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Updates

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News Roundup

An exciting weekend for newswatchers, key headlines:

- The Nuclear Suppliers' Group cleared the way for India to buy products and technologies associated with civilian uses of nuclear technology.
- The West Bengal government announced on Sunday night that it has decided to give maximum land to Singur farmers in order to meet the demands of Trinamool Congress leader Mamata Banerjee. Readers would have followed recent events which pitted the Ms Banerjee against the Tata group over compensation for land acquired to set up the Nano plant. Even if the two factions reach an agreement, observers contend that the impasse and its resolution would have taken a toll on the Nano's committed roll out from Singur on October 1.

In other news:

- Buyout private equity giant Kohlberg Kravis Roberts & Co (KKR) is chasing probably its first pure-play India deal, eyeing BT's stake in the Indian telecom services company Tech Mahindra. KKR is preparing a potential bid even as four other global PE players, Apax Partners, Texzan Pacific Group, Temasek and Carlyle have also shown early interest in a formal process which will start in 10 days. (ET)
- ONGC has renewed its oil and gas exploratory activity in Cauvery offshore - starting to drill in its Cauvery deepwater block, which is close to Reliance Industries Ltd's successful block in the region.

Quotes of the weekend:

- The government has no immediate plans (to allow private sector participation in setting up nuclear power projects in the country) on this front. We are in no hurry and this is not what our priority is at the moment, The country's first priority is to bring the existing nuclear power stations to run at full capacity." *Jariam Ramesh, Minister of State for Power (FE)*
- "It's a big win for us," *Mamata Banerjee, Trinamool Congress leader, on the West Bengal governments concession of her demands for farmer compensation (ET)*
- "The government and those who have been agitating on behalf of the farmers will cooperate with each other for the benefit of the industry, agriculture and ancillaries." *Announcement from Raj Bhavan in West Bengal on Sunday night. (ET)*

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

EQUITY MARKETS

India	Change, %			
	5-Sep	1-day	1-mo	3-mo
Sensex	14,484	(2.8)	(4.5)	(7.0)
Nifty	4,352	(2.1)	(3.9)	(6.0)

Global/Regional indices				
Dow Jones	11,221	0.3	(4.4)	(8.1)
FTSE	5,241	(2.3)	(4.5)	(11.3)
Nikkie	12,650	3.6	(3.9)	(12.7)
Hang Seng	20,726	4.0	(5.3)	(15.1)
KOSPI	1,462	4.1	(6.8)	(20.2)

Value traded - India				
	Moving avg, Rs bn			
	5-Sep	1-mo	3-mo	
Cash (NSE+BSE)	161.4	168.6	176.2	
Derivatives (NSE)	468.7	526.9	510	
Deri. open interest	751.9	664	708	

Forex/money market

	Change, basis points			
	5-Sep	1-day	1-mo	3-mo
Rs/US\$	44.5	17	236	157
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US\$m)

	4-Sep			MTD	CYTD
FIs	(99)			-	(7,299)
MFs	30			-	2,501

Top movers -3mo basis

Best performers	Change, %			
	5-Sep	1-day	1-mo	3-mo
BANK OF BARODA	295	(2.4)	2.8	29.0
BHARAT HEAVY ELI	1,732	(1.9)	(2.9)	21.7
BHARAT PETROLEU	359	8.6	13.3	19.2
UNION BANK OF INC	151	(2.9)	1.2	21.6
RELIANCE CAPITAL	1,315	(5.5)	(7.2)	17.7
Worst performers				
HOUSING DEVELOP	306	(2.9)	(21.0)	(37.4)
JSW STEEL LIMITED	711	(2.9)	(10.6)	(34.4)
ABAN OFFSHORE LI	2,295	3.6	(8.0)	(35.4)
TATA STEEL LIMITE	560	(3.8)	(14.1)	(32.0)
INDIABULLS REAL E	278	(3.9)	(11.5)	(34.1)

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Technology**HCLT.BO, Rs244**

Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	250
52W High -Low (Rs)	336 - 180
Market Cap (Rs bn)	169.9

Financials

June y/e	2008	2009E	2010E
Sales (Rs bn)	76.4	95.7	113.8
Net Profit (Rs bn)	10.6	15.5	17.6
EPS (Rs)	15.3	22.3	25.4
EPS gth	(19.0)	46.0	13.8
P/E (x)	16.0	11.0	9.6
EV/EBITDA (x)	9.1	7.3	6.1
Div yield (%)	3.3	3.3	3.3

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	67.5	-
FIs	17.7	0.5 (0.0)
MFs	2.1	0.3 (0.2)
UTI	-	- (0.5)
LIC	2.7	0.3 (0.2)

HCL Technologies : BT deal and consolidation of acquisitions to aid near-term growth; organic growth will trail peers, in our view. Maintain REDUCE

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- **Management maintains stance on robust revenue growth; confidence driven by expected ramp-up in BT, in our view**
- **Organization structure verticalized completely**
- **Reasonable valuations and high dividend yield should provide downside support**
- **Can the company to deliver growth in the long term? The question niggles. Maintain REDUCE**

HCLT reiterated its confidence in its FY2009E revenue growth in our recent set of meetings with the company; however, we believe that the company has its own fair share of challenges on revenue growth, as its larger peers. We highlight that HCLT has been facing challenges within—(1) some of its large BFS clients with two of them having put a freeze on IT budgets and a ramp-down from a third and (2) new deal closures are slowing down. Deferral of joining dates for campus recruits (versus earlier years) also indicates low visibility of demand pick-up. Organic revenue growth for the Sep quarter may be aided by ramp-up in the BT account; however, we see some moderation subsequently. High dividend yield (5% at current levels) should continue to provide downside support to the stock; however, we continue to remain concerned about the company's ability to sustain strong organic revenue growth rates or operating margins given its high focus on mid-market clients. Maintain REDUCE with a June 2009 DCF-based target price of Rs250/share.

Ramp-up in BT account and acquisition consolidation to aid near-term reported revenue growth. We expect moderate near-term revenue growth for HCLT aided by a ramp-up in the recently-won large applications portfolio deal from BT and consolidation of recent acquisitions. HCLT has made three acquisitions in the past seven months—

- 1. Capital Stream.** HCLT acquired Capital Stream. Inc., a US-based provider of loan origination and STP systems to the commercial banks in Feb 2008. The acquisition was consummated in the June 2008 quarter and contributed US\$5 mn to HCLT's revenues in FY2008. We estimate US\$20 mn of revenues (US\$15 mn incremental) from Capital Stream in FY2009E.
- 2. Liberata Financial Services (LFS).** HCLT acquired LFS, the L&P BPO arm of Liberata Limited, for an undisclosed sum in the month of July 2008. LFS operates in the Life and Pensions policy administration outsourcing market in the UK and has an annual revenue run rate of ~US\$60 mn. Acquisition will likely be consolidated from Oct 1, 2008 and contribute around US\$45 mn of revenues to HCLT in FY2009E.
- 3. Control Point.** HCLT announced the acquisition of ControlPoint, a telecom expense management company, very recently. ControlPoint is a transaction-processing BPO, which processes and manages the telecom expenditure of large organizations, as well as inter-carrier billing for telecom service providers. HCLT indicates that it expects US\$28 mn in revenues for ControlPoint for the year ending June-2009. Acquisition will likely be consolidated from Oct 1, 2008 implying a revenue contribution of ~US\$21 mn for HCLT in FY2009E.

The three acquisitions will together likely contribute an incremental US\$81 mn for HCLT in FY2009E, a 4.5%pts contribution to revenue growth. Our organic revenue growth forecast is 17.5% for FY2009E, 4% pts lower than the Tier-1 weighted average organic revenue growth and at least 3% lower than the consensus growth forecast.

Confidence on strong revenue growth despite cautious stance on overall demand environment. HCLT maintained its confident stance on FY2009E revenue growth in our recent set of meetings with the company; however, we believe the company has its own fair share of challenges on revenue growth, as its larger peers do. We note that HCLT has been facing client specific challenges within its BFSI vertical, and its BPO business has still not recovered from the loss of a large client. These factors also reflected in the company not providing an annual revenue guidance, unlike last year. The company continues to see its strength in the infrastructure management space to drive revenue growth for the company; however, we do not concur with the management's strategy of infra-led apps business growth. In addition, the company's focus on mid-market (non F/G-1000) clients may also constrain its ability to grow faster or in line with the larger peers in the medium-to-long-term, in our view.

