kotak® Institutional Equities

INDIA DAILY

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EQUITY MARKETS

	Change, %			
India	**11-May**	**1-day**	**1-mo**	**3-mo**
Sensex	13,796	0.2	3.1	(1.5)
Nifty	4,077	0.2	4.1	0.7
Global/Regional indices				
Dow Jones	13,326	0.8	5.7	4.6
Nasdaq Composite	2,562	1.1	2.8	3.0
FTSE	6,566	0.6	1.6	2.3
Nikkie	17,741	1.1	2.2	(0.1)
Hang Seng	20,946	2.3	3.0	3.6
KOSPI	1,612	0.5	6.0	12.2

Value traded - India

	Moving avg, Rs bn			
	11-May		**1-mo**	**3-mo**
Cash (NSE+BSE)	136.8		129.2	124.7
Derivatives (NSE)	387.0		228.8	322.2
Deri. open interest	534.5		487.0	603.6

Forex/money market

	Change, basis points			
	11-May	**1-day**	**1-mo**	**3-mo**
Rs/US$	41.1	-	(83)	(304)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	3	10	33

Net investment (US$mn)

	10-May		MTD	CYTD
FIIs	45		1,257	40
MFs	55		236	(303)

Top movers -3mo basis

	Change, %			
Best performers	**11-May**	**1-day**	**1-mo**	**3-mo**
Balaji Telefilms	179	8.7	24.9	44.3
GESCO	260	(0.4)	15.5	26.7
SAIL	135	0.6	7.5	24.5
i-Flex	2,361	1.7	5.4	24.1
Castrol India	277	(2.4)	22.0	23.2
Worst performers				
Polaris	165	0.6	(12.9)	(24.1)
Ingersoll Rand	288	0.1	8.6	(17.1)
Acc	850	(2.8)	13.7	(16.8)
Wipro	546	(1.2)	(3.9)	(16.1)
Cipla	205	(1.4)	(11.8)	(16.0)

News Roundup

Corporate

- Gujarat State Petroleum Corporation (GSPC) has decided to invest around US$142 mn through its subsidiary GSPC Gas Company over the next four years for a CNG and piped natural gas (PNG) network in 20 major cities and towns in the state. (ET)
- The country's largest private airline, Jet Airways, which recently acquired Air Sahara, announced that it is planning to raise $400 million through a rights issue to fund its expansion plans. (BS)
- US based Mylan Laboratories has acquired German drug major Merck AG's generic drug business for euro 4.9 billion ($6.7 billion) in an all-cash transaction. The acquisition will enable Mylan to make fullest use of the basic bulk drug (API) manufacturing capabilities of its Indian arm, Matrix. (BS)

Economic and political

- Union IT and Communications Minister Dayandhi Maran resigned tonight. The move came after his party, the DMK, decided to seek his removal from the Cabinet and serve him a notice asking why he should not be expelled from the primary membership of the party (ET)
- Uttar Pradesh's new Chief Minister Mayawati gave a stern message to her opponents that the BSP government would not brook communal violence and withdraw security of "criminal elements" and came out in support of reservations for economically backward sections. (BS)

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

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Strategy

Sector coverage view	N/A

Introducing Alpha Bet: Bet on quality

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- **Alpha Bet: 3-month opportunities based on fundamental triggers**
- **#1: Buy Infosys, sell TCS: return of typical premium against TCS**
- **#2: Buy SBI, sell UTI Bank, CBoP: Valuations, value unlocking in SBI's AMC, insurance**
- **#3: Buy ABNL, sell Idea Cellular: Idea implicitly valued at less than CMP in ABNL**

We introduce Alpha Bet to identify 3-month opportunities in Indian equities based on fundamental triggers with a valuation overlay (Exhibit 1). In a market susceptible to risks, we begin with three trades stressing quality, valuations and diversity. First, we advise investors to go long on Infosys and short TCS. Second, we prefer SBI over a basket of UTI Bank and CBoP. Third, we long ABNL and short Idea.

Play quality, diversity, valuation in a market susceptible to risks. We focus on quality, diversity and valuation differentials at a time of little immediate market upside. Valuations do look reasonable, with the BSE Sensex centered in our FY09E earnings based 12,800-15,400 fair band (11,300 – 13,600 on FY08E earnings). It is, however, difficult to ignore uncertainties surrounding the US, monsoons and monetary/ exchange rate policy.

Trade #1: Buy Infosys, sell TCS: Play a valuation opportunity. This plays a likely return to the valuation premium that Infosys has typically enjoyed over TCS (Exhibit 2). This builds on our view that Infosys has recently underperformed TCS despite little change in operating metrics. Besides, we expect the Rupee to trade at Rs41/USD but eventually retrace to Rs43/USD in FY2008. In such an event, Infosys will likely outperform TCS. Given the likely impending ADR issue announcement by TCS, we would time the short leg of the trade near the event.

Trade #2: Buy SBI, sell UTI Bank, CBoP: On the side of the big gun, and cheap. We are overweight PSU banks at favorable valuations and an on-going regime switch to higher lending rates and stable yields (from rising yields and cheap lending rates). An additional trigger for SBI is a likely unlocking of value of the insurance and AMC businesses. We short UTI Bank and CBoP because of relatively rich valuations at a time of dependence on costly bulk deposits.

Trade #3: Long ABNL, short Idea Cellular: Two better than one. We would buy ABNL and sell Idea in order to play a likely trigger in insurance and deep discount value for its stake in Idea. Our telecom team believes that Idea's valuations are stretched and ABNL is thus a better way to play the telecom story in Idea. We highlight that Idea's current market price implies a value of Idea's share at Rs89 which is far below the market price (Exhibit 3). This will likely cushion the impact of a correction in Idea's price on ABNL price.

Exhibit 1: Alpha Bet trades

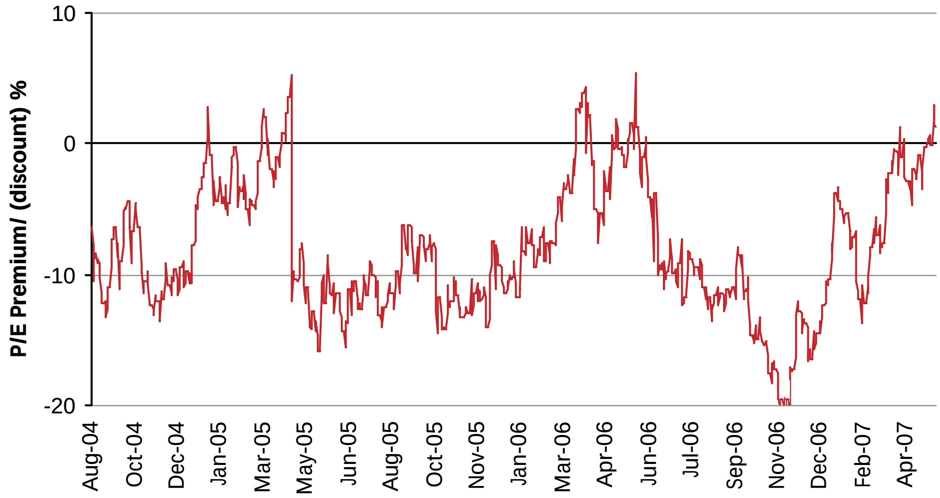
Trade statistics (prices in INR)

Trade action	Stock	CMP	Short-term TP	Upside/Downside	Target price
Trade 1					
Buy	Infosys	2,000	2,200	10.0	2,500
Sell	TCS	1,253	1,275	1.8	1,400
Trade 2					
Buy	SBI	1,149	1,250	8.8	1,400
Sell	UTI Bank	520	480	-7.7	410
	CBoP	40	35	-12.5	35
Trade 3					
Buy	ABNL	1,164	1,300	11.7	1,350
Sell	Idea Cellular	114	105	-7.9	100

Source: Bloomberg, Kotak Institutional Equities estimates.

Exhibit 2: TCS typically trades at a discount to Infosys

P/E differential (TCS vs Infosys)



Source: Bloomberg, Kotak Institutional Equities estimates

ABNL's SOTP valuation implies a Idea Cellular price of Rs89/ share vs. CMP of Rs114

	Valuation base (Rs mn)		Multiple (X)		EV	SOTP
	Other	EBITDA	Multiple (%)	EV/EBITDA	(Rs mn)	(Rs/share)
Stake in Birla sun life insurance (74%)	(a)		90		21,874	234
Stake in Idea telecom (31.8%)	(b)		90		84,226	903
Transworks and Minacs (BPO)	EV/ Sales				8,963	96
Fertilizers	DCFF				7,019	75
Garments	-	874		10.0	8,740	94
Rayon and allied chemicals	DCFF				5,552	59
Carbon black	-	1,073		6.0	6,438	69
Textiles	-	771		8.0	6,167	66
Insulators		401		6.0	2,404	26
Stake in Mutual fund (50%)	% of AUM				3,140	34
Stake in PSI Data system (70.4%)	EV/ Sales				592	6
Total					**137,861**	**1,662**
Less: Net debt					28,231	303
Equity value (Rs)					**118,501**	**1,360**

Note:

(a) We have valued 74% stake in Birla sun life insurance at Rs234/ share afer applying 10% subsidiary discount.

(b) We have valued 31.8% stake in IDEA cellular after applying 10% subsidiary discount.

(c) We have valued Fertilizer's business based on DCF-to-firm on normalised long-term full capacity EBITDA, adjusted for project capex.

(d) We have valued 50% stake in Birla sunlife mutual fund at 5% of equity AUM and 3% of debt AUM

Banking

SBI.BO, Rs1149	
Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	1,200
52W High -Low (Rs)	1379 - 684
Market Cap (Rs bn)	604.8

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	235.0	253.2	278.2
Net Profit (Rs bn)	45.4	55.1	56.3
EPS (Rs)	86.3	104.8	106.9
EPS gth	*3.1*	*21.4*	*2.0*
P/E (x)	13.3	11.0	10.7
P/B (x)	2.2	1.9	1.6
Div yield (%)	1.3	1.5	1.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	59.7	-	-
FIIs	19.8	1.7	(0.1)
MFs	5.7	3.1	1.2
UTI	-	-	(1.8)
LIC	4.1	2.0	0.1

State Bank of India: Profit higher than estimates, mostly due to one-off items, rest on track, retain OP

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- **State Bank of India (SBI) reported a PAT of Rs14.9 bn in 4QFY2007 up 75% yoy and 48% ahead of our estimates.**
- **Operational performance remains healthy**
- **SBI is looking at unlocking value in its non-banking investments by creating a separate holding company and listing that entity (similar to ICICI Bank).**

State Bank of India (SBI) reported a PAT of Rs14.9 bn in 4QFY2007 up 75% yoy and 48% ahead of our estimates. While, steady margins (NIM of 3.3%), robust fee income growth (21% yoy), and relatively stable operating expenses were positives, one-offs such as dividend income and write-back of investment provisions led to company exceeding our targets. Management indicated that the bank will continue to focus on margins and profitability, while simultaneously improving its market leadership. SBI is looking at unlocking value in its non-banking investments by creating a separate holding company and listing that entity (similar to ICICI Bank). The stock trades at attractive valuations of 8.0X PER and 1.4X APBR FY2008 (standalone) and we are maintaining our target price of Rs1,400 (which we had recently rolled over to FY2009 estimates).

