kotak® Institutional Equities

INDIA DAILY

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Contents

Results

Bajaj Auto: 4Q FY2008 net profit at Rs1.2 bn; likely listing on 26 May, 2008

Updates

Idea Cellular: PE deal values Idea's Indus holdings at US$2.5 bn pre-money; what matters more is the option value of towerco to the Idea shareholders

HT Media: FY2008 results conference call update

Bajaj Finserv: Bajaj Finserv to list on 26 May, 2008; estimate fair value at Rs670 per share

Economy: If RBI sells US$6.5 bn to hold rupee, liquidity crunch likely as it amounts to three more 25 bps CRR hikes

News Roundup

Corporate

- ICICI Venture is teaming up with Mahindra & Mahindra to acquire Belgian gear-maker VCST Industrial Products. The deal is valued at euro250 mn. (ET)
- The workers' union of Esmark, the US-based integrated steel maker that the Essar group is trying to acquire, has openly opposed the Indian company's bid. The union said it will support the Severstal offer. (ET)

Economic and political

- The Securities and Exchange Board of India (Sebi) has stayed its move asking institutional investors to pay upfront margin for purchase of stocks in the cash segment of the market. (BS)
- A hike in fuel prices is among the remedial measures that the government is looking at to protect the interests of state-run oil marketing companies after global crude rose above USD 130 a barrel on Wednesday. (FE)

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

EQUITY MARKETS

		Change, %		
India	**22-May**	**1-day**	**1-mo**	**3-mo**
Sensex	16,907	(1.9)	1.3	(2.5)
Nifty	5,025	(1.8)	0.1	(1.7)
Global/Regional indices				
Dow Jones	12,626	0.2	(1.1)	2.0
Nasdaq Composite	2,465	0.7	2.5	7.0
FTSE	6,182	(0.3)	1.6	5.0
Nikkie	14,081	0.7	3.7	4.3
Hang Seng	24,972	(0.3)	(1.3)	7.2
KOSPI	1,837	0.1	2.0	8.9

Value traded - India

		Moving avg, Rs bn		
	22-May		**1-mo**	**3-mo**
Cash (NSE+BSE)	194.0		205.5	193.9
Derivatives (NSE)	450.8		516.4	364
Deri. open interest	822.6		726	777

Forex/money market

		Change, basis points		
	22-May	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.9	14	292	298
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	7	(7)	51

Net investment (US$mn)

	21-May		**MTD**	**CYTD**
FIIs	(152)		6	(2,709)
MFs	3		(198)	1,394

Top movers -3mo basis

		Change, %		
Best performers	**22-May**	**1-day**	**1-mo**	**3-mo**
i-Flex	1,506	3.3	17.6	42.9
Shipping Corp	290	2.2	24.2	34.8
Thomas Cook	103	0.0	2.5	34.0
Nestle India	1,748	(0.5)	11.3	31.2
Chambal Fert	78	(5.0)	14.0	28.8
Worst performers				
Thermax	457	(1.7)	(12.3)	(27.4)
Reliance Cap	1,391	(1.4)	(1.0)	(26.9)
SAIL	176	(3.6)	1.1	(26.4)
Essel Propack	34	(1.3)	(17.7)	(25.8)
Siemens India	584	(0.6)	(10.2)	(25.5)

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Bajaj Auto: 4Q FY2008 net profit at Rs1.2 bn; likely listing on 26 May, 2008

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- **4Q FY2008 net profit at Rs1.2 bn; FY2008 net profit at Rs7.6 bn**
- **4Q FY2008 EBITDA margin at 12.6%; FY2008 margin at 14.3%**
- **Bajaj reported a 10% decline in FY2008 domestic volumes while exports grew at 40%**
- **Management indicates a flattish growth in overall volumes; guides higher sales of >125 cc bikes**
- **Demerged auto entity likely to be listed on May 26, 2008**

Bajaj Auto reported 4Q net profit at Rs1.2 bn and FY2008 net profit at Rs7.6 bn. The operating margin was down 200 bps qoq for 4Q FY2008 on account lower sales volume and adverse product mix. The management has guided a flattish growth for FY2009 with increased sales of >125 cc bikes. Domestic volumes declined 10% yoy in FY2008 while exports grew at a sharp 40%. Besides, Bajaj plans to launch four new bikes and two 3-wheelers in FY2009. The demerged auto business is likely to be listed on 26 May, 2008.

Bajaj Auto reported FY2008 net profit at Rs7.6 bn; EBITDA margin at 14.3%

Bajaj Auto reported FY2008 net profit at Rs7.6 bn and EBITDA margin of 14.3% for the year. 4Q net profit was Rs1.2 bn while 4Q EBITDA margin was at 12.6%.4Q margin declined 200 bps qoq mainly on account of lower sales and adverse product mix. 4Q revenues at Rs20.7 bn were lower 17% on a qoq basis as the company sold only 479,451 motorcycles—lower 11% yoy. Meanwhile 3-wheeler sales also declined 21% yoy. Bajaj continued to gain market share in the >125 cc category with increased sales of XCD. Meanwhile, Bajaj's overall exports grew 40% yoy with 2-wheeler exports growing at a sharp 60% yoy.

Management indicates flattish growth in volumes; guides higher sales of >125 cc bikes

In the analysts meet, the management guided for a flattish domestic volume growth for the industry. High interest rates and unwillingness of financiers to extend credit for 2-wheelers will dampen 2-wheeler growth. Besides, the management has also guided higher sales of >125 cc bikes aided by new launches in the >125 cc segment. However, the outlook on the export front is quite positive and the company is targeting to export more 2-wheelers and 3-wheelers.

Host of new launches in FY2009

Bajaj Auto intends to launch four new bikes in FY2009—all of them in the >125 cc category. The four new bikes would be launched between Aug-Dec '08. Besides, it would be launching two new 3-wheelers in the year—one in the goods space and the other in the passenger category. Bajaj would also be launching the KTM and Kawasaki bikes in the next four-six months (Bajaj has earlier bought a 24.5% stake in KTM). These high-end bikes would be launched through exclusive pro-biking showrooms to be set up by Bajaj. The company also intends to launch LPG-powered bikes in the coming months.

Key takeaways from the Analysts Meet

1) According to Bajaj Auto, financing continues to be a key concern for 2-wheeler industry as the financiers have pulled back from various geographies and are unwilling to extend credit on account of rising delinquencies.

2) Bajaj plans to roll out its small car by CY2011—the company has a JV with Nissan and Renault to produce small cars. The company aims to price the lowest version of the car at US$2,500.

