Be in the right boats when the tide goes out. We find valuations expensive across most sectors; most large-cap stocks are trading at or above our FY2009E fair valuations despite our aggressive earnings growth expectations. However, India's long-term growth story will undoubtedly continue; thus, we recommend investors to switch/increase exposure to BFSI, infrastructure and power/utilities based on a combination of earnings resilience, long-term growth prospects and favorable economic factors. We see the telecom sector as the most vulnerable; too many players wanting to get into the 'telecom' boat may capsize it.

Rich valuations versus liquidity; liquidity can only take the market so far

We find the market richly valued on all our traditional valuation parameters and thus, see no defense against any reversal in liquidity. The BSE-30 Sensex is trading near the top-end of our 14,750-18,500 band based on 12-15X FY2009E earnings (previously 14,250-16,750) and valuations of 'embedded' assets also look stretched. The speed of the recent market rally without any real change in fundamental factors points to a largely liquidity-driven rally and makes us cautious about any reversal in liquidity.

What will sustain the rally? Nothing but liquidity; earnings surprises remote

We are now comfortable with only two (BFSI, infrastructure) of the traditional five large-capitalization sectors given good earnings visibility (strong volume growth, moderate margins) and/or 'reasonable' valuations. Influx of several new players may derail telecom; appreciating rupee may pressure IT; and energy faces huge expectations (Reliance Industries) or policy risks (government-owned names).

Economic environment good; interest rate down, exchange rate up

We believe that the interest rate-cycle may have peaked and in fact, will start moving down. This will likely be positive for auto and real estate sectors; however, we expect residential real estate prices to likely correct (10-20%). A strengthening rupee may hurt the earnings of IT and commodity sectors although the IT sector can respond appropriately to partially offset the impact.

Political situation unsettled; early elections may delay crucial policy decisions

In the event of early elections, we expect crucial policy decisions to get delayed and do not rule out a populist budget. Downstream oil & gas (cap on retail prices) and telecom (no decision on spectrum issue) may get hit. Infrastructure players may tide over a potential lean phase of fresh government-related orders due to their healthy order books. However, early elections potentially open up a source of good investment opportunities (sell-down of good government assets) but it is too early to speculate on the same.

Top-10 portfolio
Key changes in Top-10 portfolio

New Top-10	What's in	What's out
ICICI Bank		
Larsen & Toubro		
ITC		
Maruti Udyog		
Bharat Heavy Electricals		
Bajaj Auto		
NTPC	NTPC	Reliance Energy
Aditya Birla Nuvo	Aditya Birla Nuvo	Wipro
Punjab National Bank		

New Top-10
Mid-cap. basket
Andhra Bank
Kalpataru Power Transmission
Nagarjuna Construction Co.
Mahindra Gesco
PSL

Source: Kotak Insitutional Equities estimates.

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Kotak Institutional Equities Research

Table of contents

The prices in this report are based on the market close of October 4, 2007.

Valuations: Expensive, full and just to make sure, rich

We find valuations of the Indian stock market rich with all our valuation indicators pointing to an overbought market. The BSE-30 Sensex is trading near the top-end of our 12-month fair band of 14,750-18,500 based on FY2009E earnings. It is simply too early to focus on FY2010E earnings, global risks (sub-prime, slowdown in certain key economies) have not disappeared with a 50-bps Fed Funds Rate reduction and earnings upgrades look remote.

Market fully valued even on FY2009E basis

We see the market fully valued on FY2009E earnings. Exhibit 1 gives our projected earnings, earnings growth and valuations for BSE-30 Sensex broken down by sectors. We find valuations rich for most sectors in the context of our projected earnings growth and issues facing certain sectors; most stocks in every sector are trading near or above our fair valuations of the stocks based on either (1) FY2009E earnings or (2) 12-month forward DCF. We discuss the same in more detail in the next section.

Exhibit 1: Valuation summary of BSE-30 sectors

	Mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)		Div Yield (%)		RoE (%)		
	(US$ mn)	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2007	2008E	2007	2008E	2009E
Automobiles	27,365	28.9	8.9	25.0	19.4	17.8	14.2	10.2	9.2	7.3	4.5	3.8	1.3	1.4	23.3	21.3	22.0
Banking	83,669	14.2	23.1	29.2	31.9	25.9	20.0	—	—	—	5.3	3.3	0.7	0.8	16.5	12.6	14.5
Cement	19,805	89.5	21.3	8.6	18.0	14.9	13.7	10.5	8.2	7.4	4.8	3.7	1.1	1.3	26.5	25.0	21.9
Consumers	29,956	19.4	15.2	14.3	27.9	24.2	21.2	19.1	15.4	13.1	8.7	7.7	2.3	2.4	31.3	31.8	31.9
Energy	142,613	19.9	18.1	17.0	19.2	16.2	13.9	9.5	8.3	6.6	3.5	3.1	1.5	1.6	18.4	19.0	18.0
Industrials	46,911	56.3	35.8	28.0	43.6	32.1	25.1	25.4	18.8	14.6	11.5	8.8	0.4	0.5	26.4	27.4	26.9
Metals	24,653	33.1	(3.3)	(11.6)	14.0	14.5	16.4	9.0	8.8	9.8	3.3	2.0	1.2	1.3	23.5	13.7	11.0
Pharmaceuticals	10,627	136.7	(17.3)	20.2	18.4	22.3	18.6	13.3	14.9	12.8	3.9	3.5	1.4	1.4	21.2	15.6	16.7
Technology	80,352	44.4	21.5	23.0	26.1	21.5	17.5	19.5	15.6	12.2	8.8	6.9	1.0	1.4	33.5	31.9	30.9
Telecom	79,069	182.9	63.9	33.8	43.1	26.3	19.6	22.9	14.8	11.3	9.0	6.8	0.0	0.2	20.9	26.0	26.4
Utilities	55,815	16.1	11.4	9.1	28.9	26.0	23.8	15.4	15.7	16.3	3.7	3.5	1.2	1.5	12.9	13.3	13.5
BSE-30	**600,836**	**34.5**	**19.9**	**19.2**	**25.1**	**21.0**	**17.6**	**13.6**	**11.6**	**9.8**	**5.1**	**4.0**	**1.0**	**1.2**	**20.4**	**19.3**	**19.2**
BSE-30 ex-Energy	**458,223**	**42.3**	**20.7**	**20.1**	**27.8**	**23.1**	**19.2**	**16.3**	**13.6**	**11.6**	**6.0**	**4.5**	**0.9**	**1.1**	**21.5**	**19.4**	**19.9**
BSE-30 ex-Energy, Com.	**413,765**	**40.7**	**23.8**	**24.2**	**30.4**	**24.6**	**19.8**	**18.2**	**14.8**	**12.3**	**6.4**	**4.9**	**0.9**	**1.0**	**20.9**	**19.9**	**20.9**
BSE-30 ex-Technology	**520,484**	**33.1**	**19.7**	**18.6**	**25.0**	**20.9**	**17.6**	**13.0**	**11.1**	**9.5**	**4.8**	**3.8**	**1.0**	**1.1**	**19.3**	**18.2**	**18.2**

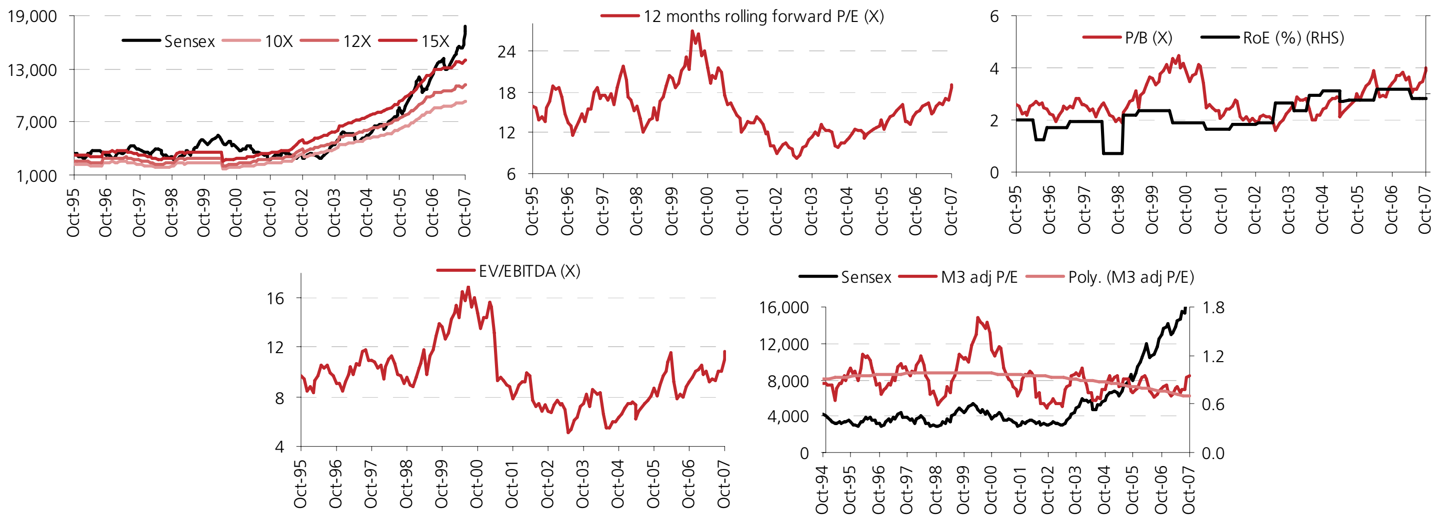
Note:
(a) EV/EBITDA excludes Banking sector.

Source: Company reports, Kotak Institutional Equities estimates.

Our lead indicators (see Exhibit 2) now unanimously indicate that the market is overbought. The market has moved ahead of our comfortable band of 12-15X 1-year forward earnings, even factoring in the valuation of 'embedded value' assets (investments in listed and unlisted stocks, projects yet to contribute to earnings), which do not contribute to earnings currently.

Exhibit 2: 1-year rolling forward P/E above the normal trading range, M3 adjusted P/E above the trend

1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations



Source: BSE, RBI, Kotak Institutional Equities.

Our proprietary free cash flow model (Whizdom) shows that the equity risk premium for the market is about 350 bps (see Exhibit 3). We see this as extremely low and reflecting a more expansive attitude towards valuations and increased risk-appetites, perhaps emboldened by strong liquidity.

Exhibit 3: Equity risk premium is low currently

Equity risk premium (%) for BSE Universe, using our proprietary tool, Whizdom

Equity risk	Implied BSE Sensex		
premium	Rf = 8%	Rf = 7.5%	Rf = 7%
5.5	12,599	13,575	14,711
5.0	13,342	14,435	15,721
4.5	14,178	15,411	**16,878**
4.0	15,124	**16,528**	18,221
3.5	16,205	**17,821**	19,801

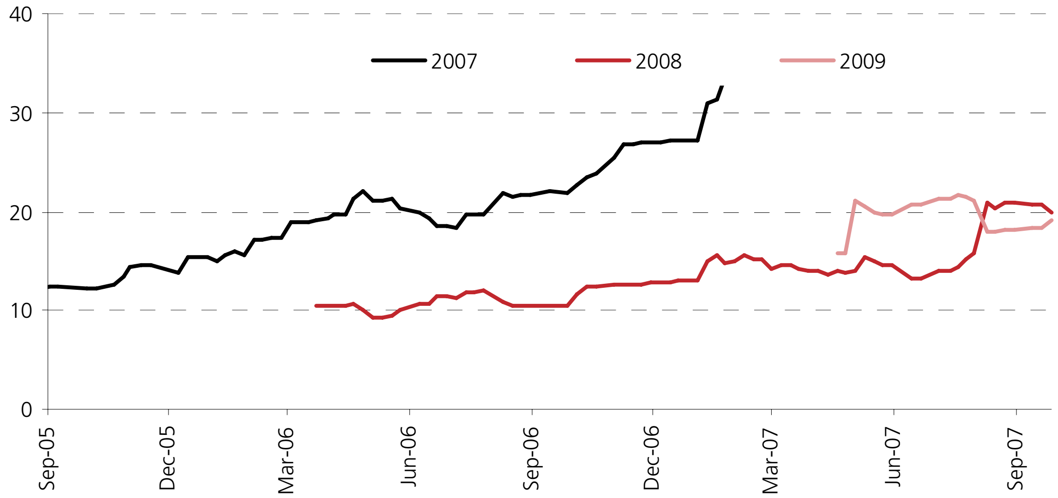
Source: Kotak Institutional Equities estimates.

(1) Strong earnings growth across most sectors and (2) embedded value largely known

We believe strong expected earnings growth for most sectors in FY2008E and FY2009E is already factored in current valuations. So is embedded value in most cases, in our view.

1. **Earnings. We believe significant earnings upgrades look remote currently** in the face of (1) aggressive earnings growth forecast across sectors (23.8% for FY2008E and 24.2% for FY2009E for BSE-30 Sensex without energy and commodities) , (2) a likely slowdown in industrial activity and (3) exchange rate pressures on certain large sectors (technology, commodities). We will have to wait for evidence of earnings upgrades (2QFY08 results may provide some guidance). We give the history of earnings upgrades/downgrades for BSE-30 stocks (composite basis) by our research team in Exhibit 4.

Exhibit 4: Sensex (ex-energy) earnings growth
Expected growth in sensex ex-energy earnings for FY2007, FY2008E and FY2009E (%)



Source: Kotak Institutional Equities estimates.

Exhibit 5 gives our sensitivity analysis of earnings of key sectors to exchange rate assumptions. As can be seen, the earnings of IT, energy (excluding downstream oil) and metals sectors face significant risks from an appreciation in the rupee versus US Dollar. However, we would caution that (a) the IT sector has a few levers to mitigate the impact of the appreciating rupee and (b) underlying commodity prices in US Dollar terms will also increase to adjust for a US Dollar depreciation, if the US Dollar declines against all major global currencies (a likely scenario unless the US trade deficit situation improves).