NIM remains steady, aids NII growth: NII for SBI in 4QFY2007 was Rs43.2 bn a growth of 22% yoy and largely in line with our estimates. NIM remained steady at 3.3%, while advances growth was 29%, in line with industry growth rate. Deposit growth also improved to 14.6% yoy compared to the 11% yoy growth in the previous two quarters. The bank CASA ratio was healthy 43.6% as on March 2007. To protect margins, management is targeting: (1) change in asset mix to high yielding assets, (2) increase of 100 bps in current account and 200 bps in savings account deposits and (3) increasing focus on rural areas for retail deposits. SBI current SLR ratio is at 27% leaving it with little leverage to run down investments to fund its credit growth.

Non-interest income growth remains strong. SBI reported fee income of Rs23.4 bn in 4QFY2007 a growth of 21% yoy. Buoyant economy, increased focus on sale of third party financial products and revision of fees across service categories are likely drivers of this income at the bank. SBI also benefited from a dividend income of Rs2.2 bn from its subsidiaries, as some of its subsidiaries announced interim dividends before the end of this fiscal. This likely follows the increase in dividend distribution tax to 15% from 12.5% in the Union Budget 2007-08. Consequently, the dividend income in 1QFY2008 (typically, SBI receives dividends in first quarter of the fiscal) would be muted.

Expenses remain under control aided by lower employee expenses. Operating expenses for SBI stood at Rs32.4 bn, which was 10% higher than last year and in line with our estimates. Lower employee expenses due to the implementation of a VRS scheme — close to 7,000 employees opted for this scheme, likely enabled the bank to maintain its employee cost expenses. Management now expects to increase recruitment and on a net basis the bank may not see decline in employees as was earlier expected.

Write back of investment amortization buffers provision expenses, leading to higher profits. SBI income was also supported by a gross write-back of Rs9.5 bn of excess investment amortization expenses made by the bank in the previous quarters. At the same time the bank made a provision of Rs5.5bn for investment amortization expense pertaining to the 4QFY2007, leading to a net write-back of Rs4 bn.

Asset quality remains healthy. Gross NPLs of SBI stood at Rs100 bn as on March 2007, which implied a Gross NPL ratio of 2.9%. Gross NPL declined sequentially from Rs104 bn as on December 2006. However, the Net NPLs increased to Rs53 bn (Rs45 bn as on December 2006) likely due to the write-off of some of the gross NPL. SBI slippage ratio at 1.9% for FY2007 (has been trending down in recent years) remains high compared to other banks under coverage.

SBI (Rs mn)

	3Q06	4Q06	1Q07	2QFY07	3QFY07	4QFY07	% chg	4QFY07KS	Actual Vs KS
Income earned	95,582	85,091	88,362	93,775	97,359	115,415	35.6	97,854	17.9
Income on advances	46,679	47,587	54,674	59,017	64,136	70,566	48.3	71,616	(1.5)
Income on investments	32,891	33,164	29,402	28,744	28,331	28,453	(14.2)	20,850	36.5
Interest on balance with RBI	16,012	4,340	4,286	6,014	4,893	16,396	277.8	5,388	204.3
Interest expense	53,383	49,545	49,521	54,788	57,846	72,213	45.8	55,913	29.2
Interest on Deposits	46,586	41,957	42,146	44,728	46,960	57,003	35.9	45,841	24.3
Interest on Borrowings	3,397	3,469	3,116	3,823	4,357	10,119	191.7	27,097	(62.7)
Others Sundry Interest	3,400	4,119	4,259	6,327	6,529	5,092	23.6	(17,115)	(129.7)
Net interest income (NII)	**42,199**	**35,546**	**38,841**	**38,987**	**39,513**	**43,201**	**21.5**	**41,941**	**3.0**
NII (adj. for extraordinary and other interest income)	**29,660**	**35,546**	**38,841**	**38,987**	**39,513**	**43,201**	**21.5**	**41,941**	**3.0**
NII adjt for invest. amortization	**25,385**	**26,822**	**33,315**	**34,753**	**34,463**	**47,201**	**76.0**	**36,441**	**29.5**
Other income	18,405	26,770	17,626	14,338	18,110	24,394	(8.9)	24,679	(1.2)
Fees, commission	7,005	19,354	7,619	8,445	8,609	23,373	20.8	18,886	23.8
Invt. income	1,298	799	2,113	77	3,106	382	(52.2)	1,685	(77.3)
Forex income	1,122	861	1,039	1,066	1,141	487	(43.5)	1,050	(53.6)
Revaluation of investments	-	-	-	-	-	-	-	-	-
Miscl income	8,539	5,732	3,041	4,254	4,866	(2,002)	(134.9)	2,965	(167.5)
Dividend	85	23	3,481	136	135	2,218	9,584.3	38	5,705.3
Income from leasing	356	1	333	360	253	(63)		54	(217.6)
Other income excld treasury	17,107	25,971	15,513	14,261	15,004	24,012	(7.5)	22,993	4.4
Total income	**60,604**	**62,316**	**56,467**	**53,324**	**57,623**	**67,595**	**8.5**	**66,620**	**1.5**
Operating expenses	34,607	29,544	28,102	28,598	29,074	32,460	9.9	33,418	(2.9)
Staff expenses	20,166	16,646	15,903	16,207	16,957	18,635	11.9	21,975	(15.2)
Pension contributions	5,075	2,596	3,340	3,340	3,340	1,604	(38.2)	-	-
Other operating expenses	9,366	12,898	8,860	9,051	8,777	12,222	(5.2)	12,176	0.4
Pre-provision operating profit	25,997	32,772	28,365	24,726	28,549	35,135	7.2	33,201	5.8
Provisions and extr. Ord.	4,698	13,391	12,820	6,813	11,662	9,577	(28.5)	18,088	(47.1)
Loan loss provisions	(1,026)	36	1,916	2,561	5,406	7,312	20,044.1	6,450	13.4
Standard assets	1,400	2,052	200	1,400	1,300	2,992	45.8	-	-
Investment depreciation	-	3,462	5,514	-	1,535	2,758	(20.3)	5,691	(51.5)
Investment amortization	4,276	8,724	5,526	4,234	5,050	(4,000)	(145.8)	5,500	(172.7)
Other provisions	1,448	1,169	(136)	18	(329)	564	(51.8)	446	26.3
PBT	**21,299**	**19,380**	**15,545**	**17,912**	**16,888**	**25,558**	**31.9**	**15,113**	**69.1**
Less tax	10,147	10,847	7,559	6,067	6,237	10,626	(2)	5,010	112
Profit after tax	**11,152**	**8,533**	**7,986**	**11,845**	**10,650**	**14,932**	**75.0**	**10,103**	**47.8**
PBT - investment income+ invt dep.	8,527	22,043	18,946	17,835	15,316	27,934	27	-	-
PBT - invest income+ provisions-extr. Items	**6,437**	**18,909**	**20,861**	**20,397**	**20,722**	**35,247**	**86.4**	**25,570**	**37.8**
Cost income ratio (%)	57.1	47.4	49.8	53.6	50.5	48.0			
Tax Rate	47.6	56.0	48.6	33.9	36.9	41.6			

Note: In previous quarters the SBI used to net of the interest income and interest costs on FCNR deposits from sundry interest. This is now reflected on a gross basis in 'interest on balances with RBI and other inter-bank funds', and interest expense. The sharp increase in other interest income in 4QFY2007 is also explained by interest on CRR received in the last quarter of Rs1.75bn and deployment of long term borrowings in short term instruments till these are deployed.

Soucre: Bank

	3Q06	4Q06	1Q07	2QFY07	3QFY07	4QFY07	% chg	4QFY07KS	Actual Vs KS
Advances book details (Rs bn)									
Gross advances	2,534	2,671	2,720	2,888	3,154	3,424	28.2		
Net advances	2,417	2,616	2,619	2,833	3,094	3,373	28.9		
Retail advances	563	611	630	658	696	736	20.5		
Housing finance	304	318	332	346	365	380	19.3		
Retail to total advances (%)	23.3	23.3	24.0	23.2	22.5	21.8			
Housing to Retail advances (%)	53.9	52.1	52.7	52.5	52.4	51.6			
Agriculture	246	263	284	306	323	350	33.0		
Mid Corporate	NA	649	655	708	NA	875	34.7		
Deposits book details (Rs bn)									
Deposits	3,637	3,800	3,777	3,926	4,044	4,355	14.6		
Low cost deposits (%)	41.0	43.3	42.7	42.6	43.3	43.6			
Investment book details (Rs bn)									
Investments (Rs bn)	1,660	1,550	1,610	1,470	1,440	1,350			
HTM	880	NA	1,040	1,020	1,030	1,000			
AFS	780	NA	590	450	410	350			
AFS duration (years)	NA	NA	NA	2	2	1.8			
Asset management ratios (%)									
Cost of deposit (excl RIB, IMD)	4.52	4.49	4.47	4.51	4.57	4.79			
Cost of deposits (Incl RIB, IMD)	4.79	4.69	NA	NA	NA	NA			
Yield on advances	7.87	7.78	8.49	8.55	8.61	8.67			
Yield on resources	7.09	7.1	7.22	6.94	6.87	6.88			
Net interest margin	3.01	2.92	3.37	3.32	3.29	3.31			
Capital adequacy details (%)									
CAR	12.5	11.9	12.0	12.6	11.9	12.3			
Tier I	8.5	9.4	9.0	8.7	8.0	8.0			
Tier II	4.0	2.5	3.0	3.9	3.9	4.3			
Asset quality details									
Gross NPLs (Rs bn)	110	104	104	103	104	100	(3.6)		
Gross NPLs (%)	4.4	3.9	3.9	3.6	3.3	2.9			
Net NPLs (Rs bn)	40	49	44	47	45	53	7.2		
Net NPLs (%)	1.7	1.9	1.7	1.7	1.5	1.6			
Return ratios									
RoA (%)	1.01	0.89	0.64	0.78	0.78	0.84			
RoE (%)	17.12	15.47	11.23	13.39	13.24	14.24			
Key per share metrics (Rs)									
EPS	NA	83.7	60.7	75.4	77.2	86.3			
BVPS	526	525	540	563	583	606			

Soucre: Bank

Automobiles

HROH.BO, Rs705	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	625
52W High -Low (Rs)	898 - 565
Market Cap (Rs bn)	140.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	99.0	108.4	118.7
Net Profit (Rs bn)	8.6	8.6	9.3
EPS (Rs)	43.0	43.3	46.6
EPS gth	*(11.7)*	*0.7*	*7.7*
P/E (x)	16.4	16.3	15.1
EV/EBITDA (x)	8.8	8.3	7.4
Div yield (%)	2.4	2.8	2.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.0	-	-
FIIs	27.8	0.6	0.2
MFs	1.0	0.1	(0.3)
UTI	-	-	(0.5)
LIC	4.1	0.5	0.0

Hero Honda: Operating performance disappoints; maintain Underperform

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- **4Q net profit at Rs1.95 bn declines 27% yoy; we estimated Rs2.0 bn**
- **4Q operating performance disappoints; margins at 10.2% drop 590 bps yoy**
- **Operating performance should improve from 4Q levels but not too much**
- **Potential royalty payment reduction provides upside risk to our FY2008 estimates**
- **Maintain EPS estimates and Underperform rating on the stock**

Hero Honda (HH) reported 4Q net profit at Rs1.95 bn – a 27% yoy decline and in-line with our estimate of Rs2.0 bn. However 4Q EBITDA at Rs2.7 bn was 5% lower than our estimate of Rs2.8 bn. 4Q EBITDA margins at 10.2% declined 590 bps yoy and 110 bps qoq. Hero Honda has ended FY2007 with a volume growth of 11%, net sales growth of 14%, EBITDA decline of 14% and an EPS decline of 12%. FY2007 EPS stands at Rs43.0. The company has announced a dividend of Rs17 per share for the year, lower than FY2006 dividend of Rs20 per share. We maintain our EPS estimates for Hero Honda at Rs43.3 for FY2008 and Rs46.6 for FY2009. We maintain our Underperform rating on the stock with our target price unchanged at Rs625.

