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Updates

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News Roundup

Corporate

- Larsen & Toubro Ltd will launch a new unit for industrial valves and another facility for making rubber processing machinery in China in an ongoing effort to achieve 25 per cent of revenues from international business. (ET)
- Cairn India has got the rights of use (RoU) nod for Rajasthan pipeline from the Central Government. This allows Cairn India and ONGC (the joint venture partner) to secure access to the land to build the pipeline from Rajasthan. (BL)
- Global networking major BT is expecting 250 million dollar revenue from India by 2009 and would hire 6,000 people by next year as it expands operations in the country. (FE)
- Wipro Technologies on Tuesday announced the opening of its first development centre at Monterrey in Mexico, coinciding with the visit of Mexican President Felipe Calderon Hinjosa to the Wipro campus in Bangalore. (BL)

Economic and political

- The government may amend banking regulations in order to enable the formation of a holding company to own its shareholding in public sector banks and other financial service ventures of these banks. (BS)
- The Securities and Exchange Board of India on Tuesday relaxed derivative trading norms for foreign institutional investors (FIIs), allowing them to offer foreign securities in place of cash as collateral to clearing houses for their transactions. (BL)
- National Mineral Development Corporation (NMDC), India's largest iron ore producer and exporter, is set to move court over the allotment of prospecting licences of the rich Bailadila deposits in Chhattisgarh to Tata Steel and Essar Steel. (BS)
- India will lift diesel imports this fiscal year to the highest this decade to meet stronger demand fuelled by a booming economy and to cover shortfalls caused by major refinery maintenance works. (FE)
- The much-hyped proposed free trade agreement (FTA) between India and Asean seems to be running into trouble. Asean's demand that India bring down Customs duties on four sensitive agricultural commodities to levels much lower than what New Delhi finds 'acceptable' has put a question mark over the deal. (ET)
- Tuticorin Port plans a major expansion involving investments of around Rs53 bn to create additional capacity and infrastructure on the back of growing industrial activity and meeting capacity demands from the trade. (BS)
- The US\$35-bn hardware industry has a reason to cheer with the government all set to cut duties and taxes by almost half, bringing them on a par with the Asean level of 12-16%. (FE)

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

EQUITY MARKETS

India	Change, %			
	11-Sep	1-day	1-mo	3-mo
Sensex	15,543	(0.3)	4.5	10.0
Nifty	4,497	(0.2)	3.8	8.2
Global/Regional indices				
Dow Jones	13,308	1.4	0.5	0.1
Nasdaq Composite	2,597	1.5	2.1	1.9
FTSE	6,281	2.4	4.0	(3.7)
Nikkei	15,934	0.4	(4.9)	(10.3)
Hang Seng	24,173	0.9	10.9	17.1
KOSPI	1,829	(1.0)	0.0	5.7
Value traded - India				
	Moving avg, Rs bn			
	11-Sep	1-mo	3-mo	
Cash (NSE+BSE)	159.5	153.5	154.0	
Derivatives (NSE)	417.4	488.7	289.4	
Deri. open interest	813.5	844.4	631.1	

Forex/money market

	Change, basis points			
	11-Sep	1-day	1-mo	3-mo
Rs/US\$	40.6	-	(1)	(23)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	3	(7)	(38)

Net investment (US\$m)

	10-Sep	MTD	CYTD
FIs	(15)	-	8,030
MFs	2	-	461

Top movers -3mo basis

Best performers	Change, %			
	11-Sep	1-day	1-mo	3-mo
Reliance Energy	860	(0.5)	14.9	66.4
Neyveli Lignite	93	9.4	20.9	54.0
Chambal Fert	50	(0.1)	48.9	49.6
BHEL	1,911	1.0	12.8	44.9
IDBI	137	0.1	18.3	42.3
Worst performers				
Polaris	116	(2.3)	(4.0)	(26.7)
Punjab Tractors	239	0.8	(8.3)	(24.8)
Pfizer	672	(1.4)	(7.6)	(21.2)
i-Flex	1,955	(0.3)	(5.6)	(17.1)
HCL Tech	285	(2.9)	(10.7)	(15.8)