Reported FY2009E EPS growth to be seen in context of large forex losses booked in 4QFY08. Our current FY2009 EPS estimate of Rs22.3 implies an EPS growth of 46% over FY2008. However, we highlight that the growth is being aided partially by the huge forex loss (US\$69.7 mn) booked by the company in 4QFY08 (year-ending June), which impacted FY2008 earnings. Adjusted for this forex loss, FY2009E EPS growth stands at a moderate 14%, significantly lower than other tier-I companies. We also highlight that HCLT has changed its forex accounting policy thrice over the past two years and still has US\$2 bn forex hedges outstanding. The outstanding hedges cover HCLT's net USD inflows for the next seven quarters, implying a substantially higher hedging position than peers. HCLT, after cancellations in June quarter, does not have forex covers for the September and December quarter implying that it would derive full benefits of rupee depreciation in these two quarters.

Organization structure verticalized completely. Similar to the trend seen in some of its larger peers (Infosys, TCS, Wipro) over the past year, HCLT has revamped its organization structure completely along vertical lines. We view the trend as being driven by the need to focus on building domain-specific capabilities, rather than remaining horizontal-driven service providers. Overcoming growth challenges posed by large revenue base, improved offshore capabilities of global majors, and increasing commoditization of specific services will hinge on the Indian vendors' ability to successfully develop vertical-specific service offerings/solutions.

High dividend yield should provide downside support. HCLT is trading at 11X FY2009E and 9.6X FY2010E EPS. Reasonable valuations, coupled with high dividend yield (5% at CMP) should provide downside support to the stock in the near-term, in our view.

However, the ability to deliver in the long-term remains a question mark; maintain REDUCE. We maintain our REDUCE rating on the stock given our concerns on the ability of the company to sustain a robust revenue growth trajectory and margin performance beyond the near term. We believe HCLT's strategy of focusing on infra-led apps growth and focusing on mid-market clients (non F/G-1000) will likely be tested in the current challenging environment. HCLT's strategy makes new deal wins critical to sustenance of revenue growth rate—longer decision making cycles at the client end may hurt HCLT here. Also, the risk of consolidation within the client base is significantly higher for the mid-sized clients as opposed to F/G-1000 clients. June 2009 DCF-based target price remains unchanged at Rs250/share.

Significant weakening in revenue growth trajectory across business lines over the past four quarters

	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Revenues - US\$m												
IT services	169	178	187	202	222	243	262	282	309	335	357	371
Infrastructure services	22	27	29	34	40	46	50	59	65	71	72	76
BPO	30	30	35	36	38	42	50	54	55	55	56	57
Total	221	234	252	272	301	331	362	396	429	461	485	504
Growth qoq (%)												
IT services	3.9	5.2	5.3	8.0	10.0	9.2	8.1	7.6	9.5	8.3	6.5	4.0
Infrastructure services	0.8	21.3	9.7	16.0	17.0	16.6	8.2	18.1	9.1	9.1	1.6	6.4
BPO	0.1	0.1	18.0	3.5	5.8	9.4	18.3	8.7	2.0	0.5	1.8	0.2
Total	3.1	6.1	7.4	8.3	10.3	10.2	9.4	9.2	8.4	7.5	5.2	3.9

Source: Company

Profit and Loss statement for HCL Technologies, year-ends June, FY2006-FY2010E (Rs mn)

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Revenues	44,002	60,337	76,394	95,667	113,774
RSU expenses	279	612	759	670	662
Direct costs	27,576	37,604	46,904	59,116	71,620
Gross profit	16,147	22,122	28,731	35,880	41,492
SG&A expenses	6,577	9,370	12,572	16,053	18,635
EBIDTA (excl other income)	9,570	12,752	16,159	19,827	22,857
Depreciation	2,032	2,534	3,033	3,625	4,174
EBIT	7,538	10,218	13,126	16,202	18,682
Interest income/(expenses)	578	4,262	(1,195)	1,534	2,240
Earnings before tax	8,116	14,480	11,931	17,737	20,922
Tax	626	1,489	1,281	2,225	3,275
Income bef share of equity investees	7,490	12,990	10,650	15,512	17,647
Share of income (loss) of equity investees	—	—	(9)	(4)	—
Minority interest	16	52	20	—	—
Net income	7,473	12,938	10,621	15,507	17,647
Less: extraordinary items	(1,290)	—	—	—	—
Net income after extraordinary items	6,183	12,938	10,621	15,507	17,647
EPS (Rs.) fully diluted	11.4	18.9	15.3	22.3	25.4
Margins (%)					
Gross profit margin	36.7	36.7	37.6	37.5	36.5
Operating margin	21.7	21.1	21.2	20.7	20.1
EBIT margin	17.1	16.9	17.2	16.9	16.4
Net profit	17.0	21.5	13.9	16.2	15.5
SG&A expenses	14.9	15.5	16.5	16.8	16.4
Tax rate	7.7	10.3	10.7	12.5	15.7
Growth (%)					
Revenues	30.6	37.1	26.6	25.2	18.9
Gross profit	28.8	37.0	29.9	24.9	15.6
EBITDA	23.9	33.3	26.7	22.7	15.3
EBIT	22.2	35.6	28.5	23.4	15.3
Net profit	15.5	73.4	(18.0)	45.6	13.8

Source: Kotak Institutional Equities estimates

Economy

Sector coverage view

N/A

Speedy rupee depreciation suggests that capital inflows have not dried up

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- **FII net sell US\$4.2 bn in 1QFY09 but net purchase US\$0.6 bn in 2QFY09 so far**
- **Gross FDI inflows at US\$10.1 bn in 1QFY09, double that in 1QFY08**
- **ECBs drop to US\$6.5 bn in April-July 2008 from US\$14.37 bn April-July 2007; but larger approvals have begun**
- **Rupee depreciates 10.7% in FY2009 so far; largely reflect US dollar appreciation against major currencies (9.5% vs Euro; 12.1% vs Pound sterling)**

The Indian rupee (INR) has depreciated 10.7% in FY2009 so far (8.3% YTD). The depreciation has been particularly steep over the past month (5.9% since August 6). However, we believe that this is not the result of capital flows drying up in the Indian economy and is largely the reflection of US dollar (USD) appreciating against major currencies. While capital flows have moderated in FY2009 so far from the lumpy excess flows in FY2008, they are only to some extent below the level which may be comforting to policymakers. We believe that we could see a review of the ECB and FDI policies ahead to augment capital inflows and arrest the sharp depreciation of rupee. However, in view of the sharp dollar appreciation, we recognize the possibility of the INR/USD exchange rate moving to about 45.00 by early October and revise our average forecast for the year to 43.25 from 42.75.

Rupee moving in line with US dollar appreciation vs major currencies

We believe that the INR depreciation has been largely in line with the appreciation of USD against Euro. USD movement over the past month has been particularly strong.

- USD appreciated 8.1% against Euro and 10.5% against British pound (GBP)
- However, Japanese yen (JPY) has appreciated 3.3% against USD
- INR has depreciated 5.9% against USD—less than the USD appreciation against Euro and GBP

It appears that recent INR movements have largely mimicked the USD appreciation (Exhibit 1). Although looking at a month-long timeframe does not suggest that the INR depreciation fully offsets USD appreciation, over the broader timeframe of the financial year, the movement has been more in line. Considering that (1) inflation in India has been markedly higher than in developed countries and (2) trade deficit has been widening, the current rupee depreciation has been largely in line with shift in domestic and global economic fundamentals.

FDI flows remain strong in spite of FII outflows in FY2009

In our assessment, capital flows have moderated but not dried up. Moderation in capital flows has had a second order impact of supporting rupee depreciation, but the first order impact has been largely the result of US dollar appreciation against major currencies. Moderation of capital inflows has been obvious in that:

1. Total gross foreign investment (FDI+portfolio) has dropped to US\$5.9 bn compared in 1QFY09 with US\$12.5 bn in 1QFY08 (see Exhibit 2)
2. The drop has been largely the result of portfolio investment outflows. Portfolio investment gross outflows were at US\$4.2 bn (FII outflows of US\$5.2 bn + ADRs/GDRs inflow of US\$1.0 bn) in 1QFY09 compared with gross inflow of US\$7.5 bn (including ADRs/GDRs inflow of US\$0.3 bn)
3. In net terms, FIIs net sold US\$4.2 bn in 1QFY09 (of which US\$3.5 bn was in equity segment while US\$0.7 bn in debt) compared with net purchases of US\$3.3 bn in 1QFY08

4. In contrast, FDI inflows have been strong and in gross terms aggregated US\$10.1 bn in 1QFY09 compared with US\$5.0 bn in 1QFY08.

FII outflows had been strong in 1QFY09 when they sold (net) US\$4.2 bn (Exhibit 3). However, FII flows appear to have stabilized in 2QFY09 with net purchases of US\$0.6 bn so far.