4Q operating performance disappoints; margins drop 590 bps yoy

An 11% yoy growth in volumes in 4Q resulted in a 17% growth in net sales but a sharp 26% decline in EBITDA. 4Q EBITDA at Rs2.7 bn declined 26% yoy and was lower than our estimate of Rs2.8 bn. 4Q EBITDA margins at 10.2% declined 590 bps yoy and 110 bps qoq. Higher-than-expected other expenditure led to the variation vis-à-vis our estimates.

4Q operating performance was likely impacted by:

1. **Launch of entry segment variants at very aggressive prices.** Hero Honda had launched upgraded variants of its entry segment bikes – ‘CD Dawn’ and ‘CD Deluxe’ in late Dec with very aggressive prices. While the launches resulted in a respectable volume growth of 11% for the quarter, incremental profitability from these launches was very low.

2. **Discounts on ‘Splendor’ and ‘Passion’.** Hero Honda had offered discounts of Rs1,000 per bike for its ‘Splendor Plus’ and ‘Passion Plus’ models for most of March. ‘Splendor’ and ‘Passion’ account for 75% of Hero Honda’s volume sales and the discounts would have hit 4Q margins.

3. **Higher advertising expenditure due to Cricket World Cup.** We understand that the entire expenditure was expensed in 4Q.

Operating performance should improve from 4Q levels but not too much

In our opinion,1QFY2008 margins will likely improve from 4Q levels as Hero Honda has withdrawn the discounts on its 'Splendor' and 'Passion' bikes. Advertising expenses, too, should return to normal levels as the Cricket World Cup is over. Our estimates factor in a 100 bps sequential improvement in margins for Hero Honda in 4Q. However, margins for Hero Honda could come under pressure in 3Q if even one of Bajaj Auto's new launches starts to become a success. Bajaj Auto is planning to launch 125CC bikes in 2Q at the price point of 100CC bikes in an attempt to dethrone Hero Honda's highly popular 'Splendor-Passion' duo. If even one of Bajaj Auto's new bikes starts to become a success, Hero Honda will have to respond with either discounts or a direct price-cut on its 'Splendor' and 'Passion' bikes. This could result in Hero Honda's margins declining to sub-10% levels in 2HFY2008.Given this risk and our expectation of weak volume growth in FY2008 at just 7.5%, we maintain our Underperform rating on Hero Honda.

Potential royalty payment reduction provides upside risk to our FY2008 estimates

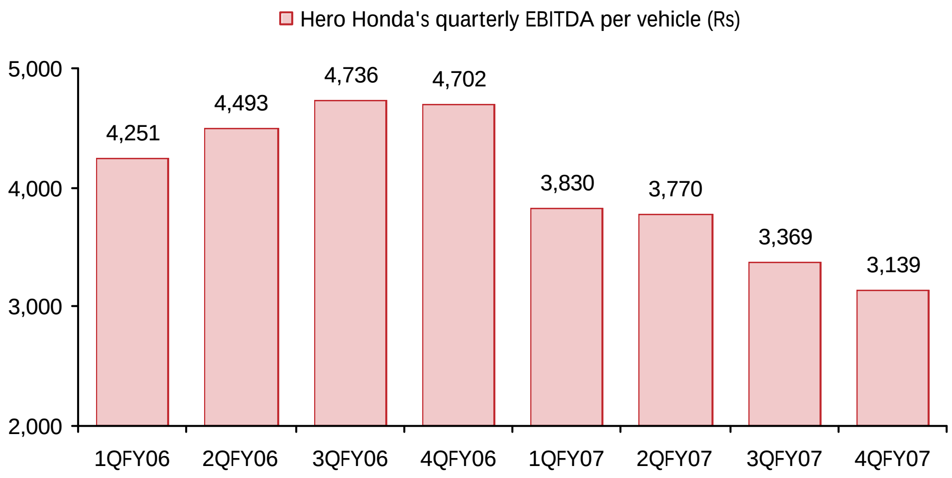
Media reports mention that Hero Honda is negotiating with Honda to reduce the level of royalty payments being paid by it. If this attempt turns out to be successful, there would exist upside risk to our EPS estimates for Hero Honda. Hero Honda currently pays about Rs2.6 bn of royalty to Honda every year. Hypothetically, if Honda were to generously cut the same by 50% (very unlikely in our opinion), our FY2008 EPS estimate would rise 10% to Rs47.6. We await further details on the same from the company.

Hero Honda: 4QFY2007 results

				% chg.		Kotak estimates				
(in Rs mn)	4QFY06	3QFY07	4QFY07	qoq	yoy	4QFY07	% deviation	FY06	FY07	% chg.
Net sales	**22,559**	**26,661**	**26,396**	**(1.0)**	**17.0**	**26,135**	**1.0**	**87,140**	**99,000**	**13.6**
Operating costs	**(18,927)**	**(23,641)**	**(23,709)**	**0.3**	**25.3**	**(23,319)**	**1.7**	**(73,460)**	**(87,269)**	**18.8**
(Inc/Dec in Stock)	(87)	(873)	(113)	(87.1)	29.9	(78)	44.5	150	(22)	(115.0)
Raw Materials	(15,307)	(18,756)	(19,177)	2.2	25.3	(19,231)	(0.3)	(60,673)	(71,765)	18.3
Staff Cost	(821)	(917)	(905)	(1.4)	10.1	(867)	4.3	(3,206)	(3,538)	10.4
Other Expenditure	(2,711)	(3,095)	(3,514)	13.6	29.6	(3,143)	11.8	(9,731)	(11,944)	22.7
EBITDA	**3,632**	**3,019**	**2,687**	**(11.0)**	**(26.0)**	**2,816**	**(4.6)**	**13,680**	**11,730**	**(14.3)**
Other income	430	336	445	32.5	3.4	446	(0.1)	1,527	1,899	24.3
Interest costs	39	55	77	39.6	95.7	48		61	230	275.0
Depreciation	(305)	(376)	(355)	(5.5)	16.5	(382)	(7.0)	(1,146)	(1,398)	22.0
Extraordinairies										
PBT	**3,797**	**3,034**	**2,854**	**(6.0)**	**(24.8)**	**2,928**	**(2.5)**	**14,122**	**12,461**	**(11.8)**
Taxes	(1,125)	(943)	(904)	(4.1)	(19.7)	(925)	(2.3)	(4,409)	(3,882)	(12.0)
PAT	**2,672**	**2,092**	**1,950**	**(6.8)**	**(27.0)**	**2,003**	**(2.6)**	**9,713**	**8,579**	**(11.7)**
Key ratios										
Volumes	772,469	896,113	855,987	(4.5)	10.8	855,987	-	3,000,751	3,336,760	11.2
Net realizations (Rs/vehicle)	29,204	29,751	30,837	3.6	5.6	30,531	(305.2)	29,039	29,669	2.2
RM/Net sales (%)	68.2	73.6	73.1	(0.5)	4.8	73.9	0.8	69.5	72.5	3.1
RM/VOP (%)	68.1	72.7	73.0	0.2	4.8	73.8	0.8	69.5	72.5	3.0
EBITDA per vehicle (Rs)	4,702	3,369	3,139	(6.8)	(33.2)	3,289	150.6	4,559	3,516	(22.9)
EBITDA margin (%)	16.1	11.3	10.2	(1.1)	(5.9)	10.8	0.6	15.7	11.8	(3.8)
PAT margin (%)	11.8	7.8	7.4	(0.5)	(4.5)	7.7	0.3	11.1	8.7	(2.5)
Effective tax rate (%)	29.6	31.1	31.7	0.6	2.0	31.6	(0.1)	31.2	31.2	(0.1)

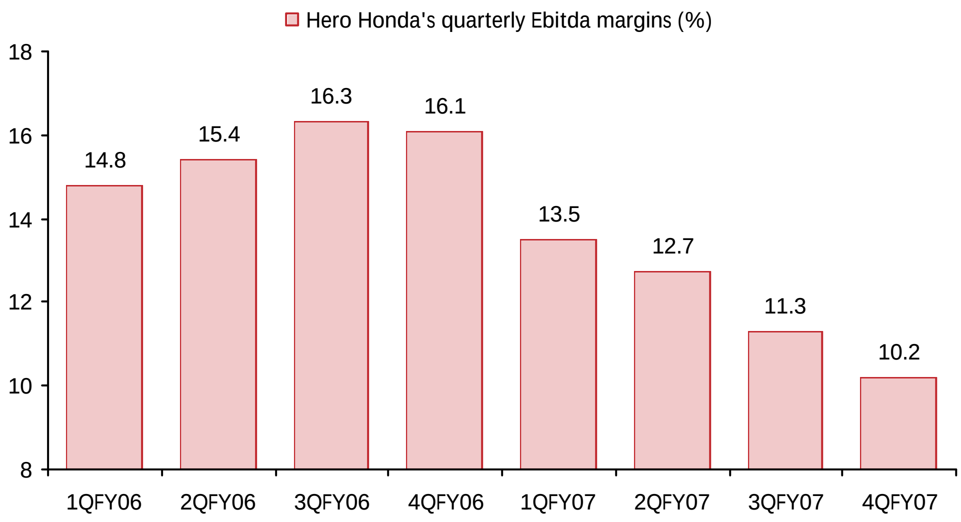
Source: Company data, Kotak Institutional Equities

Hero Honda's EBITDA per vehicle continues to decline



Source: Kotak Institutional Equities

Hero Honda's EBITDA margins have come off sharply in FY2007



Source: Kotak Institutional Equities

Consumer Products

ASPN.BO, Rs778	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	850
52W High -Low (Rs)	835 - 501
Market Cap (Rs bn)	74.6

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	27.5	33.0	39.7
Net Profit (Rs bn)	2.7	3.2	3.9
EPS (Rs)	27.8	33.2	40.6
EPS gth	*20.5*	*19.3*	*22.3*
P/E (x)	28.0	23.5	19.2
EV/EBITDA (x)	16.3	13.5	11.0
Div yield (%)	1.7	1.9	2.0

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	47.8	-	-
FIIs	20.3	0.3	(0.0)
MFs	1.5	0.1	(0.1)
UTI	-	-	(0.3)
LIC	8.3	0.6	0.3

Asian Paints: Sales growth of 28.8%, retain In Line

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- **Profit after tax increases by 28.7%**
- **Consolidated net sales for fourth quarter grow by 25.4%**
- **Middle East leads double-digit sales growth in international operations.**
- **Retain In Line rating with a target price of Rs850/share.**

Asian Paints reported topline growth of 28.8%, which was better than our expectation of 16.6% as the company reported consolidated volumes growth of 18.7% which is higher than their own historical volume growth rates which have been in the range of 15-17%. EBITDA growth at 31.1% and PAT growth at 28.7% was also ahead of our estimates of 24% and 19% respectively. Consolidated sales and net profit grew by 25.4% and 43% respectively. Our EPS estimates for FY2008 and FY2009 remain largely unchanged at Rs33.3 and Rs40.6 respectively. Our DCF based target price stands unchanged at Rs850/ share. We estimate average earnings growth of ~20% during FY2008-09.