Kotak Institutional Equities Research

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Automobiles**BJAT.BO, Rs2333**

Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	2,750
52W High -Low (Rs)	3175 - 2063
Market Cap (Rs bn)	236.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	93.3	92.9	110.0
Net Profit (Rs bn)	12.9	11.6	15.4
EPS (Rs)	127.2	114.5	151.9
EPS gth	14.5	(10.0)	32.7
P/E (x)	18.3	20.4	15.4
EV/EBITDA (x)	12.7	13.7	10.8
Div yield (%)	1.7	1.7	1.7

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	30.1	-	-
FIs	19.7	0.6	(0.1)
MFs	1.0	0.2	(0.5)
UTI	-	-	(0.7)
LIC	3.6	0.6	(0.1)

Bajaj Auto: Bajaj launches 125-cc 'XCD' at Rs41,000 (ex-showroom); Maintain OP

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- 'XCD 125' aims to upgrade entry-level-segment bike customers
- 'XCD 125' priced between entry-level and executive-segment bikes at Rs41,000 (ex-showroom)
- Maintain estimates, OP rating with target price of Rs2,750

Bajaj Auto launched the much-awaited 125-cc bike 'Exceed'. Christened 'XCD 125', the bike uses Digital Twin Spark Swirl Induction (DTS-Si) technology and is priced at Rs41,000 (ex-showroom). The product is aimed at upgrading entry-level segment customers to 125-cc bikes from existing 100-cc bikes. Bajaj plans to manufacture 20,000 units of the new product, ramping it upto 50,000 units by November 2007. 'XCD 125' has the features of a 150-cc bike with the fuel efficiency of a 100-cc bike (109 km/litre).

'XCD 125' aims to upgrade entry-level segment bike customers

The 'XCD 125' is aimed at upgrading the entry-level bike customers to 125 cc bikes. 'XCD 125' is expected to deliver the fuel efficiency of 100-cc bikes combined with the performance of a higher-end 150-cc bikes. Bajaj's management has stated that it aims to upgrade 100-cc customers to the new platform and would continue to focus on its area of strength—higher-end, greater-powered, superior technology bikes.

'XCD 125' priced between entry-level and executive-segment bikes at Rs41,000 (ex-showroom)

The bike has been priced at Rs41,000 which is between the entry-level segment and the executive-segment bikes. Bajaj aims at making a margin of about Rs3,000 per bike. Bajaj is producing 20,000 units of the bike at its Waluj facility, which it intends to ramp up to 50,000 units by November 2007.

'XCD 125' to improve volumes and market share for Bajaj

We expect the launch of 'XCD 125' to stem the decline in Bajaj's motorcycle volumes and improve market share for Bajaj. Bajaj recorded a 22% yoy decline in domestic motorcycle sales on a year-to-date basis. The entry-segment (100-cc) alone declined 35% yoy for YTD FY2008. Currently, both Hero Honda and TVS have no competing product. TVS, however, has announced the launch of a new bike with a similar configuration and similar technology which has led to a tussle between Bajaj and TVS over patents for the technology. The success of the bike is critical to Bajaj as it shifts its focus towards high-end bikes.

Our volume assumptions (see Exhibit) for Bajaj factor in a decline of 8% in domestic motorcycle volumes for FY2008 and a 5% yoy growth for FY2009 after taking into account 'XCD' volumes. We maintain our estimates and OP rating on the stock with a target price of Rs2,750.

