kotak® Institutional Equities

# INDIA DAILY

January 08, 2008

## EQUITY MARKETS

| | Change, % | | | |
|---|---|---|---|---|
| India | 7-Jan | 1-day | 1-mo | 3-mo |
| Sensex | 20,813 | 0.6 | 4.2 | 17.1 |
| Nifty | 6,279 | 0.1 | 5.1 | 21.1 |
| Global/Regional indices | | | | |
| Dow Jones | 12,827 | 0.2 | (5.9) | (8.8) |
| Nasdaq Composite | 2,499 | (0.2) | (7.6) | (10.1) |
| FTSE | 6,336 | (0.2) | (3.3) | (3.1) |
| Nikkie | 14,459 | (0.3) | (9.4) | (15.3) |
| Hang Seng | 27,500 | 1.2 | (4.7) | (1.0) |
| KOSPI | 1,836 | 0.2 | (5.1) | (8.8) |

| Value traded - India | | | Moving avg, Rs bn | |
|---|---|---|---|---|
| | 7-Jan | | 1-mo | 3-mo |
| Cash (NSE+BSE) | 330.8 | | 280.6 | 283.6 |
| Derivatives (NSE) | 700.1 | | 613.6 | 641.9 |
| Deri. open interest | 1,288.4 | | 1,009 | 857.0 |

Forex/money market

| | Change, basis points | | | |
|---|---|---|---|---|
| | 7-Jan | 1-day | 1-mo | 3-mo |
| Rs/US$ | 39.3 | 0 | (12) | (17) |
| 6mo fwd prem, % | 0.7 | (25) | 71 | 24 |
| 10yr govt bond, % | 7.7 | (9) | (21) | (28) |

Net investment (US$mn)

| | 3-Jan | | MTD | CYTD |
|---|---|---|---|---|
| FIIs | 180 | | 194 | 17,515 |
| MFs | 125 | | (220) | 1,707 |

Top movers -3mo basis

| | Change, % | | | |
|---|---|---|---|---|
| Best performers | 7-Jan | 1-day | 1-mo | 3-mo |
| Neyveli Lignite | 258 | (1.8) | 1.4 | 164.0 |
| Rashtriya Chem | 142 | (0.7) | 70.3 | 161.8 |
| Engineers India | 1,162 | 10.0 | 39.3 | 112.6 |
| MRF | 7,004 | (0.3) | (2.8) | 88.2 |
| Reliance Energy | 2,584 | 2.9 | 33.7 | 87.3 |
| Worst performers | | | | |
| i-Flex | 1,451 | (2.1) | (10.1) | (20.8) |
| Infosys | 1,638 | (3.3) | (4.7) | (18.1) |
| Acc | 1,002 | 0.0 | (5.9) | (10.2) |
| Satyam Computer | 413 | (2.1) | (6.8) | (9.2) |
| Container Corp | 1,837 | (1.9) | (1.2) | (6.7) |

## Contents

### New Release



### Updates



## News Roundup

### Corporate

- Private cement manufacturers have agreed tro take a decision on reducting cement prices before February 10, following the Tamil Nadu government's warning to take over the cement factories in the state if they fail to contain the rising cement price. (BS)
- The Reliance Anil Dhirubhai Group and ICICI Bank are planning to set up syndicates in London's Lloyd's market, one of the largest reinsurance markets in the world. (FE)
- Global pricate equity player Blackstone Group has reworked its investment proposal and will now invest less than Rs60 mn in Ushodaya Enterprises Ltd, the company that owns leading South Indian newspaper Eeenadu. (BS)
- The Gitanjali Group has bought Nakshatra, the premium brand of jewllery promoted by Diamond Trading Company, for a total value of approximately Rs10 mn through its Dubai -based subsidiary, Gitanjali Ventures. (ET)

### Economic and political

- The Union Government has decided to develop the Sittwe port for Myanmar. In return for its US$120 mn expenditure on the project—which will be a gift to Myanmar—India would get rights to use the port. (BL)

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

**Kotak Institutional Equities Research**
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

**Strategy**

Sector coverage view N/A

# December 2007 quarter results preview

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Bhavesh Shah : bhavesh.shah@kotak.com, +91-22-6634-1498

- **December 2007 quarterly preview of 125 stocks and 21 sectors under our active research coverage**
- **Sales growth of 16.6% yoy and profit growth of 17.3% yoy for BSE-30 Index universe**
- **Earnings growth will likely be led by Banking, Industrials and Telecom**

We expect earnings growth of BSE-30 Index to decelerate to 17% yoy led by (1) moderate earnings growth in Energy, Metals and Utilities sectors and (2) the higher base of December 2006 (40% yoy growth). Earnings growth will be likely led by Banking, Industrials and Telecom.

