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New Release

Strategy: 3QFY08 results review: Neither here, nor there

Updates

Hindustan Unilever: Significant launches in foods, oral & shampoo - strong statement of intent

News Roundup

Corporate

- Tata Motors has denied media reports that Tata may share the technology of Jaguar and Land Rover with Fiat, with which it has a joint venture. (ET)
- Indian real estate firm Parsvnath Hotels has signed a deal with a unit of ITC Ltd to develop 50 hotels across India in the net 3-5 years with an initial investment of Rs2,500 crore. (BS)
- Citigroup has put the sale of its BPO operations—Citigroup Global Services (CGSL)—on hold. (ET)
- In an attempt to wean away entry-level 100-cc motorcycle customers, Bajaj Auto has introduced a kick-start variant of its 125 cc offering XCD DTS-Si. (ET)
- Cadila Healthcare has entered into a strategic collaboration with Sweden-based Karo Bio to discover and develop a drug for treatment of inflammatory diseases. (ET)

Economic and political

- Cable TV operators can now compete with telecom service providers in the IPTV space. The information and broadcasting ministry has approved industry regulator TRAI's suggestion for facilitating IPTV services through cable operators. (ET)

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

EQUITY MARKETS

| India | Change, % | | | |
|--------------------------------|-----------|-------------------|--------|--------|
| | 4-Feb | 1-day | 1-mo | 3-mo |
| Sensex | 18,660 | 2.3 | (9.8) | (6.6) |
| Nifty | 5,464 | 2.8 | (12.9) | (7.9) |
| Global/Regional indices | | | | |
| Dow Jones | 12,635 | (0.8) | (1.3) | (7.1) |
| Nasdaq Composite | 2,383 | (1.3) | (4.9) | (15.2) |
| FTSE | 6,026 | (0.1) | (5.1) | (7.7) |
| Nikkie | 13,688 | (1.2) | (6.8) | (15.9) |
| Hang Seng | 24,725 | (1.2) | (10.2) | (14.6) |
| KOSPI | 1,685 | (0.3) | (9.6) | (16.4) |
| Value traded - India | | | | |
| | | Moving avg, Rs bn | | |
| | 4-Feb | 1-mo | 3-mo | |
| Cash (NSE+BSE) | 193.3 | 253.7 | 108.1 | |
| Derivatives (NSE) | 358.3 | 671.8 | 761 | |
| Deri. open interest | 636.3 | 1,231 | 909 | |

Forex/money market

| | Change, basis points | | | |
|-------------------|----------------------|-------|------|------|
| | 4-Feb | 1-day | 1-mo | 3-mo |
| Rs/US\$ | 39.4 | 0 | 16 | 9 |
| 6mo fwd prem, % | 0.7 | (25) | 71 | 24 |
| 10yr govt bond, % | 7.6 | 3 | (24) | (35) |

Net investment (US\$m)

| | 31-Jan | MTD | CYTD |
|-----|--------|-------|---------|
| FIs | (841) | 1,249 | (4,271) |
| MFs | 106 | (70) | 1,381 |

Top movers -3mo basis

| Best performers | Change, % | | | |
|-------------------------|-----------|-------|--------|--------|
| | 4-Feb | 1-day | 1-mo | 3-mo |
| Rashtriya Chem | 88 | 2.4 | (38.8) | 48.2 |
| NALCO | 421 | 0.3 | (18.9) | 39.1 |
| Punjab Tractors | 271 | 4.1 | (22.9) | 37.5 |
| Apollo Tyres | 50 | 2.5 | (13.0) | 35.4 |
| Thomas Cook | 76 | (2.3) | (31.1) | 31.0 |
| Worst performers | | | | |
| MRF | 4,999 | 3.9 | (28.9) | (34.9) |
| Arvind Mills | 49 | 2.8 | (43.4) | (29.5) |
| Thermax | 636 | 4.3 | (24.5) | (28.4) |
| Tvs Motor | 41 | 1.5 | (42.4) | (27.2) |
| Corp Bank | 348 | 4.3 | (23.2) | (26.2) |

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Strategy

Sector coverage view

N/A

3QFY08 results review: Neither here, nor there

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- **Results were marginally below expectations but more sectors disappointed than surprised positively**
- **Slowest growth in the BSE-30 earnings in the past seven quarters**
- **No major changes to earnings and hence retain our 12-month band of 17,000-21,000 for BSE-30 Index**