3) Bajaj would be target to produce 500,000 vehicles out of its Uttaranchal plant for FY2009.

4) Bajaj would not make any further investments in the 100 cc segment as it is not a profitable segment for the company. Bajaj would continue to focus on the >125 cc segment as it has a strong presence in the segment besides it being more profitable.

Bajaj Auto Ltd, Interim results (Rs mn)

	9m FY2008	4Q FY08	FY2008
Net sales & other operating income	**69,717**	**20,744**	**90,462**
Material cost	50,963	15,240	66,204
Employee cost	2,553	863	3,416
Other expenses	6,050	2,088	8,137
Expenses capitalized	(168)	(63)	(230)
Operating profit	**10,319**	**2,616**	**12,935**
Other income	1,022	205	1,227
EBITDA	**11,341**	**2,820**	**14,162**
Interest	34	18	52
Depreciation	1,326	414	1,740
Profit before exceptional items	**9,981**	**2,388**	**12,371**
Exceptional items -VRS	512	512	1,024
Prior period adjustments	(3)	1	(2)
Profit before taxes	**9,466**	**1,878**	**11,346**
Provision for taxes	3,118	670	3,788
Profit after taxes	**6,348**	**1,208**	**7,558**
No of shares	145	145	145
EPS (Rs)	43.9	8.3	52.2
Key ratios			
Operating margin (%)	14.8	12.6	14.3
Raw materials/sales (%)	73.1	73.5	73.2
Net profit margin (%)	9.1	5.8	8.4
Volumes	**1,902,167**	**549,240**	**2,451,407**
Domestic	**1,441,576**	**391,490**	**1,833,066**
2-wheelers	1,320,047	359,022	1,679,069
3-wheelers	121,529	32,468	153,997
Exports	**460,591**	**157,750**	**618,341**
2-wheelers	358,444	123,582	482,026
3-wheelers	102,147	34,168	136,315

Source: Company, Kotak Institutional Equities.

Telecom

IDEA.BO, Rs107	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	110
52W High -Low (Rs)	161 - 88
Market Cap (Rs bn)	283.6

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	67.2	97.3	128.2
Net Profit (Rs bn)	10.4	12.6	15.4
EPS (Rs)	4.0	4.8	5.8
EPS gth	*78.9*	*21.1*	*21.5*
P/E (x)	27.2	22	18.5
EV/EBITDA (x)	15.1	11.3	9.2
Div yield (%)	-	-	-

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.7	-	-
FIIs	6.6	0.2	0.2
MFs	0.6	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Idea Cellular: PE deal values Idea's Indus holdings at US$2.5 bn pre-money; what matters more is the option value of towerco to the Idea shareholders

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- **Idea raises US$640 mn for a 20% stake sale in ABTL, a 100% subsidiary**
- **ABTL holds the UASL license in Bihar and will hold Idea's 16% stake in Indus towers**
- **Implied equity value of US$15.4 bn for Indus 20% higher than our estimate**
- **Provides Idea with much-needed funds for its aggressive capex plans**

Aditya Birla Telecom Limited (ABTL), a 100% subsidiary of Idea Cellular Limited, has raised US$640 mn from Providence Equity Partners, a private equity player for a 20% post-money stake, effectively valuing ABTL at US$2.6 bn on a pre-money (US$3.2 bn post-money). ABTL owns the UASL license for the Bihar circle and will hold Idea's 16% stake in Indus towers, the passive infrastructure JV between Idea, Bharti, and Vodafone. While the deal provides Idea with much-needed funds for its capex plans, the 'value unlocking' does little to the company's valuations, in our view. We believe high valuation for the tower business would come at a cost of deterioration in the value of core business. Maintain REDUCE on the stock with a 12-month forward target price of RS110/share.

Deal details. Providence Equity Partners has invested US$640 mn in ABTL (which holds the UASL license for the Bihar circle and will hold Idea's 16% stake in Indus towers) for a 20% (post-money) stake. The deal effectively values ABTL at US$2.6 bn pre-money (US$3.2 bn post-money). Assuming a US$100 mn valuation for Idea's Bihar operations (based on our end-FY2011E Bihar subs base of 750,000 for Idea and applying an EV/sub of US$133 based on end-FY2011E subs implied in our fair-value assumptions for Idea), the deal values Idea's 16% stake in Indus towers at US$2.5 bn. This implies an equity valuation of US$15.4 bn for Indus towers, 21% higher than our valuation of US$12.7 bn *(please refer to our note dated December 10, 2007 on Indus valuations).* We understand that the placement has happened through compulsorily convertible preference shares. The management expects the completion of the formalities by August 2008. We note that the deal includes only the towers that would be eventually transferred to Indus. Idea has not taken shareholder approval for de-merger of tower portfolio.

High valuation for Indus would come at a cost of deterioration in the value of core business. Our valuation of Idea Cellular (US$7 bn at our 12-month forward target price of Rs110/share) includes Rs15/share (US$1 bn) of option value from the tower business. The option value captures the net accretion to Idea from its 16% stake in Indus towers. We factor in some deterioration in core business value on account of leasing of passive infrastructure. We highlight that high valuation for Indus towers (on the back of high rental assumptions) would have a corresponding negative impact on the valuation of the core business.

Implied equity value per tower for Indus appears high. Implied valuation of US$154,000/tower (US$164,000 on an EV basis, assuming 100,000 towers by end-FY2009E for Indus) translates into multiple of >2.5X capex for a tower (blended capex of US$65,000 assuming 70:30 mix between GBT and RTT). This seems to be high and presumably builds in (1) very high returns (ROIC> WACC) from very high rentals, which may not be possible due to the pricing issues in the core business and (2) high growth rate in the number of towers. We expect the number of towers to explode but we would like to see the tenancy factor and rentals given that every tower company has aggressive plans to expand rapidly. If new towers primarily earn ROIC equal to WACC, then there would be zero value creation in that case. Exhibit 1 depicts our estimation of EV/Gross Capital Invested for a GBT with various tenancies. We find it hard to argue beyond an EV/GCI of 2X with a tenancy of 3X (which in itself is an aggressive assumption) under normal pricing assumptions. It is possible to have a higher EV/GCI through higher rental assumptions, though it would reduce the value of the core business.

