | 21:00 | MAAYKA | 31 | Serials | 2.42 |
| 21 | Star Plus | 2/9/2008 | Tue | 20:01 | 20:31 | RAJA KI AAYEGI BAARAT | 31 | Serials | 2.42 |
| 22 | Zee TV | 3/9/2008 | Wed | 20:30 | 21:00 | MAAYKA | 31 | Serials | 2.41 |
| 23 | Star Plus | 2/9/2008 | Tue | 22:30 | 23:01 | KYUNKI SAAS BHI KABHI BAHU THI | 32 | Serials | 2.37 |
| 24 | Star Plus | 3/9/2008 | Wed | 20:31 | 21:01 | KIS DESH MEIN HAI MERA DIL | 31 | Serials | 2.37 |
| 25 | Zee TV | 3/9/2008 | Wed | 20:00 | 20:30 | BANOO MAIN TERI DULHAAN | 31 | Serials | 2.34 |
| 26 | Star Plus | 4/9/2008 | Thu | 22:00 | 22:32 | KAHAANI GHAR GHAR KI | 33 | Serials | 2.31 |
| 27 | Zee TV | 4/9/2008 | Thu | 21:00 | 21:04 | KASAMH SE | 5 | Serials | 2.30 |
| 28 | Zee TV | 2/9/2008 | Tue | 21:00 | 21:31 | KASAMH SE | 32 | Serials | 2.27 |
| 29 | Star Plus | 4/9/2008 | Thu | 20:28 | 21:01 | KIS DESH MEIN HAI MERA DIL | 34 | Serials | 2.27 |
| 30 | Star Plus | 4/9/2008 | Thu | 21:30 | 22:00 | KASTURI | 31 | Serials | 2.27 |
| 31 | Star Plus | 1/9/2008 | Mon | 21:28 | 21:59 | KASTURI | 32 | Serials | 2.26 |
| 32 | Star Plus | 3/9/2008 | Wed | 21:30 | 21:59 | KASTURI | 30 | Serials | 2.26 |
| 33 | Zee TV | 1/9/2008 | Mon | 22:01 | 22:31 | BETIYANN GHAR KI LAKSHMI | 31 | Serials | 2.22 |

| | | | | | | | | | |
|-----|-----------------|------------|-----|-------|-------|--------------------------------|----|-----------------------------|------|
| 34 | Zee TV | 1/9/2008 | Mon | 21:01 | 21:31 | KASAMH SE | 31 | Serials | 2.20 |
| 35 | Zee TV | 5/9/2008 | Fri | 20:00 | 20:30 | BANOO MAIN TERI DULHAAN | 31 | Serials | 2.19 |
| 36 | Zee TV | 3/9/2008 | Wed | 21:30 | 22:00 | SAATH PHERE | 31 | Serials | 2.15 |
| 37 | Sony Entertainn | 6/9/2008 | Sat | 20:59 | 22:04 | 10 KA DUM | 66 | Game Shows/Quiz | 2.09 |
| 38 | Star Plus | 3/9/2008 | Wed | 20:00 | 20:31 | RAJA KI AAYEGI BAARAT | 32 | Serials | 2.08 |
| 39 | Colors | 1/9/2008 | Mon | 20:00 | 20:30 | BALIKA VADHU | 31 | Serials | 2.08 |
| 40 | Colors | 5/9/2008 | Fri | 20:29 | 20:58 | JAI SHRI KRISHNA | 30 | Mythological/Costume Dramas | 2.07 |
| 41 | Zee TV | 1/9/2008 | Mon | 21:31 | 22:01 | SAATH PHERE | 31 | Serials | 2.06 |
| 42 | Star Plus | 1/9/2008 | Mon | 21:59 | 22:29 | KAHAANI GHAR GHAR KI | 31 | Serials | 2.06 |
| 43 | Star Plus | 4/9/2008 | Thu | 19:58 | 20:28 | RAJA KI AAYEGI BAARAT | 31 | Serials | 2.04 |
| 44 | Star Plus | 2/9/2008 | Tue | 22:02 | 22:30 | KAHAANI GHAR GHAR KI | 29 | Serials | 1.99 |
| 45 | Colors | 4/9/2008 | Thu | 20:30 | 21:00 | JAI SHRI KRISHNA | 31 | Mythological/Costume Dramas | 1.99 |
| 46 | Star Plus | 3/9/2008 | Wed | 22:29 | 23:00 | KYUNKI SAAS BHI KABHI BAHU THI | 32 | Serials | 1.97 |
| 47 | Zee TV | 4/9/2008 | Thu | 22:00 | 22:30 | BETIYANN GHAR KI LAKSHMI | 31 | Serials | 1.94 |
| 48 | Star Plus | 6/9/2008 | Sat | 21:30 | 22:00 | BAA BAHOO AUR BABY | 31 | Serials | 1.94 |
| 49 | Zee TV | 3/9/2008 | Wed | 21:00 | 21:30 | KASAMH SE | 31 | Serials | 1.93 |
| 50 | Zee TV | 4/9/2008 | Thu | 21:29 | 22:00 | SAATH PHERE | 32 | Serials | 1.93 |
| 51 | Zee TV | 2/9/2008 | Tue | 21:31 | 21:59 | SAATH PHERE | 29 | Serials | 1.92 |
| 52 | Colors | 3/9/2008 | Wed | 20:30 | 20:58 | JAI SHRI KRISHNA | 29 | Mythological/Costume Dramas | 1.91 |
| 53 | Star Plus | 31/08/2008 | Sun | 21:30 | 22:00 | BAA BAHOO AUR BABY | 31 | Serials | 1.9 |
| 54 | Star Plus | 1/9/2008 | Mon | 20:00 | 20:30 | RAJA KI AAYEGI BAARAT | 31 | Serials | 1.9 |
| 55 | Star Plus | 31/08/2008 | Sun | 20:03 | 21:01 | SAIBABA | 59 | Mythological/Costume Dramas | 1.88 |
| 56 | Sony Entertainn | 5/9/2008 | Fri | 22:08 | 23:10 | C.I.D. | 63 | Action/Thriller | 1.87 |
| 57 | NDTV Imagine | 4/9/2008 | Thu | 21:31 | 22:01 | RAMAYAN | 31 | Mythological/Costume Dramas | 1.87 |
| 58 | Zee TV | 2/9/2008 | Tue | 21:59 | 22:30 | BETIYANN GHAR KI LAKSHMI | 32 | Serials | 1.83 |
| 59 | Zee TV | 5/9/2008 | Fri | 21:00 | 21:30 | NAAGIN-VAADON KI AGNI PARIKSHA | 31 | Serials | 1.83 |
| 60 | Star Plus | 31/08/2008 | Sun | 21:01 | 21:30 | PRITHVIRAJ CHAUHAN | 30 | Mythological/Costume Dramas | 1.81 |
| 61 | Star Plus | 3/9/2008 | Wed | 21:59 | 22:29 | KAHAANI GHAR GHAR KI | 31 | Serials | 1.78 |
| 62 | Star Plus | 4/9/2008 | Thu | 23:03 | 23:33 | KAYAMATH | 31 | Serials | 1.75 |
| 63 | Star Plus | 5/9/2008 | Fri | 21:31 | 22:01 | BAA BAHOO AUR BABY | 31 | Serials | 1.71 |
| 64 | NDTV Imagine | 3/9/2008 | Wed | 21:30 | 21:59 | RAMAYAN | 30 | Mythological/Costume Dramas | 1.65 |
| 65 | Star Plus | 1/9/2008 | Mon | 13:29 | 13:59 | HAMARI DEVRANI | 31 | Serials | 1.62 |
| 66 | Star Plus | 3/9/2008 | Wed | 13:29 | 13:59 | HAMARI DEVRANI | 31 | Serials | 1.6 |
| 67 | Star Plus | 6/9/2008 | Sat | 20:59 | 21:30 | PRITHVIRAJ CHAUHAN | 32 | Mythological/Costume Dramas | 1.59 |
| 68 | Star One | 5/9/2008 | Fri | 21:00 | 22:32 | THE GREAT IND LAU CHALLENG IV | 93 | Comedies | 1.59 |
| 69 | Colors | 2/9/2008 | Tue | 20:30 | 21:00 | JAI SHRI KRISHNA | 31 | Mythological/Costume Dramas | 1.59 |
| 70 | Star Plus | 2/9/2008 | Tue | 13:30 | 14:00 | HAMARI DEVRANI | 31 | Serials | 1.58 |
| 71 | Star Plus | 5/9/2008 | Fri | 21:00 | 21:30 | PRITHVIRAJ CHAUHAN | 31 | Mythological/Costume Dramas | 1.57 |
| 72 | NDTV Imagine | 1/9/2008 | Mon | 21:29 | 21:59 | RAMAYAN | 31 | Mythological/Costume Dramas | 1.56 |
| 73 | Zee TV | 3/9/2008 | Wed | 22:00 | 22:30 | BETIYANN GHAR KI LAKSHMI | 31 | Serials | 1.55 |
| 74 | NDTV Imagine | 2/9/2008 | Tue | 21:31 | 22:00 | RAMAYAN | 30 | Mythological/Costume Dramas | 1.54 |
| 75 | Star Plus | 2/9/2008 | Tue | 23:01 | 23:30 | KAYAMATH | 30 | Serials | 1.48 |
| 76 | Colors | 1/9/2008 | Mon | 20:31 | 21:00 | JAI SHRI KRISHNA | 30 | Mythological/Costume Dramas | 1.48 |
| 77 | Colors | 4/9/2008 | Thu | 22:00 | 23:05 | BIG BOSS SEASON 2 | 66 | Reality Shows | 1.48 |
| 78 | Star Plus | 5/9/2008 | Fri | 13:30 | 13:59 | HAMARI DEVRANI | 30 | Serials | 1.46 |
| 79 | Sony Entertainn | 5/9/2008 | Fri | 21:02 | 22:08 | 10 KA DUM | 67 | Game Shows/Quiz | 1.46 |
| 80 | Star Plus | 2/9/2008 | Tue | 19:31 | 20:01 | SANTAN | 31 | Serials | 1.45 |
| 81 | Colors | 2/9/2008 | Tue | 22:00 | 23:05 | BIG BOSS SEASON 2 | 66 | Reality Shows | 1.45 |
| 82 | Colors | 5/9/2008 | Fri | 21:59 | 23:06 | BIG BOSS SEASON 2 AAP KA FAISA | 68 | Reality Shows | 1.45 |
| 83 | Colors | 1/9/2008 | Mon | 22:00 | 23:10 | BIG BOSS SEASON 2 | 71 | Reality Shows | 1.44 |
| 84 | Colors | 3/9/2008 | Wed | 22:00 | 22:58 | BIG BOSS SEASON 2 | 59 | Reality Shows | 1.44 |
| 85 | Sony Entertainn | 6/9/2008 | Sat | 22:04 | 23:07 | KAANTE KI TAKKAR COMEDY CIRCUS | 64 | Comedies | 1.43 |
| 86 | Star Plus | 4/9/2008 | Thu | 13:30 | 14:00 | HAMARI DEVRANI | 31 | Serials | 1.38 |
| 87 | Star Plus | 1/9/2008 | Mon | 23:01 | 23:30 | KAYAMATH | 30 | Serials | 1.37 |
| 88 | Zee TV | 6/9/2008 | Sat | 21:01 | 21:31 | NAAGIN-VAADON KI AGNI PARIKSHA | 31 | Serials | 1.36 |
| 89 | Star Plus | 3/9/2008 | Wed | 23:01 | 23:32 | KAYAMATH | 32 | Serials | 1.35 |
| 90 | Star Plus | 3/9/2008 | Wed | 19:29 | 19:59 | SANTAN | 31 | Serials | 1.33 |
| 91 | Zee TV | 4/9/2008 | Thu | 21:17 | 21:29 | KASAMH SE | 13 | Serials | 1.32 |
| 92 | Zee TV | 4/9/2008 | Thu | 19:30 | 20:01 | PARRIVAAR-KARTVYA KI PARIKHA | 32 | Serials | 1.3 |
| 93 | Star Plus | 1/9/2008 | Mon | 12:57 | 13:29 | KUMKUM | 33 | Serials | 1.29 |
| 94 | Star Plus | 2/9/2008 | Tue | 12:58 | 13:30 | KUMKUM | 33 | Serials | 1.27 |
| 95 | Zee TV | 31/08/2008 | Sun | 21:00 | 21:30 | NAAGIN-VAADON KI AGNI PARIKSHA | 31 | Serials | 1.26 |
| 96 | Zee TV | 2/9/2008 | Tue | 19:29 | 20:00 | PARRIVAAR-KARTVYA KI PARIKHA | 32 | Serials | 1.25 |
| 97 | Star Plus | 1/9/2008 | Mon | 19:30 | 19:59 | SANTAN | 30 | Serials | 1.25 |
| 98 | Zee TV | 5/9/2008 | Fri | 21:59 | 23:31 | SAREGAMAPA CHALLENGE 2009 | 93 | Talent Search/Feats | 1.24 |
| 99 | Zee TV | 5/9/2008 | Fri | 19:29 | 20:00 | PARRIVAAR-KARTVYA KI PARIKHA | 32 | Serials | 1.23 |
| 100 | Star Plus | 2/9/2008 | Tue | 14:30 | 15:00 | GRIHASTI | 31 | Serials | 1.22 |