Exhibit 5: Commodities and IT negatively affected, downstream oil & gas positively affected by a stronger rupee
Impact of rupee appreciation on earnings estimate

	EPS estimate (Rs/share)				
	FY2009E		FY2010E		
	Base case	Rs38	Base case	Rs36	Comments
Media					
HT Media	9.9	10.7	12.7	14.3	Positive impact as stronger rupee would result in lower newsprint costs.
Metals					
Jindal Steel and Power	400.0	272.0	307.5	164.1	Standalone EPS
JSW Steel	90.5	66.5	113.3	65.5	
Sesa Goa	195.6	143.2	182.9	109.8	
Tata Steel	43.1	32.4	37.9	20.1	Standalone EPS
Oil & Gas					
Bharat Petroleum	35.4	45.7	44.3	52.3	Positive for earnings as a stronger rupee would improve margins. The government currently controls the price of 70% of products (diesel, gasoline, kerosene and LPG). On the raw material side, the price of crude will decline in rupee terms benefiting composite margins. Assuming that the current subsidy sharing scheme remains in place, a Rs2/US$ appreciation will result in lower under-recoveries of Rs5.3 bn.
Hindustan Petroleum	34.0	48.9	46.4	60.0	Positive for earnings as a stronger rupee would improve margins. The government currently controls the price of 70% of products (diesel, gasoline, kerosene and LPG). On the raw material side, the price of crude will decline in rupee terms benefiting composite margins. Assuming that the current subsidy sharing scheme remains in place, a Rs2/US$ appreciation will result in lower under-recoveries of Rs5 bn.
Indian Oil Corporation	45.2	60.3	44.1	58.0	Positive for earnings as a stronger rupee would improve margins. The government currently controls the price of 70% of products (diesel, gasoline, kerosene and LPG). On the raw material side, the price of crude will decline in rupee terms benefiting composite margins. Assuming that the current subsidy sharing scheme remains in place, a Rs2/US$ appreciation will result in lower under-recoveries of Rs13.5 bn.
Cairn india	1.0	0.7	10.6	8.5	Negative impact as stronger rupee would lead to lower crude price in rupee terms.
Castrol India	20.7	23.6	23.4	28.0	Positive for Castrol as it will reduce the cost of raw materials (LOBS and additives), which constitute a significant portion of its overall costs.
GAIL (India)	32.3	31.6	34.1	31.6	Negative impact due to lower prices of certain products but fixed raw material costs. However, this will be partially compensated by lower burden of subsidy losses
Oil & Natural Gas Corporation	108.8	103.6	115.4	99.8	Negative impact due to lower crude prices in rupee terms; however, this will be partly compensated by a reduction in the subsidy loss. Assuming the current subsidy sharing scheme continues, a Rs2/US$ appreciation will result in lower burden of subsidies of Rs21 bn.
Reliance Industries	123.6	114.6	184.3	169.7	Negative impact as a stronger rupee would impact margins negatively as prices of its products and raw materials are based on import parity basis.
Reliance Petroleum	4.2	3.9	22.7	20.2	A stronger rupee would have negative impact on margins as prices of RPL's products and raw materials are based on import parity basis.
Technology					
HCL Technologies	22.3	19.8	25.0	20.5	
Hexaware Technologies	12.7	11.0	14.1	10.1	
i-flex solutions	64.1	56.6	80.2	61.7	
iGate Global Solutions	28.5	24.2	31.3	21.9	
Infosys Technologies	99.9	91.2	109.8	93.3	Rupee appreciation against the US$ has a huge negative impact on earnings; most companies, except Tech Mahindra have >60% of their billing in US$. A 1% appreciation in the Re/US$ rate impacts EPS by 1.5-3% for various companies. Note that hedging can absorb some of the rupee impact; our numbers do not factor in any hedging gains.
Mphasis BFL	18.8	16.4	20.4	16.3	
Mindtree	33.8	29.5	40.9	30.7	
Patni Computer Systems	34.2	30.2	39.8	30.6	
Polaris Software Lab	12.9	10.9	14.1	10.0	
Satyam Computer Services	31.5	28.4	33.4	29.1	
TCS	61.9	56.3	70.4	58.5	
Tech Mahindra	96.0	88.5	113.4	96.4	
Wipro	29.2	26.7	32.2	27.4	

Source: Kotak Institutional Equities estimates.

2. **Embedded value.** Exhibit 6 gives our computation for embedded value for BSE-30 Sensex stocks. This value has expanded 210% compared to a similar computation made in September 2006. It is very difficult to value embedded assets or take a view on the market solely on expectations of further upside to embedded value. In fact, the market has already extrapolated developments and expected developments in certain stocks and sectors and rewarded the same with large increase in market capitalization. We fear significant erosion in the valuation of such assets if the investment climate turns more pragmatic. Exhibit 7 gives appreciation in the price of certain stocks with large perceived embedded value.

Exhibit 6: Embedded value accounts for a significant portion of market value
Embedded value computation of BSE-30 Sensex stocks

				Embedded value	
	Price	Shares o/s	Free float mkt cap.	Value	FF market cap.
	(Rs)	(mn)	(US$ mn)	(Rs)	(US$ mn)
Reliance Industries	2,423	1,453	44,595	1,185	21,814
ICICI Bank	1,061	1,037	27,881	421	11,060
Larsen & Toubro	2,896	286	18,875	585	3,812
Bharti Airtel Limited	961	1,898	16,172	83	1,397
HDFC	2,495	287	16,308	590	3,857
Tata Steel	865	860	13,185	42	640
State Bank of India	1,900	526	11,401	455	2,730
Oil & Natural Gas Corporation	986	2,139	10,684	39	423
Grasim Industries	3,592	92	6,257	326	568
Reliance Communications	635	2,045	11,502	33	598
Bajaj Auto	2,580	101	4,628	1,191	2,137
Tata Motors	799	405	4,919	272	1,675
Hindalco Industries	176	1,307	4,362	65	1,614
Mahindra & Mahindra	758	257	3,946	389	2,024
Reliance Energy	1,478	228	6,394	330	1,428
BSE 30 :	**17,777**		**304,753**	—	**55,776**

Source: Kotak Institutional Equities estimates.

Exhibit 7: Companies with embedded value have outperformed the Sensex
Performance of embedded value companies versus Sensex

	Mkt cap.	Performance (%)				YTD growth in mkt cap.
Company	(US$ bn)	1 month	3 months	6 months	YTD	(US$ bn)
Reliance Industries	86	23	41	78	91	40.7
ICICI Bank	29	17	8	29	19	4.7
State Bank Of India	25	18	22	103	53	8.7
Larsen & Toubro	21	10	26	87	101	10.5
Reliance Petroleum	18	32	42	126	157	11.3
HDFC	17	21	26	67	54	6.0
Tata Steel	13	27	40	97	79	5.9
Reliance Capital	11	45	59	185	192	7.2
Cairn India	8	20	20	41	—	—
Reliance Energy	9	79	142	203	184	5.5
GMR Infrastructure	7	10	17	160	150	4.5
Jaiprakash Associates	6	23	47	122	55	2.2
Jindal Steel & Power	5	56	74	174	177	3.1
Aditya Birla Nuvo	4	26	25	67	39	1.2
Reliance Natural Resources	3	89	143	321	320	2.6
IDBI	3	15	27	107	97	1.4
Pantaloon Retail India	2	9	8	49	39	0.6
IFCI	1	30	51	186	648	1.3
IVRCL Infrastructures & Proj	1	13	13	64	14	0.2
Max India Limited	1	22	1	24	44	0.4
GVK Power & Infrastructure	1	27	45	110	148	0.7
Average of embedded value companies		**29**	**42**	**114**	**127**	
Sensex	**601**	**15**	**19**	**39**	**29**	**134**

Note:

Source: Bloomberg, Kotak Institutional Equities.

Liquidity can take the market so far only; eventually valuations will take over

We believe the recent market rally is largely led by strong capital inflows and this makes us uncomfortable about the extent of the rally (liquidity-driven rallies are impossible to forecast) without the comfort of reasonable valuations. The market has bounced back strongly over the past few weeks (13.5% increase since September 18, 2007, the date of the Fed Funds Rate cut and 21% since August 21, 2007, the date of the most recent bottom of the market) without any real change in the fundamentals of most sectors or stocks; in fact, conditions have probably worsened in certain large sectors (telecom, technology, commodities).

Exhibit 8 shows that fewer stocks have contributed to the rally in the market, which suggests that the rally may not sustain if the street finds valuations of these stocks full or expensive. We use the BSE-30 Sensex for this exercise but an exercise on more broad-based indices also supports this conclusion. Nonetheless, there have been interesting ideas outside the stocks in the BSE-30 Sensex, and presumably, there will continue to be some at all market levels although this is becoming increasingly difficult with new ideas getting discounted fairly rapidly.

Exhibit 8: Fewer and fewer stocks have contributed to the rally
Contribution of major stocks to increase in BSE-30 Sensex

			No. of trading sessions	Contribution by top-3 gainers		Details of top gainer	
Sensex level	**Date**		**(#)**	**(Points)**	**(%)**	**Company**	**Points cont.**
10,000-11,000	7-Feb-06	27-Mar-06	27	379	37.9	ITC	154
11,000-12,000	27-Mar-06	29-Apr-06	22	504	50.4	Reliance Ind.	300
12,000-13,000	29-Apr-06	1-Nov-06	130	906	90.6	Infosys	324
13,000-14,000	1-Nov-06	12-Jan-07	50	548	54.8	ICICI Bank	271
14,000-15,000	12-Jan-07	9-Jul-07	119	1,108	110.8	Reliance Ind.	464
15,000-16,000	9-Jul-07	19-Sep-07	51	769	76.9	Reliance Ind.	489
16,000-17,000	19-Sep-07	26-Sep-07	5	559	55.9	Reliance Ind.	277
Average							
10,000-14,000	7-Feb-06	12-Jan-07	229	2,337	58.4	Reliance Ind.	758
14,000-17,000	12-Jan-07	26-Sep-07	175	2,436	81.2	Reliance Ind.	1,111

Source: Bloomberg, Kotak Institutional Equities.

Exhibit 9 shows the performance of the Indian stock market (measured in 10-day periods) before and after a strong inflow of liquidity and also gives FII inflows before major corrections in the market. There is no correlation between FII flows and market meltdowns and there is no advance warning of market 'crashes' as we saw in May 2006, February 2007 and August 2007. We note that FIIs have invested US$4.9 bn in the past 10 trading sessions, the highest in any period since FIIs started investing in the Indian market. However, we are reluctant to rely on liquidity as an investment argument in the face of expensive valuations even though the performance of a market tends to naturally create its own liquidity.

Exhibit 9: Liquidity does not tell any story

FIIs flows and stock market performance during periods of major flows or major market meltdowns

Historical performance of Sensex pre and post major FII inflows

Date	FII inflows (US$ mn)	Sensex mkt cap. (US$ mn)	FII inflows Mkt cap. (%)	10 days Sensex performance (%) Pre	Post
23 Mar-5 Apr 2004	1,678	193,424	0.9	8.8	0.7
1 Mar-14 Mar 2005	1,887	225,629	0.8	3.7	(6.5)
19 Nov-3 Dec 2004	1,302	209,493	0.6	4.9	0.4
6 Oct-17 Oct 2003	889	163,374	0.5	8.3	(0.5)
27 Jan-9 Feb 2005	1,163	218,472	0.5	7.0	(0.2)
Average	**1,384**	**202,079**	**0.7**	**6.5**	**(1.2)**
19 Sep-3 Oct 2007	**4,939**	**585,696**	**0.8**	**11.8**	**—**

FII inflows for 30 trading days before a major market crash

Date	Sensex levels At peak	At bottom	Change (%)	FII inflows (US$ mn)
May-06	12,612	9,823	(22.1)	1,449
Feb-07	14,652	12,415	(15.3)	363
Aug-07	15,795	13,989	(11.4)	6,489

Source: Bloomberg, Kotak Institutional Equities.

We believe valuations will eventually prevail and thus, we advocate investors focus on valuations in the current environment. We do not know how long the current deluge of liquidity will continue; it can go on for a long time or it could reverse swiftly with a negative development in any part of the world. It's not as if recent financial problems (related to sub-prime mortgage lending in the US) have been resolved fully and several large economies (Euro zone, Japan, US) may continue to struggle to grow.

Be in the right boats when the tide goes out

Admittedly, we find it difficult to construct a portfolio given rich valuations across most sectors and stocks. All our favorite stocks are trading at or above our FY2009E fair valuations despite our aggressive growth assumptions. Also, there are issues facing certain large-cap sectors. Nonetheless, investors excited about India's long-term growth (as we are) may switch positions to 'India' sectors with relatively more resilient earnings and/or reasonable valuations.

Favorites are investment and domestic consumption stories

Exhibit 10 gives our revised Top-10 portfolio while Exhibit 11 gives the investment argument for the stocks. Our portfolio is biased towards:

Exhibit 10: Heavily biased towards banking/insurance, domestic consumption and infrastructure
Kotak Institutional Equities Top-10 List

			Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
Companies	**Sector**	**Rating**	**(US$ mn)**	**(Rs)**	**(Rs)**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**	**2007**	**2008E**	**2009E**
ICICI Bank	Banking	OP	27,881	1,061	1,200	34.6	36.8	56.8	30.7	28.9	18.7	—	—	—
Larsen & Toubro	Industrials	OP	20,972	2,896	2,725	65.1	88.0	112.4	44.5	32.9	25.8	28.8	20.7	16.1
ITC	Consumer Products	OP	17,516	185	225	7.2	8.3	9.6	25.6	22.2	19.3	16.3	13.9	11.7
Maruti Udyog	Automobiles	OP	7,623	1,041	1,110	54.0	62.4	84.1	19.3	16.7	12.4	11.3	9.8	7.3
Bharat Heavy Electricals	Industrials	OP	25,939	2,092	2,025	49.3	66.4	84.1	42.4	31.5	24.9	22.9	17.2	13.5
Bajaj Auto	Automobiles	OP	6,612	2,580	2,750	127.2	114.5	151.9	20.3	22.5	17.0	14.0	15.1	11.8
NTPC	Utilities	IL	47,290	226	215	8.3	9.3	10.2	27.2	24.3	22.1	17.9	17.5	17.6
Aditya Birla Nuvo	Diversified	OP	4,102	1,735	1,660	22.8	25.0	26.8	76.2	69.4	64.8	34.7	32.8	29.8
Punjab National Bank	Banking	OP	4,276	535	610	48.8	55.2	63.3	11.0	9.7	8.5	—	—	—
Mid-cap. basket														
Andhra Bank	Banking	OP	1,204	98	120	11.1	12.4	13.0	8.8	7.9	7.5	—	—	—
Kalpataru Power Transmission	Transmission	OP	1,098	1,636	1,650	60.2	77.4	91.8	27.2	21.1	17.8	16.9	13.5	11.0
Nagarjuna Construction Co.	Construction	OP	1,411	268	221	6.5	9.6	13.0	41.1	27.9	20.7	24.0	16.3	12.8
Mahindra Gesco	Property	OP	661	621	920	8.9	11.3	47.5	70.1	54.8	13.1	43.0	33.7	10.9
PSL	Pipes	OP	418	398	420	21.2	27.6	41.1	18.8	14.4	9.7	11.7	8.9	6.2
BSE-30				**17,777**										

Source: Company, Bloomberg, Kotak Institutional Equities.

