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News Roundup

Corporate

- Norway's telecom firm **Telenor** is learnt to be within striking distance of picking up a 26% stake in **Unitech's** telecom arm for around US\$500 mn. (ET)
- The race to induct a strategic partner in **Tata Teleservices** (TSL) seems to have narrowed down to Japan's **NIT DoCoMo** and European telecom giant **France Telecom**. The **Tata** Group is close to diluting its stake for around Rs5,000 crore in the country's sixth-largest telecom operator. (ET)
- The dispute between **Vodafone** and the **Essar** Group (which owns 33% of Vodafone-Essar) over ownership of **BPL Mobile** deepened this week after the UK-based telecom major alleged that Essar had altered the share structure of the Mumbai service provider in violation of a 2006 agreement. In other news, Essar-owned US\$330-mn **Aegis BPO** is planning to buy four BPOs a year (having already acquired 11 companies during the past four years.) (BS)
- **Vedanta Resources** has decided not to pursue a proposal to build a Rs20,000-crore 5 MT steel project in Orissa in view of its strategy to focus on non-ferrous and iron ore businesses. Meanwhile, the mining major has said it will consolidate its operations under three verticals, with **Sterlite Industries** operating copper and zinc businesses, while **Vedanta Aluminium** would focus on aluminium. (BS)

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

EQUITY MARKETS

India	Change, %			
	9-Sep	1-day	1-mo	3-mo
Sensex	14,901	(0.3)	(1.8)	0.1
Nifty	4,469	(0.3)	(1.3)	0.4

Global/Regional indices				
Dow Jones	11,231	(2.4)	(4.3)	(8.6)
FTSE	5,416	(0.6)	(1.3)	(7.1)
Nikkie	12,276	(1.0)	(6.8)	(12.4)
Hang Seng	20,115	(1.8)	(8.1)	(13.9)
KOSPI	1,447	(0.5)	(7.8)	(18.5)

Value traded - India				
	Moving avg, Rs bn			
	9-Sep	1-mo	3-mo	
Cash (NSE+BSE)	148.8	168.6	176.2	
Derivatives (NSE)	439.6	471.2	583	
Deri. open interest	811.0	743	749	

Forex/money market

	Change, basis points			
	9-Sep	1-day	1-mo	3-mo
Rs/US\$	44.8	6	263	183
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US\$m)

	8-Sep	MTD	CYTD
FIs	188	-	(7,299)
MFs	22	-	2,501

Top movers -3mo basis

Best performers	Change, %			
	9-Sep	1-day	1-mo	3-mo
BANK OF BARODA	293	(2.4)	2.3	35.4
HINDUSTAN PETRO	244	4.8	6.1	23.7
BHARAT HEAVY ELI	1,751	(2.3)	(1.8)	26.5
BHARAT PETROLEU	354	2.0	11.7	24.2
UNION BANK OF INC	150	(2.1)	0.3	28.2

Worst performers				
JSW STEEL LIMITED	715	(0.2)	(10.0)	(35.4)
STERLITE INDUSTRIE	575	(7.5)	(10.2)	(29.0)
TATA STEEL LIMITE	564	(0.9)	(13.6)	(31.3)
HOUSING DEVELOP	311	(1.6)	(19.7)	(27.5)
ABAN OFFSHORE LI	2,387	2.0	(4.2)	(28.6)

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India Chemical Monthly, September , 2008

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- **Asia product prices decline; ethylene prices plunge**
- **Plastics margins improve led by sharp decline in naphtha prices**
- **Margins for PFY and PSF expand; PX margins decline; low operating rates will act as overhang on margins**
- **Asia product prices decline; ethylene prices plunge**

Asia product prices declined in August, led by a sharp decline in naphtha prices (-2.3% mom), which, in turn, were driven by a decline in crude prices mom. Ethylene prices plummeted 16.2% mom in August led by (1) a steep decline in crude prices, (2) a supply glut and (3) weak demand. We expect ethylene prices to remain weak led by weak demand resulting from reduced operating rates by downstream producers.

Plastics margins improve led by sharp decline in naphtha prices

Asia plastics margins improved in August despite lower product prices led by a sharp decline in naphtha prices (-12.3% mom). Margins improved for LDPE, LLDPE and HDPE by 15%, 13.9% and 2.5% mom, respectively. However, PP margins declined 11.1% mom due to a decline in PP prices (-11.8% mom). We expect margins to decline in India in September with LLDPE and HDPE margins declining 14% mom and PP margins 20.6% mom led by a sharp decline in product prices.

Margins for PFY and PSF expand; PX margins decline; low operating rates will act as overhang on margins

Asia PFY and PSF margins expanded in August led by a moderate decline in product prices versus sharp decline in input (PTA and MEG) prices. We expect product prices/ margins to soften, led by weakening demand, which has resulted in (1) reduced operating rates and (2) delayed start of new plants. Current global PFY and PSF rates are around 65-70%. PX margins over naphtha declined 11.2% mom led by a 12% mom decline in PX prices. MEG margins over naphtha remained negative in August, led by a sharp decline in MEG prices (-13.7% mom) reflecting weak downstream demand. We expect MEG margins to remain under pressure led by capacity addition of 2.5 mtpa in the next year in the Middle East. We expect margins for PSF and PFY to decline in India in September by 19.8% and 13.9% mom, respectively, led by lower product prices.

We have included some key exhibits. For more details, please refer to our '*India Chemical Monthly, September 2008*'.

Asia chemical prices, calendar year-ends 2005-2008 (US\$/ton)

	Annual average prices				Quarterly average					Monthly average				Recent			
	2005	2006	2007	2008	4Q07	1Q08	2Q08	3Q08	3Q08 vs. 2Q08 (%)	May	June	July	Aug	Aug 15	Aug 22	Aug 29	Sep 5
Naphtha	485	583	696	991	818	875	1,043	1,085	4.1	1,042	1,147	1,157	1,014	997	1,039	1,012	920
Benzene	824	861	1,021	1,165	1,009	1,050	1,234	1,245	0.9	1,258	1,318	1,312	1,178	1,146	1,143	1,178	1,135
Ethylene chain																	
Ethylene	874	1,132	1,137	1,418	1,203	1,334	1,469	1,505	2.5	1,411	1,576	1,638	1,373	1,355	1,305	1,305	1,235
High-density PE	1,033	1,237	1,325	1,658	1,428	1,562	1,715	1,734	1.1	1,668	1,820	1,797	1,670	1,675	1,665	1,645	1,595
Linear low-density PE	1,062	1,236	1,339	1,695	1,419	1,615	1,742	1,822	4.6	1,648	1,777	1,846	1,799	1,835	1,745	1,735	1,695
Low-density PE	1,129	1,243	1,445	1,801	1,599	1,718	1,852	1,928	4.1	1,782	1,867	1,941	1,915	1,935	1,895	1,865	1,785
Propylene chain																	
Propylene	909	1,091	1,069	1,423	1,095	1,205	1,554	1,615	3.9	1,476	1,753	1,714	1,516	1,480	1,405	1,530	1,510
Polypropylene	1,072	1,228	1,324	1,677	1,398	1,483	1,794	1,903	6.1	1,669	1,935	2,022	1,783	1,755	1,705	1,655	1,585
Styrene chain																	
Styrene	1,051	1,165	1,320	1,477	1,344	1,374	1,540	1,560	1.3	1,531	1,631	1,626	1,494	1,472	1,479	1,486	1,466
Polystyrene	1,155	1,232	1,426	1,565	1,447	1,436	1,642	1,700	3.6	1,569	1,743	1,757	1,644	1,645	1,625	1,625	1,595
Vinyl chain																	
PVC	811	832	945	1,158	981	1,056	1,219	1,265	3.8	1,188	1,219	1,277	1,254	1,275	1,245	1,205	1,125
EDC	361	351	426	463	419	435	480	513	6.9	448	491	529	497	505	495	475	455
Polyester chain																	
PSF	1,226	1,293	1,452	1,569	1,537	1,507	1,607	1,685	4.9	1,535	1,595	1,695	1,675	—	—	1,675	—
PFY	1,377	1,444	1,669	1,853	1,768	1,825	1,869	1,928	3.1	1,780	1,880	1,955	1,900	—	—	1,900	—
Pure terephthalic acid	804	898	881	1,015	840	908	1,079	1,104	2.3	1,036	1,168	1,152	1,056	1,045	1,048	1,030	978
Monoethylene glycol	869	853	1,115	1,104	1,527	1,184	1,057	990	(6.4)	1,091	1,135	1,063	917	855	875	908	830
Paraxylene	899	1,155	1,131	1,344	1,090	1,165	1,451	1,480	2.0	1,398	1,610	1,574	1,385	1,389	1,374	1,362	1,288

Source: Platts

Asia chemical margins, calendar year-ends 2005-2008 (US\$/ton)

	Annual average prices				Quarterly average					Monthly average				Recent			
	2005	2006	2007	2008 YTD	4Q07	1Q08	2Q08	3Q08	3Q08 vs. 2Q08 (%)	May	June	July	Aug	Aug 15	Aug 22	Aug 29	Sep 5
Ethylene chain																	
Ethylene - naphtha	389	549	441	427	385	458	401	420	5	369	429	481	359	358	266	294	315
HDPE - 1.015 x ethylene	147	88	171	218	207	208	237	206	(13)	235	220	135	276	300	340	320	341
LLDPE - 1.015 x ethylene	175	87	185	255	198	262	223	294	32	216	177	184	405	460	420	410	441
LDPE - 1.015 x ethylene	243	94	291	362	378	364	335	400	20	349	267	279	522	560	570	540	531
HDPE - naphtha	548	655	629	667	609	687	660	648	(2)	626	673	640	656	678	626	634	675
LLDPE - naphtha	577	654	643	704	601	740	646	737	14	606	631	689	785	838	706	724	775
LDPE - naphtha	644	660	749	811	781	843	758	843	11	740	720	784	901	938	856	854	865
Propylene chain																	
Propylene - naphtha	424	509	373	433	276	330	471	530	12	434	606	557	502	483	366	519	590
PP - 1.01 x propylene	154	125	244	239	292	265	192	271	41	178	164	291	252	260	286	110	60
PP - naphtha	587	645	628	686	579	607	678	817	21	627	788	865	769	758	666	644	665
Styrene chain																	
Benzene - naphtha	339	278	325	174	191	175	184	159	(13)	217	171	155	164	149	104	167	215
Styrene - 0.81 x benzene	131	139	163	123	178	136	114	115	1	102	106	88	142	150	175	152	189
- 0.29 x ethylene																	
Polystyrene - 0.98 styrene	125	90	132	117	130	90	107	172	60	69	144	164	180	203	176	169	158
PS - naphtha	670	649	730	574	629	561	560	615	10	527	596	600	630	648	586	614	675
Vinyl chain																	
EDC - (0.3 x ethylene)	99	11	85	38	58	35	24	61	152	24	18	38	85	99	104	84	85
PVC - 1.025 (0.235 x ethylene + 0.864 x EDC)	281	249	294	406	321	349	435	448	3	452	405	414	483	501	492	470	425
PVC - naphtha	326	250	249	167	163	181	145	180	24	147	72	120	240	278	206	194	205
Polyester/intermediates																	
PSF - 0.85 x PTA - 0.34 x MEG	247	240	324	332	303	333	278	410	48	283	217	355	466	—	—	491	—
PFY - 0.85 x PTA - 0.34 x MEG	398	391	541	615	535	651	553	653	18	528	502	615	691	—	—	716	—
PTA - 0.67 x PX	201	124	123	114	110	127	103	112	9	100	89	97	128	114	127	117	115
PX - naphtha	414	572	435	353	271	290	389	394	1	357	463	418	371	392	335	351	368
MEG - naphtha	384	270	419	114	708	308	59	(96)	(264)	49	(12)	(94)	(98)	(142)	(164)	(104)	(90)
MEG - 0.6 x ethylene	345	174	433	254	805	383	235	86	(63)	244	189	80	93	42	92	125	89