The positive—deal will likely take care of immediate funding requirements. We believe that the deal provides Idea with much-needed funds (in addition to raising its ability to raise further debt) for its aggressive capital expenditure plans for the next two years. We had highlighted in our post-4QFY08 results note *(please refer to our note dated April 25, 2008)* that Idea may require equity dilution to fund its aggressive capex plan over FY2009E-10E. Idea has guided (in its earnings call post 4QFY08 results) for a cumulative capex of US$2.5 bn over the next two years for 13 circles (11 existing + new rollouts in Mumbai and Bihar). We presume that this number would have gone up given that Idea has since received spectrum in Tamilnadu/Chennai and Orissa service areas and would be rolling out networks in these areas by end-FY2009. Idea had a cash balance of US$225 mn (net debt of US$1.4 bn, D/E ratio of 1.8X and Net debt/EBITDA of 2.5X) and an unutilized line of credit of US$450 mn at end-March 2008.

Key thing to focus on is the deterioration in core business dynamics; pricing pressure continues unabated. We expect pricing in the core business to continue to remain under pressure (we have already seen intense pricing wars on both local, long-distance and roaming rates in the past few weeks) due to (1) expansion of GSM/ CDMA players into new circles (RCOM into 14 GSM circles, IDEA in 12, Vodafone in 7, Aircel in 14), (2) entry of new players such as Videocon, Essar, Unitech, Shyam and a few more; we are not sure how many will eventually enter the market but the recent merger guidelines effectively mean that most of them would and (3) entry of MVNOs (Virgin etc.); the DOT recently came out with a consultation paper on allowing MVNOs in India. Exhibits 2 depicts the potential competitive landscape of the Indian wireless market.

We estimate an EV/GCI of 1.8X with a tenancy of 3 for a GBT

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
With 1 tenant															
Revenues	480	490	499	509	520	530	541	551	562	574	585	597	609	621	633
EBITDA	**224**	**231**	**237**	**243**	**250**	**257**	**264**	**271**	**279**	**286**	**294**	**302**	**310**	**319**	**327**
Tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capex	(3,000)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Change in working capital	(20.0)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Free cash flow	**(2,796)**	**200**	**207**	**213**	**220**	**227**	**234**	**241**	**248**	**256**	**264**	**272**	**280**	**288**	**297**
NPV	**(279)**														
IRR (%)	**9**														
EV/Gross Capital Invested (X)	**0.9**														
With 2 tenants															
Revenues	768	780	791	803	815	827	840	852	865	878	891	905	918	932	946
EBITDA	**416**	**424**	**433**	**441**	**450**	**459**	**469**	**478**	**487**	**497**	**507**	**517**	**527**	**538**	**548**
Tax	—	—	—	26—	(41)	(56)	(66)	(69)	(71)	(73)	(74)	(76)	(78)	(80)	(82)
Capex	(3,000)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Change in working capital	(64.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)
Free cash flow	**(2,648)**	**363**	**372**	**354**	**348**	**342**	**341**	**347**	**355**	**363**	**372**	**380**	**388**	**397**	**405**
NPV	**948**														
IRR (%)	**15**														
EV/Gross Capital Invested (X)	**1.3**														
With 3 tenants															
Revenues	1,008	1,023	1,038	1,054	1,070	1,086	1,102	1,119	1,136	1,153	1,170	1,187	1,205	1,223	1,242
EBITDA	**619**	**633**	**646**	**660**	**675**	**689**	**704**	**719**	**734**	**750**	**766**	**782**	**799**	**816**	**833**
Tax	(58)	(67)	(83)	(99)	(116)	(132)	(144)	(149)	(152)	(155)	(158)	(162)	(166)	(169)	(173)
Capex	(3,000)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)
Change in working capital	(126.0)	(1.9)	(1.9)	(1.9)	(2.0)	(2.0)	(2.0)	(2.1)	(2.1)	(2.1)	(2.2)	(2.2)	(2.2)	(2.3)	(2.3)
Free cash flow	**(2,564)**	**489**	**486**	**484**	**482**	**480**	**483**	**493**	**506**	**518**	**530**	**543**	**556**	**569**	**583**
NPV	**2,377**														
IRR (%)	**22**														
EV/Gross Capital Invested (X)	**1.8**														

Source: Kotak Institutional Equities estimates.

Expansion of existing players and entry of new ones will lead to significant increase in competitive intensity in the Indian wireless market

	Bharti	Reliance	BSNL/ MTNL	TTSL	VOD/ Essar	Idea	Aircel	Spice	BPL	Shyam Telelink	HFCL	# of other players with LoIs	Existing # of players	Potential total # of players
Metro														
Calcutta												4	5	11
Chennai												5	6	12
Delhi												5	6	12
Mumbai												4	6	13
Circle A														
Andhra Pradesh												5	6	13
Gujarat												5	6	12
Karnataka												5	6	13
Maharashtra												5	6	13
Tamil Nadu												5	6	12
Circle B														
Haryana												5	6	13
Kerala												5	6	12
Madhya Pradesh												4	5	11
Punjab												5	7	14
Rajasthan												4	7	12
Uttar Pradesh (east)												5	6	12
Uttar Pradesh (west)												5	6	12
West Bengal and A&N islands												4	6	11
Circle C														
Assam												5	5	12
Bihar												5	5	12
Himachal Pradesh												5	6	12
North East												5	4	12
Orissa												5	4	11
J&K												5	4	12

Existing operations
GSM spectrum received
Existing CDMA operations; GSM spectrum received
LoI received

Source: COAI, AUSPI, DOT, compiled by Kotak Institutional Equities.

Media

HTML.BO, Rs137	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	185
52W High -Low (Rs)	266 - 126
Market Cap (Rs bn)	32

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	12	15	17
Net Profit (Rs bn)	1.0	1.1	1.8
EPS (Rs)	4.3	4.5	7.8
EPS gth	*4.7*	*5.1*	*72.7*
P/E (x)	31.7	30	17.5
EV/EBITDA (x)	18.1	17.2	10.0
Div yield (%)	0.7	1.1	1.5

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	68.7	-	-
FIIs	19.0	0.1	0.1
MFs	7.7	0.3	0.3
UTI	-	-	-
LIC	-	-	-

HT Media: FY2008 results conference call update

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- **Expect robust growth in print ad revenues driven by Hindustan, HT Mumbai and Mint**
- **Newsprint prices and large capex; earnings growth will likely be back-ended**
- **Retain BUY with revised 12-month, DCF-based TP of Rs185 (Rs190 previously)**

HT Media management shared its views on the prospects of its print and new media (internet, radio) businesses in the FY2008 results conference call. The management appeared confident of maintaining the robust ad revenue growth rate with contributions from (1) recovery in the real estate ad spending in Delhi, (2) expansion of Hindustan in UP and (3) continued ad revenue growth in HT Mumbai and Mint. The company also disclosed its plans to invest heavily in the internet business with a capex of Rs1.5 bn over the next two years. We believe the new media initiatives of the company will be value accretive though (1) they will continue to make losses for some more time and (2) the expected breakeven period will likely be longer than previously anticipated. We have revised our estimates to include capex plans of the company and changes in accounting; our revised FY2009E, FY2010E and FY2011E consolidated EPS is Rs4.5 (Rs4.7 previously), Rs7.8 (Rs8.3) and Rs12.6 (Rs13.2), respectively.