**Sales growth of 16.6% yoy and profit growth of 17.3% yoy for BSE-30 universe**

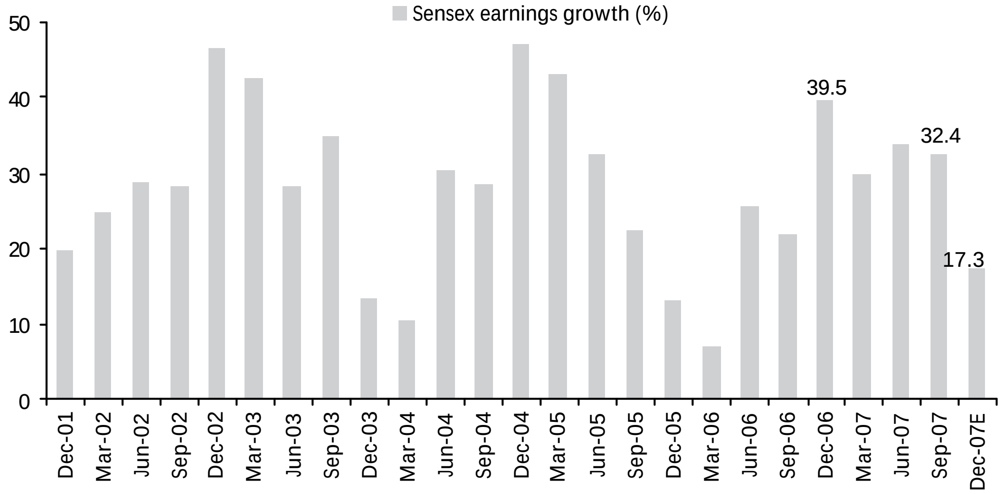
| | Sales growth (%) | | OPM (%) | | | PAT growth (%) | |
|---|---|---|---|---|---|---|---|
| | yoy | qoq | Dec-06 | Sep-07 | Dec-07 (E) | yoy | qoq |
| Automobiles | 12.7 | 7.6 | 13.3 | 13.9 | 13.8 | 28.4 | 7.4 |
| Banking | 23.2 | 7.1 | 49.4 | 52.8 | 48.0 | 34.1 | 1.0 |
| Cement | 17.0 | 8.6 | 31.2 | 32.0 | 32.5 | 21.2 | 9.6 |
| Construction | 53.5 | 28.2 | 8.4 | 9.5 | 9.7 | 55.8 | 27.9 |
| Consumers | 15.2 | 5.1 | 22.3 | 21.2 | 23.2 | 19.2 | 10.0 |
| Diversified | 17.0 | 7.2 | 19.1 | 18.7 | 20.6 | 30.0 | 24.9 |
| Education | 143.0 | 49.1 | 51.5 | 50.9 | 52.0 | 116.8 | 30.7 |
| Energy | 10.4 | 3.6 | 11.6 | 14.8 | 8.1 | (20.8) | (49.8) |
| Industrials | 37.9 | 13.5 | 15.3 | 14.2 | 16.4 | 39.7 | 16.2 |
| Media | 21.3 | 11.8 | 33.9 | 36.8 | 39.4 | 37.0 | 21.1 |
| Metals | 3.8 | 4.6 | 41.2 | 35.1 | 34.2 | (8.4) | (2.5) |
| Pharmaceuticals | 3.3 | 1.6 | 20.3 | 19.8 | 21.1 | 17.7 | 28.7 |
| Pipes | 18.5 | 1.0 | 11.5 | 13.1 | 14.5 | 72.9 | 10.1 |
| Property | 23.9 | 21.1 | 57.5 | 43.1 | 45.4 | 4.4 | 9.0 |
| Retail | 5.1 | (3.7) | 2.1 | 4.7 | 4.9 | 116.1 | 12.1 |
| Technology | 22.9 | 5.5 | 25.7 | 23.4 | 23.8 | 16.8 | 5.0 |
| Telecom | 34.7 | 11.9 | 35.5 | 37.7 | 39.2 | 50.0 | 8.7 |
| Textiles | 13.6 | 9.2 | 17.8 | 15.6 | 16.8 | (22.4) | 7.0 |
| Transmission | 28.5 | 24.1 | 14.5 | 13.2 | 13.0 | 14.0 | 29.6 |
| Transportation | 22.4 | 19.1 | 24.1 | 16.4 | 24.8 | 2.2 | (30.4) |
| Utilities | 16.9 | 13.7 | 23.2 | 28.1 | 27.9 | 8.2 | 10.6 |
| **Kotak coverage** | **15.0** | **6.2** | **19.7** | **21.0** | **18.0** | **9.4** | **(12.3)** |
| **Kotak ex-Energy** | **19.6** | **8.7** | **27.9** | **27.1** | **27.3** | **19.7** | **5.4** |
| **BSE 30 Universe (a)** | **16.6** | **4.9** | **29.5** | **28.9** | **28.8** | **17.3** | **1.1** |
| **BSE 30 Universe-ex-Energy (a)** | **20.5** | **9.3** | **28.0** | **28.4** | **28.6** | **21.9** | **6.0** |

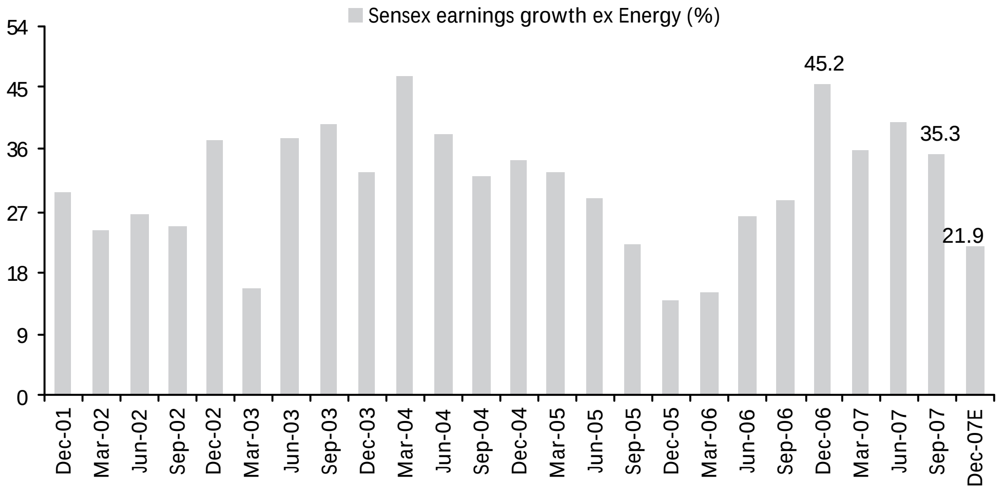
Note:
(a) Pro forma excluding DLF.

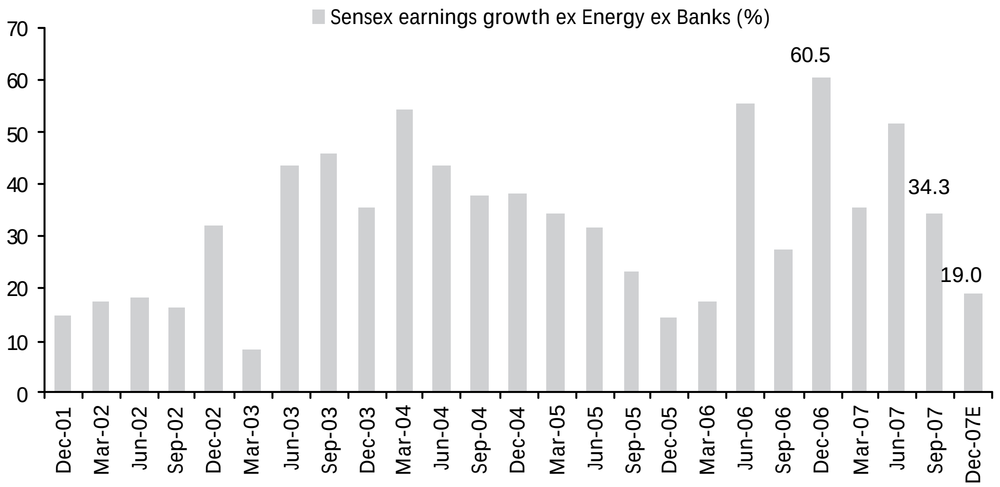
Source: Kotak Institutional Equities estimates.

**Earnings growth rate likely to decelerate during December 2007 quarter**

Quarterly yoy earnings growth of BSE Sensex companies (based on current composition) (%)




Source: Kotak Institutional Equities estimates.