Key features of 'XCD 125'

- Fuel efficiency – 109 km/litre under test conditions
- Engine – 125 cc Digital Twin Spark Swirl Induction (DTS-Si) engine



Comparison of Bajaj 'XCD 125' DTS-Si with other bikes

Model	Platina	Splendor	Star City	Super Splendor	XCD 125
Manufacturer	Bajaj Auto	Hero Honda	TVS Motors	Hero Honda	Bajaj Auto
Displacement (cc)	100	100	100	125	125
Price (Rs)	33,500	41,500	36,000	44,000	41,000

Source: Company, Kotak Institutional Equities

Bajaj Auto, Volume details, March fiscal year ends, 2005-2010E

	2005	2006	2007	2008E	2009E	2010E
Motorcycles	1,449,677	1,912,577	2,376,519	2,299,508	2,549,918	2,867,023
Domestic	1,325,727	1,747,289	2,078,860	1,912,551	2,008,179	2,108,588
Exports	123,950	165,288	297,659	386,957	541,739	758,435
Scooters	133,506	115,472	20,480	19,794	21,773	23,950
Geared	102,575	62,860	5,254	-	-	-
Ungeared	30,931	52,612	15,226	19,794	21,773	23,950
Step thrus	19,165	870	-	-	-	-
Total 2-wheelers	1,602,348	2,028,919	2,396,999	2,319,302	2,571,691	2,890,973
Domestic 3-Wheelers	156,240	176,745	181,133	163,020	154,869	147,125
Passenger 3-wheelers	123,794	141,351	138,759	124,883	118,639	112,707
Goods 3-wheelers	32,446	35,394	42,374	38,137	36,230	34,418
Exports	65,747	75,261	140,663	161,762	186,027	213,931
Total 3-wheelers	221,987	252,006	321,796	324,782	340,896	361,056
Total vehicles	1,824,335	2,280,925	2,718,795	2,644,084	2,912,587	3,252,029
Growth rates (yoy %)						
Motorcycles	41.6	31.9	24.3	(3.2)	10.9	12.4
Domestic	40.9	31.8	19.0	(8.0)	5.0	5.0
Exports	49.6	33.4	80.1	30.0	40.0	40.0
Scooters	(42.6)	(13.5)	(82.3)	(3.4)	10.0	10.0
Geared	(42.4)	(38.7)	(91.6)	-	-	-
Ungeared	(43.5)	70.1	(71.1)	30.0	10.0	10.0
Step thrus	(41.0)	(95.5)	(100.0)	-	-	-
Total 2-wheelers	24.3	26.6	18.1	(3.2)	10.9	12.4
Domestic 3-Wheelers	(4.4)	13.1	2.5	(10.0)	(5.0)	(5.0)
Passenger 3-wheelers	(10.7)	14.2	(1.8)	(10.0)	(5.0)	(5.0)
Goods 3-wheelers	31.0	9.1	19.7	(10.0)	(5.0)	(5.0)
Exports	(0.1)	14.5	86.9	15.0	15.0	15.0
Total 3-wheelers	(3.1)	13.5	27.7	0.9	5.0	5.9
TOTAL Vehicles	20.2	25.0	19.2	(2.7)	10.2	11.7

Source: SIAM, Kotak Institutional Equities estimates

Energy**PLNG.BO, Rs67**

Rating	U
Sector coverage view	Neutral
Target Price (Rs)	53
52W High -Low (Rs)	68 - 41
Market Cap (Rs bn)	50.4

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	55.1	68.1	71.9
Net Profit (Rs bn)	3.1	4.2	3.9
EPS (Rs)	4.2	5.7	5.2
EPS <i>gth</i>	62.5	36.6	(8.3)
P/E (x)	16.1	11.9	12.9
EV/EBITDA (x)	9.0	8.6	9.2
Div yield (%)	1.9	2.2	1.5

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.0	-	-
FIs	11.2	0.1	(0.1)
MFs	0.9	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Petronet LNG: PLNG mulling power plant; core business—prospects unclear

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- **PLNG management evaluating power plant on imported LNG**
- **LNG supply for ongoing expansion projects factored in earnings model**
- **Real issue is ability to sell high-priced LNG in gas-surplus market**

As per the PLNG management, PLNG is conducting a feasibility study for a 1,500 MW power plant based on imported LNG. We are somewhat puzzled by this decision given (1) likely higher price of imported LNG versus domestic feedstocks and (2) high probability of surplus gas in India beyond 2010. We think PLNG may be evaluating its options in case of a gas-surplus domestic market although none of the options (LNG import for merchant sale or for own power plant) will work in case of high prices of imported LNG. We see the price of imported LNG in a gas-surplus market as a big risk for the business model of PLNG and retain our cautious view of the stock. We retain our 12-month DCF-based target price of Rs53. Key risks to our stock view are higher-than-expected re-gasification tariffs and delay (regulatory or otherwise) in production of domestic gas.

