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### EQUITY MARKETS

India	Change, %			
	26-Jul	1-day	1-mo	3-mo
Sensex	15,776	0.5	9.3	13.4
Nifty	4,620	0.7	8.3	13.1
<b>Global/Regional indices</b>				
Dow Jones	13,474	(2.3)	0.3	2.7
Nasdaq Composite	2,599	(1.8)	(0.2)	1.6
FTSE	6,251	(3.1)	(4.2)	(2.6)
Nikkei	17,296	(2.3)	(3.1)	(0.6)
Hang Seng	23,212	(0.6)	6.9	13.1
KOSPI	1,905	(3.0)	9.9	23.5
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	26-Jul	1-mo	3-mo	
Cash (NSE+BSE)	211.3	170.0	149.1	
Derivatives (NSE)	789.4	525.7	552.0	
Deri. open interest	996.0	800.8	639.5	

#### Forex/money market

	Change, basis points			
	26-Jul	1-day	1-mo	3-mo
Rs/US\$	40.4	-	(65)	(73)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	4	(31)	(16)

#### Net investment (US\$m)

	24-Jul	MTD	CYTD
FIs	315	1,759	10,419
MFs	13	111	(428)

#### Top movers -3mo basis

Best performers	Change, %			
	26-Jul	1-day	1-mo	3-mo
RELIANCE CAPITAL	1,293	3.9	18.7	82.3
RELIANCE ENERGY	800	2.8	38.3	57.2
THERMAX LIMITED	637	1.1	27.0	53.4
BALAJI TELEFILMS L	246	(2.5)	11.2	52.1
UNION BANK OF INC	159	2.3	24.1	47.6
<b>Worst performers</b>				
POLARIS SOFTWARE	124	(1.3)	(20.4)	(33.7)
CIPLA LTD	194	4.0	(5.8)	(10.8)
RAYMOND LIMITED	278	(1.9)	(8.6)	(22.4)
ESCORTS LIMITED	109	1.7	(2.4)	(13.8)
ESSEL PROPACK LT	62	2.0	(4.9)	(12.4)

### News Roundup

#### Corporate

- Ahead of its imminent spilt with the Wadias, Groupe Danone is making rapid strides for a share of the Rs 2,000-crore packaged water business in India. The French foods giant appears to have shortlisted some targets, with the Delhi-based Rs 900-crore DS Group's Catch spring water probably topping the shopping list. (ET)
- Computer maker Lenovo Group Ltd plans to invest USD 11 million over five years in a new manufacturing unit in the northern Indian state of Himachal Pradesh, the firm's global manufacturing vice president, Jeff Gallinat, said on Thursday. (FE)

#### Economic and political

- Navaratna and miniratna public sector firms — profit-making companies that are allowed limited financial autonomy — will soon be allowed to invest up to 30 per cent of their surplus funds in equity mutual funds managed by public sector companies. (BS)
- The Reserve Bank of India (RBI) may remove the cap on daily liquidity absorption to modulate excess cash in the banking system and to improve the efficacy of interest rate signals in its first quarterly monetary policy review on July 31. (BS)

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

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**Telecom****BRTI.BO, Rs925**

Rating	U
Sector coverage view	Cautious
Target Price (Rs)	750
52W High -Low (Rs)	960 - 377
Market Cap (Rs bn)	1,754

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	184	276	368
Net Profit (Rs bn)	41.6	67.2	89.6
EPS (Rs)	21.4	34.4	45.8
EPS gth	100.3	60.9	33.1
P/E (x)	43.2	26.9	20.2
EV/EBITDA (x)	24.2	15.6	11.4
Div yield (%)	-	0.2	0.4

**Shareholding, March 2007**

	% of	Over/(under)
	Pattern	Portfolio
	weight	weight
Promoters	61.0	-
FIs	25.4	6.0
MFs	2.3	3.4
UTI	-	-
LIC	1.3	1.7

**Bharti Airtel: Strong but in-line 1QFY08 results; fine-tuned estimates**

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- **Strong but in-line operating performance; forex gains offset by higher taxation at net level**
- **Fine-tuned estimates but raised DCF valuation on roll-forward and inclusion of 'option' value of tower business**
- **Difficult to justify valuation on FCF despite assuming very high profitability, returns**

Bharti reported 1QFY08 net income at Rs15.1 bn (+12% qoq; our estimate Rs14.8 bn) and EBITDA at Rs24.5 bn (+10% qoq; our estimate Rs24.7 bn). Net income was helped by Rs2.4 bn of forex-related gain but pulled down by a sharp increase in taxation rate to 19% from 9% in 4QFY07 (see Exhibit 1). We have fine-tuned FY2008E, FY2009E and FY2010E EPS estimates to Rs34.4, Rs45.8 and Rs56.3, respectively, from Rs35.1, Rs46.7 and Rs54.8, respectively, previously.

**DCF valuation up on more aggressive assumptions of the future, tower 'option' value.** We have raised our 12-month DCF-based fair valuation to Rs750 based on (1) revision of DCF valuation of core business to Rs668 from Rs600 previously and (2) inclusion of 'option' value of tower business (Rs83/share). The upward revision to core business valuations reflects (1) roll-forward of DCF and (2) more aggressive assumptions in the outer years of our forecast period (FY2008-FY2017E); note, we have marginally revised near-term numbers. We have included the 'option' value of Bharti's towers business but value creation would depend on market players adopting a prudent strategy of sharing towers rather than competing for external tenants; there may not much 'option' value in the latter case.

**Are we being too conservative or reckless in our assumptions?** Our earnings model throws up average ROACE of 37.1% and average CROCI of 27% through our forecast period. Given the importance of terminal year assumptions for a high-growth stock's valuations, we think it may be important for investors to realize that our terminal year ROACE and CROCI forecasts are 52% and 22%, respectively. We do not know whether these high returns are possible in perpetuity but the street presumably believes in even more aggressive returns based on higher pricing and/or profitability.

Our issues with Indian wireless stocks' valuation primarily reflect (1) sustainability of very high returns in any business in perpetuity and (2) impact of competition on pricing and profitability once market growth slows down eventually. We believe there is enough scope for pricing to decline significantly across all segments given (1) commodity nature of most segments and (2) very high returns (see Exhibit 2). However, we are not building the same in our model as can be seen from the super-normal returns and profitability throughout our forecast period.

**1QFY08 results analysis**

**Strong operating performance but largely in line with expectations.** Bharti's 1QFY08 EBITDA increased 10% qoq to Rs24.5 bn (+Rs2.2 bn) in line with our Rs24.7 bn estimate. Bharti's overall EBITDA margin improved 10 bps to 41.4% with improvement in margins of the wireless and BB&T segments being eroded by weaker performance of the LD and enterprise segments. Among major line items, interconnection costs declined 3% qoq largely reflecting (1) higher on-net tariff of both voice and carriage and (2) lower ADC rates. Employee costs increased 2% qoq despite a 13% qoq increase in the number of employees.

**Forex gain, other income positive, higher tax negative.** Bharti's net income increased 12% qoq to Rs15.1 bn versus our expected Rs14.8 bn led by the 10% growth in EBITDA. Other income increased to Rs802 mn from Rs374 mn in 4QFY07 due to the reversal of Rs500 mn of provisions made earlier. Net finance cost was negative (income) Rs1.75 bn versus Rs0.48 bn in 4QFY07 due to a forex-related gain of Rs2.4 bn. However, taxation increased to Rs3.6 bn versus Rs1.35 bn in 4QFY07; 4QFY07 included MAT credit of Rs305 mn. The management has proffered tentative tax rate guidance of 16-18% for FY2008E.

**Wireless segment—volume up, price down; same old story.** Bharti's wireless segment's revenues increased 11% qoq to Rs47 bn driven by a 16% increase in number of minutes and 5% decline in revenue per minute (RPM) to Rs0.82/min. ARPU declined by 4% to Rs390 from Rs406 in 4QFY07. The management clarified that it has extended the period of booking one-time payment from 'lifelong' subscribers to 24 months from 18 months previously; this impacted revenues negatively by Rs700 mn including Rs650 mn pertaining to subscribers acquired before April 2007. EBITDA increased 15% qoq to Rs19.1 bn and EBITDA margin expanded by 150 bps to 40.6% led by lower ADC and economies of scale; EPM declined to Rs0.33/min from Rs0.34/min in 4QFY07.

Bharti coverage has increased to 4,855 census towns and 243,584 villages and its wireless coverage to 62% of the total Indian population at end-1QFY08 versus 59% at end-4QFY07. Bharti management plans to expand its coverage of the Indian population to around 70% from 62% at end-1QFY08. Bharti plans to add 25,000 towers taking the end-FY2008 figure to around 65,000. However, it would require/put up 30,000 BTS and take up capacity on 5,000 external towers.

**BB&T segment—EBITDA margin up by 3.6%.** Bharti's BB&T segment's revenues increased 8% qoq to Rs6.5 bn after a flat 4QFY07 led by a modest 1% increase in ARPU and 5% increase in subscriber base to 1.97 mn subs (end-1QFY08). EBITDA increased 22% led by a 3.6% expansion in margins to 32.2%. Operating costs increased a modest 2.2%, which is a positive surprise. Bharti continues to operate in 94 cities. It spent a small 1.4 bn as capex on BB&T segment but this will likely increase in subsequent quarters.