Source: Platts, Kotak Institutional Equities

Asian chemical margins, calendar year-ends 1997-2009E (US\$/ton)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 YTD	2008E	2009E
Ethylene chain														
HDPE – 1.015 x ethylene	263	223	181	109	166	138	158	28	147	88	171	218	180	150
LLDPE – 1.015 x ethylene	262	250	196	126	174	142	168	53	175	87	185	255	190	160
LDPE – 1.015 x ethylene	398	334	249	186	216	194	226	181	243	94	291	362	240	210
HDPE – naphtha	552	380	409	389	327	303	339	556	548	655	629	667	650	610
LLDPE – naphtha	551	407	424	406	335	307	350	582	577	654	643	704	670	630
LDPE – naphtha	687	491	476	466	377	359	408	710	644	660	749	811	750	710
Propylene chain														
Propylene – naphtha	242	103	152	174	131	208	262	414	424	509	373	433	350	310
PP – 1.01 x propylene	245	213	195	163	146	129	154	142	154	125	244	239	200	160
PP – naphtha	492	319	350	341	281	341	421	564	587	645	628	686	600	560
Styrene chain														
Benzene – naphtha	81	60	56	113	30	110	164	435	339	278	325	174	300	275
Styrene – 0.81 x benzene – 0.29 x ethylene	NA	NA	NA	NA	NA	NA	203	142	131	139	163	123	175	175
Polystyrene – 0.98 styrene	658	495	589	864	569	319	116	124	125	90	132	117	140	140
PS – naphtha	444	347	404	594	332	449	517	786	670	649	730	574	600	550
Vinyl chain														
EDC – (0.3 x ethylene)	NA	NA	NA	190	61	202	171	186	99	11	85	38	90	90
PVC – 1.025 (0.235 x ethylene + 0.864 x EDC)	623	410	295	251	234	177	251	258	281	249	294	406	290	320
PVC – naphtha	528	355	411	423	250	320	350	492	326	250	249	167	250	280
Polyester/intermediates														
PSF – 0.85 x PTA – 0.34 x MEG	332	361	254	299	267	241	296	157	247	240	324	332	325	350
PFY – 0.85 x PTA – 0.34 x MEG	587	462	363	346	382	402	374	398	398	391	541	615	475	500
PTA – 0.67 x PX	234	153	171	190	164	230	182	225	201	124	123	114	130	130
PX – naphtha	279	133	178	159	173	185	334	418	414	572	435	353	375	450
MEG – naphtha	402	251	287	260	201	200	386	564	384	270	419	114	200	275
MEG – 0.6 x ethylene	319	219	228	205	203	199	395	410	345	174	433	254	275	225

Source: Platts, Kotak Institutional Equities estimates

Metals**STRL.BO, Rs575**

Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	460
52W High -Low (Rs)	1150 - 550
Market Cap (Rs bn)	407.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIs	-	-	-
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Sterlite Industries : Restructuring of corporate structure; reinstate with SELL rating and target price of Rs460/share

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- **SIL would transfer its aluminum and power assets to Madras Aluminum Company (MALCO) for stock in the ratio of 7:4.**
- **SIL would get a 79% stake in copper assets (KCM) of Vedanta Resources (SIL's parent company) in exchange for 363 mn shares in SIL after MALCO transaction**
- **We believe the restructuring will likely result in a loss of Rs64/share for minority shareholders**
- **We reinstate coverage on Sterlite Industries with SELL rating with a target price of Rs460/share**

Sterlite Industries announced a restructuring program across its group assets. The primary object of the restructuring is to simplify the corporate structure, eliminate conflicts of interests and improve efficiencies. According to the scheme outlined by the management (a) SIL would transfer aluminum and power assets to MALCO in lieu of a share swap in the ratio of 7:4, (b) SIL would get 79% stake in Konkola Copper Mines from Vedanta in exchange for issue of 363 mn shares. We believe the restructuring will likely result in a loss of Rs64/share for minority shareholders. We reinstate coverage on Sterlite Industries with SELL rating and a SOTP-based target price of Rs460/share.

Outline of the scheme**Step 1: Asset transfer from SIL in lieu of equity of MALCO**

- Transfer of 51% stake in BALCO and 29.5% stake in Vedanta Alumina and 100% stake in Sterlite Energy to group company MALCO amounting to Rs188per share (refer Exhibit 1)
- Issue of shares from MALCO in the ratio of 7:4 to SIL shareholders for the assets transferred. 1195.5mn new share to be issued by MALCO. Derived value of MALCO post issue per share for current shareholders of SIL to be Rs201/share (refer Exhibit 1).

Step 2: Equity issue by SIL in lieu of KCM

- Transfer of Copper assets from KCM to SIL. Derived value of assets per share is Rs98/share post issue by SIL.
- Issue of 363 mn new shares by SIL to KCM shareholders post transfer of aluminium and power assets to MALCO. Equity of SIL to go up from 708 mn to 1,074 mn shares

Step 3: SIL to now hold only copper and zinc assets, MALCO to hold aluminium and power assets

- Derived value of SIL post restructuring works out to Rs300/share and derived value of MALCO works out to Rs200/share
- We re-initiate with a sell rating on SIL with a target price of Rs460/share based on SOP valuation

We believe the restructuring will likely result in a loss of Rs64/share for minority shareholders

Minority shareholders gain 3% in Bharat Aluminum Company (BALCO), loose 51.8% in Vedanta Aluminum (VAL), 3.7% in Sterlite Energy, loose 31.5% in Hindustan Zinc (HZL) and gain 20.3% in KCM. The net effect would amount to Rs64/share in reduction in value for SIL's minority shareholders (Refer Exhibit 3)

Reinitiate coverage on Sterlite with an SOTP-based target price of Rs460/share and SELL rating on the stock

We reinitiate coverage on Sterlite with an SOTP-based target price of Rs460/share. We have valued the copper business of Sterlite based on 5X FY2010E EV/EBITDA in line with global peers. We value stake in Hindustan Zinc at current market price and after applying a holding company discount of 20%. Besides, Sterlite has net cash of Rs49/share. We value MALCO on a SOTP basis at Rs201/share for Sterlite's current shareholders. We value the aluminum business at 5X FY2010E EV/EBTIDA.

We reinitiate with a SELL rating and a target price of Rs460/share.

Exhibit 1: Implied valuation of Sterlite Aluminum (MALCO)

	Value per share Rs	Comments
Aluminum		
Balco	74	Valued at 5X FY2010E EV/EBITA and 51% stake held by Sterlite
Vedanta Aluminum	22	Valued at 5X FY2010E EV/EBITA and 29.5% stake held by Sterlite
Energy		
Sterlite Energy	92	
Total value of assets demerged	188	
Number of outstanding of Sterlite shares pre-restructuring (#)		
	708	
Value of assets transferred (Rs mn) (a)	133,203	
Number of outstanding shares of MALCO pre-restructuring (#)		
	113	
Malco's share price pre-restructuring	150	
M-cap of MALCO pre-restructuring (b)	16,875	
Implied value of MALCO (a) + (b)	150,078	
Fully diluted number of shares of MALCO (#)	1,308	
Value per share of MALCO post equity issue	115	
Value of MALCO per share of Sterlite Industries	201	Based on share swap ratio of 7 shares of MALCO for every 4 shares of Sterlite

Note:

(1) The assets transferred out of Sterlite is valued based on number of shares outstanding pre-restructuring.

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: We believe minority shareholders will likely lose Rs150/share on restructuring

Minority shareholding details before and after restructuring (% holding)

	Pre- restructuring (%)	Post- restructuring (%)
Sterlite Industries	37.5	25.7
MALCO	0.0	35.6

Movement in minority interest across various group companies upon restructuring

	Stake in subsidiary/gr oup company %	Pre- restructuring %	Post Restructuring %	Loss/gain in shareholding after restructuring	
				%	Rs/share
Sterlite Industries		37.5	25.7	(31.5)	(75.7)
Through MALCO					
BALCO	51.0	19.1	18.1	(5.2)	(2.5)
Sterlite Energy	100.0	37.5	35.6	(5.2)	(3.2)
VAL	29.5	11.1	5.3	(51.8)	(7.5)
Through cross holdings in VAL					
BALCO			1.7	1.7	0.8
Sterlite Energy			3.3	3.3	2.0
Malco			3.3	3.3	2.5
Hindustan Zinc	64.9	24.4	16.7	(31.5)	-
KCM	-		20.3	20.3	19.9
Total					(63.7)

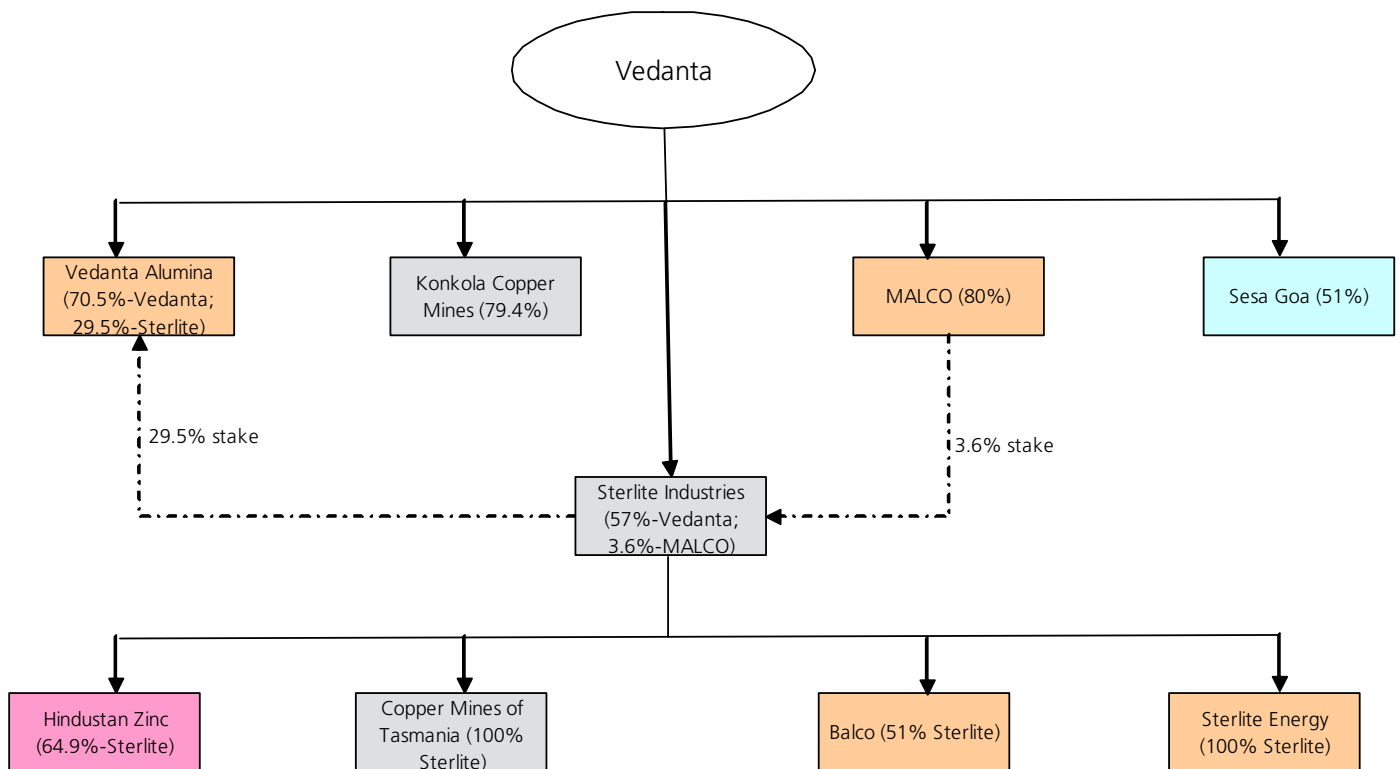
Source: Company data, Kotak Institutional Equities estimates.