Banking, Industrials and Telecom to lead earnings growth
Sector-wise expectations of December 2007 quarter results

| | Key points | Key points |
|---|---|---|
| **Automobiles** | The declining trend in 2-W volumes continued in 3QFY08 as the festive season failed to much cheer to demand. Bajaj Auto's "XCD" has received a good response and this has stemmed the negative growth in volumes for Bajaj seen in earlier quarters. | In the case of passenger cars, Maruti has recorded a strong growth in volumes for 3QFY08 led by the success of its models Swift, SX4 and Zen Estilo. The lack of a new model to replace its Indica and Indigo cars has hurt Tata Motors. We believe that the passenger car segment will witness a strong demand growth led by the launch of new models by players across the industry. The demand for CVs continues to be weak in 3QFY08—despite strong freight rates—with the festival season also failing to revive volumes. |
| **Banking** | We expect bank margins (qoq) to remain stable and show a slight improvement in some cases. Improved credit demand compared to deposit mobilzation will likely be drivers for margin improvement of banks. The core performance of banks is likely to be better in 3QFY08 compared to 2QFY08. Higher-than-expected treasury gains in the current quarter could be a potential source of upside to our estimates. | New private banks like ICICI Bank, HDFC Bank, CBOP and Axis Bank will likely see strong NII growth supported by the equity raising in 2QFY08. |
| **Cement** | Profitability likely to be impacted by rising fuel and freight costs in the absence of pricing power. | Low volume growth likely to be reported by large cement players. |
| **Chemicals** | Sharp decline in global chemical margins (largely flat prices coupled with steep increase in naphtha prices) and appreciation in rupee qoq will dent the profits of chemical segment of Reliance Industries. | Cut in import duties for the polyester segment will also be a modest negative. |
| **Consumers** | Robust economic environment to result in strong growth in sales volumes. Companies have been taking price increases to compensate for higher costs and will thus retain margins. The late Diwali (November 9) season will likely skew personal care sales. | Cigarette volumes growth likely to decline by 2-3% due to the 20% price increase taken. Rising palm oil and chemical prices may negatively impact margins in soaps. Faster growth in top-end segments in key personal care categories of skin and shampoo likely contribute to mix improvement. |
| **Energy** | **Upstream oil:** ONGC will likely report a marginal decline in revenues qoq as higher subsidy loss and stronger rupee offset the gains from higher crude price (+US$11/bbl qoq). Subsidy loss will be higher qoq at Rs61 bn versus Rs38 bn in 2QFY08. GAIL will likely report flat EBITDA qoq as steep increase in qoq subsidy losses will offest gains in LPG revenues. | **Downstream oil:** High marketing losses and the lack of commensurate compensation will result in very weak operating performance of R&M companies. We assume issue of of oil bonds of Rs59 bn to R&M companies in 3QFY08 based on issue of oil bonds of Rs234 bn for FY2008. The impact of high marketing losses will be partly compensated by strong refining margins. |
| **Industrials** | Strong revenue and profit growth led by (1) execution of large order books and (2) operating leverage-led margin expansion. | We highlight that revenue growth for Siemens may sag led by flat order book yoy while Suzlon will likely have a seasonally strong quarter. |
| **Media** | We expect strong growth in ad revenues for both Sun TV and ZEEL qoq as the entire festive season occurred in 3QFY08 (spread over 2Q and 3Q in FY2007). However, yoy comparison will not be meaningful for Sun TV due to its restructuring. Dish TV will incur large losses due to the high fixed costs relative to revenues; SG&A expenses will also rise significantly given the aggressive marketing plan, which has led to strong subscriber numbers. | Newspaper publishing companies will likely witness strong qoq growth in ad revenues reflecting the increased ad spends during the festive season in 3QFY08. Real estate and automobile sectors continue to underspend but the slack has been picked up with good growth in other sectors. RM costs will likely remain flat despite rising circulation due to the moderate decline in newsprint costs and a stronger rupee. |
| **Metals** | We expect moderate improvement in the net earnings of Indian steel companies in 2QFY08 following marginal improvement in realization and volumes. Whereas costs for non-integrated steel companies increased marginally in 2QFY08, we expect stronger pressure in 3QFY08 following dearer iron ore and coal prices. | In contrast, we expect 3QFY08 earnings of Indian non-ferrous companies to moderate following sober metal prices and stronger rupee. Volume growth across companies (except HZ IN) is likely to be muted too. |
| **Pharmaceuticals** | Due to the seasonality factor, companies report higher international sales figures for the December quarter and lower domestic sales numbers, which generally peak during the monsoon. The domestic business witnessed an average of 17% growth in value terms in the months of October, November and an average growth of 13% YTD. We expect pricing environment in the US to remain steady. During this quarter, Sun and Glenmark were awarded shared exclusivity for generic Trileptal and the product was launched in October 2007. Sun and Ranbaxy reported patent settlement cases for Exelon and Flomax, respectively. | We expect moderate revenue growth for Cipla and Ranbaxy and higher revenue growth driven by exclusivity for generic Trileptal for Sun and Glenmark. The key issue for DRL will be the performance of its German business. We expect companies to report lower other income on the back of lower FCCB gains. EBITDA margins will remain steady and tax rates will likely decline as sales from EOU units increase. |
| **Pipes** | Increasing volumes from higher order books for the respective companies are expected to drive revenues for our universe of linepipe companies. Limited supply of capacities globally will continue to favor Indian players on account of better realizations and operating margins. | |
| **Technology** | We forecast moderate sequential revenue growth of 6-8% in US$ terms for Tier 1 companies, primarily on the back of lower billing days. Further, we expect muted operating margin performance except for Satyam. We expect hiring and commentary on pricing to be the key focus areas; we expect TCS to miss its gross add target. We expect companies to guide for 4-6% US$ revenue growth for the March 2008 quarter. | Key areas of focus: (1) Recruitment numbers—TCS is unlikely to meet its gross hiring target of 9,000 for the quarter. Recruitment number at Infosys is also likely to be an important focus area; Infosys had deferred the joining dates of its campus recruits citing delay in commissioning of infrastructure; (2) Per capita realization--Infosys and Satyam had a remarkable improvement in recenue productivity in the previous quarter. We have not factored in qoq improvement revenue productivity for the Dec '07 quarter; (3) Growth from banking and finance vertical. |
| **Transportation** | We expect marginal losses for Jet Airways inspite of the busy season and likely yield improvement with domestic industry consolidation due to strong capacity additions in the international segment resulting in flat blended yields and start-up costs. | We expect Great Eastern Shipping to benefit from the sharp spike in the tanker freight rates apart from continued strength in the dry bulk rates. |
| **Telecom** | **Wireless:** We expect robust revenue growth for the wireless players, driven by strong subscriber growth and normalization of ARPU and MOU after the steep decline reported in the previous quarter. Key focus area would be the capex spending of the telcos. | **Others:** MTNL may report further decline in fixed-line subscriber base. We expect strong volume-led growth in long distance (international and domestic) revenues of the Indian telcos. |
| **Utilities** | Higher cost of imported coal likely to prop up the topline growth for Reliance Energy and Tata Power without impacting the bottomline. | Tata Power to benefit from sharing of efficiency gains as per the multi-year tariff order. CESC's tariff order has not provided for any performance-linked incentives, same as in 3QFY07. |

Source: Kotak Institutional Equities.