Profit after tax increases by 28.7%. Asian Paints reported profit after tax of Rs691 mn (4QFY06 Rs537 mn), which was a 28.7% growth over the previous year. However the reported net profit for the quarter grew by 250% from Rs203 mn (4QFY2006) to Rs712mn (4QFY2007). This increase was largely due to the base effect of the Rs334 mn impairment loss recognized during the same quarter in the previous year.

Consolidated net sales for fourth quarter grow by 25.4%. The consolidated net sales (4QFY07 Rs9.5 bn) of the business grew by 25.4%. Overall sales volume for FY2007 increased by 18.7% to 481,976 KL. Asian Paints PPG, a 50:50 joint venture between Asian Paints and PPG Industries Inc., acquired the advanced refinish business of ICI India for a consideration of Rs520 mn making APPG the largest player in the auto refinish segment. The acquisition is expected to contribute Rs500 mn in net revenues for FY2008.

Middle East leads double-digit sales growth in international operations. International business grew by 20.8% to Rs6.24 bn in FY2007. Management indicates continued buoyancy in demand from Middle East to be driving the sales growth. Asian Paints is the market leader in Bahrain, though market share in most other countries is still in the single digit giving opportunity for tremendous growth in the higher realization international markets.

Retain In Line rating with a target price of Rs850/share. Our long term DCF valuation based target price of Rs850/share implies a P/E of 25.5X and 20.9X on FY2008Eand FY2009 respectively. We expect robust growth environment to help Asian Paints deliver an average 20% earnings growth during FY2008-09. We retain our In Line rating as our target price offers only 8% upside from the current stock price.

Asian Paints (unconsolidated) quarterly summary, March yearends (Rs mn)

	yoy			Our est.		yoy		
	4Q 2007	4Q 2006	% chg	4Q 2007	% chg	FY2007	FY2006	% chg
Net sales	**7,270**	**5,645**	**28.8**	**6,584**	**16.6**	**28,213**	**23,192**	**21.7**
Material cost	(4,366)	(3,260)		(3,753)		(16,607)	(13,517)	
Employee cost	(399)	(299)		(320)		(1,519)	(1,290)	
Other overheads	(1,440)	(1,273)		(1,500)		(5,839)	(4,865)	
Total expense	(12,255)	(10,114)		(5,573)		(23,965)	(19,672)	
EBITDA	**1,065**	**812**	**31.1**	**1,004**	**23.6**	**4,248**	**3,519**	**20.7**
Depreciation	(118)	(120)		(128)		(454)	(455)	
EBIT	948	692		876		3,794	3,064	
Other income	132	145		131		405	359	
Net interest	(15)	(7)		(8)		(69)	(38)	
PBT	**1,065**	**830**	**28.2**	**999**	**20.3**	**4,130**	**3,385**	**22.0**
Tax	(374)	(294)		(362)		(1,410)	(1,171)	
PAT	**691**	**537**	**28.7**	**637**	**18.7**	**2,720**	**2,214**	**22.8**
Extraordinary income (loss)	21	(334)		-		1	(346)	
Net profit	**712**	**203**	**250.8**	**637**	**214.1**	**2,720**	**1,868**	**45.6**
EBITDA margin (%)	14.6	14.4		15.3		15.1	15.2	
Effective tax rate (%)	35.1	35.4		36.2		34.1	34.6	
Costs as % of net sales								
Material cost	60.0	57.8		57.0		58.9	58.3	
Employee cost	5.5	5.3		4.9		5.4	5.6	
Other overheads	19.8	22.6		22.8		20.7	21.0	

Source: Company data, Kotak Institutional Equities

Asian Paints (Consolidated) quarterly summary, March yearends (Rs mn)

	yoy			yoy		
	4Q 2007	4Q 2006	% chg	FY2007	FY2006	% chg
Net sales	**9,589**	**7,650**	**25.4**	**36,700**	**30,210**	**21.5**
Total operating expenses	(8,420)	(6,729)		(31,888)	(26,293)	
EBITDA	**1,170**	**921**	**27.0**	**4,812**	**3,917**	**22.8**
Depreciation	(173)	(175)		(611)	(606)	
Goodwill amortisation	-	(29)		-	(76)	
EBIT	997	718		4,200	3,235	
Other income	136	117		373	320	
Profit from associate company	0	(4)		(4)	9	
Net interest	(43)	(23)		(189)	(114)	
PBT	**1,090**	**808**	**34.9**	**4,380**	**3,431**	**27.6**
Tax	(399)	(353)		(1,504)	(1,323)	
PAT	**691**	**455**	**51.9**	**2,876**	**2,109**	**36.4**
Extraordinary income (loss)	(52)	2		(45)	(10)	
Minority interest & share of profit in associate holding	27	9		(21)	23	
Net profit	**666**	**466**	**43.0**	**2,810**	**2,121**	**32.5**
EBITDA margin (%)	12.2	12.0		13.1	13.0	
Effective tax rate (%)	36.6	43.7		34.3	38.6	

Source: Company data, Kotak Institutional Equities

Pharmaceuticals

REDY.BO, Rs683	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	620
52W High -Low (Rs)	840 - 579
Market Cap (Rs bn)	114.7

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	61.8	50.7	57.5
Net Profit (Rs bn)	7.6	5.0	5.8
EPS (Rs)	45.2	30.0	34.4
EPS gth	*429.5*	*(33.6)*	*14.8*
P/E (x)	15.1	22.8	19.8
EV/EBITDA (x)	9.7	13.9	12.2
Div yield (%)	0.5	0.5	0.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	25.2	-	-
FIIs	44.1	0.9	0.5
MFs	6.4	0.8	0.4
UTI	-	-	(0.4)
LIC	7.9	0.9	0.5

Dr. Reddy's Laboratories: Adverse ruling in Aciphex and bleak earnings outlook trigger a U rating

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- **Adverse ruling in two litigations (mainly Aciphex), coupled with uncertainty on the German business is a negative**
- **Lowering EPS estimates by 10%-12% to reflect concerns on the German business**
- **Lowering rating to U, with revised price target of Rs620**

Our new EPS for Dr. Reddy's (RDY) is Rs30 in FY2008 and Rs34.4 in FY2009 (Rs33.5 and Rs38.9 earlier). This reflects a cautious view on the German business (flat growth and lower margins) and adverse currency movements. We have not made any changes to our FY2007 earnings, though Q4 might disappoint. We have changed our rupee dollar assumptions to 43 and 42 for FY2008 and FY2009, from 44.5 earlier. We hope to get more clarity on the German business, post Q4 earnings call on 18th May. We are lowering our rating to U (IL earlier), with a revised target price is Rs620 (Rs680 earlier). Key risk is positive newsflow on the NCE pipeline.

Adverse ruling in Aciphex and Risperdal. A US Court has upheld the Aciphex patent (expires in 2013), in which Teva and RDY are first to file. The generic companies will appeal this ruling. This was a key trigger for the next two quarters (EPS of Rs11), which is now over/delayed. In another judgment, the Appeals Court has upheld the validity of Risperdal (Risperidone) patent, in which Mylan and RDY were first to file.

Expect 34% dip in FY2008 earnings (unless Q4/FY2007 is dismal). We have modeled net profit of Rs7.6 bn for FY2007 (Rs1.6 bn in Q4 versus a loss in the previous year quarter). For FY2008, we estimate an 18% dip in turnover and 34% dip in net profit. The dip in turnover is owing to short term opportunities in the base (like authorized generics/ exclusivities), excluding which revenue growth would be 10%. Net profit has also been impacted by a cautious view on the German business (flat sales in local currency and lower margins). Excluding short term opportunities, earnings growth in FY2008 would be 30% (with a core EPS of Rs26.3). For FY2009, we estimate 13% growth in revenues and 15% growth in net profit.

The largest German insurer is trying to reduce generic prices through a bidding process - a potential negative. Germany (betapharm) accounted for 20% of RDY's recurring sales in the first nine months. betapharm is the fourth-largest generics company in Germany with a market share of ~3.5%. Germany is a branded generic market, with high marketing costs. The largest insurance company (AOK) has through a bidding process selected vendors (includes Ranbaxy and Actavis) for several molecules. The attempt is to move volumes towards these vendors and reduce healthcare costs. These smaller players might be happy to go through the bidding process, versus competing with the sales-force of the larger generic companies. At this moment, it is not very clear how this new system will be enforced, as each of these players are selling branded generics. However all this is likely to cast a shadow on the growth rates of betapharm. We have now modeled flat sales for betapharm in FY2008 (Euros 164 mn), versus a 10% growth earlier. We have also lowered our gross margin assumption to 54% versus 56% earlier.

Goodwill impairment is a high possibility. RDY has goodwill of Rs16.6 bn in its balance sheet (42% of networth), chunk of which is owing to the betapharm acquisition. We think given the changes in the German market, resulting in price declines, the possibility of goodwill impairment is high. However we are unable to quantify the amount.

Dosage sales in developed countries likely to grow by 11%, excluding the impact of short-term opportunities. Overall, dosage sales in developed countries (mainly US, UK and Germany) will likely constitute 36% of FY2008 sales. Excluding the impact of authorized generics and exclusivities, we estimate 11% growth in FY2008 and 15% in FY2009. However owing to a high contribution from authorized generics in FY2007, we estimate a 43% dip in dosage revenues from developed countries.

The company's core businesses in emerging economies are doing well. We estimate 15-16% growth in branded formulations (28% of sales) over the next two years. Portfolio expansion is happening rapidly and it has also launched out two biosimilars in India (GCSF, Rituximab).

API business is likely to show a dip in FY2008. In the API business (21% of sales), we have modeled a 1% dip in FY2008 (owing to one-time large supply of Sertraline in the base) and 8% growth in FY2009. Contract manufacturing (14% of sales) is likely to grow by 10% for the next two years.