Source: TAM Media Research, compiled by Kotak Institutional Equities

Consolidated profit and loss statement for Zee Telefilms, March fiscal year-ends, 2004-2006, ZEEL, 2007-2012E (Rs mn)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E | 2012E |
|---|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | | | | | | | | | |
| National Hindi (Zee TV) | 2,539 | 1,826 | 2,119 | 3,303 | 5,081 | 6,047 | 6,847 | 7,760 | 8,772 |
| National Hindi (Zee Cinema) | 756 | 914 | 996 | 1,574 | 1,814 | 2,195 | 2,507 | 2,867 | 3,241 |
| Niche channels (English, Music, Zee Next) | 965 | 956 | 1,081 | 400 | 504 | 681 | 971 | 1,222 | 1,443 |
| Regional channels | 1,365 | 1,324 | 1,486 | — | — | — | — | — | — |
| Zee Sports + Taj TV | — | — | 72 | 1,279 | 1,033 | 1,430 | 1,646 | 1,858 | 2,088 |
| Cable TV (Sit) | 220 | 266 | 261 | — | — | — | — | — | — |
| Overseas - ZMWL | 460 | 505 | 557 | 526 | 468 | 518 | 527 | 533 | 532 |
| Others | 50 | (92) | (6) | (47) | 406 | 447 | 491 | 516 | 542 |
| Advertisement | 6,355 | 5,698 | 6,566 | 7,035 | 9,307 | 11,317 | 12,990 | 14,755 | 16,617 |
| Domestic pay-TV | 2,173 | 2,696 | 2,801 | 3,113 | 3,446 | 4,484 | 5,978 | 7,358 | 8,748 |
| Overseas | 2,569 | 2,909 | 3,030 | 3,933 | 3,949 | 4,440 | 4,737 | 4,905 | 5,014 |
| Domestic subscription | 1,168 | 1,002 | 978 | — | — | — | — | — | — |
| Others | 115 | (74) | 364 | (399) | 41 | — | — | — | — |
| Subscription revenues | 6,026 | 6,533 | 7,174 | 6,648 | 7,436 | 8,924 | 10,715 | 12,263 | 13,762 |
| Education | 131 | 106 | 162 | 205 | 235 | 386 | 418 | 460 | 506 |
| Others | 1,190 | 742 | 2,641 | 1,271 | 1,376 | 1,279 | 1,405 | 1,475 | 1,548 |
| Total revenues | 13,702 | 13,079 | 16,544 | 15,159 | 18,354 | 21,907 | 25,528 | 28,952 | 32,433 |
| Programming/Content | (2,520) | (2,611) | (4,247) | (4,783) | (5,173) | (6,286) | (7,235) | (8,259) | (9,172) |
| Broadcasting | (618) | (675) | (515) | (564) | (605) | (608) | (631) | (627) | (622) |
| Distribution | (1,837) | (1,534) | (2,565) | (1,967) | (1,953) | (2,051) | (2,170) | (2,226) | (2,256) |
| Other direct operating | — | — | (262) | (766) | (88) | (126) | (142) | (156) | (172) |
| Employees | (727) | (858) | (1,089) | (1,017) | (1,438) | (1,898) | (2,068) | (2,243) | (2,411) |
| SG&A | (3,691) | (3,051) | (3,431) | (2,858) | (3,675) | (3,914) | (4,294) | (4,426) | (4,748) |
| Total expenses | (9,393) | (8,728) | (13,848) | (11,955) | (12,931) | (14,884) | (16,541) | (17,937) | (19,381) |
| EBITDA | 4,309 | 4,351 | 2,695 | 3,204 | 5,423 | 7,023 | 8,987 | 11,015 | 13,051 |
| Other income | 776 | 521 | 639 | 747 | 1,138 | 976 | 1,009 | 1,222 | 1,538 |
| Interest expense | (583) | (207) | (188) | (334) | (516) | (698) | (75) | — | — |
| Depreciation | (320) | (329) | (360) | (185) | (232) | (286) | (327) | (334) | (346) |
| Amortization | — | — | — | — | — | — | — | — | — |
| Pretax profits | 4,183 | 4,336 | 2,787 | 3,432 | 5,813 | 7,016 | 9,594 | 11,903 | 14,243 |
| Extraordinary items | 26 | (140) | 19 | — | (26) | 574 | — | — | — |
| Tax | (1,103) | (1,123) | (528) | (926) | (1,794) | (2,166) | (3,266) | (3,996) | (4,872) |
| Deferred tax | 54 | 99 | (9) | (76) | 168 | 1 | 7 | 9 | 11 |
| Minority interest | (192) | (50) | (117) | (58) | (328) | (304) | (299) | (390) | (447) |
| Net income | 2,969 | 3,123 | 2,153 | 2,373 | 3,833 | 5,121 | 6,035 | 7,526 | 8,936 |
| Recurring net income | 2,942 | 3,263 | 2,134 | 2,373 | 3,859 | 4,547 | 6,035 | 7,526 | 8,936 |
| Fully diluted EPS | 7.1 | 7.5 | 4.9 | 5.5 | 8.9 | 10.5 | 13.9 | 17.4 | 20.6 |
| Key ratios | | | | | | | | | |
| EBITDA growth (%) | 14.7 | 1.0 | (38.1) | 18.9 | 69.3 | 29.5 | 28.0 | 22.6 | 18.5 |
| EPS growth (%) | 18.2 | 5.2 | (34.6) | 11.2 | 62.6 | 17.8 | 32.7 | 25.0 | 18.7 |
| EBITDA margin (%) | 31.5 | 33.3 | 16.3 | 21.1 | 29.5 | 32.1 | 35.2 | 38.0 | 40.2 |
| Tax rate (%) | 24.9 | 24.4 | 19.1 | 29.2 | 28.1 | 28.5 | 34.0 | 33.5 | 34.1 |
| Shares o/s year end (mn) | 412 | 412 | 413 | 434 | 434 | 434 | 434 | 434 | 434 |
| Shares o/s fully diluted (mn) | 412 | 435 | 435 | 435 | 435 | 435 | 435 | 434 | 434 |

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Zee Telefilms 2006 and of ZEEL 2007-2012E, March fiscal year-ends (Rs mn)

| | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E | 2012E |
|--|----------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Profit model (Rs mn) | | | | | | | |
| Total revenues | 16,544 | 15,159 | 18,354 | 21,907 | 25,528 | 28,952 | 32,433 |
| EBITDA | 2,695 | 3,204 | 5,423 | 7,023 | 8,987 | 11,015 | 13,051 |
| Other income | 639 | 747 | 1,138 | 976 | 1,009 | 1,222 | 1,538 |
| Interest | (188) | (334) | (516) | (698) | (75) | — | — |
| Depreciation | (360) | (185) | (232) | (286) | (327) | (334) | (346) |
| Amortization | — | — | — | — | — | — | — |
| Pretax profits | 2,787 | 3,432 | 5,813 | 7,016 | 9,594 | 11,903 | 14,243 |
| Extraordinary items | 19 | — | (26) | 574 | — | — | — |
| Tax | (528) | (926) | (1,794) | (2,166) | (3,266) | (3,996) | (4,872) |
| Deferred tax | (9) | (76) | 168 | 1 | 7 | 9 | 11 |
| Minority interest | (117) | (58) | (328) | (304) | (299) | (390) | (447) |
| Net income | 2,153 | 2,373 | 3,833 | 5,121 | 6,035 | 7,526 | 8,936 |
| Recurring net income | 2,134 | 2,373 | 3,859 | 4,547 | 6,035 | 7,526 | 8,936 |
| Earnings per share (Rs) | 4.9 | 5.5 | 8.9 | 10.5 | 13.9 | 17.4 | 20.6 |
| Balance sheet (Rs mn) | | | | | | | |
| Total equity | 21,286 | 26,181 | 28,611 | 32,210 | 36,225 | 41,232 | 47,178 |
| Deferred tax balance | (148) | (75) | (243) | (244) | (251) | (260) | (271) |
| Minority interest | 458 | 819 | 1,117 | 1,421 | 1,721 | 2,111 | 2,557 |
| Total borrowings | 4,901 | 3,226 | 3,866 | 2,111 | — | — | — |
| Current liabilities | 4,346 | 5,106 | 6,279 | 6,903 | 7,380 | 7,850 | 8,253 |
| Total capital | 30,844 | 35,256 | 39,629 | 42,401 | 45,075 | 50,933 | 57,717 |
| Cash | 1,286 | 955 | 1,652 | 1,941 | 2,594 | 6,619 | 11,606 |
| Current assets | 13,574 | 17,133 | 19,856 | 22,425 | 24,574 | 26,515 | 28,433 |
| Net fixed assets | 12,948 | 14,841 | 15,605 | 15,520 | 15,392 | 15,283 | 15,162 |
| Investments | 3,024 | 2,326 | 2,515 | 2,515 | 2,515 | 2,515 | 2,515 |
| Deferred expenditure | 12 | 2 | — | — | — | — | — |
| Total assets | 30,844 | 35,256 | 39,629 | 42,401 | 45,075 | 50,933 | 57,717 |
| Free cash flow (Rs mn) | | | | | | | |
| Operating cash flow, excl. working capital | 1,931 | 1,812 | 3,898 | 4,734 | 5,646 | 7,019 | 8,179 |
| Working capital | (3,950) | (486) | (1,622) | (1,944) | (1,671) | (1,472) | (1,515) |
| Capital expenditure | (383) | (460) | (1,019) | (200) | (200) | (225) | (225) |
| Investments | 418 | (4,289) | (1,511) | — | — | — | — |
| Other income | 488 | 469 | 876 | 976 | 1,009 | 1,222 | 1,538 |
| Free cash flow | (1,496) | (2,954) | 622 | 3,565 | 4,783 | 6,544 | 7,977 |
| Revenue model (Rs mn) | | | | | | | |
| Advertising revenues | 6,566 | 7,035 | 9,307 | 11,317 | 12,990 | 14,755 | 16,617 |
| Subscription-domestic | 2,801 | 3,113 | 3,446 | 4,484 | 5,978 | 7,358 | 8,748 |
| Subscription-overseas | 3,030 | 3,933 | 3,949 | 4,440 | 4,737 | 4,905 | 5,014 |
| Subscription-cable | 978 | — | — | — | — | — | — |
| Others | 3,168 | 1,078 | 1,652 | 1,665 | 1,823 | 1,935 | 2,053 |
| Total revenues | 16,544 | 15,159 | 18,354 | 21,907 | 25,528 | 28,952 | 32,433 |

Source: Kotak Institutional Equities estimates.

Economy

Sector coverage view

N/A

Inflation falls to 12.1% but data shows price rise still persisting

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- **Headline inflation (based on WPI yoy % change) falls to 12.10% from 12.34%**
- **Prices over the week rose 0.21% after three weeks of price stability**
- **Price pressures persisting in non-fuel primary and manufactured products**
- **Inflation may stay flat (>11.5 and <13.0%) in 3QFY09; fall to 9% by end-FY2009**

Contrary to street and our expectation that inflation may fall to about 12% or just under it, the WPI data for the week-ended August 30, 2008 released on Thursday showed an increase of 0.21% (5-ticks) over the week, which pretty much nullified the gains from the fall in price level that we saw a fortnight ago. Price pressures over the week were evident in non-fuel primary as well as manufactured products. However, due to strong favorable base effects in this week's data, inflation (% yoy change in WPI) still fell to 12.10% from 12.34%. We expect inflation to stay flat in 3QFY09, but fall rapidly in 4QFY09. Inflation may stay flat over the next three months as (1) we expect the rapid pace of rupee depreciation to substantially offset the gains from lowering global commodity prices, and (2) base effects are not favorable in 3QFY09.

WPI data shows presence of demand side pressures

We believe this week's disaggregated WPI data shows price pressures persist over several non-fuel primary and manufacturing prices (see Exhibit 1). This would reinforce the argument that both supply side and demand side factors are fuelling current inflation. This provides a fillip to those who may favor further monetary tightening. In our view, however, monetary policy decisions ahead may, however, be substantially influenced by growth considerations. The slowdown is now visible in GDP and IIP numbers. We expect IIP data to be released later today to show a small improvement to 5.9% in July from 5.2% in 1QFY09, but still stay substantially below potential growth rate, thus reconfirming the slowdown.

Inflation internals show price pressures persist in a range of commodities

Over the week, substantial price rise was observed in the case of pulses (+0.7%), vegetables (+1.6%), fibres (+0.7%), metallic minerals (+1.6%), sugar (+2.9%), common salt (+4.8%), oil cakes (+2.5%), mill-produced cotton cloth (+0.6%), man made cloth (+2.0%), jute textiles (+0.7%), basic heavy inorganic chemicals (+0.4%), non-metallic mineral products (+0.4%) and cement (+0.5%).

In our view, the fall in wholesale sugar prices since August 25, 2008 has not been reflected in the WPI data as yet. Its rise was during the first fortnight of August was also understated and reported with a lag.