Exhibit 3: Sterlite Industries, sum-of-the-parts valuation, FY2010E basis

	Value (Rs/share)	Comments
Value of sterlite copper	44	Valued at 5X FY2010E EV/EBITDA
Copper Mines of Tasmania	19	DCF-based valuation; holding company discount of 20%
Hindustan Zinc	116	Valued at CMP, holding company discount of 20%
Konkola Copper Mines	79	Based on residual valuation
Value per share of MALCO	201	
Add: Net cash	49	
Fair value of Sterlite	458	
Target price	460	

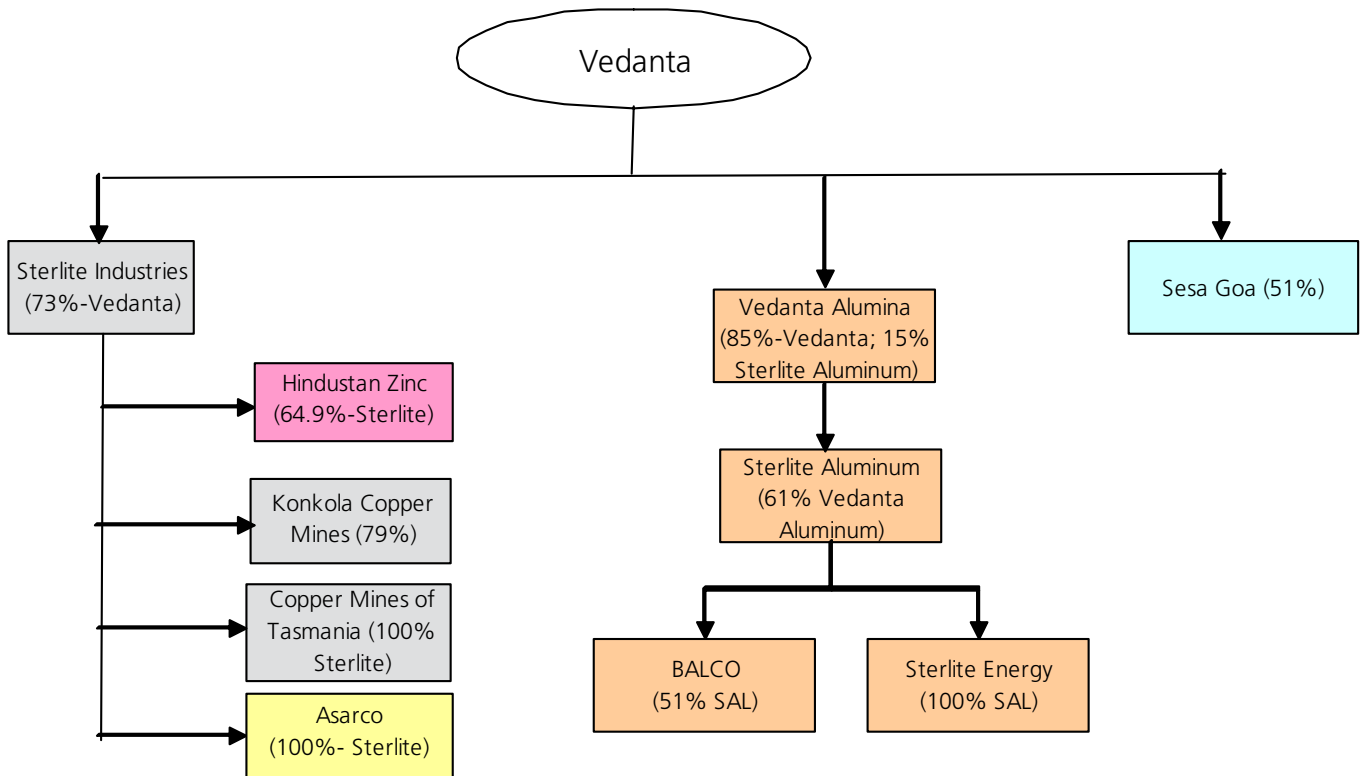
Source: Company data, Kotak Institutional Equities estiamtes.

Exhibit 4: Corporate structure of Vedanta Group and its subsidiaries pre-restructuring



Source: Company data, Kotak Institutional Equities

Exhibit 5: Corporate structure of Vedanta Group and its subsidiaries post-restructuring



Source: Company data, Kotak Institutional Equities

Pipes**WGSR.BO, Rs327**

Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	360
52W High -Low (Rs)	539 - 227
Market Cap (Rs bn)	61.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	39.9	70.8	99.5
Net Profit (Rs bn)	3.4	5.3	9.0
EPS (Rs)	20.6	29.2	47.4
EPS gth	94.5	41.9	62.7
P/E (x)	15.9	11.2	6.9
EV/EBITDA (x)	12.8	6.9	4.4
Div yield (%)	0.7	1.5	1.7

Shareholding, June 2008

	% of	Over/(under)
	Pattern Portfolio	weight
Promoters	44.5	-
FII's	17.5	0.1 (0.0)
MF's	12.0	0.6 (0.4)
UTI	-	- (0.2)
LIC	-	- (0.2)

Welspun Gujarat Stahl Rohren: FY2008 annual report review—updates on loan funding and forex hedging position

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- **Rs5 bn debentures and ECB raised for funding capex; Rs4 bn USA bond loans secured against investments**
- **Outstanding forex hedges as of end-FY2008 provide suitable cover**
- **Build-up of slab inventory increases inventory/sales ratio to 118 days from 70 days**
- **Revise estimates moderately; maintain REDUCE and target price of Rs360**

Welspun's FY2008 annual report review provides details about its outstanding loan book and forex hedging position. Welspun raised Rs3 bn of debentures and Rs2 bn of ECB for funding its domestic expansion plans. Its USA subsidiary raised the equivalent of Rs4 bn in non-convertible bonds for the new HSAW plant coming up in USA. However, the company has also invested Rs3.5 bn in development bonds issued by the local authority which is given as security against the bond loans raised. The annual report reflected a strong increase in inventory days to 118 versus 70 days in FY2007. The large increase in raw material inventory was mainly on account of slabs procured for the plate mill. We revise our estimates for a higher interest rate, lower exchange rate and marginally lower plate mill margins in FY2010E. We revise our FY2009E and FY2010E revenues upwards by 1-3% and lower FY2010E PAT estimate by 5.7% on account of lower plate mill margins.

Annual report review—key highlights

- **Debentures and ECB raised for capex funding.** Welspun's total borrowings increased Rs10 bn to Rs25.3 bn as it raised funds for its large capacity expansion projects. It has raised Rs3 bn debentures at a coupon rate of 10-10.5% maturing over FY2011-13E. It also raised Rs2 bn equivalent ECBs for its domestic expansion projects. Its USA-based subsidiary has raised Rs4 bn equivalent 6% non-convertible bonds for funding the US\$139 mn HSAW plant. The company has simultaneously invested in Taxable Industrial Revenue bonds issued by the local authority which is given as security against the non-convertible bond loan. These revenue bonds are subscribed under the Property in Lieu of Taxes (PILOT) scheme which allows the subscribers to enjoy exemption from local property taxes.
- **Outstanding forex hedge provides suitable cover.** Outstanding derivative contracts and matching unhedged positions covers 45% of FY2009E revenues and 60% of FY2009E material costs (see Exhibit 2). We believe the year-end position provides suitable forex cover and expect the remaining foreign currency cash flows to be matched/hedged over the year.
- **Inventory build-up leads to increase in working capital.** Inventory days increased significantly to 118 from 70 days in FY2007, leading to an increase in total working capital investment. Increase in raw material inventory mainly on account of slabs for the plate mill resulted in sharp jump in inventory-sales days. We highlight that lower debtor days and higher creditor days partially netted off the impact of inventory increase. We model Rs6.7 bn of investment in working capital over FY2009-10E as new capacities are commissioned and volumes increase.

- **North America contributed 57% of FY2008 revenues.** North America continued to be the main revenue generating region contributing 57% of FY2008 revenues. The North American market is significantly skewed towards HSAW as 41% of the total revenues came from sale of HSAW pipes in North America (see Exhibit 3). We believe with 1.5 mn tons of HSAW capacity coming up in the US over the next twelve months (see Exhibit 4), there could be significant competition for Welspun and margins may come under pressure.
- **New subsidiaries/JVs.** Welspun has formed various trading subsidiaries and associates for its international marketing operations and production facilities. It has also entered into two JVs—(1) Adani Welspun Exploration Ltd for oil exploration and (2) Dahej Infrastructure Pvt. Ltd for developing its captive jetty at Dahej. We highlight that both these projects are at a preliminary stage and hence we do not include them in our estimates. Exhibit 5 details the various subsidiaries/JVs and their business operations.

Capacity expansion on schedule

As per the management, the three capacity expansion plans currently under progress are running on schedule. The 150,000 tons domestic HSAW plant expansion is expected to be complete by early October, while the 300,000 tons HSAW plant in the US is expected to start operations by Jan '09. The 300,000 tons LSAW plant expansion at Dahej SEZ is estimated to be complete by Jun '09. We believe availability of new capacities will allow Welspun to compete for orders in India and the Middle-East, where it currently does only limited bidding due to capacity constraints. We estimate total capex of Rs8 bn over FY2009-10E for completion of these expansions.

Revise estimates moderately for higher interest rate, lower Re exchange rate

We revise our estimates moderately for a lower rupee exchange rate, higher interest cost and marginally lower plate mill margins in FY2010E. We revise our FY2009E and FY2010E revenues upwards by 3.4% and 1.6%, respectively. We reduce our PAT estimates for the same years by 0.7% and 5.7%, respectively (see Exhibit 6). We increase our interest cost estimates for FY2009E and FY2010E by 15% and 9%, respectively, based on details of the loan book as per FY2008 annual report.

Maintain DCF-based target price of Rs360 and REDUCE rating

We maintain our 12-month DCF-based target price of Rs360 and REDUCE rating on the stock. The stock, currently trading at 4.4X FY2010E EBITDA, is in line with global steel and pipe players (see Exhibit 7). We believe the upcoming HSAW capacities in the US and slower progress on stabilization of the plate-cum-coil mill may put pressure on margin expansion.

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	18,298	1,980	837	5.8	19.1	56.3	23.8
2007	26,785	3,332	1,411	8.6	22.0	38.2	18.6
2008	39,945	6,476	3,356	18.0	27.1	18.2	11.8
2009E	70,817	11,912	5,345	28.3	26.0	11.6	6.7
2010E	99,492	17,344	8,956	47.4	31.3	6.9	4.2

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 2: Forex and hedging position summary for Welspun (amount in mn)

	FY2008		FY2007		
	Foreign currency	INR	Foreign currency	INR	
Hedged positions					
For receivables					
	USD/INR	399	16,066	372	16,723
	EUR/USD	58	3,487	7	399
[A]	Total receivables		19,553		17,122
For payables					
	USD/INR	213	8,576	211	9,496
	EUR/USD	98	5,688	97	5,551
	EUR/INR	6	345	23	1,378
	JPY/USD	349	140	—	—
	GBP/USD	—	—	1	102
[B]	Total payables		14,749		16,527
Unhedged exposure					
	Long-term payable		2,095		3,405
	Short-term payable (C)		15,391		9,411
	Receivables (D)		3,379		11,141
[E]	Net short-term payable (C-D)		12,012		(1,730)
[A+E]	Covered receivables		31,565		
	% of FY2009E revenues		44.6		
[B+C]	Covered payables		30,140		
	% of FY2009E material cost		60.1		

Source: Company, Kotak Institutional Equities.

