kotak® Institutional Equities

INDIA DAILY

January 16, 2008

Contents

EQUITY MARKETS

	Change, %			
India	**15-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	20,251	(2.3)	1.1	6.3
Nifty	6,074	(2.1)	0.4	7.1
Global/Regional indices				
Dow Jones	12,501	(2.2)	(6.3)	(10.6)
Nasdaq Composite	2,418	(2.5)	(8.3)	(13.0)
FTSE	6,026	(3.1)	(5.8)	(9.3)
Nikkie	13,842	(0.9)	(10.8)	(19.2)
Hang Seng	25,092	(2.9)	(9.0)	(13.3)
KOSPI	1,724	(1.3)	(9.0)	(14.1)

Value traded - India

	Moving avg, Rs bn			
	15-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	269.2		146.3	50.4
Derivatives (NSE)	655.7		613.3	768.3
Deri. open interest	1,308.3		1,156	#####

Forex/money market

	Change, basis points			
	15-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.3	0	(28)	(9)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	-	(34)	(37)

Net investment (US$mn)

	14-Jan		**MTD**	**CYTD**
FIIs	43		14	505
MFs	(140)		(341)	164

Top movers -3mo basis

	Change, %			
Best performers	**15-Jan**	**1-day**	**1-mo**	**3-mo**
Rashtriya Chem	118	(3.1)	37.6	117.0
Neyveli Lignite	236	(4.0)	(5.3)	91.3
Engineers India	1,065	(4.3)	15.0	86.2
Chambal Fert	81	1.1	(5.6)	59.8
Thomas Cook	95	(2.5)	3.9	57.3
Worst performers				
Acc	874	(0.2)	(20.7)	(31.0)
Bharti Tele	857	(5.5)	(10.0)	(22.8)
Infosys	1,502	(1.9)	(8.8)	(19.6)
i-Flex	1,444	(2.7)	(7.1)	(17.2)
Cummins India	375	(2.2)	(7.6)	(16.4)

News Roundup

Corporate

- Great Offshore Ltd has made an offer to purchase a controlling stake in an unnamed overseas company. (BS)
- German auto maker Volkswagon has hinted that it is looking at developing a low-cost car but under a separate brand name. (BS)
- Citigroup said it lost US$9.83 bn in the fourth quarter following a writedown of US$18.1 bn on its sub-prime mortgage-related exposure and increased losses on consumer loans. (BS)
- Essar Energy Overseas, a subsidiary of Essar Oil, has entered into an agreement to acquire a 50% stake in Kenya Petroleum Refineries (KPRL), a 4 MMTPA refinery in Mombasa, Kenya. (BS)
- Non ferrous metals giant Vedanta Resources is planning to enter the Indian steel sector with a 5 mn tonne plant at an investment of about Rs24 bn in Keonjhar distrcit of Orissa and envisaging its commissioning by 2012-13. (BS)

Economic and political

- The British government is pitching strongly for more of its banks to be allowed in India and for existing ones to expand brand networks. (FE)

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

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Diversified

MNET.BO, Rs572	
Rating	ADD
Sector coverage view	-
Target Price (Rs)	575
52W High -Low (Rs)	710 - 208
Market Cap (Rs bn)	29.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	5.5	10.9	19.9
Net Profit (Rs bn)	1.0	1.8	2.4
EPS (Rs)	32.8	41.1	53.4
EPS gth	*(1.5)*	*25.3*	*30.1*
P/E (x)	17.5	13.9	10.7
EV/EBITDA (x)	24.3	14.6	8.4
Div yield (%)	0.3	0.4	0.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.3	-	-
FIIs	15.7	0.0	0.0
MFs	8.5	0.1	0.1
UTI	-	-	-
LIC	-	-	-

Monnet Ispat: 3QFY08 results: Raw materials hurt margins; reduce rating to ADD

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- **Revenues for the quarter at Rs2.8 bn grew 60% yoy following increased production and higher realization.**
- **Reported net earnings at Rs337 mn (lower than our estimates) de-grew 22% on yoy basis, as higher raw material cost hurt margins (down 11 pc yoy).**
- **We raise our SOTP-based target price to Rs575 following higher peer valuation of steel and power stocks. However reduce rating to ADD (from BUY earlier) following recent run-up in stock prices**

Monnet Ispat (MIL), reported 3QFY08 PAT of Rs337 mn, down 22% yoy, following higher raw material costs. We expect MIL to report 32% net earnings growth in FY2009E following improved production of sponge iron and steel rolling mill. We reduce the rating on the stock to ADD following the recent run-up in stock prices, but raise our target price to Rs575 following higher asset valuations for steel and power assets.

Reported net income de-grew 22% following higher raw material costs. Iron ore prices increased by Rs350/ ton during the quarter on a sequential basis. Higher iron ore costs led to 11% reduction in EBITDA margins yoy. We understand that Monnet's inability to source a large proportion of iron ore from captive mines is leading to higher raw material costs.

Expansions to commission over the next 2 quarters. Monnet informed that it has commissioned 15MWs of captive power at its Raipur facility and expects to commission 90MWs at Raigadh by 1QFY09. Four kilns totaling 500,000t at Raigadh got commissioned over the past two quarter, which led to growth in volumes in the current quarter. We have built these into our model and expect net earnings for fiscal 2009 to be higher than fiscal 2008 by 32% on stable pricing assumption. Exhibit 2 shows our key assumptions for Monnet Ispat.

We raise SOTP-based target price to Rs575/ share (from Rs450 earlier). Our SOTP-based target price comprises Rs495 of steel business, valued at 7.5X FY2008E EV/EBITDA and Rs68 of the merchant power business. Whereas the equity for 300MWs is fully tied-up, our model shows that the company will have to raise additional funding for the balance 700 MWs. Our target price, therefore, does not value the 700MWs yet to be funded and coal tied-up. We reduce the rating on the stock to ADD (from BUY) following the recent run-up in the stock price.

Monnet Ispat, Interim results, March fiscal-year ends (Rs mn)

	3Q 2008	3Q 2007	Yoy gr (%)	3Q 2008	2Q 2008	QoQ gr (%)
Revenue	**2,882**	**1,802**	**59.9**	**2,882**	**2,583**	**11.6**
Expenditure	**(2,324)**	**(1,255)**		**(2,324)**	**(2,047)**	
Stock adjustment	202	56		202	(210)	
Raw materials	(2,022)	(1,017)		(2,022)	(1,451)	
Staff costs	(118)	(61)		(118)	(99)	
Other expenditure	(386)	(234)		(386)	(287)	
EBITDA	**558**	**547**	**2.0**	**558**	**536**	**4.1**
OPM (%)	*19.4*	*30.4*		*19.4*	*20.7*	
Other income	48	68		48	50	
Depreciation	(112)	(79)		(112)	(109)	
EBIT	494	536		494	478	
Interest costs	(8)	1		(8)	(16)	
PBT	486	538		486	462	
Taxes	(149)	(106)		(149)	(94)	
PAT - Reported	**337**	**432**	**(22.0)**	**337**	**368**	**(8.5)**
Extra-ordinary	-	-		-	(48)	
PAT - Adjusted	**337**	**432**	**(22.0)**	**337**	**320**	**5.3**
Calculations (%)						
Raw material to revenue	63.2	53.3		63.2	64.3	
Total costs to revenue	80.6	69.6		80.6	79.3	
Effective tax rate	30.7	19.7		30.7	20.4	

Source: Company data

Monnet Ispat, Assumptions, March fiscal year-ends, 2005-09E (tons)

	2005	2006	2007	2008E	2009E
Sponge iron					
Capacity	300,000	470,000	470,000	700,000	800,000
Volumes	240,319	303,909	310,000	310,000	710,000
Price - noncaptive (Rs/ ton)	13,234	11,964	11,020	11,250	10,260
Steel					
Capacity	300,000	300,000	300,000	300,000	800,000
Volumes	145,109	222,675	256,076	300,000	650,000
Price - noncaptive (Rs/ ton)	21,405	19,186	18,227	18,227	17,315
Blast furnace steel					
Capacity	-	-	-	500,000	500,000
Volumes	-	-	-	200,000	400,000
Selling price ($/ ton)	-	-	-	490	475
Cost assumptions					
Iron ore price blended (Rs)	2,308	3,151	3,500	4,300	4,429
Coal price- noncaptive (Rs)	2,457	2,678	2,678	2,945	2,945
Captive coal (%)	34	58	100	100	100
Coking coal price ($/ ton)	-	-	-	110	110

Source: Company Annual reports, Kotak Institutional Equities estimates

Monnet Ispat, SOTP-based valuation, 2009E basis, March fiscal year-ends (Rs mn)

	EBITDA	Multiple	Enterprise Value		
	(Rs mn)	(X)	(Rs mn)	(US$ mn)	(Rs/share)
Standalone steel business	4,565	7.5	34,235	856	656
Standalone power business			3,562	89	68
Less: net debt (of steel business)			(8,413)	(210)	(161)
Market capitalization of Monnet Ispat			**29,384**	**735**	**563**
Target price (Rs/share)					**575**

Monnet Ispat, Profit Model, March fiscal year-ends, 2005-2009E, (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Net Revenues	5,197	5,324	6,381	10,870	19,854	21,489
Other operating income	-	-	-	-	-	-
Gross operating revenues	**5,197**	**5,324**	**6,381**	**10,870**	**19,854**	**21,489**
Operating expenses						
Cost of goods sold	(2,897)	(3,323)	(3,490)	(6,950)	(13,006)	(14,097)
Staff costs	(132)	(163)	(243)	(337)	(615)	(666)
SG&A expenses	(387)	(456)	(846)	(913)	(1,668)	(1,805)
Total expenditure	**(3,415)**	**(3,942)**	**(4,578)**	**(8,200)**	**(15,289)**	**(16,569)**
(% of revenues)	*65.7*	*74.0*	*71.7*	*75.4*	*77.0*	*77.1*
EBITDA	**1,782**	**1,382**	**1,803**	**2,670**	**4,565**	**4,920**
EBITDA Margin (%)	*34.3*	*26.0*	*28.3*	*24.6*	*23.0*	*22.9*
Net finance cost	(293)	(3)	2	(35)	(423)	(423)
Other income	49	97	220	100	100	100
PBDT	**1,538**	**1,476**	**2,025**	**2,735**	**4,242**	**4,598**
Depreciation and amortisation	(216)	(249)	(327)	(458)	(928)	(974)
Pretax profits before extra-ordinaries	**1,322**	**1,227**	**1,698**	**2,278**	**3,314**	**3,624**
Exceptional items	-	-	-	-	-	-
Prior period items	-	-	-	-	-	-
Profit before tax	**1,322**	**1,227**	**1,698**	**2,278**	**3,314**	**3,624**
Current tax	(107)	(108)	(311)	(287)	(557)	(609)
Deferred tax	-	(60)	-	(191)	(371)	(406)
Minority / Associate earnings	-	-	-	-	-	-
Reported PAT	1,215	1,058	1,388	1,799	2,386	2,609
Adjusted net profit	**1,215**	**1,058**	**1,388**	**1,799**	**2,386**	**2,609**
Primary EPS (using wtd avg shares)	40.6	33.3	32.8	34.5	45.7	50.0
Diluted EPS	23.3	20.3	26.6	34.5	45.7	50.0
Weighted average no of shares (mn)	29.9	31.8	42.3	52.2	52.2	52.2
Fully diluted no of shares (mn)	52.2	52.2	52.2	52.2	52.2	52.2
Margins (%)						
EBITDA margin	34.3	26.0	28.3	24.6	23.0	22.9
PBT margin	25.4	23.0	26.6	21.0	16.7	16.9
Net profit margin (w/o extraordinaries)	23.4	19.9	21.7	16.6	12.0	12.1
Effective tax rate (%)	8.1	13.7	18.3	21.0	28.0	28.0
Growth (% p.a)						
Revenues		2.4	19.9	70.3	82.7	8.2
EBITDA		(22.4)	30.5	48.1	71.0	7.8
PBT		(7.2)	38.4	34.1	45.5	9.3
Net profit (w/o extraordinaries)		(12.9)	31.1	29.7	32.6	9.3
Diluted EPS		(12.9)	31.1	29.7	32.6	9.3