Our review of 3QFY08 results for 128 stocks under our coverage shows that 3QFY08 earnings beat our expectations by 5.5%. However, excluding the energy sector, where numbers were distorted by the amount of oil bonds, 3QFY08 earnings fell 1.3% short of our expectations. Other than energy, banking and property surprised on the upside but automobiles, cement, construction, industrials and metals surprised on the downside. Pricing and margin pressures seem to have been more acute and may deepen in the next few quarters as we see the real impact of (1) increased competition in some sectors (telecom, media), (2) increased supply in others (cement) and (3) global economic slowdown (global commodities and technology); we had highlighted the same in our CY2008 strategy report, *It's a Marathon*. We retain our view that the Indian market will be largely range bound in CY2008 and expect the BSE-30 Index to trade in a band of 17,000-21,000.

More disappointments than surprises but the slide may have just started in some sectors. Exhibit 1 gives the performance of various stocks aggregated by stocks under our coverage. As can be seen, banking, energy and real sectors surprised positively among the large-cap. sectors. However, we would highlight that earnings of the energy sector surprised positively due to (1) issue of higher amount of oil bonds to the R&M companies versus assumed by us and (2) higher earnings of Reliance Industries, which has been a regular feature for us for some time now. Also, in the case of banks, the provisioning amount was in general significantly lower versus our expectations. Thus, we are not overly enthused by the earnings surprises in these sectors and have not raised our earnings forecasts significantly.

On the flip side, several sectors disappointed versus expectations. In most cases, operating margins disappointed highlighting (1) pricing and cost issues (cement), (2) execution issues (construction, industrials) and (3) telecom (pricing pressures); telecom made up to some extent at the net level due to lower-than-expected depreciation and taxation amounts. We worry about a bigger deterioration in the pricing environment and downward revisions to estimates and those of the street in some sectors such as telecom and cement (1) when competition intensifies (telecom, media) and (2) supply increases meaningfully (cement). We would look at the ramifications for FY2009E earnings and as of now, we are sticking with our expectation of around 18% growth for BSE-30 Index (ex-energy). Our FY2009E growth forecast is significantly below the growth forecast for FY2008E of 35% (again on an ex-energy basis).

For the broad market, as represented by the BSE-30 Index, 3QFY08 earnings growth was 14.6%, below our expected 17.3% (see Exhibit 2) and 32.4% in 2QFY08. This is the slowest pace of growth in the past seven quarters. Excluding the volatility and unpredictability in the earnings of energy stocks (Reliance, ONGC), BSE-30 earnings grew 21.3% (against 35.3% in 2QFY08), again the slowest in the past seven quarters.

Earnings are only part of the story still but the bedrock of valuations. Exhibit 3 shows that our research team has upgraded the target prices of more stocks than it has downgraded over the past month. However, we would clarify that the upgrades result from a combination of (1) roll-forward of DCF in most cases, (2) higher long-term assumptions (long-term crude price assumptions, for example) in others and (3) new developments in the market or operating environment in a few; very few of the changes are due to a steep upward revision to FY2008E or FY2009E earnings. Exhibit 4 gives the changes to ratings of our covered stocks over the past month.