Exhibit 11: Investment arguments for Top-10 stocks

Company	Investment argument: Sector	Investment argument: Stock	Valuations P/E (X) 2008	Valuations Earnings growth (%) 2008	Valuations Earnings growth (%) 2009
ICICI Bank	Robust macroeconomic outlook and stable margin enviornment provide strong growth opportunities. Rising penetration of banking and insurance will drive volumes	(1) Likely expansion of margin on balance sheet restructuring i.e moderate loan growth and shift to retail deposit from bulk deposits; (2) reducing bulk deposit rate to benefit ICICI Bank as 60% of interest paying liabilities are bulk in nature; (3) unlocking of value in subsidiaries like insurance, mutual fund; (4) listing of subsidiaries to reduce pressure on ICICI Bank capital requirement	18.7	6.3	54.3
Larsen & Toubro	Investment-led growth phase for the economy offers immense opportunities in both corporate capex and infrastucture investments	(1) Strong order backlog providing visibility; (2) Ability to build sizeable businesses in related segments of engineering; (3) Possible value unlocking in subsidiaries	25.8	35.2	27.8
ITC	(1) Strong real per-capita income growth; (2) Robust growth in rural economy aided by strong agri-commodity prices	(1) Will likely post strong earnings growth (~15% yoy) during FY2008 despite an estimated 2.5% volumes decline in cigarettes; (2) Expansion of margins in cigarettes division	19.3	15.4	15.1
Maruti Udyog	(1) Low penetration of 4-wheelers and rising incomes to drive volume growth; (2) Likely decline in interest rates to lead to recovery in volume growth across the 4-wheeler industry; high interest rates had hit volume through postponement of demand; (3) Implementation of VIth Pay Commission recommendations to drive consumption	(1) Maruti's volumes have grow 19% in 1HFY08 mainly due to the success of its new launches despite a slowdown in industry demand growth; (2) Aggressive sales drive and strategic move to be present across all car segments along with successful new launches will continue to drive volume growth for Maruti	12.4	15.5	34.6
Bharat Heavy Electricals	(1) Healthy macro scenario due to increasing power investments; (2) Structural changes in financial condition of state electricity boards; (3) 10 years of investments visible	(1) Likely strong order inflows in near-term from state and central utilities; (2) Significant percentage of XIth plan orders (greater than 25 GW) yet to be placed-likely over next three years; and (3) Higher-than-expected business in the industry segment	24.9	34.7	26.6
Bajaj Auto	(1) 2-wheeler volumes will likely recover on the back of softer interest rates and onset of festival season; (2) New launches across segments to drive volume growth; (3) Insurance sector growth to continue strongly for the next several years	(1) Positive triggers include the launch of the much-awaited, higher-margin new bike (XCD) to replace the current entry segment in Sep '07 and higher valuation for the insurance business; (2) A successful new launch of the bike would enable Bajaj Auto regain market share, steer ahead of competition and improve profitability	17.0	(10.0)	32.7
NTPC	(1) 72 GW capacity additions likely in XIth plan followed by 92 GW in XIIth plan; (2) Allocation of coal mining blocks to reduce dependence on Coal India Limited and ensure speedy implementation of power projects	(1) 22 GW of capacity addition (30% of India's planned capacity addition) likely in XIth plan of which 13.4 GW is already under construction; (2) Preferntial allottment of coal linkages and captive coal - allocated seven coal mines (estimated reserves of ~3,492 mn tonnes); (3) Increase in UI charges to further improve RoE from operational power plants. Introduction of availability based incentives will result in higher RoE from gas-based power projects as well.	22.1	11.9	9.7
Aditya Birla Nuvo	We believe insurance companies will validate their rapid growth with high steady stage IRRs of 25-30% and ROEs of 40-50%. Most players are looking to invest between 85-140% of FY2007's outstanding capital over the next two years and doubling their agency and branch networks in the next year	(1) Upside to our SOTP-based target price of Rs1,650 exists from higher valuation of insurance business (Birla Sun Life); individual premiums have increased 245% in August versus our full-year estimate of 50%; (2) Valuation of Idea Cellular may be at risk if wireless pricing environment deteriorates	64.8	9.9	7.1
Punjab National Bank	Robust macroeconomic outlook and stable margin enviornment provide strong growth opportunities	(1) Low cost deposits at 47% to likely support the NIMs; (2) Strong core profit growth; (3) attractive valuations	8.5	13.1	14.7
Mid-cap. basket					
Andhra Bank	Robust macroeconomic outlook and stable margin enviornment provide strong growth opportunities	(1) Likely focus on smaller corporate and retail loans enables the bank to earn superior yields of 10.3% (amongst the highest for public banks); (2) Despite focus on smaller loan portfolio, the bank has maintained asset quality with net NPLs being 0.2%	7.5	11.5	5.1
Kalpataru Power Transmission	(1) We expect power grid capital spending to increase >2X in the XIth five-year plan; (2) Return ratios are expected to improve with higher operating margins and free cash generation	Robust growth in earnings driven by stronger execution in the T&D segment (especially international transmission and domestic distribution) and meaningful revenue and earning accrual from the infrastructure segment	17.8	28.7	18.6
Nagarjuna Construction Co.	Strong outlook for commercial construction, industrial investment, real estate and infrastructure development activity in the country	(1) Strong order backlog provides revenue visibility; (2) NCCL is adequately capitalized; and (3) Domestoc order flow will likely remain strong	20.7	47.4	35.0
Mahindra Gesco	(1) Stabilization of interest rate along with rising incomes to result in incresing affordability; (2) Clarity on SEZ policy by the government has improved	(1) Experience in SEZ development lends confidence; (2) Strong brand name in the residential space; (3) Currently has 138 acres of land with developable potential of 6.9 mn sq. ft	13.1	27.8	319.4
PSL	(1) Strong global pipeline demand especially in USA and Middle East over the next 5-7 years; (2) Large domestic pipelines announced, where mainly spiral pipe is expected to be used	(1) Leader in spiral pipe market with 60% of domestic capacity; (2) Setting up plants in high demand regions like USA and Middle East at low investment; (3) Strong order book presents near-term visibility	9.7	30.2	48.8

Source: Kotak Institutional Equities estimates.

1. **Banking, Financial Services and Insurance (BFSI)**—ICICI Bank, Punjab National Bank, Andhra Bank (part of mid-cap basket). Although we do not rule out further CRR hikes by the RBI in order to mop up excess liquidity, we retain a positive view on banks given reasonable valuations, long-term growth prospects and likely decline in interest rates.

2. **Infrastructure (construction, engineering, industrials and infrastructure)**—L&T, BHEL, Kalpataru, Mahindra Gesco (mid-cap basket), Nagarjuna Construction, PSL), the latter four being part of a five-company mid-cap basket.

3. **Domestic consumption**—Aditya Birla Nuvo (ABNL), Bajaj Auto, ITC and Maruti; ABNL and Bajaj Auto also offer exposure to insurance, another fast-growing domestic consumption play.

4. **Power/utilities.** We have included NTPC in place of Reliance Energy. We have removed Reliance Energy from our Top-10 portfolio given corporate finance action.

The various boats—we like BFSI and infrastructure; others look very rich or have issues

Exhibit 12 gives our Kotak Model Portfolio. We follow the same themes for our broader portfolio. Our sector preference is given below.

Exhibit 12: Over-weighting Industrials, Infrastructure basket and PSU banks
Kotak Institutional Equities Model Portfolio

	4-Oct		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**KS Reco.**
Tata Motors	799	—	1.6	0.0	(160)
Maruti Udyog	1,041	OP	1.0	3.0	200
Bajaj Auto	2,580	OP	1.5	2.5	100
Mahindra & Mahindra	758	—	1.3	2.3	100
Automobiles			**5.4**	**7.8**	**240**
State Bank of India	1,900	IL	3.7	2.2	(150)
Punjab National Bank	535	OP	—	2.0	200
Andhra Bank	98	OP	—	0.6	60
PSU Banking			**3.7**	**4.8**	**110**
HDFC Bank	1,404	IL	3.2	2.7	(50)
ICICI Bank	1,061	OP	9.1	12.1	300
HDFC	2,495	IL	5.4	2.9	(250)
Pvt Banking/Financing			**17.7**	**17.7**	**—**
Grasim Industries	3,592	IL	2.1	2.1	—
ACC	1,214	U	1.1	—	(114)
Ambuja Cements	147	IL	1.5	—	(149)
Cement			**4.7**	**2.1**	**(263)**
Hindustan Unilever	223	IL	2.0	—	(204)
ITC	185	OP	4.0	6.0	200
Consumers			**6.1**	**6.0**	**(4)**
Aditya Birla Nuvo	1,735	OP	—	2.0	200
Diversified			**—**	**2.0**	**200**
Reliance Industries	2,423	U	14.6	13.0	(155)
Oil & Natural Gas Corporation	986	OP	3.5	3.5	—
Reliance Petroleum	162	OP	—	1.5	150
Energy			**18.1**	**18.1**	**(5)**

	4-Oct		Weightage (%)		Diff.
Company	**Price (Rs)**	**Rating**	**BSE-30**	**KS reco.**	**(bps)**
Bharat Heavy Electricals	2,092	OP	3.0	5.0	200
ABB	1,365	OP	—	1.5	150
Larsen & Toubro	2,896	OP	6.2	8.2	200
Industrials			**9.2**	**14.7**	**550**
Tata Steel	865	IL	4.3	2.3	(200)
Hindalco Industries	176	OP	1.4	1.4	—
Sterlite Industries	763	OP	—	1.5	150
Metals			**5.8**	**5.3**	**(50)**
Ranbaxy Laboratories	442	—	1.0	—	(96)
Dr Reddy's Laboratories	654	—	0.7	—	(68)
Cipla	189	—	0.8	—	(78)
Pharmaceuticals			**2.4**	**—**	**(243)**
Infosys Technologies	1,995	OP	8.1	5.8	(225)
Satyam Computer Services	450	OP	2.4	1.4	(100)
TCS	1,079	IL	1.8	—	(175)
Wipro	461	OP	1.1	1.1	—
Technology			**13.3**	**8.3**	**(500)**
Bharti Airtel Limited	961	U	5.3	3.1	(225)
Reliance Communications	635	U	3.8	1.3	(250)
Telecom			**9.1**	**4.3**	**(475)**
NTPC	226	IL	2.3	4.3	200
Reliance Energy	1,478	IL	2.1	2.1	—
Utilities			**4.4**	**6.4**	**200**
Nagarjuna Construction Co.	268	OP	—	0.6	60
Mahindra Gesco	621	OP	—	0.6	60
Kalpataru Power Transmission	1,636	OP	—	0.6	60
PSL	398	OP	—	0.6	60
Infrastructure basket			**—**	**2.4**	**240**

Source: Bloomberg, BSE, Kotak Institutional Equities. Note the weightages are with respect to October 4, 2007 prices.

Overweight: Automobiles, BFSI, Infrastructure (engineering, construction, industrials, infrastructure), Power/Utilities

Neutral: Consumer, Energy (including Reliance Industries), Metals, Real Estate

Underweight: Cement, Media, Pharmaceuticals, Technology, Telecom

We analyze key issues facing the various sectors and areas of positive or negative surprise and conclude that the BFI, infrastructure and power sectors offer the best combination of growth and defensiveness in an increasingly uncertain market. We focus on large-cap sectors, which can move the market up or down significantly or be in a position to absorb large liquidity, and others where we differ from consensus. In a light-hearted manner, we have ascribed the qualities of various boats to give 'personality' to the sectors, appropriate given that the market is floating on liquidity.

1. **Reliance Industries—aircraft carrier; neutral.** We would recommend a neutral position on the stock (including Reliance Petroleum) given (1) the difficulty in assessing the valuation of the stock; it is practically impossible to factor in potential new E&P discoveries beforehand and/or other new initiatives and (2) the sheer size of the stock.

   Nonetheless, we are not sure if Reliance Industries stock can provide further positive surprises on earnings and developments (as it has in the past), which can result in further re-rating of the stock. We believe the stock already faces large street expectations on (1) very strong refining margins for the next few years and (2) significantly higher reserves than announced officially. Exhibit 13 shows the large valuation gap between Reliance's current stock price and our estimated fair value of its extant assets, investments and known E&P discoveries. We translate the valuation gap to implied hydrocarbon reserves, which Reliance would need to announce today (60 tcf) or bring into production (120 tcf) in six years, a typical discovery-to-production cycle (see Exhibit 14).

Exhibit 13: The street is implying about US$20-25 bn as value of potential oil and gas discoveries
Estimation of implied valuation of new businesses of Reliance Industries (US$ bn)

		Comments
1. Valuation of extant businesses		**Chemicals, RIL refinery, extant oil and gas**
FY2008E EPS of Reliance (Rs)	88	Moderately higher than FY2007 EPS
FY2008E EPS adjusted for treasury shares (Rs)	102	Adjusted for 199 mn treasury shares
Effective tax rate in FY2008E (%)	23.1	
FY2008E EPS adjusted for tax rate	87.4	Normalized for 34% tax rate for extant earnings
Appropriate P/E multiple (X)	9.0	Generous given above mid-cycle margins, earnings and cost of equity of 12.5%
Valuation of extant businesses (Rs)	**787**	
Valuation of extant businesses	**25**	**High versus replacement value**
2. Valuation of investments		**RPL, IPCL, others (without Reliance Retail)**
Reliance Petroleum	436	3.375 bn shares at Rs162 (current stock price)
Others	8	
Total value of investments	**444**	
Valuation of RIL ex-new E&P, retailing, SEZs	**1,231**	
Current stock price	2,422	
3. Valuation of new businesses		**Emerging E&P business, retailing, SEZs**
Market-ascribed value of new businesses	**1,191**	
Market-ascribed value of new businesses (US$ bn)	**37**	
Estimated valuation of retailing (US$ bn)	4.3	Reliance has invested about US$1 bn in Reliance Retail as at end-FY2007
Estimated valuation of SEZs (US$ bn)	—	Value will take time to emerge
Market-ascribed value of emerging E&P business	**33**	**Seems very high to us based on official reserves, announed discoveries**
Estimated value of Reliance's stake in KG D-6 (gas)	5.9	NPV based on gas production of 17 tcf, US$8.8 bn capex, US$4.2/mn BTU net price
Estimated value of Reliance's stake in KG D-6 (oil)	1.8	0.5 bn bbls of gross OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25, CBM	2.1	
Implied value of new discoveries	**23**	**Higher reserves in KG D-6, NEC-25, Cauvery-III-D5, GS-01, MN-D4 blocks?**

Source: Kotak Institutional Equities estimates.

Exhibit 14: Reliance's current stock price is implying additional recoverable reserves of ~55 tcf of gas today
Valuation of Reliance's E&P segment and implied valuation for potential discoveries (US$ bn)

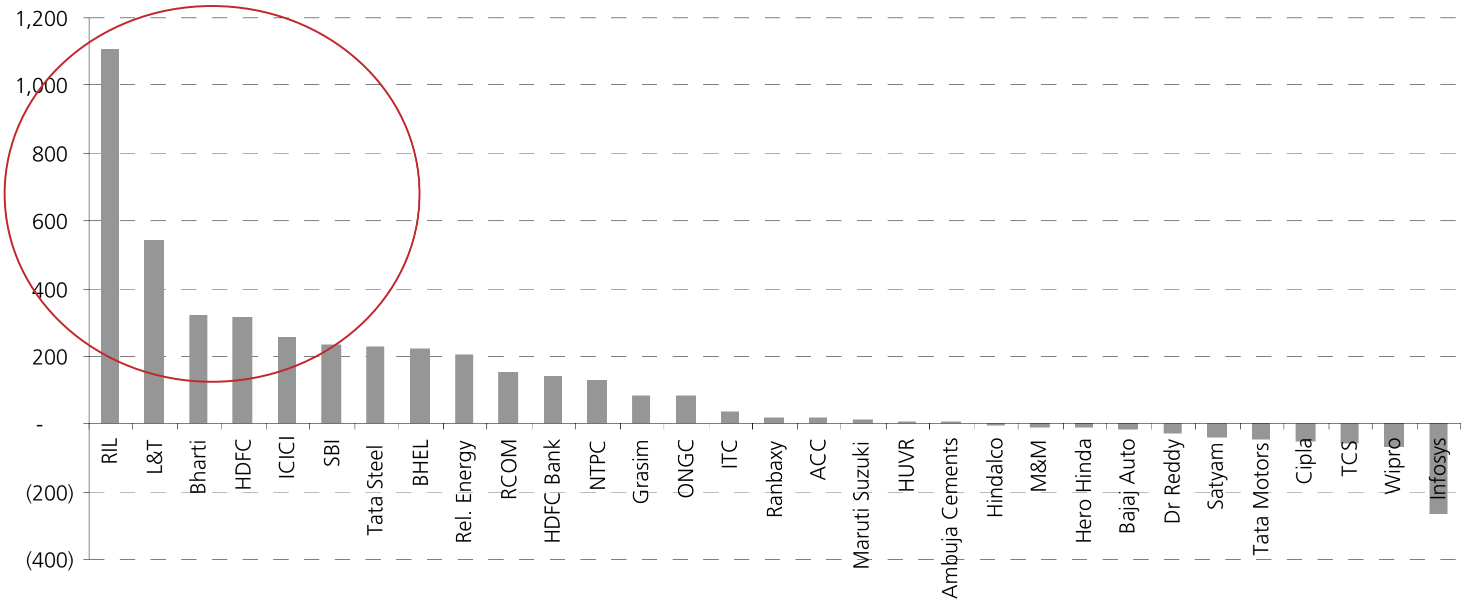
		Commnets
DCF valuation of KG D-6 block, gas for D1 & D3 fields	5.9	15.4 tcf of net recoverable gas reserves
Valuation of KG D-6 block, oil for MA-1 field	1.8	450 mn bbls of net proved reserves of oil at EV/bbl of US$10
Valuation of Reliance's stakes in NEC-25, CBM	2.1	5.7 tcf of net recoverable gas reserves
Total valuation of extant announced reserves	**10**	
Total recoverable reserves (tcf)	**24**	
Implied valuation of E&P segment	33	
Implied valuation of new E&P discoveries	23	
Implied additional recoverable reserves in stock price (tcf)	**56**	**This is what Reliance needs to announce today**
# of years from discovery to production	6	KG D-6 first gas discovered in Oct-02, production in 2HFY09
Cost of capital (%)	12.0	
Additional gas reserves required to be added in six years (tcf)	**111**	**This is what Reliance needs to bring in production in six years**

Note:
(a) The above exercise assumes for simplicity that all future gas and oil discovery would have similar PSC terms as the KG D-6 block.