Exhibit 3: HSAW dominates the North America revenues

Product-wise geographical revenue split for Welspun, FY2008 (%)

	LSAW	HSAW	ERW	Total
North America	16	41	—	57
South America	11	2	—	13
South East Asia	1	—	—	1
Middle East	12	—	—	12
India	7	5	5	17
Total	47	48	5	100

Source: Company.

Exhibit 4: 1.5 mn tons of HSAW capacity is expected to come up over next 12 months

Company	Location	Capacity (‘000 tons)	Diameter (inch)	Start
PSL	Bay St. Louis, MI	300	24-60	Q3CY08
Welspun	Little Rock, AR	300	24-60	Q4CY08
Berg pipe	Mobile, AL	180	24-60	Q4CY08
MAN	Little Rock, AR	300	20-100	Q1CY09
United Steel	Pittsburg, CA	300	24-64	Q2CY09
Stupp Corp	Baton Rouge, LA	180	24-60	Q2CY09
Total		1,560		

Source: Metal Bulletin Research.

Exhibit 5: Welspun has set up various subsidiaries and JVs for diversifying its business and geographical reach

	Country	Holding (%)	Business	Comments
Direct subsidiaries				
Welspun Natural Resources Pvt. Ltd	India	51	Holding company for Adani Welspun	
Welspun Pipes Inc.	USA	100	Holding company for USA plant	
Welspun Pipes Ltd	India	100	LSAW capacity expansion at SEZ	
Indirect subsidiaries				
Welspun Tubular LLC	USA	100	USA plant operating company	
Welspun Global Trade LLC	USA	100	Marketing company in USA	
Associate companies				
Red Lebondal Ltd	Cyprus	25	Pipe marketing associate	
Joint Ventures				
Adani Welspun Exploration Ltd	India	35	Oil exploration blocks	JV with Adani; 35% held through Welspun Natural Resources
Dahej Infrastructure Pvt Ltd	India	50	Development of captive jetty at Dahej	JV with Sanghi Industries

Source: Company, Kotak Institutional Equities.

Exhibit 6: Welspun Gujarat, change in estimates, March fiscal year-ends, (Rs mn)

	2009E			2010E		
	New	Old	Change(%)	New	Old	Change(%)
Revenue	70,817	68,519	3.4	99,492	97,954	1.6
EBITDA	11,912	11,546	3.2	17,344	17,917	(3.2)
EBITDA margin (%)	16.8	16.9	—	17.4	18.3	—
Net profit	5,345	5,382	(0.7)	8,956	9,496	(5.7)
Diluted EPS	28.3	28.7	(1.4)	47.4	50.6	(6.2)

Source: Kotak Institutional Equities.

Exhibit 7: Comparative valuation of global pipe companies

Company	10-Sep-08		Year-end	Mkt Cap. (US\$ mn)	EV/EBITDA (X)			PER (X)			CAGR (2 yr) (%)		
	Price (local)	Currency			LFY	FY1	FY2	LFY	FY1	FY2	EPS	Revenue	EBITDA
Welspun-Gujarat Stahl (1)	327	INR	Mar	1,459	12.8	6.9	4.4	15.9	11.2	6.9	51.9	57.8	63.0
Jindal Saw (1)	602	INR	Dec	874	5.8	3.4	2.6	10.5	6.7	5.5	38.3	40.3	33.0
PSL (1)	316	INR	Mar	325	7.2	5.2	3.9	15.0	6.9	4.9	74.9	54.5	44.3
Man Industries	68	INR	Mar	81	8.6	3.8	3.2	6.5	4.8	4.9	15.4	29.6	63.9
Mean - linepipe [India]					8.6	4.8	3.5	12.0	7.4	5.5	45.1	45.5	51.1
Tenaris	16	EUR	Dec	13,059	8.1	7.5	6.5	9.8	8.3	7.2	16.7	18.5	12.2
Vallourec	157	EUR	Dec	5,873	5.1	5.7	5.0	8.3	9.4	8.2	0.6	5.7	0.6
Maharashtra Seamless (1)	301	INR	Mar	503	5.8	5.1	4.3	9.6	8.0	6.8	19.4	30.8	23.7
Ratnamani Metals & Tubes	800	INR	Mar	161	4.4	3.6	3.3	8.0	5.9	5.0	26.0	24.7	16.1
Mean - seamless [global]					5.9	5.5	4.8	8.9	7.9	6.8	15.7	19.9	13.1
Posco	433,000	KRW	Dec	34,246	6.2	4.5	4.2	8.9	7.9	7.1	11.9	40.6	21.0
Sumitomo Metal Industries	432	JPY	Mar	19,222	8.0	7.8	7.1	11.0	11.7	10.9	0.4	12.2	6.0
Severstal	15	USD	Dec	14,964	4.4	3.1	2.9	7.7	4.7	4.7	28.2	23.4	22.4
United States Steel	108	USD	Dec	12,643	9.5	3.7	3.2	14.5	5.0	4.6	78.3	32.2	72.8
Salzgitter	86	EUR	Dec	3,648	2.5	2.4	2.4	5.4	5.7	5.9	(3.7)	12.7	1.6
Voestalpine	32	EUR	Mar	3,717	NA	4.5	4.4	6.8	5.3	5.0	16.9	11.5	NA
Corinth Pipeworks	3	EUR	Dec	219	6.6	8.3	7.2	9.1	11.5	8.4	4.3	7.7	(4.0)
Mean - steel and pipe [global]					6.2	4.9	4.5	9.1	7.4	6.6	19.4	20.0	20.0
Mean - overall					6.8	5.0	4.3	9.8	7.5	6.4	25.3	26.8	26.9

Note: (1) Kotak Institutional Equities estimates.

Source: Bloomberg, Kotak Institutional Equities estimates.

Exhibit 8: HSAW volumes from India to get subsituted from capacities in USA

Welspun Gujarat, operating assumptions, March fiscal year-ends, 2007-2012E

	2007	2008	2009E	2010E	2011E	2012E
Capacity (tons)						
HSAW - existing	400,000	400,000	400,000	400,000	400,000	400,000
HSAW - new	—	—	150,000	150,000	150,000	150,000
HSAW - USA	—	—	300,000	300,000	300,000	300,000
Total - HSAW	400,000	400,000	850,000	850,000	850,000	850,000
LSAW - existing	350,000	350,000	350,000	350,000	350,000	350,000
LSAW - new	—	—	—	300,000	300,000	300,000
Total - LSAW	350,000	350,000	350,000	650,000	650,000	650,000
ERW	250,000	250,000	250,000	250,000	250,000	250,000
Total Pipe capacity	1,000,000	1,000,000	1,450,000	1,750,000	1,750,000	1,750,000
Plate mill	—	—	1,500,000	1,500,000	1,500,000	1,500,000
Sales (tons)						
HSAW - existing	217,739	323,088	332,000	340,000	320,000	310,000
HSAW - new	—	—	30,000	75,000	90,000	100,000
HSAW - USA	—	—	78,750	135,000	180,000	210,000
Total - HSAW	217,739	323,088	440,750	550,000	590,000	620,000
LSAW - existing	175,000	261,667	271,250	271,250	262,500	262,500
LSAW - new	—	—	—	120,000	165,000	180,000
Total - LSAW	175,000	261,667	271,250	391,250	427,500	442,500
ERW	110,000	56,729	62,500	87,500	112,500	125,000
Total Pipe	502,739	641,484	774,500	1,028,750	1,130,000	1,187,500
Plate-cum-coil (production)	—	—	468,750	750,000	975,000	1,125,000

Source: Company, Kotak Institutional Equities estimates.

Exhibit 9: We expect realizations to move in line with increase in steel prices

Welspun Gujarat, pricing assumptions, March fiscal year-ends, 2008-2011E

	2008	2009E	2010E	2011E
Realisation (US\$/ton)				
HSAW	1,353	1,596	1,740	1,740
ERW	1,105	1,306	1,426	1,426
LSAW	1,650	1,898	2,049	2,049
HSAW- USA	—	1,596	1,740	1,740
Plate	—	1,343	1,504	1,504
Raw material cost (US\$/ton)				
HR coil	783	1,024	1,163	1,163
Plates	1,279	1,343	1,504	1,504
Slabs	—	900	1,017	1,017
EBITDA (US\$/ton)				
HSAW	319	245	238	234
ERW	180	68	40	37
LSAW	131	267	246	243
HSAW- USA	—	230	223	219
Plate - external sale	—	183	225	224
Plate - captive use	—	303	345	344

Source: Company, Kotak Institutional Equities estimates.

Exhibit 10: Profit model, balance sheet, cash model for Welspun Gujarat, March fiscal year-ends, 2005-2011E, (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit model							
Net revenues	10,385	18,298	26,785	39,945	70,817	99,492	104,214
EBITDA	684	1,980	3,332	6,476	11,912	17,344	18,966
Other income	27	19	19	107	180	150	150
Interest (expense)/income	(203)	(419)	(708)	(818)	(2,386)	(2,392)	(1,777)
Depreciation	(241)	(352)	(476)	(609)	(1,495)	(1,901)	(2,108)
Adjusted pretax profits	266	1,228	2,167	5,157	8,212	13,201	15,230
Tax	(39)	(127)	(672)	(884)	(1,629)	(2,924)	(3,828)
Deferred taxation	(124)	(162)	(93)	(944)	(1,189)	(1,320)	(914)
Adjusted consolidated net income	180	837	1,411	3,356	5,345	8,956	10,489
Diluted Earnings per share (Rs)	1.5	5.8	8.6	18.0	28.3	47.4	55.6
Balance sheet							
Total equity	2,707	4,795	6,535	15,672	20,801	29,232	38,647
Deferred taxation liability	539	701	794	1,738	2,927	4,247	5,161
Total borrowings	4,068	8,248	15,146	25,274	24,724	23,202	16,954
Current liabilities	7,785	9,393	10,558	17,061	26,716	35,207	34,331
Total liabilities and equity	15,098	23,137	33,103	59,745	75,168	91,888	95,092
Cash	2,461	3,067	3,574	2,703	2,527	8,088	13,376
Other current assets	7,233	9,958	12,781	23,418	37,234	48,257	47,536
Total fixed assets	5,351	10,113	16,492	26,807	31,340	31,476	30,113
Investments	53	0	256	6,817	4,067	4,067	4,067
Total assets	15,098	23,137	33,103	59,745	75,168	91,888	95,092
Free cash flow							
Operating cash flow, excl working capital	430	1,056	2,002	5,061	7,756	12,028	13,361
Working capital changes	702	(1,076)	(2,601)	(2,993)	(4,162)	(2,532)	(155)
Capital expenditure	(1,781)	(5,323)	(6,294)	(12,400)	(6,027)	(2,037)	(746)
Investments	(55)	53	(256)	(6,525)	2,750	—	—
Other income	115	107	46	360	180	150	150
Free cash flow	(589)	(5,184)	(7,102)	(16,497)	497	7,609	12,611
Ratios (%)							
Debt/equity	0.6	0.7	1.6	1.5	1.0	0.7	0.4
Net debt/equity	(0.1)	0.2	1.1	0.9	0.8	0.3	(0.0)
RoAE	6.2	19.1	22.0	27.1	26.0	31.3	27.1
RoACE	4.4	11.6	10.3	11.9	15.2	20.1	19.9

Source: Company, Kotak Institutional Equities estimates.