Dr. Reddy's - Segmental nos (Rs mn)

	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Total Revenues	19,173	24,267	61,797	50,724	57,525
Total Gross Profit (as per US GAAP)	9,845	11,850	27,566	24,885	27,408
Gross margin (%)	51.3	48.8	44.6	49.1	47.6
Add: Depreciation	959	1,147	1,449	1,614	1,780
Gross Profit (before depreciation charge)	10,804	12,997	29,015	26,499	29,188
Gross margin (%)	56.4	53.6	47.0	52.2	50.7
Formulations - Developing markets					
Revenues	7,823	9,926	12,025	13,990	16,089
Gross Profit	5,330	6,842	8,508	9,863	11,343
%	68	69	71	71	71
APIs					
Revenues	6,945	8,238	10,700	10,569	11,386
Gross Profit	1,931	2,321	3,730	2,906	3,131
%	28	28	35	28	28
Formulations - Developed markets					
Revenues	3,577	4,056	15,535	17,292	19,866
Gross Profit	1,957	1,887	8,563	8,964	9,809
%	55	47	55	52	49
Exclusivities/Authorized generics					
Revenues			16,207	788	1,260
Gross Profit			4,533	631	277
%			28	80	22
Critical care and biotechnology					
Revenues	527	691	801	928	1,076
Gross Profit	351	455	536	622	721
%	67	66	67	67	67
CMG					
Revenues	312	1,327	6,279	6,907	7,598
Gross Profit	229	327	1,695	1,899	2,127
%	73	25	27	28	28
Others	(10)	29	250	250	250

Dr. Reddy's - Financials; y/e March (Rs mn)

	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Profit and Loss A/C					
International Sales	12,313	15,754	52,387	39,960	45,507
Domestic Sales	6,860	8,513	9,411	10,764	12,017
Net Sales	**19,173**	**24,267**	**61,797**	**50,724**	**57,525**
Operating PBDIT	1,446	2,431	11,871	8,348	9,248
Operational other income	346	384	756	300	300
EBITDA	1,792	2,815	12,627	8,648	9,548
Interest expense	41	(408)	992	14	(92)
Depreciation	959	1,147	1,449	1,614	1,780
Amortisation	350	420	1,464	1,359	1,239
PBT	442	1,656	8,722	5,661	6,620
Tax	-94	258	1,087	575	841
Minority interest	(10)	0	0	0	0
Share of Profits from equity investments	(58)	(88)	(50)	(50)	0
Net Profit (pre-exceptional)	**488**	**1,309**	**7,585**	**5,036**	**5,779**
Non-recurring expense	277	(320)	(63)	0	0
Net profit (reported)	211	1,629	7,648	5,036	5,779
Balance Sheet					
Assets					
Gross Block	11,503	14,064	17,564	19,564	21,577
Accumulated depreciation	4,445	4,978	6,427	8,041	9,821
Net Block	**7,058**	**9,086**	**11,137**	**11,523**	**11,756**
Capital Work in Progress	0	0	0	0	0
Intangible Assets	2,588	33,669	32,205	30,846	29,607
Investments	1,487	1,238	1,238	1,238	1,238
Current Assets	**17,918**	**24,601**	**37,950**	**41,086**	**43,973**
Receivables	3,587	4,802	6,965	8,323	9,377
Inventories	3,500	6,895	8,748	12,369	14,290
Cash and Bank Balances	9,346	9,788	18,987	17,145	17,056
Loans&Advances	0	0	0	0	0
Other Current assets	1,485	3,117	3,249	3,249	3,249
Current Liabilities	**4,956**	**9,155**	**9,407**	**10,907**	**11,636**
Net Current Assets and Liabilities	12,962	15,447	28,542	30,179	32,337
Total Assets	**24,095**	**59,440**	**73,123**	**73,786**	**74,938**
Liabilities					
Equity	383	383	839	839	839
Reserves & Surplus (excl. revaluation reserves)	20,885	28,061	44,714	49,004	53,781
Shareholder's Funds or Networth	**21,268**	**28,444**	**45,553**	**49,843**	**54,621**
Debt	2,827	30,995	27,569	23,943	20,317
Total Liabilities	**24,095**	**59,440**	**73,123**	**73,786**	**74,938**
Free Cash flows					
EBIT (recurring, excluding financial other income)	483	1,248	9,714	5,675	6,528
Effective tax rate	0%	20%	14%	10%	13%
EBIT (1-T)	481	998	8,328	5,083	5,679
Depreciation	1,309	1,567	2,913	2,973	3,020
Capex	1,704	1,181	3,500	2,000	2,013
Cash acquisitions	557	27,602	0	0	0
Change in Net Working Capital	(685)	2,018	3,833	3,479	2,247
Free cash flow (recurring)	**215**	**(28,235)**	**3,908**	**2,577**	**4,438**

Ratios	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Growth (%)					
Net Revenues	(5)	27	155	(18)	13
Operating PBDIT	(51)	68	388	(30)	11
PBT	(83)	275	427	(35)	17
Net Profit	(80)	168	479	(34)	15
Margins (%)					
Operating PBDIT	8	10	19	16	16
Net Margin	3	5	12	10	10
Depreciation (% of Net Block)	8.3	8.2	8.3	8.3	8.3
Tax rate (%)	(21)	16	12	10	13
Dividend Payout (%)	78	29	7	12	15
Debt/ Capital Employed (%)	12	52	38	32	27
RoACE (Pretax %)	4	4	17	10	10
RoAE (%)	2	6	25	12	13
Working Capital (# days)					
Debtors	53	28	41	59	59
Inventory	150	220	190	190	190
Creditors	60	116	90	90	90
Per Share data (Rs)					
EPS	3.2	8.5	45.2	30.0	34.4
CEPS	12	19	63	48	52
Book Value	139	185	271	297	325
DPS	2.5	2.5	3.3	3.8	5.0

Telecom

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**11-May**	**Target**
Bharti	U	814	600
Rcom	U	478	400
MTNL	U	152	135
VSNL	OP	452	560
Idea Cellular	U	114	100

Bharti Airtel, MTNL, Reliance Communications: April GSM addition declines to 4.1 mn from 6.1 mn in March 2007

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- **State-owned operators de-activate unverified subscribers**
- **RCL fails to report monthly GSM subs**
- **Bharti's new tariff plan 'happy recharge' yields 50% lower RPM**

GSM operators added 4.1 mn subs in April 2007, down from 6.1 mn in March 2007. We suspect the additions appear to have been impacted by de-activation of unverified subs by state-owned operators. Subs addition also appears subdued as RCL failed to report subs number. BSNL added 0.3 mn subs, down from 2 mn in the previous month. MTNL reported a decline of 0.27 mn subs. However, normal service continued with Bharti leading the subs addition for April 2007 with 1.75 mn, (42% share of net subs addition), up from previous month of 1.7 mn. We believe that the current deceleration in subs addition is just a blip and will normalize from June 2007. However, the acceleration in additions will come at the cost of pricing; Bharti's new prepaid 'happy recharge' coupon with zero processing yields 50% lower RPM compared to normal prepaid plans. We maintain our FY2008 subs forecast of 239 mn, implying 6.8 mn average monthly additions. We maintain our DCF-based 12-month target prices of Rs600 for Bharti, Rs100 for Idea and Rs400 for RCL. Key risk is level of profitability.

Bharti's new plan tariff will accelerate decline in RPM and ARPUs. Bharti has introduced new prepaid vouchers with zero processing fees. Exhibit 2 shows that the new scheme results in 50% lower RPM and significantly (about 25%) lower ARPUs compared to the previous comparable tariff plans. We expect a portion of the subs in the Rs350 package to switch to the new Rs249 package given higher available MOUs. We expect competitors to follow suit and respond with similar schemes. We believe this further reinforces the recent trend of declining RPM (with attendant increase in MOU that has capex and valuation implications) being lost in the street's obsession with ARPUs. We expect price competition also to intensify in the coming months from the relatively benign environment at present as (a) BSNL's new 65 mn line capacity comes on stream, (b) Vodafone's aggressive market share aspirations takes shape, (c) RCL's GSM roll-out gets a push (after spectrum release by the defense department) and (d) expansion of operators in new circles (Idea and Maxis).

RCL—fails to report updated subs numbers. RCL failed to provide monthly GSM subs, which we do not see as a good sign. We note that the company had knocked of 0.96 mn GSM subs when it recently reported its quarterly results. The last reported (and revised) GSM subs base of RCL stands at 3.38 mn.

Bharti—steady progress. Bharti added 1.75 mn subs, largely similar to additions in the previous 3-4 months. Bharti's April 2007 subscriber base stood at 38.9 mn. It is possible that Bharti's monthly additions over the past few months may have been depressed due to phased de-activation of unverified subscribers. If this were the case, we expect Bharti's subscriber addition to increase from May but this would also depend on market growth and competition. Our end-FY2008 subs forecast for Bharti stands at 60.2 mn, implying monthly addition of 1.94 mn for the next 11 months.

Idea Cellular—impact of subscriber re-verification likely to continue for two more months. IDEA added 553,000 subs (13.4% of GSM market net adds), similar to FY2007 average addition of 554,000 a month. We find the performance disappointing given that the company has started operations in three more circles during this period. We attribute the muted performance to possible de-activation of unverified subscribers. We model Idea to add 657,000 monthly subs in FY2008 to reach 21.9 mn subs at end-FY2008; Idea would now need to add 667,000 subs per month for the next 11 months to get to our end-FY2008 sub estimate.

BSNL—subs addition down to 327,000 from 1.99 mn in March 2007. BSNL also appears to have de-activated unverified subs. The subs base declined in Andhra Pradhesh, Assam, Himachal Pradesh, Karnataka and UP (East). In addition, subs addition in the previous month may have been aided by year-end promotional effort, which did not continue into April.

MTNL—does an RCL, reports 10% decline in subs base. MTNL reported a decline of 263,000 subs in April on a base of 2.7mn subs as at March 2007. Unlike peers who have adopted a phased approach to de-activation, MTNL may have adopted a one-shot approach to clean up its subscriber base.