Robust revenue growth to continue. HTML's management reiterated continued robust revenue growth in the core print business. HT Delhi reported modest 5-6% growth in FY2008 due to 40% de-growth in the key real estate segment; we expect the real estate ad spending to recover in FY2009E given a lower base and expected launch of new projects in the NCR region. The anemic growth in HT Delhi was supported by strong growth in Hindustan, HT Mumbai and Mint business newspaper. We expect the Hindi daily, Hindustan, to continue on its growth trajectory with the launch of new editions in Aligarh, Chandigarh and Mohali in 1QFY09 and soon-to-be launched Dehradun, Allahabad and Bareilly editions. HT Mint will also expand into Kolkata, Chennai and Hyderabad in FY2009E. HTML continues to invest in events and other ground based activities to support circulation and readership growth in HT Mumbai.

Newsprint prices the likely driver for print media stocks in the near term. We believe the strong growth in print ad revenues is likely to continue given robust economic growth in India. However, the revenue growth will likely be masked by rising newsprint prices in the near term; we note that newsprint prices continued their upward trend in May with 30-lb benchmark US East Coast price rising another US$20/ ton to US$680/ton (see Exhibit 2). HTML had build up 4-5 month of newsprint inventory in anticipation of rising newsprint prices, which is likely to help maintain EBITDA margins in 1QFY09. However, we believe the impact will likely be more than 15% effective increase in newsprint prices as guided by the management, unless mitigating actions in the form of (1) higher cover prices, (2) improved efficiency in circulation, (3) newsprint buying co-operatives and (4) lower pagination levels are taken. We model 35% yoy growth in RM costs for HT Media in FY2009E.

Large capex in new media businesses. HTML management disclosed capex plans of about Rs1.5 bn in the internet business over FY2009E and FY2010E. We note that HT Media has an established network in content and classifieds given its leadership position in print media segment in the metros and Tier I cities; we also see cross-selling opportunities in the print and online versions of content and classifieds segments. Thus, we believe the online content (www.hindustantimes.com, the number 2 website in the news segment) and classifieds (careers, matrimony and real estate) business is likely to be value accretive for HTML in the long run. However, the new media initiatives of the company (1) will continue to make losses for some more time, which will depress near term earnings and (2) the expected breakeven period will likely be longer than previously anticipated.

Earnings revisions

Revised earnings estimates given capex disclosures and accounting changes. We have made minor changes in our model and our FY2009E, FY2010E and FY2011E consolidated EPS is Rs4.5 (Rs 4.7 previously), Rs7.8 (Rs8.3) and Rs12.6 (Rs13.2), respectively.

1. **Accounting change.** According to Accounting Standard 21, if losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the equity of the subsidiary, the excess losses are to be adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. We have changed the accounting treatment of losses in HTML's radio subsidiary from a proportionate sharing of losses to complete consolidation of losses with the majority owner.

   We note that HT Media has a 75% stake in the Fever FM radio and 50% stake in Metro Now, the English tabloid in Delhi. The accounting for Metro Now JV with BCCL is done on a proportionate accounting basis. The accounting change reflects in lower subsidiary and other income, lower costs and zero minority interest.

2. **Capital Expenditure.** We model HTML's FY2009E and FY2010E capital expenditure at Rs2.6 bn (Rs1.3 bn previously) and Rs1.6 bn (Rs0.8 bn), respectively. The change reflects higher investment in the print and internet businesses of the company. The investment will reflect in the long-term growth of these businesses but will depress near-term earnings; HTML's FY2009E and FY2010E depreciation charges increase to Rs561 mn (Rs497 mn previously) and Rs688 mn (Rs541 mn), respectively.

3. **Higher SG&A costs.** We have marginally increased our SG&A costs in FY2009E and FY2010E to Rs3.0 bn (Rs2.9 bn previously) and Rs3.3 bn (Rs3.2 bn) to factor in higher-than-expected investment in the internet business and continued advertising and marketing spend on new media initiatives (Mint, radio, internet, Metro Now).

Our DCF-based target price for HTML is Rs185
Discounted cash flow analysis of HT Media (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
EBITDA	**1,873**	**3,216**	**4,832**	**5,657**	**6,379**	**7,090**	**7,919**	**8,752**	**9,551**	**9,844**	**10,386**	**10,957**	**11,560**
Tax expense	(503)	(961)	(1,577)	(1,884)	(2,154)	(2,423)	(2,727)	(3,035)	(3,347)	(3,504)			
Changes in working capital	(349)	(351)	(340)	(287)	(268)	(289)	(312)	(339)	(347)	(227)			
Cash flow from operations	**1,021**	**1,904**	**2,915**	**3,486**	**3,957**	**4,378**	**4,880**	**5,378**	**5,858**	**6,113**			
Capital expenditure	(2,300)	(1,550)	(816)	(561)	(572)	(583)	(594)	(606)	(618)	(629)			
Cash flows for minority interest	—	—	—	—	—	—	(56)	(65)	(68)	—			
Free cash flow to the firm	**(1,279)**	**354**	**2,099**	**2,925**	**3,385**	**3,795**	**4,231**	**4,707**	**5,172**	**5,483**	**5,785**	**6,103**	**6,439**
Dicounted cash flow-now	(1,027)	253	1,331	1,649	1,697	1,691	1,675	1,656	1,618	1,524			
Discounted cash flow-1 year forward		284	1,498	1,855	1,909	1,902	1,885	1,863	1,820	1,715	1,608		
Discounted cash flow-2 year forward			1,685	2,088	2,147	2,140	2,120	2,097	2,047	1,929	1,809	1,697	
Discount rate (%)	12.5												
Growth from 2017 to perpetuity (%)	5.5												
Fiscal year-end (March 31, XXXX)	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	
Today	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	20-May-08	
Years left	1	2	3	4	5	6	7	8	9	10	11	12	
Discount factor at WACC	**0.9**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.2**	