Inflation may flatten within 11.5-13.0% range in 3QFY09

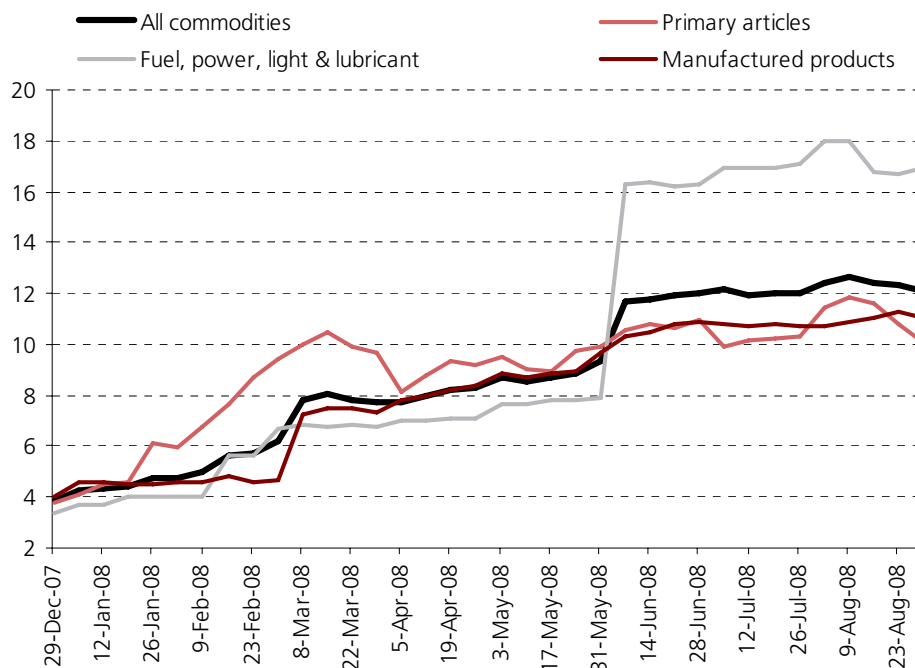
In our assessment, headline inflation rate may stay flat at around the current level for most part of 3QFY09 (see Exhibit 2). We stay with our call taken in our economy note dated August 29, 2008, 'Price level falls after 28 weeks but may not impact monetary policy much' where we stated that, "Inflation may now peak at near 13.0% in 3QFY09 in place of our earlier expectations that it would stay in 13-14% band during this quarter".

Rupee depreciation may offset gains from falling global commodity prices

The exchange rate of Indian rupee per US dollar (INR/USD) has depreciated nearly 12.0% in FY2009 so far, with about 8% depreciation having occurred in just last one month (see Exhibit 3). We believe this rapid pace of depreciation would nearly offset the gain which may have accrued from the falling global commodity prices. Empirically, we assess that the total impact of 12.5% rupee depreciation could be about 1.3 ppt increase in WPI. Part of the pass-through to domestic may have occurred, but even if we consider the impact of 8% rupee depreciation in the past month, the inflation rate may rise by about 0.8 ppt. This may offset the impact of falling global commodity prices.

Exhibit 1: Inflation tapering off across major groups

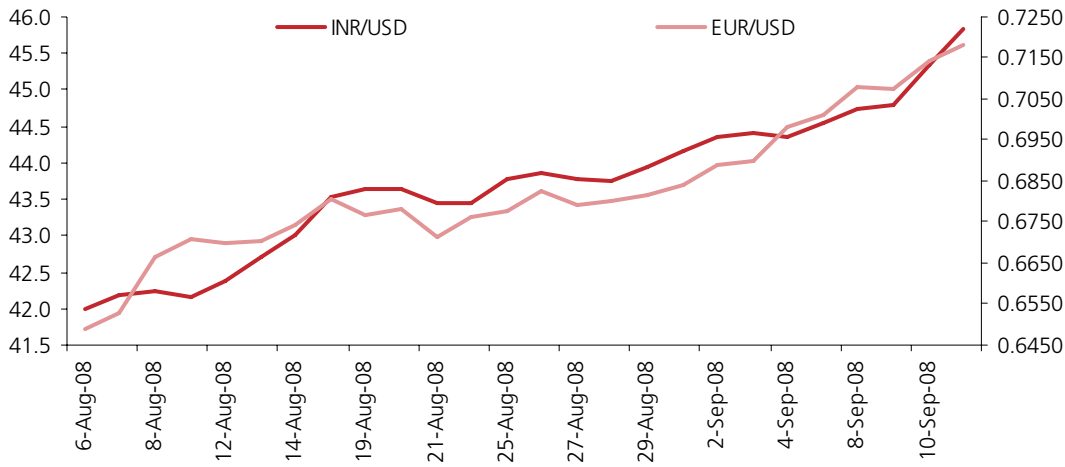
WPI inflation rate for major groups (yoy %)



Source: Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India

Exhibit 2: Rupee depreciates over 8% since August 2008 tracking Euro depreciation vs. US dollar

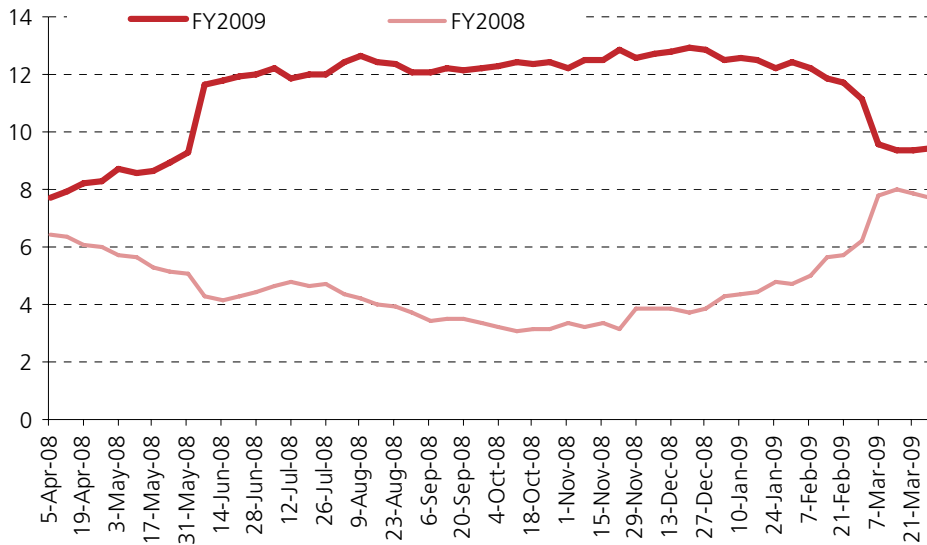
INR/USD on LHS, EUR/USD on RHS, August-September 2008



Source: Bloomberg

Exhibit 3: Expect inflation to stay flat in 3QFY09; fall in 4QFY09

Headline inflation rate, FY2008 and FY2009E (actual till August 30, 2008; estimates thereafter) (%)



Source: GOI, Kotak Institutional Equities estimates

Telecom

Sector coverage view

Cautious

| Company | Rating | Price, Rs | |
|---------------|--------|-----------|--------|
| | | 11-Sep | Target |
| Bharti | REDUCE | 777 | 840 |
| Rcom | SELL | 400 | 390 |
| MTNL | REDUCE | 98 | 100 |
| VSNL | REDUCE | 439 | 430 |
| Idea Cellular | REDUCE | 84 | 100 |

August GSM net adds—second consecutive month of subscriber loss for Spice mars the month for Idea; largely status quo for others

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- **GSM net adds (ex-RCOM) at 6.3 mn; total net adds will likely exceed 8.5 mn**
- **Second consecutive month of subscriber loss for Spice; Spice has lost 1 mn subs (21% of June 2008 base) in the past two months**
- **Bharti continues its superlative performance adding 2.7 mn subs in the month**
- **Strong performance of Aircel highlights the company's ability to compete aggressively against larger players**

GSM operators (excluding RCOM) added 6.3 mn subs in August 2008, in line with our expectations and moderately lower than the previous month's 6.4 mn. Net adds for the month were once again impacted by an absolute decline of 0.63 mn subs in Spice's subs base (a cumulative loss of 1 mn subs in the past two months)—a huge negative for Idea. Bharti, Vodafone (which launched its Orissa operations) and Idea (which launched in Mumbai) had stable net adds at 2.7 mn, 1.8 mn, and 1 mn, respectively. Aircel gained market share and its performance in the Kolkata circle (where it launched operations only in May 2008 and has already gained 3.2% GSM market share) demonstrates the company's ability to compete aggressively against larger players. We expect the strong subscriber addition trends to continue for the next 12 to 18 months; however, we highlight that strong subscriber growth is already built into our (as well as street's) estimates for the listed wireless plays and thus, do not impact expectations substantially. We would focus more on the relative net adds, and more pressing issues like (1) impending competition and its impact on pricing and profitability; we expect the pressure on wireless tariffs to continue, (2) 3G auction bids—we expect aggressive bidding in metro circles and (3) likely regulatory changes—potential reduction in termination charges and increase in spectrum charges (both negative for the sector). We continue to remain Cautious on the sector with a REDUCE rating on Bharti and Idea and SELL on RCOM.

Aggregate net adds in line; Spice subs loss the major surprise. The aggregate GSM (ex-RCOM) net adds for August 2008 (6.3 mn) was in line with our expectations and moderately lower than July 2008 net adds of 6.4 mn. Overall net adds for the months could exceed 8.5 mn if the CDMA operators maintain their July 2008 net adds pace. We expect the strong net adds trend to continue over the next 12-18 months driven by (1) rapid network expansion by the existing players; in July 2008, Idea entered the Mumbai circle while Vodafone entered the Orissa circle (2) entry of new players and pan-Indian expansion of some incumbents and (3) aggressive pricing tactics adopted by the operators. However, we do not see substantial value accretion for the industry from these incremental subscribers, a large portion (~35-40%) of which are low-value lifetime subscribers.

Second consecutive month of Subs loss for Spice—a big negative from Idea's perspective. Spice lost 0.63 mn subs during August 2008, following a subs loss of 0.35 mn in the previous month. The cumulative loss of 1 mn subs for Spice over the past two months is a big negative for Idea in our view. We rule out a sudden jump in churn rates for Spice; thus, we would likely attribute the decline in subs numbers over the past two months to a likely realignment in Spice's customer deactivation practice/criteria to Idea's.

We highlight that Idea had paid Rs27 bn (including the non-compete fee of Rs5.44 bn) to the Modi Group for buying out its 40.8% stake in Spice Communications, implying an equity value of US\$1.6 bn for Spice. Assuming that Spice maintains a flat EBITDA for FY2009E versus FY2008 despite the subs base loss (21% of June 2008 base over July and August), the deal values Spice at 27X FY2009E EV/EBITDA, a 150% premium to larger peers like Bharti and RCOM. In EV/sub terms, Spice's EV/sub at the end-August subs base works out to US\$480/sub, again a significant premium to larger peers.

Bharti continues its strong showing; Vodafone launches in Orissa, and Idea in Mumbai. Bharti had another strong month adding 2.7 mn subscribers in August 2008, same as July 2008. Vodafone and Idea too maintained their previous month's net add pace of 1.8 mn and 1 mn respectively. However, Vodafone's and Idea's net adds were partially aided by their launches in Orissa and Mumbai circles, respectively. Vodafone had net adds of 35,000 in Orissa, while Idea had net adds of 17,000 (large proportion of which are group employees, in our view) in Mumbai. These launches make it three new network launches in the past four months (including Aircel's Kolkata launch in May 2008). We would likely see several new rollouts by existing players (Vodafone, Idea, Aircel, RCOM GSM) as well as new players over the next twelve months. We believe that Bharti has benefited from relatively benign competition in several circles ever since capacity constraints hit BSNL; the sharp increase in competition will likely test Bharti's ability to maintain/increase its market share. We highlight Bharti has lost 180 bps of GSM market share in Kolkata since the launch of Aircel's operations in the circle.

Aircel surprises positively, stable month for BSNL/MTNL. Aircel added 651,000 subs in August 2008, its highest ever monthly net adds; the company has gained ~70 bps of GSM market share over the past 12 months. We have been highlighting the price aggression and competitive intensity of Aircel, and August net adds were another indicator of the company's ability to gain market share versus larger peers. We continue to see Aircel as a major competitive threat to the leading incumbents as it expands into a pan-India operator (currently present only in 10 circles and rolling out networks in other circles).

BSNL added 574,000 subs in August 2008, marginally higher than previous month's 553,000. MTNL added 102,000 subs (versus 100,000 in July 2008) marking its strongest month in FY2009 YTD.