**Long-distance segment—EBITDA margin declined another 1.4% after a 7.2% drop in 4QFY07.** Bharti's LD segment's revenues declined 9% qoq to Rs9.2 bn reflecting (1) likely steep decline in ILD tariffs led by lower ADC, higher competition and stronger rupee-dollar exchange rate, which impacts incoming ILD revenues negatively and (2) lower NLD tariffs offered to standalone operators to retain their traffic. Volumes increased 17% qoq for DLD minutes and 4.1% qoq for ILD minutes. EBITDA margin has declined to 34.4% from 35.8% in 4QFY07 and a peak of 43% in 3QFY07. Bharti's acquisition of i2i may improve EBITDA margin through lower costs and boost revenues through IRUs; however, we note that the Chennai-Singapore route has large surplus capacity.

We suspect margins may be normalizing in this largely commodity business; we had long highlighted the risks to the high margins and profitability in this segment. We do not rule out further decline in this segment's EBITDA margin given (1) entry of several new players in both the NLD and ILD segments and (2) still very high profitability and return on investment. Bharti's 1QFY08 CROCI of 26.6% is still very high, in our view, although CROCI has come down sharply from 40.9% in 4QFY07.

**Enterprise services (corporate) segment—EBITDA margin declined sharply in the quarter.** Bharti's 1QFY08 revenues grew strongly to Rs2.7 bn (+9% qoq, 39% yoy) but EBITDA declined 8% qoq to Rs1.2 bn led by a steep decline in margins (7.6% to 42.5%). We note that margins are volatile in this segment due to timing of project completion.

**Capex guidance for FY2008, update on new initiatives and highlights of conference call**

- 1. Capex guidance maintained at US\$3.3-3.5 bn.** Bharti management maintained its capex guidance of US\$3.3-3.5 bn for FY2008 with 70% of the capex for wireless segment. It has spent US\$900 mn (Rs37 bn) in 1QFY08 with 88% of capex in the wireless segment. We clarify that the overall capex figure includes capex for Sri Lanka and DTH but does not include capex for 3G (if any) and any other international operations, acquisitions. Bharti will also expand its long-distance network by 20,000-25,000 kms.
- 2. Status of tower company (Bharti Infratel).** Bharti management stated that it has filed a scheme of de-merger with the Delhi High Court for de-merging its towers business to a 100% subsidiary (Bharti Infratel). Bharti management expects regulatory and legal approvals by October 2007. We do not model the tower business separately currently as it is a 100% subsidiary and its revenues and costs are internal items in consolidated accounts. We will do so once the financials of Bharti Infratel become available.
- 3. Spectrum issue.** Bharti management expressed confidence that the government will follow the extant spectrum policy while deciding on allocation of spectrum in the future. It believes that the government and any revised spectrum policy will protect the interests of extant GSM operators who have taken risks in the early stage of the industry to develop a robust telecom industry
- 4. DTH operation, IPTV.** Bharti expects to start DTH operations by March 2008. We will include this in our model closer to start of operations. We note that Bharti will own 40% in the DTH entity. Bharti expected to start IPTV services in high-end localities of Delhi in 3QFY08 and expects to expand into another 3-4 cities after that. Bharti had about 650,000 broadband subscribers at end-1QFY08, some of which could be potential IPTV users.

Interim results for Bharti Airtel (Rs mn)

	2008E	qoq			yoy			yoy		
		1Q 2008	4Q 2007	% chg	1Q 2008	1Q 2007	% chg	2007	2006	% chg
<b>Sales</b>	<b>275,656</b>	<b>59,046</b>	<b>53,932</b>	<b>9</b>	<b>59,046</b>	<b>38,564</b>	<b>53</b>	<b>185,195</b>	<b>116,633</b>	<b>59</b>
<b>Operating costs</b>										
Interconnection costs	(41,960)	(9,071)	(9,335)	(3)	(9,071)	(6,612)	37	(31,378)	(21,795)	44
License fee and spectrum charges	(26,929)	(5,827)	(5,098)	14	(5,827)	(3,395)	72	(16,953)	(11,137)	52
Network operating costs	(28,950)	(6,824)	(5,790)	18	(6,824)	(4,754)	44	(21,100)	(11,742)	80
Sales and marketing expenses	(24,443)	(9,346)	(7,982)	17	(9,346)	(6,541)	43	(29,162)	(20,762)	40
Employee costs	(17,276)	(3,512)	(3,446)	2	(3,512)	(2,365)	48	(12,448)	(7,988)	56
Pre-operative expenses	—	—	—	—	—	(9)	—	—	(30)	—
G&A expenses	(19,815)	—	—	—	—	—	—	—	—	—
Operating costs	(159,373)	(34,580)	(31,651)	9	(34,580)	(23,676)	46	(111,041)	(73,454)	57
<b>EBITDA</b>	<b>116,283</b>	<b>24,466</b>	<b>22,281</b>	<b>10</b>	<b>24,466</b>	<b>14,888</b>	<b>64</b>	<b>74,154</b>	<b>43,179</b>	<b>72</b>
<b>EBITDA margin (%)</b>	<b>42.2</b>	<b>41.4</b>	<b>41.3</b>		<b>41.4</b>	<b>38.6</b>		<b>40.0</b>	<b>37.0</b>	
Other income	4,099	802	374		802	1,007		1,008	482	
Net finance cost	(3,730)	1,752	(477)	(467)	1,752	(2,449)	(172)	(1,438)	(2,650)	(46)
Depreciation	(37,033)	(7,966)	(6,958)	14	(7,966)	(4,690)	70	(24,557)	(14,821)	66
Amortization	(1,148)	(154)	(151)		(154)	(157)		(651)	(615)	
<b>PBT</b>	<b>78,471</b>	<b>18,900</b>	<b>15,069</b>	<b>25</b>	<b>18,900</b>	<b>8,599</b>	<b>120</b>	<b>48,516</b>	<b>25,575</b>	<b>90</b>
Current tax (expense)/income	(9,819)	(3,594)	(1,768)		(3,594)	(1,094)		(5,330)	(1,968)	
Deferred tax (liability)/asset	(2,343)	—	415		—	142		(492)	(768)	
Minority loss/(income)	(940)	(191)	(184)		(191)	(96)		(467)	(254)	
<b>Reported net income</b>	<b>65,368</b>	<b>15,115</b>	<b>13,532</b>	<b>12</b>	<b>15,115</b>	<b>7,551</b>	<b>100</b>	<b>42,227</b>	<b>22,585</b>	<b>87</b>
Taxation rate (%)	15.5	19.0	9.0		19.0	11.1		12.0	10.7	
<b>Diluted EPS (reported basis)</b>	<b>34.4</b>	<b>8.0</b>	<b>7.1</b>		<b>8.0</b>	<b>4.0</b>		<b>22.3</b>	<b>11.9</b>	
<b>Cellular segment</b>										
Revenues	221,349	46,976	42,431	11	46,976	28,411	65	141,442	82,392	72
EBITDA	90,798	19,087	16,604	15	19,087	10,341	85	53,253	29,711	79
EBIT	—	13,321	11,424	17	13,321	6,961	91	35,654	19,222	85
EBITDA margin (%)	41.0	40.6	39.1		40.6	36.4		37.7	36.1	
<b>Cellular subscribers ('000) (b)</b>										
Prepaid	56,838	38,305	32,870	17	38,305	19,474	97	32,870	16,192	103
Postpaid	5,446	4,399	4,271	3	4,399	3,599	22	4,271	3,387	26
Total	62,284	42,704	37,141	15	42,704	23,073	85	37,141	19,579	90
<b>Cellular subscribers (%)</b>										
Prepaid	91	90	89		90	84		89	83	
Postpaid	9	10	12		10	16		12	17	
<b>ARPU (Rs/mth)</b>										
Blended	371	390	406	(4)	390	441	(12)	416	473	(12)
<b>MOU (min/mth)</b>										
Blended	472	478	475	1	478	441	8	448	404	11
<b>Churn (%)</b>										
Prepaid	—	3.6	3.2		3.6	4.7		—	—	
Postpaid	—	4.0	3.6		4.0	3.4		—	—	
<b>Blended revenue/min (incl. in-roaming)</b>	<b>0.79</b>	<b>0.82</b>	<b>0.85</b>	<b>(5)</b>	<b>0.82</b>	<b>1.00</b>	<b>(18)</b>	<b>0.93</b>	<b>1.17</b>	<b>(21)</b>
Total volume (mn mins)	281,812	57,125	49,240	16	57,125	28,194	103	152,583	69,879	118
Capex (Rs mn)	111,962	32,806	10,706		32,806	18,054		71,801	41,594	
<b>EBITDA per min - blended (Rs)</b>	<b>0.32</b>	<b>0.33</b>	<b>0.34</b>	<b>(1)</b>	<b>0.33</b>	<b>0.37</b>	<b>(9)</b>	<b>0.35</b>	<b>0.43</b>	<b>(18)</b>
Capex/incremental min (Rs)	0.86	1.04	0.34	208	1.0	0.9	15	0.9	1.2	(27)
<b>Capex/incremental sub (US\$)</b>	<b>57</b>	<b>145</b>	<b>47</b>	<b>209</b>	<b>145</b>	<b>115</b>	<b>26</b>	<b>90</b>	<b>109</b>	<b>(17)</b>
SMS as % of wireless revenues	—	5.0	6.0		5.0	6.4		—	—	
<b>Non-voice as % of wireless revenues</b>	<b>—</b>	<b>9.9</b>	<b>10.1</b>		<b>9.9</b>	<b>10.8</b>		<b>—</b>	<b>—</b>	
<b>Broadband and telephone segment</b>										
Revenues	30,279	6,513	6,044	8	6,513	5,182	26	22,453	15,015	50
ARPU (Rs)	1,143	1,121	1,112	1	1,121	1,202	(7)	1,163	1,168	(0)
EBITDA	9,536	2,100	1,727	22	2,100	1,193	76	5,602	3,675	52
EBIT	—	943	833	13	943	384	146	1,740	1,210	44
EBITDA margin (%)	31.5	32.2	28.6		32.2	23.0		24.9	24.5	
Subscribers ('000)	2,446	1,972	1,871	5	1,972	1,505	31	1,871	1,347	39
Capex	13,692	1,384	1,644		1,384	3,962		12,494	13,011	
<b>Capex/incremental sub (Rs)</b>	<b>8,618</b>	<b>13,703</b>	<b>12,361</b>	<b>11</b>	<b>13,703</b>	<b>25,076</b>	<b>(45)</b>	<b>23,844</b>	<b>26,567</b>	<b>(10)</b>
<b>Long distance segment</b>										
Revenues	39,608	9,210	10,156	(9)	9,210	7,064	30	34,889	24,556	42
EBITDA	14,117	3,169	3,640	(13)	3,169	2,750	15	13,758	8,791	57
EBIT	—	2,756	2,966	(7)	2,756	2,278	21	11,495	6,907	66
EBITDA margin (%)	35.6	34.4	35.8		34.4	38.9		39.4	35.8	
Capex	16,144	2,176	2,317		2,176	1,306		8,340	5,311	
<b>Enterprise services</b>										
Revenues	11,946	2,730	2,511	9	2,730	1,969	39	9,049	7,185	26
EBITDA	5,272	1,159	1,257	(8)	1,159	936	24	4,192	2,699	55
EBIT	—	883	1,067	(17)	883	845	4	3,485	2,326	50
EBITDA margin (%)	44.1	42.5	50.1		42.5	47.5		46.3	37.6	
Capex	3,500	732	1,983		732	55		5,222	3,394	