Subscriber details for leading GSM cellular operators, ('000)

	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07
Subs ('000)													
Bharti	20,684	21,860	23,073	24,338	25,649	27,061	28,612	30,262	31,974	33,732	35,440	37,141	38,892
Hutchison	16,062	16,768	17,544	18,399	19,380	20,357	21,267	22,275	23,306	24,414	25,343	26,442	27,703
IDEA-Escotel	7,641	8,063	8,537	9,122	9,735	10,364	10,980	11,841	12,442	13,072	13,640	14,011	14,563
BPL	1,308	1,293	1,297	1,285	1,043	1,045	1,049	1,053	1,056	1,062	1,066	1,071	1,077
Modi group	1,985	2,028	2,055	2,095	2,148	2,197	2,266	2,357	2,450	2,520	2,579	2,729	2,815
Reliance	2,010	2,156	2,317	2,517	2,737	2,958	3,184	3,410	3,641	3,876	4,111	4,348	4,348
MTNL	2,018	2,097	2,170	2,238	2,264	2,290	2,326	2,375	2,425	2,498	2,579	2,747	2,484
BSNL	17,584	18,001	18,294	19,031	20,063	20,936	22,054	22,975	23,619	24,442	25,444	27,429	27,756
Others	2,831	3,025	3,199	3,391	3,601	3,804	4,005	4,238	4,513	4,802	5,095	5,514	5,928
Total market	**72,122**	**75,290**	**78,485**	**82,415**	**86,620**	**91,014**	**95,742**	**100,786**	**105,425**	**110,420**	**115,297**	**121,431**	**125,566**
Market share of subs (%)													
Bharti	28.7	29.0	29.4	29.5	29.6	29.7	29.9	30.0	30.3	30.5	30.7	30.6	31.0
Hutchison	22.3	22.3	22.4	22.3	22.4	22.4	22.2	22.1	22.1	22.1	22.0	21.8	22.1
IDEA-Escotel	10.6	10.7	10.9	11.1	11.2	11.4	11.5	11.7	11.8	11.8	11.8	11.5	11.6
BPL	1.8	1.7	1.7	1.6	1.2	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9
Modi group	2.8	2.7	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.2
Reliance	2.8	2.9	3.0	3.1	3.2	3.3	3.3	3.4	3.5	3.5	3.6	3.6	3.5
MTNL	2.8	2.8	2.8	2.7	2.6	2.5	2.4	2.4	2.3	2.3	2.2	2.3	2.0
BSNL	24.4	23.9	23.3	23.1	23.2	23.0	23.0	22.8	22.4	22.1	22.1	22.6	22.1
Others	3.9	4.0	4.1	4.1	4.2	4.2	4.2	4.2	4.3	4.3	4.4	4.5	4.7
Growth (%)													
Bharti	5.6	5.7	5.5	5.5	5.4	5.5	5.7	5.8	5.7	5.5	5.1	4.8	4.7
Hutchison	4.6	4.4	4.6	4.9	5.3	5.0	4.5	4.7	4.6	4.8	3.8	4.3	4.8
IDEA-Escotel	3.7	5.5	5.9	6.8	6.7	6.5	5.9	7.8	5.1	5.1	4.3	2.7	3.9
BPL	(2.2)	(1.2)	0.4	(1.0)	(18.8)	0.2	0.4	0.3	0.3	0.6	0.3	0.5	0.6
Modi group	2.6	2.2	1.3	2.0	2.5	2.3	3.1	4.0	3.9	2.9	2.3	5.8	3.1
Reliance	5.6	7.3	7.5	8.6	8.7	8.1	7.6	7.1	6.8	6.5	6.0	5.8	-
MTNL	3.9	4.0	3.4	3.1	1.2	1.2	1.5	2.1	2.1	3.0	3.2	6.5	(9.6)
BSNL	2.5	2.4	1.6	4.0	5.4	4.4	5.3	4.2	2.8	3.5	4.1	7.8	1.2
Others	8.4	6.9	5.8	6.0	6.2	5.6	5.3	5.8	6.5	6.4	6.1	8.2	7.5
Total market	**4.2**	**4.4**	**4.2**	**5.0**	**5.1**	**5.1**	**5.2**	**5.3**	**4.6**	**4.7**	**4.4**	**5.3**	**3.4**
Net monthly adds ('000)													
Bharti	1,105	1,176	1,212	1,265	1,311	1,413	1,551	1,650	1,712	1,758	1,708	1,701	1,751
Hutchison	701	705	777	855	981	977	910	1,008	1,032	1,108	929	1,099	1,261
IDEA-Escotel	274	422	474	584	613	629	616	862	601	629	568	371	553
BPL	(30)	(15)	5	(13)	(242)	3	4	4	4	6	4	5	6
Modi group	51	43	27	40	53	49	69	91	92	70	59	150	86
Reliance	106	146	161	200	220	222	225	226	231	235	235	237	-
MTNL	76	80	72	68	26	26	35	49	50	74	81	168	(263)
BSNL	427	417	293	737	1,032	873	1,118	921	643	824	1,002	1,985	327
Others	219	194	174	193	210	203	201	233	275	290	292	420	413
Total market	**2,930**	**3,168**	**3,195**	**3,930**	**4,205**	**4,394**	**4,728**	**5,044**	**4,639**	**4,994**	**4,877**	**6,135**	**4,134**
Market share of net adds (%)													
Bharti	37.7	37.1	37.9	32.2	31.2	32.1	32.8	32.7	36.9	35.2	35.0	27.7	42.4
Hutchison	23.9	22.3	24.3	21.8	23.3	22.2	19.2	20.0	22.2	22.2	19.0	17.9	30.5
IDEA-Escotel	9.4	13.3	14.8	14.9	14.6	14.3	13.0	17.1	13.0	12.6	11.6	6.0	13.4
BPL	(1.0)	(0.5)	0.1	(0.3)	(5.8)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Modi group	1.7	1.4	0.8	1.0	1.3	1.1	1.5	1.8	2.0	1.4	1.2	2.5	2.1
Reliance	3.6	4.6	5.0	5.1	5.2	5.0	4.8	4.5	5.0	4.7	4.8	3.9	-
MTNL	2.6	2.5	2.3	1.7	0.6	0.6	0.7	1.0	1.1	1.5	1.7	2.7	(6.4)
BSNL	14.6	13.1	9.2	18.8	24.6	19.9	23.6	18.3	13.9	16.5	20.5	32.4	7.9
Others	7.5	6.1	5.4	4.9	5.0	4.6	4.2	4.6	5.9	5.8	6.0	6.8	10.0
Circlewise subs ('000)													
Metros	16,217	16,654	17,104	17,577	17,924	18,525	18,977	19,472	20,072	20,634	21,322	21,959	22,182
Circle A	25,442	26,646	27,813	29,359	30,825	32,443	34,191	36,059	37,443	39,237	40,717	42,680	44,453
Circle B	23,734	24,788	25,951	27,512	29,462	31,101	33,073	35,097	37,130	39,137	41,072	43,543	45,103
Circle C	6,728	7,201	7,616	7,966	8,409	8,945	9,501	10,159	10,779	11,412	12,185	13,250	13,828
Total	**72,122**	**75,290**	**78,485**	**82,415**	**86,620**	**91,014**	**95,742**	**100,786**	**105,425**	**110,420**	**115,297**	**121,431**	**125,566**
Circlewise net adds ('000)													
Metros	357	438	450	473	347	600	452	495	601	561	688	637	223
Circle A	1,110	1,204	1,167	1,546	1,465	1,618	1,749	1,867	1,385	1,794	1,480	1,963	1,772
Circle B	1,010	1,054	1,163	1,561	1,949	1,639	1,972	2,024	2,033	2,007	1,935	2,470	1,560
Circle C	453	473	415	350	443	536	555	659	620	632	774	1,064	578
Total	**2,930**	**3,168**	**3,195**	**3,930**	**4,205**	**4,394**	**4,728**	**5,044**	**4,639**	**4,994**	**4,877**	**6,135**	**4,134**
Circlewise subs (%)													
Metros	22	22	22	21	21	20	20	19	19	19	18	18	18
Circle A	35	35	35	36	36	36	36	36	36	36	35	35	35
Circle B	33	33	33	33	34	34	35	35	35	35	36	36	36
Circle C	9	10	10	10	10	10	10	10	10	10	11	11	11
Circlewise net adds (%)													
Metros	12	14	14	12	8	14	10	10	13	11	14	10	5
Circle A	38	38	37	39	35	37	37	37	30	36	30	32	43
Circle B	34	33	36	40	46	37	42	40	44	40	40	40	38
Circle C	15	15	13	9	11	12	12	13	13	13	16	17	14

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities Research.

Bharti has reduced effective RPM dramatically with 'happy recharge'

Comparison of estimated prepaid voice revenue/min for leading wireless operators (Rs)

						Change (%)	
		New 400 (a)	New 249 (a)	Old (b)	Old (c)	400 vs old	249 vs old
Refill amount		400	249	353	345	13	(30)
Service tax @ 12%		44	27	39	38		
Outgoing ARPU		**356**	**222**	**314**	**307**		
Fixed (processing) charges		0	0	182	130		
Maximum talk value		**356**	**222**	**133**	**177**	**169**	**67**
Blended average tariffs (Rs/min)		**1.48**	**1.67**	**1.46**		**2**	**15**
Local 'on-net' tariff	40%	1.25	1.49	0.15			
Local 'off-net' tariff (c)	40%	1.25	1.49	2.25			
Average DLD tariff (d)	20%	2.40	2.40	2.49			
Billing pulse (sec)		**60**	**60**	**60**			
Effective tariff (Rs/min) (d)		1.63	1.84	1.60			
Outgoing MOU (mins)		**219**	**120**	**83**	**90**	**165**	**46**
Share of outgoing MOUs (%)		46	46	46	46		
Total MOU (mins)		**475**	**262**	**180**	**196**	**165**	**46**
Termination revenues (e)		46	25	17	19	165	46
Gross ARPU (Rs/month)(g)		**402**	**247**	**332**	**326**	**21**	**(26)**
Revenue per minute (RPM)		**0.85**	**0.94**	**1.85**	**1.67**	**(54)**	**(49)**

Notes:

(a) Bharti's recently announced 'happy recharge' plan with zero processing fee.

(b) Bharti's old plan with Rs49 migration fee for local on-net calls at Rs0.15/ min (average of top six circles)

(c) Bharit's existing prepaid tariff voucher for Delhi circle

(d) Assuming 50:50 ratio of local M2M and M2F calls.

(e) Assuming a uniform distribution of DLD calls across various categories.

(f) Effective tariff assumed 10% higher than the average rate due to a 60-second billing pulse.

(g) Assuming 80% of incoming calls are off-network calls, which result in a termination charge of Rs0.30/min.

(h) Gross ARPU assuming one recharge per month

Source: Companies, Kotak Institutional Equities estimates.

BSNL offers the lowest wireless tariffs in the country

Comparison of Bharti's prepaid tariffs with that of rival operators

	Bharti (a)	BSNL	Reliance	TTSL	Difference (%) Bharti vs RCL	Bharti vs BSNL
Prepaid refill denomination	**400**	**337**	**350**	**337**		
Service tax @ 12.36%	44	37	39	37		
Fixed (processing) charges	—	125	150	—		
Talktime value	**356**	**175**	**162**	**300**	***120***	***(51)***
Local tariffs (Rs/min)						
M2M (on-net)	1.25	0.90	0.99	1.00	*26*	*(28)*
M2M (off-net)	1.25	1.20	1.79	2.00	*(30)*	*(4)*
M2F	1.25	1.20	1.79	2.00	*(30)*	*(4)*
DLD tariffs (Rs/min)						
M2M (on-net)	2.40	2.00	1.79	3.00	*34*	*(17)*
M2M (off-net)	2.40	2.00	2.49	3.00	*(4)*	*(17)*
M2F (intra-circle)	2.40	1.20	1.79	3.00	*34*	*(50)*
M2F (inter-circle)	2.40	2.40	2.49	3.00	*(4)*	*0*
Billing pulse (seconds)	**60**	**60**	**60**	**60**	**—**	**—**

Notes:
(a) Bharti's recently announced 'happy recharge' plan with zero processing fee.
(b) Calculation assumes one recharge per month; Rs0.15/min plan has an additional charge of Rs 49 per month.