Source: Company data, Kotak Institutional Equities estimates

Monnet Ispat, Balance sheet, March fiscal-year ends, 2005-09E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Equity						
Share capital	315	325	522	522	522	522
General reserves and surplus	2,786	3,776	9,985	11,523	13,544	15,631
Net worth	**3,101**	**4,101**	**10,507**	**12,045**	**14,066**	**16,153**
Deferred tax liability	442	502	622	813	1,185	1,590
Debt						
Secured	2,336	3,304	9,304	9,804	8,804	6,804
Unsecured	2,625	5,353	-	-	-	-
Total Debt	**4,961**	**8,657**	**9,304**	**9,804**	**8,804**	**6,804**
Current liability and provisions	807	846	852	1,250	1,997	2,132
Total capital	**9,311**	**14,106**	**21,285**	**23,913**	**26,051**	**26,679**
Assets						
Cash and cash equivalents	2,734	4,542	4,945	386	215	823
Inventory	836	1,033	1,041	2,055	3,808	4,121
Sundry Debtors	591	459	528	1,191	2,176	2,355
Loans and Advances	572	1,066	1,066	1,066	1,066	1,066
Gross block	4,757	5,984	5,984	9,984	16,451	16,951
Less: Accumulated depreciation	(726)	(974)	(1,274)	(1,732)	(2,659)	(3,633)
Net fixed assets	4,031	5,010	4,710	8,252	13,792	13,318
Capital -WIP	456	1,811	5,811	7,778	1,811	1,811
Net fixed assets (incl. C-WIP)	**4,487**	**6,821**	**10,521**	**16,030**	**15,602**	**15,129**
Investments	90	185	3,185	3,185	3,185	3,185
Miscallenous expenditure	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-
Total Assets	**9,311**	**14,106**	**21,285**	**23,913**	**26,051**	**26,679**
Leverage and return ratios (%)						
Debt/Equity	140.0	188.1	83.6	76.2	57.7	38.3
Debt/Capitalisation	58.3	65.3	45.5	43.3	36.6	27.7
Net Debt/Equity	62.8	89.4	39.2	73.2	56.3	33.7
Net Debt/Capitalisation	38.6	47.2	28.1	42.3	36.0	25.2
Net Debt/EBITDA	0.2	(0.3)	3.1	4.4	3.0	3.1
ROE (%)	34.3	26.0	15.2	15.0	17.0	15.8
ROCE (%)	14.3	9.9	7.3	9.8	11.5	10.7

Source: Company data, Kotak Institutional Equities estimates

Monnet Ispat, Cash flow statement, March fiscal-year ends, 2005-09E (Rs mn)

	2005	2006	2007E	2008E	2009E	2010E
Operating cash flows						
Pre-tax profits and extraordinary items	1,218	1,227	1,298	2,278	3,314	3,624
Depreciation & amortization	216	249	300	458	928	974
Taxes paid	(126)	(126)	(180)	(287)	(557)	(609)
Dividend and other income	(0)	(28)	-	-	-	-
Interest expense	267	31	20	35	423	423
Interest paid	(267)	(31)	(20)	(35)	(423)	(423)
Foreign exchange loss/(gain)	-	-	-	-	-	-
Extraordinaries (incl. prior period items)	8	1	200	-	-	-
Other non-cash items	-	-	-	-	-	-
Working capital changes	(501)	(436)	(70)	(1,279)	(1,991)	(358)
Cash flow from operations	**815**	**887**	**1,549**	**1,169**	**1,694**	**3,631**
Operating, excl. working capital	1,316	1,322	1,618	2,448	3,685	3,989
Investing						
Capex incl. capital issue expenses	(931)	(2,583)	(4,000)	(5,967)	(500)	(500)
(Purchase)/sale of assets/businesses	-	-	-	-	-	-
(Purchase)/sale of investments (incl. inv. in subsidiaries)	(83)	(95)	-	-	-	-
Advances to subsidiary	-	-	(3,000)	-	-	-
Interest/dividend received	0	28	-	-	-	-
Cash flow from investing	**(1,014)**	**(2,650)**	**(7,000)**	**(5,967)**	**(500)**	**(500)**
Financing						
Proceeds from issue of share capital	567	108	-	-	-	-
Net proceeds from borrowings	2,319	3,696	6,000	500	(1,000)	(2,000)
Effect of FX changes	-	-	-	-	-	-
Dividends paid (incl. tax)	(90)	(233)	(146)	(261)	(365)	(522)
Cash flow from financing	**2,796**	**3,571**	**5,854**	**239**	**(1,365)**	**(2,522)**
Net change in cash/cash equivalents	2,597	1,808	403	(4,559)	(171)	609
Beginning cash	137	2,734	4,542	4,945	386	215
Ending cash	**2,734**	**4,542**	**4,945**	**386**	**215**	**823**

Source: Company data, Kotak Institutional Equities estimates

Pipes

PSLH.BO, Rs468	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	500
52W High -Low (Rs)	588 - 191
Market Cap (Rs bn)	19.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	14.4	21.8	30.7
Net Profit (Rs bn)	0.7	1.1	1.7
EPS (Rs)	20.2	28.4	40.5
EPS gth	*16.7*	*40.1*	*42.9*
P/E (x)	23.1	16.5	11.5
EV/EBITDA (x)	12.9	9.6	6.9
Div yield (%)	0.9	1.2	1.4

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	48.9	-	-
FIIs	23.4	0.0	0.0
MFs	8.1	0.1	0.1
UTI	-	-	-
LIC	-	-	-

PSL: 3QFY08 PAT in line with estimates; raise target to Rs500 and change rating to ADD

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- **3QFY08 results revenues higher than expected but EBITDA much lower than expected**
- **Revise PAT marginally higher by 7.5% for FY2008 for higher other income but reduce EBITDA margins for the near-term—by 90 bps in FY2008E and 80 bps in FY2009E**
- **Raise target price to Rs500 but revise rating to ADD from BUY earlier on account of the sharp run up in the stock in the past six months and expected softening of a demand-supply mismatch**

PSL's 3QFY08 results were in line with estimates despite higher revenues, mainly on account of lower EBITDA margins. Net revenues increased 37.5% yoy to Rs6.2 bn from Rs4.5 bn in 3QFY07 led by 73% increase in pipe volumes to 131,768 MT from 76,269 MT in 3QFY07. However, average realisations dropped 19% yoy due to the larger share of water linepipes. EBITDA margin for the quarter was 8.4% versus 10.7% in 3QFY07; we believe EBITDA margins were lower than expected on account of higher sale of water linepipes rather than oil and gas linepipes. Net income increased by 45% yoy to Rs302 mn from RS208 mn in 3QFY07, mainly supported by higher other income of Rs189 mn which partly included excise duty refunds. We increase our volume assumptions for FY2008E and FY2009E by 14.8% and 6.7%, respectively, based on higher volumes for water linepipes. We highlight that higher water linepipe volumes will reduce the weighted average realisation and EBITDA margins in FY2008E and FY2009E. We revise our revenue estimates upwards by 9.3% and 3.3% for FY2008E and FY2009E, respectively; however, we reduce our EBITDA margin estimates to 10.5% and 11.1% for FY2008E and FY2009E, respectively, from 11.4% and 11.9% earlier, on account of the higher composition of water linepipe sales. We revise our target price to Rs500 (from Rs460 earlier) and change rating to ADD from BUY earlier on account of sharp run up in the stock price in the past six months.

3QFY08 results—revenues higher than expected; margins disappoint but net income in line with estimates

PSL's 3QFY08 PAT was in line with estimates despite lower-than-expected EBITDA as high excise refund increased other income during the quarter. Net revenues at Rs6.2 bn mn were better than our estimates of 5.6 bn, however EBITDA margin at 8.4% was much lower than estimated 11.5% largely due to higher water linepipe volumes. Net income was in line with estimates at Rs302 mn versus our estimate of Rs306 mn, mainly supported by higher other income. Net revenues during quarter were higher by 37.5% yoy to Rs6.2 bn from Rs4.5 bn in 3QFY07. Net earnings for the quarter increased 45.1% yoy to Rs302 mn from Rs208 mn in 3QFY07. Adjusted EBITDA margins (adjusted for excise duty) for 3QFY08 were lower at 8.4% from 10.7% in 2QFY07, mainly on account of higher sales to water projects. Other income was higher at Rs189 mn due to excise duty refunds for the production from its two-step mill. Order book at end of the 3QFY08 was Rs22 bn, to be executed over the next nine months.

Revise estimates—increased revenues led by higher volume assumptions but lower EBITDA margin estimates

We increase our revenue estimates for FY2008E and FY2009E by 9.3% and 3.3% based on higher volume assumptions. We increase our pipe volumes assumptions by 14.8% and 6.7% for FY2008E and FY2009, respectively, due to higher capacity utilization in the first nine months. We reduce our EBITDA margin assumptions for FY2008E, FY2009E and FY2010E to 10.5%, 11.1% and 11.2%, respectively, from earlier estimates of 11.4%, 11.9% and 11.9%, respectively, due to higher sales to water projects and the increase in freight and handling costs. We increase our net income estimates for FY2008E by 7.5% led by higher revenue estimates, and reduce net income estimates for FY2009E and FY2010E by 6.8% and 8.6%, respectively, on account of lower EBITDA margins.

Revise target price to Rs500 from Rs460 earlier and change rating to ADD from BUY

We revise our 12-month DCF based target price to Rs500 from Rs460 earlier as we roll over our discounting date to today. We change our rating to ADD from BUY earlier on account of the sharp run up in the stock in the past six months and expect a softening of supply-demand mismatch over the next 12-18 months.