No major earnings surprises in 3QFY08 results

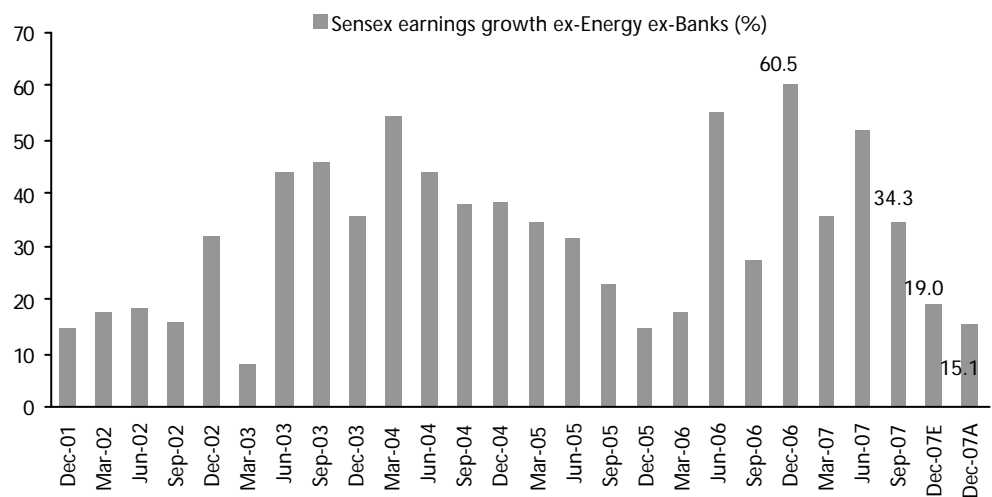
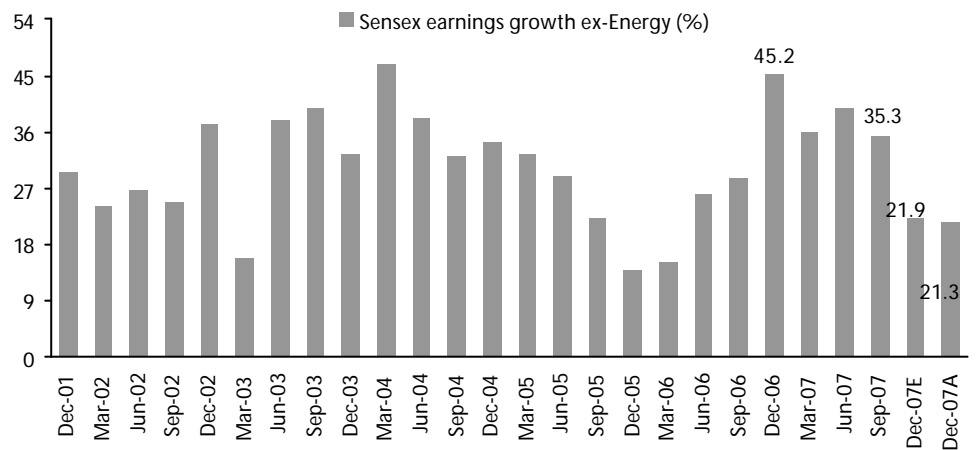
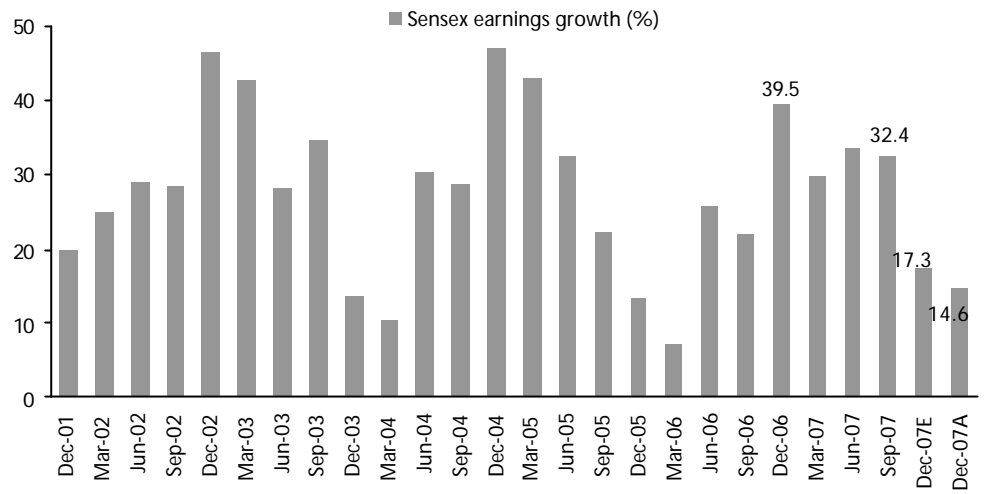
Sector-wise earnings surprises/(disappointments) in 3QFY08