Indications are that strong FDI flows of FY2008 have turned stronger in FY2009

Gross FDI inflows have already totaled over US\$10 bn in 1QFY09. This means that more than half the US\$19.4 bn gross FDI inflows in the full year of FY2008 have come in the first quarter itself. While sector-wise or country-wise details of the FDI inflows are not available on a quarterly basis, the same are available on an annual basis for the past three years (Exhibits 4 and 5).

From the abovementioned data, it appears that financial services, manufacturing and construction account for more than half of total FDI inflows. Nearly half of the FDI is flowing in through Mauritius, with Singapore emerging as a new important source. The Double Taxation Avoidance Agreements (DTAAs) have been helpful in attracting foreign capital through these two countries.

Quarterly balance of payments data of the RBI shows that outwards FDI has remained strong in FY2007 and FY2008 aggregating over US\$30 bn of which US\$7.4 bn was in 4QFY08.

ECBs flows have dwindled by half but may improve ahead

A drop in ECB flows may have also contributed to some pressure on INR. In gross terms, ECBs in the first four months of FY2009 have dropped to US\$6.5 bn from US\$14.4 bn in corresponding period last year (see Exhibit 7). At this rate, gross ECBs may fall just under US\$20 bn for the full year FY2009 which would be a 40% drop over US\$32.8 bn gross ECB inflows in FY2009.

Moderation in ECBs has been partly contributed by the restrictive policy that was put in place on August 7, 2007 and partly by tightening of the credit conditions in global markets which have made it difficult for many firms to access ECBs even after ceiling on spreads were widened towards the end of May 2008.

We expect further capital account liberalization to augment dollar inflows

In view of the moderation of capital inflows through FII and ECB routes, we expect liberalization of the same in near term. The major changes expected are:

- More liberal ECB approvals of ECBs by RBI (approvals have already gone up in July)
- Reversal of the ECB restrictions to a near pre-August 2007 ECB regime
- Further liberalization of FDI, especially in insurance sector

We believe that the FDI cap in insurance is likely to be raised to 49% from existing 26%. However, in our view, this is unlikely to improve USD inflows in near term as the process can be effectively completed only in FY2010. The increase in FDP cap for insurance would require legislative approval of legal changes or an ordinance. However, an ordinance may not be helpful as foreign investors may like to wait for Parliament to approve the same before they decide to bring in capital. As such, ECB relaxations would provide an easier route to augment capital flows. Limits on FII investment in debt markets can also be reviewed once again.

Sustained US dollar appreciation forces us to revise exchange rate targets again

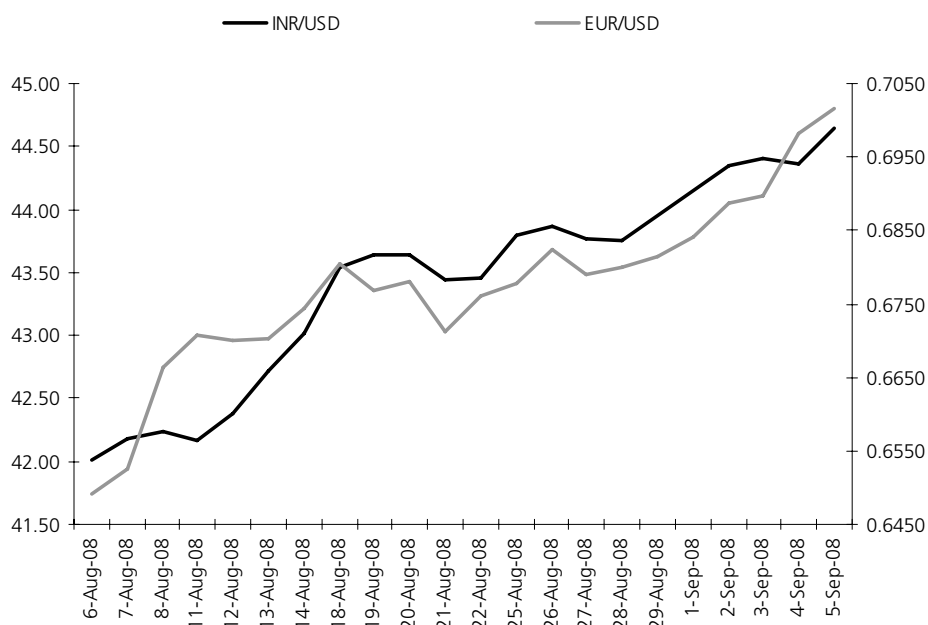
Sustained US dollar appreciation is compelling us to revise our exchange rate target once again. A fortnight after our Economy note of August 27, 2008 where we forecasted INR/USD exchange rate at an average of 42.75 for FY2009, we take stock of the following for our currency view:

- Contrary to our expectations that USD appreciation would reverse, USD has appreciated another 2.8% against Euro and another 4.4% against GBP since our Economy note.
- We had then anticipated that INR could stage a recovery to sub-44 levels in September on the back of expected tight liquidity conditions. However, the rupee has depreciated 1.75% since then. The movement has been way beyond our expectations.
- Liquidity conditions eased in spite of CRR hike kicking in on the back of government spending, redemptions and RBI injecting liquidity through open market operations. We still expect liquidity to tighten over the next week and, in our view, this should help stabilize the rupee in the near term.
- We see that the central bank interventions have probably been half-hearted and ineffective and largely sterilized. It appears more concerned with the widening trade deficit than the inflationary impact of the weakening rupee
- We do not rule out the possibility of INR/USD moving to about 45.00 by early October if the USD appreciation continues, but we retain our currency view that a significant rupee appreciation could take place in 4QFY09 on the back of falling inflation and strong capital inflows.

We accordingly revise our end-FY09 exchange rate forecast to INR/USD of 43.00 with an average FY2009 of 43.25 (see Exhibit 8).

Exhibit 1: Rupee depreciation in August 2008 tracks Euro depreciation vs. US dollar

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



Source: Bloomberg

Exhibit 2: Strong FDI inflows partially offset portfolio outflows in 1QFY09

Month-wise gross portfolio and FDI inflows, April 2007 - June 2008 (US\$ mn)

	Portfolio	FDI	Total
April-07	1974	1643	3617
May-07	1852	2120	3972
June-07	3664	1238	4902
July-07	6713	705	7418
August-07	-2875	831	-2044
September-07	7081	713	7794
October-07	9564	2027	11591
November-07	-107	1864	1757
December-07	5294	1558	6852
January-08	6739	1767	8506
February-08	-8904	5670	-3234
March-08	-1600	4438	2838
FY2008	29395	24574	53969
April-08	-880	3749	2869
May-08	-288	3932	3644
June-08	-3010	2392	-618
1QFY08	7490	5001	12491
1QFY09	-4178	10073	5895

Source: Reserve Bank of India

Exhibit 3: FII flows stabilizes in 2QFY09 after net sales in the preceding two quarters

Month-wise net purchases (+)/sales (-) by FIIs, April 2007- September 2008 (US\$ mn)

	Equity	Debt	Total
April-07	1516	236	1752
May-07	942	323	1265
June-07	401	-132	269
July-07	5855	-310	5545
August-07	-1922	150	-1772
September-07	3957	652	4609
October-07	5067	617	5684
November-07	-1450	-116	-1567
December-07	1383	821	2204
January-08	-3232	485	-2747
February-08	430	619	1049
March-08	-32	-218	-250
FY2008	12913	3126	16040
April-08	267	-422	-155
May-08	-1242	-40	-1283
June-08	-2503	-248	-2751
1QFY08	2859	428	3286
1QFY09	-3479	-710	-4189
July-08	-455	897	442
August-08	-300	312	12
September-08 so far*	126	5	131
2QFY08	7889	492	8381
2QFY09 so far*	-629	1214	584
CY2008 so far*	-6942	1389	-5553
FY2009 so far*	-4108	504	-3604

Note: (1) *: till September 5, 2008

Source: Reserve Bank of India

Exhibit 4: Financial services, manufacture and construction drive FDI inflows

Sector-wise gross FDI inflows, March fiscal year-ends, 2006-08 (US\$ mn)

end-year	2006	2007	2008	% share	2006-08	% share
Financial services	318	1330	3850	19.8	5498	17.1
Manufacturing	1411	1641	3726	19.2	6778	21.1
Construction	191	967	2551	13.1	3709	11.6
Real estate activities	34	431	1336	6.9	1801	5.6
Business services	71	2425	1158	6.0	3654	11.4
Computer services	770	824	1035	5.3	2629	8.2
Electricity and other energy	70	174	829	4.3	1073	3.3
Transport	87	165	816	4.2	1068	3.3
Mining	6	42	461	2.4	509	1.6
Restuarants and hotels	67	153	280	1.4	500	1.6
Retail & wholesale trade	11	47	200	1.0	258	0.8
Trading	17	82	176	0.9	275	0.9
Education, R&D	10	43	156	0.8	209	0.7
Communication services	8	423	66	0.3	497	1.5
Miscellaneous services	101	298	1901	9.8	2300	7.2
Others	187	262	886	4.6	1335	4.2
Total	3359	9307	19427	100.0	32093	100.0