Source: Kotak Institutional Equities estimates.

We believe the comparison with an aircraft carrier is appropriate given the majesty and mystique surrounding these behemoths. Reliance Industries stock has been the biggest contributor to the increase in the Sensex over the past several months (see Exhibit 15) and has naturally carried the market and a whole armada of ships and boats along with it (including mini-Reliance stocks). Also, it is difficult to assess the strength of an aircraft carrier (valuation of Reliance Industries) given (1) difficulty in counting the number of aircrafts on the deck in the buzz of activity (some planes taking off, some landing, some under wraps—symbolic of volatile prices and margins of chemicals and refining) and (2) presence of submarines in the flotilla below the sea (new E&P discoveries, retailing, SEZs and other unannounced new initiatives). We might add here that certain kamikaze pilots (suicidal analysts) keep trying to dive-bomb an aircraft carrier; the latest attempt is given in Exhibit 16.

Exhibit 15: Reliance Industries is the largest contributor to the Sensex rise since January 1, 2007
Largest gainers and losers, January 1, 2007-October 1, 2007



Source: Bloomberg.

Exhibit16: RPL's hypothetical margins are significantly lower than RIL's reported margins in certain quarters
Refining margins for RIL and RPL, March fiscal year-ends (US$/bbl)

	1QFY08	4QFY07	3QFY07	2QFY07	1QFY07	4QFY06	3QFY06
RIL's reported margins	15.4	13.0	11.7	9.1	12.4	10.4	9.1
Singapore margins as computed by IEA (a)	4.7	3.1	1.0	1.5	4.9	1.2	2.9
Premium over reported Singapore margins	**10.7**	**9.9**	**10.7**	**7.6**	**7.5**	**9.2**	**6.2**
Hypothetical margins for RPL (b)	13.1	11.1	8.5	11.4	13.8	5.8	9.1
Premium of RPL's computed margins over RIL's reported margins	**(2.3)**	**(1.9)**	**(3.2)**	**2.3**	**1.4**	**(4.6)**	**(0.0)**

Note:
(a) Singapore hydrocracking margins over Dubai.
(b) Margins computed without considering use of gas for heating.

Source: Bloomberg, company, Kotak Institutional Equities estimates.

2. **Banking, Financial Services and Insurance (BFSI)—tanker; overweight.** We continue to recommend an overweight position on the BFSI sector noting (1) reasonable valuations in case of certain banks (ICICI Bank, PSU banks), (2) large embedded value from fast-growing areas (insurance, asset management), (3) likely decline in interest rates (but relatively steeper decline in deposit rates versus lending rates), which would be positive for Net Interest Margins (NIM) of banks. We discuss our view on interest rates in the section on economics.

   We expect the size of this sector to increase as a proportion of India's GDP led by increased penetration of BFSI in India. Exhibit 17 compares the market capitalization of the BFI sector in India with other markets and also shows the relative sizes of the top three BFSI companies. An ultra large crude carrier (ULCC) is the largest vessel currently and we expect the BFSI sector to eventually take a similar dominant position in the Indian market. To reinforce our analogy, we note that the size of tankers has increased tremendously over the past decades—an ULCC now measures up to 550,000 DWT compared to tanker size of 25-45,000 DWT in the 1950s.

Exhibit 17: BFSI accounts for lowest % of total market cap. in India
BFSI market cap. and total market cap. of various countries

Country	BFSI mkt cap. (US$ bn)	Total mkt cap. (US$ bn)	(%)
USA	3,570	18,767	19.0
China	1,487	3,372	44.1
UK	1,052	4,001	26.3
Japan	770	4,771	16.1
France	645	2,863	22.5
Germany	452	2,187	20.7
Brazil	336	1,233	27.3
India	**188**	**1,320**	**14.2**

Country	Market cap. of the top-3 banks (US$ bn) #1	#2	#3	Top three	% of total
USA	237	224	184	645	3.4
China	282	222	219	723	21.4
UK	217	101	82	400	10.0
Japan	101	65	61	227	4.8
France	189	105	81	375	13.1
Germany	105	79	48	232	10.6
Brazil	61	59	43	163	13.2
India	**29**	**25**	**17**	**71**	**5.4**

Note:
(a) Excludes market cap. of Life Insurance Corp. and a few private insurance companies which are not listed currently.

Source: Bloomberg, Kotak Institutional Equities.

3. **Infrastructure (Construction, Engineering, Industrials, Infrastructure)—drill ship; overweight.** Despite high valuations, we are still comfortable with the dynamics of the sector versus other 'high' valuation sectors given (1) continued strong investment in the infrastructure in India for the next several years (see Exhibits 18 and 19), (2) stable and even improving margins in certain cases and (3) strong visibility on earnings of most companies given large order books (see Exhibit 20).

Exhibit 18: Rising infrastructure spend can result in sustained growth in sales
Estimates of y-o-y growth in construction sector assuming different scenaios of infrastructure spending

Assumptions:	
Current infrastructure growth as % of GDP	**4.60**

Estimate of infrastructure sector CAGR sales growth 2006-10 (%)

		GDP CAGR growth (2006-2010)			
	(%)	12.5	13.0	13.5	14.0
Infrastructure spend/ GDP (%)	4.6	12.5	13.0	13.5	14.0
	5.0	14.9	15.4	15.9	16.4
	6.0	20.2	20.8	21.3	21.8
	7.0	25.0	25.5	26.1	**26.6**

Source: KSA Technopack, Images retail, Kotak Institutional Equities.

Exhibit 19: US$275 bn of infrastructure spend likely during FY2008-2012E
Infrastructure spending in FY2008-FY2012E (Rs bn)

		Remarks
Transportation	**4,927**	
Roads	2,474	NHDP III-VII, state and rural roads to drive the growth, 60% BOT funding
Ports	500	NMDP-led investments, 50% through private-public partnerships
Airports	458	
Railways	1,495	Dedicated Freight Corridor and National Rail Vikas Yojana, apart from regular spends
Telecom	**1,031**	Over 65% spend in wireless, most funding to come from internal accruals
Power	**5,080**	Over 30% private participation expected compared to 14-15% in past five years
Generation	3,530	Over 50 GW of capacity likely to be added over next five year compared to 19-20 GW in past five years
T&D	1,550	Ratio of T&D spend / generation to rise to around 0.4X compared to 0.2X earlier. T&D spend includes regular maintenance spend by SEBs, hence not too significant for private sector
Water supply	**1,186**	Investments driven by urbanisation and drivers such as JNURM
Urban infrastructure	**1,031**	Investmetns in metro transportation etc.
Total	**11,038**	

Source: Kotak Institutional equities estimates.

Exhibit 20: Strong order book of infrastructure companies to provide earnings visibility
Order book of major infrastructure companies

Company	Current order book (Rs bn)	FY2008E revenues (Rs bn)	FY2008E visibility (X)
ABB	46	66	0.7
AIA Engineering	4	8	0.5
Bharat Electronics	91	48	1.9
Bharat Heavy Electricals	**624**	**220**	**2.8**
JSL	29	38	0.8
Larsen & Toubro	**423**	**264**	**1.6**
Nagarjuna Construction Co.	78	41	1.9
PSL (1)	23	20	1.1
Punj	152	87	1.7
Siemens	108	92	1.2
Suzlon Energy	135	131	1.0
Welspun Gujarat Stahl Rohren	45	37	1.2

Note:
(1) September fiscal year-ends.

Source: Kotak Institutional Equities estimates.

The analogy with a drill ship reflects (1) strong demand for a drill ship of any vintage for the next several years and (2) steady improvement in the day rates of a drill ship given strong demand; drill ships are anyway a part of the infrastructure sector.

4. **Power/utilities—speedboat; overweight.** We believe this sector may emerge as a high-growth sector and finally cast the dowdy image typically associated with the utilities sector. We expect the power sector (generation and associated sectors—transmission and distribution) to see large investment over the next several years. Exhibit 21 gives our expected capacity additions in the power generation sector over the next two five-year plans (XIth and XIIth).

Exhibit 21: Power generation capacity set to rise sharply
Power generation projects in the XIth and XIIth Plans (MW)

Total projects in the XI^th plan

	Thermal						
	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	6,600	17,660	24,260	750	9,685	3,160	**37,855**
NTPC	6,600	9,460	16,060	—	1,920	—	**17,980**
NHPC	—	—	—	—	4,833	—	**4,833**
DVC	—	6,200	6,200	—	—	—	**6,200**
Others	—	2,000	2,000	750	2,932	3,160	**8,842**
State	2,400	17,440	19,840	612	2,637	—	**23,089**
Private	660	6,550	7,210	752	3,263	—	**11,225**
Total	**9,660**	**41,650**	**51,310**	**2,114**	**15,585**	**3,160**	**72,169**

Total projects in the XII^th plan

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

Source: Ministry of Power, Kotak Institutional Equities estimates.

We expect a speedboat to provide high-paced rides for a few years, at the very least. However, we do not rule out intermittent spills into the sea (and sputtering engines). Although most of the issues plaguing the power generation sector have been resolved, certain issues such as (1) fuel linkages and pricing, (2) delays in government approvals and clearances, and (3) unnecessary litigations continue to act as counter-currents for the sector.

5. **Automobiles—cruise ship; overweight.** We see a likely peaking of interest rates to kick-start volume growth in the industry, particularly in the 2-W sector; the 4-W sector continues to grow robustly. High interest rates and problems in defaults and collections have resulted in banks going slow on pushing loans to potential customers. Nonetheless, we expect demand to resurface (2-W and M&HCVs, in that order) supported by (1) normal strong wage increase in the services sector and likely implementation of Sixth Pay Commission's report for central government employees by early 2008 and (2) latent buying demand due to pushback of purchase in the past few months on concerns about higher interest rates.

   The demand for cruises typically emerges when the economy is doing well, consumer confidence is high, inflation is low and consumer discretionary expenditure is strong. We expect the favorable economic conditions and potentially lower interest rates to result in demand for automobiles.

6. **Energy—ferryboat (excluding Reliance); neutral.** The government's stranglehold on this sector has made this large sector almost invisible from an investment perspective despite the great utility provided by the sector (as with a ferryboat, one uses it at times when other forms of transportation become very expensive, typically paying less-than-market price and hardly caring about the price or the ferry). Continued government control on pricing and inadequate compensation (amount of oil bonds) makes it difficult for this sector to attract interest (or absorb large liquidity if it continues uninterrupted). The stocks have rallied of late probably indicating that liquidity is finding fewer and fewer worthwhile investment opportunities.

   We do not see much downside to the downstream oil stocks since they are trading at well below their normalized valuations (see Exhibit 22, which gives the normalized valuation of the downstream oil stocks). We see potential to make absolute returns in the stocks occasionally but rule out a sustained re-rating without the government exiting the sector (deregulation and/or privatization).

Exhibit 22: Normalized earnings forecasts are significantly higher versus actual forecasts
Comparison of normalized marketing margins with FY2009 estimates (Rs/ton)

	BPCL		HPCL		IOCL	
	2009E	**Normalized**	**2009E**	**Normalized**	**2009E**	**Normalized**
LPG	(10,750)	1,500	(10,750)	1,500	(10,750)	1,500
Naphtha	2,000	500	2,000	500	2,250	1,000
Gasoline	(2,500)	1,700	(2,500)	1,700	(2,500)	2,000
Jet fuel	2,000	1,400	2,000	1,400	2,000	1,700
Kerosene	(16,250)	600	(16,250)	600	(15,000)	600
Diesel	(750)	1,500	(750)	1,500	(750)	1,800
Light diesel oil	1,000	500	1,000	500	1,800	1,000
Low sulphur heavy stock	1,600	500	1,600	500	2,200	1,000
Fuel oil	1,600	500	1,600	500	2,200	1,000
Bitumen	1,800	1,000	1,800	1,000	2,600	1,600
EPS (Rs)	**39.3**	**69.3**	**34.8**	**65.4**	**45.2**	**68.3**
EBITDA (Rs bn)	**28.9**	**45.6**	**27.7**	**45.4**	**102.0**	**143.7**
EV (5X normalised EBITDA) (Rs bn)		228		227		719
Value of investments (Rs bn)		92		48		274
Net debt (Rs bn)		75		91		137
Equity value (Rs/share)		676		544		717
Equity value at 40% discount (Rs/share) (b)		**406**		**326**		**502**

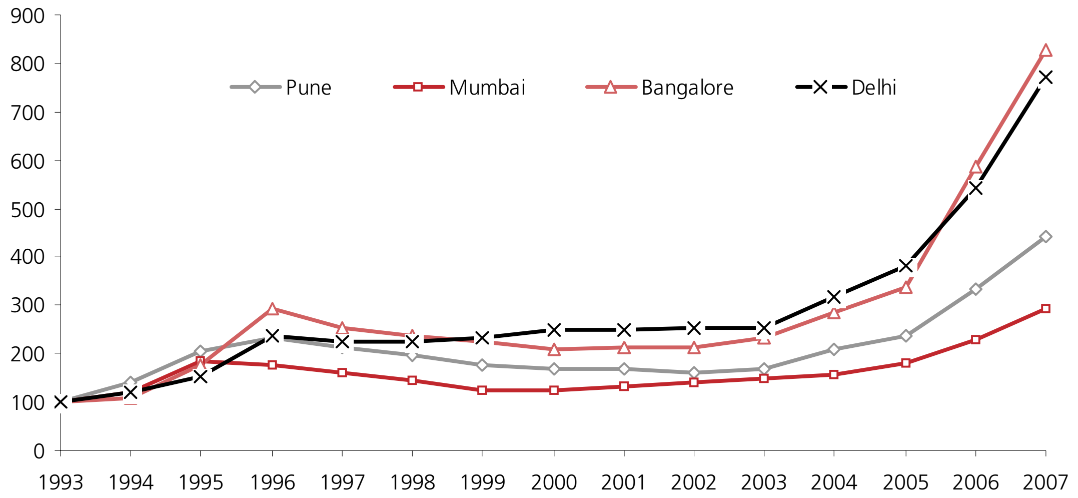
Note:
(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2009.
(b) Target price for IOC is based 30% discount to fair value (5X normalized EBITDA plus investments).