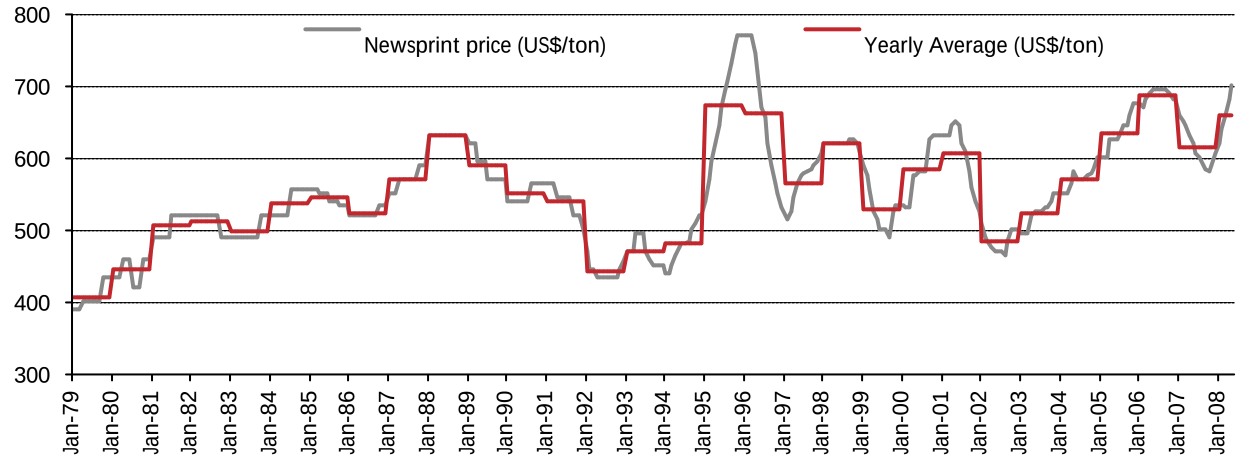
	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**16,339**	**37%**	**19,759**	**41%**
FCF in terminal year	6,103		6,439	
Exit FCF multiple (X)	14.3		14.3	
Terminal value	87,187		91,983	
PV of terminal value (b)	**27,268**	**63%**	**28,768**	**59%**
EV (a) + (b)	**43,607**		**48,527**	
EV (US$ mn)	**948**		**1,055**	
Net debt	100		62	
Equity value	**43,507**		**48,465**	
Implied share price (Rs)	**186**		**207**	
Exit EV/EBITDA multiple (X)	8.4		8.4	

Sensitivty of share price to different levels of WACC and growth rate (Rs)

Growth rate (%)	WACC (%) 11.0	11.5	12.0	12.5	13.0	13.5	14.0
1.0	161	151	142	134	127	120	114
1.0	161	151	142	134	127	120	114
2.0	172	161	151	142	133	126	119
3.0	187	173	161	151	141	133	125
4.0	205	189	175	162	151	142	133
5.0	230	209	192	177	164	152	142
6.0	264	237	215	**196**	180	166	154
7.0	315	277	247	222	201	184	169
8.0	401	340	295	259	231	208	188

Source: Kotak Institutional Equities estimates.

Newsprint prices have risen sharply led by industry consolidation and capacity rationalization in North America
Historical newsprint price, US East Coast, 1979-2008 (US$/ton)



Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities.

Reducing our earning estimates due to stronger-than-expected newsprint prices and losses in new media initiatives

Revised and previous consolidated earnings estimates for HT Media, March fiscal year-ends, 2009E-2011E (Rs mn)

	Revised estimates			Previous estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Advertisement revenues	12,009	13,684	15,319	12,009	13,684	15,319	—	—	—
Circulation revenues	1,890	2,285	2,636	1,890	2,285	2,636	—	—	—
Subsidiary and other revenues	815	1,165	1,554	838	1,238	1,776	(2.8)	(5.9)	(12.5)
Total sales	**14,713**	**17,134**	**19,509**	**14,737**	**17,207**	**19,731**	**(0.2)**	**(0.4)**	**(1.1)**
Production cost	7,558	8,027	8,239	7,691	8,223	8,429	(1.7)	(2.4)	(2.2)
Employee cost	2,255	2,565	2,839	2,263	2,575	2,880	(0.4)	(0.4)	(1.4)
SG&A expenses	3,027	3,326	3,598	2,897	3,190	3,524	4.5	4.3	2.1
Total expenditure	**12,840**	**13,918**	**14,677**	**12,851**	**13,988**	**14,833**	**(0.1)**	**(0.5)**	**(1.1)**
EBITDA	**1,873**	**3,216**	**4,832**	**1,885**	**3,219**	**4,898**	**(0.6)**	**(0.1)**	**(1.3)**
EPS (Rs)	**4.5**	**7.8**	**12.6**	**4.7**	**8.3**	**13.2**	**(3.5)**	**(5.8)**	**(4.2)**

Source: Kotak Institutional Equities estimates.