| | Expected (Rs mn) | | | Actual (Rs mn) | | | Difference (%) | | |
|--|------------------|----------------|----------------|------------------|----------------|----------------|----------------|--------------|--------------|
| | Sales | OP | NP | Sales | OP | NP | Sales | OP | NP |
| Automobiles | 176,377 | 24,400 | 17,433 | 173,678 | 22,263 | 15,950 | (1.5) | (8.8) | (8.5) |
| Banking | 176,965 | 84,913 | 75,182 | 182,603 | 105,297 | 84,775 | 3.2 | 24.0 | 12.8 |
| Cement | 85,743 | 27,839 | 17,659 | 86,000 | 27,563 | 16,114 | 0.3 | (1.0) | (8.7) |
| Construction | 43,089 | 4,188 | 2,097 | 41,015 | 3,294 | 1,719 | (4.8) | (21.4) | (18.0) |
| Consumers | 102,474 | 23,806 | 17,719 | 100,957 | 23,174 | 17,888 | (1.5) | (2.7) | 1.0 |
| Diversified | 16,034 | 3,309 | 1,667 | 19,985 | 3,279 | 1,765 | 24.6 | (0.9) | 5.9 |
| Education | 670 | 348 | 178 | 715 | 334 | 190 | 6.7 | (4.1) | 6.8 |
| Energy | 1,657,808 | 134,540 | 77,120 | 1,765,968 | 188,821 | 105,939 | 6.5 | 40.3 | 37.4 |
| Industrials | 205,373 | 33,591 | 23,368 | 199,041 | 28,683 | 19,540 | (3.1) | (14.6) | (16.4) |
| Media | 12,823 | 4,043 | 1,935 | 13,665 | 3,662 | 1,583 | 6.6 | (9.4) | (18.2) |
| Metals | 246,641 | 84,350 | 52,411 | 226,372 | 79,572 | 47,210 | (8.2) | (5.7) | (9.9) |
| Pharmaceuticals | 50,599 | 10,657 | 10,169 | 52,564 | 11,415 | 9,982 | 3.9 | 7.1 | (1.8) |
| Pipes | 28,810 | 4,184 | 2,111 | 29,129 | 4,049 | 2,162 | 1.1 | (3.2) | 2.4 |
| Property | 54,735 | 34,307 | 27,175 | 59,317 | 38,186 | 31,208 | 8.4 | 11.3 | 14.8 |
| Retail | 19,678 | 962 | 608 | 20,672 | 1,047 | 612 | 5.1 | 8.9 | 0.7 |
| Technology | 230,820 | 54,927 | 45,915 | 232,720 | 55,559 | 46,096 | 0.8 | 1.2 | 0.4 |
| Telecom | 163,611 | 64,178 | 36,437 | 157,767 | 58,688 | 34,859 | (3.6) | (8.6) | (4.3) |
| Textiles | 6,180 | 1,038 | 400 | 6,119 | 901 | 401 | (1.0) | (13.2) | 0.3 |
| Transmission | 15,720 | 2,039 | 1,076 | 13,841 | 1,818 | 905 | (11.9) | (10.8) | (15.9) |
| Transportation | 39,349 | 9,740 | 3,926 | 39,455 | 8,396 | 3,762 | 0.3 | (13.8) | (4.2) |
| Utilities | 139,687 | 38,944 | 27,645 | 137,098 | 36,310 | 23,673 | (1.9) | (6.8) | (14.4) |
| KIE Universe | 3,473,185 | 646,302 | 442,230 | 3,558,682 | 702,310 | 466,334 | 2.5 | 8.7 | 5.5 |
| KIE Universe ex-Energy | 1,815,377 | 511,762 | 365,111 | 1,792,714 | 513,490 | 360,395 | (1.2) | 0.3 | (1.3) |
| BSE-30 Universe | 1,531,186 | 455,686 | 306,647 | 1,564,504 | 464,422 | 299,349 | 2.2 | 1.9 | (2.4) |
| BSE-30 Universe ex-Energy | 1,074,642 | 322,168 | 226,725 | 1,067,396 | 325,775 | 225,282 | (0.7) | 1.1 | (0.6) |
| BSE-30 Universe ex-Energy, ex-Banks | 990,829 | 269,197 | 190,587 | 978,466 | 260,480 | 184,110 | (1.2) | (3.2) | (3.4) |

Source: Company data, Kotak Institutional Equities estimates.

3QFY08 earnings growth disappointed modestly versus expectations

Sensex earnings growth over past 25 quarters (%)



Source: Company data, Kotak Institutional Equities estimates.