**Media**

| SUTV.BO, Rs420 | |
|---|---|
| Rating | SELL |
| Sector coverage view | Cautious |
| Target Price (Rs) | 315 |
| 52W High -Low (Rs) | 462 - 278 |
| Market Cap (Rs bn) | 165.6 |

**Financials**

| March y/e | 2007 | 2008E | 2009E |
|---|---|---|---|
| Sales (Rs bn) | 7 | 9 | 12 |
| Net Profit (Rs bn) | 2.5 | 3.7 | 4.9 |
| EPS (Rs) | 6.3 | 9.3 | 12.5 |
| *EPS gth* | *20.8* | *46.3* | *34.5* |
| P/E (x) | 66.3 | 45.3 | 33.7 |
| EV/EBITDA (x) | 37.3 | 25.1 | 19 |
| Div yield (%) | 0.4 | 0.6 | 0.9 |

**Shareholding, September 2007**

| | Pattern | % of Portfolio | Over/(under) weight |
|---|---|---|---|
| Promoters | 80.0 | - | - |
| FIIs | 4.8 | 0.1 | (0.3) |
| MFs | 0.6 | 0.1 | (0.3) |
| UTI | - | - | (0.3) |
| LIC | - | - | (0.3) |

## Sun TV Network: Sun TV Network hikes ad rates and slot fees across its bouquet; largely on expected lines

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392

- **Ad rate hike largely factored into our expected growth in Sun's TV ad revenues**
- **Extent of increase in slot fees surprising; content producers may switch loyalties**
- **Fine-tuned estimates and increased 12-month DCF-based TP to Rs315 (Rs300 previously)**

Sun TV Network has increased ad rates for its bouquet of channels in the range of 3-30%, effective from February 1, 2008. Ad rates for Sun TV, Sun's flagship Tamil channel, will increase by 10-21% across various timeslots versus the average 12.5% growth assumed by us previously. More surprisingly, slot fees collected by Sun TV from content producers have been increased proportionate to the increase in ad rates, effective from February 15, 2008. The increase in slot fees, while positive in the near term, may have negative implications going forward as content producers will likely debate the economics of being on Sun TV versus emerging competition. We keep our FY2008E estimates for Sun unchanged since the new rates will be effective only in February. We model 20% growth in ad revenues of Sun TV Network for FY2009E from 17% previously. Our FY2009E and FY2010E EPS estimates for Sun TV Network have increased modestly to Rs12.5 and Rs15.5, respectively, from Rs12.2 and Rs15.1, respectively. Our 12-month DCF-based target price is Rs315 (Rs300 previously); we retain our SELL rating on the stock in view of the sharp run-up in the stock price during the past two months. Key upside risks stem from higher-than-expected ad and subscription revenues.

**Ad rate increase taken by Sun TV Network largely on expected lines.** Exhibit 1 shows the modest changes to our assumed growth in TV ad rates and slot fees for Sun TV Network. We have kept unchanged our FY2008 TV ad revenue and slot sales estimates of Sun TV Network since we have already factored in a strong growth of 29% and 15%, respectively. We have revised our FY2009E estimates of Sun's ad revenues and slot fees to Rs5.4 bn and Rs1.45 bn, respectively, from Rs5.3 bn and Rs1.37 bn, respectively. The difference is largely a result of moderately higher-than-expected increase in ad rates and slot fees for Sun TV and Gemini TV, Sun's flagship channels in the lucrative Tamil and Telugu markets. Consequently, we have increased the growth rate in TV ad revenues of Sun for FY2009E to 20% from 17%, on the back of our strong expected growth of 29% in FY2008E.

We would keenly watch for the impact of emerging competition on Sun's ratings in the key Tamil and Telugu markets. Exhibits 2-5 show that new channels (Kailagnar TV in Tamil and Maa TV in Telugu) have captured reasonably high market share in the Tamil and Telugu segments in a short period. We highlight the limiting effect of competition on Sun's ability to increase ad rates in the Malayalam market where Asianet's strong performance in the past few months has led to a smaller hike in ad rates for Surya TV versus our expectation.

We have maintained our growth estimates for Sun's ad rates and slot fees for FY2010E and beyond despite (1) the entry of several new channels in the next 3-12 months and (2) renewed investment in programming and distribution by extant broadcasters, which we believe will likely lead to increased fragmentation in markets dominated by Sun. We note that our expected 21% CAGR in ad revenues of Sun for FY2007-2010E already factors in (1) strong growth in industry revenues, (2) start of several new niche channels by Sun and (3) continued high market share of Sun's channels. We see the greatest risk to Sun's revenues from the third driver.

**Quantum of increase in slot fees a surprise.** Exhibit 6 shows the large gap in operating margins from sponsored and commissioned programming by Balaji Telefilms, India's leading content provider. In the commissioned programming model, the provider creates content for the broadcaster against a flat fee with possibility of rate hikes in case the program becomes very popular. In the sponsored programming model, used by Sun TV for its flagship channels, the provider buys telecast slots from the broadcaster in exchange for a part of free commercial time (FCTs). We note that Balaji Telefilms is the producer of some very popular sponsored content on Sun TV but the steep increase in slot fees may force a rethink for Balaji and other content suppliers. We note that a few content providers have already started experimenting with new players.

**Uncertain times and rich valuations do not make for a good combination.** We note that Sun TV Network's stock price has jumped 35% in the past two months driven by (1) re-rating of previously under-performing stocks and (2) heightened expectations on Sun's pay revenues. We are unwilling to accord very high multiples to Sun's earnings from the ad segment given (1) Sun's very high market shares with limited scope for expansion and (2) entry of several new competitors in the market, which may lead to fragmentation. We have fine-tuned our FY2009E and FY2010E estimates for Sun TV Network; our expected EPS increases modestly to Rs12.5 and Rs15.5, respectively, from Rs12.2 and Rs15.1, respectively. At the current market price of Rs420, the stock trades at 20.3X expected FY2009E EBITDA and 33.7X expected FY2009E EPS, after our projected 2X increase in EPS between FY2007-FY2009E. Our 12-month DCF-based target price has increased to Rs315 from Rs300 due to the modestly higher-than-estimated increase in rates and rollover to January 2008 in our DCF model.

**Sun TV Network advertisement rate hikes moderately above our expectations**

Changes to our expected growth in ad rates and slot fees, March fiscal year ends, 2008E-2010E (%)