Derivation of revenues of HT Media, March fiscal year-ends, 2005-2011E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E	2006	2007	2008	2009E	2010E	2011E	2012E
Advertisement revenues														
HT Delhi	4,612	6,102	6,645	7,396	8,154	8,904	9,723	56	59	55	50	48	46	45
HT Mumbai	449	711	984	1,361	1,627	1,840	2,043	5	7	8	9	9	9	9
HT Others	571	720	988	1,384	1,631	1,869	2,113	7	7	8	9	10	10	10
HH	926	1,215	1,519	1,869	2,272	2,706	3,017	11	12	13	13	13	14	14
Advertisement revenues	**6,557**	**8,748**	**10,137**	**12,009**	**13,684**	**15,319**	**16,896**	**80**	**84**	**84**	**82**	**80**	**79**	**78**
Circulation revenues														
HT Delhi	524	572	620	652	689	727	768	6	6	5	4	4	4	4
HT Mumbai	(10)	(91)	(86)	(4)	120	247	278	—	(1)	(1)	—	1	1	1
HT Others	181	184	196	252	305	362	382	2	2	2	2	2	2	2
HH	647	704	720	988	1,171	1,300	1,373	8	7	6	7	7	7	6
Circulation revenues	**1,342**	**1,369**	**1,449**	**1,890**	**2,285**	**2,636**	**2,800**	**16**	**13**	**12**	**13**	**13**	**14**	**13**
Subsidiary and other revenues														
Other revenues	295	233	276	280	308	336	338	4	2	2	2	2	2	2
Radio revenues	—	20	170	425	564	687	816	—	—	1	3	3	4	4
Internet revenues	—	—	—	60	180	350	490	—	—	—	—	1	2	2
Metro Now revenues	—	—	—	50	113	181	216	—	—	—	—	1	1	1
Total revenues	**8,195**	**10,370**	**12,033**	**14,713**	**17,134**	**19,509**	**21,556**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of HT Media, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model								
Net sales	6,247	8,210	10,397	12,033	14,713	17,134	19,509	21,556
EBITDA	**753**	**1,184**	**1,680**	**1,699**	**1,873**	**3,216**	**4,832**	**5,657**
Other income	91	177	367	439	410	409	430	461
Interest	(72)	(135)	(143)	(178)	(198)	(255)	(234)	(191)
Depreciation	(227)	(385)	(436)	(570)	(636)	(763)	(662)	(705)
Pretax profits	**546**	**841**	**1,468**	**1,390**	**1,450**	**2,607**	**4,366**	**5,222**
Extraordinary items	(106)	(229)	2	—	—	—	—	—
Tax	(22)	(65)	(573)	(405)	(445)	(883)	(1,498)	(1,819)
Deferred taxation	(142)	(174)	27	28	60	114	93	119
Net income	**274**	**373**	**924**	**1,013**	**1,065**	**1,839**	**2,961**	**3,523**
Minority interest	—	—	(46)	—	—	—	—	—
Adjusted net income	**349**	**537**	**969**	**1,013**	**1,065**	**1,839**	**2,961**	**3,523**
Earnings per share (Rs)	**1.8**	**2.4**	**4.1**	**4.3**	**4.5**	**7.8**	**12.6**	**15.0**
Balance sheet								
Total equity	4,114	6,932	7,642	8,381	9,035	10,326	11,901	12,951
Minority interest	—	—	—	—	—	—	—	—
Deferred taxation liability	132	296	273	244	184	70	(23)	(142)
Total borrowings	1,716	1,696	1,658	1,650	3,000	3,000	2,500	2,000
Current liabilities	1,406	1,809	2,113	2,117	2,601	2,722	2,778	2,925
Total liabilities and equity	**7,367**	**10,733**	**11,685**	**12,393**	**14,821**	**16,118**	**17,156**	**17,734**
Cash	489	2,678	1,104	459	390	428	917	1,204
Other current assets	1,889	3,276	2,863	3,476	4,309	4,781	5,176	5,610
Total fixed assets	3,823	3,736	4,109	4,924	6,663	7,526	7,755	7,686
Intangible assets	158	182	1,098	1,023	948	873	797	722
Investments	1,009	861	2,510	2,510	2,510	2,510	2,510	2,510
Total assets	**7,367**	**10,733**	**11,685**	**12,393**	**14,821**	**16,118**	**17,156**	**17,734**
Free cash flow								
Operating cash flow, excl. working capital	540	757	1,194	1,116	1,230	2,078	3,101	3,647
Working capital changes	78	(232)	(226)	(608)	(349)	(351)	(340)	(287)
Capital expenditure	(1,085)	(327)	(867)	(1,310)	(2,300)	(1,550)	(816)	(561)
Investments	(566)	388	(319)	—	—	—	—	—
Other income	27	130	197	439	410	409	430	461
Free cash flow	**(1,006)**	**716**	**(21)**	**(363)**	**(1,008)**	**586**	**2,374**	**3,260**
Ratios (%)								
Debt/equity	40.4	23.5	20.9	19.1	32.5	28.9	21.0	15.6
Net debt/equity	28.9	(13.6)	7.0	13.8	28.3	24.7	13.3	6.2
ROAE (%)	9.8	9.4	12.8	12.3	11.9	18.7	26.6	28.5
ROACE (%)	**11.1**	**12.1**	**10.6**	**11.2**	**10.2**	**14.8**	**21.8**	**24.2**

Source: Kotak Institutional Equities estimates.

Bajaj Finserv to list on May 26, 2008; estimate fair value at Rs670 per share

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- **Bajaj Finserv to list on Monday, we estimate fair value at Rs670 per share**
- **The life business will add around 76% to SOTP value and general insurance 13% of the value**

Bajaj Finserv will be listed shortly. This company will hold the life Insurance business (74% stake, 26% economic value), general insurance (74% stake, 50% economic value), auto finance, wind power business and Rs8 bn of cash. We peg Bajaj Finserv fair value at Rs670 per share, arrived at using SOTP methodology. Note the market may use a lower economic value for the life insurance business leading to a valuation of Rs500 per share. We are positive on the life insurance and general insurance business, both of which are showing strong premium growth. We value the life business using appraisal value method, the general insurance business on PBR method, and the auto finance at its current market value/price post 15% holding company discount.

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Bajaj Allianz Life insurance, valued on appraisal value method:

- We estimate Bajaj Allianz Life Insurance fair value at Rs230 bn. For Bajaj Finserv, we assume a 38% economic value in the life business and assign a holding company discount of 15%. This translates into Rs515 per share value for Bajaj Finserv SOTP. At a lower economic value of 26%, the value will be Rs 350 per share.
- We assume a 38% economic value to reflect a 50% probability that the FDI holding limit will be increased to 49% from 26% currently and not 74%. In case FDI limit is not increased by July 2016, Bajaj Finserv will get the market value for its investment rather than the formula based pricing.
- Bajaj Allianz, reported an 82% growth in the gross written premiums for FY2008 to Rs 97.3 bn, within which the company's new business premiums grew by 56% yoy to Rs 67 bn. The company AUM stands at Rs110 bn up from Rs68 bn in FY2007.
- Company reported margin of 21% despite withdrawal of actuarially funded product.
- The company closed the year with 1,007 branches, and 240,000 agents up from 876 and 213,000 respectively in FY2007.

Bajaj General Insurance

- We value Bajaj Allianz General Insurance at 5X BVPS FY2008 to Rs 24.5 bn. Bajaj Finserv has a 50% economic value in the company. Post holding company discount of 15%, this company will add around Rs85 per share to Bajaj Finserv SOTP.
- The general insurance business has seen a sharp 60% fall in profit in the 4QFY08 to Rs154mn, this despite a 77% growth in premium collection. Likely detariffying of rates and high upfront cost is reflected in the lower profits.

Bajaj Auto Finance Ltd (BAFL)

- We value Bajaj Auto Finance based on its current market price, post holding company discount of 15%. The company trades at 47X PER FY2008. This company adds around Rs20 per share to Bajaj Finserv SOTP.
- BAFL's. net operational income was up 17% yoy to Rs3.32 bn in FY2008. However, PAT was down 57% yoy in FY2008 to Rs201 mn on the back of higher provisions, operating expenses and employee wages.
- During 4Q08, higher provisions and operating expenses pulled down PAT by 78% to Rs46 mn.