Source: Kotak Institutional Equities estimates.

7. **Real estate—yacht; neutral.** We like the very strong growth prospects of the industry given (1) almost infinite demand for housing and commercial property and (2) the likely peaking of the interest rate cycle, which may spur demand. However, our enthusiasm for the sector is tempered by likely correction (10%-20%) in residential real estate prices in most markets. We would take a more aggressive stance on the sector once valuations reflect our expected decline in residential real estate prices. We expect huge latent demand, which we believe exists at lower prices, to translate into strong volumes. DLF would be our top pick in the sector at the right prices (our 12-month fair valuation is Rs750 based on NAV of Rs646/share).

   As with a yacht, the price of residential real estate in most cities is virtually out of the reach of most individuals given a sharp increase in prices in most cities (see Exhibit 23). Nonetheless, at the right price, all of us (we exclude hedge-fund managers from this list; they already have a few, we hear) would like to buy a yacht or two. The steep increase in real estate prices has led to a sharp slowdown in residential sales as can be seen in (1) a decline in loan disbursements by leading housing finance companies (3.5% yoy decline in 1QFY08), (2) no fresh launches in most cities by the major developers; developers are reluctant to reduce prices and launch new projects (sadly, real estate developers and yacht makers do not yet fully appreciate the volume potential of the Indian market at the right prices), and (3) lower pre-sales figures in the books of all listed real estate developers.

Exhibit 23: Residential real estate prices have increased sharply over the past two years
Residential real estate prices in major cities, indexed to 100



Source: Kotak Institutional Equities estimates.

8. **Technology—destroyer; underweight.** We have a cautious stance on the sector reflecting the negative impact of a strengthening rupee on earnings and sentiment despite (1) reasonable valuations relative to the market and other high growth sectors and (2) moderately strong volume growth. The technology's sector battle with the runaway rupee might have only begun; our base case is that rupee will likely keep on appreciating gradually against the US Dollar led by (1) sustained capital inflows into India and (2) US economy's own problems with massive current account deficit and potential interest rate reductions.

The sector would require all the maneuverability and firepower of a destroyer to deliver the performance, which investors have come to expect over the years. Thankfully, we see certain levers for the sector, which it can use to partially fight the hostile environment. The levers include—(1) modest increase in billing rates, (2) control on costs through lower bench-strength destroyer or two is always and more modest increases in salaries and (3) increased proportion of off-shoring. Finally, a destroyer or two is helpful for a country although nobody is expecting a third world war; one never knows when the rupee may start depreciating again if capital inflows into India decline to lower-than-expected levels.

9. Telecom—Noah's ark; underweight. Our cautious view reflects potential risks to earnings (the street expects strong earnings growth for the next few years) from (1) a possible (but not factored in our or consensus estimates) deterioration in pricing environment due to the entry of new players in the market and introduction of mobile number portability (MNP) and (2) any unexpected slowdown in subscriber additions. We find it tough to justify the valuations despite our assumptions of a very benign pricing environment throughout our forecast period (see Exhibit 24, which also gives sensitivity of valuations to pricing assumptions). The entry of new players in the market begs the question: Will the very high ROIC (see Exhibit 25) of wireless telecom companies sustain in perpetuity? Basic microeconomic theory says that this is unlikely.

Exhibit 24; We model very high ROACE in the terminal year of our forecast
Valuation sensitivity to change in pricing and ROACE

	Change in pricing from base case						
	-15%	**-10%**	**-5%**	**Base case**	**5%**	**10%**	**15%**
12-month forward DCF valuation (Rs)							
Bharti	543	585	626	668	710	752	794
Idea	**75**	**87**	**100**	**112**	**125**	**138**	**152**
RCL	**355**	**390**	**426**	**461**	**497**	**532**	**568**
RoACE in terminal year, FY2017E (%)							
Bharti	46	48	50	52	54	56	58
Idea	25	26	27	28	30	31	32
RCL	17	18	19	21	22	23	25

Note:
(a) Lower sensitivity of RCL versus peers reflects a lower proportion of revenues from wireless.
(b) Valuations of Bharti and Reliance are for the core business only.

Source: Kotak Institutional Equities estimates.

Exhibit 25: The wireless business in India generates remarkably high CROCI, which provides sufficient scope for weaker pricing
CROCI of wireless segment of Bharti, Idea and RCL (%)

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Bharti Airtel									
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
CROCI (%)	**17.8**	**19.7**	**20.4**	**20.9**	**21.6**	**21.7**	**23.1**	**26.9**	**25.0**
Idea Cellular									
EBIT (Rs mn)							1,905	2,599	3,241
Tax rate (%)							3.2	1.0	0.5
EBIT*(1-t) (Rs mn)							1,845	2,573	3,224
Add: Depreciation							1,801	1,761	1,887
Cash return (Rs mn)							3,646	4,334	5,111
Annualized cash return (Rs mn)							14,584	17,336	20,446
Gross cash invested (Rs mn)							66,187	75,105	79,201
CROCI (%)							**22.0**	**23.1**	**25.8**
Reliance Communications									
EBIT (Rs mn)					3,998	5,131	5,542	6,991	9,284
Tax rate (%)					5.0	0.8	1.4	1.4	7.8
EBIT*(1-t) (Rs mn)					3,797	5,088	5,465	6,891	8,561
Add: Depreciation					3,573	4,163	4,751	4,520	4,108
Cash return (Rs mn)					7,370	9,251	10,216	11,411	12,669
Annualized cash return (Rs mn)					29,478	37,004	40,864	45,642	50,676
Gross cash invested (Rs mn)					155,117	170,100	182,190	192,050	207,023
CROCI (%)					**19.0**	**21.8**	**22.4**	**23.8**	**24.5**

Source: Companies, Kotak Institutional Equities estimates.

The potential entry of several new players may act as an overhang on the performance on the sector and actual entry over the next 9-12 months result in serve price competition and value erosion. A more liberal licensing and spectrum allocation policy, as recommended by the telecom regulator, has resulted in an explosion of new applicants. The sector could see the entry of 3-4 new players in every circle if the government accepts the revised spectrum allocation policy as recommended by the regulator and releases additional spectrum of 15-20 MHz. (see Exhibit 26).

Exhibit 26: Release of 20 MHz of spectrum can accommodate 2-4 new players in most circles, if TRAI's recent recommendations are accepted
Additional spectrum requirements of existing GSM operators based on March-2010 subs estimates

	# of players feasible with 20 Mhz					
	Based on end-Mar 2008 subs			Based on end-Mar 2010 subs		
Criteria	Current	Diluted (a)	Recommended	Current	Diluted (a)	Recommended
Metro						
Calcutta	—	4	4	—	4	4
Chennai	1	4	4	1	4	4
Delhi	1	3	4	—	1	3
Mumbai	2	3	4	1	2	4
Circle A						
Andhra Pradesh	—	3	4	—	1	3
Gujarat	—	3	4	—	1	3
Karnataka	1	4	4	—	2	4
Maharashtra	—	3	4	—	1	3
Tamil Nadu	—	2	4	—	1	3
Circle B						
Haryana	2	4	4	—	4	4
Kerala	—	4	4	—	3	4
Madhya Pradesh	—	4	4	—	1	3
Punjab	—	4	4	—	3	4
Rajasthan	—	3	4	—	2	3
Uttar Pradesh (east)	—	3	4	—	1	3
Uttar Pradesh (west)	—	4	4	—	2	3
West Bengal and A&N islands	—	2	3	—	1	2
Circle C						
Assam	—	3	4	—	3	4
Bihar	—	3	4	—	1	3
Himachal Pradesh	2	4	4	1	4	4
North East	2	3	4	—	3	3
Orissa	—	4	4	—	3	4
J&K	2	4	4	—	4	4

Source: COAI, Kotak Institutional Equities estimates.

The sector is starting to resemble a modern-day Noah's Ark given that all kinds of 'species' are keen to get into the sector—consumer durable manufacturers, diversified conglomerates, global telecom companies and real estate developers; incidentally, there's also a 'Swan' and a 'Cheetah' among the list of companies, which have applied for telecom licenses/spectrum. However, we would be very respectful of those two entities as they are affiliates/subsidiaries of Reliance Communications (RCL). In our view, RCL stands to benefit most from potential receipt of GSM spectrum in 15 non-GSM circles and introduction of MNP.

10. Cement—tugboat; negative. We have a negative view on the cement sector due to (1) potential erosion in pricing from a weakening supply-demand balance (see Exhibit 27) and (2) rich valuations. The street (at least the investment community) is optimistic about positive demand surprises and likely delay in supply due to delay in commissioning of new projects. However, most cement companies appear confident about their expansion plans and any slowdown in industrial activity would result in significant over-supply.

Exhibit 27: Incemental supply to exceed incremental consumption over the next few years
Cement demand supply balance, March fiscal year-ends, 2006-2010E (mn tons)

	2006	2007	2008E	2009E	2010E
Effective capacity (mn tpa)	156	165	181	212	244
Incremental capacity (mn tpa)		**9.1**	**15.6**	**31.6**	**32.0**
growth %		5.8	9.5	17.5	15.1
Cement consumption	136	148	163	180	198
Growth %		9.5	10.0	10.0	10.0
Exports	4.1	6.0	6.0	6.0	6.0
Growth %		47.7	—	—	—
Cement depatches	142	154	169	186	204
Growth %		9.0	9.7	9.6	9.7
Capacity utilization (%)	**91**	**93**	**93.7**	**87.4**	**83.3**

Source: CMA, Kotak Institutional Equities estimates.

We expect this rather unglamorous but highly functional sector to provide the backbone to India's infrastructure growth; a tugboat plays a similar role in terms of towing much larger vessels safely in and out of ports/harbors. However, the size of the sector is a natural limitation in terms of it achieving center-stage or being a driver of the market; the same holds true for tugboats.

11. Media—sailboat; underweight. This lightweight sector may do well when the winds are favorable as is the case currently but could run into strong headwinds when the weather turns inclement; a sailboat can get swept out into the ocean along with the tide. We expect conditions in the India media sector to deteriorate with (1) the entry of several new players in the television broadcasting and distribution market (see Exhibit 28) and (2) aggressive expansion plans of newsprint companies outside their traditional bastions.

Exhibit 28: New channel launches to intensify competition
Number of existing and proposed new channels across various segments

Channels	Existing	Proposed	Total
Hindi - GE	15	5	20
English - GE	4	1	5
Hindi - News	23	10	33
English - News	12	5	17
Cinema	19	8	27
Music	22	4	26
Sports	8	0	8
Religious	16	1	17
Niche	31	13	44
Tamil	17	10	27
Telugu	14	10	24
Marathi	8	2	10
Kannada	10	2	12
Malayalam	13	2	15
Punjabi	11	2	13
Bengali	14	1	15
Gujarati	4	3	7
Others	41	54	95

Source: Kotak Institutional Equities estimates.

We expect valuations to correct significantly if the companies fail to meet with street expectations; we find valuations very rich despite our strong projected growth in earnings over the next few years (see Exhibit 29).

Exhibit 29: Valuations of media companies are expensive despite our strong projected growth in earnings
Comparative valuations of media companies, March fiscal year-ends, 2006-2011E

	2006	2007	2008E	2009E	2010E	2011E
P/E (X)						
Dish TV	NM	NM	NM	NM	NM	NM
HT Media Ltd	88.0	50.8	30.6	21.3	16.5	13.5
Sun TV Network Ltd	71.2	58.9	37.5	27.8	21.8	16.3
ZEEL	63.7	61.9	35.9	27.1	21.4	17.9
EV/EBITDA (X)						
Dish TV	NM	NM	NM	NM	21.9	11.0
HT Media Ltd	41.0	29.8	18.0	12.7	9.9	8.4
Sun TV Network Ltd	73.2	36.6	23.6	17.1	13.4	9.9
ZEEL	51.8	43.8	24.5	18.5	14.1	11.5
EPS (Rs)						
Dish TV		(5.9)	(7.7)	(6.0)	(3.7)	(0.5)
HT Media Ltd	2.4	4.1	6.9	9.9	12.7	15.6
Sun TV Network Ltd	5.3	6.3	10.0	13.4	17.2	20.9
ZEEL	4.9	5.0	8.7	11.5	14.6	17.5

Source: Kotak Institutional Equities estimates.

Economy: Problem of plenty from plenty of problems

We see surplus liquidity as the biggest issue facing the Indian economy. Continued strong capital inflows may provide upward pressure to the rupee and downward pressure on interest rates. A slowdown in industrial activity may result in more moderate GDP growth (8.5% for FY2008E) versus 9.4% in FY2007.

Rupee on the way up; bad for technology, commodities

We expect the Indian Rupee to appreciate to around Rs39/US Dollar by end-FY2008E if capital flows remain as in our base case model for India's balance of payments for FY2008E (see Exhibit 30). However, if net FII inflows (probably the most volatile component of foreign capital inflows) were to be lower versus our estimate of US$23.8 bn for FY2008E, we expect the rupee to decline to Rs40.5/US Dollar by end-FY2008E. Nonetheless, we expect capital inflows in other forms to continue to be strong due to the interest rate differential.

Exhibit 30: RBI's net forex purchase will likely be US$45 bn
India's balance of payments (US$ bn)

	FY2007	FY2008E
Current account	**(9.6)**	**(19.7)**
% of GDP	(1.1)	(1.7)
Trade balance	(64.9)	(93.2)
- Exports	127.1	150.4
- Imports	192.0	243.6
o/w oil imports	56.0	71.6
Invisibles	55.3	73.6
o/w income from forex reserves	7.5	11.0
Capital account	**46.2**	**70.5**
Foreign investment	15.5	34.8
- FDI	8.4	11.0
- FII	7.1	23.8
Banking capital	2.1	2.3
- NRI deposits	3.9	1.5
Short term credit	3.3	5.4
ECBs	16.1	13.0
Others	9.2	15.0
Overall balance	**36.6**	**50.8**
Memo		
RBI's net forex purchases	**28.1**	**45.0**

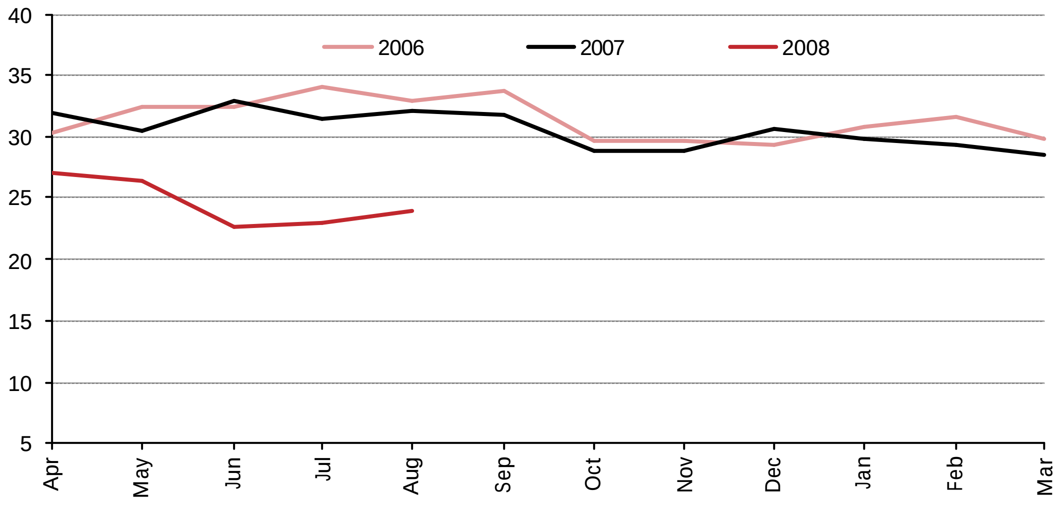
Source: RBI, Kotak Institutional Equities estimates.