| | New estimates | | | Old estimates | | |
|---|---|---|---|---|---|---|
| | 2008E | 2009E | 2010E | 2008E | 2009E | 2010E |
| **Expected increase in ad rates (%) (a)** | | | | | | |
| Sun TV | 15.4 | **17.5** | 12.5 | 15.4 | 12.5 | 12.5 |
| Gemini TV | 17.5 | **15.0** | 12.5 | 17.5 | 12.5 | 12.5 |
| Surya TV | 17.5 | **7.5** | 12.5 | 17.5 | 12.5 | 12.5 |
| Udaya TV | 15.0 | **15.0** | 12.5 | 15.0 | 12.5 | 12.5 |
| Sun Music | 33.3 | 15.0 | 12.5 | 33.3 | 15.0 | 12.5 |
| Sun News | 16.7 | 15.0 | 12.5 | 16.7 | 15.0 | 12.5 |
| KTV | 15.0 | **15.0** | 12.5 | 15.0 | 12.5 | 12.5 |
| Gemini Music | 33.3 | 15.0 | 12.5 | 33.3 | 15.0 | 12.5 |
| Gemini News | 16.7 | 15.0 | 12.5 | 16.7 | 15.0 | 12.5 |
| Teja TV | 15.0 | **15.0** | 12.5 | 15.0 | 12.5 | 12.5 |
| Kiran TV | 15.0 | **15.0** | 12.5 | 15.0 | 12.5 | 12.5 |
| Udaya Movies | 15.0 | **15.0** | 12.5 | 15.0 | 12.5 | 12.5 |
| Udaya TV 2 | 33.3 | 15.0 | 12.5 | 33.3 | 15.0 | 12.5 |
| Udaya Varthagalu | 16.7 | 15.0 | 12.5 | 16.7 | 15.0 | 12.5 |
| **Expected increase in slot fees (%) (b)** | | | | | | |
| Sun TV | 15.0 | **17.5** | 10.0 | 15.0 | 10.0 | 10.0 |
| Gemini TV | 15.0 | **15.0** | 10.0 | 15.0 | 10.0 | 10.0 |
| Surya TV | 15.0 | **7.5** | 10.0 | 15.0 | 10.0 | 10.0 |
| Udaya TV | 15.0 | **15.0** | 10.0 | 15.0 | 10.0 | 10.0 |

Notes:

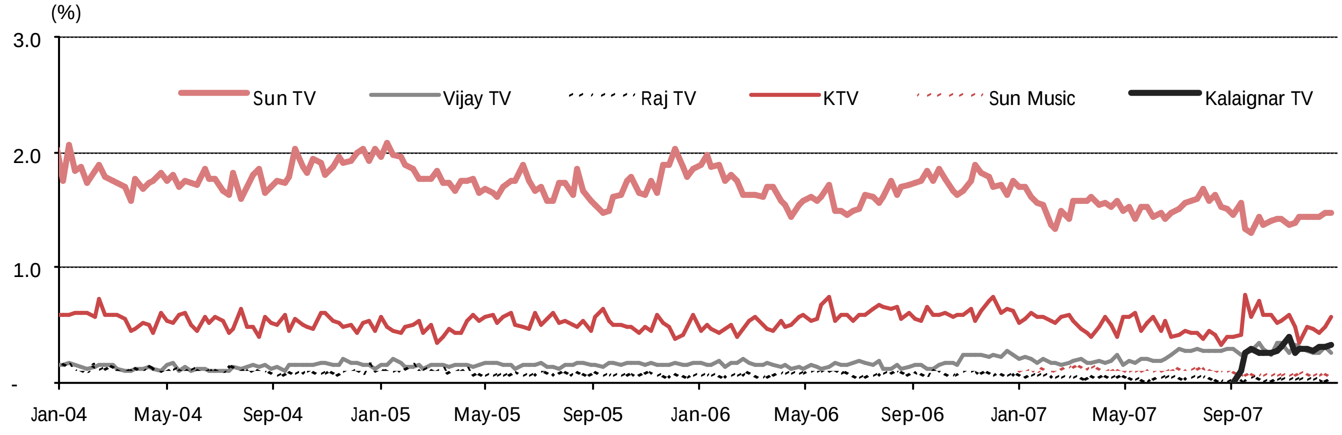
(a) Ad rate hikes are effective from February 1, 2008.

(b) Slot fee hikes are effective from February 15, 2008.

Source: Kotak Institutional Equities estimates.

**Sun TV leads the lucrative Tamil market; Kalaignar TV has made an impressive entry**

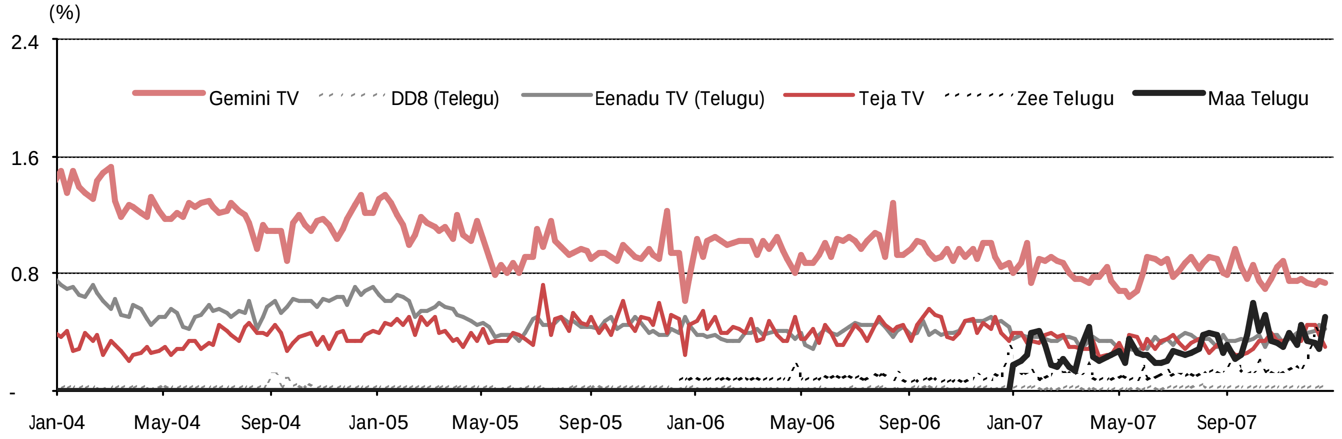
Prime-time (7:30-11:30 PM) ratings of major Tamil channels (%)




Source: TAM Media Research, compiled by Kotak Institutional Equities.

**Sun's Gemini TV has seen its ratings decline over the last few months**

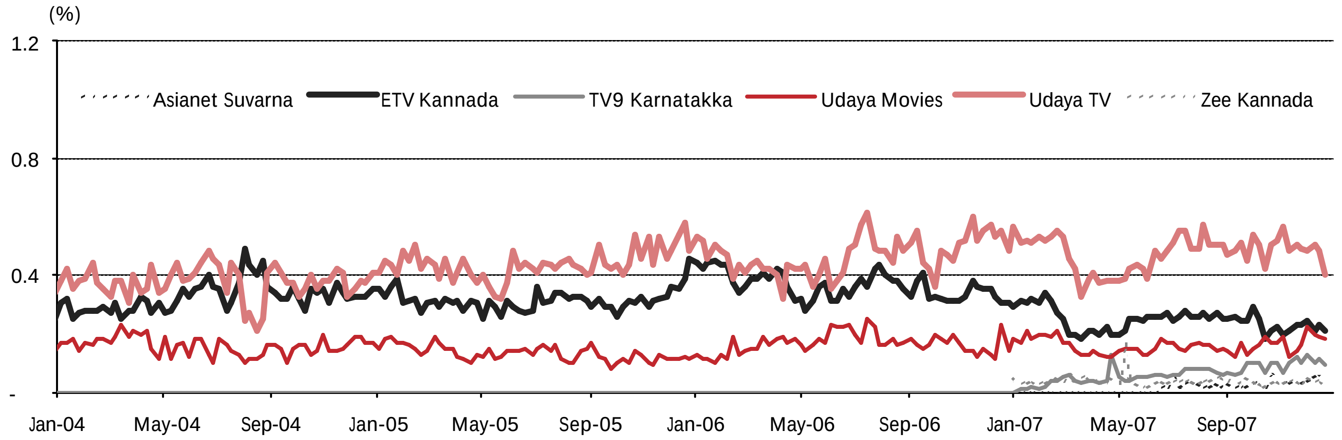
Prime-time (7:30-11:30 PM) ratings of major Telugu channels (%)




Source: TAM Media Research, compiled by Kotak Institutional Equities.