Source: Reserve Bank of India

Exhibit 5: Mauritius, Singapore routes driving FDI inflows

Country-wise gross FDI inflows, March fiscal year-ends, 2006-08 (US\$ mn)

end-year	2006	2007	2008	% share	2006-08	% share
Mauritius	1363	3780	9518	49.0	14661	45.7
Singapore	166	582	2827	14.6	3575	11.1
UK	261	1809	601	3.1	2671	8.3
Netherlands	50	559	601	3.1	1210	3.8
Cyprus	13	58	570	2.9	641	2.0
USA	346	706	486	2.5	1538	4.8
Germany	45	116	486	2.5	647	2.0
Japan	86	80	457	2.4	623	1.9
Cayman Island	14	41	228	1.2	283	0.9
UAE	47	215	226	1.2	488	1.5
Switzerland	68	57	193	1.0	318	1.0
France	12	100	136	0.7	248	0.8
Hong Kong	26	60	111	0.6	197	0.6
South Korea	61	68	86	0.4	215	0.7
Italy	39	57	24	0.1	120	0.4
Others	762	1019	2877	14.8	4658	14.5
Total	3359	9307	19427	100.0	32093	100.0

Source: Reserve Bank of India

Exhibit 6: Outward FDI rising along with inward FDI

Quarter-wise foreign inward and outward investments, March fiscal year-ends, 1QFY06-4QFY08 (US\$ mn)

	FDI to India	FDI from India	net FDI inflow	Portfolio to India	Portfolio from India	net portfolio inflow	Net foreign investment
	(1)	(2)	(3)=(1)-(2)	(4)	(5)	(6)=(4)-(5)	(7)=(1)+(4)
1QFY06	2058	708	1350	972	0	972	2322
2QFY06	1846	770	1076	4441	0	4441	5517
3QFY06	2312	944	1368	2748	0	2748	4116
4QFY06	2685	3445	-760	4333	0	4333	3573
1QFY07	2944	1365	1579	-526	20	-546	1073
2QFY07	4310	1398	2912	2140	10	2130	5062
3QFY07	9723	6634	3089	3562	7	3555	6658
4QFY07	5014	4115	899	1828	21	1807	2748
1QFY08	6979	4321	2658	7405	53	7352	10116
2QFY08	4232	1424	2808	10894	-18	10912	13684
3QFY08	7396	3667	3729	14561	101	14460	18391
4QFY08	13720	7370	6350	-3764	29	-3793	2615
FY2007	21991	13512	8479	7004	58	6946	15541
FY2008	32327	16782	15545	29096	165	28931	44806

Source: Reserve Bank of India

Exhibit 7: ECBs drop in in FY2009 sp far; may improve ahead

Month-wise gross portfolio and FDI inflows, April 2007-July 2008, (US\$ mn)

	Automatic	Approval	Total
April-07	1.94	0.34	2.27
May-07	3.43	2.52	5.95
June-07	1.98	0.83	2.81
July-07	2.82	0.52	3.34
August-07	1.33	0.20	1.52
September-07	1.59	0.65	2.24
October-07	1.10	2.51	3.60
November-07	1.21	1.03	2.24
December-07	1.67	0.47	2.13
January-08	1.36	0.03	1.38
February-08	0.76	0.10	0.86
March-08	3.24	1.24	4.48
FY2008	22.40	10.43	32.83
April-08	0.70	0.46	1.16
May-08	0.99	0.29	1.28
June-08	0.75	0.86	1.62
July-08	0.39	2.09	2.47
Apr-July 2007	10.16	4.21	14.37
Apr-July 2008	2.82	3.70	6.52

Source: Reserve Bank of India

Exhibit 8: Rupee likely to rally in 4QFY09 on lower inflation, renewed capital inflows

INR/USD and USD/EUR exchange rates, March fiscal year-ends; 2007-2010E appreciation/depreciation, (%)

	2007	2008	So far* 2009	Earlier 2009E	Now 2009E	2010E
Average Rate						
INR/USD	45.25	40.26	42.25	42.75	43.25	42.00
USD/Euro	1.28	1.42	1.55	1.52	1.51	1.57
Average depreciation (+)/appreciation (-)						
INR/USD	2.2	(12.4)	4.7	5.8	6.9	(1.8)
USD/Euro	2.2	9.9	8.4	6.6	6.0	3.2
End-period Rate						
INR/USD	43.47	40.11	44.65	42.25	43.00	41.50
USD/Euro	1.34	1.58	1.43	1.53	1.52	1.60
End-period depreciation (+)/appreciation (-)						
INR/USD	(2.7)	(8.4)	10.2	5.1	6.7	(1.8)
USD/Euro	2.2	15.2	(10.5)	(3.3)	(3.9)	4.4