Exhibit 1: Forecasts and valuation (consolidated)

March year-end	Sales (Rs mn)	EBITDA (Rs mn)	Adj. PAT (Rs mn)	EPS (Rs)	RoAE (%)	P/E (X)	EV/EBITDA (X)
2006	14,503	1,550	519	17.3	22.6	33.1	14.7
2007	14,433	1,642	653	20.2	20.7	29.6	15.1
2008E	21,791	2,279	1,073	28.4	21.6	18.0	11.1
2009E	30,651	3,405	1,680	40.5	23.6	11.5	7.6
2010E	38,267	4,278	2,314	55.8	26.2	8.3	5.6

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 1: PSL, Interim results, March fiscal year-ends, (Rs mn)

		qoq		yoy			yoy	
	3QFY08	2QFY08	*(% chg)*	3QFY07	*(% chg)*	9m-FY08	9m-FY07	*(% chg)*
Gross revenues	**6,591**	**4,965**	***32.8***	**4,988**	***32.1***	**15,656**	**11,819**	***(57.8)***
less:excise	(380)	(316)		(500)		(944)	(966)	
Net sales	**6,211**	**4,649**	***33.6***	**4,488**	***38.4***	**14,712**	**10,853**	***35.6***
Total expenditure	**(5,692)**	**(4,150)**	***37.2***	**(4,009)**	***42.0***	**(13,287)**	**(9,662)**	***37.5***
Inc/(Dec) in stock	(143)	1,764	*(108.1)*	706	*(120.3)*	2,041	515	*296.1*
Raw materials	(4,075)	(5,228)	*(22.1)*	(3,511)	*16.0*	(12,280)	(7,263)	*69.1*
Staff cost	(183)	(121)	*51.2*	(99)	*84.8*	(407)	(285)	*42.8*
Other expenditure	(1,291)	(565)	*128.4*	(1,104)	*16.9*	(2,641)	(2,630)	*0.4*
EBITDA	**519**	**499**	***3.9***	**479**	***8.3***	**1,425**	**1,191**	***19.6***
OPM (%)	**8.4**	**10.7**		**10.7**		**9.7**	**11.0**	
Other income	189	67	*180.7*	60	*213.3*	300	148	*102.8*
Interest	(163)	(162)	*0.7*	(134)	*21.0*	(418)	(329)	*27.3*
Depreciation	(130)	(130)	*0.1*	(117)	*11.8*	(390)	(328)	*18.9*
Pretax profits	**415**	**275**	***50.9***	**289**	***43.7***	**916**	**682**	***34.3***
EO	—	—		—		—	—	
EBIT%	**9.3**	**9.4**		**9.4**		**9.1**	**9.3**	
Tax	(113)	(84)	*34.9*	(81)	*40.1*	(251)	(190)	*32.1*
Net income	**302**	**191**	***57.8***	**208**	***45.1***	**665**	**492**	***35.1***
Adjusted profits	**302**	**191**	***57.8***	**208**	***45.1***	**665**	**492**	***35.1***
Income tax rate (%)	*27.2*	*30.4*		*27.9*		*27.4*	*27.9*	

Source: Company data, Kotak Institutional Equities.

Exhibit 3: PSL Ltd, Change in volume and pricing assumptions, March fiscal year-ends

	Revised estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Sales ('000 tons)									
India	341	440	528	297	413	523	14.8	6.7	1.1
UAE	11	32	38	11	32	38	—	—	—
USA	—	56	105	—	56	105	—	—	—
Realisation (US$/ton)									
India	1,291	1,316	1,336	1,291	1,316	1,336	—	—	—
UAE	900	1,356	1,376	900	1,356	1,376	—	—	—
USA	—	1,400	1,421	—	1,400	1,421	—	—	—
Raw material cost (US$/ton)									
HR coil	784	800	808	784	800	808	—	—	—

Source: Kotak Institutional Equities estimates.

Exhibit 3: PSL Ltd., change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Revenue	21,791	30,651	38,267	19,933	29,666	38,391	9.3	3.3	(0.3)
EBITDA	2,279	3,405	4,278	2,280	3,542	4,551	(0.0)	(3.8)	(6.0)
EBITDA margin (%)	10.5	11.1	11.2	11.4	11.9	11.9	—	—	—
Adjusted net profit	1,073	1,680	2,314	999	1,803	2,532	7.5	(6.8)	(8.6)
Diluted EPS (Rs)	26.0	40.6	56.0	24.2	43.6	61.2	7.5	(6.8)	(8.6)

Source: Kotak Institutional Equities estimates.

Exhibit 3: DCF valuation of PSL, March fiscal year-ends (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal Value
EBITDA	2,279	3,405	4,278	4,733	4,594	4,619	4,578	4,529	4,529	4,529	
Tax expense	(534)	(817)	(869)	(868)	(837)	(793)	(828)	(828)	(847)	(792)	
Changes in working capital	(1,495)	(2,111)	(779)	245	1,143	544	182	123	(0)	—	
Cash flow from operations	**250**	**478**	**2,630**	**4,111**	**4,900**	**4,370**	**3,932**	**3,824**	**3,682**	**3,737**	
Capital expenditure	(2,313)	(784)	(157)	(159)	(161)	(218)	(223)	(284)	(291)	(835)	
Free cash flow to the firm	**(2,063)**	**(306)**	**2,473**	**3,952**	**4,738**	**4,151**	**3,710**	**3,540**	**3,391**	**2,902**	**25,490**
Dicounted cash flow-now	(2,013)	(266)	1,907	2,708	2,887	2,248	1,785	1,515	1,290	981	
Discounted cash flow-1 year forward		(299)	2,145	3,047	3,247	2,529	2,009	1,704	1,451	1,104	
Discounted cash flow-2 year forward			2,413	3,428	3,653	2,845	2,260	1,917	1,632	1,242	
Discount rate	12.5%										
Growth from 2017 to perpetuity	1.0%										
Discount factor at WACC	**0.98**	**0.87**	**0.77**	**0.69**	**0.61**	**0.54**	**0.48**	**0.43**	**0.38**	**0.34**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**16,937**	**64%**	**19,390**	**64%**
PV of terminal value (b)	9,694	36%	10,906	36%
EV (a) + (b)	26,630		30,296	0%
EV (US$ mn)	**658**		**748**	**0%**
Net debt	5,961		6,671	
Equity value	**20,669**		**23,625**	
No. of shares	41.3		41.3	
Implied share price (Rs)	**500**		**571**	
Exit EV/EBITDA multiple (X)	5.8			
Exit FCF multiple (X)	**9.1**			

Sensitivity of DCF value to WACC and growth rate (Rs)

Growth Rate	WACC 11.5%	12.0%	12.5%	13.0%	13.5%
-0.5%	519	494	470	448	427
0.0%	531	504	479	456	435
0.5%	544	515	489	465	443
1.0%	557	527	**500**	475	451
1.5%	573	541	512	485	461
2.0%	590	556	525	497	471
2.5%	608	572	539	509	482

Source: Company, Kotak Institutional Equities estimates.

Exhibit 5: Sensitivity of target price to pricing scenarios

Scenario	DCF value (Rs/share)	Upside (%)	Scenario assumptions
Pessimistic	471	0.9	Realisation and raw material cost lower by 5%
Assumed	500	7.1	Our base case assumptions
Optimistic	732	56.8	Realisation up 5%, raw material cost as in assumed case

Exhibit 6: PSL Ltd., Income statement, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Net revenues	**8,347**	**14,092**	**14,503**	**14,433**	**21,791**	**30,651**	**38,267**
Operating expenses							
Change in stock	305	2,210	68	773	—	—	—
Raw materials consumed	(6,108)	(11,509)	(10,142)	(10,152)	(14,698)	(20,590)	(25,808)
Stores consumed	(278)	(743)	(465)	(448)	(639)	(770)	(902)
Manufacturing & process expense	(783)	(1,952)	(1,576)	(1,955)	(2,852)	(3,841)	(4,678)
Employee costs	(296)	(307)	(342)	(470)	(599)	(940)	(1,181)
Other expenses	(296)	(617)	(496)	(539)	(723)	(1,105)	(1,420)
Total expenditure	**(7,456)**	**(12,919)**	**(12,953)**	**(12,792)**	**(19,511)**	**(27,246)**	**(33,989)**
EBITDA	**891**	**1,173**	**1,550**	**1,642**	**2,279**	**3,405**	**4,278**
EBITDA Margin (%)	10.7	8.3	10.7	11.4	10.5	11.1	11.2
Net finance cost	(415)	(648)	(690)	(563)	(581)	(613)	(566)
Other income	189	170	193	274	364	341	397
PBDT	**666**	**695**	**1,053**	**1,353**	**2,062**	**3,133**	**4,109**
Depreciation and amortisation	(170)	(240)	(344)	(445)	(532)	(710)	(831)
Pretax profits before extra-ordinaries	**496**	**454**	**708**	**908**	**1,530**	**2,424**	**3,279**
Exceptional items	—	—	—	—	—	—	—
Profit before tax	**496**	**454**	**708**	**908**	**1,530**	**2,424**	**3,279**
Current tax	(114)	(102)	(184)	(271)	(384)	(649)	(737)
FBT	—	—	(8)	(9)	(12)	(15)	(25)
Deferred tax	(2)	(20)	3	25	(61)	(63)	(46)
Minority/associate earnings	—	—	—	—	—	(17)	(156)
Reported net profit	**380**	**333**	**519**	**653**	**1,073**	**1,680**	**2,314**
Adjusted net profit	**380**	**333**	**519**	**653**	**1,073**	**1,680**	**2,314**
Primary EPS	13.1	11.5	17.3	20.2	28.4	40.5	55.8
Diluted EPS	13.1	11.5	14.1	15.8	26.0	40.6	56.0
Year end no. of shares (mn)	29.1	29.1	32.1	34.2	41.5	41.5	41.5
Weighted avg. no. of shares (mn)	29.1	29.1	29.9	32.3	37.8	41.5	41.5
Fully diluted no. of shares (mn)	29.1	29.1	36.8	41.3	41.3	41.3	41.3
Margins (%)							
EBITDA margin	10.7	8.3	10.7	11.4	10.5	11.1	11.2
PBT margin	5.9	3.2	4.9	6.3	7.0	7.9	8.6
Net profit margin (w/o extraordinaries)	4.6	2.4	3.6	4.5	4.9	5.5	6.0
Effective tax rate (%)	23.3	26.7	26.7	28.1	29.9	30.0	24.7
Growth yoy (%)							
Revenues	—	68.8	2.9	(0.5)	51.0	40.7	24.8
EBITDA	—	31.6	32.1	5.9	38.8	49.4	25.6
PBT	—	(8.3)	55.8	28.2	68.5	58.4	35.3
Net profit (w/o extraordinaries)	—	(12.4)	55.9	25.8	64.4	56.6	37.7
Diluted EPS	—	(12.4)	23.1	12.0	64.4	56.6	37.7

Exhibit 7: PSL Ltd., Balance sheet, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Equity							
Share capital	289	289	320	341	413	413	413
Reserves and surplus	1,534	1,536	2,458	3,178	5,991	7,404	9,403
Net worth	**1,823**	**1,825**	**2,777**	**3,519**	**6,404**	**7,818**	**9,817**
Minority interest	—	—	—	—	—	17	173
Deferred tax liability	**15**	**35**	**32**	**7**	**68**	**131**	**177**
Debt	**2,061**	**6,490**	**6,810**	**6,698**	**6,961**	**7,654**	**5,558**
Secured	2,061	6,490	5,110	4,989	6,961	7,654	5,558
Unsecured	—	—	1,701	1,709	—	—	—
Current liability and provisions	2,585	4,817	5,898	5,791	7,656	9,980	12,222
Total capital	**6,484**	**13,168**	**15,518**	**16,015**	**21,090**	**25,600**	**27,946**
Assets							
Cash and cash equivalents	615	1,796	1,199	1,263	1,000	1,000	1,000
Inventory	1,857	4,598	5,206	6,226	8,358	11,337	13,629
Sundry debtors	1,550	3,116	4,229	2,157	3,582	5,039	5,766
Loans and advances	561	763	1,218	1,213	1,213	1,213	1,213
Gross block	2,819	4,119	5,181	6,119	7,526	10,436	10,593
Less: Accumulated depreciation	1,189	1,429	1,764	2,208	2,740	3,450	4,281
Net fixed assets	1,630	2,690	3,417	3,911	4,786	6,987	6,313
Capital -WIP	225	102	146	1,220	2,126	—	—
Net fixed assets (incl. C-WIP)	**1,854**	**2,793**	**3,564**	**5,131**	**6,912**	**6,987**	**6,313**
Investments	46	102	102	25	25	25	25
Miscallenous expenditure	—	—	—	—	—	—	—
Total assets	**6,484**	**13,168**	**15,518**	**16,015**	**21,090**	**25,600**	**27,946**
Leverage and return ratios (x)							
Debt/Equity	1.1	3.5	2.4	1.9	1.1	1.0	0.6
Debt/Capitalisation	0.5	0.8	0.7	0.7	0.5	0.5	0.4
Net debt/Equity	0.8	2.5	2.0	1.5	0.9	0.8	0.5
Net debt/Capitalisation	0.4	0.7	0.7	0.6	0.5	0.5	0.3
Net debt/EBITDA	1.6	4.0	3.6	3.3	2.6	2.0	1.1
ROAE (%)	20.8	18.3	22.6	20.7	21.6	23.6	26.2
ROACE (%)	17.9	13.2	11.4	10.7	12.5	14.5	17.3