Changes in KIE target prices in the past one month

Upgrades in target prices

| Company | % Change | New | Old |
|---------------------------------|----------|-------|-------|
| 1 Sintex | 69.7 | 560 | 330 |
| 2 Shriram Transport | 67.5 | 335 | 200 |
| 3 Monnet Ispat | 53.3 | 575 | 375 |
| 4 Tata Power | 45.3 | 1,540 | 1,060 |
| 5 GE Shipping | 43.8 | 525 | 365 |
| 6 Lanco | 42.6 | 670 | 470 |
| 7 DLF | 40.2 | 1,220 | 870 |
| 8 Jindal Saw | 31.7 | 1,100 | 835 |
| 9 Educomp Solutions | 21.7 | 3,650 | 3,000 |
| 10 Oil & Natural Gas Corporatio | 20.5 | 1,325 | 1,100 |
| 11 Sesa Goa | 18.1 | 4,500 | 3,810 |
| 12 Indian Bank | 17.2 | 170 | 145 |
| 13 Housing Development & Infr | 16.5 | 1,200 | 1,030 |
| 14 HDFC Bank | 15.4 | 1,500 | 1,300 |
| 15 Petronet LNG | 14.0 | 65 | 57 |
| 16 Aditya Birla Nuvo | 11.7 | 2,100 | 1,880 |
| 17 Zee Entertainment Enterpris | 11.5 | 290 | 260 |
| 18 HDFC | 11.4 | 2,450 | 2,200 |
| 19 ITC | 11.1 | 250 | 225 |
| 21 Tata Tea | 10.9 | 1,100 | 992 |
| 22 Cairn India | 10.3 | 160 | 145 |
| 23 GSPL | 10.2 | 65 | 59 |
| 24 Indian Oil Corporation | 10.0 | 550 | 500 |
| 25 Mahindra & Mahindra Financ | 9.4 | 290 | 265 |
| 26 Welspun Gujarat Stahl Rohre | 8.8 | 310 | 285 |
| 27 PSL | 8.7 | 500 | 460 |
| 29 Glenmark Pharmaceuticals | 8.6 | 530 | 488 |
| 30 India Infoline | 7.7 | 1,400 | 1,300 |
| 31 Sun TV Network | 6.7 | 320 | 300 |

Downgrades in target prices

| Company | % Change | New | Old |
|---------------------------------|----------|-------|-------|
| 1 Tech Mahindra | (23.1) | 1,000 | 1,300 |
| 2 Vardhman | (20.5) | 175 | 220 |
| 3 MTNL | (18.5) | 110 | 135 |
| 4 Mphasis BFL | (16.7) | 250 | 300 |
| 5 Polaris Software Lab | (13.6) | 95 | 110 |
| 6 Mindtree | (13.2) | 460 | 530 |
| 7 ACC | (11.1) | 800 | 900 |
| 8 Hindustan Petroleum | (10.0) | 360 | 400 |
| 9 Hindustan Zinc | (9.9) | 1,000 | 1,110 |
| 10 Glaxo Smithkline Consumer | (9.7) | 650 | 720 |
| 11 Infosys Technologies | (9.1) | 2,000 | 2,200 |
| 12 Bharat Electronics | (7.9) | 1,750 | 1,900 |
| 13 DishTV | (6.3) | 75 | 80 |
| 14 Kalpataru Power Transmission | (5.6) | 1,700 | 1,800 |
| 15 Satyam Computer Services | (5.5) | 520 | 550 |
| 16 Wipro | (4.4) | 545 | 570 |
| 17 Andhra Bank | (4.2) | 115 | 120 |

Source: Kotak Institutional Equities estimates.

Major changes in KIE ratings in the past one month

| | | Rating | |
|-------------------------------|------------|---------|----------|
| | | Current | Previous |
| Downgrades to ratings | | | |
| Aditya Birla Nuvo | Downgraded | ADD | BUY |
| Axis Bank | Downgraded | REDUCE | ADD |
| Castrol India | Downgraded | REDUCE | ADD |
| Dr Reddy's Laboratories | Downgraded | ADD | BUY |
| Dredging Corporation | Downgraded | REDUCE | ADD |
| Educomp Solutions | Downgraded | REDUCE | ADD |
| Hindustan Zinc | Downgraded | ADD | BUY |
| Indian Oil Corporation | Downgraded | SELL | REDUCE |
| Jindal Saw | Downgraded | ADD | BUY |
| Lanco | Downgraded | Add | BUY |
| Mahindra & Mahindra Financial | Downgraded | REDUCE | ADD |
| Monnet Ispat | Downgraded | ADD | BUY |
| National Aluminium Co | Downgraded | REDUCE | ADD |
| NTPC | Downgraded | REDUCE | ADD |
| Oriental Bank of Commerce | Downgraded | SELL | REDUCE |
| PSL | Downgraded | ADD | BUY |
| Sadbhav Engineering | Downgraded | ADD | BUY |
| Welspun Gujarat Stahl Rohren | Downgraded | SELL | REDUCE |
| Upgrades to ratings | | | |
| ACC | Upgraded | REDUCE | SELL |
| Canara Bank | Upgraded | REDUCE | SELL |
| CESC | Upgraded | BUY | ADD |
| DLF | Upgraded | BUY | ADD |
| Federal Bank | Upgraded | BUY | ADD |
| GE Shipping | Upgraded | ADD | REDUCE |
| HDFC Bank | Upgraded | ADD | REDUCE |
| Mindtree | Upgraded | BUY | ADD |
| Oil & Natural Gas Corporation | Upgraded | ADD | REDUCE |
| Punj | Upgraded | BUY | REDUCE |
| Sesa Goa | Upgraded | BUY | ADD |
| UltraTech Cement | Upgraded | REDUCE | SELL |
| Zee Entertainment Enterprises | Upgraded | ADD | SELL |

