

From our research team

Equity market

India	28-Mar	Change, %		
		1-day	1-mo	3-mo
Sensex	12,884	(1.8)	(0.4)	(6.5)
Nifty	3,761	(1.5)	0.4	(5.2)

Global/Regional indices

		1-day	1-mo	3-mo
Dow Jones	12,300	(0.8)	0.3	(1.3)
Nasdaq Composite	2,417	(0.8)	0.0	0.1
FTSE	6,267	-	1.6	0.7
Nikkie	17,122	(0.8)	(2.7)	(0.6)
Hang Seng	19,554	(0.8)	(0.5)	(2.1)
KOSPI	1,438	(0.1)	1.5	0.3

Value traded - India

	28-Mar	Moving avg, Rs bn	
		1-mo	3-mo
Cash (NSE+BSE)	123.9	118.9	119.1
Derivatives (NSE)	91.6	74.7	78.7
Deri. open interest	121.3	101.1	85.2

Forex/money market

	28-Mar	Change, basis points		
		1-day	1-mo	3-mo
Rs/US\$	43.0	-	(123)	(122)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	(1)	-	37

Net investment (US\$mn)

	26-Mar	MTD	CYTD
FII's	18	#N/A	40
MF's	(69)	#N/A	(303)

Top movers -3mo basis

Best performers	28-Mar	Change, %		
		1-day	1-mo	3-mo
SAIL	110	(0.6)	0.9	23.3
Punjab Tractors	303	0.0	(5.9)	21.3
Bharti Tele	758	(2.4)	5.4	20.5
Exide Indus	43	(1.3)	(8.4)	15.0
Britannia	1,238	(1.3)	0.2	13.4

Worst performers

Acc	735	0.0	(18.3)	(32.3)
Tvs Motor	62	(0.5)	0.5	(29.4)
Century Tex	535	(2.8)	(0.7)	(27.7)
Gujarat Ambuja	102	(2.1)	(11.8)	(27.6)
Grasim	2,067	(0.2)	(6.6)	(25.9)

Bharti Airtel, Reliance Communications: USO funding for rural telecom infrastructure: BSNL emerges winner for most clusters for passive infrastructure

Satyam Computer Services: Wins US\$200 mn five-year deal with Applied Materials; incremental portion at US\$150 mn. Maintain IL rating

Banks/Financial Institutions: Housing Finance Companies: Provisions for non-housing loans to have marginal impact on HFCs

Corporate news

- ACC will spend US\$950 mn over the next three years to expand its cement capacity to 27.5 mn tonnes from 19.91 mt currently. The investments include US\$345 mn to increase the clinkering capacity at the new Wadi plant, additional grinding facility and a captive power plant of 50 MW in Karnataka. (BL)
- Hyderabad-based Rain Commodities today said its wholly-owned subsidiaries - Rain USA and Rain Canada - have decided not to exercise their right to match rival bidder Oxbow's proposal of C\$14.00 per unit for acquiring the assets of the Toronto-based Great Lakes Carbon Income Fund. (BS)

Economic and political news

- Steel companies are gearing up to increase prices by Rs500-1,000 per tonne from April 1. The industry plans to raise prices cautiously though landed import prices are higher than domestic prices by Rs2,500-3,000 per tonne. The ruling price of hot rolled coils (HRC) stands at Rs 27,000 per tonne. (BS)
- On the back of a cash crunch, the rupee surged to an eight-year high of 43.04/05, last seen in 1999. Banks swapped dollars for rupees to meet immediate needs, giving a fillip to the domestic currency. (BL)

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

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Telecom**BRTI.BO, Rs758**

Rating	U
Sector coverage view	Neutral
Target Price (Rs)	525
52W High -Low (Rs)	850 - 310
Market Cap (Rs bn)	1,438

Financials

March y/e	2006	2007E	2008E
Sales (Rs bn)	116.6	192.1	273.1
Net Profit (Rs bn)	20.8	41.7	59.2
EPS (Rs)	10.7	21.5	30.5
EPS <i>gth</i>	67.4	100.9	42.0
P/E (x)	70.9	35.3	24.9
EV/EBITDA (x)	35.7	20.1	14.1
Div yield (%)	-	-	0.3

Shareholding, December 2006

	% of Pattern	% of Portfolio	Over/(under) weight
Promoters	61.0	-	-
FII's	25.6	4.8	0.7
MFs	2.3	2.7	(1.4)
UTI	-	-	(4.1)
LIC	1.6	1.7	(2.4)