Exhibit 8: PSL Ltd., Cash flow statement, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Operating							
Pre-tax and pre extraordinary income	496	454	708	908	1,530	2,424	3,279
Depreciation & amortization	170	240	344	445	532	710	831
Taxes paid	(76)	(170)	(111)	(169)	(396)	(664)	(762)
Dividend and other income	(40)	—	(31)	—	(364)	(341)	(397)
Interest expense	278	313	484	435	581	613	566
Interest paid	(297)	(325)	(485)	(577)	(581)	(613)	(566)
Foreign exchange loss/(gain)	—	—	—	—	—	—	—
Extra-ordinary	(87)	(172)	—	—	—	—	—
Other non-cash items	—	—	(9)	—	—	—	—
Working capital changes	319	(2,179)	(1,267)	695	(1,495)	(2,111)	(779)
Cash flow from operations	**763**	**(1,837)**	**(367)**	**1,737**	**(192)**	**17**	**2,171**
Operating, excl. working capital	**444**	**342**	**900**	**1,042**	**1,303**	**2,128**	**2,950**
Investing							
Capital investment	(452)	(1,180)	(1,115)	(2,012)	(2,313)	(784)	(157)
Purchase/ sale of assets/ business	—	—	—	—	—	—	—
Investment changes	68	(56)	—	77	—	—	—
Advances to subsidiary	—	—	—	—	—	—	—
Interest/dividend received	59	12	41	142	364	341	397
Cash flow from investing	**(325)**	**(1,223)**	**(1,074)**	**(1,794)**	**(1,950)**	**(443)**	**241**
Financing							
Equity issues	—	—	698	435	—	—	—
Net proceeds from borrowings	60	4,429	320	(113)	1,972	692	(2,096)
Effect of forex changes	—	—	—	—	—	—	—
Dividends paid (incl. tax)	(234)	(187)	(174)	(201)	(94)	(267)	(315)
Cash flow from financing	**(174)**	**4,242**	**844**	**121**	**1,879**	**425**	**(2,411)**
Net change in CCE	264	1,182	(597)	64	(263)	—	—
Beginning cash	350	615	1,796	1,199	1,263	1,000	1,000
Ending cash	**615**	**1,796**	**1,199**	**1,263**	**1,000**	**1,000**	**1,000**
Discretionary cash flow	31	994	(771)	(137)	(357)	(267)	(315)
Free cash flow	**77**	**(3,204)**	**(1,656)**	**(476)**	**(2,600)**	**(1,034)**	**1,699**

Energy

RPET.BO, Rs220	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	175
52W High -Low (Rs)	295 - 63
Market Cap (Rs bn)	989

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	0	0	172
Net Profit (Rs bn)	(0.0)	(0.1)	20.2
EPS (Rs)	(0.0)	(0.0)	4.5
EPS gth	-	-	-
P/E (x)	-	-	48.9
EV/EBITDA (x)	-	-	38.4
Div yield (%)	-	-	-

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.0	-	-
FIIs	2.3	0.2	(1.5)
MFs	0.6	0.3	(1.4)
UTI	-	-	(1.7)
LIC	1.8	0.8	(0.9)

Reliance Petroleum: Refinery on track for early completion; concerns emerge about strength of refining margins

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- **Refinery on track for early completion versus the initial December 2008 date**
- **Consensus view on CY2008-10E refining margins still favorable but questions emerge about the strength of margins**
- **Raised target price to Rs175 (Rs170 previously) on likely earlier commissioning of the refinery**

RPET's upcoming 580,000 b/d refinery remains on track for completion before the initial completion date of December 2008. We see this as a remarkable achievement in the current environment of tight equipment and manpower supply. However, we believe the bigger issue facing RPET stock would be potential negative changes to the consensus view about the strength of refining margins in CY2008-09E. We see questions starting to emerge about the strength of refining margins in 2008-10E in the light of weaker global GDP growth versus previous expectations; the plunge in refining margins over the past few weeks (see Exhibit 1) will bring the issue into sharper focus. As of now, the consensus view is still positive about strong refining margins in 2008E with modest declines in 2009-10E. We retain our SELL rating on RPET stock and revise our 12-month target price to Rs175 (Rs170 previously) based on 9X annualized FY2009E EPS (previously 9X FY2010E EPS discounted to 12-month forward basis).

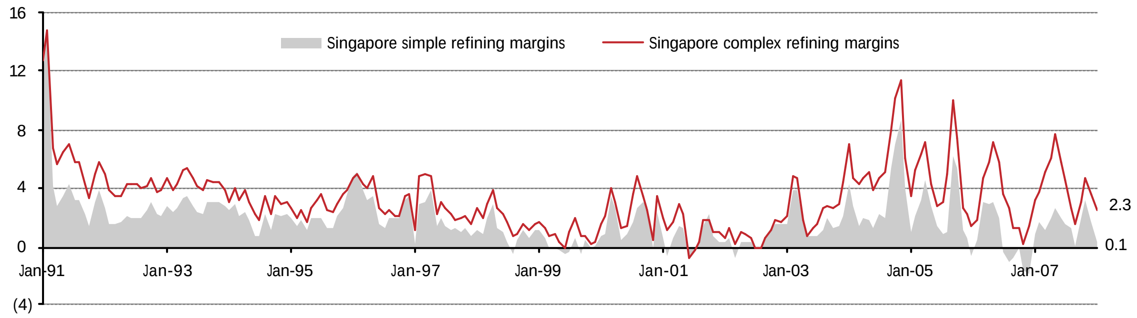
We have reduced earnings estimates. We have cut FY2010E, FY2011E and FY2012E EPS estimates to Rs19.5, Rs18.2 and Rs18.8 from Rs21.9, Rs21.3 and Rs20.4, respectively. The downward revision reflects (1) a more conservative yet reasonably positive view of refining margins and (2) stronger rupee versus previous expectations. We model FY2010-12E refining margins at US$15.9/bbl, US$15/bbl and US$14.9/bbl, respectively, versus US$17.2/bbl, US$17.3/bl and US$16.2/bbl after a review of the supply-demand situation for refining in CY2008-12E (see Exhibit 2). Also, we model rupee-US dollar exchange rate at Rs37.5/US$ for FY2010E (Rs38 previously), Rs37/US$ (Rs38 previously) for FY2011E and Rs37/US$ (Rs38 previously) for FY2012E. Exhibit 3 shows the sensitivity of RPET's EPS to changes in refining margins and exchange rate.

Exhibit 4 shows a likely small dip in global refining operating rates over the next few years. However, we may have to revisit our demand assumptions in the light of a possible recession in the US. We use IEA forecasts for oil demand and expect the IEA to review its demand assumptions downwards over the next few months. Exhibit 5 gives the addition to refining capacity over the next few years and we have reasonable confidence about the supply side based on our continuous review of global refining capacities. We expect refining capacity addition of 1.5 mb/d, 1.8 mb/d and 1.7 mb/d in CY2008E, CY2009E and CY2010E. In addition, we note natural gas liquids (NGLs) supply would also increase by 0.6 mb/d, 0.9 mb/d and 0.4 mb/d in CY2008E, CY2009E and CY2010E (Exhibit 5).

Solid refinery but still subject to the cycle. We use 9X annualized FY2009E EPs to set our 12-month target price of Rs175. We like Reliance Petroleum's fundamentals and its very competitive (amongst the most competitive globally) position in refining. However, we see emerging issues about the strength of the refining cycle as a potential overhang on the stock.

Our 12-month DCF valuation for RPET stock comes to Rs114. However, we use a multiple-based valuation approach to value RPET stock to factor in (1) re-investment of generated cash in a new refinery or any other business, which would sustain earnings and cash flows at FY2010E levels (or annualized FY2009E levels) and (2) re-investment of generated cash in a value-accretive business (ROE > COE). Without re-investment of generated cash, we note that RPET's earnings will decline from FY2014E even if refining margins sustain due to higher taxation. RPET has 100% income tax exemption on exports for the first five years of operations (FY2009-13E), 50% for the next five (FY2014-18E) and up to 50% for the final five subject to re-investment in the business.

Refining margins have plunged in the recent weeks
Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	1.69	(0.32)	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25
2Q	0.14	(0.08)	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99
3Q	0.94	0.14	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32
4Q	0.62	1.86	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.32
Average	**0.85**	**0.40**	**1.43**	**0.50**	**1.20**	**1.67**	**3.34**	**2.28**	**0.45**	**1.78**

Weekly margins

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
0.12	0.51	2.09	2.43	1.08

Complex refining margins, March fiscal year-ends (US$/bbl)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
1Q	2.89	0.43	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58
2Q	1.14	1.19	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91
3Q	1.42	0.41	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91
4Q	1.28	2.64	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.54
Average	**1.68**	**1.17**	**2.42**	**0.95**	**1.55**	**3.06**	**6.10**	**4.44**	**3.45**	**4.37**

Weekly margins

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
2.30	2.77	4.18	3.92	3.25

Singapore refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.78
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.37

Source: Bloomberg, Kotak Institutional Equities.

RPL earnings model assumptions, March fiscal year-ends, 2009E-2015E

	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Rs/US$	38.5	37.5	37.0	37.0	37.0	37.0	37.0
Import tariff on crude oil (%)	—	—	—	—	—	—	—
Refinery yield (US$/bbl)	78.7	78.8	77.9	77.7	77.7	77.4	77.4
Cost of crude (US$/bbl)	62.7	62.7	62.7	62.7	62.7	62.7	62.7
Landed cost of crude (US$/bbl)	63.0	62.9	62.9	62.8	62.8	62.8	62.8
Net refining margin (US$/bbl)	**15.7**	**15.9**	**15.0**	**14.9**	**14.9**	**14.6**	**14.6**
Crude throughput (mn tons)	**7.5**	**29.0**	**29.0**	**29.0**	**29.0**	**29.0**	**29.0**
Fuel and loss (mn tons)	0.2	—	—	—	—	—	—
Production of main products (mn tons)	7.4	29.0	29.0	29.0	29.0	29.0	29.0
Fuel and loss-own fuel used (%)	2.0	—	—	—	—	—	—
Fuel & loss equivalent-gas used (%)	6.0	8.0	8.0	8.0	8.0	8.0	8.0
Cost of natural gas (US$/mn BTU)	5.3	5.3	5.3	5.3	5.3	5.3	5.3

Source: Kotak Institutional Equities estimates.