Source: Kotak Institutional Equities estimates.

Consumer Products**HLL.BO, Rs212**

| | |
|----------------------|-----------|
| Rating | ADD |
| Sector coverage view | Neutral |
| Target Price (Rs) | 230 |
| 52W High -Low (Rs) | 244 - 166 |
| Market Cap (Rs bn) | 467.6 |

Financials

| December y/e | 2006 | 2007E | 2008E |
|--------------------|-------|-------|-------|
| Sales (Rs bn) | 121.0 | 135.6 | 151.9 |
| Net Profit (Rs bn) | 15.5 | 17.7 | 20.5 |
| EPS (Rs) | 7.0 | 8.0 | 9.3 |
| EPS <i>gth</i> | 18.3 | 14.0 | 15.6 |
| P/E (x) | 30.1 | 26.4 | 22.8 |
| EV/EBITDA (x) | 23.7 | 20.7 | 17.7 |
| Div yield (%) | 3.2 | 4.9 | 4.1 |

Shareholding, September 2007

| | % of | | Over/(under) |
|-----------|---------|-----------|--------------|
| | Pattern | Portfolio | weight |
| Promoters | 51.4 | - | - |
| FIs | 13.2 | 0.7 | (0.5) |
| MFs | 3.9 | 1.4 | 0.1 |
| UTI | - | - | (1.2) |
| LIC | 7.4 | 2.4 | 1.1 |

Hindustan Unilever: Significant launches in foods, oral & shampoo—strong statement of intent

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In line with the stated strategy in its foods portfolio, HUL has recently launched a health drink under the 'Kissan Amaze' brand. The product is under the functional food (brain food) platform and is targeted at children. The size of the malted drink category in India is estimated at Rs15 bn and is growing at about 10%. HUL has recently launched Pepsodent 'Mahapack'—flow wrapped toothpaste of 30 gms priced at Rs6. We believe that this SKU (stock keeping unit) could be a success for HUL given the value proposition and will help the company gain shares in the oral category. We forecast sales growth of 12.8%, EBITDA growth of 17.9% and PAT growth of 16.6% for 4QCY07. We believe that the company is poised for good near-term performance. The macro environment remains robust and we expect the FMCG sales growth momentum (especially in rural areas) exhibited during CY2006 and 2007 to sustain during CY2008 as well. We retain our ADD rating and DCF- based target price of Rs230.

Amaze arrives—targeting bigger share of the foods pie

In line with its stated strategy in foods portfolio, HUL has recently launched a health drink under the 'Kissan Amaze' brand. The product is under the functional food (brain food) platform and is targeted at children. The size of the malted drink category in India is estimated at Rs15 bn and is growing at about 10%. HUL's current food business is estimated at about Rs4 bn. Amaze will compete against Horlicks, Complan, Bournvita, Boost, Protinex etc. Unilever has stated earlier that it will focus on products providing the goodness of tea, fruits and vegetables, milk, soy and oils. The Amaze brand is from the Unilever's global foods portfolio and was launched in Turkey in January 2007. We expect the company to launch flanking products under the health and nutrition platform, including a breakfast cereal.

The pricing for Amaze is at a premium to the competition (Horlicks retails at about Rs120 for 500 gms). The product is launched in multiple formats like malted drink (comparable to malted beverages like Complan, Horlicks, Bournvita), energy bars, cubes etc. The product was launched in the states of Tamil Nadu and Karnataka. We believe that this is a significant statement of intent by the company after the experiences in processed foods in the early part of this decade. We recall HUL's big bang entry in the period 2000-2003 into the staples and branded foods business under the Annapurna and Kissan labels.