Power plant based on imported LNG? Several unanswered questions. We would not get excited by a power plant based on imported LNG without clarity on the pricing of LNG. We assume PLNG management will pursue the option of a power plant in case it is able to secure LNG at a reasonable price. PLNG could potentially save on taxes (sales tax) if it converts LNG into power instead of selling LNG to outside parties. However, the key to the power plant would be the price of imported LNG. The experience of the ill-fated Dabhol (now Ratnagiri Gas and Power) power plant does not provide a good precedent. The India government has had to resort to pooling of LNG (earlier contracted LNG at low fixed price of US\$2.53/mn BTU and newly contracted LNG at significantly higher price) to keep the price of LNG affordable for the Ratnagiri power plant.

PLNG's business model is exposed to the price of imported LNG in the future.

We do not doubt PLNG's ability to secure LNG for its expanded Dahej capacity and new Kochi terminal. The recent environmental clearance from the government of Western Australia for the Gorgon Project will enable the Gorgon Project partners (Chevron, ExxonMobil, Shell) to proceed with development of Gorgon gas fields. PLNG has an agreement with ExxonMobil to import 2.5 mtpa of LNG but is yet to sign a firm Gas Supply and Purchase Agreement (GSPA). We note that PLNG's Kochi terminal will receive LNG from Gorgon from 2012 and it will have to depend on short-term spot cargoes for about 12 months (completion is due by end-2010 or early-2011). Finally, there is no decision on the pricing of imported LNG either from Gorgon for Kochi or from Qatar for Dahej (2.5 mtpa).

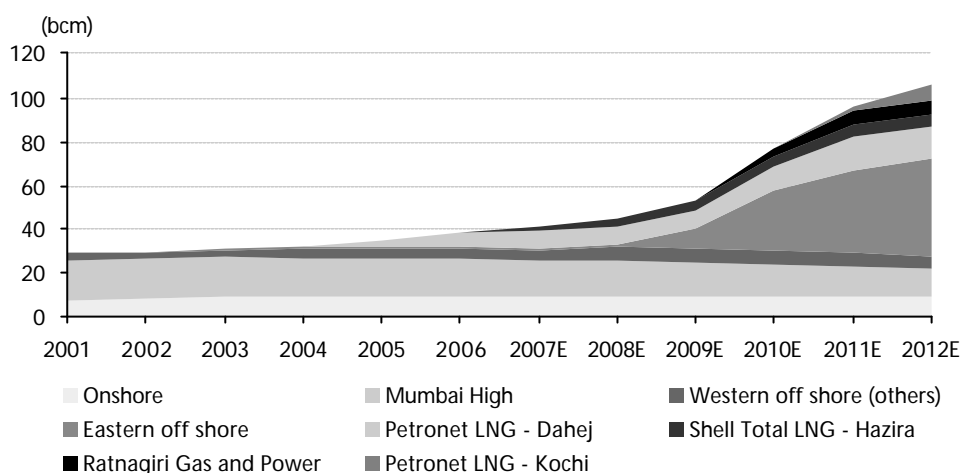
The future is not now but in 2010 and that's highly uncertain for LNG imports.

We expect a steep increase in the supply of domestic gas from FY2010E to create issues about acceptance of high-priced LNG in the domestic market. We expect the supply of gas (domestic plus imported) to exceed demand in the Indian market unless large demand emerges from the power sector backed by competitively-priced natural gas. We note that most new thermal power plants are being built on domestic or imported coal.