Reliance Petroleum has high leverage to refining margins

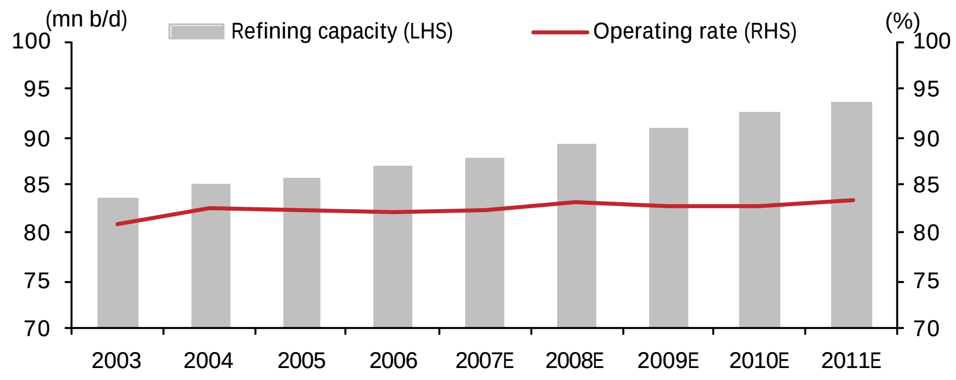
Sensitivity of RPL's earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	37.5	38.5	39.5	36.5	37.5	38.5	36.0	37.0	38.0
Net profits (Rs mn)	19,337	20,223	21,108	84,128	87,642	91,157	78,498	81,761	85,024
EPS (Rs)	4.3	4.5	4.7	18.7	19.5	20.3	17.4	18.2	18.9
% upside/(downside)	**(4.4)**		**4.4**	**(4.0)**		**4.0**	**(4.0)**		**4.0**
Refining margins (US$/bbl)									
Margins (US$/bbl)	14.7	15.7	16.7	14.9	15.9	16.9	14.0	15.0	16.0
Net profits (Rs mn)	18,155	20,223	22,290	79,861	87,642	95,424	74,087	81,761	89,435
EPS (Rs)	4.0	4.5	5.0	17.7	19.5	21.2	16.5	18.2	19.9
% upside/(downside)	**(10.2)**		**10.2**	**(8.9)**		**8.9**	**(9.4)**		**9.4**

Source: Kotak Institutional Equities estimates.

Global refining operating rates will likely dip over the next few years

Global refining capacity versus operating rate



Source: IEA, BP Statistical Review of World Energy, 2006, Kotak Instiutional Equities estimates.

World refinery capacity additions ('000 b/d)

	2007E	2008E	2009E	2010E	2011E	2012E	Total
Refinery capacity additions							
OECD North America	191	116	215	290	395	100	**1307**
OECD Europe	(60)	—	20	306	(22)	—	**244**
OECD Pacific	135	—	34	115	—	—	**284**
FSU	—	3	—	140	—	140	**283**
Non-OECD Europe	—	—	—	—	30	—	**30**
China	170	706	536	150	340	400	**2302**
Other Asia	302	258	910	154	—	—	**1624**
Latin America	20	103	18	28	—	—	**169**
Middle East	15	256	—	351	120	1781	**2523**
Africa	13	50	100	150	—	—	**313**
Total World	**786**	**1,492**	**1,833**	**1,684**	**863**	**2,421**	**9,079**

Source: IEA, Kotak Institutional Equities estimates.

Expect high crude prices to sustain backed by strong demand growth

Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
Demand (mb/d)									
Total demand	82.5	83.9	84.7	85.7	87.8	89.5	91.4	93.3	95.3
Yoy growth	3.3	1.4	0.8	1.0	2.1	1.7	1.9	1.9	2.0
Supply (mb/d)									
Non-OPEC	49.3	49.2	49.7	50.2	51.3	51.5	51.8	52.1	52.5
Yoy growth	1.1	(0.1)	0.5	0.5	1.1	0.2	0.3	0.3	0.4
OPEC									
Crude	29.0	30.2	30.4	30.6	31.1	31.7	32.9	34.3	35.7
NGLs	4.2	4.5	4.6	4.8	5.4	6.3	6.7	6.9	7.1
Total OPEC	**33.2**	**34.7**	**35.0**	**35.4**	**36.5**	**38.0**	**39.6**	**41.2**	**42.8**
Total supply	**83.4**	**84.6**	**85.4**	**85.6**	**87.8**	**89.5**	**91.4**	**93.3**	**95.3**
Total stock change	1.0	0.7	0.8						
OPEC crude capacity				**34.4**	**35.5**	**36.1**	**37.1**	**37.9**	**38.4**
Implied OPEC spare capacity				**3.8**	**4.4**	**4.4**	**4.2**	**3.6**	**2.6**
Demand growth (yoy, %)	**4.2**	**1.7**	**1.0**	**1.2**	**2.5**	**1.9**	**2.1**	**2.1**	**2.1**
Supply growth (yoy, %)									
Non-OPEC	**2.3**	**(0.2)**	**1.0**	**1.0**	**2.2**	**0.4**	**0.6**	**0.6**	**0.8**
OPEC	**6.8**	**4.5**	**1.0**	**1.2**	**3.0**	**4.1**	**4.2**	**4.0**	**3.9**
Total	**4.4**	**1.4**	**0.9**	**0.3**	**2.5**	**1.9**	**2.1**	**2.1**	**2.1**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources.

Our DCF-based target price for RPL is Rs114

DCF valuation for Reliance Petroleum (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	—	**29,127**	**112,955**	**101,455**	**99,869**	**99,634**	**96,905**	**96,613**	**96,294**	**95,948**	**95,573**	**95,169**	**95,169**	**95,169**	**95,169**
Tax expense	—	(509)	(2,256)	(1,983)	(1,913)	(1,941)	(13,728)	(14,617)	(15,373)	(16,017)	(16,566)	(30,384)	(30,791)		
Working capital changes	(5,290)	(13,959)	(39,690)	1,614	196	(9)	199	(10)	(11)	(12)	(13)	(13)	(15)		
Cash flow from operations	**(5,290)**	**14,658**	**71,009**	**101,085**	**98,152**	**97,684**	**83,376**	**81,986**	**80,910**	**79,919**	**78,994**	**64,771**	**64,362**		
Capital expenditure	(67,500)	(16,599)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)		
Free cash flow to the firm	**(72,790)**	**(1,941)**	**69,009**	**99,085**	**96,152**	**95,684**	**81,376**	**79,986**	**78,910**	**77,919**	**76,994**	**62,771**	**62,362**	**62,362**	**62,362**
Discount factor at WACC	**0.98**	**0.87**	**0.78**	**0.70**	**0.62**	**0.55**	**0.49**	**0.44**	**0.39**	**0.35**	**0.31**	**0.28**	—	—	—
Discounted cash flow	(71,092)	(1,692)	53,730	68,882	59,663	53,011	40,254	35,327	31,108	27,426	24,197	17,613			
Discounted cash flow-1 year forward		(1,895)	60,178	77,148	66,843	59,372	45,084	39,566	34,852	30,717	27,100	19,727	17,499		
Discounted cash flow-2 year forward			67,399	86,406	74,864	66,518	50,494	44,314	39,034	34,414	30,352	22,094	19,599	17,499	

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**338,426**	**476,191**	**552,987**
FCF one-year forward	62,362	62,362	62,362
Terminal value	519,685	519,685	519,685
PV of terminal value (b)	**163,321**	**163,321**	**163,321**
Total PV (a) + (b)	**501,747**	**639,512**	**716,308**
Net debt	54,574	127,364	132,713
Equity value	447,173	512,148	583,595
Equity value (US$ mn)	**9,765**	**11,252**	**12,853**
Shares outstanding (mn)	4,500	4,500	4,500
Equity value/per share (Rs)	**99**	**114**	**130**

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

		WACC (%)						
		11.0	**11.5**	**12.0**	**12.5**	**13.0**	**13.5**	**14.0**
Growth rate (%)	-	**126**	**120**	**114**	109	104	99	95
	1.0	**131**	**124**	**118**	112	107	102	98
	2.0	**138**	**130**	**123**	**117**	111	106	101
	3.0	**147**	**138**	**130**	**123**	**116**	110	105
	4.0	**158**	**147**	**138**	**129**	**122**	**115**	109
	5.0	**173**	**159**	**148**	**138**	**129**	**122**	**115**
	6.0	**193**	**176**	**162**	**150**	**139**	**130**	**122**
	7.0	**224**	**200**	**181**	**165**	**152**	**141**	**131**

Discount rate (%)	**12.0**
Growth from 2020 to perpetuity (%)	—
Exit free cash multiple (X)	8.3
Exit EBITDA multiple (X)	5.5

Profit model, balance sheet, cash model of Reliance Petroleum 2009-2014E, March fiscal year-ends (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E
Profit model						
Net revenues	171,605	654,043	635,489	633,824	633,824	631,326
EBITDA	**29,127**	**112,955**	**101,455**	**99,869**	**99,634**	**96,905**
Other income	128	124	162	1,872	3,503	3,439
Interest (expense)/income	(3,612)	(8,587)	(3,043)	—	—	—
Depreciation	(4,986)	(14,791)	(14,899)	(15,007)	(15,116)	(15,224)
Pretax profits	**20,656**	**89,702**	**83,675**	**86,733**	**88,022**	**85,120**
Extraordinary items	—	—	—	—	—	—
Tax	(434)	(2,059)	(1,914)	(1,913)	(1,941)	(13,728)
Deferred taxation	—	—	—	—	—	1,624
Net income	**20,223**	**87,642**	**81,761**	**84,820**	**86,081**	**73,017**
Earnings per share (Rs)	**4.5**	**19.5**	**18.2**	**18.8**	**19.1**	**16.2**
Balance sheet						
Total equity	154,601	231,714	302,945	345,647	331,018	318,609
Deferred taxation liability	—	—	—	—	—	(1,624)
Total borrowings	134,670	84,670	—	—	—	—
Current liabilities	12,292	42,837	42,260	42,239	42,239	42,239
Total liabilities and equity	**301,563**	**359,221**	**345,206**	**387,886**	**373,257**	**359,223**
Cash	1,957	2,170	3,245	59,151	57,628	57,017
Other current assets	30,805	101,041	98,850	98,632	98,641	98,442
Net fixed assets	266,520	253,729	240,830	227,823	214,707	201,483
Capital work-in-progress	—	—	—	—	—	—
Investments	2,280	2,280	2,280	2,280	2,280	2,280
Deferred expenditure	—	—	—	—	—	—
Total assets	**301,563**	**359,221**	**345,206**	**387,886**	**373,257**	**359,223**
Free cash flow						
Operating cash flow, excl. working capital	25,081	102,309	96,498	97,956	97,693	83,177
Working capital changes	(13,959)	(39,690)	1,614	196	(9)	199
Capital expenditure	(16,599)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Investments	—	—	—	—	—	—
Other income	128	124	162	1,872	3,503	3,439
Free cash flow	**(5,349)**	**60,743**	**96,274**	**98,024**	**99,187**	**84,815**
Ratios (%)						
Debt/equity	87.1	36.5	0.0	—	—	—
Net debt/equity	85.8	35.6	(1.1)	(17.1)	(17.4)	(17.9)
ROAE (%)	14.0	45.4	30.6	26.2	25.4	22.5
ROACE (%)	**8.6**	**31.7**	**27.4**	**26.2**	**25.4**	**22.5**

Source: Kotak Institutional Equities estimates.

Banking

IDFC.BO, Rs219	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	235 - 74
Market Cap (Rs bn)	283

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	7.1	13.3	19.0
Net Profit (Rs bn)	4.9	7.9	10.8
EPS (Rs)	4.4	6.1	8.4
EPS gth	*25.8*	*40.5*	*37.1*
P/E (x)	50.2	35.8	26.1
P/B (x)	9.7	5.1	4.6
Div yield (%)	0.4	0.6	0.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	42.6	0.9	0.4
MFs	5.2	0.7	0.2
UTI	-	-	(0.5)
LIC	2.8	0.3	(0.1)

IDFC: Revising earnings model post conference call, retain SELL

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- **IDFC's 3QFY08 PAT was up 73% yoy to Rs1.98 bn supported by high fees and capital gains**
- **IDFC has transferred its investment banking business to SSKI**
- **We revise estimates, tweak target price to Rs150 (from Rs145 earlier), retain SELL**

Post the conference call with management; we are modifying our earnings model for IDFC. The company has recently increased its stake in SSKI to 80% from 67% earlier. It has transferred its investment banking business (equity and debt capital market groups) to SSKI. We are tweaking our estimate for IDFC's loan growth, interest spreads, fees and raising estimate for capital gains during FY2008E. Consequently, we are raising our standalone earnings estimate by 10% for FY2008E and reducing FY2009E and FY2010E standalone estimates by 4% and 2%, respectively. We have reduced standalone estimates to factor the transfer of investment banking business to SSKI. We are tweaking our target price, based on FY2009E, to Rs150 from Rs145 earlier. Our fair value estimate based on FY2010E is Rs175. We retain our SELL recommendation on the stock.