Subscriber details for leading GSM cellular operators, ('000)

| | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr-08 | May-08 | Jun-08 | Jul-08 | Aug-08 |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Subs ('000) | | | | | | | | | | | | | |
| Bharti | 46,815 | 48,876 | 50,909 | 52,961 | 55,163 | 57,418 | 59,670 | 61,985 | 64,370 | 66,826 | 69,384 | 72,078 | 74,778 |
| Hutchison | 34,115 | 35,658 | 37,187 | 38,563 | 39,865 | 41,145 | 42,557 | 44,126 | 45,780 | 47,467 | 49,195 | 50,950 | 52,759 |
| IDEA-Escotel | 17,871 | 18,672 | 19,422 | 20,222 | 21,054 | 21,955 | 22,874 | 24,002 | 25,040 | 26,141 | 27,194 | 28,248 | 29,278 |
| BPL | 1,102 | 1,153 | 1,201 | 1,221 | 1,239 | 1,257 | 1,276 | 1,295 | 1,314 | 1,331 | 1,378 | 1,440 | 1,517 |
| Modi group | 3,398 | 3,482 | 3,570 | 3,661 | 3,801 | 3,943 | 4,084 | 4,211 | 4,363 | 4,498 | 4,548 | 4,197 | 3,563 |
| Reliance | 4,734 | 5,036 | 5,342 | 5,669 | 6,002 | 6,338 | 6,676 | 7,016 | 7,359 | 7,711 | 8,080 | 8,455 | 8,455 |
| MTNL | 2,729 | 2,772 | 2,826 | 2,890 | 2,955 | 3,013 | 3,122 | 3,242 | 3,284 | 3,350 | 3,438 | 3,537 | 3,639 |
| BSNL | 29,704 | 30,303 | 31,033 | 31,945 | 32,712 | 33,749 | 34,573 | 36,210 | 36,683 | 36,997 | 37,363 | 37,916 | 38,490 |
| Aircel | 7,621 | 8,039 | 8,524 | 9,026 | 9,428 | 9,934 | 10,185 | 10,610 | 10,989 | 11,492 | 11,925 | 12,476 | 13,127 |
| Total market | 148,089 | 153,991 | 160,014 | 166,157 | 172,219 | 178,751 | 185,017 | 192,696 | 199,182 | 205,813 | 212,505 | 219,298 | 225,607 |

Market share of subs (%)

| | | | | | | | | | | | | | |
|--------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Bharti | 31.6 | 31.7 | 31.8 | 31.9 | 32.0 | 32.1 | 32.3 | 32.2 | 32.3 | 32.5 | 32.7 | 32.9 | 33.1 |
| Hutchison | 23.0 | 23.2 | 23.2 | 23.2 | 23.1 | 23.0 | 23.0 | 22.9 | 23.0 | 23.1 | 23.2 | 23.2 | 23.4 |
| IDEA-Escotel | 12.1 | 12.1 | 12.1 | 12.2 | 12.2 | 12.3 | 12.4 | 12.5 | 12.6 | 12.7 | 12.8 | 12.9 | 13.0 |
| BPL | 0.7 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.7 | 0.7 |
| Modi group | 2.3 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.1 | 1.9 | 1.6 |
| Reliance | 3.2 | 3.3 | 3.3 | 3.4 | 3.5 | 3.5 | 3.6 | 3.6 | 3.7 | 3.7 | 3.8 | 3.9 | 3.7 |
| MTNL | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| BSNL | 20.1 | 19.7 | 19.4 | 19.2 | 19.0 | 18.9 | 18.7 | 18.8 | 18.4 | 18.0 | 17.6 | 17.3 | 17.1 |
| Aircel | 5.1 | 5.2 | 5.3 | 5.4 | 5.5 | 5.6 | 5.5 | 5.5 | 5.5 | 5.6 | 5.6 | 5.7 | 5.8 |

Growth (%)

| | | | | | | | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Bharti | 4.6 | 4.4 | 4.2 | 4.0 | 4.2 | 4.1 | 3.9 | 3.9 | 3.8 | 3.8 | 3.8 | 3.9 | 3.7 |
| Hutchison | 5.2 | 4.5 | 4.3 | 3.7 | 3.4 | 3.2 | 3.4 | 3.7 | 3.7 | 3.7 | 3.6 | 3.6 | 3.5 |
| IDEA-Escotel | 5.1 | 4.5 | 4.0 | 4.1 | 4.1 | 4.3 | 4.2 | 4.9 | 4.3 | 4.4 | 4.0 | 3.9 | 3.6 |
| BPL | 0.7 | 4.7 | 4.2 | 1.6 | 1.5 | 1.4 | 1.6 | 1.5 | 1.5 | 1.3 | 3.5 | 4.5 | 5.4 |
| Modi group | 3.3 | 2.5 | 2.5 | 2.6 | 3.8 | 3.7 | 3.6 | 3.1 | 3.6 | 3.1 | 1.1 | (7.7) | (15.1) |
| Reliance | 6.7 | 6.4 | 6.1 | 6.1 | 5.9 | 5.6 | 5.3 | 5.1 | 4.9 | 4.8 | 4.8 | 4.6 | - |
| MTNL | 2.3 | 1.6 | 1.9 | 2.3 | 2.3 | 2.0 | 3.6 | 3.8 | 1.3 | 2.0 | 2.6 | 2.9 | 2.9 |
| BSNL | 2.5 | 2.0 | 2.4 | 2.9 | 2.4 | 3.2 | 2.4 | 4.7 | 1.3 | 0.9 | 1.0 | 1.5 | 1.5 |
| Aircel | 6.4 | 5.5 | 6.0 | 5.9 | 4.5 | 5.4 | 2.5 | 4.2 | 3.6 | 4.6 | 3.8 | 4.6 | 5.2 |
| Total market | 4.4 | 4.0 | 3.9 | 3.8 | 3.6 | 3.8 | 3.5 | 4.2 | 3.4 | 3.3 | 3.3 | 3.2 | 2.9 |

Net monthly adds ('000)

| | | | | | | | | | | | | | |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bharti | 2,051 | 2,061 | 2,033 | 2,053 | 2,202 | 2,255 | 2,253 | 2,315 | 2,386 | 2,456 | 2,558 | 2,694 | 2,700 |
| Hutchison | 1,678 | 1,542 | 1,529 | 1,376 | 1,302 | 1,281 | 1,412 | 1,569 | 1,654 | 1,686 | 1,728 | 1,755 | 1,808 |
| IDEA-Escotel | 867 | 801 | 750 | 800 | 832 | 901 | 919 | 1,128 | 1,038 | 1,101 | 1,054 | 1,054 | 1,030 |
| BPL | 7 | 51 | 48 | 19 | 19 | 17 | 20 | 19 | 19 | 17 | 47 | 61 | 77 |
| Modi group | 107 | 84 | 89 | 91 | 139 | 142 | 141 | 126 | 152 | 135 | 50 | (351) | (634) |
| Reliance | 296 | 302 | 306 | 327 | 333 | 336 | 338 | 340 | 342 | 352 | 370 | 375 | - |
| MTNL | 60 | 43 | 54 | 64 | 65 | 58 | 109 | 120 | 42 | 67 | 87 | 100 | 102 |
| BSNL | 725 | 599 | 730 | 912 | 767 | 1,036 | 824 | 1,637 | 473 | 314 | 365 | 553 | 574 |
| Aircel | 458 | 419 | 485 | 502 | 402 | 506 | 251 | 425 | 379 | 503 | 433 | 551 | 651 |
| Total market | 6,250 | 5,903 | 6,022 | 6,144 | 6,062 | 6,531 | 6,266 | 7,680 | 6,486 | 6,630 | 6,693 | 6,793 | 6,309 |

Market share of net adds (%)

| | | | | | | | | | | | | | |
|--------------|------|------|------|------|------|------|------|------|------|------|------|-------|--------|
| Bharti | 32.8 | 34.9 | 33.8 | 33.4 | 36.3 | 34.5 | 35.9 | 30.1 | 36.8 | 37.0 | 38.2 | 39.7 | 42.8 |
| Hutchison | 26.8 | 26.1 | 25.4 | 22.4 | 21.5 | 19.6 | 22.5 | 20.4 | 25.5 | 25.4 | 25.8 | 25.8 | 28.7 |
| IDEA-Escotel | 13.9 | 13.6 | 12.5 | 13.0 | 13.7 | 13.8 | 14.7 | 14.7 | 16.0 | 16.6 | 15.7 | 15.5 | 16.3 |
| BPL | 0.1 | 0.9 | 0.8 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.7 | 0.9 | 1.2 |
| Modi group | 1.7 | 1.4 | 1.5 | 1.5 | 2.3 | 2.2 | 2.3 | 1.6 | 2.4 | 2.0 | 0.8 | (5.2) | (10.1) |
| Reliance | 4.7 | 5.1 | 5.1 | 5.3 | 5.5 | 5.1 | 5.4 | 4.4 | 5.3 | 5.3 | 5.5 | 5.5 | - |
| MTNL | 1.0 | 0.7 | 0.9 | 1.0 | 1.1 | 0.9 | 1.7 | 1.6 | 0.6 | 1.0 | 1.3 | 1.5 | 1.6 |
| BSNL | 11.6 | 10.1 | 12.1 | 14.8 | 12.7 | 15.9 | 13.2 | 21.3 | 7.3 | 4.7 | 5.5 | 8.1 | 9.1 |
| Aircel | 7.3 | 7.1 | 8.0 | 8.2 | 6.6 | 7.7 | 4.0 | 5.5 | 5.8 | 7.6 | 6.5 | 8.1 | 10.3 |

Circlewise subs ('000)

| | | | | | | | | | | | | | |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Metros | 25,066 | 25,884 | 26,691 | 27,460 | 28,135 | 28,823 | 29,510 | 30,235 | 30,903 | 31,555 | 32,250 | 33,015 | 33,850 |
| Circle A | 52,996 | 55,247 | 57,719 | 60,089 | 62,479 | 65,033 | 67,081 | 70,045 | 72,090 | 74,344 | 76,837 | 79,216 | 81,369 |
| Circle B | 53,867 | 56,089 | 58,259 | 60,498 | 62,582 | 64,870 | 67,289 | 70,077 | 72,920 | 75,636 | 78,228 | 80,931 | 83,438 |
| Circle C | 16,160 | 16,771 | 17,345 | 18,111 | 19,024 | 20,024 | 21,137 | 22,339 | 23,269 | 24,277 | 25,190 | 26,136 | 26,950 |
| Total | 148,089 | 153,991 | 160,014 | 166,157 | 172,219 | 178,751 | 185,017 | 192,696 | 199,182 | 205,813 | 212,505 | 219,298 | 225,607 |

Circlewise net adds ('000)

| | | | | | | | | | | | | | |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Metros | 769 | 817 | 807 | 770 | 675 | 689 | 687 | 725 | 667 | 652 | 696 | 764 | 836 |
| Circle A | 2,566 | 2,252 | 2,471 | 2,370 | 2,391 | 2,554 | 2,048 | 2,964 | 2,045 | 2,254 | 2,492 | 2,379 | 2,153 |
| Circle B | 2,280 | 2,222 | 2,170 | 2,239 | 2,083 | 2,289 | 2,418 | 2,788 | 2,843 | 2,716 | 2,592 | 2,703 | 2,507 |
| Circle C | 635 | 611 | 574 | 765 | 913 | 1,001 | 1,113 | 1,202 | 930 | 1,008 | 913 | 946 | 814 |
| Total | 6,250 | 5,903 | 6,022 | 6,144 | 6,062 | 6,531 | 6,266 | 7,680 | 6,486 | 6,630 | 6,693 | 6,793 | 6,309 |

Circlewise subs (%)

| | | | | | | | | | | | | | |
|----------|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Metros | 17 | 17 | 17 | 17 | 16 | 16 | 16 | 16 | 16 | 15 | 15 | 15 | 15 |
| Circle A | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 |
| Circle B | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 36 | 37 | 37 | 37 | 37 | 37 |
| Circle C | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 12 | 12 | 12 | 12 | 12 |

Circlewise net adds (%)

| | | | | | | | | | | | | | |
|----------|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Metros | 12 | 14 | 13 | 13 | 11 | 11 | 11 | 9 | 10 | 10 | 10 | 11 | 13 |
| Circle A | 41 | 38 | 41 | 39 | 39 | 39 | 33 | 39 | 32 | 34 | 37 | 35 | 34 |
| Circle B | 36 | 38 | 36 | 36 | 34 | 35 | 39 | 36 | 44 | 41 | 39 | 40 | 40 |
| Circle C | 10 | 10 | 10 | 12 | 15 | 15 | 18 | 16 | 14 | 15 | 14 | 14 | 13 |

Note:

(a) Subscriber numbers for August 2008 exclude RCOM's GSM subs (not disclosed yet)