Source: Company, Kotak Institutional Equities.

**Bharti's return on investment as measured by CROCI is remarkable**

Quarterly segment-wise CROCI of Bharti (%)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
<b>Mobile</b>									
EBIT (Rs mn)	3,932	4,341	5,319	5,522	6,961	8,085	9,184	11,424	13,321
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0	19.0
EBIT*(1-t) (Rs mn)	3,396	3,956	4,604	5,113	6,190	7,052	7,821	10,398	10,788
Add: Depreciation	2,141	2,608	2,613	3,224	3,380	4,094	4,945	5,180	5,766
Cash return (Rs mn)	5,537	6,564	7,217	8,337	9,570	11,146	12,766	15,578	16,554
Annualized cash return (Rs mn)	22,148	26,256	28,870	33,348	38,281	44,582	51,063	62,313	66,216
Gross cash invested (Rs mn)	124,643	133,258	141,555	159,227	177,633	205,084	220,672	231,414	264,494
<b>CROCI (%)</b>	<b>17.8</b>	<b>19.7</b>	<b>20.4</b>	<b>20.9</b>	<b>21.6</b>	<b>21.7</b>	<b>23.1</b>	<b>26.9</b>	<b>25.0</b>
<b>B&amp;T</b>									
EBIT (Rs mn)	477	262	256	191	384	195	328	833	943
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0	19.0
EBIT*(1-t) (Rs mn)	412	239	222	177	341	170	279	758	764
Add: Depreciation	507	549	690	743	809	874	1,284	894	1,157
Cash return (Rs mn)	919	788	912	920	1,150	1,044	1,563	1,652	1,921
Annualized cash return (Rs mn)	3,676	3,151	3,646	3,679	4,602	4,176	6,253	6,609	7,683
Gross cash invested (Rs mn)	24,967	27,634	31,891	36,074	40,036	41,607	43,216	44,987	46,514
<b>CROCI (%)</b>	<b>14.7</b>	<b>11.4</b>	<b>11.4</b>	<b>10.2</b>	<b>11.5</b>	<b>10.0</b>	<b>14.5</b>	<b>14.7</b>	<b>16.5</b>
<b>Long distance</b>									
EBIT (Rs mn)	1,468	1,565	1,626	2,209	2,278	2,864	3,388	2,966	2,753
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0	19.0
EBIT*(1-t) (Rs mn)	1,268	1,426	1,408	2,045	2,026	2,498	2,885	2,700	2,229
Add: Depreciation	401	456	504	562	472	503	614	674	413
Cash return (Rs mn)	1,669	1,882	1,912	2,607	2,498	3,001	3,499	3,374	2,642
Annualized cash return (Rs mn)	6,676	7,529	7,646	10,430	9,991	12,004	13,996	13,495	10,570
Gross cash invested (Rs mn)	21,949	22,945	25,478	26,563	29,033	32,563	34,214	36,547	39,701
<b>CROCI (%)</b>	<b>30.4</b>	<b>32.8</b>	<b>30.0</b>	<b>39.3</b>	<b>34.4</b>	<b>36.9</b>	<b>40.9</b>	<b>36.9</b>	<b>26.6</b>
<b>Enterprise</b>									
EBIT (Rs mn)	590	630	550	566	845	717	855	1,067	1,067
Tax rate (%)	13.6	8.9	13.4	7.4	11.1	12.8	14.8	9.0	19.0
EBIT*(1-t) (Rs mn)	510	574	476	524	751	625	728	971	864
Add: Depreciation	73	64	80	148	91	190	237	190	276
Cash return (Rs mn)	583	638	556	672	842	815	965	1,161	1,140
Annualized cash return (Rs mn)	2,330	2,552	2,224	2,688	3,370	3,261	3,860	4,645	4,560
Gross cash invested (Rs mn)	3,175	4,519	5,348	6,678	4,044	4,656	5,028	5,501	6,267
<b>CROCI (%)</b>	<b>73.4</b>	<b>56.5</b>	<b>41.6</b>	<b>40.3</b>	<b>83.3</b>	<b>70.0</b>	<b>76.8</b>	<b>84.4</b>	<b>72.8</b>

Source: Kotak Institutional Equities estimates.

**Key model assumptions for Bharti, March fiscal year-end, 2007-2017E**

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Wireless</b>											
Wireless market (Rs bn)	534	773	1,042	1,292	1,465	1,600	1,726	1,843	1,954	2,060	2,164
Bharti's wireless revenues (Rs bn)	141	221	301	366	408	442	477	509	540	570	599
Bharti's revenue share (%)	26	29	29	28	28	28	28	28	28	28	28
<b>All India subscribers (mn)</b>											
All India mobile penetration (%)	13.9	21.6	28.6	33.4	36.6	39.0	41.0	42.7	44.2	45.6	46.9
All India GSM subs (mn)	124	188	251	295	326	349	368	386	401	418	435
Bharti subscribers (mn)	37	62	83	97	106	114	120	126	132	137	142
<b>Bharti's share of overall subs (%)</b>	<b>23.6</b>	<b>25.2</b>	<b>24.9</b>	<b>24.5</b>	<b>24.3</b>	<b>24.1</b>	<b>24.0</b>	<b>23.9</b>	<b>23.8</b>	<b>23.8</b>	<b>23.7</b>
Bharti's share of subs in service areas (%)	24	25	25	25	24	24	24	24	24	24	24
Bharti's share of GSM subs (%)	30	33	33	33	33	33	33	33	33	33	33
Bharti prepaid subscribers (mn)	33	57	76	89	98	105	112	117	123	127	132
Bharti postpaid subscribers (mn)	4	5	6	7	8	8	9	9	9	10	10
Share of prepaid subscribers (%)	88	91	92	92	93	93	93	93	93	93	93
<b>Bharti blended ARPU incl. inroaming</b>											
<b>Bharti blended ARPU (Rs/month)</b>	<b>391</b>	<b>354</b>	<b>330</b>	<b>326</b>	<b>324</b>	<b>323</b>	<b>327</b>	<b>332</b>	<b>336</b>	<b>341</b>	<b>345</b>
Bharti prepaid ARPU (Rs/month)	305	296	285	284	283	283	287	291	294	298	302
Bharti postpaid ARPU (Rs/month)	926	877	843	835	827	830	844	861	877	893	909
Data ARPU/Blended ARPU (%)	6.2	6.1	6.1	6.1	6.2	6.3	6.3	6.2	6.2	6.2	6.2
<b>Bharti blended MOU (mins/month)</b>											
<b>Bharti blended MOU (mins/month)</b>	<b>447</b>	<b>472</b>	<b>471</b>	<b>474</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>478</b>	<b>477</b>	<b>477</b>
Bharti prepaid MOU (mins/month)	379	419	426	432	438	438	438	438	438	438	438
Bharti postpaid MOU (mins/month)	873	953	969	976	983	988	994	994	994	994	994
<b>Bharti blended RPM (Rs) (ARPU/MOU)</b>											
Bharti blended RPM (Rs) (ARPU/MOU)	0.88	0.75	0.70	0.69	0.68	0.68	0.68	0.69	0.70	0.71	0.72
Bharti prepaid RPM (Rs/min) (ARPU/MOU)	0.81	0.71	0.67	0.66	0.65	0.65	0.66	0.66	0.67	0.68	0.69
Bharti postpaid RPM (Rs/min) (ARPU/MOU)	1.06	0.92	0.87	0.86	0.84	0.84	0.85	0.87	0.88	0.90	0.91
<b>Bharti overall blended yield (Rs/min)</b>	<b>0.93</b>	<b>0.79</b>	<b>0.73</b>	<b>0.72</b>	<b>0.70</b>	<b>0.70</b>	<b>0.71</b>	<b>0.72</b>	<b>0.73</b>	<b>0.74</b>	<b>0.75</b>
<b>Blended EBITDA per min (Rs)</b>											
Blended EBITDA per min (Rs)	0.35	0.32	0.31	0.31	0.30	0.31	0.31	0.31	0.32	0.32	0.33
<b>Blended EBITDA per sub (US\$)</b>											
Blended EBITDA per sub (US\$)	41	45	43	43	42	43	43	44	44	45	46
<b>Capex/incremental min (Rs)</b>	<b>0.75</b>	<b>0.70</b>	<b>0.74</b>	<b>0.72</b>	<b>0.69</b>	<b>0.67</b>	<b>0.64</b>	<b>0.64</b>	<b>0.64</b>	<b>0.64</b>	<b>0.64</b>
Capex/sales (%)	51	51	40	27	20	15	13	12	13	12	12
<b>Fixed-line</b>											
All India fixedline subscribers (mn)	50	52	55	57	60	63	66	68	71	74	77
Bharti fixedline subscribers (mn)	1.9	2.4	2.9	3.3	3.6	3.9	4.2	4.5	4.8	5.2	5.5
Bharti's share of subs (%)	3.8	4.7	5.3	5.7	6.0	6.3	6.4	6.6	6.8	7.0	7.1
Bharti recurring ARPU (Rs/month)	1,129	1,143	1,152	1,158	1,157	1,152	1,145	1,140	1,135	1,131	1,128
<b>International Long Distance (ILD)</b>											
<b>ILD voice</b>											
Bharti's ILD revenues (Rs bn)	16	12	13	15	16	18	20	21	23	25	27
Bharti's market share (%)	29	20	19	18	18	18	18	18	18	18	18
Market minutes (mn mins)	15,182	21,784	26,137	31,392	35,594	40,384	43,562	46,962	50,616	54,547	58,777
Bharti's share of mins (%)	28	28	26	25	25	25	25	25	25	25	25
<b>ILD Data</b>											
Bharti's revenues (Rs bn)	5.0	6.7	8.0	8.9	9.4	9.9	10.3	10.8	11.2	11.6	12.1
<b>Domestic Long Distance (DLD)</b>											
<b>DLD voice</b>											
Bharti's DLD revenues (Rs bn)	12.8	19.7	24.6	28.3	31.4	33.9	36.5	38.9	41.1	43.4	45.5
Bharti's market share (%)	19.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
<b>Data</b>											
Bharti's revenues (Rs bn)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