Note: (1) *: till Sept.5,2008

Source: Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	5-Sep-08		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		ADVT- 3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	Price	Upside	
Automobiles																													
Bajaj Auto	607	ADD	87,816	2,073	145	59.3	58.7	63.2	(53.4)	(1.1)	7.8	10.2	10.3	9.6	7.1	7.2	6.6	5.5	4.4	3.6	3.3	3.3	3.3	21.0	41.5	36.4	630	3.8	—
Hero Honda	860	REDUCE	171,792	4,056	200	48.5	57.0	62.6	12.8	17.5	9.9	17.7	15.1	13.7	11.1	10.4	9.5	5.5	4.6	3.8	2.3	2.3	2.3	34.0	33.1	30.1	750	(12.8)	5.5
Mahindra & Mahindra	583	ADD	150,434	3,551	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	15.3	15.8	15.7	11.1	10.8	9.9	3.4	2.7	2.2	1.9	1.6	1.7	27.8	22.0	17.8	640	9.8	6.1
Maruti Suzuki	680	ADD	196,592	4,641	289	59.9	60.0	65.1	10.8	0.2	8.4	11.4	11.3	10.5	6.4	6.2	5.6	2.3	1.9	1.6	0.7	0.7	0.7	22.1	18.3	16.8	790	16.1	15.3
Tata Motors	420	SELL	244,168	5,764	581	47.4	25.1	22.3	0.9	(47.1)	(10.9)	8.9	16.8	18.8	8.5	9.8	9.7	2.7	1.0	1.2	2.4	3.0	3.0	24.3	9.8	7.4	425	1.2	10.0
Automobiles																													
Cautious																													
850,802																													
20,085																													
(0.8)																													
(6.1)																													
2.8																													
13.0																													
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2.1																													
24.3																													
15.2																													
13.9																													
Banks/Financial Institutions																													
Andhra Bank	60	REDUCE	28,882	682	485	11.9	9.3	11.6	7.0	(21.2)	23.7	5.0	6.4	5.1	—	—	—	0.9	0.8	0.8	6.7	3.9	4.9	18.0	13.3	14.9	65	9.2	0.8
Axis Bank	687	REDUCE	245,836	5,803	358	32.2	35.8	55.1	37.7	11.0	53.9	21.3	19.2	12.5	—	—	—	3.0	2.5	2.2	0.8	1.0	1.5	17.6	13.8	18.7	750	9.1	61.1
Bank of Baroda	295	ADD	107,703	2,543	366	39.3	32.1	42.4	39.8	(18.2)	32.1	7.5	9.2	6.9	—	—	—	1.2	1.1	1.0	2.7	2.2	2.9	14.6	10.3	12.6	310	5.2	5.2
Bank of India	284	BUY	149,570	3,531	526	40.6	40.2	49.7	76.6	(1.0)	23.6	7.0	7.1	5.7	—	—	—	1.9	1.5	1.2	1.4	1.5	1.8	27.6	21.7	22.1	375	31.9	30.1
Canara Bank	228	REDUCE	93,542	2,208	410	38.2	21.2	38.5	10.1	(44.6)	81.7	6.0	10.8	5.9	—	—	—	1.3	1.1	1.0	3.5	3.1	3.3	15.0	8.1	13.6	190	(16.7)	3.7
Central Bank of India	60	SELL	24,107	569	404	13.6	4.7	15.5	(11.4)	(65.5)	229.9	4.4	12.7	3.8	—	—	—	1.2	1.0	0.8	3.4	-	-	14.1	5.4	16.4	70	17.4	0.6
Corporation Bank	293	ADD	41,956	990	143	51.3	42.6	53.5	37.2	(17.0)	25.8	5.7	6.9	5.5	—	—	—	1.0	0.9	0.8	3.6	3.0	3.8	18.4	13.7	15.4	355	21.4	0.3
Federal Bank	226	BUY	38,662	913	171	34.4	18.5	32.3	0.5	(46.2)	74.7	6.6	12.2	7.0	—	—	—	1.0	0.9	0.8	1.8	1.5	2.7	13.6	7.8	12.6	275	21.7	2.0
HDFC	2,282	ADD	654,959	15,462	287	85.8	83.7	100.1	38.2	(2.4)	19.6	26.6	27.3	22.8	—	—	—	5.5	4.7	4.1	1.1	1.1	1.3	27.8	18.6	19.3	2,350	3.0	71.8
HDFC Bank	1,249	BUY	528,474	12,476	423	46.0	52.5	67.4	28.7	14.1	28.4	27.1	23.8	18.5	—	—	—	4.6	3.6	2.5	0.6	0.8	1.0	17.7	17.0	16.9	1,300	4.1	47.3
ICICI Bank	687	ADD	764,132	18,039	1,113	39.9	31.1	41.8	15.4	(22.1)	34.3	17.2	22.1	16.4	—	—	—	1.6	1.6	1.5	1.6	1.1	1.5	11.7	7.3	9.2	870	26.7	133.1
IDFC	91	REDUCE	118,105	2,788	1,294	5.7	6.7	8.1	2.9	18.4	20.3	4.6	13.6	11.3	—	—	—	2.1	1.9	1.7	1.3	2.0	2.3	17.6	14.9	16.1	125	37.0	30.9
India Infoline	131	ADD	45,958	1,085	350	28.0	6.7	9.8	85.6	(76.2)	47.4	16.1	19.7	13.4	9.6	9.8	7.3	3.8	2.4	2.1	0.7	1.1	1.6	20.7	14.9	17.0	155	18.0	5.3
Indian Bank	136	ADD	58,341	1,377	430	22.5	17.9	25.5	33.9	(20.4)	42.0	6.0	7.6	5.3	—	—	—	1.3	1.2	1.0	2.2	1.7	2.4	23.4	15.2	18.5	140	3.1	2.8
Indian Overseas Bank	96	ADD	52,028	1,228	545	22.1	18.9	22.5	19.2	(14.2)	18.7	4.3	5.0	4.2	—	—	—	1.1	0.9	0.8	3.9	5.2	5.7	27.2	19.7	20.1	130	36.1	1.0
J&K Bank	522	ADD	25,310	598	48	74.2	75.4	75.0	31.2	1.6	(0.6)	7.0	6.9	7.0	—	—	—	1.2	1.1	0.9	2.9	2.9	2.9	16.8	15.1	13.4	750	43.7	0.4
LIC Housing Finance	329	ADD	27,955	660	85	45.5	56.5	59.5	38.7	24.1	5.3	7.2	5.8	5.5	—	—	—	1.5	1.2	1.0	3.0	3.8	4.0	-	-	-	380	15.5	5.3
Mahindra & Mahindra Financial	244	SELL	23,253	549	95	20.8	22.9	27.3	32.6	9.9	19.4	11.7	10.7	8.9	—	—	—	1.9	1.6	1.4	1.9	2.3	2.8	16.9	15.7	16.7	215	(11.9)	0.1
Oriental Bank of Commerce	178	ADD	44,596	1,053	251	23.9	22.6	30.5	(27.6)	(5.2)	34.7	7.5	7.9	5.8	—	—	—	0.9	0.8	0.7	2.6	2.5	3.4	6.2	9.5	11.7	200	12.4	1.7
PFC	137	REDUCE	156,785	3,701	1,148	11.4	13.0	15.8	2.6	14.3	21.1	12.0	10.5	8.7	—	—	—	1.5	1.4	1.2	1.2	1.3	1.6	13.4	13.6	14.6	130	(4.8)	4.0
Punjab National Bank	503	BUY	158,723	3,747	315	65.0	68.5	79.7	33.0	5.4	16.4	7.7	7.4	6.3	—	—	—	1.7	1.3	1.2	2.6	2.7	3.2	18.0	16.5	17.1	650	29.1	9.8
SREI	110	BUY	14,750	348	134	11.4	5.5	8.1	57.4	(51.8)	47.8	9.6	20.0	13.5	—	—	—	2.3	1.2	1.1	0.9	2.1	2.5	23.1	11.6	12.5	160	45.5	0.7
State Bank of India	1,520	ADD	959,740	22,657	631	106.6	90.1	119.0	23.5	(15.4)	32.0	14.3	16.9	12.8	—	—	—	2.3	2.0	1.8	1.4	1.4	1.5	16.8	11.1	13.4	1,700	11.9	72.8
Union Bank	151	BUY	76,450	1,805	505	27.5	18.4	29.2	64.1	(33.2)	59.1	5.5	8.2	5.2	—	—	—	1.0	1.0	0.8	2.6	1.8	2.9	26.8	15.5	21.1	200	32.1	3.5
Banks/Financial Institutions																													
Attractive																													
4,465,358																													
105,414																													
36.3																													
(7.1)																													
33.6																													
13.7																													
14.7																													
11.0																													
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2.1																													
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0.6																													
1.5																													
1.4																													
1.8																													
15.3																													
12.5																													
14.6																													
Cement																													
ACC	585	REDUCE	110,345	2,605	189	64.1	61.2	47.7	13.0	(4.5)	(22.0)	9.1	9.6	12.3	4.7	4.8	6.3	2.5	2.1	1.9	4.0	4.0	4.0	33.3	25.3	17.5	610	4.3	9.3
Ambuja Cements	81	REDUCE	122,551	2,893	1,522	7.6	8.0	6.6	(11.2)	6.4	(17.5)	10.6	10.0	12.1	5.4	6.1	6.6	2.4	1.9	1.7	3.2	3.7	2.7	26.6	21.7	15.4	95	18.0	4.5
Grasim Industries	1,955	ADD	179,249	4,232	92	284.6	257.6	240.4	32.6	(9.5)	(6.7)	6.9	7.6	8.1	4.0	4.1	3.9	1.5	1.3	1.1	1.6	1.7	1.7	25.3	18.3	14.5	2,320	18.7	5.4
India Cements	143	ADD	40,406	954	282	24.5	19.1	19.9	n/a	(21.8)	4.1	5.9	7.5	7.2	4.3	4.6	4.0	1.2	1.0	0.9	1.3	1.5	1.5	25.9	15.8	14.4	160	11.6	3.7
Shree Cement	592	BUY	20,634	487	35	85.9	98.5	60.0	90.0	14.7	(39.0)	6.9	6.0	9.9	2.8	2.5	2.6	3.1	2.2	1.9	1.2	1.4	1.4	53.5	42.5	20.5	1,080	82.3	0.5
UltraTech Cement	588	BUY	73,709	1,740	125	81.4	80.6	59.1	28.5	(0.9)	(26.7)	7.2	7.3	10.0	5.0	4.9	5.7	2.3	1.8	1.5	1.3	1.4	1.4	45.2	32.1	18.9	700	19.0	1.1
Cement																													
Cautious																													
546,894																													
12,911																													
19.0																													
(4.8)																													
(15.2)																													
7.8																													
8.2																													
9.7																													
4.4																													
4.6																													
4.8																													
1.9																													
1.6																													
1.4																													
2.4																													
2.5																													
2.3																													
24.5																													
19.1																													
14.3																													
Consumer (Discretionary)																													
Radico Khaitan	70	REDUCE	8,241	195	118																								