Exhibits 1 and 2 give our estimated supply and demand of gas in India. We model total gas supply to increase to 106 bcm (domestic supply at 72 bcm) versus our projected consumption of 93 bcm in FY2012E. However, we expect supply to exceed demand without a steep increase in demand for gas from the power sector. This would depend on the relative prices of gas and coal as we expect the power sector to be the primary demand driver for gas in India (39 bcm out of our projected 62 bcm increase in consumption between FY2006 and FY2012). We note that abundant reserves of coal and the ongoing deregulation of the coal sector will further enhance the attractiveness of coal as the fuel of choice for power sector in India.

We project steep ramp up in domestic supply from FY2009

Supply of natural gas in India, March fiscal year-ends, 2001-2012E (bcm)

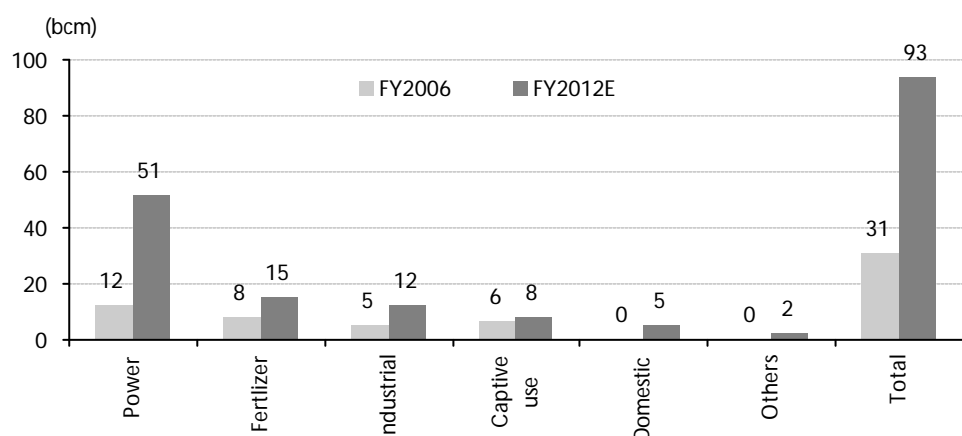


Note: Eastern offshore includes potential gas from Reliance's field in KG basin.

Source: Kotak Institutional Equities estimates.

Current supply constrained demand set to increase sharply

Segment wise demand for natural gas, current versus potential (bcm)



Source: Ministry of petroleum and natural gas, Kotak Institutional Equities estimates.

Domestic gas at US\$4.25/mn BTU (delivered price) may be the outer limit

Comparative cost of power generation using various fuels

	Naphtha (a)	Gas (b)	Coal (d)	Gas (c)	Coal (e)	Coal (f)
Unit	Kg	m3	Kg	m3	Kg	Kg
Price (Rs/unit)	22.6	4.0	0.6	6.8	1.5	2.6
Calorific value (Kcal/unit)	10,500	9,000	3,500	9,000	3,500	6,500
Thermal efficiency (%)	54	54	37	54	37	37
Thermal requirement (kcal/kwh)	1,593	1,593	2,324	1,593	2,324	2,324
Cost of generation (Rs/Kwh)	3.43	0.70	0.42	1.21	0.97	0.93
Other operating costs (Rs/Kwh)	0.20	0.20	0.20	0.20	0.20	0.20
Plant load factor (%)	90	90	85	90	85	85
Fixed capital investment (Rs mn/MW)	33	32	40	32	40	40
Depreciation charge (%)	5	5	5	5	5	5
Depreciation charge (Rs/Kwh)	0.21	0.20	0.27	0.20	0.27	0.27
Fixed capital charge (%)	14	14	14	14	14	14
Fixed capital charge (Rs/Kwh)	0.59	0.57	0.75	0.57	0.75	0.75
Total cost (Rs/Kwh)	4.43	1.68	1.64	2.18	2.19	2.15

Note:

(a) Naphtha cost based on FY2006-FY2007 average price.

(b) Gas price at US\$2.5/mn BTU (delivered).