Source: Company, Kotak Institutional Equities estimates.

## Financials of Bharti, March fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Profit model (Rs mn)</b>											
Revenue	184,202	275,656	367,602	444,584	497,178	541,108	584,133	625,232	665,070	704,390	743,741
EBITDA	74,344	116,283	158,721	195,495	219,210	239,440	258,326	276,502	293,760	310,465	327,413
EBIT	48,153	78,102	104,966	128,320	143,140	156,152	175,038	182,976	197,040	213,504	233,802
Net interest income / (expense)	(1,370)	369	(2,181)	(562)	1,376	2,449	3,247	4,434	5,687	6,866	7,914
Tax	(5,680)	(12,163)	(14,487)	(19,264)	(20,062)	(33,544)	(41,946)	(43,587)	(49,342)	(63,036)	(69,444)
Net profit	40,621	65,368	86,974	106,836	122,528	123,111	134,186	141,518	150,894	154,750	169,409
<b>Fully diluted EPS</b>	<b>21.4</b>	<b>34.5</b>	<b>45.9</b>	<b>56.4</b>	<b>64.6</b>	<b>64.9</b>	<b>70.8</b>	<b>74.6</b>	<b>79.6</b>	<b>81.6</b>	<b>89.4</b>
<b>Balance sheet (Rs mn)</b>											
Cash	8,521	2,960	2,766	2,390	16,211	25,059	45,533	69,336	92,324	113,677	131,804
Other current assets	36,882	38,881	42,012	45,214	47,565	49,583	51,668	53,709	55,670	57,588	59,495
Fixed assets	161,342	160,194	159,046	157,898	156,750	155,602	154,454	153,306	152,158	151,010	149,862
Other long term assets	1,498	1,498	1,498	1,498	1,498	1,498	1,498	1,498	1,498	1,498	1,498
Short term debt	46,364	—	—	—	—	—	—	—	—	—	—
Other current liabilities	104,575	129,803	144,866	142,402	140,088	138,546	144,828	151,661	159,366	166,342	173,283
Long term debt	6,495	67,168	55,943	15,702	595	280	140	50	—	—	—
Other long term liabilities	4,335	7,672	11,486	13,424	13,586	11,560	9,742	4,902	(79)	(4,430)	(6,724)
Shareholders funds (incl. minorities)	114,884	175,816	253,917	343,008	394,555	406,759	418,946	427,376	436,364	445,581	455,672
Net (debt)/ cash	(44,338)	(64,209)	(53,177)	(13,312)	15,616	24,779	45,393	69,286	92,324	113,677	131,804
<b>Free cash flow (Rs mn)</b>											
EBITDA	74,344	116,283	158,721	195,495	219,210	239,440	258,326	276,502	293,760	310,465	327,413
Change in working capital	10,387	23,229	11,932	(5,666)	(4,665)	(3,560)	4,196	4,792	5,745	5,057	5,035
Cash tax (paid)	(4,845)	(9,819)	(11,997)	(18,984)	(21,825)	(37,515)	(45,917)	(50,733)	(56,814)	(69,972)	(74,601)
Cash interest (paid)	(2,561)	(3,730)	(3,733)	(2,099)	(518)	(47)	(26)	(14)	(3)	—	—
Capex on PP&E and intangibles	(83,693)	(145,548)	(136,571)	(112,673)	(94,186)	(80,744)	(77,241)	(78,014)	(83,434)	(85,532)	(88,315)
<b>Free cash flow</b>	<b>(6,790)</b>	<b>(19,586)</b>	<b>18,352</b>	<b>56,074</b>	<b>98,015</b>	<b>117,575</b>	<b>139,338</b>	<b>152,535</b>	<b>159,254</b>	<b>160,018</b>	<b>169,532</b>
<b>Ratios (%)</b>											
Sales growth	57.9	49.6	33.4	20.9	11.8	8.8	8.0	7.0	6.4	5.9	5.6
EBITDA growth	79.1	56.4	36.5	23.2	12.1	9.2	7.9	7.0	6.2	5.7	5.5
EPS growth	100.1	60.9	33.1	22.8	14.7	0.5	9.0	5.5	6.6	2.6	9.5
FCF growth	NM	NM	NM	205.5	74.8	20.0	18.5	9.5	4.4	0.5	5.9
<b>EBITDA margin</b>	<b>40.4</b>	<b>42.2</b>	<b>43.2</b>	<b>44.0</b>	<b>44.1</b>	<b>44.2</b>	<b>44.2</b>	<b>44.2</b>	<b>44.2</b>	<b>44.1</b>	<b>44.0</b>
Net margin	22.1	23.7	23.7	24.0	24.6	22.8	23.0	22.6	22.7	22.0	22.8
<b>ROAE (excl. cash and int. income)</b>	<b>43.5</b>	<b>43.2</b>	<b>39.3</b>	<b>34.8</b>	<b>33.0</b>	<b>31.6</b>	<b>34.9</b>	<b>38.4</b>	<b>43.4</b>	<b>47.2</b>	<b>54.3</b>
<b>ROACE (excl. cash and int. income)</b>	<b>29.7</b>	<b>32.1</b>	<b>31.8</b>	<b>31.7</b>	<b>32.3</b>	<b>31.3</b>	<b>34.5</b>	<b>37.6</b>	<b>42.2</b>	<b>45.4</b>	<b>51.7</b>

Source: Kotak Institutional Equities estimates.



**Our 12-month DCF based price target for Bharti Airtel is Rs668/share**

Discounted cash flow value for Bharti Airtel (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	116,283	158,721	195,495	219,210	239,440	258,326	276,502	293,760	310,465	327,413
Tax	(10,286)	(12,433)	(19,296)	(21,904)	(37,526)	(45,924)	(50,736)	(56,815)	(69,972)	(74,601)
Change in working capital	23,229	11,932	(5,666)	(4,665)	(3,560)	4,196	4,792	5,745	5,057	5,035
<b>Post-tax operating cash flow</b>	<b>129,225</b>	<b>158,220</b>	<b>170,533</b>	<b>192,642</b>	<b>198,354</b>	<b>216,599</b>	<b>230,558</b>	<b>242,691</b>	<b>245,550</b>	<b>257,847</b>
Capex	(145,548)	(136,571)	(112,673)	(94,186)	(80,744)	(77,241)	(78,014)	(83,434)	(85,532)	(88,315)
<b>Free cash flow</b>	<b>(16,323)</b>	<b>21,649</b>	<b>57,860</b>	<b>98,455</b>	<b>117,611</b>	<b>139,358</b>	<b>152,545</b>	<b>159,256</b>	<b>160,018</b>	<b>169,532</b>

	Now	+ 1-year	WACC and growth in perpetuity assumptions			
PV of cash flows	439,251	38%	572,106	43%	<b>Terminal growth - g (%)</b>	<b>5.0</b>
PV of terminal value	722,406	62%	758,526	57%	<b>WACC (%)</b>	<b>12.5</b>
EV	1,161,657		1,330,633			
Net debt	44,338		64,209			
Equity value (Rs mn)	1,117,319		1,266,424			
<b>Equity value (Rs/share)</b>	<b>589</b>		<b>668</b>			
Equity value (US\$ mn)	25,394		28,782			
<b>Exit FCF multiple (X)</b>	<b>13.3</b>					
<b>Exit EBITDA multiple (X)</b>	<b>6.9</b>					

Key assumptions (%)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	49.6	33.4	20.9	11.8	8.8	8.0	7.0	6.4	5.9	5.6
EBITDA growth	56.4	36.5	23.2	12.1	9.2	7.9	7.0	6.2	5.7	5.5
<b>EBITDA margin</b>	<b>42.2</b>	<b>43.2</b>	<b>44.0</b>	<b>44.1</b>	<b>44.2</b>	<b>44.2</b>	<b>44.2</b>	<b>44.2</b>	<b>44.1</b>	<b>44.0</b>
Capex/sales	52.8	37.2	25.3	18.9	14.9	13.2	12.5	12.5	12.1	11.9
Cash tax rate	12.5	11.7	14.9	15.1	23.7	25.8	27.1	28.0	31.8	30.9
Effective tax rate	15.5	14.1	15.1	13.9	21.2	23.5	23.3	24.3	28.6	28.7
<b>Return on avg. capital employed</b>	<b>32.1</b>	<b>31.8</b>	<b>31.7</b>	<b>32.3</b>	<b>31.3</b>	<b>34.5</b>	<b>37.6</b>	<b>42.2</b>	<b>45.4</b>	<b>51.7</b>

Source: Kotak Institutional Equities estimates.