Economy

Sector coverage view

N/A

New RBI Governor may be open to change in monetary policy stance

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- **Governor's first press statement dovish**
- **Signals monetary policy stance would be mindful of growth prospects**
- **Talks of roadmap for financial sector reforms anchored on real sector objectives**
- **We revise our end-FY2009 10-year benchmark yield to 8.75% from 9.0% in view of lowering of inflation trajectory and new Governors' statement**

If there were any doubts that the legacy of tight monetary policy may take a long time to be unwound, they were squelched quickly and firmly by the very first statement by the new RBI Governor, Dr. D. Subbarao, who took over the office from Dr. Y.V. Reddy less than a week ago on September 5. The new Governor appears (1) inclined to introduce no new monetary measures in the near term and (2) willing to give greater weightage to growth. While he also stated that moderation in growth was cyclical and not structural, the statement talked of inflation concerns in the present and past tense. But talking of monetary policy ahead, growth concerns override. In our view, the central bank communication suggests that RBI under the new regime may be more open to a change in monetary policy stance, which could now move from tightening to neutral.

Growth concerns override inflation worries in Governor's statement

In our view, growth concerns are paramount in Governor's statement. In the 12 paragraph statement, the first two talk of economic growth, the next four on monetary policy, while the last six are on financial sector. Focus on growth is evident in all these three segments of the statement.

Governor appears open to changing monetary policy stance

Our reading of the Governor's statement suggests that the new Governor may not adopt a hawkish monetary policy stance. He may be prepared to move to a neutral stance or even adopt a softening stance earlier seen during Dr. Bimal Jalan's period. While it is difficult to say whether the change in stance appears to be on the anvil in the October 24 mid-term policy Statement, standalone from the statement it does appear to be so.

In the four paragraphs sub-titled '*Monetary Policy*', three are justification of the monetary policy tightening done in the past, while the last is the most important one. Here he directly responds to the future monetary policy, starting by saying "*I have been asked whether monetary policy will be tightened further*". His key five-sentence response is:

- "*There are as they say several unknowns.*"
- "*First we have to watch the impact of measures already undertaken.*"
- "*Second, we will be watching the drivers of demand – in particular which sectors are triggering the growth in demand.*"
- "*Third, in a globalized world, we will also have to be watching developments around the world and make an assessment of their potential impact on our economic management.*"
- "*All I can say is that we will be monitoring the situation closely and continuously, be mindful of the implications of our monetary stance on growth prospects, and take action as appropriate.*"

In our view, the Governor acknowledges uncertainty ahead and leaves room for any kind of monetary policy action. He is also known to have been pressing for further tightening in his earlier stint as Finance Secretary. However, it is not without significance that in his new role (1) he does not even talk about the current inflation worries or acknowledges inflation uncertainty in context of future monetary policy, and (2) he clearly states that monetary stance would be mindful of its impact on growth prospects.

However, the three paragraphs which talk of current high inflation and monetary action undertaken do talk of a combination of supply-side and demand-side factors, though with a greater emphasis on the former.

Governor says moderation only cyclical and India growth story is intact

The first two paragraphs sub-titled 'Economy', talk only about growth. The second of these comprise two key statements:

- *"India's remarkable economic expansion from an average of 5% in the 90s close to 9% in the recent period has been led by rise in private consumption, rise in private investment and surge in exports."*
- *"I believe these engines of growth are still on track. The recent moderation is only a cyclical down-turn. The structural India growth story is still intact and credible."*

While the prognosis is clearly that the moderation is cyclical and not structural, which could be interpreted as providing elbow room for further tightening, it is important to note that inflation concern is not even mentioned in these paragraphs. Furthermore, Governor's mind is manifest in his attributing high growth in the recent period to rise in aggregate demand.

Action likely on financial sector reforms in near term

RBI seems to be moving away from its past thinking, not just in terms of monetary policy, but also for the financial sector reforms agenda. Significant aspects here are:

He mentions reports of the Patil Committee on corporate bond markets, the Percy Mistry Committee report on making Mumbai as international financial centre and the forthcoming Raghuram Rajan Committee on financial sector reforms. No mention is, however, made of the Tarapore Committee report on Fuller Capital Account Convertibility. In our view, this may be partly due to it being already implemented in parts, but perhaps more significantly as an indication that financial sector reforms are envisaged on a fast-track basis by the three Committees mentioned in contrast with gradualism which marks the Tarapore report which is seen as a legacy of earlier RBI regime.

- More significantly, the Governor talks of drawing from the three reports a *"roadmap that responds to our immediate and medium term needs"*.
- However, during the press conference, Governor clearly justified RBI's exchange rate policy in contrast to the sharp criticism in the Percy and Raghuram Rajan Committee reports (the later is in draft form), which want RBI to nearly abandon exchange rate as a central bank objective.

We expect end-FY2009 10-year gilt benchmark at 8.75% versus earlier estimate of 9.0%

In view of the Governor's statement we believe that our earlier expectations of another round of monetary policy tightening in October may not materialize. A cut in policy rate in 4QFY09 if inflation eases cannot be ruled out. The 10-year benchmark yield has dropped to 8.39% at close of September 9 from 9.49% at close of July 11, as (1) inflation expectations have fallen and (2) large redemptions occurred over last fortnight. The fall was exacerbated by RBI making secondary market purchases to replenishing the stock of G-secs with state governments on redemptions (our estimate:

about Rs35 bn). Banks are also replenishing their stock of SLR portfolio.

However, in our opinion, the market may be overreacting to new information and yields could harden if our expectations of an SLR cut of 2 ppt in 4QFY09 may materialize. We still see inflation in 8-9% range at end FY09 and this may not be supportive of benchmark gilt yields of below 8.5%.

- Considering the above, we lower our 10-year gilt benchmark at 8.75% versus earlier estimate of 9.0%.

Media

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		9-Sep	Target
ZEEL	ADD	227	260
HTML	BUY	124	175
Sun TV	REDUCE	233	260
Dish TV	BUY	39	56
JAGP	BUY	74	95

Indian Media Monthly, September 2008

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- **TRP ratings of all Hindi GE channels declined due to India-Sri Lanka cricket series**
- **Sun TV continues to dominate key markets even as competitive intensity is rising**
- **Newsprint prices likely to peak at US\$800-850/ton as per industry expert**

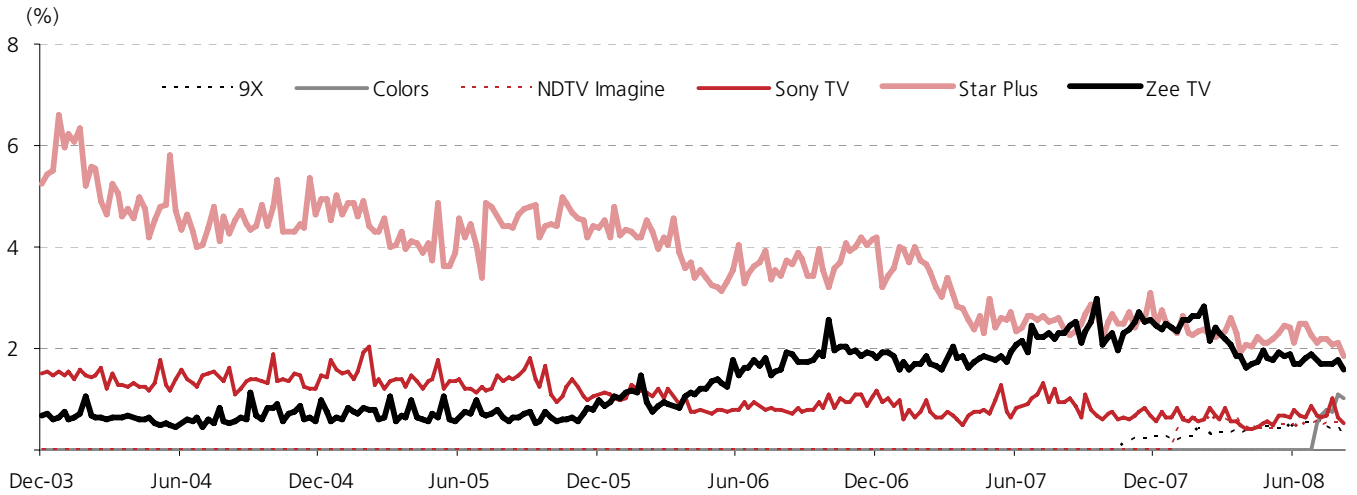
TRP ratings of all Hindi GE channels decline due to India-Sri Lanka cricket series on Ten Sports. All Hindi GE channels reported lower ratings for the most recent week due to India-Sri Lanka cricket series telecast on Ten Sports, a ZEEL network channel. ZEEL network reported higher ratings due to the cricket broadcast, which more than negated the marginal fall in Zee TV (ZTV) ratings. Viacom-18's channel Colors maintained a steady third position in the Hindi GE segment. The channel's success reflects its (1) widespread distribution, (2) innovative marketing and (3) differentiated content. Colors has largely gained TRP ratings (1) through the expansion of its Hindi GE segment and (2) at the expense of Star Plus.

Sun TV Network continues to dominate key markets; lively competition in Telugu and Kannada markets. Sun TV Network continues to dominate the South Indian markets with sustained strong ratings of its flagship channels and the launch of new niche channels. However, the TRP ratings of its flagship channels have declined over the past 3-4 years, in line with increased competition and fragmentation of the market. Sun TV channels face intense competition in Telugu and Kannada markets from extant and emerging broadcasters such as Eenadu TV, Zee News, Maa TV and Asianet. Asianet maintained its lead over Sun's Surya TV in the Malayalam market in the month of August.

Global newsprint prices likely to peak at US\$800-850/ton in the near term, as per industry expert. Newsprint prices in North America continued their upward trend with the 30-lb benchmark US East Coast price rising US\$15/ton, less than the previously announced US\$20/ton, to US\$735/ton in the month of August. Our discussion with Chris Cook, deputy editor of newsprint at RISI, revealed that newsprint prices are likely to peak at US\$800-850/ton given (1) likely peaking of commodity cycle (raw materials and energy), (2) continued sharp decline in North American newsprint demand, (3) weaker-than-expected exports (largely to emerging markets) and (4) increasing resistance from financially-leveraged US publishers.

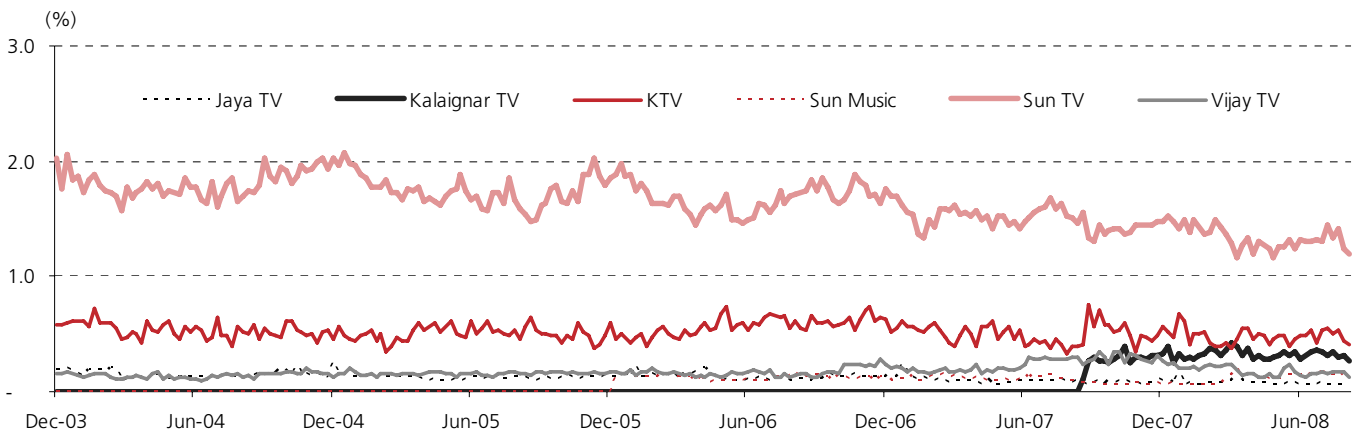
For more details, please refer to our '*Indian Media Monthly, September 2008*'.