(c) Gas price at US\$4.25/mn BTU (delivered).

(d) Domestic coal at pithead.

(e) Domestic coal 1,000 kms from pithead.

(f) Imported coal at coastal plant.

Source: Platt's, Indian Railway Budget, Kotak Institutional Equities estimates.

Power generation projects in the XIth and XIIth Plans**Total projects in the XIth plan**

	Thermal			Gas	Hydro	Nuclear	Total
	Coal		Total				
	Supercritical	Subcritical					
Centre	6,600	16,460	23,060	750	9,685	3,160	36,655
NTPC	6,600	9,460	16,060	—	1,920	—	17,980
NHPC	—	—	—	—	4,833	—	4,833
DVC	—	5,000	5,000	—	—	—	5,000
Others	—	2,000	2,000	750	2,932	3,160	8,842
State	800	18,940	19,740	612	2,637	—	22,989
Private	660	4,550	5,210	752	3,263	—	9,225
Total	8,060	39,950	48,010	2,114	15,585	3,160	68,869

Total projects in the XIIth plan - Likely to be taken up for commissioning

	Thermal			Gas	Hydro	Nuclear	Total
	Coal		Total				
	Supercritical	Subcritical					
Centre	5,502	4,564	10,066	3,413	11,520	8,020	33,018
NTPC	5,502	250	5,752	3,413	2,778	1,000	12,943
NHPC	—	—	—	—	5,950	—	5,950
DVC	—	1,050	1,050	—	—	—	1,050
Others	—	3,264	3,264	—	2,792	7,020	13,076
State	800	20,256	21,056	1,422	4,174	—	26,652
Private	3,260	3,503	6,763	4,332	4,189	—	15,283
Ultra mega power projects	17,650	—	17,650	—	—	—	17,650
Total	27,212	28,323	55,535	9,166	19,883	8,020	92,604

Source: Ministry of Power, Kotak Institutional Equities estimates.

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2005-2011E (Rs mn)