**Automobiles**

MRTI.BO, Rs841

**Maruti Udyog: New launches drive profits; net profit up 35% yoy**

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- **1QFY08 net profit at Rs5 bn grows 35% yoy and 11% qoq**
- **Results boosted by volume increase of 17% yoy**
- **Operating margins at 16.7% remain flat**

Maruti reported 1Q net profit at Rs5 bn—a growth of 35% yoy and 11% qoq. 1Q EBITDA margins (including operational other income) at 16.7% remained flat on a yoy basis. Operating other income grew 38% yoy while non-operating other income grew 69% yoy. Interest costs for Maruti were up substantially mainly on account of the merger of the second plant at Manesar and the capacity expansion at the Manesar plant. Net sales at Rs39.3 bn grew 26% yoy but declined 11% qoq. This was mainly on account of a 17% yoy increase in volumes and a 7% yoy increase in average realizations.

**Improved volumes and realizations off-set increase in costs**

Maruti's volumes for 1QFY08 at 169,669 vehicles increase 17% yoy. Average realizations for 1Q increased 7% yoy mainly on account of its new launches (Zen Estilo, Swift—both diesel and petrol and SX4) despite discounts being offered in the last month of 1Q across all its models. This offset the increase in raw material prices as raw-materials-to-net-sales remained flat at 75.2%. Maruti has indicated that its advertising costs have gone up substantially in the light of new launches. However, increase in volumes has resulted in a lower-per-vehicle cost.

**Demand for new launches continues to be strong**

Demand for the recently launched SX4 and the Swift (both diesel and petrol) continues to be strong. The company has indicated that the waiting time for SX4 is about 2-2.5 months while for the Swift, it is 15 days and 1 month for the petrol and diesel version, respectively. The company has announced a capex of about Rs90 bn to increase capacity at the Manesar plant to 300,000 vehicles from the existing 100,000 vehicles.

**Volume growth to continue**

We believe that the volume growth should continue for Maruti driven by the success of its new launches. Moreover, growth in 3Q should be furthered boosted by the festival season when demand for passenger cars typically picks up. Besides, the demand for SX4 and Swift—both diesel and petrol—continues to be strong as existing capacity is not sufficient to keep pace with demand. We expect FY2008 volumes to grow 11% for Maruti.

**Maruti Udyog: 1QFY2008 results (Rs mn)**

	1QFY07	4QFY07	1QFY08	% chg.		FY07
				qoq	yoy	
<b>Net sales</b>	<b>31,255</b>	<b>44,298</b>	<b>39,308</b>	<b>(11.3)</b>	<b>25.8</b>	<b>146,539</b>
Other operating income	604	1,130	833	(26.3)	37.8	3,120
<b>Operating costs</b>	<b>(26,689)</b>	<b>(38,787)</b>	<b>(33,560)</b>	<b>(13.5)</b>	<b>25.7</b>	<b>(126,635)</b>
Inc/(dec) in stock	217	249	1,471	490.6	577.3	(2,186)
Raw materials	(23,813)	(33,915)	(31,041)	(8.5)	30.4	(108,307)
Staff cost	(626)	(807)	(805)	(0.2)	28.6	(2,884)
Other expenditure	(2,468)	(4,315)	(3,186)	(26.2)	29.1	(13,257)
<b>EBITDA</b>	<b>5,170</b>	<b>6,640</b>	<b>6,580</b>	<b>(0.9)</b>	<b>27.3</b>	<b>23,024</b>
Non-operating income	829	920	1,400	52.2	68.9	2,864
Interest costs	(33)	(156)	(151)	(3.0)	364.6	(376)
Depreciation	(641)	(718)	(822)	14.5	28.3	(2,714)
Extraordinaries	—	—	—			—
<b>PBT</b>	<b>5,326</b>	<b>6,686</b>	<b>7,007</b>	<b>4.8</b>	<b>31.6</b>	<b>22,798</b>
Taxes	(1,630)	(2,201)	(2,011)	(8.6)	23.4	(7,179)
<b>PAT</b>	<b>3,696</b>	<b>4,486</b>	<b>4,996</b>	<b>11.4</b>	<b>35.2</b>	<b>15,620</b>
<b>Key ratios</b>						
Volumes	144,948	200,112	169,669	(15.2)	17.1	674,924
Net realizations (Rs/vehicle)	215,627	221,364	231,676	4.7	7.4	217,119
RM/net sales (%)	75.5	76.0	75.2	(0.8)	(0.3)	75.4
RM/VOP (%)	74.2	74.3	74.6	0.3	0.4	73.4
RM/vehicle (Rs)	164,283	169,482	182,952	7.9	11.4	160,473
EBITDA per vehicle (Rs)	35,668	33,183	38,784	16.9	8.7	34,114
EBITDA margin (%)	16.5	15.0	16.7	1.8	0.2	15.7
PAT margin (%)	11.8	10.1	12.7	2.6	0.9	10.7
Effective tax rate (%)	30.6	32.9	28.7	(4.2)	(1.9)	31.5

Source: Company data, Kotak Institutional Equities

**Banking****IDFC.BO, Rs137**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	120
52W High -Low (Rs)	138 - 50
Market Cap (Rs bn)	176.3

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	7.1	10.4	14.3
Net Profit (Rs bn)	4.9	6.7	9.3
EPS (Rs)	4.4	5.2	7.2
EPS <i>gth</i>	25.8	19.8	38.3
P/E (x)	31.3	26.2	18.9
P/B (x)	6.0	3.2	2.9
Div yield (%)	0.6	0.9	1.5

**Shareholding, March 2007**

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	48.1	0.7	0.4
MFs	4.6	0.4	0.1
UTI	-	-	(0.3)
LIC	2.9	0.3	(0.1)

**IDFC: Revising estimates to factor change in balance sheet structure; retain IL**

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- **IDFC's 1QFY08 PAT up 38% yoy to Rs1.67 bn, supported by higher fees and capital gains**
- **To scale up equity investments in projects, lending business to remain robust**
- **We revise earnings, raise target price to Rs120, retain IL**

IDFC's 1QFY08 PAT up 38% yoy to Rs1.67 bn, was supported by higher fees and capital gains. While we expect >30% asset growth for infrastructure loans, we believe the proportion of fees (driven by syndication and advisory) will increase to around 14% of net operating income by FY2010 from 10% in FY2007. Management has guided towards higher allocation of capital for equity investments—both on its own book and through the private equity route. We are revising our earnings estimates to factor in (1) equity issuance, (2) higher capital gains in line with investments in equity book, (3) likely stable spreads as bulk borrowing cost has fallen and (4) higher fees. We are revising our target price to Rs120 from Rs95 to factor the revised earnings estimates and placement of shares at price higher than our fair value estimate. We believe that the higher exposure to equity assets likely increases the risk profile of IDFC to some extent and we are thus using a higher discount rate of 13% as against 12.5% earlier; retain IL.

**Balance sheet to see higher tilt towards equity investments**

- After the recent QIP, IDFC proposes to scale up its equity investment book (principal equity investments and private equity units) upto 75% of its net worth (25% of the net worth leveraged 3X). We are thus factoring in scale up in IDFC's proprietary investments by about 50% annually over the next two years.
- The loan book will be funded by 75% of networth, leveraged 7X, and the loan book will likely grow by > 30% over this period.
- The overall debt equity level will however be low at about 6X. At the above articulated peak ratios, IDFC's total exposure to equity will be around 10% of total assets.

**Fee income gains traction.** IDFC's standalone fees (from equity and debt syndication and advisory activities) has increased to Rs400 mn in 1Q08 from Rs110 mn in 1Q2007. Close to 40% of its 1QFY08 fees was driven by debt and equity syndication. The fees booked in 1QFY08, was 64% of the total fees booked from this business in FY2007. We expect the fees from this segment to remain buoyant over the next 9M months on the back of a stable interest rates rate scenario. We are raising our estimates for fees by 38%.

**Spreads will likely remain stable.** On a 12 month rolling basis, IDFC's NIMs declined 20 bps qoq and 40 bps yoy. This was likely due to the time difference in the borrowing and lending period. We expect bulk borrowing and lending rate to remain stable and are factoring stable spreads on a full year basis. As of June 2007, duration of IDFC's assets stood at 2.23 years as against 1.91 years for liabilities. As such, IDFC will likely benefit if the interest rates decline hereon.

**Carry from India Development fund will likely kick in by FY2009.** India Development fund (US\$200 mn) managed by IDFC private equity will likely receive performance fees (carry) by FY2009. The fund has generated an IRR of about 40-50% without factoring the unlisted investments. While its is difficult to estimate the quantum of the gain (since all the investments are not yet listed), the company will likely earn a carry of Rs1-1.5 bn by FY2009. We are valuing this fund at 25% of AUM assuming 35% IRR over five years as against of 15% multiple used for other funds of IDFC (in the later case we assumed 25% IRR).