Pepsodent 'mahapack'—big news in oral

HUL has recently launched Pepsodent 'Mahapack'—flow wrapped toothpaste of 30 gms priced at Rs6. We believe that this SKU (stock keeping unit) could be a success for HUL given the value proposition. In our note dated January 3, 2008, we had highlighted that HUL would be uncomfortable if its market share dipped below 30% and is expected to look at various options to prevent further market share loss. HUL's current market share at <30% in toothpaste has fallen to the lowest in 10 years. Though oral care is a non-focus category for parent Unilever, it contributes significantly to HUL's EBITDA. We estimate HUL's oral care business at Rs7 bn, with gross margins of about 45%.

However, we believe the likelihood of a price-based competition is low. We expect HUL to have higher resource allocation for categories with hyper-competition (shampoo, skin) and investment requirements of foods and water business. We recall HUL's earlier foray into the popular segment—where the USP is price. In early 2000/01, HUL had tried entering this segment with the 'AIM' brand at a 40% price discount to the existing portfolio. Lack of adequate media support and formulation unacceptability (it was a Neem-based product) to the masses resulted in the company withdrawing the product.

Good result expectations for 4QCY07

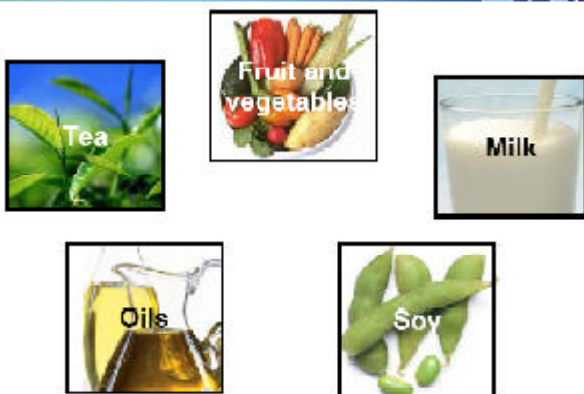
The company is slated to announce 4QCY07 results on February 13. We forecast sales growth of 12.8%, EBITDA growth of 17.9% and PAT growth of 16.6% for 4QCY07. We believe the company is poised for good near-term performance. We expect the 4QCY07 and 1QCY08 performance to be very good on the back of significant revival in personal products. Key drivers, outlined below, are expected to drive near-term performance:

1. Beneficial base effect (personal products business grew at 2.5% in 4QCY06)
2. Late Diwali, resulting in festival sales getting captured in the December quarter of 2007
3. Extended and harsh winter in north and east India
4. Additional fiscal benefit from new facility for Lakme in Haridwar
5. Replenishment of pipeline inventory in oral and skin

Moreover, initial market reports indicate that ITC's Fama Di Wills shampoo, which was launched in key metros, is yet to make an impact. We note that HUL's recent relaunch of Sunsilk shampoo (with a transformational packaging and at about 10% higher pricing) augers well to arrest the declining market share of the brand.

Five-pronged food focus; 'Amaze' launched in India—bid to garner bigger share of the foods market

We will deliver the goodness of five key ingredients...



Supporting kids' mental development

A nutrient mix which has been scientifically shown to improve learning and memory in school-aged children.

Launched 01/07
In Turkey



Source: Unilever.

HUL: Profit model, balance sheet, cash model 2005-2008E, December year-ends (Rs mn)