**Sun's Udaya TV ratings have have been volatile in the last few months**

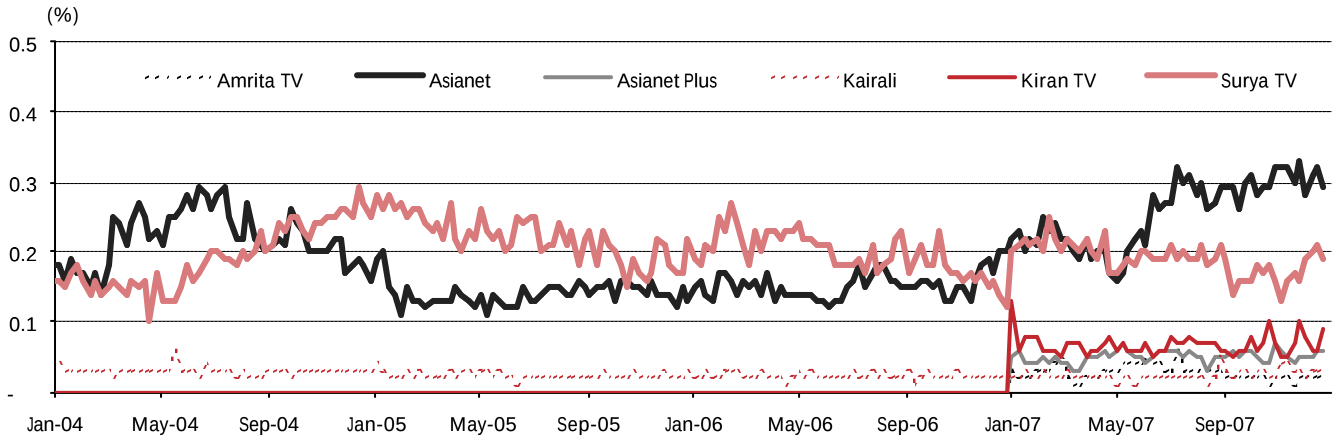
Prime-time (7:30-11:30 PM) ratings of major Kannada channels (%)




Source: TAM Media Research, compiled by Kotak Institutional Equities.

**Asianet leads the Malayalam market, ahead of Sun's Surya and Kiran TV channels**

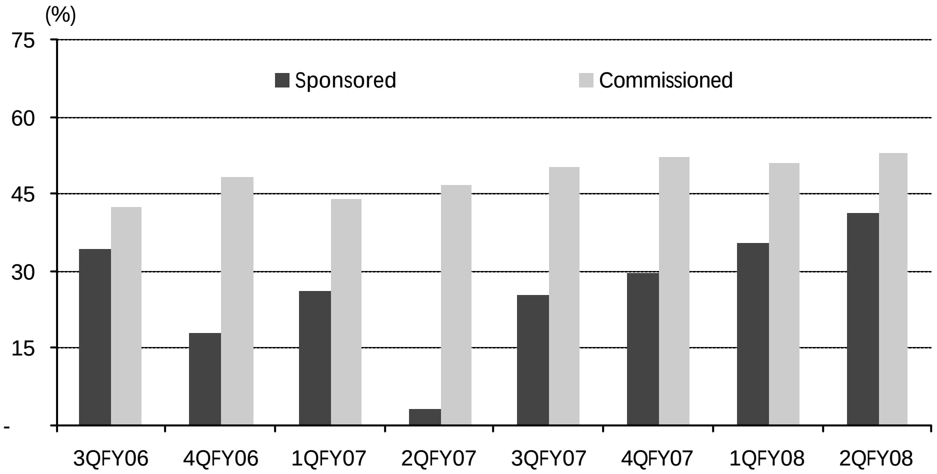
Prime-time (7:30-11:30 PM) ratings of major Malayalam channels (%)




Source: TAM Media Research, compiled by Kotak Institutional Equities.

**Balaji's margins from sponsored programming have historically been very low**

Operating margins from sponsored and commissioned programming for Balaji Telefilms (%)




Source: Company, compiled by Kotak Institutional Equities.

**Our DCF-based target price for Sun TV is Rs315**

DCF analysis of SunTV Network (Rs mn)

| | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **5,736** | **7,718** | **9,330** | **10,937** | **12,562** | **14,000** | **15,493** | **17,093** | **18,837** | **20,935** | **20,619** | — |
| Tax expense | (1,713) | (2,409) | (2,983) | (3,545) | (4,120) | (4,615) | (5,125) | (5,670) | (6,262) | (6,990) | (6,929) | — |
| Changes in working capital | (1,861) | (1,020) | (847) | (864) | (889) | (827) | (874) | (944) | (1,032) | (1,175) | (157) | — |
| **Cash flow from operations** | **2,163** | **4,288** | **5,500** | **6,527** | **7,552** | **8,558** | **9,494** | **10,480** | **11,544** | **12,770** | **13,533** | — |
| Capital expenditure | (793) | (200) | (200) | (225) | (250) | (275) | (300) | (325) | (350) | (375) | (400) | — |
| Cash flow to minority shareholders | 23 | (27) | (50) | (70) | (95) | (101) | (109) | (116) | (124) | (152) | (10) | — |
| **Free cash flow** | **1,393** | **4,061** | **5,251** | **6,232** | **7,207** | **8,182** | **9,086** | **10,039** | **11,070** | **12,243** | **13,123** | **13,845** |
| **PV of free cash flow** | **1,357** | **3,517** | **4,042** | **4,264** | **4,382** | **4,422** | **4,365** | **4,287** | **4,200** | **4,129** | **3,934** | — |
| Discounted cash flow-1 year forward | | 3,957 | 4,547 | 4,797 | 4,931 | 4,974 | 4,910 | 4,822 | 4,727 | 4,646 | 4,426 | — |
| Discounted cash flow-2 year forward | | | 5,115 | 5,397 | 5,548 | 5,598 | 5,524 | 5,425 | 5,318 | 5,228 | 4,980 | 4,670 |

| | Now | + 1-year | + 2-years | |
|---|---|---|---|---|
| Total PV of free cash flow (a) | 38,964 | 46,738 | 52,802 | |
| FCF in terminal year | 12,243 | 13,123 | 13,845 | |
| Adjusted FCF in terminal year | 10,568 | 13,027 | 13,845 | Adjusting for FM radio business, which will end in FY2016/FY2017 |
| Terminal value in terminal year | 150,972 | 186,101 | 197,785 | |
| PV of terminal value (b) | 57,286 | 70,615 | 75,048 | |
| **Total company value (a) + (b)** | **96,250** | **117,353** | **127,850** | |
| **Value per share of Sun TV (Rs)** | 244 | 298 | 324 | |
| **Net debt/(cash)** | (5,627) | (6,190) | (8,967) | |
| **Value to equity holders** | **101,876** | **123,542** | **136,817** | |
| **Value to equity holders (Rs/Sun TV share)** | **259** | **313** | **347** | |

Source: Kotak Institutional Equities estimates.