**SSKI adds Rs3 per share.** IDFC's has purchased additional 33% stake in SSKI, early this quarter, at Rs1.5 bn, valuing the company at Rs4.6bn. We value IDFC's 66% share in SSKI at 15X PER FY2009 (Rs6.5 bn), adding around Rs3 per share to our SOTP.

**IDFC - SOTP**

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (standalone)	122,542	94.9	As per residual growth model
IDFC (India Development fund)	2,250	1.7	25% of FY2009 AUM - US\$200 mn
IDFC (Private equity II)	7,088	5.5	15% of FY2009 AUM - US\$1 bn
IDFC (Project equity)	9,113	7.1	15% of FY2009 AUM - US\$1.35 bn
IDFC investment advisors (PMS)	709	0.5	15% of FY2009 AUMs - US\$100 mn
SSKI	4,085	3.2	15X FY2009E PAT
IDFC's investment in NSE	8,412	6.5	Valuations based on recent NSE stake sale
<b>Total</b>	<b>154,198</b>	<b>119</b>	

Source: Kotak Institutional Equities estimates.

**IDFC**

(Rs mn)	New estimates (standalone)			
	FY2007	FY2008E	FY2009E	FY2010E
<b>Net interest income</b>	<b>4,113</b>	<b>6,164</b>	<b>8,562</b>	<b>9,946</b>
Spread (%)	2.29	2.31	2.30	2.22
NIM (%)	2.69	3.00	3.25	2.93
Infrastructure loans	139,155	185,363	244,138	313,379
Loan loss provisions	174	406	644	892
Other income	2,338	3,380	4,647	5,974
Fee income	656	1,136	1,718	2,230
Treasury income	1,682	2,244	2,929	3,744
Profit on sale of equity	1,283	1,750	2,305	2,988
Operating expenses	614	762	936	1,136
Employee expenses	361	445	548	675
PBT	5,715	8,429	11,680	13,944
Tax	1,087	2,107	2,920	3,625
<b>Net profit</b>	<b>4,629</b>	<b>6,322</b>	<b>8,760</b>	<b>10,319</b>
YoY(%)	23	37	39	18
<b>PBT-treasury+provisions</b>	<b>4,155</b>	<b>6,538</b>	<b>9,344</b>	<b>11,041</b>
<b>Assets</b>	<b>182,746</b>	<b>229,209</b>	<b>299,337</b>	<b>380,960</b>
<b>Investments</b>	<b>24,976</b>	<b>27,133</b>	<b>38,437</b>	<b>50,766</b>
Equity Shares	6,147	9,221	13,831	19,364
Venture Capital Units	954	2,362	4,814	7,412
Others	17,875	15,550	19,792	23,990
<b>Infrastructure loans</b>	<b>139,155</b>	<b>185,363</b>	<b>244,138</b>	<b>313,379</b>
<b>Current assets</b>	<b>17,282</b>	<b>15,339</b>	<b>15,339</b>	<b>15,339</b>
<b>Fixed assets</b>	<b>478</b>	<b>478</b>	<b>483</b>	<b>487</b>
<b>Other assets</b>	<b>854</b>	<b>897</b>	<b>942</b>	<b>989</b>
<b>Liabilities</b>	<b>153,925</b>	<b>174,914</b>	<b>239,355</b>	<b>314,277</b>
Loan funds	148,890	169,375	233,539	308,171
Current liabilities and provisions	5,035	5,539	5,816	6,107
<b>Shareholders equity</b>	<b>28,820</b>	<b>54,295</b>	<b>59,983</b>	<b>66,683</b>

Source: Kotak Institutional Equities estimates.

**IDFC quarterly results (Rs. Mn)**

	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)
<b>Total Income</b>	3,218	3,876	3,863	4,104	5,568	73
Operating Income	3,211	3,863	3,863	4,058	5,568	73
Treasury						
Other Income	6	13		45	0	(98)
Interest and Other Charges	1,643	1,960	2,291	2,660	3,106	89
<b>Net operating income</b>	<b>1,574</b>	<b>1,916</b>	<b>1,572</b>	<b>1,443</b>	<b>2,462</b>	<b>56</b>
<b>Net operating inc excl cap gains</b>	<b>1,234</b>	<b>1,306</b>	<b>1,282</b>	<b>1,443</b>	<b>1,682</b>	<b>36</b>
Net interest income on infr	930	970	1,050	970	1,040	12
Treasury	60	160	120	30	300	400
Fees and advisory	110	150	140	420	400	264
Dividend	10	20	-			(100)
<b>Profit on sale of equity</b>	<b>340</b>	<b>610</b>	<b>290</b>	<b>-</b>	<b>780</b>	<b>129</b>
Miscellaneous income	10	-				(100)
<b>Total Expenditure</b>	<b>103</b>	<b>124</b>	<b>181</b>	<b>341</b>	<b>288</b>	<b>180</b>
Staff Expenses	59	95	90	117	151	158
Other Expenses	44	54	48	66	74	68
Provisions and Contingencies	0	(25)	43	158	63	15,700
<b>PBDT</b>	<b>1,472</b>	<b>1,791</b>	<b>1,391</b>	<b>1,102</b>	<b>2,174</b>	<b>48</b>
Depreciation	10	10	10	11	10	-
<b>Profit before Tax</b>	<b>1,462</b>	<b>1,781</b>	<b>1,381</b>	<b>1,091</b>	<b>2,164</b>	<b>48</b>
Provision for Tax	250	367	229	240	486	95
<b>Profit after Tax</b>	<b>1,212</b>	<b>1,414</b>	<b>1,152</b>	<b>851</b>	<b>1,678</b>	<b>38</b>
<b>PBT treasury and provisions</b>	<b>1,122</b>	<b>1,146</b>	<b>1,134</b>	<b>1,249</b>	<b>1,447</b>	<b>29</b>
<b>PBT bef treasury provisions and misc income</b>	<b>1,112</b>	<b>1,146</b>	<b>1,134</b>	<b>1,249</b>	<b>1,447</b>	<b>30</b>
Tax rate	17.1	20.6	16.6	22.0	22.5	
<b>ROA analysis (%)</b>						
Net interest income	2.9	2.9	2.9	2.8	2.7	
Infrastructure	2.8	2.7	2.6	2.6	2.4	
Treasury	0.1	0.2	0.2	0.2	0.4	
Non Interest income	2.0	2.1	2.0	1.7	2.2	
Fees, syndication and advisory	0.9	0.9	0.8	0.9	1.2	
Capital gains & dividend	1.0	1.1	1.0	0.1	1.0	
Mis. Fees	0.2	0.1	0.1	0.8	-	
Operating income	5.0	5.0	4.9	4.5	5.0	
Operating expenses	0.5	0.5	0.5	0.5	0.7	
Pre- provisioning profits	4.4	4.5	4.4	4.1	4.3	
Provisions and losses	0.1	0.1	0.1	0.1	0.1	
PBT	4.3	4.4	4.3	4.0	4.1	
Tax	0.6	0.8	0.8	0.8	0.9	
Associate co profit	-	-	0.1	0.1	0.1	
Net Income (PAT)	3.7	3.6	3.5	3.3	3.3	
<b>Key ratios (%)</b>						
Yield on infrt. Loans	9.6			9.1	9.5	
Yield on treasury assets	6.8			7.5	8.6	
Overall yield	9.2			8.8	9.3	
Gross NPAs (%)	0.4	0.2	0.2	0.2	0.2	
Net NPAs (%)	-	-	-	-	-	
CAR (%)	23.4		22.7	20.3	19.1	
Tier I	17.7		17.5	16.1	15.5	
Tier II	5.7			4.3	3.3	

Source:Company, Kotak Institutional Equities estimates.