Telecom**RLCM.BO, Rs418**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	400
52W High -Low (Rs)	518 - 186
Market Cap (Rs bn)	855.6

Financials

March y/e	2006	2007E	2008E
Sales (Rs bn)	106.3	148.0	208.0
Net Profit (Rs bn)	4.8	29.5	47.1
EPS (Rs)	2.2	13.9	22.5
EPS <i>gth</i>	-	543.1	61.5
P/E (x)	193.0	30.0	18.6
EV/EBITDA (x)	38.5	15.2	11.0
Div yield (%)	-	-	-

Bharti Airtel, Reliance Communications: USO funding for rural telecom infrastructure: BSNL emerges winner for most clusters for passive infrastructure

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- **BSNL is the lowest bidder in 63 out of 81 clusters for passive infrastructure**
- **Service providers finalized for 14 clusters only; another round of bidding for the rest**
- **Aggressive bidding underlines the drive for market share among operators**

According to the results of the second round of USO funding released by the Department of Telecommunications, BSNL has been selected as the infrastructure provider (IP) for providing passive infrastructure in 63 of the 81 rural clusters identified for USO funding in the second round of bidding. Final decision on three service providers (for rolling out wireless network) has been taken in only 14 out of the 81 clusters with another round of bidding due for the remaining clusters. As observed in our previous note on March 21, Bharti had bid a 'negative subsidy' in the 15 clusters it could bid for in the second round. We expect other operators to opt for negative subsidy as well in the third round. We see the aggressive bids by the telecom operators as reflective of likely price competition in the future in an attempt to gain market share. We retain our 12-month DCF-based target prices of Rs525 and Rs400, respectively, for Bharti and RCL. Key upside risk stems from higher-than-expected profitability.

BSNL wins most clusters for passive infrastructure. Exhibit 1 gives details of the second round of bidding. BSNL has emerged the winner in 63 of the 81 clusters identified for passive infrastructure under the USO funding tender. Other players that have been selected are GTL Infrastructure Limited (4 clusters), Hutchison Essar Limited (4), National Information Technologies Limited (4), Quipo Telecom Infrastructure Limited (1), and Reliance Communications Infrastructure Limited (4). RCL and GTLI will bid for the remaining cluster in the third round. We note that BSNL was the most aggressive bidder availing only 25% of the available subsidy in the clusters it won. Overall, the selected infrastructure providers will avail only 29% of the available Rs16.15 bn subsidy.

Third round of bidding for active infrastructure in most clusters. The government has finalized the service providers (three to be selected per cluster) for only 14 of the 81 clusters. While Reliance Communications (CDMA) has been selected in all 14 of these, Reliance Telecom (GSM) has also been selected in 9 of these clusters. RCL's aggressive bids for both CDMA and GSM are reflective of the company's strategy to pursue an aggressive dual strategy for further expansion. We note that Bharti and Dishnet Wireless have opted for 'reverse subsidy' with Bharti the most aggressive among the bidders.

Aggressive bidding for active infrastructure will likely continue in the third round. As noted above, there would be a third round of bidding for 67 out of 81 clusters for selecting service providers for active infrastructure rollout. We expect negative subsidy bids from most players in the third round (Bharti has been selected in only five out of the 15 clusters it had bid for; it will bid for the balance 10 in the third round). We believe that the aggressive bids are a sign of likely increase in competition in the future.

There would be a third round of bidding for active infrastructure for 67 out of the 81 clusters identified for USO funding

Details of second round bidding and shortlists for active and passive infrastructure under USO funding

Company	Passive Infrastructure		Active Infrastructure		
	Second round shortlists	Bid wins	Second round shortlists	Bid wins	Third round shortlists
Aircel					
Aircel Digilink India Ltd	8	—	9	1	8
Aircel Ltd	4	—	4	—	4
Bharat Sanchar Nigam Ltd	65	63	77	5	57
Bharti					
Bharti Airtel Ltd	12	—	12	5	7
Bharti Hexacom Ltd	—	—	3	—	3
Dishnet Wireless Ltd	—	—	21	3	6
Essar					
Essar Telecom Infrastructure Private Ltd	4	—	—	—	—
GTL Infrastructure Ltd	65	4 (a)	—	—	—
Hutchison-Essar					
Hutchison Essar Cellular Ltd	14	1	14	1	13
Hutchison Essar South Ltd	12	3	17	3	14
Fascel Ltd	1	—	1	—	1
Idea Cellular					
Idea Cellular Ltd	—	—	16	—	16
Idea Mobile Communications Ltd	—	—	4	1	3
Idea Telecommunications Ltd	—	—	2	—	2
BTA Cellcom Ltd	—	—	15	—	15
National Information Technologies Ltd	7	4	—	—	—
Quipo Telecom Infrastructure Ltd	9	1	—	—	—
Reliance Communications					
Reliance Communications Infrastructure Ltd	81	4 (a)	—	—	—
Reliance Communications Ltd	64	—	74	14	56
Reliance Telecom Ltd	38	—	40	9	23
Tata Teleservices Ltd	—	—	5	—	—