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

| Company | 11-Sep-08 Price (Rs) | Rating | Mkt cap. (Rs mn) | shares (mm) | EPS (Rs) | EPS growth (%) | PER (X) | EV/EBITDA (X) | Priceriv (X) | Dividend yield (%) | RoE (%) | Target price (Rs) | Upside (%) | ADVF-3mo (US\$ mn) | | | | | | | | | | | | | | | | | | |
|---------------------------------------|----------------------|--------|------------------|----------------|----------|----------------|--------------|---------------|--------------|--------------------|-------------|-------------------|------------|--------------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|--------|-------|------|--|--|--|
| | | | | | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | | | | | | | | | | | | | | | | | | |
| | | | | | 2009E | 2010E | 2009E | 2010E | 2009E | 2010E | 2009E | 2010E | 2009E | 2010E | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Automobiles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bajaj Auto | 617 | ADD | 89,299 | 2,108 | 59.3 | 58.7 | 63.2 | (33.4) | (1.1) | 7.8 | 10.4 | 10.5 | 9.8 | 3.2 | 3.2 | 3.2 | 21.0 | 41.5 | 36.4 | 630 | 2.1 | — | | | | | | | | | | |
| Hero Honda | 837 | REDUCE | 167,109 | 3,945 | 48.5 | 57.0 | 62.6 | 12.8 | 17.5 | 9.9 | 17.3 | 14.7 | 13.4 | 10.8 | 10.2 | 9.2 | 4.4 | 3.7 | 2.4 | 2.4 | 34.0 | 33.1 | 30.1 | 750 | (10.4) | 6.0 | | | | | | |
| Mahindra & Mahindra | 562 | ADD | 145,001 | 3,423 | 258 | 38.1 | 36.9 | 37.2 | (2.0) | (2.9) | 0.6 | 14.8 | 15.2 | 15.1 | 10.7 | 10.5 | 9.6 | 3.3 | 2.6 | 2.2 | 1.9 | 1.6 | 1.7 | 27.8 | 22.0 | 17.8 | 640 | 13.9 | 6.1 | | | |
| Maruti Suzuki | 679 | ADD | 196,332 | 4,635 | 289 | 59.9 | 60.0 | 65.1 | 10.8 | 0.2 | 8.4 | 11.3 | 11.3 | 10.4 | 6.4 | 6.1 | 5.6 | 2.3 | 1.9 | 1.6 | 0.7 | 0.7 | 0.7 | 22.1 | 18.3 | 16.8 | 790 | 16.3 | 15.6 | | | |
| Tata Motors | 424 | SELL | 246,551 | 5,820 | 581 | 47.4 | 25.1 | 22.3 | 0.9 | (47.1) | (10.9) | 8.9 | 16.9 | 19.0 | 8.5 | 9.8 | 9.8 | 2.7 | 1.0 | 1.3 | 2.3 | 3.0 | 3.0 | 24.3 | 9.8 | 7.4 | 425 | 0.2 | 10.0 | | | |
| | | | 844,292 | 19,931 | | (0.8) | (6.1) | 2.8 | 12.9 | 13.9 | 13.4 | 8.4 | 8.6 | 8.1 | 3.1 | 2.1 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 24.3 | 15.2 | 13.9 | | | | | | | |
| Banking/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Andhra Bank | 60 | REDUCE | 29,197 | 689 | 11.9 | 10.1 | 11.6 | 7.0 | (15.0) | 15.0 | 5.1 | 6.0 | 5.2 | — | — | — | 1.0 | 0.9 | 0.8 | 6.6 | 4.2 | 4.8 | 18.0 | 14.3 | 14.8 | 65 | 8.0 | 0.8 | | | | |
| Axe Bank | 704 | REDUCE | 251,881 | 5,946 | 32.2 | 35.8 | 55.1 | 37.7 | (11.6) | 53.9 | 21.9 | 19.7 | 12.8 | — | — | — | 1.3 | 2.6 | 2.2 | 0.6 | 1.0 | 1.5 | 17.6 | 13.8 | 18.7 | 750 | 6.5 | 63.3 | | | | |
| Bank of Baroda | 309 | ADD | 112,838 | 2,664 | 39.3 | 34.7 | 42.6 | 39.8 | (11.6) | 22.2 | 7.9 | 8.9 | 7.3 | — | — | — | 1.1 | 1.0 | 2.0 | 2.6 | 2.3 | 2.8 | 14.6 | 11.1 | 12.6 | 310 | 0.4 | 5.7 | | | | |
| Bank of India | 288 | BUY | 151,490 | 3,576 | 40.6 | 41.6 | 49.8 | 76.6 | 2.4 | 19.6 | 7.1 | 6.9 | 5.8 | — | — | — | 1.9 | 1.5 | 1.2 | 1.4 | 1.5 | 1.8 | 27.6 | 22.4 | 22.0 | 375 | 30.2 | 29.6 | | | | |
| Canara Bank | 218 | REDUCE | 89,339 | 2,109 | 41.0 | 38.2 | 23.4 | 38.6 | 10.1 | (88.6) | 64.7 | 5.7 | 9.3 | 5.6 | — | — | 1.2 | 1.1 | 0.9 | 3.7 | 3.2 | 3.4 | 15.0 | 8.9 | 13.6 | 210 | (3.6) | 3.8 | | | | |
| Central Bank of India | 58 | SELL | 23,602 | 557 | 11.6 | 5.6 | 16.3 | (24.6) | (62.1) | 194.4 | 5.0 | 10.5 | 3.6 | — | — | — | 1.1 | 0.8 | 0.6 | 3.4 | — | — | 15.3 | 7.9 | 16.7 | 55 | (5.8) | 0.6 | | | | |
| Corporation Bank | 284 | ADD | 40,772 | 933 | 51.3 | 44.8 | 53.6 | 37.2 | (12.5) | 19.6 | 5.5 | 6.3 | 5.3 | — | — | — | 1.0 | 0.9 | 0.8 | 3.7 | 3.2 | 3.9 | 18.4 | 14.4 | 15.4 | 355 | 24.9 | 0.4 | | | | |
| Federal Bank | 221 | BUY | 37,815 | 893 | 17.1 | 34.4 | 20.8 | 32.4 | 0.5 | (29.4) | 55.6 | 6.4 | 10.6 | 6.8 | — | — | 1.0 | 0.9 | 0.8 | 1.8 | 1.8 | 2.7 | 13.6 | 8.8 | 12.5 | 275 | 24.4 | 2.0 | | | | |
| HDFC | 2,261 | ADD | 648,975 | 15,320 | 287 | 85.8 | 83.7 | 100.1 | 38.2 | (2.4) | 19.6 | 26.4 | 27.0 | 22.6 | — | — | 5.4 | 4.7 | 4.1 | 1.1 | 1.1 | 1.3 | 27.8 | 18.6 | 19.3 | 2,350 | 39 | 71.1 | | | | |
| HDFC Bank | 1,263 | BUY | 530,379 | 12,521 | 423 | 46.0 | 52.5 | 67.4 | 28.7 | 14.1 | 28.4 | 27.2 | 23.9 | 18.6 | — | — | 4.6 | 3.6 | 2.5 | 0.6 | 0.8 | 1.0 | 17.7 | 17.0 | 16.9 | 1,300 | 3.8 | 49.0 | | | | |
| ICICI Bank | 687 | ADD | 763,965 | 18,035 | 1,113 | 39.9 | 33.9 | 42.0 | 15.4 | (15.1) | 23.8 | 17.2 | 20.3 | 16.4 | — | — | 1.6 | 1.5 | 1.4 | 1.6 | 1.2 | 1.5 | 11.7 | 7.9 | 9.2 | 870 | 26.7 | 136.9 | | | | |
| IDFC | 92 | REDUCE | 119,076 | 2,811 | 12.94 | 5.7 | 6.7 | 8.1 | 2.9 | 18.4 | 20.3 | 16.2 | 13.7 | 11.4 | — | — | 2.1 | 1.9 | 1.7 | 1.3 | 2.0 | 2.2 | 17.6 | 14.9 | 16.1 | 125 | 35.9 | 30.5 | | | | |
| India Infoline | 128 | ADD | 44,856 | 1,059 | 5.6 | 6.7 | 9.8 | 85.6 | 19.1 | 47.4 | 22.9 | 19.2 | 13.0 | 9.3 | 9.5 | 7.2 | 3.7 | 2.3 | 2.1 | 0.8 | 1.1 | 1.7 | 20.7 | 14.9 | 17.0 | 155 | 20.9 | 5.4 | | | | |
| Indian Bank | 135 | ADD | 58,105 | 1,372 | 430 | 22.5 | 19.5 | 25.6 | 33.9 | (13.3) | 30.8 | 6.0 | 6.9 | 5.3 | — | — | 1.3 | 1.1 | 1.0 | 2.2 | 1.8 | 2.4 | 23.4 | 16.4 | 18.4 | 140 | 3.6 | 2.8 | | | | |
| Indian Overseas Bank | 101 | ADD | 55,052 | 1,300 | 54.5 | 22.1 | 18.9 | 22.5 | 19.2 | (14.2) | 18.7 | 4.6 | 5.3 | 4.5 | — | — | 1.1 | 1.0 | 0.8 | 3.7 | 4.9 | 5.4 | 27.2 | 19.7 | 20.1 | 130 | 28.6 | 1.0 | | | | |
| J&K Bank | 523 | ADD | 25,359 | 599 | 48 | 74.2 | 75.7 | 71.5 | 31.2 | 2.0 | 2.4 | 7.0 | 6.9 | 6.7 | — | — | 1.2 | 1.1 | 0.9 | 3.0 | 3.0 | 3.1 | 16.8 | 15.2 | 13.9 | 750 | 43.4 | 0.4 | | | | |
| LIC Housing Finance | 320 | ADD | 27,229 | 643 | 85 | 45.5 | 55.5 | 59.5 | 38.7 | 24.1 | 5.3 | 7.0 | 5.4 | — | — | — | 1.4 | 1.2 | 1.0 | 3.1 | 3.9 | 4.1 | — | — | — | 380 | 18.6 | 5.4 | | | | |
| Mahindra & Mahindra Financial | 250 | SELL | 23,849 | 563 | 95 | 20.8 | 22.9 | 27.2 | 32.6 | 10.1 | 18.7 | 12.0 | 10.9 | 9.2 | — | — | 1.9 | 1.7 | 1.5 | 1.8 | 2.3 | 2.7 | 16.9 | 15.7 | 16.6 | 215 | (14.1) | 0.1 | | | | |
| Oriental Bank of Commerce | 182 | ADD | 45,498 | 1,074 | 251 | 23.9 | 26.3 | 30.7 | (27.6) | 10.3 | 16.4 | 7.6 | 6.9 | 5.9 | — | — | 0.9 | 0.8 | 0.7 | 2.6 | 2.9 | 3.4 | 6.2 | 10.9 | 11.7 | 200 | 10.1 | 1.8 | | | | |
| PFC | 132 | REDUCE | 151,390 | 3,574 | 1,148 | 11.4 | 13.0 | 15.8 | 2.6 | 14.3 | 21.1 | 11.6 | 10.1 | 8.4 | — | — | 1.5 | 1.3 | 1.2 | 1.2 | 1.3 | 1.6 | 13.4 | 13.6 | 14.6 | 130 | (1.4) | 4.0 | | | | |
| Punjab National Bank | 502 | BUY | 158,282 | 3,737 | 315 | 65.0 | 69.2 | 79.8 | 33.0 | 6.5 | 15.2 | 7.7 | 7.3 | 6.3 | — | — | 1.6 | 1.3 | 1.2 | 2.6 | 2.8 | 3.2 | 18.0 | 16.7 | 17.1 | 650 | 29.5 | 10.0 | | | | |
| SREI | 105 | BUY | 14,046 | 332 | 134 | 11.4 | 5.5 | 8.1 | 57.4 | (51.8) | 47.8 | 9.2 | 10.9 | 12.9 | — | — | 2.2 | 1.2 | 1.0 | 2.2 | 2.2 | 2.7 | 23.1 | 11.6 | 12.5 | 160 | 52.7 | 0.7 | | | | |
| State Bank of India | 1,539 | ADD | 971,801 | 22,941 | 631 | 106.6 | 93.5 | 119.2 | 23.5 | (22.2) | 27.4 | 14.4 | 16.5 | 12.9 | — | — | 2.3 | 2.1 | 1.8 | 1.4 | 1.4 | 1.5 | 16.8 | 11.5 | 13.4 | 1,700 | 10.5 | 75.3 | | | | |
| Union Bank | 148 | BUY | 74,985 | 1,770 | 505 | 27.5 | 20.8 | 29.3 | 64.1 | (24.2) | 28.9 | 5.4 | 7.1 | 5.1 | — | — | 1.0 | 0.9 | 0.8 | 2.7 | 2.1 | 3.0 | 26.8 | 17.4 | 20.9 | 200 | 34.7 | 3.6 | | | | |
| | | | 4,475,125 | 105,645 | | 36.3 | (3.2) | 40.6 | 13.7 | 14.1 | 11.0 | — | — | — | — | — | 2.1 | 1.8 | 1.6 | 1.5 | 1.5 | 1.8 | 15.3 | 12.9 | 14.6 | | | | | | | |
| Banking/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | 596 | REDUCE | 112,514 | 2,656 | 64.1 | 61.2 | 47.7 | 13.0 | (4.5) | (22.0) | 9.3 | 9.8 | 12.5 | 4.8 | 4.9 | 6.4 | 2.5 | 2.2 | 2.0 | 3.9 | 3.9 | 3.9 | 33.3 | 25.3 | 17.5 | 610 | 2.3 | 9.3 | | | | |
| Ambuja Cements | 82 | REDUCE | 124,226 | 2,933 | 15.2 | 7.6 | 8.0 | 6.6 | (11.2) | 6.4 | (17.5) | 10.8 | 10.1 | 12.3 | 5.5 | 6.1 | 6.7 | 2.5 | 1.9 | 1.7 | 3.2 | 3.7 | 2.6 | 26.6 | 21.7 | 15.4 | 95 | 16.4 | 4.2 | | | |
| Grasim Industries | 2,020 | ADD | 185,237 | 4,373 | 92 | 284.6 | 257.6 | 240.4 | 32.6 | (9.5) | 16.1 | 7.1 | 7.8 | 8.4 | 4.1 | 4.3 | 4.0 | 1.6 | 1.3 | 1.1 | 1.5 | 1.6 | 1.6 | 25.3 | 18.3 | 14.5 | 2,320 | 14.8 | 5.3 | | | |
| India Cement | 147 | ADD | 41,449 | 978 | 282 | 24.5 | 19.1 | 19.9 | n/a | (21.8) | 4.1 | 6.0 | 7.7 | 7.4 | 4.4 | 4.7 | 4.1 | 1.2 | 1.1 | 0.9 | 1.3 | 1.4 | 1.4 | 25.9 | 15.8 | 14.4 | 160 | 8.8 | 3.6 | | | |
| Shree Cement | 579 | BUY | 20,153 | 476 | 35 | 85.9 | 98.5 | 60.0 | 90.0 | 14.7 | (99.0) | 6.7 | 5.9 | 9.6 | 2.8 | 2.5 | 2.5 | 3.0 | 2.1 | 1.8 | 1.2 | 1.4 | 1.4 | 53.5 | 42.5 | 20.5 | 1,080 | 86.7 | 0.5 | | | |
| Ultra Tech Cement | 587 | BUY | 73,484 | 1,735 | 125 | 81.4 | 80.6 | 59.1 | 28.5 | (0.9) | (26.7) | 7.2 | 7.3 | 9.9 | 4.9 | 4.9 | 5.7 | 2.3 | 1.8 | 1.5 | 1.3 | 1.4 | 1.4 | 45.2 | 32.1 | 18.9 | 700 | 19.3 | 1.0 | | | |
| | | | 557,063 | 13,151 | | 19.0 | (4.8) | (15.2) | 8.0 | 8.4 | 9.9 | 4.5 | 4.7 | 4.9 | 4.5 | 4.7 | 4.9 | 2.0 | 1.6 | 1.4 | 2.3 | 2.5 | 2.3 | 24.5 | 19.1 | 14.3 | | | | | | |
| Consumer (Discretionary) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Radio Khaitan | 69 | REDUCE | 8,118 | 192 | 118 | 3.4 | 3.2 | 3.8 | 8.4 | (7.0) | 21.5 | 20.3 | 21.8 | 18.0 | 9.7 | 9.7 | 8.8 | 1.6 | 1.5 | 1.4 | 0.6 | 0.6 | 0.6 | 9.4 | 8.1 | 9.0 | 91 | 31.9 | 0.3 | | | |
| United Breweries | 168 | REDUCE | 40,304 | 951 | 240 | 1.9 | 2.4 | 4.4 | (11.6) | 25.7 | 82.1 | 88.1 | 70.1 | 38.5 | 21.3 | 16.8 | 12.7 | 7.0 | 3.8 | 3.5 | — | — | — | 8.3 | 7.1 | 9.6 | 160 | (4.7) | 0.2 | | | |
| United Spirits | 1,353 | BUY | 126,736 | 2,992 | 94 | 40.0 | 45.5 | 59.1 | | | | | | | | | | | | | | | | | | | | | | | | |