Other takeaways from the conference call.

Asset management on track. IDFC currently manages US$650 mn, and expects to raise additional US$600-700 mn for its third private equity fund by April-May 2008. The project equity fund, in partnership with Citigroup and Blackstone, will achieve its first closure (US$600 mn) over the next few weeks. The group has already made investments of Rs2 bn on behalf of the project equity fund; these are currently warehoused in IDFC's balance-sheet.

Comfortable ALM profile. IDFC has highlighted that its ALM has a marginal gap – duration of assets stood at 1.97 years and duration of liabilities stood at 1.43 years.

To recap from our note pre-conference call

- IDFC has delivered 44% loan growth on the back of 85% growth in disbursements during 3Q08.
- IDFC's spreads were lower than expected as indicated by lower income from infrastructure despite high growth in outstanding loans.
- Core growth (PBT before treasury and provisions) was 7% below estimates.
- IDFC has booked capital gains of Rs730 mn, up 152% yoy and 62% qoq, in 3QFY08 on the back of robust equity markets.
- SSKI's income (considered in consolidated accounts) increased by 47% qoq on the back of robust equity market volumes.

IDFC - sum-of-parts based valuation

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (standalone)	144,395	112	As per residual growth model
IDFC (India Development fund)	2,700	2	30% of US$200 mn
IDFC (Private equity II)	9,000	7	20% of FY2009 AUM - US$1.35 bn
IDFC (Project equity)	9,600	7	20% of FY2009 AUM - US$1.2 bn
IDFC investment advisors (PMS)	840	1	20% of FY2009 AUMs - US$100 mn
IDFC SSKI	17,771	14	18X FY2009E PAT
IDFC's investment in NSE	10,375	8	Valuations based on recent NSE stake sale
Total	**194,681**	**151**	

Source: Kotak Institutional Equities.

IDFC - old and new standalone estimates, new consolidated estimates, March fiscal years 2008-2010E (Rs mn)

	Old estimates (standalone)			New estimates (standalone)			% change in estimates			Consolidated estimates		
	2008E	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**
Net interest income	6,552	8,490	10,301	6,579	8,914	10,920	0	5	6	6,613	8,945	10,957
Spread (%)	2.6	2.4	2.4	2.5	2.3	2.4				2.4	2.3	2.4
NIM (%)	3.1	3.0	2.8	3.1	3.1	2.9				3.1	3.1	2.9
Infrastructure loans	191,100	255,568	331,146	198,307	269,982	352,947	4	6	7	198,307	269,982	352,947
Loan loss provisions	495	670	1,027	506	702	1,090	2	5	6	506	702	1,090
Other income	3,415	5,398	7,024	4,279	4,613	6,248	25	(15)	(11)	6,652	10,046	13,132
Fee income	1,321	1,787	2,347	1,434	1,054	1,402	9	(41)	(40)	3,807	6,487	8,285
Treasury income	2,094	3,611	4,677	2,844	3,560	4,846	36	(1)	4	2,844	3,560	4,846
Operating expenses	1,006	1,293	1,612	1,064	1,387	1,734	6	7	8	2,292	3,466	4,390
Employee expenses	644	814	1,003	664	841	1,036	3	3	3	1,540	2,346	2,972
PBT	8,518	11,978	14,738	9,339	11,490	14,396	10	(4)	(2)	10,519	14,875	18,661
Tax	2,002	2,994	3,832	2,195	2,872	3,743	10	(4)	(2)	2,608	4,030	5,200
Net profit	**6,516**	**8,983**	**10,906**	**7,144**	**8,617**	**10,653**	**10**	**(4)**	**(2)**	**7,911**	**10,845**	**13,460**
Net profit (after minority interest)										**7,754**	**10,623**	**13,170**
PBT-treasury+provisions	**6,867**	**8,985**	**11,036**	**6,949**	**8,580**	**10,588**	**1**	**(4)**	**(4)**	**8,129**	**11,966**	**14,853**

Source: Kotak Institutional Equities.

Telecom

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**15-Jan**	**Target**
Bharti	REDUCE	857	790
MTNL	SELL	189	135
VSNL	REDUCE	682	550
Idea Cellular	SELL	147	120

Regulatory developments rain on telecom parade; picking a lesser loser may be a risk until clouds clear further

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- **Increase in spectrum charges could mean a severe hit on earnings**
- **Pricing risk, in the wake of imminent increase in competition, too significant to ignore**
- **Valuations—no need to get excited unless profitability surprises on the upside**
- **Idea's valuation premium over Bharti unjustified**

We believe that recent regulatory developments are extremely negative for the entire industry—(1) allocation of spectrum to players who received LOIs prior to January 10 and (2) issuance of LOI for a UASL license to four players on a pan-India basis and five players in select circles; and (3) potential increase in spectrum charges. In our view, this will further increase the competitive intensity and may bring pricing under severe pressure. We believe incumbents are better placed due to their superior financial position and economies of scale. We believe that the economics for a new player is extremely weak, especially in highly-penetrated metro circles. We are intrigued by the inconsistencies in the behavior of wireless stock prices and the large valuation disconnect. For instance, Idea is trading at a 25% premium to Bharti (on FY2010E EV/EBITDA), unjustified in our view. We retain our Cautious view on the sector.

Increase in spectrum charges could mean a severe hit on earnings. We compute a fairly significant negative impact on Bharti's (1-11%) and Idea's (3-22%) EBITDA and earnings in case the spectrum charges are raised per TRAI or TEC recommendations (see Exhibits 1 and 2). Exhibit 3 details the changes to spectrum charges proposed by the TRAI and TEC. Some press reports suggest that spectrum charges could be increased to a flat 8% of AGR, independent of the amount of spectrum in a particular circle. We note that the EBITDA impact in such a case would be in the range mentioned above. We will wait more clarity on the contentious spectrum charge issue before reviewing our earnings models for the Indian wireless operators.

Competition has started; Bharti and RCOM may be in a better position to manage the impact. DOT recently allotted GSM spectrum to Vodafone (7 circles), Aircel (13 circles), Idea (2 circles) and Reliance Communications (14 circles). Further, DOT has issued LOIs for all the circles to Unitech, Shyam Telelink, Datacom and Loop Telecom (part of Essar Group and filed through BPL Mobile). Exhibit 4 gives the details of existing footprint and LOIs issued to new players.

We discuss the fall out of the regulatory changes in the following paras

1. **Redistribution of market share.** Even assuming no further UASL license grants, the Indian wireless market will potentially have 12 players with a pan-Indian presence as compared to just three prior to January 10, 2008, if the DOT grants spectrum to all the players holding UASL license or LOIs. We believe that each circle can have potentially 4-7 new players in the market to add to the existing 3-7 players. All the new players in our view would have a volume driven strategy (subscribers). Exhibit 5 provides the sensitivity of valuations to change in market share for Bharti and Idea. Bharti, in our view, may stand to lose the most. We have already modeled Idea starting operations in all the remaining (12) circles by FY2009; hence, any delay in spectrum allocation in new circles (excluding Mumbai and Bihar) would constitute a negative surprise.

2. **Price competition to intensify; incumbents better positioned.** Exhibit 6 gives the sensitivity of earnings and valuations to changes in pricing. Idea, being a pure wireless player with a weaker capital structure, is the most vulnerable to pricing changes. We believe that new players would have to follow a price-driven strategy to gain any volumes (subscribers). In addition, the timing of entry of new players into the market could coincide with the introduction of MNP in metros (followed by other circles), which could lead to aggressive subscriber acquisition and retention tactics by various players of existing high ARPU customers. We believe that incumbents are in a better position to manage the impact on pricing noting (1) the network effect, with a greater proportion of revenues accruing from on-net calls and (2) economies of scale. Exhibit 7 compares the cost per minute excluding and including interconnection and regulatory costs for Idea, RCOM and Bharti

3. **Overall economics weak for new players.** We believe that any new entrant (a new player or an existing player entering a new circle) will likely face significant challenges in the form of (1) reduced addressable market, (2) deteriorating quality of incremental subscribers, with urban markets already highly penetrated; and (3) higher capex as the spectrum allocation would be in the 1,800 Mhz band. Our analysis of Idea's entry in the Mumbai circles suggests that Idea will likely need to garner 17% net subscriber market share over the next 10 years to generate an IRR of 12.5%, its cost of capital (see Exhibit 8). This is extremely unlikely, in our view, even in a six-player market let alone a potentially 10-player market.

Valuations—no need to get excited unless profitability surprises on the upside. We do not think valuations are attractive enough to factor in potential risks from potential (1) unfavorable regulatory developments (increase in spectrum charges) and (2) deterioration in pricing. We assume very benign operating conditions in perpetuity. We model very high ROCE in the terminal year of our forecasts and throughout our explicit our forecast period. We note that current ROIC of all telecom operators is very high, which provides ample scope for deterioration in pricing. Exhibit 9 shows CROCI of Indian wireless operators. In this context, we note the recent reduction in pre-paid local tariffs by Bharti, RCOM, and Vodafone, and reduction in post-paid tariffs by Vodafone. The revised pre-paid/post-paid tariffs are lower by 20-50% versus previous levels.

However, we concede that the recent steep correction in Bharti limits meaningful downside and makes it more attractive relative to peers. Exhibit 10 highlights gives out the valuation summary of telecom stocks under our coverage universe.