	1Q07	2Q07	3Q07	4Q07	1Q08	YoY(%)
<b>Other details</b>						
Gross approvals (Rs bn)	26.4	36.8	27.9	39	42	57
Gross disbursements (Rs bn)	13.3	21.1	19.1	19	24	83
Loan book (Rs bn)	111.9	123.1	134.0	142	148	
Unrealized gains (Rs bn)	1.9		2.2	2.2	2.4	
Borrowings - incremental (Rs bn)	19.7				36	
<b>Total exposure (Rs bn)</b>	<b>181.8</b>		<b>210.4</b>	<b>220</b>	<b>246</b>	
Energy	70.3		85.3	85.2	91.2	
Telcom	36.8		58.5	38.1	69.9	
Transportation	49.9		37.6	59.3	38.6	
Commercial/Industrial	6.7		23.7	19.4	21.5	
Tourism	10.1		12.3	12.3	15.2	
Others	8.0		5.4	6.2	9.6	
<b>O/s disbursements</b>						
Energy	38.1		64.7	66.3	67.6	
Telcom	28.9		41.1	42.7	49.3	
Transportation	22.1		22.0	19.0	22.3	
Commercial/Industrial	8.3		15.1	22.7	14.7	
Others	2.5		3.2	3.4	12.7	
<b>Consolidated numbers</b>						
<b>Total Income</b>	<b>3,395</b>	<b>4,021</b>	<b>4,023</b>	<b>4,277</b>	<b>6,097</b>	<b>80</b>
<b>Operating Income</b>	<b>3,388</b>	<b>4,008</b>	<b>4,023</b>	<b>4,232</b>	<b>6,096</b>	<b>80</b>
Treasury						
Other Income	6.3	13.1	0.4	45.4	0.7	(88.9)
Interest and Other Charges	1,643.3	1,960	2,291	2,660.4	3,111.5	89.3
<b>Net operating income</b>	<b>1,751.3</b>	<b>2,061</b>	<b>1,733</b>	<b>1,616.7</b>	<b>2,985.5</b>	<b>70.5</b>
<b>Net operating inc excl cap gains</b>	<b>1,251.3</b>	<b>1,451</b>	<b>1,443</b>	<b>1,616.7</b>	<b>2,205.5</b>	<b>76.3</b>
Net interest income on infr	930.0	970.0	1,050.0	970.0	1,040.0	11.8
Treasury	60	160	120.0	30.0	300.0	400.0
Fees and advisory	260	290	270	520	870	235
Dividend	10	20				(100)
<b>Profit on sale of equity</b>	<b>340</b>	<b>610</b>	<b>290</b>	<b>-</b>	<b>780</b>	<b>129</b>
Miscellaneous income	160	-				(100)
<b>Total Expenditure</b>	<b>132</b>	<b>156</b>	<b>225</b>	<b>443</b>	<b>549</b>	<b>317</b>
Staff Expenses	76	117	112	176	348	356
Other Expenses	55	64	70	108	138	152
Provisions and Contingencies	0	(25)	43	159	63	15,700
<b>PBDT</b>	<b>1,620</b>	<b>1,905</b>	<b>1,508</b>	<b>1,174</b>	<b>2,437</b>	<b>50</b>
Depreciation	10	11	11	12	12	18
<b>Profit before Tax</b>	<b>1,610</b>	<b>1,894</b>	<b>1,496</b>	<b>1,161</b>	<b>2,425</b>	<b>51</b>
Provision for Tax	298	404	268	271	582	95
Current Tax	336	334	263	360	553	65
Deferred Tax	(40)	69	0	(92)	24	(162)
Fringe Benefit Tax	1	1	1	3	5	275
<b>Profit after Tax</b>	<b>1,312</b>	<b>1,490</b>	<b>1,228</b>	<b>890</b>	<b>1,843</b>	<b>40</b>
Share of profit in associates / minority interest		56	22	39	(33)	
Profit after Tax (incl minorities share/ after minority share)	1,312	1,546		930	1,810	
<b>PBT treasury and provisions</b>	<b>1,270</b>	<b>1,259</b>		<b>1,321</b>	<b>1,708</b>	
<b>PBT bef treasury provisions and misc income</b>	<b>1,110</b>	<b>1,259</b>		<b>1,321</b>	<b>1,708</b>	

Source:Company, Kotak Institutional Equities estimates.

**Banking****FED.BO, Rs327**

Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	340
52W High -Low (Rs)	349 - 170
Market Cap (Rs bn)	28.0

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	10.2	10.7	12.2
Net Profit (Rs bn)	2.9	3.2	3.5
EPS (Rs)	34.2	37.1	41.3
EPS gth	30.0	8.5	11.5
P/E (x)	9.6	8.8	7.9
P/B (x)	2.0	1.7	1.4
Div yield (%)	1.2	2.3	2.5

**Shareholding, March 2007**

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIs	49.0	0.1	0.1
MFs	10.6	0.2	0.1
UTI	-	-	(0.1)
LIC	1.9	0.0	(0.0)

**Federal Bank: Prima facie results appear good**

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- **Federal Bank reported a PAT of Rs669 mn in 1QFY08, which was up a hefty 67% yoy and 23% ahead of our estimates**
- **Quality of results appears good at first glance**
- **Maintain a positive stance on the stock. We will revisit our estimates on receipt of further information from the bank**

Federal Bank reported a PAT of Rs669 mn in 1QFY08, which was up a hefty 67% yoy and 23% ahead of our estimates. Revenue quality appears to be good with NII stream growing by 22%yoy and non-interest income growing by 85%yoy. Recovery from written-off assets has likely contributed meaningfully to the other income. Federal Bank continues to hold Rs106 mn of excess provisions on its investment book, which has not been written back. We take a positive view of the conservative provisioning policy of Federal Bank as it enhances the balance sheet quality. The other notable development at the bank has been the approval provided by shareholders for the proposed rights offer by the bank. We continue to have a positive bias for the stock and will revisit our estimates on receipt of more detailed information from the bank. Current valuation of the stock is 7.9X PER and 1.4X APBR FY2009.

**NII growth healthy at 22% yoy is in contrast to other banks.** Federal Bank's NII grew by 22%yoy in 1QFY08 likely aided by stable NIM. Prima-facie there does not appear to be any extraordinary item driving this income. While we await greater details from the bank on the quarterly results we note that buoyant NII growth reported by this bank is in contrast to the financial results announced by other banks.

**Higher recoveries likely key reason for the higher than expected non-interest income.** Federal Bank's non-interest income increased by a hefty 85%yoy to Rs1 bn in the current quarter. There have been newspaper reports in the recent past, suggesting sizeable recoveries from written off accounts in the current quarter. We are yet to ascertain the veracity of these reports.

**Bank's conservative provisioning policy finds favor with us.** Federal Bank continues to have excess provisions of Rs106 mn on its investment book, which it has not utilized in the current quarter.

Federal Bank made a provision of Rs193 mn for the depreciation loss on its AFS portfolio in 4QFY07. The bank took a MTM hit on its AFS portfolio with the closing prices as on April 3, 2007 instead of March 31, 2007 as is the usual policy. It is to be noted that RBI announced monetary measures of hiking CRR to 6.5% and increasing repo rate to 7.75% on March 30, 2007. Bank management in its discretion felt that it would be prudent to value its AFS investments on April 3, 2007 than March 31, 2007. We believe that the prudent accounting policy strengthens the balance sheet quality.

**Effective tax rate was high, reason appears unclear.** Federal Bank reported an effective tax rate of 45% in the current quarter. The reason for this is not clear, and is much higher than the historical trend of 23-25%.

**Shareholders give approval for a rights offer.** Federal Bank has received shareholder approval on July 12, 2007 for going ahead with a rights offer (ratio of 1:1) for the existing shareholders. Capital adequacy ratio is comfortable at 13.3% for the bank as of June 30, 2007. The company had reported Tier I of 9.0% in 4QFY2007, however, adjusted for investment fluctuation reserve (which all banks now classify as Tier I in line with RBI policy) the Tier I was at a higher 10%. We therefore believe that there is no urgent need for Federal Bank to raise fresh capital.



**Federal Bank quarterly results**

In Rs mn

	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	% chg	1Q08KS	Actual Vs KS
Interest earned	3,625	3,903	4,083	4,337	4,441	5,313	5,592	37.0		
Interest/discount on advances/bills	2,371	2,616	2,786	3,010	3,200	3,818	4,046	45.2		
Income on Investments	1,199	1,207	1,151	1,176	1,207	1,290	1,374	19.4		
Interest on balances with RBI and other inter bank funds	49	42	137	142	25	134	118	(13.7)		
Others	6	38	8	9	9	70	54	551.8		
Interest expended	2,130	2,181	2,497	2,662	2,658	3,033	3,665	46.8		
<b>Net interest income</b>	<b>1,494</b>	<b>1,722</b>	<b>1,586</b>	<b>1,675</b>	<b>1,784</b>	<b>2,280</b>	<b>1,928</b>	<b>21.5</b>	<b>1,903</b>	<b>1.3</b>
Other Income	484	697	543	726	545	1,054	1,005	85.2	651	54.3
<b>Total income</b>	<b>1,978</b>	<b>6,731</b>	<b>2,129</b>	<b>2,401</b>	<b>2,328</b>	<b>3,333</b>	<b>2,932</b>	<b>37.8</b>	<b>2,554</b>	<b>14.8</b>
Operating Expenses	853	992	991	1,011	973	1,086	1,048	5.7	1,090	(3.9)
Payments to and provisions for employees	518	608	649	656	602	697	631	(2.8)	746	(15.4)
Other operating expenses	334	385	342	355	371	389	417	21.8	344	21.2
<b>PBT before provisions</b>	<b>1,126</b>	<b>1,427</b>	<b>1,137</b>	<b>1,390</b>	<b>1,355</b>	<b>2,247</b>	<b>1,884</b>	<b>65.7</b>	<b>1,464</b>	<b>28.7</b>
Other Provisions and Contingencies	199	813	559	526	196	867	670	19.8	626	7.0
<b>PBT</b>	<b>927</b>	<b>614</b>	<b>578</b>	<b>864</b>	<b>1,159</b>	<b>1,381</b>	<b>1,214</b>	<b>110.1</b>	<b>838</b>	<b>45.0</b>
Provision for Taxes	211	107	176	170	321	388	545	209.1	293	85.9
<b>NET PROFIT</b>	<b>716</b>	<b>507</b>	<b>402</b>	<b>695</b>	<b>838</b>	<b>992</b>	<b>669</b>	<b>66.6</b>	<b>544</b>	<b>23.0</b>
<b>Tax rate (%)</b>	<b>23</b>	<b>17</b>	<b>30</b>	<b>20</b>	<b>28</b>	<b>28</b>	<b>45</b>		<b>35</b>	
<b>Desposits (Rs bn)</b>	<b>164</b>	<b>179</b>	<b>NA</b>	<b>NA</b>	<b>186</b>	<b>216</b>	<b>NA</b>			
CASA ratio (%)	NA	24.5	NA	NA	28.4	25.6	NA			
<b>Advances (Rs bn)</b>	<b>105</b>	<b>117</b>	<b>124</b>	<b>131</b>	<b>136</b>	<b>149</b>	<b>NA</b>			
Retail	26	30	NA	NA	40	43	NA			
<b>Capital adequacy details (%)</b>										
Capital Adequacy ratio (%)	11.3	13.8	NA	12.8	14.6	13.4	13.3			
Tier I	NA	9.7	NA	NA	9.8	9.0	NA			
<b>Asset quality details</b>										
Gross Non-performing assets (Rs mn)	NA	5,631	NA	5,440	NA	4,508	NA			
Gross NPAs (%)	NA	NA	NA	4.1	3.8	3.0	NA			
Net Non-performing assets (Rs mn)	NA	1,116	NA	856	NA	651	NA			
% of Net NPAs	NA	1.0	NA	0.7	0.6	0.4	NA			
<b>Yield management measures (%)</b>										
Yield on advances	9.9	NA	NA	NA	10.0	10.2	NA			
Cost of deposits	5.5	NA	NA	NA	5.5	5.6	NA			
NIM	3.2	NA	NA	NA	3.3	3.1	NA			

Source: Company, Kotak Institutional Equities estimates.