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

| Company | 11-Sep-08 Price (Rs) | Rating | Mkt cap. (US\$ mn) | shares (mm) | 0 EPS (Rs) | | EPS growth (%) | | PER (X) | | EV/EBITDA (X) | | Price/BV (X) | | Dividend yield (%) | | RoE (%) | | Target Price (Rs) | ADVF-3mo Upside (%) | | | | | | | | | |
|---|----------------------|--------|--------------------|-------------|------------|-------|----------------|-------|---------|---------|---------------|-------|--------------|------|--------------------|-------|---------|-------|-------------------|---------------------|-------|-------|-------|-------|-------|------|-------|-------|-------|
| | | | | | 2008 | 2009E | 2010E | 2008 | 2009E | 2010E | 2008 | 2009E | 2010E | 2008 | 2009E | 2010E | 2008 | 2009E | | | 2010E | 2008 | 2009E | 2010E | | | | | |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharat Petroleum | 348 | REDUCE | 114,066 | 2,693 | 328 | 39.8 | 40.7 | 38.3 | (24.0) | 2.1 | (5.9) | 8.7 | 8.6 | 9.1 | 3.5 | 3.8 | 2.8 | 0.9 | 0.9 | 0.7 | 1.3 | 1.2 | 1.1 | 11.4 | 10.4 | 8.9 | 360 | 35 | 5.4 |
| Cairn India | 220 | SELL | 410,385 | 9,688 | 1,868 | 10.1 | 3.9 | 19.4 | (105) | (3,390) | 35 | 11.3 | 22.8 | 7.8 | 1.4 | 1.2 | 1.1 | — | — | — | — | — | — | (0.1) | 2.3 | 10.5 | 230 | 4.7 | 30.2 |
| Castrol India (e) | 350 | ADD | 483,293 | 1,022 | 124 | 20.1 | 23.6 | 24.1 | 64.6 | 17.5 | 2.1 | 17.4 | 14.8 | 14.5 | 10.2 | 8.8 | 8.6 | 10.5 | 9.8 | 9.1 | 4.0 | 5.1 | 5.1 | 59.5 | 68.5 | 65.2 | 350 | (0.0) | 0.4 |
| GAAL (India) | 427 | BUY | 361,346 | 8,530 | 846 | 30.8 | 36.8 | 42.0 | 21.7 | 19.5 | 14.3 | 13.9 | 11.6 | 10.2 | 8.0 | 7.1 | 7.1 | 2.5 | 2.2 | 1.8 | 2.3 | 2.6 | 3.0 | 18.2 | 19.2 | 18.7 | 470 | 10.0 | 14.7 |
| GSPIL | 59 | ADD | 33,228 | 784 | 563 | 1.8 | 3.6 | 5.1 | 8.5 | 103.8 | 40.2 | 33.3 | 33.3 | 11.6 | 10.5 | 7.3 | 5.1 | 2.7 | 2.3 | 2.1 | 0.8 | 1.7 | 2.4 | 8.7 | 15.3 | 18.8 | 69 | 16.9 | 2.5 |
| Hindustan Petroleum | 239 | REDUCE | 81,145 | 1,916 | 339 | 33.5 | 26.1 | 33.4 | (16.4) | (21.9) | 27.7 | 7.2 | 9.2 | 7.2 | 5.8 | 3.8 | 2.3 | 0.7 | 0.6 | 0.6 | 1.3 | 1.0 | 1.2 | 9.6 | 6.8 | 7.9 | 260 | 8.6 | 5.1 |
| Indian Oil Corporation | 411 | REDUCE | 485,231 | 11,455 | 1,179 | 60.5 | 40.9 | 61.8 | 29.2 | 33.5 | 15.4 | 6.8 | 10.1 | 6.7 | 4.5 | 4.1 | 7.6 | 1.1 | 1.0 | 0.9 | 1.4 | 1.2 | 1.7 | 17.2 | 10.1 | 13.5 | 500 | 21.5 | 3.6 |
| Oil & Natural Gas Corporation | 1,036 | BUY | 2,215,673 | 52,306 | 21,339 | 92.8 | 129.3 | 149.2 | 91.9 | 32.5 | 51.2 | 11.2 | 8.0 | 6.9 | 4.2 | 3.2 | 2.7 | 1.8 | 1.5 | 1.3 | 3.1 | 3.5 | 4.3 | 19.3 | 23.4 | 22.8 | 1,225 | 18.3 | 51.3 |
| Petromet LNG | 60 | ADD | 45,150 | 1,066 | 750 | 6.3 | 5.8 | 6.5 | — | (7.6) | 10.5 | 9.5 | 10.3 | 9.3 | 6.0 | 7.3 | 6.1 | 2.4 | 2.0 | 1.7 | 2.5 | 2.5 | 2.5 | 26.7 | 20.2 | 18.6 | 70 | 16.3 | 2.3 |
| Reliance Industries | 1,997 | RS | 2,625,363 | 61,977 | 1,314 | 101.7 | 97.4 | 171.9 | 23.0 | (4.2) | 76.4 | 19.6 | 20.5 | 11.6 | 11.8 | 10.1 | 5.3 | 2.9 | 2.6 | 2.0 | 0.6 | 0.7 | 1.0 | 18.5 | 14.4 | 21.6 | — | 256.8 | — |
| Reliance Petroleum | 155 | REDUCE | 697,725 | 16,471 | 4,500 | (1.1) | 2.0 | 19.1 | n/a | n/a | 840.9 | n/a | 76.5 | 8.1 | n/a | 33.9 | 6.8 | 5.2 | 4.9 | 3.2 | — | — | 1.3 | (3.5) | 6.6 | 47.3 | 170 | 9.6 | 98.8 |
| Energy 7,112,605 167,909 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | 875 | REDUCE | 185,494 | 4,379 | 212 | 23.2 | 28.6 | 35.4 | 44.5 | 23.2 | 27.7 | 37.7 | 30.6 | 24.8 | 22.4 | 17.8 | 13.9 | 11.4 | 8.6 | 6.6 | 0.3 | 0.3 | 0.4 | 34.8 | 32.1 | 30.3 | 875 | (0.0) | 10.4 |
| AIA Engineering | 1,612 | BUY | 30,294 | 715 | 19 | 70.9 | 89.4 | 114.2 | 38.1 | 26.1 | 27.7 | 22.7 | 22.7 | 14.1 | 11.4 | 8.7 | 5.0 | 4.0 | 3.2 | 2.0 | 24.0 | 24.2 | 24.6 | 1,600 | (0.7) | 0.2 | — | — | — |
| BGR Energy Systems | 904 | REDUCE | 21,910 | 517 | 72 | 12.3 | 18.3 | 23.2 | (67.1) | 49.5 | 26.7 | 24.8 | 16.6 | 13.1 | 15.1 | 10.1 | 8.6 | 4.3 | 3.5 | 2.9 | 0.4 | 0.6 | 0.8 | 30.1 | 23.5 | 24.1 | 325 | 6.8 | 3.7 |
| Bharat Electronics | 339 | ADD | 751,32 | 1,774 | 80 | 102.1 | 104.4 | 111.1 | 11.3 | 2.3 | 6.4 | 9.2 | 9.0 | 8.5 | 3.7 | 3.3 | 2.9 | 2.3 | 1.9 | 1.6 | 2.7 | 2.7 | 2.7 | 27.9 | 23.1 | 20.9 | 1,200 | 27.8 | 1.6 |
| Bharat Heavy Electricals | 1,665 | ADD | 815,198 | 19,245 | 490 | 58.4 | 73.1 | 96.9 | 22.9 | 25.1 | 32.6 | 28.5 | 22.8 | 17.2 | 15.4 | 12.0 | 9.2 | 7.6 | 6.1 | 4.8 | 0.9 | 0.9 | 1.2 | 29.2 | 29.5 | 31.1 | 2,000 | 20.1 | 80.8 |
| Dredging Corporation | 452 | REDUCE | 12,663 | 299 | 28 | 55.3 | 48.7 | 57.0 | (8.3) | (12.0) | 17.2 | 8.2 | 9.3 | 7.9 | 4.5 | 4.2 | 3.4 | 1.0 | 1.0 | 0.9 | 3.3 | 3.3 | 3.3 | 12.5 | 10.3 | 11.1 | 475 | 5.0 | 0.1 |
| Larsen & Toubro | 2,665 | BUY | 789,684 | 18,642 | 296 | 75.9 | 117.5 | 149.1 | 20.8 | 54.8 | 27.0 | 35.1 | 22.7 | 17.9 | 21.8 | 13.7 | 10.7 | 6.7 | 4.5 | 3.5 | 0.6 | 0.8 | 0.8 | 22.7 | 23.6 | 22.4 | 3,600 | 35.1 | 118.0 |
| Maharashtra Seamless | 308 | BUY | 21,695 | 512 | 71 | 31.4 | 37.5 | 44.7 | (18.3) | 19.6 | 19.1 | 9.8 | 8.2 | 6.9 | 6.0 | 5.2 | 4.4 | 1.9 | 1.6 | 1.3 | 1.5 | 1.8 | 2.2 | 20.9 | 20.8 | 20.7 | 390 | 26.8 | 0.9 |
| Siemens | 535 | REDUCE | 180,398 | 4,259 | 337 | 18.2 | 18.8 | 25.9 | 60.4 | 3.1 | 38.0 | 29.4 | 28.5 | 20.6 | 17.3 | 16.5 | 11.7 | 9.8 | 7.7 | 5.8 | 0.4 | 0.5 | 0.6 | 39.9 | 30.2 | 32.0 | 570 | 6.5 | 7.2 |
| Suzlon Energy | 228 | ADD | 356,638 | 8,419 | 1,567 | 6.6 | 11.4 | 17.7 | 9.5 | 73.5 | 55.1 | 34.6 | 20.0 | 12.9 | 17.1 | 13.0 | 9.9 | 3.9 | 3.2 | 2.5 | 0.4 | 0.4 | 0.4 | 16.3 | 17.7 | 22.1 | 300 | 31.8 | 44.4 |
| Industrials 2,489,104 58,761 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IRB Infrastructure | 149 | BUY | 49,638 | 1,172 | 332 | 3.4 | 7.3 | 15.7 | 150.9 | 111.5 | 116.3 | 43.6 | 20.6 | 9.5 | 15.2 | 13.8 | 6.5 | 5.3 | 2.6 | 2.0 | — | — | — | 10.7 | 13.4 | 23.3 | 195 | 30.6 | 0.6 |
| Media | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DiSTV | 38 | BUY | 18,810 | 444 | 500 | (9.6) | (9.9) | (4.4) | n/a | (7.8) | (50.7) | (3.9) | (7.6) | 8.4 | 5.8 | 4.6 | 4.5 | 4.2 | 0.7 | 0.8 | 1.1 | 1.5 | 1.5 | 14.3 | 12.7 | 9.4 | 150 | 22.6 | 11.3 |
| HT Media | 123 | BUY | 28,813 | 680 | 234 | 4.3 | 4.2 | 7.5 | 4.7 | (2.0) | 77.1 | 28.4 | 29.0 | 16.4 | 16.3 | 16.0 | 9.0 | 3.3 | 3.0 | 2.6 | (7.4) | (3.5) | — | 167.9 | 125.6 | 71.3 | 56 | 48.7 | 4.4 |
| Jagran Prakashan | 76 | BUY | 20,949 | 542 | 301 | 3.3 | 3.1 | 5.0 | 33.5 | 63.3 | 23.4 | 25.0 | 15.3 | 13.3 | 8.4 | 4.3 | 4.1 | 3.7 | 2.6 | 2.4 | 3.3 | 3.3 | 0.7 | 12.2 | 11.0 | 17.2 | 175 | 42.3 | 0.3 |
| Sun TV Network | 230 | REDUCE | 90,678 | 2,141 | 394 | 8.3 | 9.7 | 12.0 | 30.7 | 16.7 | 23.6 | 27.8 | 23.8 | 19.2 | 14.7 | 12.3 | 10.0 | 6.0 | 5.2 | 4.7 | 1.1 | 1.3 | 2.6 | 24.8 | 24.2 | 26.1 | 260 | 13.0 | 1.6 |
| Zee Entertainment Enterprises | 223 | ADD | 96,881 | 2,287 | 434 | 8.9 | 10.5 | 13.9 | 62.6 | 17.8 | 32.7 | 25.2 | 21.4 | 16.1 | 18.3 | 13.8 | 10.5 | 3.4 | 3.0 | 2.7 | 0.9 | 1.1 | 1.6 | 14.2 | 15.1 | 17.8 | 260 | 16.4 | 7.0 |
| Media 298,130 6,094 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Metals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hindalco Industries | 122 | REDUCE | 213,187 | 5,033 | 1,742 | 13.1 | 16.2 | 14.6 | (10.9) | 23.5 | (9.9) | 9.3 | 7.6 | 8.4 | 5.8 | 4.6 | 4.5 | 4.2 | 0.7 | 0.8 | 1.1 | 1.5 | 1.5 | 14.3 | 12.7 | 9.4 | 150 | 22.6 | 11.3 |
| National Aluminium Co. | 389 | REDUCE | 250,476 | 5,913 | 644 | 25.2 | 30.3 | 33.5 | (31.8) | 20.0 | 16.4 | 15.4 | 12.8 | 11.6 | 8.1 | 6.9 | 5.5 | 2.7 | 2.3 | 2.0 | 1.9 | 1.9 | 1.9 | 18.4 | 19.4 | 18.7 | 370 | (4.8) | 5.8 |
| Jindal Steel and Power | 1,652 | BUY | 254,344 | 6,004 | 154 | 80.4 | 111.6 | 117.0 | 83.2 | 38.9 | 48.2 | 70.5 | 14.8 | 14.1 | 13.1 | 9.8 | 8.9 | 5.9 | 4.1 | 3.1 | — | — | — | 34.3 | 32.8 | 25.1 | 2,900 | 75.5 | 24.3 |
| JSW Steel | 667 | ADD | 123,849 | 2,924 | 186 | 92.0 | 103.1 | 146.8 | 35.7 | 12.0 | 42.4 | 25.5 | 4.5 | 4.5 | 5.5 | 4.1 | 4.1 | 1.3 | 1.1 | 0.9 | 2.8 | 2.8 | 2.8 | 21.2 | 18.1 | 21.0 | 1,040 | 56.0 | 19.2 |
| Hindustan Zinc | 526 | ADD | 222,231 | 5,246 | 423 | 104.0 | 72.2 | 71.5 | (11.0) | (30.6) | (1.0) | 5.1 | 7.3 | 7.4 | 3.5 | 4.3 | 3.8 | 1.8 | 1.5 | 1.2 | 1.4 | 1.4 | 1.9 | 44.0 | 22.5 | 18.4 | 750 | 42.6 | 3.2 |
| Sesa Goa | 137 | BUY | 107,655 | 2,541 | 787 | 18.8 | 22.6 | 23.2 | 144.6 | 19.7 | 2.7 | 7.3 | 6.1 | 5.9 | 4.7 | 3.7 | 3.2 | 3.9 | 2.5 | 1.9 | 2.6 | 2.9 | 3.7 | 68.6 | 50.8 | 36.9 | 195 | 42.6 | 39.7 |
| Steelite Industries | 502 | ADD | 355,877 | 8,401 | 708 | 63.7 | 52.3 | 51.5 | (23.3) | (17.9) | (1.6) | 7.9 | 9.6 | 9.7 | 4.4 | 4.4 | 3.9 | 1.5 | 1.3 | 1.1 | — | — | — | 26.6 | 14.8 | 12.6 | 460 | (8.4) | 31.2 |
| Tata Steel | 526 | REDUCE | 432,654 | 10,214 | 822 | 75.7 | 116.9 | 106.1 | 43.8 | 54.4 | (9.3) | 6.9 | 4.5 | 5.0 | 5.2 | 4.5 | 4.5 | 1.2 | 1.0 | 0.8 | 2.8 | 2.4 | 2.5 | 46.3 | 35.6 | 28.4 | 520 | (1.2) | 72.1 |
| Metals 1,960,273 46,276 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pharmaceutical | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Biscon | 199 | BUY | 19,910 | 470 | 100 | 22.5 | 24.5 | 32.0 | 9.4 | 8.5 | 31.0 | 8.8 | 8.1 | 6.2 | 5.3 | 4.8 | 3.7 | 1.3 | 1.2 | 1.1 | 0.2 | 0.2 | 0.2 | 17.6 | 15.7 | 18.2 | 615 | 208.9 | 1.4 |
| Ciba | 225 | REDUCE | 174,580 | 4,121 | 777 | 9.0 | 10.5 | 12.2 | 4.9 | 16.2 | 16.4 | 24.9 | 21.4 | 18.4 | 18.2 | 16.4 | 13.8 | 4.6 | 4.0 | 3.5 | 0.9 | 1.1 | 1.3 | 20.1 | 20.1 | 20.3 | 230 | 2.4 | 8.1 |
| Dishman Pharma & Chemicals | 310 | BUY | 252,113 | 595 | 81 | 14.7 | 19.7 | 27.7 | 30.5 | 34.1 | 40.1 | 21.1 | 15.7 | 11.2 | 15.7 | 11.8 | 8.7 | 4.4 | 3.5 | 2.7 | 0.0 | 0.0 | 0.0 | 26.8 | 24.8 | 27.3 | 515 | 66.1 | 0.5 |
| Dns Laboratories | 1,466 | BUY | 94,627 | 2,234 | 65 | 56.6 | 77.9 | 103.6 | 85.6 | 37.7 | 33.0 | 25.9 | 18.8 | 14.2 | 22.4 | 15.4 | 11.1 | 11.1 | 7.2 | 4.9 | 1.1 | 1.1 | 0.1 | 52.9 | 46.5 | 41.3 | 2,330 | 58.9 | 4.8 |
| Dr Reddy's Laboratories | 559 | BUY | 94,076 | 2,221 | 168 | 26.1 | 33.8 | 41.0 | (57.2) | 2 | | | | | | | | | | | | | | | | | | | |