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	5-Sep-08		Mkt cap.		O/S shares (mn)	0 EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E			
Energy																													
Bharat Petroleum	359	REDUCE	117,573	2,776	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	9.0	8.8	9.4	3.6	3.9	2.9	0.9	0.9	0.7	1.2	1.2	1.1	11.4	10.4	8.9	360	0.4	5.6
Cairn India	229	SELL	427,664	10,096	1,868	(0.1)	3.9	19.4	(105)	(3,390)	395	(1,921)	58	11.8	53.5	23.8	8.1	1.4	1.3	1.2	—	—	—	(0.1)	2.3	10.5	230	0.5	45.4
Castrol India (a)	345	ADD	42,662	1,007	124	20.1	23.6	24.1	64.6	17.5	2.1	17.2	14.6	14.3	10.0	8.7	8.4	10.4	9.7	9.0	4.1	5.2	5.2	59.5	68.5	65.2	350	1.4	0.4
GAIL (India)	417	BUY	352,256	8,316	846	30.8	36.8	42.0	21.7	19.5	14.3	13.5	11.3	9.9	7.8	6.9	6.9	2.5	2.1	1.8	2.4	2.6	3.1	18.2	19.2	18.7	470	12.8	14.9
GSPL	60	ADD	33,594	793	563	1.8	3.6	5.1	8.5	103.8	40.2	33.6	16.5	11.8	10.6	7.4	5.2	2.7	2.4	2.1	0.8	1.7	2.4	8.7	15.3	18.8	69	15.6	2.4
Hindustan Petroleum	237	REDUCE	80,162	1,892	339	39.5	26.1	33.4	(16.4)	(21.9)	27.7	7.1	9.0	7.1	5.7	3.8	2.3	0.7	0.6	0.5	1.3	1.0	1.3	9.6	6.8	7.9	260	9.9	5.1
Indian Oil Corporation	446	REDUCE	526,507	12,429	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	7.4	10.9	7.2	4.7	8.4	7.7	1.2	1.1	0.9	1.2	1.1	1.6	17.2	10.1	13.5	500	12.0	3.8
Oil & Natural Gas Corporation	1,072	BUY	2,292,780	54,126	2,139	92.8	129.3	149.2	9.1	39.3	15.4	11.6	8.3	7.2	4.4	3.3	2.9	2.2	1.9	1.6	3.0	3.4	4.2	19.3	23.4	22.8	1,225	14.3	55.4
Petronet LNG	61	ADD	45,863	1,083	750	6.3	5.8	6.5	—	(7.6)	10.5	9.7	10.5	9.5	6.1	7.4	6.1	2.4	2.0	1.7	2.5	2.5	2.5	26.7	20.2	18.6	70	14.5	2.3
Reliance Industries	2,081	RS	2,735,114	64,568	1,314	101.7	97.4	171.9	23.0	(4.2)	76.4	20.5	21.4	12.1	12.2	10.5	5.5	3.1	2.7	2.0	0.6	0.7	1.0	18.5	14.4	21.6	—	—	266.9
Reliance Petroleum	159	REDUCE	714,600	16,870	4,500	(1.1)	2.0	19.1	n/a	n/a	840.9	n/a	78.3	8.3	n/a	34.5	7.0	5.3	5.0	3.3	—	—	1.3	(3.5)	6.6	47.3	170	7.1	104.0
Energy																													
Cautious																													
7,368,774 173,956																													
11.1 18.5 55.0 15.8 13.3 8.6 7.8 6.9 4.9 2.3 1.9 1.6 1.4 1.6 2.2 14.4 14.4 19.1																													
Industrials																													
ABB	874	REDUCE	185,155	4,371	212	23.2	28.6	35.4	44.5	23.2	23.7	37.7	30.6	24.7	22.4	17.7	13.8	11.4	8.6	6.6	0.3	0.3	0.4	34.8	32.1	30.3	875	0.1	10.3
AIA Engineering	1,577	BUY	29,650	700	19	70.9	89.4	114.2	38.1	26.1	27.7	22.2	17.6	13.8	16.7	11.1	8.5	4.8	3.9	3.1	0.4	0.6	0.7	24.0	24.2	24.6	1,600	1.4	0.2
BGR Energy Systems	322	REDUCE	23,198	548	72	12.3	18.3	23.2	(67.1)	49.5	26.7	26.3	17.6	13.9	15.9	10.6	9.0	4.6	3.7	3.0	0.4	0.6	0.7	30.1	23.5	24.1	325	0.9	3.7
Bharat Electronics	944	ADD	75,516	1,783	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	2.6	2.6	2.6	27.9	23.1	20.9	1,200	27.1	1.6
Bharat Heavy Electricals	1,732	ADD	847,971	20,018	490	58.4	73.1	96.9	22.9	25.1	32.6	29.7	23.7	17.9	16.1	12.6	9.6	7.9	6.3	5.0	0.9	0.9	1.2	29.2	29.5	31.1	2,000	15.5	80.1
Dredging Corporation	484	REDUCE	13,562	320	28	55.3	48.7	57.0	(8.3)	(12.0)	17.2	8.8	10.0	8.5	4.9	4.6	3.8	1.1	1.0	0.9	3.1	3.1	3.1	12.5	10.3	11.1	475	(1.9)	0.1
Larsen & Toubro	2,616	BUY	775,266	18,302	296	75.9	117.5	149.1	20.8	54.8	27.0	34.5	22.3	17.5	21.4	13.4	10.6	6.5	4.4	3.5	0.6	0.8	0.8	22.7	23.6	22.4	3,600	37.6	118.6
Maharashtra Seamless	291	BUY	20,510	484	71	31.4	37.5	44.7	(18.3)	19.6	19.1	9.3	7.7	6.5	5.6	4.9	4.2	1.8	1.5	1.2	1.6	1.9	2.3	20.9	20.8	20.7	390	34.1	0.8
Siemens	547	REDUCE	184,545	4,357	337	18.2	18.8	25.9	60.4	3.1	38.0	30.0	29.1	21.1	17.7	16.9	12.0	10.0	7.8	6.0	0.4	0.5	0.6	39.9	30.2	32.0	570	4.1	7.1
Suzlon Energy	226	ADD	353,661	8,349	1,567	6.6	11.4	17.7	9.5	73.5	55.1	34.3	19.8	12.8	17.0	12.9	9.8	3.9	3.2	2.5	0.4	0.4	0.4	16.3	17.7	22.1	300	32.9	46.2
Industrials																													
Neutral																													
2,509,034 59,231																													
24.2 34.4 32.2 29.0 21.6 16.3 16.7 12.5 9.7 6.0 4.6 3.5 0.7 0.8 0.9 20.6 21.3 22.4																													
Infrastructure																													
IRB Infrastructure	157	BUY	52,048	1,229	332	3.4	7.3	15.7	150.9	111.5	116.3	45.7	21.6	10.0	15.8	14.3	6.7	3.2	2.7	2.1	—	—	—	10.7	13.4	23.3	195	24.5	0.6
Media																													
DishTV	39	BUY	19,509	461	500	(9.6)	(8.9)	(4.4)	n/a	(7.8)	(50.7)	(4.0)	(4.4)	(8.9)	(11.0)	(11.8)	76.3	(4.3)	(7.7)	(3.6)	—	—	—	167.9	125.6	71.3	56	43.4	4.4
HT Media	122	BUY	28,590	675	234	4.3	4.2	7.5	4.7	(2.0)	77.1	28.2	28.8	16.3	16.1	15.9	8.9	3.3	3.0	2.6	0.3	0.3	0.7	12.2	11.0	17.2	175	43.4	0.3
Jagran Prakashan	74	BUY	22,256	525	301	3.3	3.2	5.0	33.5	(0.8)	55.6	22.7	22.9	14.7	13.1	12.3	8.1	4.0	3.6	3.2	1.8	1.7	2.7	18.3	16.5	23.1	95	28.6	0.3
Sun TV Network	235	REDUCE	92,530	2,184	394	8.3	9.7	12.0	30.7	16.7	23.6	28.3	24.3	19.6	15.0	12.5	10.2	6.1	5.3	4.8	1.1	1.3	2.6	24.8	24.2	26.1	260	10.7	1.7
Zee Entertainment Enterprises	221	ADD	96,013	2,267	434	8.9	10.5	13.9	62.6	17.8	32.7	24.9	21.2	16.0	18.1	13.7	10.4	3.4	3.0	2.7	0.9	1.2	1.6	14.2	15.1	17.8	260	17.4	6.7
Media																													
Attractive																													
258,899 6,112																													
24.0 17.9 90.5 51.9 44.0 23.1 20.7 16.6 10.9 4.9 4.1 3.8 0.9 1.1 1.8 9.4 9.4 16.5																													
Metals																													
Hindalco Industries	124	REDUCE	215,540	5,088	1,742	13.1	16.2	14.6	(10.9)	23.5	(9.9)	9.4	7.6	8.5	5.9	4.6	4.5	1.2	0.7	0.8	1.1	1.4	1.4	14.3	12.7	9.4	150	21.3	11.4
National Aluminium Co.	377	REDUCE	243,066	5,738	644	25.2	30.3	33.5	(31.8)	20.0	10.6	15.0	12.5	11.3	7.8	6.7	5.3	2.6	2.3	2.0	2.0	2.0	2.0	18.4	19.4	18.7	370	(1.9)	5.8
Jindal Steel and Power	1,800	BUY	277,115	6,542	154	80.4	111.6	117.0	83.2	38.9	4.8	22.4	16.1	15.4	14.2	10.5	9.6	6.4	4.5	3.4	—	—	—	34.3	32.8	25.1	2,900	61.1	24.8
JSW Steel	711	ADD	132,004	3,116	186	92.0	103.1	146.8	35.7	12.0	42.4	7.7	6.9	4.8	5.7	6.0	4.3	1.3	1.1	0.9	2.6	2.6	2.6	21.2	18.1	21.0	1,040	46.4	19.8
Hindustan Zinc	566	ADD	239,026	5,643	423	104.0	72.2	71.5	(1.0)	(30.6)	(1.0)	5.4	7.8	7.9	3.8	4.8	4.2	2.0	1.6	1.3	1.3	1.3	1.8	44.0	22.5	18.4	750	32.6	3.2
Sesa Goa	149	BUY	117,102	2,764	787	18.8	22.6	23.2	144.6	19.7	2.7	7.9	6.6	6.4	5.1	4.0	3.5	4.2	2.8	2.1	2.4	2.7	3.4	68.6	50.8	36.9	195	31.1	42.6
Sterilite Industries	587	ADD	416,134	9,824	708	63.7	52.3	51.5	(23.3)	(17.9)	(1.6)	9.2	11.2	11.4	5.2	5.3	4.8	1.8	1.5	1.3	—	—	—	26.6	14.8	12.6	800	36.2	28.1
Tata Steel	560	REDUCE	460,602	10,874	822	75.7	116.9	106.1	43.8	54.4	(9.3)	7.4	4.8	5.3	5.3	4.6	4.6	1.3	1.0	0.9	2.6	2.3	2.3	46.3	35.6	28.4	520	(7.2)	73.0
Metals																													
Cautious																													
2,100,589 49,589																													
12.3 13.1 (0.4) 8.9 7.9 7.9 5.8 5.3 4.9 1.8 1.4 1.2 1.4 1.3 1.4 20.2 18.2 15.5																													
Pharmaceutical																													
Biocon	414	BUY	41,415	978	100	22.5	24.5	32.0	9.4	8.5	31.0	18.4	16.9	12.9	11.7	10.6	8.4	2.8	2.5	2.2	0.1	0.1	0.1	17.6	15.7	18.2	615	48.5	1.3
Cipla	233	REDUCE	181,459	4,284	777	9.0	10.5	12.2	4.9	16.2	16.4	25.9	22.3	19.1	18.9	17.0	14.3	4.8	4.2	3.6	0.9	1.1	1.3	20.1	20.1	20.3	230	(1.5)	7.9
Dishman Pharma & chemicals	318	BUY	25,892	611	81	14.7	19.7	27.7	30.5																				