**Consumer Products****GLSM.BO, Rs574**

Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	625
52W High -Low (Rs)	670 - 470
Market Cap (Rs bn)	24.1

**Financials**

December y/e	2006	2007E	2008E
Sales (Rs bn)	11.1	13.1	14.6
Net Profit (Rs bn)	1.3	1.5	1.7
EPS (Rs)	30.2	35.9	40.0
<i>EPS gth</i>	<i>18.5</i>	<i>19.0</i>	<i>11.4</i>
P/E (x)	19.0	16.0	14.4
EV/EBITDA (x)	9.6	8.0	6.8
Div yield (%)	1.7	2.1	2.3

**Shareholding, March 2007**

	% of Pattern Portfolio	Over/(under) weight
Promoters	43.2	-
FIs	4.1	0.0
MFs	11.2	0.3
UTI	1.6	0.3
LIC	8.8	0.2

**Glaxo SmithKline Consumer: 2QCY07 sales growth good at 17.4%**

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- **Double-digit volumes growth helps realize 17.4% growth in sales**
- **EBITDA margins improve by 130 bps**
- **Capex plans of Rs700 mn for 2HCY07**
- **Retain Inline rating with a target price of Rs625/share**

GlaxoSmithkline Consumer (GSK) reported yoy sales growth of 17.4% (our estimate 13.9%), and EBITDA increase of 26.8% (our estimate 28.5%) during 2QCY07. Higher other income during the quarter (Rs166 mn compared to Rs142 mn last year) resulted in strong PAT growth of 36.8%. EBITDA margin improved to 17% compared to 15.7% in the 2QCY06 as the company benefited from reduction of tax in Tamil Nadu and Kerala. Management indicated in the conference call that it was interested in acquisitions of nutritional brands. We have fine-tuned our assumptions to reflect higher price increases being taken by the company to counter increasing milk prices. We have revised our earnings estimates to Rs35.9/share (Rs32.1/share earlier) for CY2007E and Rs40/share (Rs36.7/share earlier) for CY2008E. We retain our In-Line rating with a target price of Rs625/share.

**Double-digit volumes growth helps realize 17.4% growth in sales.** GSK reported sales growth of 17.5% yoy for the 2QCY2007. Sales were boosted by a 12% volumes growth and 6% increase in prices. Boost recorded a strong volumes growth of more than 20% yoy, partly helped by its relaunch in a new packaging during the quarter. Volumes for the biscuits division declined by 10% yoy. GSK has taken a price increase of Rs5 per 500g in Horlicks during June 2007 to counter the increasing raw material costs. Management expects prices of skimmed milk powder (SMP) to strengthen further by ~20% for 2HCY07. As per management, the ban on exports of SMP has helped in toning down the price increases.

**EBITDA margins improve by 130 bps.** GSK reported EBITDA margins of 17% (15.7% in 2QCY06) for 2QCY07. Improvement in EBITDA margins was due to higher price realizations, cost containment and the benefit of transition from sales tax to VAT in the states of Tamil Nadu and Kerala. Advertising and promotion expenses were maintained at 11.5% of sales.

**Capex plans of Rs700 mn for 2HCY07.** GSK plans to incur a capital expenditure of Rs700 mn during 2HCY07 towards modernization of existing plants and installation of cost saving equipment. The bulk of this capex will be incurred towards the replacement of the fuel oil based boiler to a coal-based boiler, which would help contain costs and improve margins.

**Retain Inline rating with a target price of Rs625/share** We retain our In-Line rating with a target price of Rs625/share implying a P/E of 17.3X on CY2007E and 15.6X on CY2008E.

**Quarterly results of Glaxo SmithKline Consumer, December yearends (Rs mn)**

	yoy			Our est. 2Q CY07	yoy % chg
	2Q CY07	2Q CY06	% chg		
<b>Gross sales</b>	<b>3,444</b>	<b>2,931</b>	<b>17.5</b>	<b>3,340</b>	<b>14.0</b>
Excise duty	(288)	(243)		(277)	
<b>Net sales</b>	<b>3,156</b>	<b>2,688</b>	<b>17.4</b>	<b>3,062</b>	<b>13.9</b>
Material cost	(1,103)	(848)	30.0		
Employee cost	(396)	(351)	12.7		
Advertising & promotion expenses	(395)	(333)	18.7		
Other overheads	(677)	(694)	(2.5)		
Total operating expenses	(2,571)	(2,227)	15.5		
<b>EBITDA</b>	<b>585</b>	<b>461</b>	<b>26.8</b>	<b>593</b>	<b>28.5</b>
Depreciation	(109)	(105)			
<b>EBIT</b>	<b>476</b>	<b>356</b>			
Other income	166	142			
Net interest	(11)	(9)			
<b>PBT</b>	<b>631</b>	<b>490</b>	<b>28.9</b>	<b>670</b>	<b>36.9</b>
Deferred tax	—	—	—	—	—
<b>PAT</b>	<b>423</b>	<b>309</b>	<b>36.8</b>	<b>435</b>	<b>40.6</b>
Extraordinary income (loss)	—	—	—	—	—
EBITDA margin (%)	17.0	15.7		17.8	
<b>Costs as % of gross sales</b>					
Material cost	32.0	28.9			
Excise duty	8.4	8.3			
Employee cost	11.5	12.0			
Advertising & promotion expenses	11.5	11.4			

Source: Company data, Kotak Institutional Equities

**Glaxo Smithkline Consumer, Profit model, December yearends, 2004-2008E (Rs mn)**

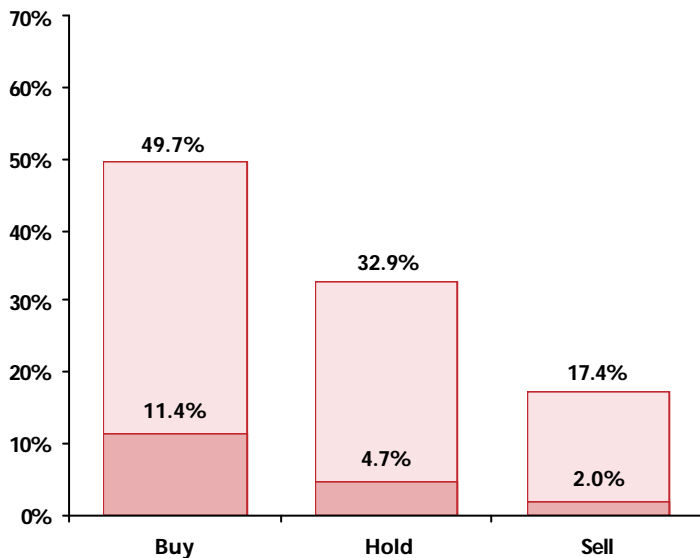
	2004	2005	2006	2007E	2008E
<b>Net revenue</b>	<b>8,622</b>	<b>9,668</b>	<b>11,119</b>	<b>13,091</b>	<b>14,629</b>
Cost of goods sold	(4,810)	(5,155)	(6,112)	(7,265)	(8,119)
Gross profit	3,811	4,514	5,008	5,825	6,510
SG&A expenses	(2,350)	(2,672)	(3,161)	(3,648)	(4,075)
<b>EBITDA</b>	<b>1,462</b>	<b>1,842</b>	<b>1,846</b>	<b>2,177</b>	<b>2,435</b>
Depreciation and amortization	(464)	(419)	(427)	(460)	(508)
EBIT	998	1,423	1,419	1,717	1,927
Interest (expense)	(53)	(42)	(35)	(42)	(46)
Interest income	89	89	130	158	198
Other income/(expense)	165	154	392	449	464
<b>Pre-tax profit</b>	<b>1,200</b>	<b>1,624</b>	<b>1,906</b>	<b>2,282</b>	<b>2,543</b>
Income tax	(425)	(553)	(636)	(771)	(861)
<b>Net profit</b>	<b>775</b>	<b>1,072</b>	<b>1,269</b>	<b>1,511</b>	<b>1,682</b>
<b>EPS (Rs)</b>	<b>17.1</b>	<b>24.8</b>	<b>30.2</b>	<b>35.9</b>	<b>40.0</b>
CEPS (Rs)	27.2	32.4	38.1	44.3	48.5
Dividend per share (Rs)	7.0	8.0	10.0	11.9	13.3
Shares outstanding (m)	45.4	42.1	42.1	42.1	42.1
<b>Ratios (%)</b>					
Revenue growth	7.89	12.14	15.01	17.73	11.75
EBITDA margin	16.95	19.05	16.60	16.63	16.64
PBT growth	20.53	35.33	17.33	19.75	11.44
Income tax rate	35.43	34.03	33.39	33.80	33.85
EPS growth	1.51	45.45	21.51	19.01	11.36

Source: Company data, Kotak Institutional Equities estimates.

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- Percentage of companies within each category for which Kotak Institutional Equities and/or its affiliates has provided investment banking services within the previous 12 months.

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Source: Kotak Institutional Equities.

As of June 30, 2007

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#### Current rating system

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