We expect intervention (US Dollar purchase) by the RBI in the forex market in FY2008E to the extent of US$45 bn in order to manage an orderly movement in the Indian rupee. This would lead to injection of large rupee liquidity in the system, which would need to be balanced through Market Stabilization Scheme (MSS) auctions and further CRR hikes.

Interest rates on the way down; good for banks, automobiles, real estate

A perceptible slowdown in credit off-take over the past few months (see Exhibit 31) and continued strong capital inflows will likely lead to a decline in interest rates (see Exhibit 32). Our money supply equation in Exhibit 33 suggests ample liquidity in the system. The recent 50-bps CRR hike, increase in MSS limit (Rs2.0 tn) and removal of ceiling on LAF reverse repo amount highlights the thinking of the policy makers towards handling surplus liquidity in the system. We expect the RBI to remove surplus liquidity through MSS auctions and further CRR hikes. We also note that banks have built a comfortable SLR position (no compulsion to buy more government bonds), which provides one more leg to a slacker credit situation.

Exhibit 31: Banking sector loan growth has shown a moderation in recent months
Loan growth yoy (%)



Source: RBI.

Exhibit 32: A persistent credit gap will likely keep lending rates firm
Sources and uses of bank funds, FY2008E (Rs bn)

Key sources/uses	**25% SLR**	**24% SLR**
1. Deposits	5,621	5,621
2. Non-deposit sources	260	260
3. Primary issuances	430	430
4. Bank reserves	978	978
5. Investment in government securities	910	658
6. Net foreign assets	150	100
7. Resources available for interest rate-neutral credit offtake (1+2+3-4-5-6)	4,273	4,575
8. Credit offtake/demand	4,000	4,134
9. Credit gap (8-9)	(273)	(441)

Source: RBI, Kotak Institutional Equities estimates.

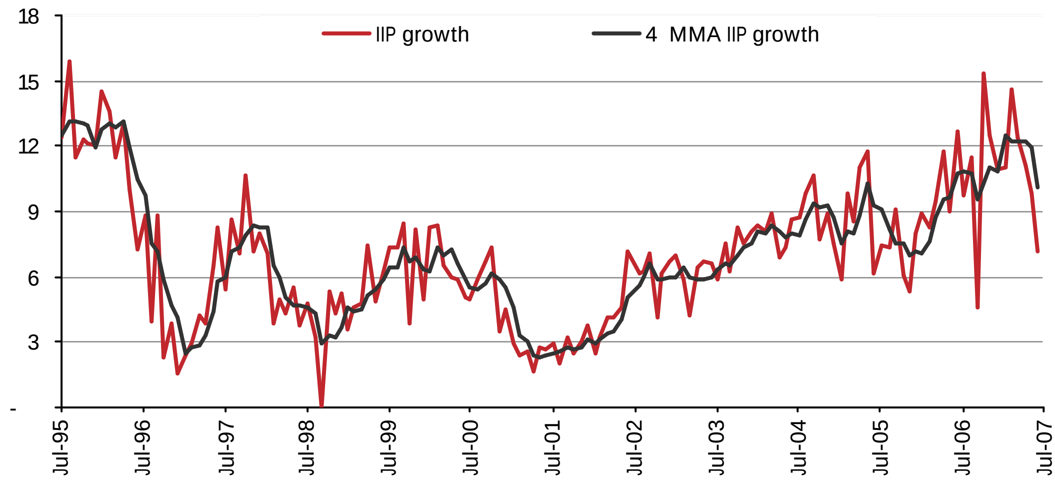
Exhibit 33: US$ 4bn forex intervention will square the money market again
Liquidity projections in Rs bn

	Liquidity indicator	FY2008E
1.0	Bank CRR demand	978
2.0	Autonomous liquidity position (2.1+2.2+2.3-2.4)	1,271
2.1	RBI's loans to government	100
2.2	RBI's market net foreign currency purchases	1,800
	in USD	45.0
2.3	Others	—
2.4	Currency	629
3.0	Net liquidity (2-1)	293
4.0	Policy position (4.1+4.2+4.3)	881
4.1	Net LAF repos	(200)
4.2	Market Stabilization Scheme	1,091
4.3	OMO (net outright sales)	(10)
	Memo items	
	CRR at end March 2008 (%)	7.75

Source: RBI, Kotak Institutional Equities estimates.

We expect banks to start reducing lending rates gradually although the pace of reduction will depend on the growth in credit. However, a slowdown in IIP over the past few months (see Exhibit 34), particularly in the manufacturing sector, may lead to slower credit off-take. Nonetheless, we expect banks to reduce deposit rates in 2HFY08 (currently banks are still aggressive in mobilizing deposits and thus keeping deposit rates high) on the back of likely slower off-take in credit. This should improve the NIMs of banks.

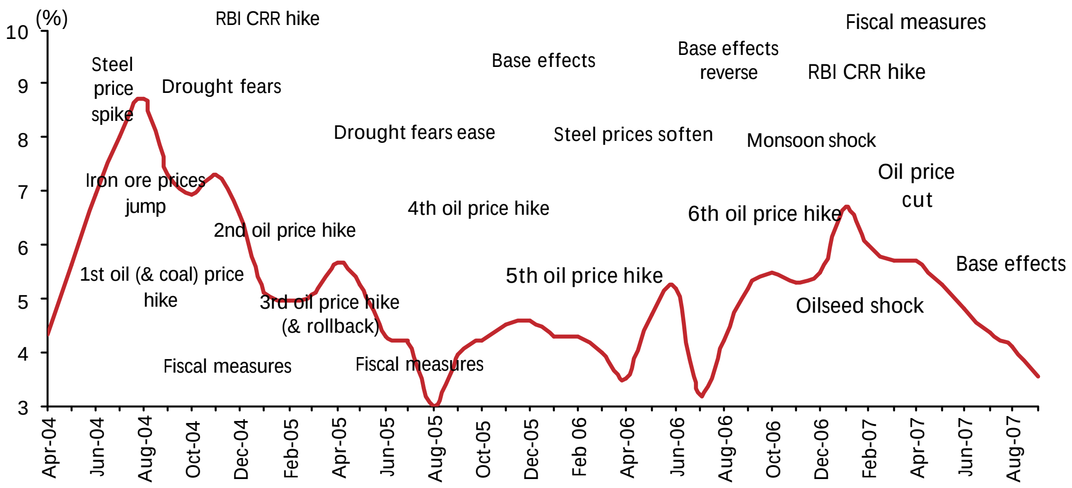
Exhibit 34: IIP growth has tapered off in the most recent months
4MMA and yoy growth in IIP (%)



Source: CSO, Government of India.

WPI inflation has declined significantly over the past few weeks from end-April peaks (see Exhibit 35) and will likely remain at low levels (3.5-4%) during 2HFY08. A robust monsoon will likely keep food prices under check; this had been a major contributor to the surge in WPI in January-April 2007. Also, we rule out a price increase in case of auto fuels given (1) the current fluid political situation and (2) likely issue of Rs120 bn of oil bonds to the downstream oil companies in October, which may prop up company earnings. Even if the government was to raise fuel prices (now is a good time given low inflation and no state elections), we do not see this as having a material impact on inflation; auto fuel prices are significantly lower than in 2HFY07.

Exhibit 35: Inflation under control



Source: Ministry of Industry, Government of India.

Strong GDP growth in FY2008E too but lower than in FY2007

We expect FY2008E expected GDP growth rate at 8.5%; the growth rate versus 9.4% in FY2007 reflects lower growth rate for the industry (see Exhibit 36). However, a good kharif crop (see Exhibit 37) helped by good South-West Monsoon rainfall (see Exhibit 38), suggests that agriculture growth would be reasonably robust this year (4%) compared to only 2.7% in FY2007.

Exhibit 36: Resilient real GDP growth
Real GDP at factor cost and components (growth rates in %)

Sector	2006	2007	2008E
Agriculture and allied activities	**6.0**	**2.7**	**4.0**
Industry	**8.0**	**11.0**	**8.7**
Mining and quarrying	3.6	5.1	3.4
Manufacturing	9.1	12.3	9.5
Electricity, gas and water supply	5.3	7.4	8.2
Services	**10.3**	**11.0**	**9.8**
Construction	14.2	10.7	10.0
Trade, hotels, transport, storage and communication	10.4	13.0	10.5
Financing, insurance, real estate and business services	10.9	10.6	10.6
Community, social and personal services	7.7	7.8	7.5
Real GDP at factor cost	**9.0**	**9.4**	**8.5**

Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates.

Exhibit 37: Progress of area under Kharif crops
Area covered by kharif crops (mn hectares)

		Area covered as on	
Crop	**Normal area**	**20-Sep-06**	**21-Sep-07**
Rice	38.2	36.2	36.3
Coarse cereals	22.9	22.1	21.5
Bajra	9.4	9.2	8.3
Jowar	4.4	3.7	3.4
Maize	6.2	7.2	7.6
Total pulses	10.9	11.1	12.1
Total oilseeds	15.4	16.3	17.5
Groundnut	5.5	4.7	5.4
Soyabean	6.6	8.1	8.8
Sugarcane	4.2	4.8	5.1
Cotton	8.3	8.7	8.3
All crops	**100.7**	**100.2**	**102.6**

Source: Ministry of Agriculture, Government of India.

Exhibit 38: Normal monsoon likely in the current year
Progress of south-west monsoons across India

		Number of sub-divisions			
CY	**Total rainfall above (+)/below (-) normal (%)**	**Excess rainfall**	**Normal rainfall**	**Deficient rainfall**	**Scanty/ No rainfall**
2000	(8.0)	5	23	8	—
2001	(8.0)	1	30	5	—
2002	(19.0)	1	14	19	2
2003	2.0	7	26	3	—
2004	(13.0)	—	23	13	—
2005	(1.0)	9	23	4	—
2006	(1.0)	6	20	10	—
2007 (a)	2.0	12	18	6	—

Note:
(a) For the period June 1, 2007 to September 26, 2007.
(b) Excess rainfall implies 20%or more of long term average rainfall.
(c) Normal rainfall implies rainfall in the +19% to -19% of long term average rainfall.
(d) Deficient rainfall implies-20% to -59% of long term average rainfall.
(e) Scanty rainfall implies -60% to -99% of long term average rainfall.

Source: Indian Meteorological Department.

Politics: Early elections, if held, negative for certain sectors

We do not think that earlier-than-scheduled elections may be bad for the Indian stock market. Anyway, we expect the market to take a breather given expensive valuations or find its level eventually at the 'right' valuations irrespective of liquidity. Early elections, if held, may be negative for certain sectors such as oil and gas and telecom.

Stalemate in the government; early elections one way to break it

We believe early elections, if held, need not be bad for the Indian stock market. We could see the formation of a more 'cohesive' government, which may be positive from a legislative perspective. The composition of the current government (see Exhibit 39) makes it difficult for the government to legislate on certain important economic and political issues. We would clarify that we are not commenting on the ideological position of any political party or group of parties; India is a democracy and everybody/political party is entitled to his/her/its opinion and ideology.

Exhibit 39: Left-supported coalition at the center
Lok Sabha composition of ruling coalition and left parties (# of seats)

Party	
INC or Congress - Indian National Congress	**150**
RJD - Rashtriya Janata Dal	24
DMK - Dravida Munnetra Kazhagam	26
NCP - Nationalist Congress Party	11
LJP	4
JD(S)	3
Congress allies	**68**
Congress + allies	**218**
CPI (M) - Communist Party of India (Marxist)	43
CPI - Communist Party of India	10
Other Left parties	6
Left parties	**59**
Congress+allies+Left	**277**
Simple majority	**272**

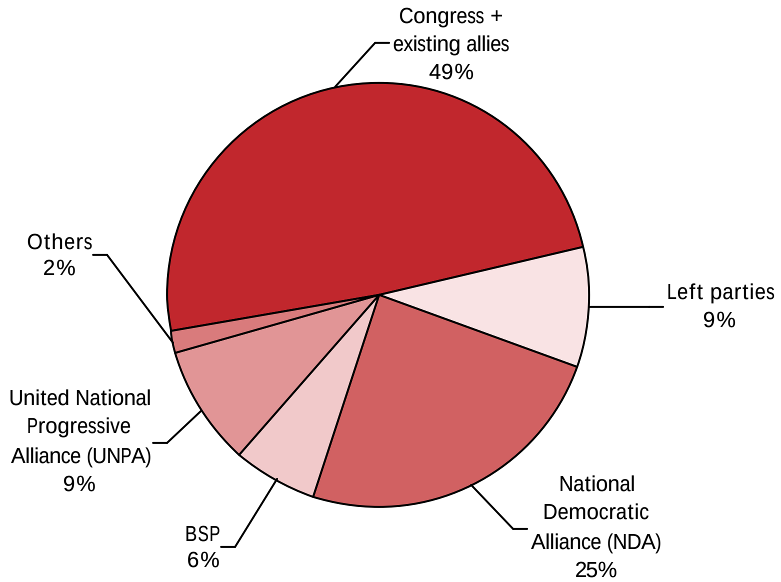
Source: Election Commission of India, India Elections, NIC, Kotak Institutional Equities.

The earlier-than-scheduled termination of the monsoon session of the parliament in the midst of a standoff between the coalition government and the left parties on the India-USA civilian nuclear cooperation deal has raised the specter of early national elections. The next national elections are due in middle of 2009.

There is no communication or statement from the government, which would suggest early elections. However, we note that the government appears to be planning for elections, if it is forced to call for early elections. It announced a series of social packages recently—(1) National Rural Employment Guarantee Scheme extended to all 604 districts from 330; (2) Rashtriya Swastha Bima Yojna (health insurance) for unorganized sector workers; (3) extension of midday meal scheme to upper-primary students; (4) increase in dearness allowance to central government staff; and (5) National Old Age Pension Scheme eligibility criteria changed to include more families.

The winter session of the parliament (starting in November 2007) may be crucial. If the 'nuclear' standoff continues, we could expect the government deciding in favor of early elections after the FY2009 budget in February 2008. The government may be emboldened by the results of a poll survey done by Indian Express-CNN/IBN (see Exhibit 40).

Exhibit 40: Results of poll survey for Lok Sabha elections done by Indian Express-CNN/IBN
Breakup of Lok Sabha seats as per the Indian Express-CNN/IBN survey



Source: Indian Express-CNN/IBN.

Oil and gas, telecom may be the worst hit by early elections

We expect the oil and gas and telecom sector to be the worst hit by early elections. The infrastructure sector may tide over a period of potential low government orders given their healthy order books. We discuss the impact of various sectors below.

1. Oil and gas. We can rule out price increases on auto fuels in case of early elections. Forthcoming state elections (see Exhibit 41) also reduce the flexibility of the government to raise prices; it would need to time the price increase astutely after considering inflation and state elections. Early elections would also put the issue of oil bonds to the downstream oil companies in jeopardy since issue of oil bonds requires parliamentary approval; the government will likely give Rs120 bn of the Rs240 bn of oil bonds for FY2008E in October 2007. The government does not have an established mechanism for compensation to the downstream oil companies and decides the compensation system and amount annually. It would not have mattered if the government had established a mechanism to pay the companies from the budget (as in the case of the fertilizer sector).