Note:

(a) GTL Infrastructure Ltd and Reliance Communication Infrastructure Ltd will participate in a third round of bidding for one cluster (90 sites)

Source: Department of Telecommunications, Kotak Institutional Equities.

Technology**SATY.BO, Rs456**

Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	475
52W High -Low (Rs)	525 - 271
Market Cap (Rs bn)	299

Financials

March y/e	2006	2007E	2008E
Sales (Rs bn)	47.9	64.9	85.7
Net Profit (Rs bn)	10.0	13.8	17.3
EPS (Rs)	15.1	21.1	26.1
EPS <i>gth</i>	35.7	39.3	24.1
P/E (x)	30.1	21.6	17.4
EV/EBITDA (x)	23.1	17.1	12.8
Div yield (%)	0.8	1.8	2.2

Shareholding, December 2006

Pattern	% of		Over/(under) weight
	Portfolio		
Promoters	9.1	-	-
FII's	67.9	3.4	2.3
MFs	6.3	1.9	0.8
UTI	-	-	(1.1)
LIC	1.6	0.5	(0.6)

Satyam Computer Services: Wins US\$200 mn five-year deal with Applied Materials; incremental portion at US\$150 mn. Maintain IL rating

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- **Applied Materials is an existing client with a US\$10 mn p.a revenue billing; incremental contract valued at US\$150 mn over a period of five years**
- **Company indicates that the deal would not be margin dilutive**
- **Maintain EPS estimates for FY2008 and FY2009 and IL rating**

Satyam has signed a five-year US\$200 mn fixed price application development, maintenance and support and business transformation outsourcing contract with Applied Materials (AM). AM has been a client of Satyam for the last five years. AM account has an annual billing of approximately US\$10 mn p.a, which has been included in the above contract value. AM was a top 10 customer in the past with an estimated billing of US\$20 mn. The deal reinforces the buoyant demand environment for offshore IT services, and provides early indicators of the success of Satyam's large deal focus. Satyam has recently at our New York conference indicated that the large deal pipeline has gone up 4x in the past twelve months. The incremental portion of deal is 2% of FY2007E revenues, small in our view. The stock may have some near term upsides noting that the guidance may be better than conservative consensus estimates. We have an Inline rating on the stock with a Mar-2008 DCF based target price of Rs475/ share. We believe that the Outperformance in the medium term will be driven only after convergence of growth rates; unlikely in our view noting higher pressure on margin and increase in tax rates over the next two years.

Deal win underlines Satyam's large deal focus; large deals to drive revenue growth in FY2008: The contract with AM is the fourth large deal announced by Satyam in the past 12 months, the others being Qantas, GM, and Nissan. We note that Satyam has taken several steps to sharpen its large deal focus, the key ones being— a) It has created a 'strategic deal group', primarily to focus on large deals; headed by Hetzel Folden (ex-CSC), the team is multi-disciplinary with business, legal, finance, and pricing experts b) It has put in place a strong incentive structure to drive further large deal wins; for large deals, sales team now gets commission at the time of signing the deal or producing the purchase order and not when indicated billing takes place. We see the recent deal wins as early indicators of success in this strategy and believe that these large deals (and better mining of existing accounts) will help Satyam achieve our projected 30% revenue growth for FY2008.

Other details of the AM deal: Satyam would provide ADMS plus business transformation and core technology services to AM. Satyam would provide these services to AM using a managed services delivery model and would set up a ODC at its Bangalore campus dedicated to AM. We note that Satyam has been providing ADMS and engineering services to AM for the past five years.