Bajaj Finserv fair value estimate based on FY2009

	Value (Rs mn)	No of shares (mn)	Value per share (Rs)	% contribution to SOTP	Comments
Bajaj Finserv		**145**			
Life insurance subsidiary	74,367		513	76	At 38% stake, 20X NBV, post 15% holding company discount
General insurance subsidiary	12,215		84	13	At 5X FY2008 BVPS and 15% holding company discount
Bajaj Auto Finance	3,396		20	3	Based on current market price and 15% holding company discount
Net cash	8,000		55	8	
Value of Bajaj Finserv			**672**		

Note: At 26% stake the company valuation

Source: Kotak Institutional Equities

Bajaj Allianz Life insurance business valuation based on FY2009 NBV estimate

Key assumptions

Premium collection (Rs mn)

	Individual Single Premium	Individual regular premium	Group Single Premium	Group regular premium	Total premium	Total annualized premium	% growth	Total annualized premium individual business	% growth
2007	11,791	30,275	76	555	42,697	31,517	136	31,454	136
2008E	7,352	55,687	85	1,794	64,918	56,610	80	56,422	79
2009E	8,000	77,962	119	2,512	88,592	79,025	40	78,762	40

NBV assumption

	NBV margin (%)						
	individual SP (%)	Individual regular premium (%)	Group Single Premium (%)	Group regular premium (%)	Avg margin on APE (%)	Avg margin on APE individual bus. (%)	NBV (Rs mn)
	1.00	10.00	-	-	9.97	10.00	7,876
	1.20	12.00	-	-	11.96	12.00	9,451
Base case	**1.40**	**14.00**	**-**	**-**	**13.95**	**14.00**	**11,027**
	1.50	15.00	-	-	14.95	15.00	11,814
	1.60	16.00	-	-	15.95	16.00	12,602

Other assumptions

Embedded value (Rs mn)	42,786
No of shares o/s of Bajaj Finserv (mn)	145
Holding company discount	15%

Sensitivity analysis indicating value of firm at different margin and multiple assumption

Structural value (Rs bn) = NBV * multiple

	Margin (%)					
Multiple (X)	**10.0**	**12.0**	**14.0**	**15.0**	**15.9**	**16.9**
14	110.3	132.3	154.4	165.4	176.4	187.5
16	126.0	151.2	176.4	189.0	201.6	214.2
17	133.9	160.7	**187.5**	200.8	214.2	227.6
18	141.8	170.1	198.5	212.7	226.8	241.0

Appraisal value (Rs bn) = Structural value + Embedded value

	Margin (%)					
Multiple (X)	**10.0**	**12.0**	**14.0**	**15.0**	**15.9**	**16.9**
14	153.1	175.1	197.2	208.2	219.2	230.2
16	168.8	194.0	219.2	231.8	244.4	257.0
17	176.7	203.5	**230.2**	243.6	257.0	270.4
18	184.6	212.9	241.3	255.4	269.6	283.8

Contribution to sum-of-parts assuming full value for 38% (Rs per share)

	Margin (%)					
Multiple (X)	**10.0**	**12.0**	**14.0**	**15.0**	**15.9**	**16.9**
14	340.9	390.1	439.2	463.8	488.3	512.9
16	376.0	432.2	488.3	516.4	544.5	572.5
17	393.6	453.2	**512.9**	542.7	572.5	602.4
18	411.1	474.3	537.4	569.0	600.6	632.2

Contribution to sum-of-parts assuming full value for 26% (Rs per share)

	Margin (%)					
	10.0	**12.0**	**14.0**	**15.0**	**15.9**	**16.9**
14	233.3	266.9	300.5	317.3	334.1	350.9
16	257.3	295.7	334.1	353.3	372.5	391.7
17	269.3	310.1	**350.9**	371.3	391.7	412.1
18	281.3	324.5	367.7	389.3	410.9	432.5

Source: Kotak Institutional Equities

Bajaj Allianz life and general insurance business key data (Rs mn)

	4Q07	4Q08	% growth	FY2007	1Q08	2Q08	3Q08	FY2008	% growth
Total premium income gross	26,294	44,950	**71**	53,400	10,599			97,300	**82**
New Business premium	20,859	29,202	**40**	42,700	7,291			67,000	**57**
Shareholders loss	504	(780)	(255)	(717)	-403	240	-1197	(2,140)	198
Generat Insurance									
PBT	616	240	**(61)**	1,170	354	461	625	1,680	**44**
PAT	394	154	**(61)**	750	219	276	411	1,060	**41**
Premium income		8,900		18,030	5,700	5500	5700	25,800	

Source: Kotak Institutional Equities

Bajaj Auto Finance

Financial results, March fiscal years, 2007-2008 (Rs mn)

	4Q07	4Q08	YoY(%)	2007	2008	YoY(%)
Operational income	1,057	1,110	5	3,528	4,097	16
Other income	205	307	50	490	931	90
Interest expenses	379	490	29	1,181	1,704	44
Net operational income	**883**	**928**	**5**	**2,837**	**3,324**	**17**
Provisions for bad debts	157	342	117	809	1,092	35
Net operational income (post provisions)	**726**	**586**	**(19)**	**2,028**	**2,232**	**10**
Operating expenses	407	512	26	1,316	1,932	47
Employee expenses	95	129	35	323	500	55
Marketing and dealer incentives	138	117	(15)	460	571	24
Other operating expneses	173	266	54	533	861	61
Profit before tax	**319**	**74**	**(77)**	**713**	**300**	**(58)**
Tax	112	29	(74)	240	99	(59)
Profit after tax	**208**	**46**	**(78)**	**472**	**201**	**(57)**
EPS (Rs)	**8.4**	**1.3**	**(85)**	**18.8**	**5.7**	**(70)**

Source: Company.

Economy

Sector coverage view	N/A

If RBI sells US$6.5 bn to hold rupee, liquidity crunch likely as it amounts to three more 25 bps CRR hikes

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- **Rupee breached 43 vs. US dollar intra-day; has depreciated 6.6% in FY2009**
- **Steep slide a reflection of both—RBI letting loose the currency and losing control of it**
- **Experiment likely to establish that single central bank objective is not practical**
- **RBI may hold rupee at near 43 levels over the next week, but likely to test 43.40 by June 20**

Has the Indian rupee exchange rate been let loose by RBI or has it lost control of it? Our view is that both elements are present. We believe the RBI started intervening in the forex markets in the afternoon of May 22, 2008 after the rupee had slipped to intra-day low of 43.20. With this support, rupee closed at 42.97. We expect intervention to continue intermittently over the next two weeks but peter off for two weeks thereafter. So, we expect the rupee to hold at about current levels till early June, but test 43.40 by the week-ended June 20. Considering this, we would be revisiting our exchange rate targets for FY2009E and FY2010E next week.