Primetime (7:30-11:30 PM) ratings of key Hindi general entertainment channels (%)



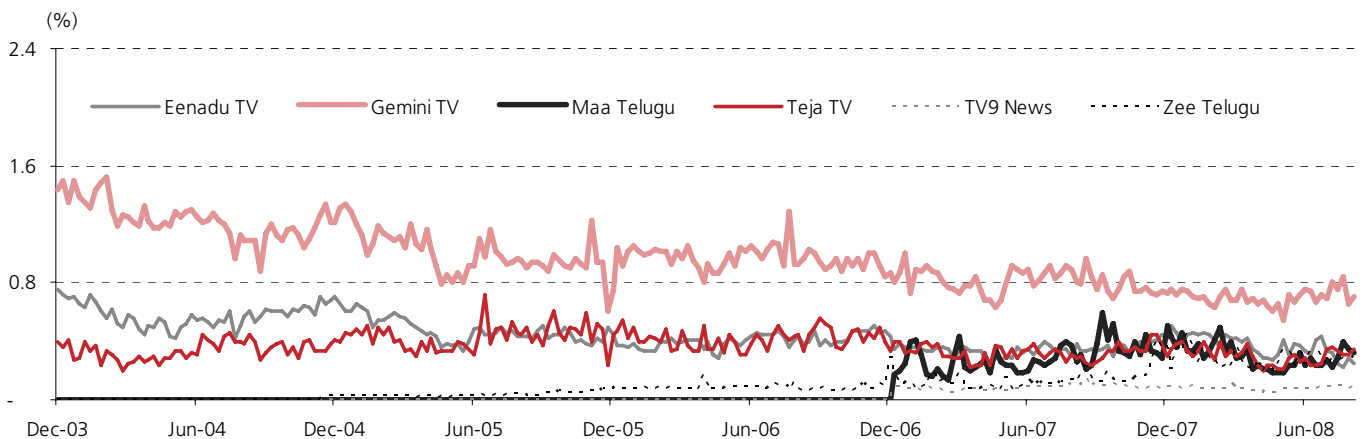
Source: TAM Media Research, compiled by Kotak Institutional Equities

Prime-time (7:30-11:30 PM) ratings of key Tamil regional language channels (%)



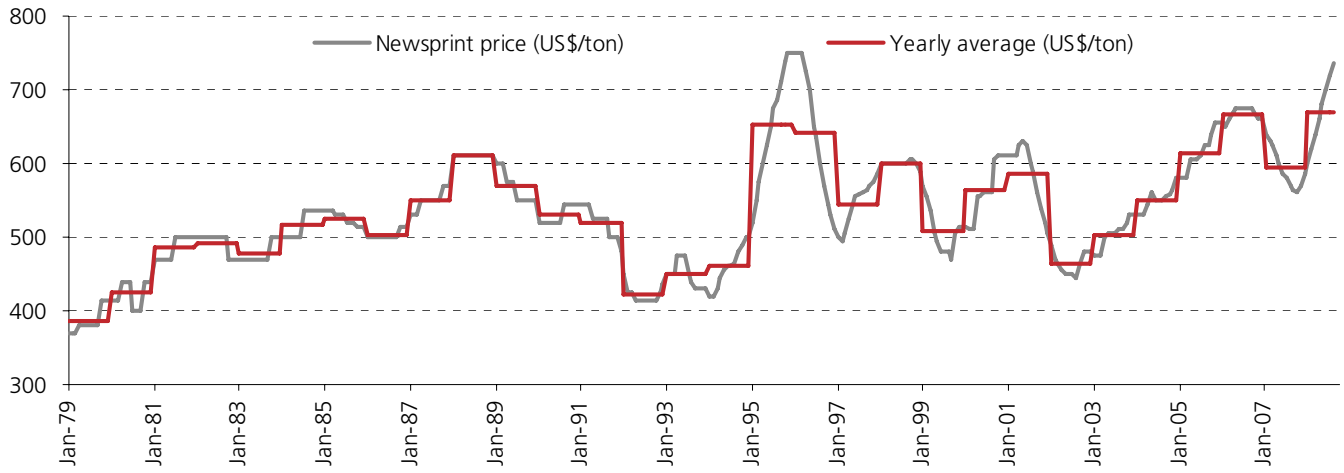
Source: TAM Media Research, compiled by Kotak Institutional Equities.

Prime-time (7:30-11:30 PM) ratings of key Telugu regional language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Historical newsprint price, US East Coast, 1979-2008 (US\$/ton)



Source: PPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities.

Utilities

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		9-Sep	Target
Reliance Infracor	BUY	1,071	1,250
Reliance Powe	REDUCE	169	180
Tata Power	BUY	1,086	1,540
NTPC	REDUCE	180	179
Lanco	BUY	297	530
CESC	BUY	330	500

Capex spend on the rise—assuring earnings growth on commissioning

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- **Capex of Rs170 bn incurred during FY2008 towards capacity additions**
- **Clearance from NSG positive for long-term growth, NPCIL is the only near-term beneficiary in utilities space**
- **Remain optimistic on long-term growth prospects of power sector**

Our analysis of the financials of power utility companies under coverage indicates a capex of Rs170 bn incurred in FY2008, up 33% yoy from Rs125 bn in FY2007. As of March 31, 2008, the capital work in progress (CWIP) for these utility companies was about 38% of the closing gross block, suggesting high visibility of earnings growth as the new projects commission. We continue to be optimistic about the long-term growth prospects of the power sector and expect 65 GW of generation capacity addition during the current XIth Five-Year Plan against a target of 78 GW. We like Tata Power and Lanco Infracor due to the traction on project implementation. The waiver from the Nuclear Suppliers Group (NSG) is a long-term positive for the growth of the sector, though Nuclear Power Corporation of India (NPCIL) remains the only near-term beneficiary within the utilities space. We reiterate our BUY rating on Tata Power (TP: Rs1,540), Lanco Infracor (TP: Rs530) and Reliance Infrastructure (TP: Rs1,250).

Capex of Rs170 bn incurred during FY2008 towards capacity additions. Our analysis of the power utility companies under coverage indicates a capex of Rs170 bn incurred in FY2008 compared to Rs125 bn in FY2007. We further note that CWIP of these utility companies is additional ~38% of the closing gross block, suggesting that a large proportion of current market price accrues from embedded assets that do not currently contribute to earnings.

Exhibit 1 highlights company-wise addition to gross fixed asset and capital work in progress during FY2008.

Clearance from NSG positive for long-term growth, NPCIL is the only near-term beneficiary. The waiver from the Nuclear Suppliers Group (NSG) that ends India's three-decade nuclear isolation is positive for the long-term growth of the power sector. However, NPCIL is the only near-term beneficiary from this development in the utilities space. We note that India currently has an installed nuclear power generation capacity of 4,120 MW and intends to add 3,380 MW by FY2012E. In our view, the NSG waiver would increase fuel supplies made available to these plants, thereby increasing their contribution to the countries' generation (46% PLF for nuclear capacities in FY2008). India plans to add 20 GW of nuclear-based power projects incurring an outlay of Rs1,200 bn (~Rs60 mn/MW). Private sector participation in nuclear power generation in India would require an amendment to the Atomic Energy Commission Act.

Land acquisition and environmental clearance remains an obstacle

Land acquisition and environmental clearances continue to be an obstacle in the development of large power projects. Stiff opposition from the local population continues to hamper development of these projects. In view of the high risk attached to land acquisition, we prefer the project portfolio of Tata Power and Lanco Infracor where majority of planned capacity additions are already under construction (See Exhibit 2). While the NSG waiver will open the doors for nuclear technology and nuclear fuel, nuclear power plants will also continue to face problems related to land acquisition and environmental clearance.

Remain optimistic on long-term growth prospects. We continue to remain optimistic about the long-term growth prospects of the power sector and estimate capacity addition of 65 GW during the current XIth Five-Year Plan against a target of 78 GW. We prefer companies which have made significant progress towards achieving their planned capacity additions. Tata Power (TP: Rs1,540; CMP: Rs1,086); Lanco Infratech (TP: Rs530; CMP: Rs297); and Reliance Infrastructure (TP:Rs1,250; CMP: Rs1,086) remain our preferred stocks. We like Tata Power and Lanco Infratech on account of traction on completion of projects, while we like Reliance Infrastructure due to the potential of its EPC business to win more contracts for execution of Reliance Power's large portfolio of power projects.

Exhibit 1: Utility companies under coverage incurred a capex of Rs170 bn during FY2008

Gross block, CWIP and capex undertaken by utility companies under coverage (Rs mn)

	Gross block		Capital WIP (CWIP)		Capex		CWIP/Gross block
	2008	2007	2008	2007	2008	2007	2008 (%)
NTPC	533,680	507,273	224,783	168,392	82,798	78,929	42
Lanco Infratech	20,457	19,186	24,106	10,958	14,419	29,649	118
Reliance Power	2,148	673	8,178	508	9,145	231	381
CESC	87,435	84,696	6,196	2,657	6,278	3,428	7
Tata Power	124,748	88,857	32,342	10,725	57,508	13,124	26
Total	768,468	700,684	295,605	193,240	170,149	125,361	38

Note:

(a) CESC includes capex of standalone entity only, and excludes fixed asset addition in retail business.

(b) FY2008 gross block of Tata Power has been adjusted by Rs40 bn towards fixed assets acquired through coal mines and NDPL becoming a subsidiary.

Source: Company data, Kotak Institutional Equities.

Exhibit 2: Utility companies are progressing well towards commissioning planned capacity additions

Progress of planned capacity addition by utility companies (MW)

	Capacity addition planned	Under construction	Financial closure achieved
NTPC	22,430	16,680	NA
Lanco Infratech	6,135	3,405	3,405
Reliance Power	28,200	4,600	600
CESC	3,050	250	250
Tata Power	11,340	5,740	5,660

Note:

(a) NTPC does balance sheet financing of power projects.

Source: Company data, Kotak Institutional Equities.

Exhibit 3: Summary valuation of utility companies

	Rating	Mkt Cap. (US\$ bn)	Price (Rs) 25-Jul	EV/EBITDA (X)			P/E (X)		
				2008	2009E	2010E	2008	2009E	2010E
Reliance Infrastructure	BUY	5.38	984	18.9	37.8	29.4	23.3	21.5	21.3
Tata Power	BUY	5.57	1,010	24.8	22.1	22.4	36.6	28.5	27.2
Tata Power - adj.				9.5	9.2	10.7	7.8	5.9	5.5
CESC	BUY	1.07	362	6.6	6.8	5.9	11.9	11.7	9.6
NTPC	ADD	36.6	188	14.4	15.5	15.5	20.1	18.8	17.4
NTPC - adj.				11.7	12.6	12.6	21.6	19.3	15.9
Lanco Infratech	BUY	1.94	369	18.0	17.8	12.7	18.6	15.8	9.5
Power Grid	NR	11.73	112	(676)	(907)	1,471	445.0	70.9	87.2

	P/BV (X)			Div Yield (%)		ROCE (%)			ROE (%)		
	2008	2009E	2010E	2007	2008	2008	2009E	2010E	2008	2009E	2010E
Reliance Infrastructure	1.5	1.5	1.4	0.0	0.5	7.1	5.1	5.0	4.0	4.0	5.3
Tata Power	3.4	2.8	2.4	0.9	0.9	6.5	6.2	5.2	10.6	11.0	9.5
Tata Power - adj.											
CESC	1.6	1.4	1.3	1.0	1.1	11.3	10.0	9.9	16.8	13.3	14.0
NTPC	2.8	2.6	2.4	1.7	1.9	9.9	8.5	7.4	14.4	14.2	14.3
NTPC - adj.	4.7	4.0	3.5								
Lanco Infratech	3.3	2.7	2.1	0.0	0.0	13.7	8.3	8.3	20.2	18.9	25.2
Power Grid	2.8	2.9	2.7	0.0	0.0	0.0	0.0	1.6	1.2	3.5	4.3

Note:

(a) Tata Power-adj. reflects the adjustment made for the value of the investment portfolio and stake in coal mines in Indonesia.