Exhibit 41: There's never a dull day in Indian politics
Forthcoming state assembly elections

State	Expected election schedule
Gujarat	Dec-07
Tripura	Feb-08
Nagaland	Feb-08
Meghalaya	Feb-08
Himachal Pradesh	Feb-08
Rajasthan	Dec-08
Mizoram	Dec-08
Madhya Pradesh	Dec-08
Delhi	Dec-08
Chhattisgarh	Dec-08

Source: Election Commission of India, Kotak Institutional Equities estimates.

2. Telecom. Early national elections may result in the government deferring crucial decisions on spectrum allocation for 2G wireless service or awarding licenses for 3G service. A delay in the award of spectrum would be negative for all players, as operators would need to install more cell sites to compensate for the lower spectrum. However, the incumbents may be better off since the new entrants would not be able to start services; in any case, we note that the incumbents may not get much additional spectrum if the government accepts the revised spectrum allocation policy recommended by the regulator.

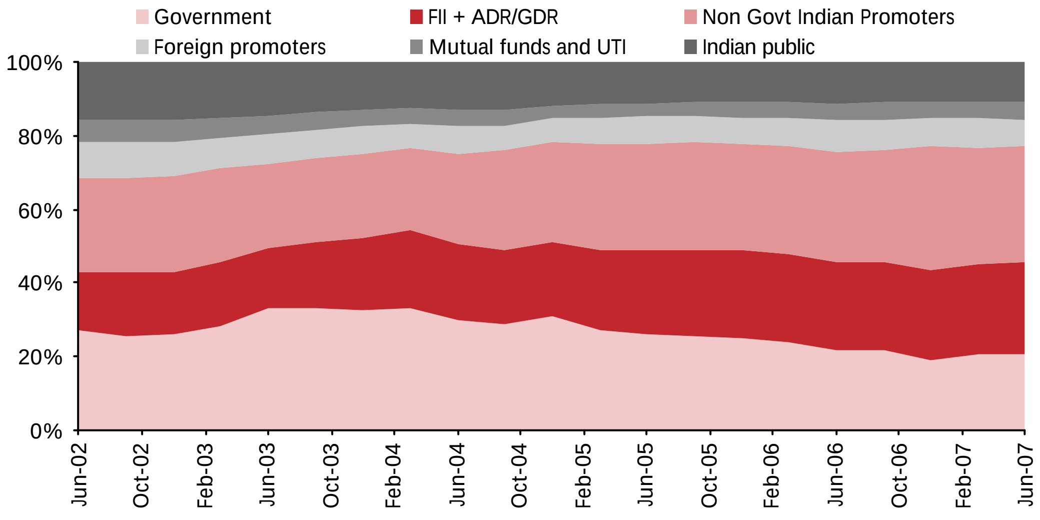
3. Infrastructure. The government may not award contracts for government projects (power projects, highways, ports) close to national elections in order to conform to the electoral code of conduct. However, we expect the strong order books of all infrastructure-provider companies to tide over a potential lean phase of fresh government-related orders.

Government anyway reduced to a passive player in the market

We note that government is one of the few major shareholders or groups that has not raised money in the four-year bull-run and/or whose stocks have not performed as well with the exception of a few names; the government's share of the market has dwindled over the past few years (see Exhibit 42). The composition of the government has made divestment of minority stakes difficult; privatization is unthinkable. Also, its policies in certain sectors have resulted in erosion of or creation of relatively lower wealth in government-majority companies.

Exhibit 42: Decline in share of government

Historical ownership pattern of BSE-200 Index stocks (%)



Source: BSE, Kotak Institutional Equities.

It is worthless to speculate on any change in divestment policy without the formation of a new government; even at the best of times, divestment is fraught with political and legislative difficulties. Early elections may potentially open this opportunity but this would depend on the outcome of the elections and the composition and ideology of the new government. However, we can wistfully mention that a sell-down by the government in large government-owned companies (listed and unlisted) such as PSU banks, Life Insurance Corporation of India (LIC), Coal India, Bharat Sanchar Nigam, commodity/resources companies (ONGC, SAIL, others), would have helped absorb liquidity and provided several more interesting investment opportunities.

Exhibit 43: Valuation summary of key Indian companies

Company	4-Oct-07 Price (Rs)	Rating	Mkt cap. (Rs m)	Mkt cap. (US$ m)	O/S shares (mn)	EPS (Rs) 2007	EPS (Rs) 2008E	EPS (Rs) 2009E	EPS growth (%) 2007	EPS growth (%) 2008E	EPS growth (%) 2009E	PER (X) 2007	PER (X) 2008E	PER (X) 2009E	EV/EBITDA (X) 2007E	EV/EBITDA (X) 2008E	EV/EBITDA (X) 2009E	Price/BV (X) 2007E	Price/BV (X) 2008E	Price/BV (X) 2009E	Dividend yield (%) 2007	Dividend yield (%) 2008E	Dividend yield (%) 2009E	RoE (%) 2007E	RoE (%) 2008E	RoE (%) 2009E	Target price (Rs)	Upside (%)	ADVT-3mo US$ mn
Automobiles																													
Bajaj Auto	2,580	OP	261,013	6,612	101	127.2	114.5	151.9	14.5	(10.0)	32.7	20.3	22.5	17.0	14.0	15.1	11.8	4.7	4.2	3.6	1.6	1.6	1.6	23.7	18.8	22.3	2,750	6.6	15.4
Maruti Udyog	1,041	OP	300,936	7,623	289	54.0	62.4	84.1	31.4	15.5	34.6	19.3	16.7	12.4	11.3	9.8	7.3	4.3	3.4	2.7	0.4	0.4	0.4	24.9	22.8	24.1	1,110	6.6	4.1
Automobiles		**Attractive**	**561,949**	**14,236**					**23.2**	**4.0**	**33.9**	**19.7**	**19.0**	**14.2**	**12.5**	**11.8**	**8.9**	**4.4**	**3.7**	**3.0**	**1.0**	**1.0**	**1.0**	**22.6**	**19.7**	**21.4**			
Banks/Financial Institutions																													
Andhra Bank	98	OP	47,530	1,204	485	11.1	12.4	13.0	10.8	11.5	5.1	8.8	7.9	7.5	—	—	—	1.6	1.5	1.3	3.9	4.3	4.5	17.8	18.4	17.8	120	22.4	3.6
Axis Bank	752	U	245,877	6,229	327	23.4	30.2	38.7	34.4	29.2	28.0	32.1	24.9	19.4	—	—	—	8.2	3.0	2.6	0.6	0.8	1.1	21.0	16.8	15.2	570	(24.2)	6.1
Canara Bank	277	IL	113,611	2,878	410	34.7	30.5	37.4	5.8	(11.9)	22.6	8.0	9.1	7.4	—	—	—	1.6	1.4	1.2	2.5	2.3	2.5	16.3	11.9	13.6	250	(9.8)	3.9
Corporation Bank	386	IL	55,367	1,403	143	37.4	40.5	44.2	20.6	8.3	9.2	10.3	9.5	8.7	—	—	—	1.5	1.4	1.2	2.3	2.5	2.9	15.0	14.9	14.9	360	(6.7)	1.6
Centurion Bank of Punjab	45	U	75,250	1,906	1,691	0.8	1.1	1.6	35.6	31.4	48.0	52.6	40.0	27.1	—	—	—	6.6	5.3	4.4	-	-	-	11.5	11.9	15.8	35	(21.3)	4.0
Federal Bank	383	OP	32,820	831	86	34.2	43.4	46.4	30.0	27.0	6.8	11.2	8.8	8.3	—	—	—	2.4	1.9	1.6	1.0	2.3	2.4	21.2	22.2	20.4	340	(11.3)	2.0
HDFC	2,495	IL	715,305	18,120	287	62.1	68.9	82.3	23.6	11.0	19.4	40.2	36.2	30.3	—	—	—	12.9	5.9	5.3	0.8	1.0	1.2	31.3	22.5	18.5	1,700	(31.9)	35.8
HDFC Bank	1,404	IL	486,768	12,331	347	35.7	47.2	61.2	28.5	32.1	29.5	39.3	29.7	23.0	—	—	—	7.6	4.1	3.6	0.5	0.7	0.9	19.5	17.9	17.1	1,250	(11.0)	18.5
ICICI Bank	1,061	OP	1,100,620	27,881	1,037	34.6	36.8	56.8	5.6	6.3	54.3	30.7	28.9	18.7	—	—	—	4.5	2.3	2.1	0.8	0.8	1.4	13.4	10.7	12.7	1,200	13.1	82.1
IDFC	155	IL	199,891	5,064	1,291	4.4	5.2	7.2	25.8	19.8	38.3	35.5	29.7	21.4	—	—	—	6.8	3.6	3.3	0.6	0.8	1.3	17.9	16.0	16.0	120	(22.5)	25.9
India Infoline	942	U	50,608	1,282	54	15.1	19.2	31.6	39.3	27.5	64.4	62.5	49.0	29.8	36.0	19.7	13.5	15.6	10.2	4.8	0.3	0.3	0.6	29.1	25.1	26.3	670	(28.9)	27.9
Indian Bank	152	IL	65,304	1,654	430	16.8	23.9	22.8	148.1	42.0	(4.6)	9.0	6.4	6.7	—	—	—	2.2	1.8	1.5	2.0	3.9	3.7	25.8	27.3	22.5	135	(11.2)	4.9
Indian Overseas Bank	139	OP	75,945	1,924	545	18.5	21.5	22.6	28.7	16.1	5.3	7.5	6.5	6.2	—	—	—	1.9	1.6	1.4	2.5	3.2	3.6	28.1	27.2	24.2	150	7.6	2.0
J&K Bank	753	OP	36,495	925	48	56.6	65.4	78.2	55.2	15.6	19.5	13.3	11.5	9.6	—	—	—	2.0	1.7	1.5	1.5	1.7	2.1	14.4	14.9	15.8	875	16.3	0.7
LIC Housing Finance	250	OP	21,219	538	85	32.8	35.9	38.9	33.9	9.3	8.2	7.6	7.0	6.4	—	—	—	1.7	1.2	1.1	3.2	3.2	3.7				240	(3.9)	2.3
Mahindra & Mahindra Financial	243	IL	20,391	517	84	15.7	18.5	23.3	25.5	17.6	25.9	15.5	13.1	10.4	—	—	—	2.8	2.5	2.1	1.7	1.9	2.4	18.1	18.6	20.4	265	9.2	0.5
Oriental Bank of Commerce	235	IL	58,914	1,492	251	33.0	32.9	34.7	2.9	(0.1)	5.4	7.1	7.1	6.8	—	—	—	1.3	1.1	1.0	2.0	2.0	2.1	10.9	10.1	10.2	240	2.1	2.7
PFC	221	U	253,369	6,418	1,148	11.1	11.2	12.8	9.5	1.2	14.3	19.9	19.7	17.2	—	—	—	2.6	2.5	2.3	0.7	1.6	1.8	12.6	12.8	13.5	125	(43.4)	22.7
Punjab National Bank	535	OP	168,781	4,276	315	48.8	55.2	63.3	7.0	13.1	14.7	11.0	9.7	8.5	—	—	—	1.8	1.6	1.3	2.4	1.3	1.5	15.5	15.6	15.7	610	14.0	10.7
Shriram Transport	202	OP	38,522	976	191	10.3	13.7	16.5	23.5	32.7	20.5	19.5	14.7	12.2	—	—	—	3.7	3.0	2.6	1.4	2.0	2.4	19.8	21.6	21.9	200	(0.8)	0.7
State Bank of India	1,900	IL	1,000,152	25,336	526	86.3	101.3	107.7	3.1	17.4	6.4	22.0	18.8	17.6	—	—	—	3.8	3.4	2.8	0.7	0.8	0.9	15.4	16.7	16.2	1,450	(23.7)	91.0
Banks/Financial Institutions		**Attractive**	**4,862,739**	**123,185**					**16.4**	**19.4**	**23.1**	**23.8**	**19.9**	**16.2**	—	—	—	**4.0**	**2.8**	**2.4**	**0.9**	**1.1**	**1.4**	**16.9**	**14.0**	**15.1**			
Cement																													
ACC	1,214	U	229,075	5,803	189	56.7	71.7	77.6	93.7	26.4	8.2	21.4	16.9	15.6	12.8	10.3	9.1	6.6	4.9	4.0	1.4	1.4	1.4	39.7	36.8	30.8	900	(25.9)	33.5
Ambuja Cements	147	IL	223,428	5,660	1,517	8.5	10.1	11.1	72.9	18.6	9.3	17.2	14.5	13.3	12.4	8.5	7.8	5.8	4.3	3.4	1.2	1.8	1.0	44.5	35.8	30.5	130	(11.7)	21.9
Grasim Industries	3,592	IL	329,314	8,342	92	214.6	258.1	279.6	98.9	20.3	8.3	16.7	13.9	12.8	8.7	7.2	6.5	3.7	2.9	2.4	0.8	0.9	0.9	24.5	23.2	20.2	2,900	(19.3)	11.8
India Cements	291	IL	75,755	1,919	260	26.1	29.6	27.7	n/a	13.5	(6.4)	11.1	9.8	10.5	12.6	8.0	6.9	3.5	2.7	2.2	0.4	0.6	0.7	31.4	31.8	23.6	230	(20.9)	22.4
Shree Cement	1,540	IL	53,648	1,359	35	101.6	125.5	135.9	111.6	23.4	8.3	15.2	12.3	11.3	9.8	7.3	6.4	7.5	4.7	3.3	0.3	0.4	0.4	65.5	47.0	34.5	1,300	(15.6)	0.6
UltraTech Cement	1,093	U	136,086	3,447	124	63.3	68.2	81.3	255.1	7.6	19.2	17.3	16.0	13.4	10.2	9.4	8.1	5.9	4.4	3.4	0.6	0.7	0.7	55.8	39.6	34.0	750	(31.4)	3.4
Cement		**Cautious**	**1,047,305**	**26,531**					**123.4**	**20.8**	**8.2**	**17.3**	**14.3**	**13.2**	**10.6**	**8.3**	**7.4**	**4.9**	**3.7**	**3.0**	**0.9**	**1.1**	**1.0**	**28.1**	**26.1**	**22.5**			
Consumer Products																													
Asian Paints	984	IL	94,342	2,390	96	28.1	34.3	41.4	22.0	21.8	20.7	35.0	28.7	23.8	20.4	16.6	13.8	12.3	10.2	8.3	1.3	1.5	1.8	39.5	39.9	39.5	890	(9.5)	1.4
Colgate-Palmolive (India)	426	IL	57,933	1,468	136	14.6	16.1	17.6	32.6	10.0	9.5	29.1	26.5	24.2	21.2	19.9	17.5	20.7	31.3	27.0	2.2	2.8	3.1	72.2	94.1	120.1	340	(20.2)	3.9
GlaxoSmithkline Consumer (a)	627	IL	26,363	668	42	30.2	35.9	40.0	18.5	19.0	11.4	20.8	17.5	15.7	10.6	8.8	7.6	4.7	4.0	3.5	1.6	1.9	2.1	24.9	25.6	24.5	625	(0.3)	0.3
Godrej Consumer Products	135	OP	30,557	774	226	5.9	7.0	8.1	11.4	18.9	16.0	23.0	19.4	16.7	17.8	14.5	12.5	22.1	16.3	12.0	2.8	3.0	3.1	127.4	102.5	86.6	185	36.7	0.4
Hindustan Unilever	223	IL	491,097	12,441	2,201	7.0	8.0	9.1	17.6	14.8	12.9	31.9	27.7	24.6	25.3	22.3	18.8	18.5	17.8	17.1	3.1	3.4	3.9	62.2	65.4	71.1	230	3.1	16.7
ITC	185	OP	691,431	17,516	3,742	7.2	8.3	9.6	20.4	15.4	15.1	25.6	22.2	19.3	16.3	13.9	11.7	6.3	5.5	4.7	1.7	1.7	1.9	27.7	27.6	27.3	225	21.8	32.2
Nestle India (a)	1,257	IL	121,204	3,070	96	33.9	43.0	48.1	(0.7)	26.7	12.0	37.1	29.3	26.1	21.7	17.9	15.6	31.2	24.2	19.4	2.0	2.1	2.4	88.0	93.1	82.5	1,150	(8.5)	1.3
Tata Tea	842	IL	52,097	1,320	62	50.6	45.1	57.6	(2.5)	(10.9)	27.6	16.6	18.7	14.6	12.1	11.1	10.7	1.8	1.5	1.4	1.4	1.4	1.4	14.5	7.9	8.2	992	17.8	4.0
Consumer Products		**Neutral**	**1,565,024**	**39,646**					**17.3**	**15.0**	**14.9**	**28.0**	**24.3**	**21.2**	**18.5**	**16.0**	**13.7**	**8.4**	**7.3**	**6.5**	**2.2**	**2.3**	**2.6**	**30.1**	**30.1**	**30.5**			
Constructions																													
Nagarjuna Construction Co.	268	OP	55,683	1,411	208	6.5	9.6	13.0	7.4	47.4	35.0	41.1	27.9	20.7	24.0	16.3	12.8	5.4	9.3	3.9	0.5	0.4	0.6	15.9	17.8	20.5	221	(17.6)	7.5
Punj	321	IL	83,742	2,121	261	10.1	12.7	16.6	388.3	25.3	31.3	31.7	25.3	19.3	16.2	13.3	10.4	6.5	5.2	4.2	0.2	0.3	0.5	22.0	24.7	25.8	305	(4.9)	24.4
Construction		**Attractive**	**139,425**	**3,532**					**166.0**	**31.5**	**32.8**	**33.0**	**25.1**	**18.9**	**18.8**	**14.3**	**11.2**	**6.0**	**5.0**	**4.0**	**0.3**	**0.3**	**0.5**	**18.2**	**19.8**	**21.4**			
Diversified																													
Aditya Birla Nuvo	1,735	OP	161,911	4,102	93	22.8	25.0	26.8	2.5	9.9	7.1	76.2	69.4	64.8	34.7	32.8	29.8	4.9	4.6	4.4	0.3	0.3	0.4	7.5	6.9	7.0	1,660	(4.3)	7.4
Monnet Ispat	415	OP	21,641	548	52	32.8	41.1	53.4	(1.5)	25.3	30.1	12.7	10.1	7.8	14.3	7.8	5.1	1.9	1.6	1.3	0.5	0.6	0.7	15.2	17.5	18.9	375	(9.6)	0.5
Sintex	359	OP	43,643	1,106	122	10.8	15.3	20.8	15.3	42.6	35.4	33.4	23.4	17.3	19.2	16.0	11.6	4.7	3.9	3.2	0.3	0.3	0.5	14.2	16.7	18.4	330	(8.1)	8.2
Education services																													
Educomp Solutions	2,887	OP	49,611	1,257	17	18.0	29.1	54.0	105.2	61.8	85.5	160.7	99.3	53.5	95.1	46.2	22.2	40.5	17.1	7.0	0.1	0.1	0.2	26.9	24.8	20.0	2,650	(8.2)	23.4
Industrials																													
ABB	1,365	OP	289,160	7,325	212	16.1	25.5	35.4	55.6	58.5	39.2	85.0	53.6	38.5	51.4	31.5	22.4	24.2	17.3	12.3	0.1	0.2	0.2	32.4	37.7	37.4	1,325	(2.9)	15.1
AIA Engineering	1,302	OP	24,482	620	19	51.4	70.4	98.8	74.4	37.1	40.3	25.4	18.5	13.2	17.5	12.3	8.4	5.1	4.0	3.1	0.3	0.5	0.8	25.4	24.0	26.3	1,750	34.4	2.0
Bharat Electronics	1,893	IL	151,436	3,836	80	91.7	105.7	126.0	21.9	15.3	19.3	20.7	17.9	15.0	11.2	9.2	7.5	5.6	4.6	3.7	1.0	1.3	1.3	30.3	28.1	27.2	1,900	0.4	4.3
Bharat Heavy Electricals	2,092	OP	1,023,929	25,939	490	49.3	66.4	84.1	44.1	34.7	26.6	42.4	31.5	24.9	22.9	17.2	13.5	11.7	9.1	7.2	0.5	0.7	0.9	30.0	32.5	32.2	2,025	(3.2)	52.3
Dredging Corporation	638	IL	17,875	453	28	55.9	71.6	68.9	(8.4)	28.0	(3.8)	11.4	8.9	9.3	6.4	5.1	4.7	1.6	1.4	1.3	2.3	2.3	2.3	13.2	12.4	10.8	625	(2.1)	0.6
Larsen & Toubro	2,896	OP	827,872	20,972	286	65.1	88.0	112.4	71.9	35.2	27.8	44.5	32.9	25.8	28.8	20.7	16.1	11.4	8.4	6.3	0.3	0.3	0.4	29.4	29.4	28.5	2,725	(5.9)	7.0
Maharashtra Seamless	590	OP	41,805	1,059	71	32.7	42.6	46.3	34.8	30.3	8.9	18.1	13.9	12.7	11.1	8.1	7.0	4.2	3.2	2.6	0.7	0.8	0.8	31.9	26.3	22.8	600	1.7	2.6
Siemens	1,423	IL	239,830	6,076	169	22.7	30.3	46.8	31.3	33.5	54.3	62.6	46.9	30.4	35.2	27.0	16.3	19.3	14.7	10.7	0.3	0.4	0.5	35.3	35.5	40.7	1,550	9.0	10.6
Suzlon Energy	1,639	IL	471,322	11,940	288	30.1	46.2	64.1	14.4	53.4	38.7	54.5	35.5	25.6	36.4	23.9	16.9	13.9	10.5	7.7	0.4	0.5	0.5	28.3	34.6	35.6	1,450	(11.5)	31.1
Industrials		**Attractive**	**3,087,711**	**78,219**					**42.8**	**37.0**	**29.7**	**43.8**	**32.0**	**24.7**	**26.2**	**19.2**	**14.6**	**11.4**	**8.7**	**6.7**	**0.4**	**0.5**	**0.6**	**26.0**	**27.3**	**27.2**			