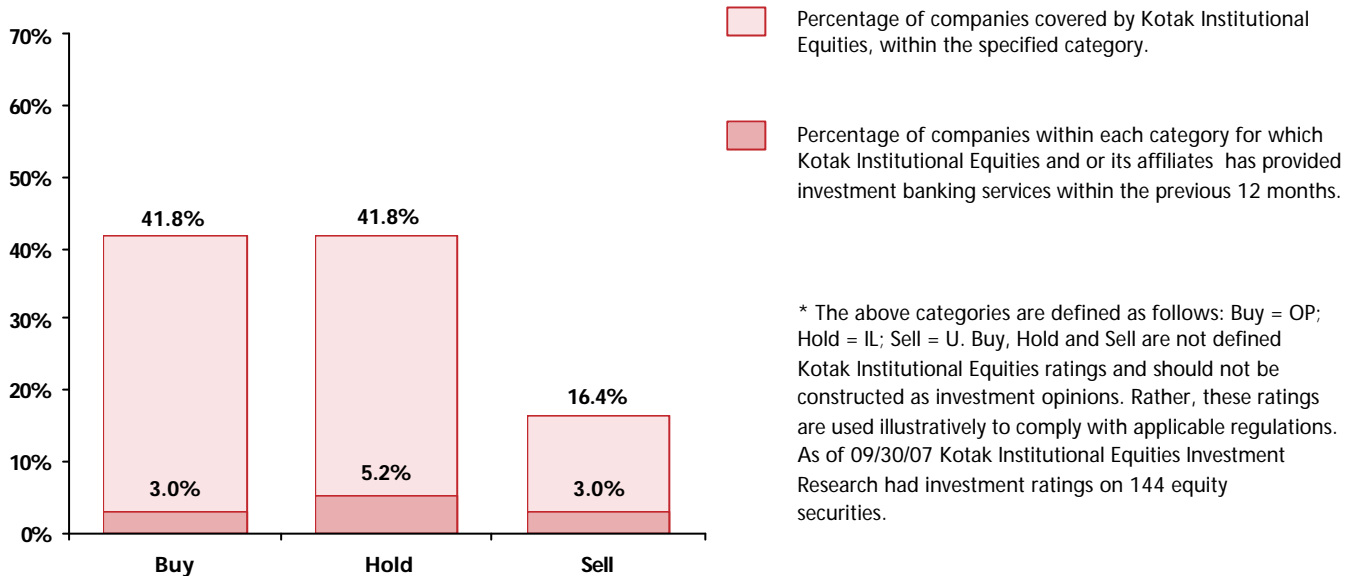
| | 2005 | 2006 | 2007E | 2008E | 2009E |
|--|---------------|---------------|---------------|---------------|---------------|
| Profit model (Rs mn) | | | | | |
| Net sales | 110,605 | 121,034 | 135,895 | 152,231 | 171,704 |
| EBITDA | 14,433 | 16,621 | 19,162 | 22,543 | 26,609 |
| Other income | 3,048 | 3,545 | 4,239 | 4,417 | 4,767 |
| Interest | (192) | (107) | (268) | (58) | (58) |
| Depreciation | (1,245) | (1,302) | (1,377) | (1,525) | (1,692) |
| Extraordinary items | 976 | 3,155 | — | — | — |
| Pretax profits | 17,021 | 21,912 | 21,756 | 25,377 | 29,626 |
| Tax | (2,530) | (2,950) | (3,663) | (4,517) | (5,613) |
| Deferred taxation | (410) | (268) | (354) | (352) | (369) |
| Net profits | 14,081 | 18,694 | 17,740 | 20,507 | 23,644 |
| Earnings per share (Rs) | 6.0 | 7.0 | 8.0 | 9.3 | 10.7 |
| Balance sheet (Rs mn) | | | | | |
| Total equity | 23,056 | 27,235 | 21,936 | 23,046 | 24,325 |
| Total borrowings | 569 | 726 | 726 | 726 | 726 |
| Current liabilities | 41,183 | 45,231 | 53,434 | 56,664 | 63,723 |
| Total liabilities and equity | 64,809 | 73,191 | 76,097 | 80,436 | 88,774 |
| Cash | 3,550 | 4,169 | 2,980 | 2,913 | 6,011 |
| Current assets | 24,080 | 27,527 | 30,860 | 34,350 | 38,503 |
| Total fixed assets | 14,835 | 15,110 | 16,226 | 17,493 | 18,950 |
| Investments | 20,142 | 24,139 | 24,139 | 24,139 | 24,139 |
| Deferred tax asset | 2,201 | 2,245 | 1,892 | 1,540 | 1,171 |
| Total assets | 64,809 | 73,191 | 76,097 | 80,436 | 88,774 |
| Free cash flow (Rs mn) | | | | | |
| Operating cash flow, excl. working capital | 15,908 | 20,209 | 19,642 | 22,568 | 25,944 |
| Working capital | 5,858 | (471) | 1,223 | 1,153 | 1,366 |
| Capital expenditure | (904) | (1,576) | (2,493) | (2,792) | (3,149) |
| Investments | 2,452 | (4,309) | — | — | — |
| Free cash flow | 23,314 | 13,852 | 18,373 | 20,928 | 24,161 |
| Key assumptions | | | | | |
| Revenue Growth (%) | 11.4% | 9.4% | 12.3% | 12.0% | 12.8% |
| EBITDA Margin(%) | 13.2% | 13.9% | 14.1% | 14.8% | 15.5% |

Source: Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Aman Batra."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

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

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

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

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

Old rating system

Definitions of ratings

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

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

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

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

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