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Updates

Automobiles: Freight rates move upwards in November

News Roundup

Corporate

- Russia telecom major Sistema, which recently got the Foreign Investment Promotion Board's approval to acquire a 51% stake in Shyam Telelink, plans to invest US\$1 bn in India. (ET)
- The Mumbai-based Kopran is on the block. The promoters and Clearwater Capital Partners of Cyprus, who together hold 44% equity, are believed to be in talks with another Mumbai-based unlisted pharma company, Maneesh Pharmaceuticals, to sell their stake. (ET)
- ICICI Venture Funds and Citigroup Venture Capital are likely to pull out their investment in Dr Reddy's Laboratories drug research company, Perlecan Pharma, on concerns over the commercial viability of its experimental drugs. (ET)
- Cognizant Technology Solutions has signed a three-year contract with US pharmaceutical major Merck & Co to provide services encompassing applications outsourcing, IT infrastructure and business process outsourcing. (BS)

Economic and political

- Downsizing India's economy by about 40%, the World Bank says as per its new International Comparison Program data, India's GDP is still to touch US\$1 trillion. (ToI)
- The finance minister has opposed the power ministry's proposal to extend fiscal concessions to power projects with a capacity of 1,000 MW for fossil fuel-fired plants and 500 MW for hydel units. (ToI)

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

EQUITY MARKETS

India	Change, %			
	18-Dec	1-day	1-mo	3-mo
Sensex	19,080	(0.9)	(3.1)	21.8
Nifty	5,742	(0.6)	(2.8)	26.3
Global/Regional indices				
Dow Jones	13,232	0.5	0.4	(3.7)
Nasdaq Composite	2,596	0.8	(1.6)	(2.1)
FTSE	6,279	0.0	(0.2)	(0.1)
Nikkei	15,214	0.0	1.1	(7.1)
Hang Seng	26,995	1.0	(1.7)	5.6
KOSPI	1,861	1.2	(1.7)	(2.2)
Value traded - India				
		Moving avg, Rs bn		
	18-Dec	1-mo	3-mo	
Cash (NSE+BSE)	271.6	267.9	264.9	
Derivatives (NSE)	745.8	615.1	450.7	
Deri. open interest	1,144.0	#####	888.8	

Forex/money market

	Change, basis points			
	18-Dec	1-day	1-mo	3-mo
Rs/US\$	39.6	-	22	(56)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(4)	-	4

Net investment (US\$m)

	17-Dec	MTD	CYTD
FIs	(272)	1,035	17,182
MFs	(50)	17	669

Top movers -3mo basis

Best performers	Change, %			
	18-Dec	1-day	1-mo	3-mo
Neywell Lignite	246	5.9	14.7	151.6
Reliance Energy	1,808	(1.1)	(1.1)	91.1
Thomas Cook	122	20.0	95.4	90.5
MRF	7,059	(1.0)	(3.1)	84.8
Tata Tele	59	2.6	15.7	75.9
Worst performers				
i-Flex	1,442	(1.9)	(0.7)	(23.7)
Container Corp	1,791	0.1	(6.0)	(19.9)
Infosys	1,621	(0.1)	0.0	(12.6)
Acc	1,067	0.5	(1.6)	(7.5)
Glaxosmithkline	1,064	0.0	2.2	(7.2)

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Automobiles

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		18-Dec	Target
Bajaj Auto	BUY	2,796	2,750
Maruti Suzuki	BUY	1,020	1,200
Mah & Mah	BUY	771	875

Freight rates move upwards in November

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- **Freight index up 1.3% mom; DAFI up 5.4% mom**
- **Expect freight rates to move upwards**
- **CV cycle to turn positive in the coming months**

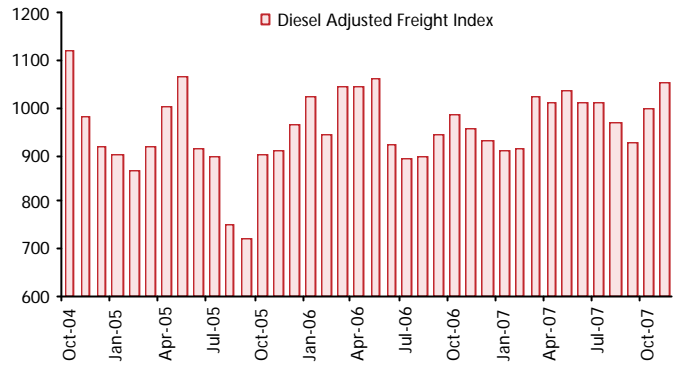
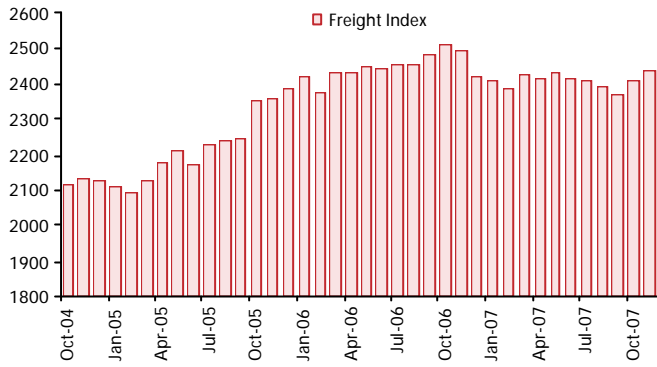
Freight rates have started to move up. Our freight index is up 1.3% mom while our diesel adjusted freight index (DAFI) is up 5.4% mom. The DAFI has been moving upwards since Sep-07. We expect freight rates to move upwards in the coming months leading to greater freight operator profitability. We believe that as the growth in DAFI turns positive, CV sales growth shall follow. We expect CV volume growth to turn positive in the next couple of months as historically CV volume growth has followed the growth in DAFI. Meanwhile CV sales have been lackluster in the previous months and the festival season has failed to bring about a reversal in the declining volume trend.