Source: Companies, compiled by Kotak Institutional Equities.

Bharti's new recharge plan works out to be the most cost effective

Comparison of estimated prepaid voice revenue/min for leading wireless operators (Rs)

		Bharti (a)	BSNL	Reliance	TTSL
Refill amount		400	337	337	337
Service tax @ 12.36%		44	37	37	37
Outgoing ARPU		**356**	**300**	**300**	**300**
Fixed (processing) charges		—	125	151	—
Maximum talk value		**356**	**175**	**149**	**300**
Blended average tariffs (Rs/min)		**1.48**	**1.19**	**1.70**	**2.04**
Local 'on-net' tariff	20%	1.25	0.90	0.99	1.80
Local 'off-net' tariff (b)	60%	1.25	1.05	1.79	1.80
Average DLD tariff (c)	20%	2.40	1.90	2.14	3.00
Billing pulse (sec)		**60**	**60**	**60**	**1**
Effective tariff (Rs/min) (d)		1.63	1.31	1.87	2.04
Outgoing MOU (mins)		**219**	**134**	**80**	**147**
Share of outgoing MOUs (%)		46	46	45	45
Total MOU (mins)		**475**	**291**	**177**	**327**
Termination revenues (e)		62	38	23	43
Gross ARPU (Rs/month)		**418**	**337**	**323**	**343**
Revenue per minute (RPM)		**0.88**	**1.16**	**1.82**	**1.05**

Notes:
(a) Bharti's recently announced 'happy recharge' plan with zero processing fee.
(b) Assuming 50:50 ratio of local M2M and M2F calls.
(c) Assuming a uniform distribution of DLD calls across various categories.
(d) Effective tariff assumed 10% higher than the average rate due to a 60-second billing pulse.
(e) Assuming 80% of incoming calls are off-network calls, which result in a termination charge of Rs0.30/min.

Source: Companies, Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

Summer 2007 UP polls: Upping the political ante

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- **Political risks escalate: High-stake Congress-BJP face off in Gujarat, MP, Rajasthan**
- **UP: Mayawati, of BSP, wins majority; demonstrates power of 'third' force politics**
- **Policy: Expect populist policies in run up to 2009 polls, reforms on back burner**

We believe Mayawati's victory in the recent Uttar Pradesh polls escalates political uncertainty in the run up to the summer 2009 general elections. After a dismal UP performance, the Congress and the BJP will have to fight for their right to head contending political alliances in a series of direct face offs in Gujarat, Madhya Pradesh and Rajasthan. The stakes are very high for the BJP since these three are the only large states it rules directly. A setback in MP (and Rajasthan) will put the Congress in the unenviable position of going into the 2009 general elections without a firm foothold in politically sensitive northern India. We expect government policies to turn increasingly populist, pushing economic reforms - insurance, PF reforms, privatization - on the backburner. A positive nevertheless is that the government has overruled the Left in allowing 26% foreign holding in pension funds that will manage the Center's New Penion Scheme.

Political risks escalate: High-stakes battle for Congress and BJP in Gujarat, MP and Rajasthan. We believe that a dismal political performance in UP puts tremendous pressure on both the Congress and the BJP in the series of direct face-offs in Gujarat in December 2007 and Madhya Pradesh and Rajasthan in December 2008. In any case, Gujarat polls will likely be high-voltage because of the state's uniquely sharp communal polarization.

- The stakes are very high for the BJP since these three states are the only large ones it directly controls. A string of defeats will mean that the BJP will have to fight the 2009 general elections without a single large state government of its own. The party is a junior partner in coalitions with regional parties in Bihar, Orissa and Punjab.
- The Congress will have to win at least either MP or Rajasthan to re-establish itself in northern India before the 2009 general elections. The party will otherwise have to fight the 2009 general elections without a firm foothold in politically sensitive northern India.

Summer 2007 UP poll results: Mayawati, of BSP, wins a majority. The Bahujan Samaj Party, led by Mayawati, now chief minister for a fourth time, surprised with a simple majority on its own (Exhibit 1). This is the first time that a political party won a majority in an UP election in 14 years.

- We had expected Mayawati to come to office but in coalition with the Congress. This was because we had – with all opinion polls – clearly underestimated her ability to expand her traditional scheduled caste (20% of population) votebank to draw support from caste Hindus and minorities.
- The first indication of Mayawati's political inclinations in respect of the Congress-led UPA and the BJP-led NDA will be evident in her endorsement of presidential candidates in July 2007. The Indian president is elected by indirect representation by a college of legislators.
- The Samajwadi Party, led by chief minister Mulayam Singh Yadav, was expectedly voted out of office.
- The BJP, led by party chief Rajnath Singh and Kalyan Singh, also fared far worse than expected.
- The Congress, led by Rahul Gandhi, also saw hopes of revival – at least play junior partner in a Mayawati-led coalition – come to nought. The party can, however, draw some comfort in achieving its primary objective of shutting the BJP out of UP.
- The Rashtriya Lok Dal, led by Ajit Singh, a leader of the Jats, a powerful agricultural caste, remained on the fringes.

Exhibit 1: Mayawati unexpectedly sweeps UP

Legislative seats of political parties

		UP polls 2002	Exit polls IE-CNN-IBN	NDTV-IMRB	Times HANSA	UP polls 2007	Memo: MPs
1	Bahujan Samaj Party	97	152-162	117-127	116-126	206	19
2	Bharatiya Janata Party	88	80-90	108-118	114-124	50	11
3	Indian National Congress	25	25-33	35-45	25-35	22	10
4	Samajwadi Party	143	99-111	113-123	100-110	97	36

Source: Indian Express-CNN-IBN, NDTV-IMRB, Times Now Hansa.

Exhibit 2: Gujarat is the next political flashpoint

State	Expected Election Schedule	Incumbent Party	Main Opposition party
Goa	Jun-07	Congress	BJP
Jammu & Kashmir	Sep-07	Congress + PDP	BJP, National Conference
Gujarat	Dec-07	BJP	Congress

Key political parties and leaders

Goa	Congress	P S Rane
	BJP, MGP	Manohar Parrikar
Jammu & Kashmir	Congress, PDP	Gulam Nabi Azad, Mufti Mohammad Syed
	National Conference	Farooq Abdullah
Gujarat	BJP	Narendra Modi
	Congress	S. S. Waghela

Source: Kotak Institutional Equities.

Economy

Sector coverage view	N/A

India's 11.3% FY2007 IIP growth: A soft landing ahoy!

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- **Likely soft landing: 11.3% FY2007 IIP growth, 8% FY2008E**
- **Why? Base effects, interest rates returning to neutral, economy not overheating**
- **12.9% March 2007 IIP growth, led by 14.1% manufacturing**
- **14/17 manufacturing industries recorded +ve growth**

We expect industrial growth to soft land to pretty robust 8% levels in FY2008 from 11.3% in FY2007. This essentially hinges on the strong base effect of past high growth. As a matter of fact, IIP grew double digit after 10 years. Besides, the interest rate regime is also reverting to neutral, with real lending rates ' currently 7.25% - likely to close in on the 7.8% real GDP growth rate on the back of a persistent credit gap. Industrial data for the next 1-2 months will test our softlanding hypothesis. In FY2007, IIP fell far less than seasonality predicted, belying our initial expectation of relativly softer industrial growth in FY2007. It is finally necessary to highlight that an 8% industrial growth is by no means a hardlanding. The very fact that inflation has begun to top off as we expected supports our belief that the recent jump in prices were driven by supply shocks rather than systemic overheating.

Why do we expect a softlanding? Base effects, higher interest rates. We expect industrial growth (and the Indian economy) to softland to pretty strong 8% levels in FY2008E from 11.3% in FY2009E (Exhibit 1). This is supported by forecasts from auto-regressive integrated moving average (ARIMA) models.

- This essentially hinges on the strong base effects of past high growth. We do note that Indian industry did belie similar expectations last year. Reflecting the strong undercurrent of expansion, the seasonal fall in 1QFY07 was far less than predicted (Exhibit 2). Given that the strong 1QFY2008E base effects, we expect a clearer picture to emerge by May 2007.
- This is supported by a steady reversal of interest rates to neutral levels. Real lending rates – currently 7.25% - will, in our view, close in on the 7.8% real GDP growth rate in FY2008E on the back of a persistent credit gap. This assumes that a benign monsoon will calm inflationary pressures – as is beginning to happen – allowing monetary policy to top off (Exhibit 3). We note that there is the risk of a final CRR hike in case of large-scale forex intervention to arrest rising Rupee overvaluation.
- We also note that industrial growth was pumped up in FY2007 by the base effect of the August 2005 Mumbai High fire that had depressed crude production in FY2006.
- Our case is also consistent with our strategy view of market consolidation with intermittent corrections. Our BSE Sensex fair band works out to 12,800 – 15,400 on FY09E earnings.

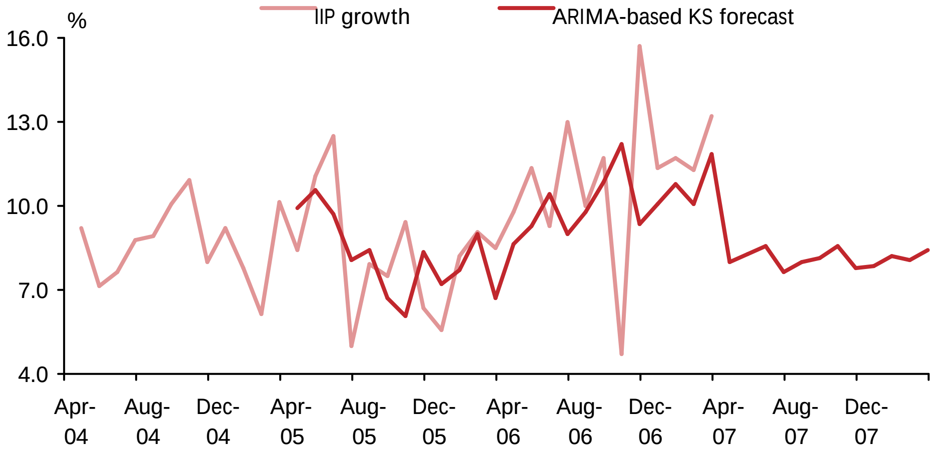
11.3% FY2007 industrial growth: First double-digit growth in a decade. Industrial production grew double digit - 11.3% in FY2007 - after 10 years. Even in March 2007, IIP growth, at 12.9%, was far stronger than the 11.6% we had expected.