(b) NTPC - adj.: P/E and P/BV - adjusted for the treasury portfolio and income.

Source: Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	9-Sep-08		Mkt cap.		O/S	0 EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT-	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	Price (Rs)	Upside (%)	3mo (US\$ mn)
Energy																													
Bharat Petroleum	354	REDUCE	115,918	2,736	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	8.9	8.7	9.2	3.5	3.9	2.8	0.9	0.9	0.7	1.2	1.2	1.1	11.4	10.4	8.9	360	1.8	5.4
Cairn India	229	SELL	427,757	10,098	1,868	(0.1)	3.9	19.4	(105)	(3,390)	395	(1,921)	58	11.8	53.5	23.8	8.1	1.4	1.3	1.2	—	—	—	(0.1)	2.3	10.5	230	0.4	42.0
Castrol India (a)	344	ADD	42,477	1,003	124	20.1	23.6	24.1	64.6	17.5	2.1	17.1	14.5	14.2	10.0	8.6	8.4	10.3	9.6	9.0	4.1	5.2	5.2	59.5	68.5	65.2	350	1.9	0.4
GAIL (India)	426	BUY	360,627	8,513	846	30.8	36.8	42.0	21.7	19.5	14.3	13.9	11.6	10.1	8.0	7.1	7.1	2.5	2.2	1.8	2.3	2.6	3.0	18.2	19.2	18.7	470	10.2	14.4
GSPL	59	ADD	33,144	782	563	1.8	3.6	5.1	8.5	103.8	40.2	33.2	16.3	11.6	10.4	7.3	5.1	2.7	2.3	2.1	0.8	1.7	2.4	8.7	15.3	18.8	69	17.1	2.5
Hindustan Petroleum	244	REDUCE	82,551	1,949	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	7.3	9.3	7.3	5.8	3.8	2.3	0.7	0.6	0.6	1.2	1.0	1.2	9.6	6.8	7.9	260	6.8	5.0
Indian Oil Corporation	434	REDUCE	511,766	12,081	1,179	60.5	40.9	61.8	29.2	(32.5)	51.2	7.2	10.6	7.0	4.6	8.3	7.7	1.1	1.0	0.9	1.3	1.2	1.6	17.2	10.1	13.5	500	15.2	3.6
Oil & Natural Gas Corporation	1,102	BUY	2,357,909	55,664	2,139	92.8	129.3	149.2	9.1	39.3	15.4	11.9	8.5	7.4	4.5	3.5	3.0	2.3	1.9	1.6	2.9	3.3	4.1	19.3	23.4	22.8	1,225	11.1	51.9
Petronet LNG	61	ADD	45,638	1,077	750	6.3	5.8	6.5	—	(7.6)	10.5	9.6	10.4	9.4	6.0	7.4	6.1	2.4	2.0	1.7	2.5	2.5	2.5	26.7	20.2	18.6	70	15.0	2.3
Reliance Industries	2,143	RS	2,816,146	66,481	1,314	101.7	97.4	171.9	23.0	(4.2)	76.4	21.1	22.0	12.5	12.6	10.8	5.7	3.2	2.8	2.1	0.6	0.7	1.0	18.5	14.4	21.6	—	—	258.6
Reliance Petroleum	160	REDUCE	718,425	16,960	4,500	(1.1)	2.0	19.1	n/a	n/a	840.9	n/a	78.8	8.4	n/a	34.7	7.0	5.3	5.0	3.3	—	—	1.3	(3.5)	6.6	47.3	170	6.5	101.8
Energy																													
Cautious																													
			7,512,358	177,346					11.1	18.5	55.0	16.1	13.6	8.8	7.9	7.0	5.0	2.3	2.0	1.7	1.4	1.6	2.1	14.4	14.4	19.1			
Industrials																													
ABB	897	REDUCE	190,156	4,489	212	23.2	28.6	35.4	44.5	23.2	23.7	38.7	31.4	25.4	23.0	18.2	14.2	11.7	8.9	6.8	0.2	0.3	0.4	34.8	32.1	30.3	875	(2.5)	10.4
AIA Engineering	1,630	BUY	30,631	723	19	70.9	89.4	114.2	38.1	26.1	27.7	23.0	18.2	14.3	17.3	11.5	8.8	5.0	4.0	3.2	0.4	0.6	0.7	24.0	24.2	24.6	1,600	(1.8)	0.2
BGR Energy Systems	325	REDUCE	23,422	553	72	12.3	18.3	23.2	(67.1)	49.5	26.7	26.5	17.8	14.0	16.0	10.7	9.1	4.6	3.8	3.0	0.4	0.6	0.7	30.1	23.5	24.1	325	(0.1)	3.7
Bharat Electronics	969	ADD	77,496	1,829	80	102.1	104.4	111.1	11.3	2.3	6.4	9.5	9.3	8.7	3.8	3.5	3.1	2.3	2.0	1.7	2.6	2.6	2.6	27.9	23.1	20.9	1,200	23.9	1.6
Bharat Heavy Electricals	1,751	ADD	857,027	20,232	490	58.4	73.1	96.9	22.9	25.1	32.6	30.0	24.0	18.1	16.3	12.7	9.8	8.0	6.4	5.0	0.9	0.9	1.2	29.2	29.5	31.1	2,000	14.2	81.4
Dredging Corporation	476	REDUCE	13,325	315	28	55.3	48.7	57.0	(8.3)	(12.0)	17.2	8.6	9.8	8.3	4.8	4.5	3.7	1.1	1.0	0.9	3.2	3.2	3.2	12.5	10.3	11.1	475	(0.2)	0.1
Larsen & Toubro	2,739	BUY	811,688	19,162	296	75.9	117.5	149.1	20.8	54.8	27.0	36.1	23.3	18.4	22.3	14.0	11.0	6.9	4.6	3.6	0.6	0.7	0.7	22.7	23.6	22.4	3,600	31.4	118.2
Maharashtra Seamless	302	BUY	21,314	503	71	31.4	37.5	44.7	(18.3)	19.6	19.1	9.6	8.0	6.8	5.8	5.1	4.3	1.8	1.5	1.3	1.5	1.9	2.2	20.9	20.8	20.7	390	29.1	0.9
Siemens	549	REDUCE	184,932	4,366	337	18.2	18.8	25.9	60.4	3.1	38.0	30.1	29.2	21.2	17.8	16.9	12.0	10.1	7.9	6.0	0.4	0.5	0.6	39.9	30.2	32.0	570	3.9	7.2
Suzlon Energy	241	ADD	377,400	8,909	1,567	6.6	11.4	17.7	9.5	73.5	55.1	36.6	21.1	13.6	18.1	13.7	10.4	4.1	3.4	2.7	0.4	0.4	0.4	16.3	17.7	22.1	300	24.6	45.2
Industrials																													
			Neutral	2,587,392	61,081				24.2	34.4	32.2	29.9	22.3	16.8	17.2	12.9	10.1	6.2	4.7	3.8	0.7	0.8	0.9	20.6	21.3	22.4			
Infrastructure																													
IRB Infrastructure	151	BUY	50,186	1,185	332	3.4	7.3	15.7	150.9	111.5	116.3	44.1	20.8	9.6	15.3	14.0	6.5	3.0	2.6	2.0	—	—	—	10.7	13.4	23.3	195	29.1	0.6
Media																													
DishTV	39	BUY	19,484	460	500	(9.6)	(8.9)	(4.4)	n/a	(7.8)	(50.7)	(4.0)	(4.4)	(8.9)	(11.0)	(11.8)	76.2	(4.3)	(7.7)	(3.6)	—	—	—	167.9	125.6	71.3	56	43.6	4.4
HT Media	124	BUY	29,094	687	234	4.3	4.2	7.5	4.7	(2.0)	77.1	28.7	29.3	16.5	16.4	16.2	9.1	3.4	3.1	2.7	0.3	0.3	0.6	12.2	11.0	17.2	175	40.9	0.3
Jagran Prakashan	74	BUY	22,211	524	301	3.3	3.1	5.0	33.5	(6.3)	63.3	22.6	24.2	14.8	12.7	12.8	8.2	4.1	3.9	3.5	2.7	2.5	3.4	18.7	16.6	25.1	95	28.8	0.3
Sun TV Network	233	REDUCE	91,880	2,169	394	8.3	9.7	12.0	30.7	16.7	23.6	28.1	24.1	19.5	14.9	12.4	10.2	6.1	5.3	4.7	1.1	1.3	2.6	24.8	24.2	26.1	260	11.5	1.6
Zee Entertainment Enterprises	227	ADD	98,506	2,325	434	8.9	10.5	13.9	62.6	17.8	32.7	25.6	21.7	16.4	18.6	14.0	10.7	3.5	3.1	2.7	0.9	1.1	1.6	14.2	15.1	17.8	260	14.4	6.9
Media																													
			Attractive	261,175	6,166				24.0	16.8	92.0	52.4	44.8	23.3	20.9	16.8	11.0	4.9	4.2	3.9	1.0	1.1	1.9	9.4	9.4	16.6			
Metals																													
Hindalco Industries	126	REDUCE	219,722	5,187	1,742	13.1	16.2	14.6	(10.9)	23.5	(9.9)	9.6	7.8	8.6	6.0	4.7	4.6	1.2	0.7	0.8	1.1	1.4	1.4	14.3	12.7	9.4	150	19.0	11.3
National Aluminium Co.	386	REDUCE	248,575	5,868	644	25.2	30.3	33.5	(31.8)	20.0	10.6	15.3	12.7	11.5	8.0	6.9	5.5	2.7	2.3	2.0	1.9	1.9	1.9	18.4	19.4	18.7	370	(4.1)	5.8
Jindal Steel and Power	1,803	BUY	277,515	6,551	154	80.4	111.6	117.0	83.2	38.9	4.8	22.4	16.1	15.4	14.2	10.6	9.6	6.4	4.5	3.4	—	—	—	34.3	32.8	25.1	2,900	60.9	24.1
JSW Steel	715	ADD	132,850	3,136	186	92.0	103.1	146.8	35.7	12.0	42.4	7.8	6.9	4.9	5.8	6.0	4.3	1.4	1.1	0.9	2.6	2.6	2.6	21.2	18.1	21.0	1,040	45.4	19.3
Hindustan Zinc	550	ADD	232,393	5,486	423	104.0	72.2	71.5	(1.0)	(30.6)	(1.0)	5.3	7.6	7.7	3.7	4.6	4.1	1.9	1.5	1.3	1.4	1.4	1.8	44.0	22.5	18.4	750	36.4	3.1
Sesa Goa	148	BUY	116,275	2,745	787	18.8	22.6	23.2	144.6	19.7	2.7	7.8	6.5	6.4	5.1	4.0	3.5	4.2	2.8	2.1	2.4	2.7	3.4	68.6	50.8	36.9	195	32.0	40.4
Sterilite Industries	575	SELL	407,632	9,623	708	63.7	52.3	51.5	(23.3)	(17.9)	(1.6)	9.0	11.0	11.2	5.1	5.1	4.6	1.8	1.5	1.3	—	—	—	26.6	14.8	12.6	460	(20.0)	29.3
Tata Steel	564	REDUCE	463,274	10,937	822	75.7	116.9	106.1	43.8	54.4	(9.3)	7.4	4.8	5.3	5.4	4.7	4.7	1.3	1.0	0.9	2.6	2.3	2.3	46.3	35.6	28.4	520	(7.7)	71.8
Metals																													
			Cautious	2,098,235	49,533				1																				