Acceptance of TRAI and TEC recommendations on increased spectrum usage charges could impact Bharti's FY2009E EDITDA margins by 0.4-4.6% pts

If TRAI recos are accepted	
FY2009 spectrum charges (TRAI reco)	11,592
Current estimated spectrum charges (Kotak)	10,104
Impact (Rs mn)	(1,488)
EBITDA impact (%)	(0.9)
EBITDA margin impact (% pts)	(0.4)

If TEC recos are accepted	
FY2009 spectrum charges (TEC reco)	26,839
Current estimated spectrum charges (Kotak)	10,104
Impact (Rs mn)	(16,735)
EBITDA impact (%)	(10.5)
EBITDA margin impact (% pts)	(4.6)

	Current spectrum	Likely GSM spectrum	Combined spectrum	AGR (Rs mn)	% of total	AGR FY2009	Spectrum charges		Spectrum charges		Additional spectrum charges	Additional spectrum charges
	MHz	MHz	MHz			Rs mn	% of AGR		Rs mn		Rs mn	Rs mn
Metro				Sep '07 quarter			TRAI	TEC	TRAI	TEC	Per MHz above 6.2	
Calcutta	8.0		8.0	1,316	2.8	7,191	5	10	360	719	200	360
Chennai	8.6		8.6	1,595	3.3	5,442	5	10	272	544	200	480
Delhi	10.0	1.0	11.0	5,602	11.8	17,109	6	12	1,027	2,053	200	960
Mumbai	9.2		9.2	2,654	5.6	10,064	5	10	503	1,006	200	600
Circle A												
Andhra Pradesh	8.8		8.8	4,367	9.2	23,546	5	10	1,177	2,355	150	390
Gujarat	6.2		6.2	1,396	2.9	10,182	4	8	407	815	150	-
Karnataka	10.0	1.0	11.0	5,935	12.5	28,665	6	12	1,720	3,440	150	720
Maharashtra	6.2		6.2	2,497	5.2	18,630	4	8	745	1,490	150	-
Tamil Nadu	6.2		6.2	4,541	9.5	13,503	4	8	540	1,080	150	-
Circle B												
Haryana	6.2		6.2	647	1.4	4,706	4	8	188	377	100	-
Kerala	6.2		6.2	1,080	2.3	6,793	4	8	272	543	100	-
Madhya Pradesh	6.2		6.2	1,777	3.7	13,089	4	8	524	1,047	100	-
Punjab	8.0		8.0	2,607	5.5	13,754	5	10	688	1,375	100	180
Rajasthan	6.2		6.2	1,999	4.2	14,248	4	8	570	1,140	100	-
Uttar Pradesh (east)	6.2		6.2	1,670	3.5	11,883	4	8	475	951	100	-
Uttar Pradesh (west)	6.2		6.2	1,083	2.3	8,152	4	8	326	652	100	-
West Bengal and A&N islands	4.4		4.4	921	1.9	8,375	3	3	251	251	100	-
Circle C												
Assam	6.2		6.2	645	1.4	3,473	4	8	139	278	75	-
Bihar	8.0		8.0	2,348	4.9	15,598	5	10	780	1,560	75	135
Himachal Pradesh	6.2		6.2	598	1.3	3,339	4	8	134	267	75	-
North East	4.4		4.4	356	0.7	1,795	3	3	54	54	75	-
Orissa	8.0		8.0	1,067	2.2	6,086	5	10	304	609	75	135
J&K	6.2		6.2	929	2.0	3,410	4	8	136	273	75	-
Total				47,627	100	249,035			11,592	22,879		3,960

Note:
(a) FY2009 AGR distribution as per Kotak estimates

Source: Kotak Institutional Equities estimates.

Acceptance of TRAI and TEC recommendations on increased spectrum usage charges could impact Idea's FY2009E EDITDA margins by 1-7.3% pts

If TRAI recos are accepted	
FY2009 spectrum charges (TRAI reco)	4,432
Current estimated spectrum charges (Kotak)	3,413
Impact (Rs mn)	(1,019)
EBITDA impact (%)	(3.2)
EBITDA margin impact (% pts)	(1.0)

If TEC recos are accepted	
FY2009 spectrum charges (TEC reco)	10,491
Current estimated spectrum charges (Kotak)	3,413
Impact (Rs mn)	(7,078)
EBITDA impact (%)	(21.9)
EBITDA margin impact (% pts)	(7.3)

	Current spectrum	Likely GSM spectrum	Combined spectrum	AGR (Rs mn)	% of total	AGR FY2009	Spectrum charges		Spectrum charges		Additional spectrum charges	Additional spectrum charges
	MHz	MHz	MHz			Rs mn	% of AGR		Rs mn		Rs mn	Rs mn
Metro				Sep '07 quarter			TRAI	TEC	TRAI	TEC	Per MHz above 6.2	
Calcutta			-		-	-			-	-	200	-
Chennai			-		-	-			-	-	200	-
Delhi	8.0	-	8.0	1,468	11.5	9,863	5	10	493	986	200	360
Mumbai		4.4	4.4		-	1,792	3	3	54	54	200	-
Circle A												
Andhra Pradesh	8.0		8.0	1,826	14.3	12,272	5	10	614	1,227	150	270
Gujarat	6.2		6.2	1,283	10.0	8,619	4	8	345	690	150	-
Karnataka		-	-		-	-			-	-	150	-
Maharashtra	10.0		10.0	2,788	21.8	18,734	6	12	1,124	2,248	150	570
Tamil Nadu			-		-	-			-	-	150	-
Circle B												
Haryana	6.2		6.2	509	4.0	3,421	4	8	137	274	100	-
Kerala	8.0		8.0	1,416	11.1	9,515	5	10	476	952	100	180
Madhya Pradesh	8.0		8.0	1,502	11.7	10,094	5	10	505	1,009	100	180
Punjab			-		-	-			-	-	100	-
Rajasthan	6.2		6.2	304	2.4	2,041	4	8	82	163	100	-
Uttar Pradesh (east)	6.2		6.2	309	2.4	2,078	4	8	83	166	100	-
Uttar Pradesh (west)	8.0		8.0	1,374	10.7	9,234	5	10	462	923	100	180
West Bengal and A&N islands			-		-	-			-	-	100	-
Circle C												
Assam			-		-	-			-	-	75	-
Bihar		4.4	4.4		-	1,792	3	3	54	54	75	-
Himachal Pradesh	4.4		4.4	24	0.2	161	3	3	5	5	75	-
North East			-		-	-			-	-	75	-
Orissa			-		-	-			-	-	75	-
J&K			-		-	-			-	-	75	-
Total				12,803	100	89,618			4,432	8,751		1,740

Note:
(a) FY2009 AGR distribution across circles in the same proportion as Sep '07 quarter (adjusting for new revenues from Bihar and Mumbai circles in FY2009)

Source: Kotak Institutional Equities estimates.

Summary of changes in spectrum usage charges proposed by TRAI and TEC

Changes to spectrum usage charges

Spectrum used	Existing charges	TRAI reco	TEC reco
MHz	% of AGR	% of AGR	% of AGR
4.4	2	2	2
6.2	3	3	3
8.0	**4**	**4**	**8**
10.0	**4**	**5**	**10**
12.0	**5**	**6**	**12**
15.0	**5**	**7**	**14**

Additional spectrum charges for spectrum beyond 6.2MHz (per press reports, source attributed to TEC)

Per year per additional MHz of spectrum (above 6.2 MHz)

Rs mn	
Metro	200
Circle A	150
Circle B	100
Circle C	75

Source: DOT, Press reports.

Details of LOIs issued by DOT to various players

	Unitech	Shyam Telelink	Datacom	Loop Telecom (a)	S Tel	Spice	Idea Cellular	Swan Telecom	TTSL	Total	Existing # of players (b)	Potential total number of players (c)
Metro												
Calcutta	✓	✓	✓	✓			✓		Existing	5	6	11
Chennai	✓	✓	✓	✓			✓	✓	Existing	6	6	12
Delhi	✓	✓	✓	✓		✓	Existing	✓	Existing	6	6	12
Mumbai	✓	✓	✓	Existing			**Spectrum**	✓	Existing	4	7	11
Circle A												
Andhra Pradesh	✓	✓	✓	✓		✓	Existing	✓	Existing	6	6	12
Gujarat	✓	✓	✓	✓			Existing	✓	Existing	5	6	11
Karnataka	✓	✓	✓	✓		Existing	✓	✓	Existing	6	6	12
Maharashtra	✓	✓	✓	✓		✓	Existing	✓	Existing	6	6	12
Tamil Nadu	✓	✓	✓	✓			✓	✓	Existing	6	6	12
Circle B												
Haryana	✓	✓	✓	✓		✓	Existing	✓	Existing	6	6	12
Kerala	✓	✓	✓	✓			Existing	✓	Existing	5	6	11
Madhya Pradesh	✓	✓	✓	✓			Existing		Existing	4	6	10
Punjab	✓	✓	✓	✓		Existing	✓	✓	Existing	6	7	13
Rajasthan	✓	Existing	✓	✓			Existing	✓	Existing	4	7	11
Uttar Pradesh (east)	✓	✓	✓	✓			Existing	✓	Existing	5	6	11
Uttar Pradesh (west)	✓	✓	✓	✓			Existing	✓	Existing	5	6	11
West Bengal and A&N islands	✓	✓	✓	✓			✓		Existing	5	7	12
Circle C												
Assam	✓	✓	✓	✓	✓		✓		✓	7	4	11
Bihar	✓	✓	✓	✓	✓		**Spectrum**		Existing	5	7	12
Himachal Pradesh	✓	✓	✓	✓	✓		Existing		Existing	5	7	12
North East	✓	✓	✓	✓	✓		✓		✓	7	4	11
Orissa	✓	✓	✓	✓	✓		✓		Existing	6	6	12
J&K	✓	✓	✓	✓	✓		✓		✓	7	3	10
Total # of LOIs	23	22	23	22	6	4	10	14	3			
Current presence + already held LOIs	-	1	-	1	-	2	13	-	20			

Note:
(a) Earlier Shippingstop.com, a part of the Essar group, per press reports.
(b)Treating RCOM GSM and CDMA as separate players.
(c) Factoring in only the LOIs issued thus far.

Source: DoT, Kotak Institutional Equities estimates.

Pricing has more impact on valuations than market share assumptions

Valuation sensitivity to change in market share assumptions

	Change in wireless market share from base case						
	-1.5%	**-1.0%**	**-0.5%**	**Base case**	**0.5%**	**1.0%**	**1.5%**
12-month forward DCF valuation (Rs)							
Bharti	658	668	679	690	701	712	723
Idea	96	101	106	111	116	121	126

Note:
(a) Valuations are for the core business only (exclude tower business valuations).

Source: Kotak Institutional Equities estimates.

A moderate change in pricing results in significant impact on valuation

Valuation sensitivity to change in pricing

	Change in pricing from base case						
	-15%	-10%	-5%	Base case	5%	10%	15%
12-month forward DCF valuation (Rs)							
Bharti	609	637	664	690	717	745	772
Idea	87	95	103	111	119	127	135
RoACE in terminal year, FY2017E (%)							
Bharti	46	48	50	52	54	56	58
Idea	22	24	26	27	29	30	32

Note:

(a) Lower sensitivity of RCL versus peers reflects a lower proportion of revenues from wireless.

(b) Valuations for the core business only.

Source: Kotak Institutional Equities estimates.

Economies of scale will likely benefit the extant players in keeping their opex/min lower than newer players

	2004	2005	2006	2007	2008E	2009E	2010E
Revenue per min (a) (Rs/min)							
Bharti	1.98	1.60	1.12	0.93	0.78	0.74	0.72
Idea	1.89	1.72	1.38	0.96	0.81	0.77	0.74
Cost per min including interconnection and regulatory costs (b) (Rs/min)							
Bharti	1.35	1.07	0.74	0.58	0.46	0.43	0.41
Idea	1.35	1.09	0.88	0.64	0.54	0.51	0.48
Cost per min excluding interconnection and regulatory costs (Rs/min)							
Bharti	0.70	0.59	0.41	0.33	0.24	0.22	0.21
Idea	0.75	0.63	0.51	0.38	0.32	0.30	0.28
EBITDA per min (a)-(b) (Rs/min)							
Bharti	0.63	0.53	0.38	0.35	0.32	0.31	0.31
Idea	0.55	0.63	0.50	0.32	0.27	0.26	0.26

Source: Companies, Kotak Institutional Equities estimates.