Our channel checks indicate that CV cycle should turn positive in the next couple of months led mainly by growth in (a) upper-end higher tonnage heavy commercial vehicles and (b) light commercial vehicles. We believe that this is likely to be positive for Tata Motors as its Ace continues to dominate the LCV market while it has a strong hold over the heavy commercial vehicle segment. Besides, the company is about to launch 49-tonne commercial vehicles.

Description of our proprietary Freight Index

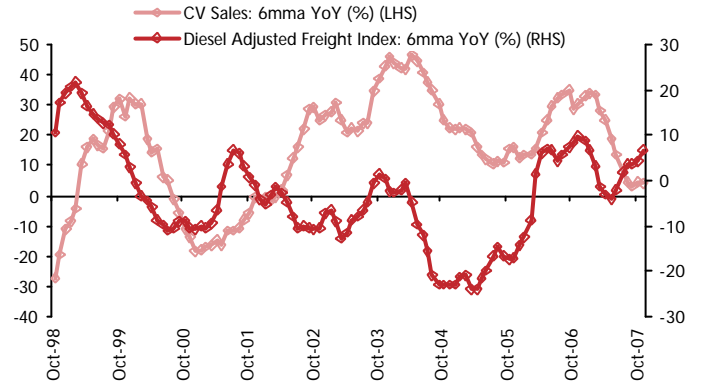
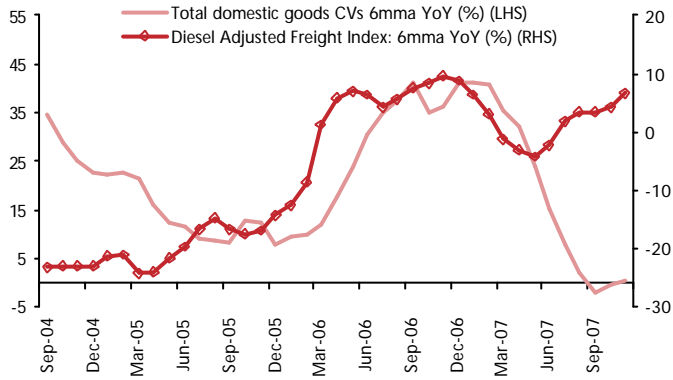
We track freight rates across 26 routes in India using our proprietary freight index (FI). We adjust the freight rates for diesel prices and arrive at a "Diesel adjusted freight index" (DAFI), which is a measure of the operating profitability of freight operators. Historically, our DAFI has been a good leading indicator to CV industry growth rates. DAFI growth rates have historically risen and fallen ahead of CV cycle upturns and downturns respectively.

Our freight index is up 1.3% mom while diesel adjusted freight index is up 5.4% mom in Nov'07



Source: Kotak Institutional Equities.

CV growth to turn positive as DAFI starts to move northwards

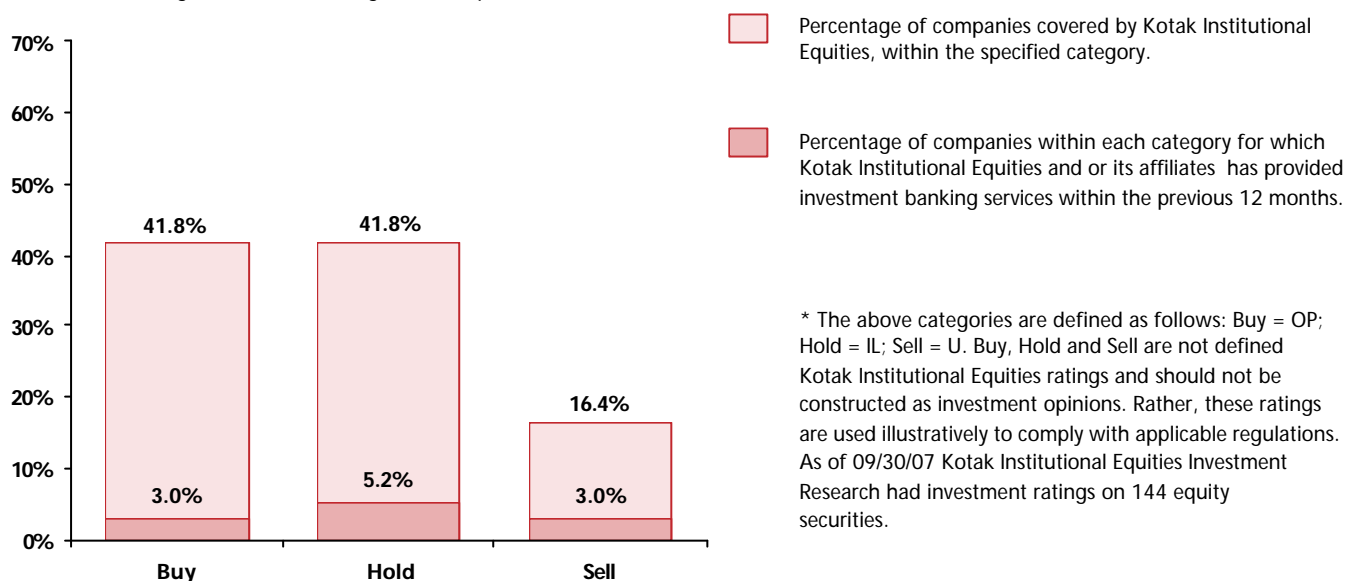


Source: SIAM, Kotak Institutional Equities.

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Old rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.

IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

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