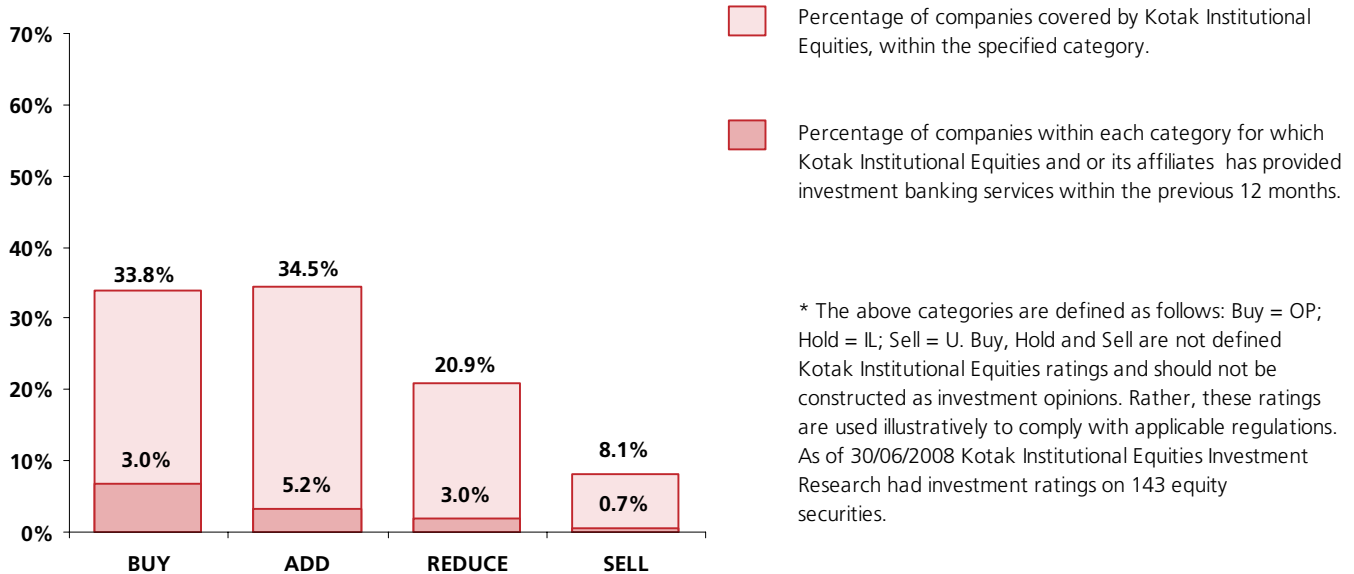
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	5-Sep-08		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT-		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	price	Upside	3mo	
Retail																														
Pantaloon Retail	345	BUY	59,280	1,399	172	8.0	14.2	19.9	93.2	76.5	39.9	42.9	24.3	17.4	16.4	10.7	8.7	3.5	2.2	2.0	0.2	0.2	0.3	8.6	10.7	11.5	460	33.4	1.1	
Rajesh Exports	49	BUY	14,333	338	291	8.2	5.9	6.9	80.4	(28.2)	16.6	6.0	8.3	7.2	2.3	1.3	0.6	1.9	1.0	1.0	0.6	0.8	0.9	26.8	12.3	13.5	120	143.4	2.9	
Titan Industries	1,229	BUY	54,532	1,287	44	35.1	41.1	49.8	55.2	17.3	21.0	35.0	29.9	24.7	23.5	18.4	14.7	11.6	8.9	7.0	0.7	0.8	0.9	37.7	33.6	31.6	1,350	9.9	2.9	
Vishal Retail	391	ADD	8,759	207	22	18.1	21.6	35.6	37.2	19.2	65.2	21.6	18.1	11.0	10.9	7.4	5.6	3.2	2.7	2.2	-	-	-	20.2	16.2	22.1	485	24.0	0.2	
Retail																														
136,904 3,232																														
53.0 20.1 32.7 25.9 21.6 16.2 12.7 9.9 8.0 4.3 2.8 2.4 0.4 0.5 0.6 16.4 12.9 14.8																														
Technology																														
HCL Technologies	244	REDUCE	169,858	4,010	695	15.3	22.3	25.4	(19.0)	46.0	13.8	16.0	11.0	9.6	9.1	7.3	6.1	3.4	2.8	2.4	3.3	3.3	3.3	21.4	28.1	27.3	250	2.3	5.4	
Hexaware Technologies	47	SELL	6,709	158	142	7.7	4.7	5.6	(13.7)	(38.2)	18.5	6.2	10.0	8.4	2.9	3.0	2.2	1.0	0.9	0.8	3.4	3.4	3.4	15.1	9.4	10.4	50	5.9	0.4	
Infosys Technologies	1,712	BUY	982,860	23,203	574	79.1	102.1	118.1	18.0	29.1	15.7	21.7	16.8	14.5	17.2	13.0	10.4	7.1	5.4	4.3	1.9	1.4	1.7	36.1	36.8	33.1	2,100	22.6	84.4	
Mphasis BFL	246	SELL	51,362	1,213	208	12.2	15.6	18.5	67.6	27.3	18.8	20.1	15.8	13.3	12.1	9.5	7.8	4.4	0.6	3.1	1.4	1.6	1.8	23.6	25.6	25.4	220	(10.7)	1.6	
Mindtree	340	BUY	13,331	315	39	26.1	35.7	43.4	14.8	36.5	21.7	13.0	9.5	7.8	10.9	6.7	5.1	2.5	2.0	1.6	0.8	1.1	1.3	21.3	23.5	22.9	550	61.8	0.5	
Patni Computer Systems	230	SELL	31,928	754	139	33.4	25.2	29.7	29.7	(24.5)	17.7	6.9	9.1	7.7	3.9	3.5	2.5	1.2	1.1	1.0	0.9	1.0	1.2	19.2	11.7	12.7	260	13.2	1.5	
Polaris Software Lab	98	SELL	9,673	228	98	7.4	10.1	11.8	(27.6)	36.0	16.2	13.2	9.7	8.4	6.6	4.8	3.9	1.5	1.3	1.2	1.8	1.8	1.8	11.7	14.3	14.8	90	(8.5)	6.1	
Satyam Computer Services	416	BUY	283,958	6,703	682	25.2	32.2	37.5	17.7	27.6	16.5	16.5	12.9	11.1	13.1	9.5	7.7	3.9	3.2	2.6	2.4	2.9	3.4	26.0	27.1	25.7	500	20.1	40.6	
TCS	838	REDUCE	820,467	19,369	979	51.3	58.7	67.9	21.5	14.5	15.6	16.3	14.3	12.4	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	7.3	27.8	
Tech Mahindra	758	BUY	94,407	2,229	125	59.1	74.8	89.4	25.7	26.7	19.4	12.8	10.1	8.5	11.4	7.2	5.3	7.5	4.2	2.8	0.5	-	0.8	70.7	55.8	41.6	900	18.8	4.8	
Wipro	425	ADD	616,033	14,543	1,450	22.2	27.5	33.5	12.6	23.6	21.8	19.1	15.5	12.7	15.3	11.4	9.0	4.8	3.9	3.2	1.5	1.9	2.4	27.9	27.6	27.4	490	15.3	11.6	
Technology																														
Neutral 3,080,584 72,724																														
16.1 23.8 17.0 17.8 14.4 12.3 13.8 10.7 8.7 5.2 4.2 3.4 1.8 2.0 2.5 29.5 29.0 27.6																														
Telecom																														
Bharti Airtel Ltd	803	REDUCE	1,524,773	35,996	1,898	35.3	47.0	57.0	65.0	33.2	21.1	22.8	17.1	14.1	13.8	10.1	7.7	6.8	4.8	3.6	-	0.5	0.7	39.1	32.9	29.1	840	4.6	79.2	
IDEA	81	REDUCE	214,165	5,056	2,639	3.9	4.6	5.5	78.5	15.7	20.8	20.5	17.8	14.7	12.0	8.9	7.4	6.0	4.5	3.5	-	-	-	36.4	29.1	26.6	100	23.2	18.4	
MTNL	97	REDUCE	61,110	1,443	630	6.0	6.5	7.0	(25.2)	7.7	8.2	16.2	15.0	13.9	1.7	1.9	1.9	0.5	0.5	0.5	6.2	6.2	6.2	2.7	2.9	3.2	100	3.1	3.8	
Reliance Communications	395	SELL	814,248	19,222	2,064	25.0	28.6	34.8	76.4	14.1	21.9	15.8	13.8	11.3	11.1	9.5	7.5	2.9	2.4	2.0	0.2	-	-	16.1	19.9	19.8	390	(1.1)	93.2	
Tata Communications	426	REDUCE	121,282	2,863	285	10.9	12.0	13.3	(36.3)	9.2	11.2	38.9	35.6	32.0	16.2	15.1	13.1	1.8	1.8	1.7	1.1	1.2	1.5	4.4	4.7	4.9	430	1.0	3.2	