In our Economy note of May 15, 2008 *Rupee likely to breach 43 in near term as RBI appears to be wary of liquidity crunch,* we had stated that we expect the rupee to breach 43 in a week with RBI perhaps intervening to shore it up thereafter. We had added that the mark could be breached within a week. In line with this we now expect rupee to hold up over the next week. A small reversal to 42.75 levels ais also possible as exporters may now sell dollars. However, as stated in our earlier note, the liquidity outflows associated with advance tax flow in second and third week of June would force RBI to abstain once again. The Rupee could at that point of time test Rs43.40 vs. US dollar.

RBI may have let loose the rupee partly seeing its desirability

We believe that at least in part, RBI may have let loose the rupee. With forex reserves at US$313 bn it is difficult to believe otherwise. So, the RBI is likely to have seen some merit in its move of abstaining from intervening in the forex market allowing the rupee to slide almost freely. The sharp increase in global crude price has direct implication for deterioration in trade balance and fiscal deficits. As such the rupee required a correction. In term of 6-currency trade weighted REER, the rupee was still overvalued by about 8% at the start of FY2009. So it required a downward adjustment. In fact, the rupee was overvalued by 15% in 1HFY08, but very strong capital inflows led to an appreciation momentum at that point of time.

Drying up of capital flows one of the factors, but RBI behavior is the key

We believe three explanations for recent fall of the rupee are: (1) genuine excess demand for dollars, (2) change in market sentiments due to flaring global crude oil prices and (3) RBI abstaining when market tested rupee depreciation. Capital flows drying up in CY2008 has been an important factor in changing the direction of the rupee. Anecdotal evidence suggests that FII and ECB flows have dried up while FDI has decelerated. There have been net sales by FIIs in cash market of US$2.1 bn in CY2008 so far, but most of them were in January. So, why has the rupee depreciated in May? Flows other than FIIs may have dropped, but more importantly demand for dollars rose. The key difference, however, was that a part of the market started believing that rupee could slide and with RBI constrained in its interventions the outcome was on the wall.

RBI has been constrained in interventions because of expected tight liquidity

RBI has partly lost control of the rupee because of fears of excessive liquidity tightening. Capital inflows have dropped and RBI having effected three CRR hikes of 25 bps each over the past month—the third of which kicks in from next week—liquidity could dry up. Over the last three days, liquidity has moved into surplus with average daily LAF absorption of Rs275 bn. However, this is more due to frontloading of reserve requirements by banks.

With advance tax collections in second and third week of June, liquidity can become a serious concern if RBI makes large dollar sales. If it sells US$6.5 bn in the forex market, which could be the amount required if reverse rupee expectations are to be again reversed, it could lead to sucking out of Rs275 bn of liquidity equivalent of initial impact of another three CRR hikes of 25 bps. As such, we believe RBI would again inject large liquidity through open market operations when this tightening occurs.

Experience of past two weeks establish single inflation targeting mandate not practical

We believe RBI's near absenteeism from the forex market, even if an experiment, would establish that inflation targeting as a single mandate for the central bank is impractical. Inflation targeting as a single mandate has been advocated by the Tarapore Committee reports on capital account convertibility (1997, 2006), Percy Mistry Committee report and more recently by Committee on Financial Sector Reforms headed by Raghuram Rajan. The sharp depreciation of the rupee has not been seen beneficial just as the sharp appreciation last year was seen to have been destabilizing.

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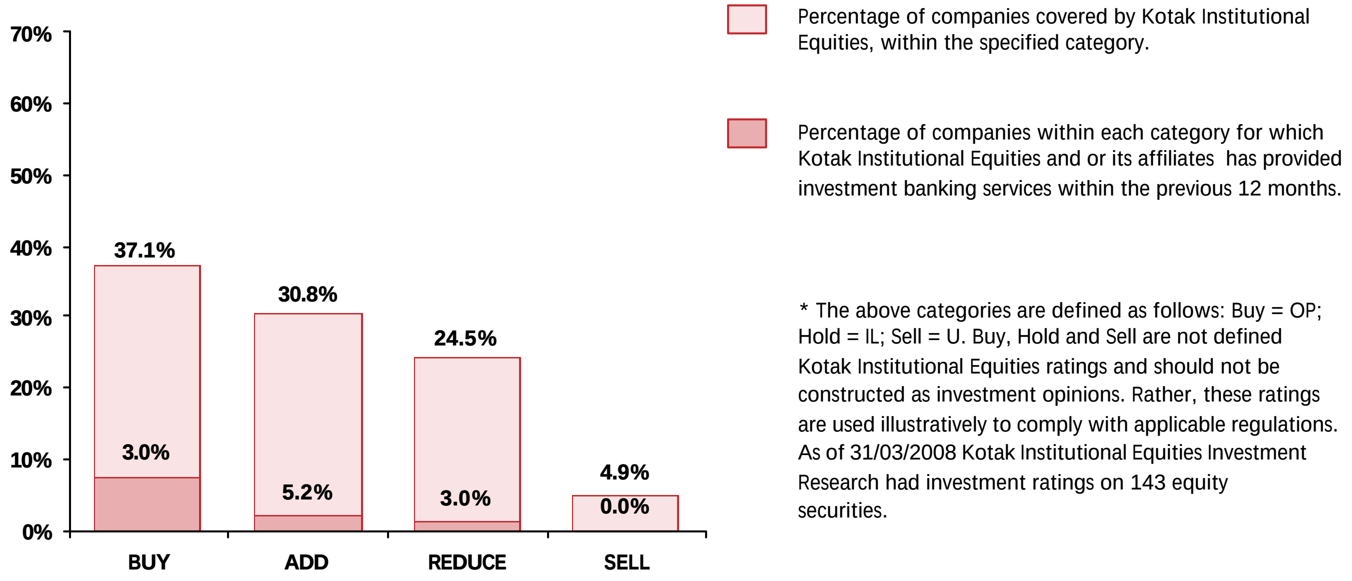

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Source: Kotak Institutional Equities. As of March 31, 2008

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