**We model Sun's revenues to grow strongly led by growth in pay-TV and FM radio revenues**

Derivation of revenues of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

| | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|
| **Advertisement revenues** | | | | | | | | | |
| Sun TV | 1,038 | 1,085 | 1,491 | 1,804 | 2,161 | 2,478 | 2,840 | 3,193 | 3,590 |
| K TV | 100 | 123 | 141 | 162 | 186 | 210 | 231 | 254 | 279 |
| Sun News | 28 | 39 | 47 | 55 | 63 | 71 | 80 | 88 | 97 |
| Sun Music | 2 | 94 | 122 | 163 | 188 | 211 | 237 | 261 | 287 |
| Sun Kids | — | — | — | 101 | 139 | 166 | 198 | 230 | 266 |
| Sun Documentary | — | — | — | 64 | 164 | 196 | 233 | 271 | 313 |
| Sun Sports | — | — | 9 | 51 | 58 | 65 | 73 | 81 | 89 |
| Surya TV | 226 | 386 | 476 | 574 | 633 | 730 | 842 | 959 | 1,092 |
| Kiran TV | 3 | 28 | 40 | 59 | 84 | 94 | 106 | 116 | 128 |
| Gemini TV | — | — | 467 | 613 | 721 | 829 | 954 | 1,085 | 1,233 |
| Teja TV | — | — | 44 | 51 | 58 | 65 | 72 | 79 | 87 |
| Gemini News | — | — | 35 | 41 | 47 | 53 | 59 | 65 | 72 |
| Gemini Music | — | — | 75 | 100 | 115 | 129 | 146 | 160 | 176 |
| Udaya TV | — | — | 428 | 535 | 629 | 724 | 832 | 946 | 1,076 |
| Udaya Movies | — | — | 43 | 49 | 56 | 63 | 70 | 77 | 84 |
| Udaya Varthegulu (News) | — | — | 25 | 29 | 34 | 38 | 42 | 47 | 51 |
| Udaya TV 2 | — | — | 30 | 40 | 46 | 52 | 58 | 64 | 70 |
| **Total TV ad revenues** | **1,397** | **1,755** | **3,472** | **4,490** | **5,381** | **6,174** | **7,074** | **7,975** | **8,992** |
| Radio | 144 | 158 | 168 | 597 | 1,375 | 1,862 | 2,304 | 2,816 | 3,027 |
| **Total advertisement revenues** | **1,542** | **1,913** | **3,640** | **5,087** | **6,756** | **8,036** | **9,378** | **10,792** | **12,019** |
| **Broadcast revenues (or slot sales)** | | | | | | | | | |
| Sun TV | 455 | 531 | 607 | 698 | 821 | 903 | 993 | 1,092 | 1,202 |
| Surya TV | 38 | 60 | 60 | 69 | 74 | 81 | 89 | 98 | 108 |
| Gemini TV | — | — | 332 | 381 | 438 | 482 | 530 | 584 | 642 |
| Udaya TV | — | — | 86 | 101 | 116 | 128 | 141 | 155 | 171 |
| **Total broadcast revenues** | **493** | **591** | **1,085** | **1,250** | **1,449** | **1,594** | **1,754** | **1,929** | **2,122** |
| **Total ad and broadcast revenues** | **2,034** | **2,504** | **4,725** | **6,337** | **8,206** | **9,631** | **11,131** | **12,721** | **14,141** |
| **Pay-TV revenues** | | | | | | | | | |
| Sun TV | 398 | 447 | 667 | 1,234 | 1,712 | 2,054 | 2,377 | 2,671 | 2,955 |
| Surya TV | — | — | — | — | 111 | 147 | 182 | 213 | 241 |
| Gemini TV | — | — | 693 | 802 | 907 | 1,047 | 1,171 | 1,293 | 1,410 |
| Udaya TV | — | — | 310 | 363 | 417 | 490 | 556 | 622 | 685 |
| **Total pay-TV revenues** | **398** | **447** | **1,669** | **2,399** | **3,147** | **3,738** | **4,287** | **4,800** | **5,291** |
| International revenues | 88 | 183 | 339 | 347 | 354 | 360 | 372 | 382 | 388 |
| Others | 10 | 18 | 42 | 70 | 100 | 130 | 154 | 178 | 203 |
| Sumangali Cable Vision (SCV) | 356 | — | — | — | — | — | — | — | — |
| **Total revenues** | **2,886** | **3,152** | **6,775** | **9,152** | **11,807** | **13,858** | **15,944** | **18,081** | **20,024** |
| **Growth (%)** | **7** | **9** | **115** | **35** | **29** | **17** | **15** | **13** | **11** |

Source: Company, Kotak Institutional Equities estimates.

**Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and SunTV Network for 2007-2012E, March fiscal year-ends (Rs mn)**

| | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|---|---|
| **Profit model (Rs mn)** | | | | | | | |
| Net sales | 3,219 | 6,780 | 9,152 | 11,807 | 13,858 | 15,944 | 18,081 |
| **EBITDA** | **2,035** | **3,874** | **5,736** | **7,718** | **9,330** | **10,937** | **12,562** |
| Other income | 172 | 411 | 623 | 722 | 806 | 782 | 751 |
| Interest (expense)/income | (65) | (64) | (35) | (17) | — | — | — |
| Depreciation | (147) | (294) | (525) | (638) | (535) | (461) | (411) |
| Amortization | — | (56) | (235) | (235) | (235) | (235) | (195) |
| **Pretax profits** | **1,995** | **3,871** | **5,565** | **7,551** | **9,367** | **11,023** | **12,706** |
| Tax-cash | (709) | (1,509) | (1,915) | (2,658) | (3,265) | (3,816) | (4,379) |
| Tax-deferred | 16 | 108 | (18) | 49 | 39 | 27 | 18 |
| Minority interest | — | (9) | 23 | (27) | (50) | (70) | (95) |
| **Net profits after minority interests** | **1,302** | **2,461** | **3,655** | **4,916** | **6,092** | **7,164** | **8,251** |
| **Earnings per share (Rs)** | **5.3** | **6.3** | **9.3** | **12.5** | **15.5** | **18.2** | **20.9** |
| | | | | | | | |
| **Balance sheet (Rs mn)** | | | | | | | |
| Total equity | 3,071 | 11,932 | 14,436 | 17,623 | 17,657 | 17,697 | 17,742 |
| Deferred Tax | 32 | (56) | (38) | (87) | (125) | (153) | (171) |
| Total borrowings | 2,333 | 867 | 401 | — | — | — | — |
| Currrent liabilities | 741 | 1,693 | 1,631 | 1,761 | 1,838 | 1,921 | 2,012 |
| **Total capital** | **6,209** | **14,478** | **16,449** | **19,342** | **19,463** | **19,629** | **19,842** |
| Cash | 732 | 6,494 | 6,591 | 8,967 | 8,695 | 8,344 | 7,933 |
| Current assets | 2,440 | 3,221 | 5,020 | 6,170 | 7,093 | 8,040 | 9,021 |
| Total fixed assets | 2,830 | 3,543 | 2,910 | 2,472 | 2,138 | 1,902 | 1,740 |
| Intangible assets | 206 | 1,220 | 1,927 | 1,732 | 1,537 | 1,342 | 1,146 |
| **Total assets** | **6,209** | **14,478** | **16,449** | **19,342** | **19,463** | **19,629** | **19,842** |
| | | | | | | | |
| **Free cash flow (Rs mn)** | | | | | | | |
| Operating cash flow, excl. working capital | 1,722 | 3,239 | 4,607 | 6,172 | 7,307 | 8,487 | 9,685 |
| Working capital | (251) | (1,992) | (1,861) | (1,020) | (847) | (864) | (889) |
| Capital expenditure | (2,091) | (433) | (793) | (200) | (200) | (225) | (250) |
| Investments | (326) | (849) | (821) | (1,129) | (1,242) | (1,366) | (1,503) |
| Other income | 80 | 402 | 623 | 722 | 806 | 782 | 751 |
| **Free cash flow** | **(619)** | **814** | **1,953** | **4,952** | **6,261** | **7,397** | **8,546** |
| | | | | | | | |
| **Ratios (%)** | | | | | | | |
| Debt/equity | 76.0 | 7.3 | 2.8 | — | — | — | — |
| Net debt/equity | 52.1 | (47.2) | (42.9) | (50.9) | (49.2) | (47.2) | (44.7) |
| RoAE | 36.1 | 32.9 | 27.8 | 30.8 | 34.7 | 40.8 | 47.0 |
| **RoACE** | **26.6** | **26.8** | **27.8** | **31.3** | **35.7** | **42.0** | **48.2** |

Source: Kotak Institutional Equities estimates.

**Automobiles**

**ASOK.BO, Rs56**

## Ashok Leyland: M&HCV sales volumes decline 2% yoy in December

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **M&HCV volumes decline 2% yoy**
- **Bus volume growth picks up yet again**
- **We expect CV cycle to turn positive FY2009 onwards**

Ashok Leyland has reported a 8% yoy growth in total sales for the month of December. The M&HCV sales declined 2% yoy while bus volumes grew 34% yoy. The decline in M&HCVs was in line with the industry as Tata Motors reported a 10% decline in M&HCV volumes for December. However, we believe the M&HCV volumes will pick up as we expect the CV cycle to turn positive from FY2009. The company has lined up the launch of new models over the next few months—most of these being in the higher-tonnage category. We note that bus volumes have continued to grow strongly for Ashok Leyland bus volumes have grown 63% yoy on a ytd basis.

**4-wheelers Dec 2007 sales performance**

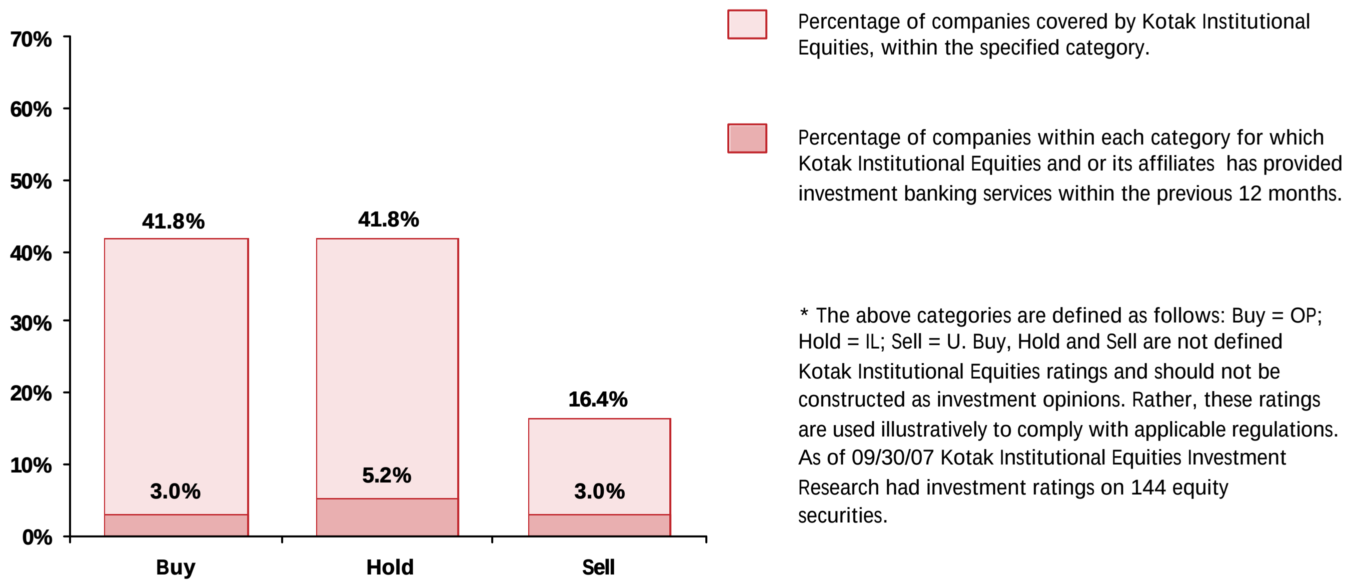
| | Dec-07 | Dec-06 | yoy % | Nov-07 | mom % | YTD, FY2008 | YTD, FY2007 | yoy % |
|---|---|---|---|---|---|---|---|---|
| **Ashok Leyland** | | | | | | | | |
| M&HCV | 4,347 | 4,418 | -1.6% | 4,283 | 1.5% | 38,590 | 46,317 | -16.7% |
| LCV | 48 | 22 | 118.2% | 52 | -7.7% | 455 | 256 | 77.7% |
| **Total CV** | **4,395** | **4,440** | **-1.0%** | **4,335** | **1.4%** | **39,045** | **46,573** | **-16.2%** |
| Buses | 1,945 | 1,450 | 34.1% | 1,465 | 32.8% | 16,953 | 10,404 | 62.9% |
| **Total** | **6,340** | **5,890** | **7.6%** | **5,800** | **9.3%** | **55,998** | **56,977** | **-1.7%** |

Source: Company, Kotak Institutional Equities.

"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, Amit Agarwal."

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships

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

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Definitions of ratings

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

### Old rating system

Definitions of ratings

**OP = Outperform**. We expect this stock to outperform the BSE Sensex over the next 12 months.
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**Corporate Office**
**Kotak Securities Ltd.**
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

**Overseas Offices**

**Kotak Mahindra (UK) Ltd.**
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

**Kotak Mahindra Inc.**
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120



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