Telecom																														
Cautious 2,735,577 64,579																														
61.9 23.9 20.6 19.4 15.6 13.0 12.3 9.7 7.6 3.8 3.1 2.5 0.4 0.5 0.6 19.4 19.6 19.3																														
Transportation																														
Container Corporation	905	ADD	117,586	2,776	130	57.7	67.5	75.0	7.8	17.0	11.0	15.7	13.4	12.1	10.8	9.1	7.7	3.7	3.1	2.6	1.4	1.6	1.8	25.8	24.9	23.1	950	5.0	1.3	
Gateway Distriparks	90	BUY	10,362	245	115	6.4	8.1	10.8	(5.0)	26.5	33.5	14.0	11.1	8.3	9.7	7.3	5.5	1.5	1.4	1.2	3.3	3.7	3.8	10.8	12.9	15.8	125	39.3	1.1	
GE Shipping	368	BUY	56,066	1,324	152	105.9	72.7	48.2	77.6	(31.3)	(33.7)	3.5	5.1	7.6	5.0	6.0	6.8	1.3	1.1	1.0	4.1	4.9	3.3	43.2	23.4	13.7	500	35.8	2.8	
Jet Airways	541	SELL	46,696	1,102	86	(76.5)	(123.3)	96.4	(2,857)	71	206.7	(7.1)	(4.4)	5.6	60.9	17.9	6.4	1.0	1.3	1.1	-	-	-	1.3	(19.5)	(26.5)	21.5	450	(19.5)	1.5
Transportation																														
Neutral 230,711 5,446																														
3.9 (42.9) 162.9 13.0 22.7 8.7 12.6 10.4 6.7 1.8 1.7 1.5 1.8 2.2 2.1 13.9 7.7 17.4																														
Utilities																														
CESC	327	BUY	40,885	965	125	27.8	28.2	31.1	(23.3)	1.4	10.4	11.8	11.6	10.5	6.0	6.8	7.8	1.3	1.2	1.1	1.2	1.2	1.5	12.5	10.6	10.5	500	52.8	1.1	
Lanco Infratech	296	BUY	65,712	1,551	222	16.0	18.7	31.3	88.4	17.4	67.1	18.5	15.8	9.4	14.3	16.7	13.7	3.3	2.7	2.1	(2.0)	-	-	20.2	18.9	25.2	530	79.3	20.6	
NTPC	174	REDUCE	1,430,588	33,772	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	3.0	14.4	14.2	14.3	179	3.2	31.4	
Reliance Infrastructure	1,017	BUY	234,835	5,544	231	46.0	49.7	50.2	26.1	8.0	0.9	22.1	20.4	20.3	21.3	39.6	31.2	1.4	1.4	1.3	0.6	0.6	0.6	4.0	4.0	5.3	1,250	22.9	98.6	
Reliance Power	163	REDUCE	390,678	9,223	2,397	0.4	2.1	2.6	-	443.9	25.2	428.6	78.8	62.9	-	-	-	2.8	2.7	2.6	-	-	-	1.2	3.5	4.3	180	10.4	41.6	
Tata Power	1,076	BUY	250,797	5,921	233	29.7	38.1	39.9	11.6	28.5	4.6	36.3	28.2	27.0	24.6	21.9	22.3	3.3	2.6	2.3	0.8	0.9	0.9	10.0	10.3	9.0	1,540	43.1	30.5	
Utilities																														
Attractive 2,413,496 56,976																														
10.0 12.6 10.1 24.3 21.6 19.6 17.0 19.5 19.9 2.5 2.3 2.2 1.3 1.5 1.9 10.3 10.7 11.0																														
Others																														
Aban Offshore	2,295	REDUCE	88,720	2,094	39	72.3	271.8	488.1	(1,066)	276.0	79.6	31.7	8.4	4.7	16.8	8.0	5.2	10.1	4.2	2.3	0.2	0.4	0.7	51.7	60.1	53.5	2,700	17.7	18.8	
ABG Shipyard	378	-	19,220	454	51	22.8	32.1	56.2	39.0	40.6	74.8	16.5	11.8	6.7	11.2	8.4	4.9	3.0	2.2	1.3	0.5	0.6	0.7	20.4	21.5	24.7	-	106.6	0.8	
Aditya Birla Nuvo	1,193	ADD	111,305	2,628	93	22.9	26.6	29.2	(5.6)	16.0	9.8	52.1	44.9	40.9	22.7	20.4	18.9	3.3	3.1	2.9	0.5	0.5	0.5	6.4	7.1	7.4	2,000	67.7	3.2	
Educomp Solutions	3,701	ADD	70,397	1,662	19	35.2	46.2	112.0	113.9	31.5	142.4	105.3	80.1	33.0	55.6	25.9	14.4	23.4	9.3	7.7	0.1	0.1	0.3	33.5	17.4	26.2	3,650	(1.4)	18.6	
Jaiprakash Associates	168	BUY	208,290	4,917	1,242	4.9	7.6	11.6	6.5	54.7	53.5	34.2	22.1	14.4	18.2	12.6	11.6	4.2	3.4	3.0	0.0	0.0	0.0	15.4	17.5	22.6	255	52.1	56.5	
Jindal Saw	577	BUY	35,384	835	61	57.7	90.7	110.4	(50.2)	57.0	21.7	10.0	6.4	5.2	5.5	3.2	2.5	1.2	0.9	0.8	1.3	2.4	2.8	11.4	16.1	16.9	900	56.0	1.0	
JSL	130	ADD	10,795	255	83	11.7	15.0	17.0	75.8	28.2	13.5	11.2	8.7	7.7	6.6	5.3	4.7	2.9	2.2	1.7	0.8	0.8	0.8	29.7	29.0	25.5	275	111.1	0.5	
Kalpataru Power Transmission	801	ADD	21,220	501	26																									

" 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: Kawaljeet Saluja, Mridul Sagar. "

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Source: Kotak Institutional Equities.

As of June 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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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

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