- In the event, FY2007 IIP growth exceeded our 10% expectation. This, in turn, leads us to revise the FY2007E real GDP growth rate to 9.2% up from 8.9% earlier.
- The higher industrial growth was driven by manufacturing (Exhibit 4). We note that 14/17 manufacturing sectors recorded positive growth in March 2007 (Exhibit 5). This was led by a strong rebound in manufactured food products.

- Capital goods continued to grow in double digits from a record 4 years underscoring the fact that the Indian economy is entering an investment phase (Exhibit 6). Intermediate goods jumped in FY2007 partly reflecting higher crude oil production as a result of the Mumbai High base effect.
- Infrastructure industries, in general, accelerated in FY2007 on the back of higher crude oil and refinery production (Exhibit 7).

Exhibit 1: Softlanding into 8% FY2008 industrial growth likely

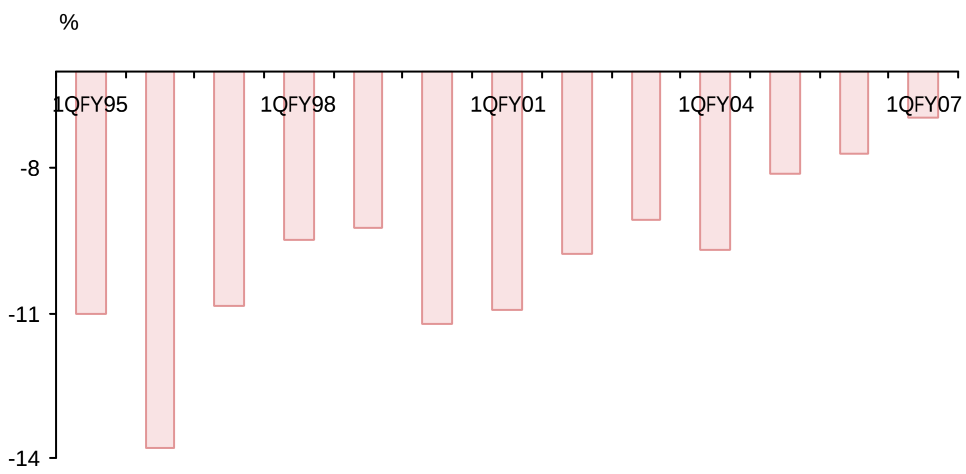
Index of industrial production, y-o-y % growth - actuals and ARIMA-based KS forecast



Source: CSO, Kotak Institutional Equities estimates.

Exhibit 2: 1Q seasonal decline least in FY2007: FY08 picture to clear by June 2007

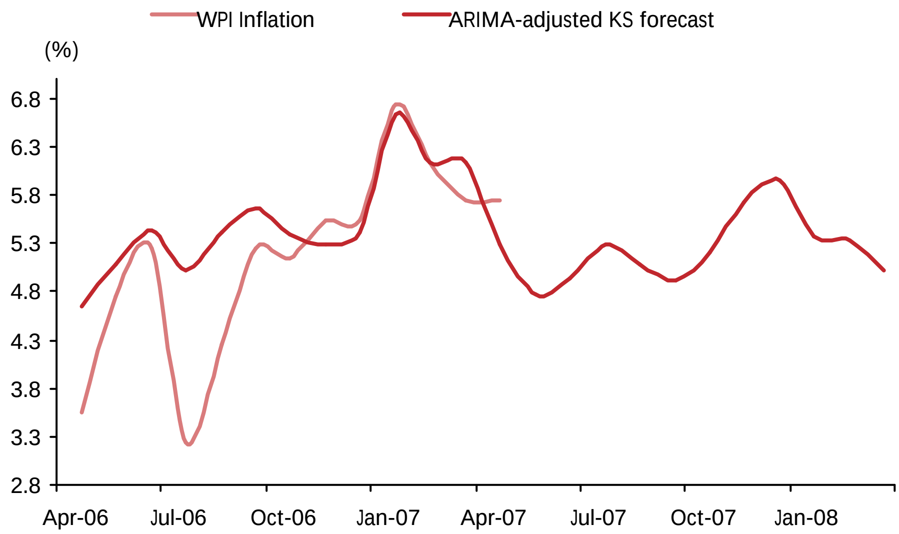
Index of industrial production, y-o-y % growth - actuals and ARIMA-based KS forecast



Source: CSO, Kotak Institutional Equities estimates.

Exhibit 3: An expected inflation peak suggests India is still not overheating

WPI, WPI (auto-regressive integrated moving average - ARIMA - forecast) y-o-y %



Source: Ministry of Industry, Government of India, Kotak Institutional Equities estimates.

Exhibit 4: Manufacturing continues to lead industrial activity

Index of industrial production y-o-y growth rate (%)

	Industry-wise Classification			
Phase	**Mining & Quarrying**	**Manufacturing**	**Electricity**	**General index**
Weight	10.5	79.4	10.2	100
High growth phase (FY1995-97)	5.9	10.2	6.9	9.4
Low growth phase (FY1998-2002)	2.2	5.3	5.5	5.0
FY 2004	5.2	7.4	5.1	7.0
FY 2005	4.4	9.2	5.2	8.4
FY 2006	1.0	9.1	5.2	8.2
FY2007	5.1	12.3	7.2	11.3
March 2006	2.0	10.1	3.4	8.9
March 2007	6.2	14.1	7.9	12.9
FY 2008E	3.5	8.5	8.0	7.9
FY 2009E	3.5	8.0	6.0	7.3

Source: CSO, Kotak Institutional Equities estimates.

Exhibit 5: 14/17manufacturing sectors saw +ve growth in March 2007
Sectoral growth rates (%, y-o-y)

Sector	Weight	High growth phase	Low growth phase	FY2004	FY2005	FY2006	FY2007	Mar-07	Capacity utilization Mar-06
Food products	9.1	10.6	2.6	-0.5	-0.4	2.1	8.2	23.7	66
Beverages, tobacco and related products	2.4	9.9	11.3	8.5	10.8	16.3	11.3	4.8	84.9
Cotton textiles	5.5	7.2	0.4	-3.1	7.6	8.5	14.8	21.2	97.4
Wool, silk and man-made fibre textiles	2.2	13.2	8.7	6.8	3.5	0.0	8.2	12.6	90.8
Jute and other vegetable fibre textiles (except cotton)	0.6	-0.6	0.7	-4.2	3.7	0.5	-17.2	-37	83.5
Textile products (including wearing apparel)	2.5	14.5	2.7	-3.2	19.2	16.3	11.2	11.9	92.7
Wood and wood products; furniture and fixtures	2.7	10.2	-6.5	6.8	-8.4	-6.8	29.1	113.9	81
Paper & paper products and printing, publishing & allied industries	2.7	11.1	4.6	15.6	10.5	-1.0	8.3	4.8	88.7
Leather and leather & fur products	1.1	3.2	8	-3.9	6.7	-5.6	0.3	-11.1	79.9
Basic chemicals & chemical products (except products of petroleum & coal)	14.0	7.1	8.6	8.7	14.5	8.2	9.2	14.3	80.5
Rubber, plastic, petroleum and coal products	5.7	5.8	7.7	4.5	2.4	4.3	12.7	16.4	86.1
Non-metallic mineral products	4.4	13.3	9.2	3.7	1.5	10.6	12.8	9.2	83.8
Basic metal and alloy industries	7.5	11.9	2.2	9.2	5.4	15.7	22.8	23.3	83.8
Metal products and parts, except machinery and equipment	2.8	3.6	5.7	3.7	5.7	-1.1	11.4	47.5	68.8
Machinery and equipment other than transport equipment	9.6	13.2	6.7	15.8	19.8	11.8	14.0	11.4	75.1
Transport equipment and parts	4.0	14.3	6.6	17	4.1	12.7	14.9	11.9	82.3
Other manufacturing industries	2.6	19.7	0.8	7.7	18.5	25.0	6.5	-21.1	71.9

Source: CSO.

Exhibit 6: Capex continues to ease capacity constraints
Use-based classification of industrial activity (%)

	Basic	Capital	Intermediate	Consumer goods		
Phase	Goods	Goods	Goods	Total	Durables	Non-durables
Weight	35.6	9.7	26.4	28.4	5.2	23.3
High growth phase	7.8	8.7	10.9	10.4	15.5	9.2
Low growth phase	4.1	4.7	5.8	5.5	10.7	3.8
FY 2004	5.4	13.6	6.4	7.1	11.6	5.8
FY 2005	5.5	13.9	6.1	11.7	14.4	10.8
FY 2006	6.7	15.8	2.5	12.0	15.3	11.0
FY2007	10.2	17.7	11.7	10.0	9.0	10.3
March 2006	**8.5**	**11.9**	**3.3**	**12.4**	**21.0**	**9.5**
March 2007	**11.4**	**13.2**	**13.3**	**14.2**	**2.7**	**18.5**

Source: CSO.

Exhibit 7: Infrastructure industries production was led by crude/refineries
Growth rate (%)

	Electricity	Coal	Finished Steel	Cement	Crude petroleum	Petroleum refinery products	Overall
Weight	10.2	3.2	5.1	2.0	4.2	2.0	26.7
High growth phase	6.2	5.3	11.3	10.1	1.8	4.9	6.9
Low growth phase	4.8	2.7	11.3	10.1	1.8	4.9	6.9
FY 2004	5.1	5.8	9.8	6.1	1.0	8.2	6.2
FY 2005	5.2	3.9	8.4	6.6	1.8	4.3	5.8
FY2006	5.1	6.6	11.2	12.4	(5.3)	2.1	6.2
FY2007	7.3	5.9	10.9	9.1	5.6	12.6	8.6
March 2006	3.4	7.4	10.9	17.0	(2.5)	9.4	7.1
March 2007	8.0	10.6	15.0	5.5	3.2	13.4	10.0

Source: CSO, Kotak Institutional Equities.

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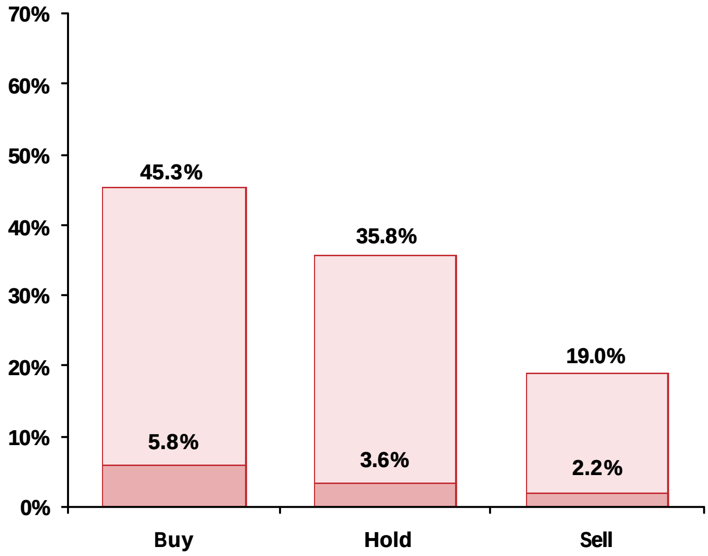

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Source: Kotak Institutional Equities. As of March 31, 2007

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