Banking

Sector coverage view Neutral

Company	Rating	Price, Rs	
		28-Mar	Target
SBI	OP	974	1,200
HDFC	IL	1,519	1,300
HDFC Bank	IL	955	1,000
ICICI Bank	OP	858	950
Corp Bk	U	293	340
PNB	OP	464	610
OBC	U	183	240
Canara Bk	OP	194	320
LIC Housing	U	140	160
UTI Bank	IL	496	435
IOB	OP	104	130
Shriram Trans	OP	120	155
SREI	OP	48	73
MMFSL	OP	230	280
Andhra	OP	77	115
IDFC	IL	82	85

Housing Finance Companies: Provisions for non-housing loans to have marginal impact on HFCs

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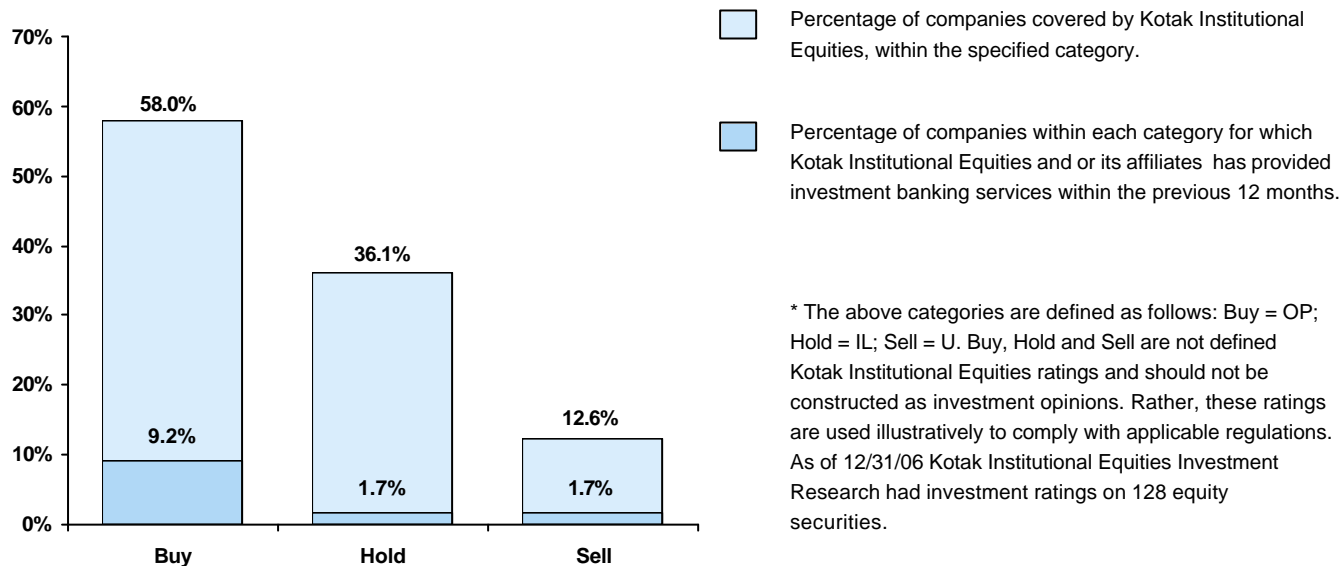
- **NHB has directed housing finance companies (HFCs) to make a general provision of 0.4% on non-housing loans;**
- **We expect marginal impact on HDFC given its excess provisions;**
- **NHB has imposed standard asset provisioning for the first time on HFCs; may increase such provisions in the future.**

National Housing Bank (NHB) has directed housing finance companies (HFCs) to make a provision of 0.1% by March 31, 2007 and 0.4% by December 31, 2007 on non-housing loans. At this stage, the definition of non-housing loans is not very clear; it likely refers to builder and corporate loans. HDFC will likely have to make a provision of ~0.8% of PBT (Rs160 mn) in FY2007, ~2.8% of PBT (Rs630 mn) in FY2008 and ~1.3% of PBT (Rs 327 mn) in FY2009, on account of the above. However, according to the management, HDFC has excess provisions (Rs2.7 bn in March 2006) that will likely be utilised. LICHF has a commercial loan portfolio of just ~Rs5 bn (3% of total portfolio in FY2007E) - as such any impact will be marginal. While a detailed circular is awaited, NHB may allow HFCs to use its special reserves to make these provisions. In such a situation, the financials of HFCs will not be affected. HFCs, in the past, were not required to maintain any provisions on standard assets, while banks maintain provision of (a) 0.4% on all home loans upto Rs2 mn, (b) 1% on home loans beyond Rs2 mn and (c) 2% on loans backed by commercial real-estate. Going forward, NHB may increase the provisioning requirements for HFCs bringing them closer to banks, which will likely affect their profitability.

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of December 31, 2006

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Current rating system

Definitions of ratings

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

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

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

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

Other definitions

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

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