Idea would need to take 17% of net additions to achieve IRR of 12.5%; we model its share of net additions at 10%

Hypothetical model of Idea's operations in Mumbai circle and share of net additions to earn WACC, March fiscal year-ends, 2007-2023E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues	**399**	**1,267**	**2,067**	**2,636**	**3,111**	**3,569**	**3,994**	**4,399**	**4,787**	**5,027**	**5,278**	**5,542**	**5,819**	**6,110**	**6,416**
Subscribers (mn)	0.2	0.5	0.7	0.9	1.0	1.1	1.2	1.3	1.3						
Idea market share (%)	1.6	3.2	4.1	4.7	5.1	5.5	5.8	6.1	6.3						
Idea share of net adds (%)	**9.2**	**16.6**	**16.6**	**16.6**	**16.6**	**16.6**	**16.6**	**16.6**	**16.6**						
Blended ARPU (Rs)	290	284	281	281	284	290	296	302	308						
Growth yoy (%)		(2.0)	(1.0)	—	1.0	2.0	2.0	2.0	2.0						
EBITDA margin (%)	(40)	(10)	15	20	25	30	35	37	39						
EBITDA	**(159)**	**(127)**	**310**	**527**	**778**	**1,071**	**1,398**	**1,628**	**1,867**	**1,960**	**2,058**	**2,161**	**2,269**	**2,383**	**2,502**
Depreciation	(270)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)	(518)
Pre-tax profits	(429)	(644)	(208)	10	260	553	880	1,110	1,349	1,443	1,541	1,644	1,752	1,865	1,984
Effective tax rate (%)	—	—	—	—	—	—	—	—	—	24	24	24	24	24	34
Tax (Rs mn)	—	—	—	—	—	—	—	—	—	(343)	(367)	(391)	(417)	(444)	(675)
Operating cash flow	**(159)**	**(127)**	**310**	**527**	**778**	**1,071**	**1,398**	**1,628**	**1,867**	**1,617**	**1,692**	**1,770**	**1,853**	**1,939**	**1,828**
Entry fees	(2,030)														
Capex	(6,740)	—	—	—	—	—	—	—	—	(129)	(194)	(259)	(324)	(388)	(611)
Cash outflow	(8,770)	—	—	—	—	—	—	—	—	(129)	(194)	(259)	(324)	(388)	(611)
Free cash flow	**(8,929)**	**(127)**	**310**	**527**	**778**	**1,071**	**1,398**	**1,628**	**1,867**	**1,488**	**1,498**	**1,511**	**1,529**	**1,551**	**1,217**
FCF for IRR	**(8,929)**	**(127)**	**310**	**527**	**778**	**1,071**	**1,398**	**1,628**	**1,867**	**1,488**	**1,498**	**1,511**	**1,529**	**1,551**	**16,221**
IRR (%)	**12.5**														

Key assumptions:	
Terminal year growth rate (%)	5.0
WACC	12.5
Maintenance capex as % of revenues	10.0

Note:

(a) We assume Idea will claim Section 80 IA taxation benefits from the sixth year of its operations.

Source: Kotak Institutional Equities estimates.

The wireless business in India generates remarkably high CROCI

CROCI of wireless segments of Bharti and RCOM and of Idea (%)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07
Bharti Airtel										
EBIT (Rs mn)	3,932	4,341	5,319	5,522	6,961	8,085	9,184	11,424	13,321	14,058
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0	19.0	6.5
EBIT*(1-t) (Rs mn)	3,396	3,956	4,604	5,113	6,190	7,052	7,821	10,398	10,788	13,145
Add: Depreciation	2,141	2,608	2,613	3,224	3,380	4,094	4,945	5,180	5,766	6,670
Cash return (Rs mn)	5,537	6,564	7,217	8,337	9,570	11,146	12,766	15,578	16,554	19,815
Annualized cash return (Rs mn)	22,148	26,256	28,870	33,348	38,281	44,582	51,063	62,313	66,216	79,259
Gross cash invested (Rs mn)	124,643	133,258	141,555	159,227	177,633	205,084	220,672	231,414	264,494	292,954
CROCI (%)	**17.8**	**19.7**	**20.4**	**20.9**	**21.6**	**21.7**	**23.1**	**26.9**	**25.0**	**27.1**
Reliance Communications										
EBIT (Rs mn)					3,998	5,131	5,542	6,991	9,284	10,236
Tax rate (%)					5.0	0.8	1.4	1.4	7.8	5.1
EBIT*(1-t) (Rs mn)					3,797	5,088	5,465	6,891	8,561	9,716
Add: Depreciation					3,573	4,163	4,751	4,520	4,108	4,634
Cash return (Rs mn)					7,370	9,251	10,216	11,411	12,669	14,350
Annualized cash return (Rs mn)					29,478	37,004	40,864	45,642	50,676	57,401
Gross cash invested (Rs mn)					155,117	170,100	182,190	192,050	207,023	256,708
CROCI (%)					**19.0**	**21.8**	**22.4**	**23.8**	**24.5**	**22.4**
Idea Cellular										
EBIT (Rs mn)							1,905	2,599	3,241	3,121
Tax rate (%)							3.2	1.0	0.5	0.7
EBIT*(1-t) (Rs mn)							1,845	2,573	3,224	3,100
Add: Depreciation							1,801	1,761	1,887	2,007
Cash return (Rs mn)							3,646	4,334	5,111	5,107
Annualized cash return (Rs mn)							14,584	17,336	20,446	20,430
Gross cash invested (Rs mn)							66,187	75,661	86,670	98,972
CROCI (%)							**22.0**	**22.9**	**23.6**	**20.6**

Source: Companies, Kotak Institutional Equities estimates.

Idea is trading at a 25% premium to Bharti on FY2010E EV/EBITDA multiple

Valuation summary of Indian wireless stocks, FY2006-FY2010E

	Price 15-Jan-08	Target Price	P/E (X) 2006	2007	2008E	2009E	2010E	EV/EBITDA (X) 2006	2007	2008E	2009E	2010E
Bharti	857	790	80	40	24.7	18.8	15.4	40.3	22.5	14.5	10.5	**8.3**
Idea	147	120	166	67	34.6	27.0	23.2	39.2	28.2	18.6	13.8	**10.4**

	KS rating	Market cap. (US$ bn)	Revenues (Rs bn) 2006	2007	2008E	2009E	2010E	EBITDA (Rs bn) 2006	2007	2008E	2009E	2010E
Bharti	REDUCE	41.2	117	184	271	365	442	42	74	116	159	196
Idea	SELL	9.8	30	44	68	97	127	11	15	23	32	44

	Net profit (Rs bn) 2006	2007	2008E	2009E	2010E	EPS (Rs) 2006	2007	2008E	2009E	2010E
Bharti	20	41	65	86	104	10.7	21.4	34.6	45.7	55.5
Idea	2	5	11	14	17	0.9	2.2	4.3	5.5	6.3

Source: Bloomberg, Kotak Institutional Equities estimates.

Total subscribers and suscriber market share of telecom operators in India

	Bharti	Reliance	BSNL	Hutch	IDEA	TTSL	Aircel	MTNL	Spice	BPL	Others	Total	Penetration
Total subs - November 2007	52,961	39,396	31,945	38,563	20,222	16,457	9,026	2,995	3,661	1,221	183	216,631	(%)
Current mobile market share (%)	24.4%	18.2%	14.7%	17.8%	9.3%	7.6%	4.2%	1.4%	1.7%	0.6%	0.1%	100%	19.4
Circle-wise subscribers ('000)													
Metro													
Calcutta	1,544	1,540	819	1,698		827						6,427	37.4
Chennai	1,478	801	867	1,027		189	1,655					6,017	80.2
Delhi	3,674	2,164		3,067	1,887	2,348		1,387				14,528	69.8
Mumbai	2,261	2,495		3,081		1,177		1,609		1,221		11,845	52.3
Circle A													
Andhra Pradesh	5,126	3,239	2,125	2,201	2,725	1,701						17,115	21.0
Gujarat	2,138	2,229	1,726	5,378	2,263	611						14,346	25.6
Karnataka	6,052	2,195	1,697	2,467		717			1,408			14,535	25.4
Maharashtra	3,590	2,577	2,681	2,008	4,003	1,826						16,686	19.3
Tamil Nadu	3,403	2,313	2,143	2,498		383	4,458					15,198	25.3
Circle B													
Haryana	901	712	1,187	1,097	889	638						5,424	28.0
Kerala	1,380	1,733	2,101	1,642	2,307	439						9,602	28.4
Madhya Pradesh	2,343	3,358	1,526		2,539	520						10,286	11.4
Punjab	3,001	913	1,588	1,536		635			2,253		146	10,071	36.6
Rajasthan	3,101	1,459	2,177	2,446	732	1,128					38	11,081	17.5
Uttar Pradesh (east)	2,509	2,543	3,917	3,716	734	721						14,140	11.6
Uttar Pradesh (west)	1,339	1,948	1,686	2,428	2,096	1,057						10,555	14.7
West Bengal and A&N islands	1,567	1,622	1,121	2,273		464	434					7,481	10.6
Circle C													
Assam	750	702	567				923					2,942	10.1
Bihar	3,519	3,037	1,292			665	447					8,960	7.3
Himachal Pradesh	728	470	523		47	98	32					1,898	28.7
North East	369	258	517				503					1,647	11.8
Orissa	1,388	1,088	895			311	381					4,064	10.2
J&K	800		790				192					1,783	15.7

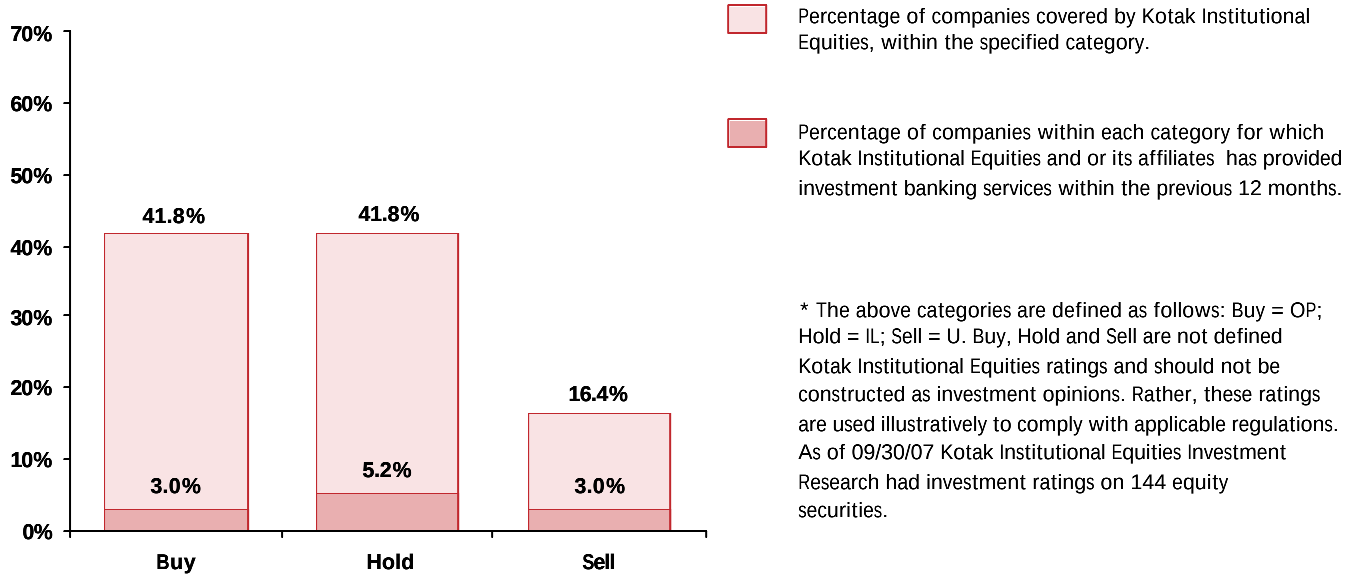
Start up GSM spectrum received
Existing CDMA operations, cross-over GSM spectrum received

Source: COAI, AUSPI, Compiled by Kotak Institutional Equities.

"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: Jigar Mistry, Nitin Bhasin, Sanjeev Prasad, Tabassum Inamdar, Kawaljeet Saluja."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

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 Sensexby 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

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