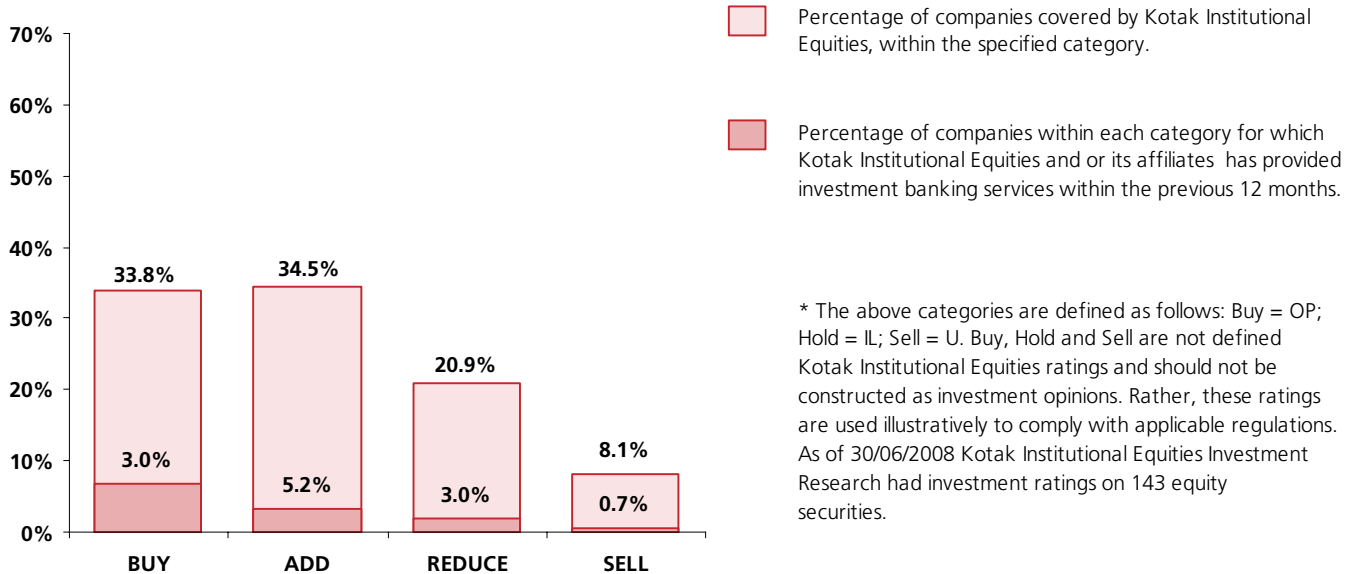
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