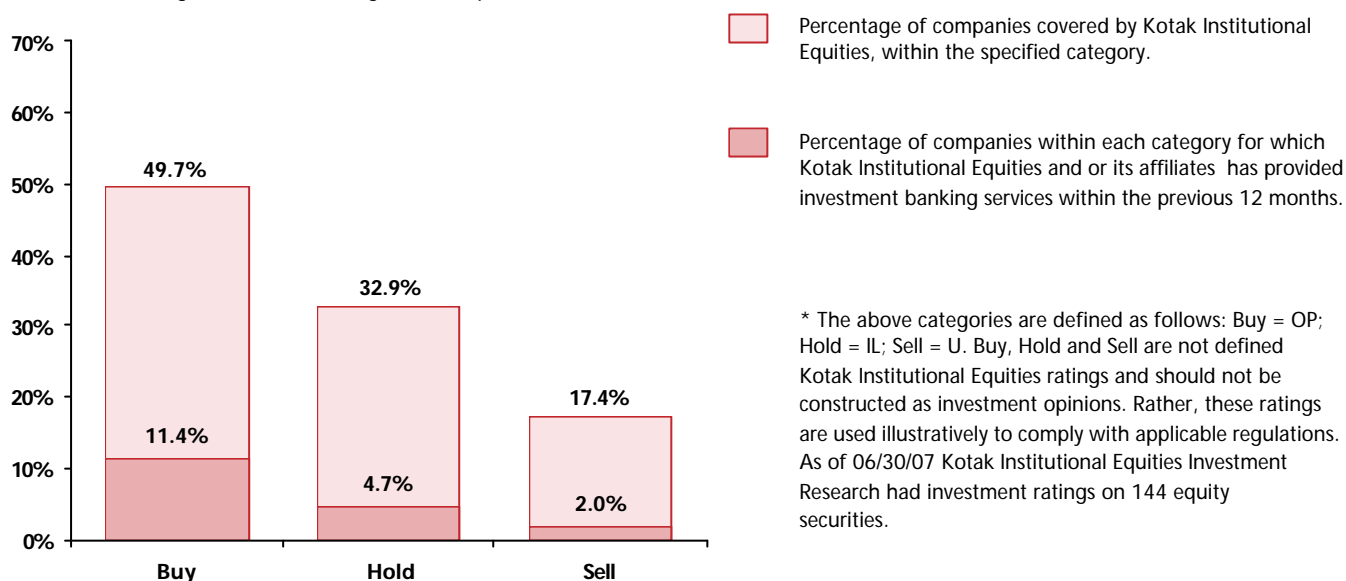
	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	19,453	38,197	55,090	68,108	71,894	104,442	144,403
EBITDA	1,505	4,707	6,481	7,027	7,695	7,875	10,928
Other income	133	194	366	439	353	269	277
Interest	(1,094)	(1,116)	(1,070)	(1,090)	(1,019)	(1,780)	(1,957)
Depreciation	(968)	(1,010)	(1,020)	(1,062)	(1,384)	(2,022)	(2,511)
Extraordinary items	—	175	—	—	—	—	—
Pretax profits	(424)	2,950	4,756	5,313	5,645	4,342	6,737
Tax	—	(256)	(6)	(602)	(1,052)	—	(763)
Deferred taxation	140	(745)	(1,617)	(467)	(688)	(1,645)	(1,439)
Net profits	(284)	1,949	3,133	4,245	3,905	2,697	4,534
Earnings per share (Rs)	(0.4)	2.4	4.2	5.7	5.2	3.6	6.0
Balance sheet (Rs mn)							
Total equity	8,770	10,719	12,755	15,684	18,711	20,530	23,748
Deferred taxation liability	(140)	605	2,472	2,939	3,627	5,272	6,711
Total borrowings	12,599	12,599	13,832	16,432	24,432	28,932	28,932
Current liabilities	3,585	1,725	5,877	6,682	6,945	9,201	11,970
Total liabilities and equity	24,814	25,648	34,936	41,737	53,715	63,935	71,362
Cash	2,980	2,506	3,405	3,422	940	1,045	1,150
Current assets	2,753	2,946	7,478	6,086	6,161	8,744	10,837
Total fixed assets	18,903	18,627	21,273	29,449	43,833	51,365	56,595
Investments	179	1,569	2,780	2,780	2,780	2,780	2,780
Total assets	24,814	25,648	34,936	41,737	53,715	63,935	71,362
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	437	3,524	4,927	5,097	4,855	5,540	7,633
Working capital	628	(2,057)	(710)	2,198	187	(327)	677
Capital expenditure	(18,969)	(335)	(36)	(9,000)	(15,000)	(9,000)	(7,166)
Investments	(179)	(1,390)	(1,211)	—	—	—	—
Free cash flow	(18,083)	(258)	2,970	(1,705)	(9,958)	(3,787)	1,144
Other income	128	184	326	439	353	269	277
Ratios (%)							
Debt/equity	146	111	91	88	109	112	95
Net debt/equity	111	89	68	70	105	108	91
RoAE	(3.2)	19.5	23.6	25.1	19.1	11.2	16.1
RoACE	2.1	11.9	14.5	16.0	11.3	7.5	10.3
Adjusted CROCI	8.9	21.3	25.1	30.1	17.2	19.7	15.0
Key assumptions							
Sales volume (mn tonnes)	2.5	4.8	5.6	6.3	6.6	8.8	11.8
LNG purchase price (FOB) (US\$/mn BTU)	2.5	2.5	3.3	3.8	3.8	4.4	4.6
Re-gasification charges (US\$/mn BTU)	0.53	0.57	0.58	0.66	0.68	0.56	0.58
Sales price (US\$/mn BTU)	3.5	3.5	4.4	5.0	5.1	5.6	5.7
Rupee/US dollar exchange rate	45.0	44.3	45.3	42.0	42.0	42.0	42.0

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: Amit Agarwal, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of June 30, 2007

Ratings and other definitions/identifiers

Current 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

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