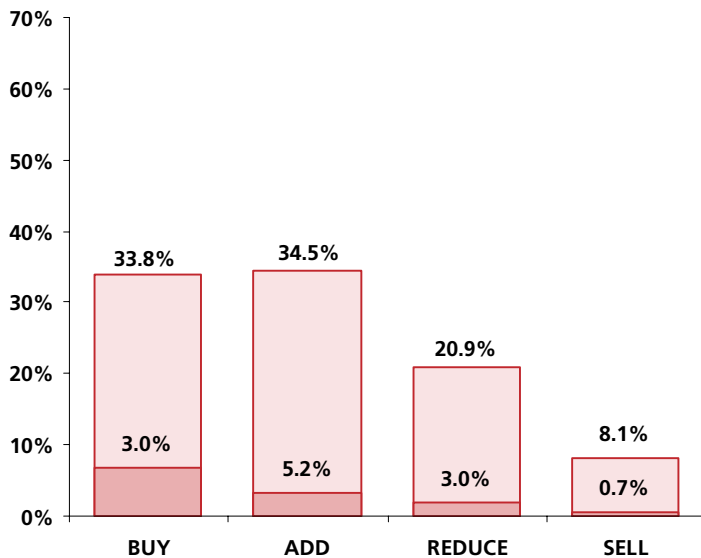
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	9-Sep-08		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	ADVT-3mo		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	Upside (%)	(US\$ mn)	
Retail																														
Pantaloon Retail	341	BUY	58,704	1,386	172	8.0	14.2	19.9	93.2	76.5	39.9	42.5	24.1	17.2	16.3	10.6	8.7	3.4	2.2	1.9	0.2	0.2	0.3	8.6	10.7	11.5	460	34.7	1.1	
Rajesh Exports	49	BUY	14,217	336	291	8.2	5.9	6.9	80.4	(28.2)	16.6	5.9	8.3	7.1	2.3	1.2	0.6	1.8	1.0	1.0	0.6	0.9	0.9	26.8	12.3	13.5	120	145.4	2.8	
Titan Industries	1,192	BUY	52,892	1,249	44	35.1	41.1	49.8	55.2	17.3	21.0	34.0	29.0	23.9	22.8	17.8	14.3	11.2	8.6	6.7	0.7	0.8	0.9	37.7	33.6	31.6	1,350	13.3	2.9	
Vishal Retail	388	ADD	8,690	205	22	18.1	21.6	35.6	37.2	19.2	65.2	21.4	18.0	10.9	10.8	7.4	5.6	3.2	2.7	2.2	-	-	-	20.2	16.2	22.1	485	25.0	0.2	
Retail			134,502	3,175					53.0	20.1	32.7	25.4	21.2	16.0	12.5	9.7	7.9	4.2	2.7	2.4	0.4	0.5	0.6	16.4	12.9	14.8				
Technology																														
HCL Technologies	255	REDUCE	177,017	4,179	695	15.3	22.3	25.4	(19.0)	46.0	13.8	16.7	11.4	10.0	9.6	7.6	6.4	3.6	3.0	2.5	3.1	3.1	3.1	21.4	28.1	27.3	250	(1.8)	5.3	
Hexaware Technologies	47	SELL	6,723	159	142	7.7	4.7	5.6	(13.7)	(38.2)	18.5	6.2	10.0	8.4	2.9	3.0	2.2	1.0	0.9	0.8	3.4	3.4	3.4	15.1	9.4	10.4	50	5.7	0.4	
Infosys Technologies	1,749	BUY	1,004,184	23,706	574	79.1	102.1	118.1	18.0	29.1	15.7	22.1	17.1	14.8	17.6	13.3	10.7	7.3	5.6	4.4	1.9	1.4	1.6	36.1	36.8	33.1	2,100	20.0	82.5	
Mphasis BFL	242	SELL	50,371	1,189	208	12.2	15.6	18.5	67.6	27.3	18.8	19.7	15.5	13.0	11.8	9.3	7.6	4.4	0.6	3.0	1.4	1.7	1.9	23.6	25.6	25.4	220	(8.9)	1.5	
Mindtree	341	BUY	13,372	316	39	26.1	35.7	43.4	14.8	36.5	21.7	13.0	9.6	7.8	11.0	6.8	5.1	2.5	2.0	1.6	0.8	1.1	1.3	21.3	23.5	22.9	550	61.3	0.5	
Patni Computer Systems	231	SELL	32,067	757	139	33.4	25.2	29.7	29.7	(24.5)	17.7	6.9	9.2	7.8	3.9	3.6	2.6	1.2	1.1	1.0	0.9	1.0	1.2	19.2	11.7	12.7	260	12.7	1.6	
Polaris Software Lab	100	SELL	9,805	231	98	7.4	10.1	11.8	(27.6)	36.0	16.2	13.4	9.8	8.5	6.8	4.9	4.0	1.5	1.3	1.2	1.8	1.8	1.8	11.7	14.3	14.8	90	(9.8)	6.1	
Satyam Computer Services	425	BUY	289,857	6,843	682	25.2	32.2	37.5	17.7	27.6	16.5	16.8	13.2	11.3	13.5	9.7	7.9	4.0	3.2	2.6	2.3	2.8	3.3	26.0	27.1	25.7	500	17.6	39.8	
TCS	865	REDUCE	846,302	19,979	979	51.3	58.7	67.9	21.5	14.5	15.6	16.9	14.7	12.7	13.7	11.6	9.7	6.8	5.4	4.4	1.6	2.4	3.1	47.0	40.8	37.8	900	4.1	27.3	
Tech Mahindra	795	BUY	98,992	2,337	125	59.1	74.8	89.4	25.7	26.7	19.4	13.5	10.6	8.9	11.9	7.6	5.7	7.9	4.4	2.9	0.5	-	0.8	70.7	55.8	41.6	900	13.3	4.8	
Wipro	435	ADD	631,040	14,897	1,450	22.2	27.5	33.5	12.6	23.6	21.8	19.6	15.8	13.0	15.6	11.7	9.2	4.9	4.0	3.2	1.5	1.9	2.3	27.9	27.6	27.4	490	12.6	11.4	
Technology	Neutral		3,159,731	74,592					16.1	23.8	17.0	18.3	14.8	12.6	14.2	11.0	8.9	5.4	4.3	3.5	1.8	1.9	2.4	29.5	29.0	27.6				
Telecom																														
Bharti Airtel Ltd	837	REDUCE	1,588,353	37,497	1,898	35.3	47.0	57.0	65.0	33.2	21.1	23.7	17.8	14.7	14.3	10.5	8.0	7.0	5.0	3.7	-	0.5	0.7	39.1	32.9	29.1	840	0.4	77.2	
IDEA	85	REDUCE	225,381	5,321	2,639	3.9	4.6	5.5	78.5	15.7	20.8	21.6	18.7	15.5	12.5	9.3	7.7	6.4	4.7	3.6	-	-	-	36.4	29.1	26.6	100	17.1	18.3	
MTNL	100	REDUCE	62,748	1,481	630	6.0	6.5	7.0	(25.2)	7.7	8.2	16.6	15.4	14.2	1.9	2.1	2.1	0.5	0.5	0.5	6.0	6.0	6.0	2.7	2.9	3.2	100	0.4	3.7	
Reliance Communications	405	SELL	836,642	19,751	2,064	25.0	28.6	34.8	76.4	14.1	21.9	16.2	14.2	11.6	11.4	9.7	7.6	3.0	2.4	2.0	0.2	-	-	16.1	19.9	19.8	390	(3.8)	93.0	
Tata Communications	447	REDUCE	127,253	3,004	285	10.9	12.0	13.3	(36.3)	9.2	11.2	40.8	37.3	33.6	17.0	15.9	13.7	1.9	1.8	1.8	1.0	1.1	1.5	4.4	4.7	4.9	430	(3.7)	3.2	
Telecom	Cautious		2,840,376	67,053					61.9	23.9	20.6	20.1	16.2	13.5	12.8	10.0	7.9	3.9	3.2	2.6	0.4	0.5	0.6	19.4	19.6	19.3				
Transportation																														
Container Corporation	900	ADD	116,963	2,761	130	57.7	67.5	75.0	7.8	17.0	11.0	15.6	13.3	12.0	10.7	9.1	7.6	3.7	3.0	2.6	1.4	1.6	1.8	25.8	24.9	23.1	950	5.6	1.3	
Gateway Distriparks	91	BUY	10,449	247	115	6.4	8.1	10.8	(5.0)	26.5	33.5	14.1	11.2	8.4	9.8	7.3	5.6	1.5	1.4	1.3	3.2	3.7	3.8	10.8	12.9	15.8	125	38.1	1.1	
GE Shipping	358	BUY	54,520	1,287	152	105.9	72.7	48.2	77.6	(31.3)	(33.7)	3.4	4.9	7.4	4.9	5.9	6.6	1.3	1.1	1.0	4.2	5.1	3.4	43.2	23.4	13.7	500	39.6	2.8	
Jet Airways	543	SELL	46,882	1,107	86	(76.5)	(123.3)	96.4	(2,857)	71	206.7	(7.1)	(4.4)	5.6	61.0	17.9	6.4	1.0	1.3	1.1	-	-	1.3	(19.5)	(26.5)	21.5	450	(19.9)	1.5	
Transportation	Neutral		228,813	5,402					3.9	(42.9)	162.9	12.9	22.6	8.6	12.6	10.3	6.7	1.8	1.7	1.5	1.8	2.2	2.1	13.9	7.7	17.4				
Utilities																														
CESC	330	BUY	41,216	973	125	27.8	28.2	31.1	(23.3)	1.4	10.4	11.9	11.7	10.6	6.0	6.9	7.8	1.3	1.2	1.1	1.2	1.2	1.5	12.5	10.6	10.5	500	51.6	1.1	
Lanco Infratech	297	BUY	66,101	1,560	222	16.0	18.7	31.3	88.4	17.4	67.1	18.6	15.9	9.5	14.3	16.8	13.7	3.3	2.7	2.1	(2.0)	-	-	20.2	18.9	25.2	530	78.2	19.5	
NTPC	180	REDUCE	1,480,061	34,940	8,245	8.9	9.5	10.3	3.5	6.7	8.0	20.1	18.8	17.4	14.4	15.5	15.5	2.8	2.6	2.4	2.0	2.1	2.9	14.4	14.2	14.3	179	(0.3)	31.7	
Reliance Infrastructure	1,071	BUY	247,305	5,838	231	46.0	49.7	50.2	26.1	8.0	0.9	23.3	21.5	21.3	22.2	41.2	32.3	1.5	1.5	1.4	0.6	0.6	0.6	4.0	4.0	5.3	1,250	16.7	99.1	
Reliance Power	169	REDUCE	405,419	9,571	2,397	0.4	2.1	2.6	-	443.9	25.2	444.8	81.8	65.3	-	-	-	3.0	2.8	2.7	-	-	-	1.2	3.5	4.3	180	6.4	42.1	
Tata Power	1,086	BUY	253,092	5,975	233	29.7	38.1	39.9	11.6	28.5	4.6	36.6	28.5	27.2	24.8	22.0	22.4	3.4	2.6	2.3	0.8	0.9	0.9	10.0	10.3	9.0	1,540	41.8	30.3	
Utilities	Attractive		2,493,193	58,857					10.0	12.6	10.1	25.1	22.3	20.3	17.5	20.0	20.3	2.6	2.4	2.2	1.3	1.4	1.9	10.3	10.7	11.0				
Others																														
Aban Offshore	2,387	REDUCE	92,304	2,179	39	72.3	271.8	488.1	(1,066)	276.0	79.6	33.0	8.8	4.9	17.0	8.1	5.3	10.5	4.3	2.4	0.1	0.4	0.6	51.7	60.1	53.5	2,700	13.1	19.2	
ABG Shipyard	371	-	18,897	4																										

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As of June 30, 2008

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