| Company | 11-Sep-08 | | Mkt cap. (Rs mn) | shares (mm) | EPS (Rs) 2008 | EPS growth (%) | | PER (x) | | EV/EBITDA (x) | | Price/BV (x) | | Dividend yield (%) | | RoE (%) | Target Price (Rs) | ADVF-3mo Upside (US\$ mn) | | | | | | | | | | | | | | |
|------------------------------|------------|--------|---------------------|----------------|------------------|----------------|-------|---------|---------|---------------|--------|--------------|-------|--------------------|------|---------|----------------------|---------------------------------|-------|-------|-------|-------|-------|------|------|------|-------|--------|------|------|------|-----|
| | Price (Rs) | Rating | | | | 2008 | 2009E | 2010E | 2008 | 2009E | 2010E | 2008 | 2009E | 2010E | 2008 | | | | 2009E | 2010E | 2008 | 2009E | 2010E | | | | | | | | | |
| Retail | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pantaloon Retail | 342 | BUY | 58,798 | 1,388 | 172 | 8.0 | 14.2 | 19.9 | 93.2 | 76.5 | 39.9 | 42.5 | 24.1 | 17.2 | 16.3 | 10.6 | 8.7 | 3.4 | 2.2 | 1.9 | 0.2 | 0.2 | 0.3 | 8.6 | 10.7 | 11.5 | 460 | 34.5 | 1.2 | | | |
| Rajesh Exports | 47 | BUY | 13,606 | 321 | 291 | 8.2 | 5.9 | 6.9 | 80.4 | (28.2) | 11.6 | 5.7 | 7.9 | 6.8 | 2.1 | 1.0 | 0.4 | 1.8 | 1.0 | 0.9 | 0.6 | 0.9 | 1.0 | 26.8 | 12.3 | 13.5 | 120 | 156.4 | 2.8 | | | |
| Titan Industries | 1,179 | BUY | 52,315 | 1,235 | 44 | 35.1 | 41.1 | 49.8 | 55.2 | 17.3 | 21.0 | 33.6 | 28.7 | 23.7 | 22.6 | 17.6 | 14.1 | 11.1 | 8.5 | 6.7 | 0.7 | 0.8 | 0.9 | 37.7 | 33.6 | 31.6 | 1,350 | 14.5 | 2.9 | | | |
| Vishal Retail | 379 | ADD | 8,493 | 200 | 22 | 18.1 | 21.6 | 35.6 | 37.2 | 19.2 | 65.2 | 10.7 | 17.6 | 10.6 | 10.7 | 7.3 | 5.5 | 3.1 | 2.7 | 2.1 | - | - | - | 20.2 | 16.2 | 22.1 | 485 | 27.9 | 0.2 | | | |
| Retail | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3,145 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Technology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCL Technologies | 238 | REDUCE | 165,271 | 3,902 | 695 | 15.3 | 22.3 | 25.4 | (19.0) | 46.0 | 13.8 | 15.6 | 10.7 | 9.4 | 8.8 | 7.0 | 5.9 | 3.4 | 2.8 | 2.4 | 3.4 | 3.4 | 3.4 | 21.4 | 28.1 | 27.3 | 250 | 5.1 | 5.3 | | | |
| Heavys Technologies | 48 | SELL | 6,758 | 160 | 142 | 7.7 | 4.7 | 5.6 | (13.7) | (28.2) | 18.5 | 6.2 | 10.0 | 8.5 | 3.0 | 3.0 | 2.3 | 1.0 | 0.9 | 0.8 | 3.4 | 3.4 | 3.4 | 15.1 | 9.4 | 10.4 | 50 | 5.2 | 0.4 | | | |
| Infosys Technologies | 1,751 | BUY | 1,004,873 | 23,722 | 574 | 79.1 | 102.1 | 118.1 | 18.0 | 29.1 | 15.7 | 22.1 | 17.1 | 14.8 | 17.6 | 13.3 | 10.7 | 7.3 | 5.6 | 4.4 | 1.9 | 1.4 | 1.6 | 36.1 | 36.8 | 33.1 | 2,100 | 200 | 82.1 | | | |
| Mphasis BFL | 250 | SELL | 52,029 | 1,228 | 208 | 12.2 | 15.6 | 18.5 | 67.6 | 27.3 | 18.8 | 20.4 | 16.0 | 13.5 | 12.2 | 9.6 | 7.9 | 4.5 | 0.6 | 3.1 | 1.4 | 1.6 | 1.8 | 23.6 | 25.6 | 25.4 | 220 | (11.8) | 1.6 | | | |
| Mindtree | 349 | BUY | 13,682 | 323 | 39 | 26.1 | 35.7 | 43.4 | 14.8 | 36.5 | 21.7 | 13.3 | 9.8 | 8.0 | 11.2 | 6.9 | 5.2 | 2.6 | 2.1 | 1.7 | 0.8 | 1.0 | 1.3 | 21.3 | 23.5 | 22.9 | 550 | 57.7 | 0.5 | | | |
| Patri Computer Systems | 227 | SELL | 31,525 | 744 | 139 | 33.4 | 25.2 | 29.7 | 29.7 | (24.5) | 17.7 | 6.8 | 9.0 | 7.6 | 3.8 | 3.5 | 2.5 | 1.2 | 1.1 | 1.0 | 0.9 | 1.0 | 1.2 | 19.2 | 11.7 | 12.7 | 260 | 14.6 | 1.1 | | | |
| Polaris Software Lab | 97 | SELL | 9,515 | 225 | 98 | 7.4 | 10.1 | 11.8 | (27.6) | 36.0 | 16.2 | 13.0 | 9.6 | 8.2 | 6.5 | 4.7 | 3.8 | 1.5 | 1.3 | 1.1 | 1.8 | 1.8 | 1.8 | 11.7 | 14.3 | 14.8 | 90 | (7.0) | 6.1 | | | |
| Satyam Computer Services | 421 | BUY | 287,163 | 6,779 | 682 | 25.2 | 32.2 | 37.5 | 17.7 | 27.6 | 15.6 | 16.3 | 14.2 | 12.3 | 13.3 | 11.2 | 9.4 | 6.6 | 5.2 | 4.2 | 1.7 | 2.5 | 3.2 | 26.0 | 27.1 | 25.7 | 500 | 18.8 | 36.9 | | | |
| TCS | 837 | REDUCE | 818,803 | 19,330 | 979 | 51.3 | 58.7 | 67.9 | 21.5 | 14.5 | 16.5 | 16.3 | 14.2 | 12.3 | 13.3 | 11.2 | 9.4 | 6.6 | 5.2 | 4.2 | 1.7 | 2.5 | 3.2 | 47.0 | 40.8 | 37.8 | 900 | 7.6 | 26.9 | | | |
| Tech Mahindra | 778 | BUY | 96,993 | 2,290 | 125 | 59.1 | 74.8 | 89.4 | 25.7 | 26.7 | 19.4 | 13.2 | 10.4 | 8.7 | 11.7 | 7.4 | 5.5 | 7.7 | 4.3 | 2.9 | 0.5 | - | 0.8 | 70.7 | 55.8 | 41.6 | 900 | 15.6 | 5.0 | | | |
| Wipro | 427 | ADD | 618,860 | 14,610 | 1,450 | 22.2 | 27.5 | 35.5 | 12.6 | 23.6 | 21.8 | 19.2 | 15.5 | 12.7 | 15.3 | 11.5 | 9.0 | 4.8 | 3.9 | 3.2 | 1.5 | 1.9 | 2.4 | 27.9 | 27.6 | 27.4 | 480 | 14.8 | 11.3 | | | |
| Technology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3,105,473 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Telecom | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel Ltd | 777 | REDUCE | 1,474,573 | 34,811 | 1,898 | 35.3 | 47.0 | 57.0 | 65.0 | 33.2 | 21.1 | 22.0 | 16.5 | 13.6 | 13.3 | 9.7 | 7.5 | 6.5 | 4.7 | 3.5 | - | 0.5 | 0.8 | 39.1 | 32.9 | 29.1 | 840 | 8.1 | 76.0 | | | |
| IDEA | 84 | REDUCE | 221,818 | 5,236 | 639 | 3.9 | 4.6 | 5.5 | 78.5 | 15.7 | 20.8 | 21.3 | 18.4 | 15.2 | 12.3 | 9.2 | 7.6 | 6.3 | 4.7 | 3.6 | - | - | - | 36.4 | 29.1 | 26.6 | 100 | 19.0 | 18.3 | | | |
| MTNL | 98 | REDUCE | 61,425 | 1,450 | 630 | 6.0 | 6.5 | 7.0 | (25.2) | 7.7 | 8.2 | 16.2 | 15.1 | 13.9 | 1.8 | 2.0 | 1.9 | 0.5 | 0.5 | 0.5 | 6.2 | 6.2 | 6.2 | 2.7 | 2.9 | 3.2 | 100 | 2.6 | 3.7 | | | |
| Reliance Communications | 400 | SELL | 824,878 | 19,473 | 2,064 | 25.0 | 28.6 | 34.8 | 76.4 | 14.1 | 21.9 | 16.0 | 14.0 | 11.5 | 11.2 | 9.6 | 7.5 | 2.9 | 2.4 | 2.0 | 0.2 | - | - | 16.1 | 19.9 | 19.8 | 380 | (2.4) | 91.6 | | | |
| Tata Communications | 439 | REDUCE | 125,144 | 2,954 | 285 | 10.9 | 12.0 | 13.3 | (56.3) | 9.2 | 11.2 | 40.1 | 36.7 | 33.0 | 16.7 | 15.6 | 13.5 | 3.9 | 1.8 | 1.8 | 1.0 | 1.1 | 1.5 | 4.4 | 4.7 | 4.9 | 430 | (2.1) | 3.2 | | | |
| Telecom | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2,707,838 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cautious | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 63,924 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Transportation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Container Corporation | 883 | ADD | 114,733 | 2,709 | 130 | 57.7 | 67.5 | 75.0 | 7.8 | 17.0 | 11.0 | 15.3 | 11.2 | 10.1 | 11.3 | 11.2 | 10.1 | 5.8 | 6.6 | 7.6 | 1.2 | 1.1 | 1.0 | 1.3 | 1.3 | 1.6 | 12.5 | 10.6 | 10.5 | 500 | 58.8 | 1.1 |
| Lanco InfraTech | 291 | BUY | 64,712 | 1,528 | 222 | 15.2 | 18.7 | 31.3 | 88.4 | 17.4 | 67.1 | 18.2 | 15.5 | 9.3 | 14.2 | 16.6 | 13.7 | 3.2 | 2.7 | 2.1 | (2.0) | - | - | 20.2 | 18.9 | 25.2 | 530 | 82.1 | 19.3 | | | |
| NTPC | 173 | REDUCE | 1,428,527 | 33,723 | 8,245 | 8.9 | 9.5 | 10.3 | 3.5 | 6.7 | 8.0 | 19.4 | 18.2 | 16.8 | 14.0 | 15.1 | 15.1 | 2.7 | 2.5 | 2.3 | 2.1 | 2.2 | 2.0 | 3.0 | 14.4 | 14.2 | 14.3 | 179 | 3.3 | 31.5 | | |
| Reliance Infrastructure | 993 | BUY | 229,190 | 5,411 | 231 | 46.0 | 49.7 | 50.2 | 26.1 | 8.0 | 0.9 | 21.6 | 20.0 | 19.8 | 20.9 | 38.9 | 30.6 | 1.4 | 1.4 | 1.3 | 0.6 | 0.6 | 0.6 | 4.0 | 4.0 | 4.0 | 5.3 | 1,250 | 25.9 | 99.3 | | |
| Reliance Power | 169 | REDUCE | 404,340 | 9,545 | 2,397 | 4.0 | 2.1 | 2.6 | - | 44.3 | 25.2 | 44.3 | 81.6 | 65.1 | - | - | - | - | 2.9 | 2.8 | 2.7 | - | - | - | 1.2 | 3.5 | 4.3 | 180 | 6.7 | 42.5 | | |
| Tata Power | 1,014 | BUY | 236,189 | 5,576 | 233 | 29.7 | 38.1 | 39.9 | 11.6 | 28.5 | 4.6 | 34.2 | 26.6 | 25.4 | 23.5 | 20.9 | 21.4 | 3.1 | 2.4 | 2.2 | 0.9 | 0.9 | 0.9 | 10.0 | 10.3 | 9.0 | 1,540 | 51.9 | 30.4 | | | |
| Utilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2,402,305 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Attractive | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 56,712 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Others | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aban Offshore | 2,321 | REDUCE | 897,733 | 2,118 | 39 | 72.3 | 271.8 | 488.1 | (1,066) | 276.0 | 79.6 | 32.1 | 8.5 | 4.8 | 16.8 | 8.0 | 5.2 | 10.2 | 4.2 | 2.3 | 0.2 | 0.4 | 0.6 | 51.7 | 60.1 | 53.5 | 2,700 | 16.3 | 19.4 | | | |
| ABG Shipyard | 352 | - | 17,891 | 422 | 51 | 22.8 | 32.1 | 56.2 | 39.0 | 40.6 | 74.8 | 15.4 | 10.9 | 6.3 | 10.5 | 8.0 | 4.6 | 2.8 | 2.0 | 1.2 | 0.5 | 0.6 | 0.6 | 20.4 | 21.5 | 24.7 | - | 121.9 | 0.8 | | | |
| Aditya Birla Nuvo | 1,176 | ADD | 109,770 | 2,591 | 93 | 22.9 | 26.6 | 29.2 | (5.6) | 16.0 | 9.8 | 51.4 | 44.3 | 40.3 | 22.5 | 20.2 | 18.7 | 3.2 | 3.1 | 2.9 | 0.5 | 0.6 | 0.6 | 6.4 | 7.1 | 7.4 | 2,000 | 70.0 | 3.1 | | | |
| Educomp Solutions | 3,601 | ADD | 68,485 | 1,617 | 19 | 35.2 | 46.2 | 112.0 | 113.9 | 31.5 | 142.4 | 102.4 | 77.9 | 32.1 | 54.1 | 25.2 | 14.0 | 22.8 | 9.0 | 7.5 | 0.1 | 0.1 | 0.3 | 33.5 | 17.4 | 26.2 | 3,650 | 1.4 | 19.0 | | | |
| Jai prakash Associates | 162 | BUY | 201,643 | 4,760 | 1,242 | 4.9 | 7.6 | 11.6 | 6.5 | 54.7 | 53.5 | 33.1 | 21.4 | 14.0 | 17.8 | 12.4 | 11.4 | 4.1 | 3.3 | 2.9 | 0.0 | 0.0 | 0.0 | 15.4 | 17.5 | 22.6 | 355 | 57.1 | 55.1 | | | |
| Jindal Saw | 624 | BUY | 38,276 | 904 | 61 | 57.7 | 90.7 | 110.4 | (50.2) | 57.0 | 21.7 | 10.8 | 6.9 | 5.7 | 6.0 | 3.5 | 2.7 | 1.3 | 0.9 | 0.9 | 1.2 | 2.2 | 2.6 | 11.4 | 16.1 | 16.9 | 900 | 44.2 | 1.3 | | | |
| JSL | 124 | ADD | 10,298 | 243 | 83 | 11.7 | 15.0 | 17.0 | 75.8 | 28.2 | 13.5 | 10.6 | 8.3 | 7.3 | 6.4 | 5.1 | 4.5 | 2.8 | 2.1 | 1.7 | 0.8 | 0.8 | 0.8 | 29.7 | 29.0 | 25.5 | 275 | 121.2 | 0.5 | | | |
| Kaipataru Power Transmission | 800 | ADD | 21,185 | 500 | 26 | 67.5 | 86.5 | 93.7 | 12.2 | 28.1 | 8.3 | 11.8 | 9.2 | 8.5 | 7.1 | 5.2 | 4.4 | 2.6 | 2.1 | 1.7 | 1.3 | 1.3 | 1.6 | 24.5 | 25.3 | 22.2 | 1,700 | 112.6 | 0.9 | | | |
| KEC | 410 | ADD | 15,562 | 367 | 38 | 40.6 | 49.2 | 58.0 | 48.7 | 21.2 | 17.8 | 10.1 | 8.3 | 7.1 | 5.4 | 4.6 | 3.8 | 3.7 | 2.6 | 1.9 | 0.7 | 0.9 | 1.0 | 43.1 | 36.3 | 31.2 | 800 | 94.9 | 0.3 | | | |
| Monnet Ipat | 479 | ADD | 24,988 | 590 | 52 | 41.1 | 53.4 | 50.0 | 25.3 | 30.1 | (65.1) | 11.7 | 9.0 | 9.6 | 12.9 | 7.0 | 6.9 | 2.0 | 1.6 | 1.4 | 0.5 | 0.6 | - | 14.5 | 17.8 | 14.2 | 600 | 25.3 | 1.0 | | | |
| PSL | 305 | BUY | 13,303 | 314 | 44 | 21.1 | 45.6 | 64.5 | 4.2 | 116.1 | 41.5 | 14.5 | 6.7 | 4.7 | 7.0 | 5.1 | 3.8 | 2.4 | 1.8 | 1.3 | 1.7 | 2.0 | 2.5 | 11.3 | 15.4 | 18.4 | 500 | 63.8 | 0.3 | | | |
| Sintex | 309 | BUY | 50,206 | 1,185 | 163 | 19.5 | 23.4 | 31.2 | 58.2 | 19.6 | 33.5 | 15.8 | 13.2 | 9.9 | 13.8 | 9.8 | 7.0 | 3.0 | 2.0 | 1.8 | 0.3 | 0.4 | 0.6 | 14.0 | 14.8 | 15.9 | 460 | 48.9 | 2.1 | | | |
| Vardhman | 88 | ADD | 5,522 | 130 | 63 | 22.7 | 31.6 | 42.3 | (22.9) | 39.0 | 33.9 | 3.9 | 3.2 | 2.1 | 6.0 | 4.3 | 3.3 | 0.3 | 0.3 | 0.3 | 3.6 | 5.1 | 6.8 | 8.9 | 11.2 | 13.5 | 17.5 | 99.5 | 0.0 | | | |
| Weisspain Gujarat Stahl Roh | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

" 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, Prashant Vaishampayan, Mridul Saggar, Kawaljeet Saluja."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* 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 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities.

As of June 30, 2008

Ratings and other definitions/identifiers

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 Sensex by more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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