Source: Bloomberg, Company reports, Kotak Institutional Equities estimates.

Valuation summary of key Indian companies (contd.)

Company	4-Oct-07 Price (Rs)	Rating	Mkt cap. (Rs m)	Mkt cap. (US$ m)	O/S Shares (mn)	EPS (Rs) 2007	EPS (Rs) 2008E	EPS (Rs) 2009E	EPS Growth (%) 2007	EPS Growth (%) 2008E	EPS Growth (%) 2009E	PER (X) 2007	PER (X) 2008E	PER (X) 2009E	EV/EBITDA (X) 2007E	EV/EBITDA (X) 2008E	EV/EBITDA (X) 2009E	Price/BV (X) 2007E	Price/BV (X) 2008E	Price/BV (X) 2009E	Dividend Yield (%) 2007	Dividend Yield (%) 2008E	Dividend Yield (%) 2009E	RoE (%) 2007E	RoE (%) 2008E	RoE (%) 2009E	Target Price (Rs)	Upside (%)	ADVT-3mo US$ mn
Infrastructure																													
GMR Infrastructure	178	U	293,990	7,448	1,655	1.1	1.8	2.1	97.5	66.6	17.6	168.5	101.2	86.1	58.2	64.5	31.3	12.9	10.9	8.9	—	—	—	10.6	11.6	11.4	135	(24.0)	98.8
Media																													
DishTV	73	OP	31,174	790	428	(5.9)	(7.7)	(6.0)	n/a	31.3	(21.7)	(12.4)	(9.4)	(12.1)	(17.2)	(22.4)	1,708	(79.0)	(8.4)	(5.0)	—	—	—	(331)	161.4	51.8	100	37.4	6.8
HT Media	211	IL	49,434	1,252	234	4.1	6.9	9.9	53.6	66.2	43.5	51.1	30.7	21.4	28.3	17.0	12.1	6.2	5.3	4.5	0.1	0.5	0.9	12.8	18.7	22.8	220	4.2	0.8
Sun TV Network	326	U	128,588	3,257	394	6.3	10.0	13.4	20.8	57.4	34.6	51.5	32.7	24.3	28.7	18.1	13.3	10.8	8.7	7.1	0.5	0.8	1.1	32.9	29.6	32.2	310	(5.0)	3.8
Zee Entertainment Enterprises	341	U	148,248	3,755	435	5.0	8.7	11.5	2.9	72.6	32.4	67.5	39.1	29.5	47.3	26.1	19.5	5.5	4.9	4.4	0.3	0.6	0.8	9.1	13.2	15.7	230	(32.5)	20.6
Media		**Cautious**	**357,445**	**9,055**					**(1.7)**	**93.8**	**66.4**	**114.9**	**59.3**	**35.6**	**48.4**	**26.0**	**17.3**	**7.7**	**7.1**	**6.3**	**0.3**	**0.6**	**0.9**	**6.7**	**12.0**	**17.6**			
Metals																													
Hindalco Industries	176	OP	229,610	5,817	1,307	19.6	17.5	15.9	55.2	(10.9)	(8.8)	9.0	10.1	11.0	6.8	6.2	6.3	1.7	1.2	1.1	0.8	1.0	1.0	21.0	14.3	10.8	200	13.8	18.1
Hindustan Zinc	858	OP	362,505	9,183	423	105.1	98.9	107.5	201.7	(5.9)	8.7	8.2	8.7	8.0	5.6	5.4	4.6	4.6	3.1	2.2	0.6	0.9	0.9	73.4	42.2	32.4	1,110	29.4	3.4
Jindal Steel and Power	6,292	OP	193,737	4,908	31	228.3	318.9	400.0	20.0	39.7	25.5	27.6	19.7	15.7	16.4	12.0	10.0	6.7	4.9	3.7	0.3	0.3	0.4	24.2	24.8	23.2	4,500	(28.5)	5.4
JSW Steel	912	IL	156,787	3,972	172	73.3	82.6	89.4	51.3	12.8	8.1	12.4	11.0	10.2	6.9	7.0	7.8	2.4	1.9	1.6	1.5	2.2	2.2	22.1	19.6	17.5	580	(36.4)	13.7
National Aluminium Co.	287	IL	184,659	4,678	644	37.0	27.8	25.2	55.4	(24.7)	(9.5)	7.8	10.3	11.4	3.8	5.0	5.7	2.2	1.9	1.7	2.6	2.6	2.6	32.1	20.1	16.2	315	9.9	1.4
Sesa Goa	2,756	OP	108,499	2,749	39	154.1	157.0	297.9	12.5	1.9	89.8	17.9	17.6	9.3	11.9	11.0	5.4	7.0	5.8	4.0	1.8	2.5	2.9	45.4	36.1	50.7	2,850	3.4	10.1
Sterlite Industries	763	OP	540,475	13,692	708	83.1	58.2	62.7	37.5	(29.9)	7.7	9.2	13.1	12.2	6.5	6.0	5.4	5.0	2.4	2.0	-	-	-	50.7	24.5	18.0	850	11.4	18.2
Tata Steel	865	IL	743,556	18,836	860	50.9	51.4	44.7	(20.9)	1.1	(13.0)	17.0	16.8	19.3	10.3	10.2	11.9	4.7	2.4	2.2	1.3	1.4	1.4	36.8	19.0	10.4	670	(22.5)	66.1
Metals		**Neutral**	**2,519,828**	**63,834**					**76.6**	**(5.5)**	**3.3**	**12.0**	**12.7**	**12.3**	**7.4**	**7.2**	**7.0**	**3.7**	**2.3**	**2.0**	**0.9**	**1.1**	**1.1**	**31.0**	**18.5**	**16.4**			
Oil & Gas																													
Bharat Petroleum	374	IL	135,036	3,421	362	52.3	39.3	35.4	577.3	(24.8)	(10.0)	7.1	9.5	10.5	3.9	4.5	4.8	1.2	1.1	1.0	4.3	4.3	3.5	16.2	10.9	9.2	400	7.1	4.2
Cairn india	179	U	315,912	8,003	1,765	0.6	0.4	1.0	(66.0)	(29.2)	126.4	291.9	412.0	182.0	53.1	37.5	36.0	1.1	1.1	1.1	-	-	-	0.7	0.3	0.6	140	(21.8)	14.8
Castrol India (a)	262	OP	32,425	821	124	12.2	18.2	20.7	3.3	49.3	13.4	21.5	14.4	12.7	12.4	8.3	7.2	7.7	6.8	6.2	3.4	4.6	5.3	36.6	50.3	51.3	310	18.2	0.3
GAIL (India)	382	IL	323,207	8,188	846	25.3	31.0	32.3	(9.5)	22.4	4.3	15.1	12.3	11.8	8.8	7.4	6.5	2.5	2.2	2.0	2.6	2.6	2.9	16.8	18.1	16.7	350	(8.4)	8.2
GSPL	62	IL	33,808	856	544	1.6	2.3	4.3	40.0	39.9	85.7	38.0	27.1	14.6	14.2	10.9	7.1	3.2	2.9	2.5	0.8	1.1	2.1	8.8	11.2	18.5	59	(5.1)	1.2
Hindustan Petroleum	270	IL	91,449	2,317	339	40.0	31.8	34.0	503.8	(20.6)	6.9	6.7	8.5	7.9	4.4	5.1	4.4	0.8	0.8	0.7	6.7	4.4	4.8	11.9	8.9	8.9	325	20.5	6.0
Indian Oil Corporation	496	IL	591,536	14,985	1,192	49.3	60.7	43.7	16.7	23.1	(28.0)	10.1	8.2	11.4	5.4	4.4	5.2	1.6	1.4	1.3	3.8	4.4	4.4	15.8	16.8	10.8	500	0.8	4.3
Oil & Natural Gas Corporation	986	OP	2,108,836	53,422	2,139	80.9	102.5	108.8	10.2	26.6	6.1	12.2	9.6	9.1	5.1	4.2	3.7	2.4	2.1	1.8	3.1	3.3	3.3	19.6	21.8	20.4	1,075	9.0	29.2
Petronet LNG	81	U	60,863	1,542	750	4.2	5.7	5.2	-	35.5	(8.0)	19.4	14.3	15.6	10.6	10.1	10.6	4.0	3.3	2.7	1.5	1.8	1.2	22.4	24.0	18.4	53	(34.7)	15.3
Reliance Industries	2,423	U	3,520,813	89,191	1,453	83.0	87.9	123.6	31.5	5.9	40.7	29.2	27.6	19.6	17.9	16.4	10.8	5.0	4.3	3.2	0.4	0.5	0.6	19.2	16.7	19.4	1,800	(25.7)	184.8
Reliance Petroleum	162	OP	729,000	18,467	4,500	(0.0)	(0.0)	4.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	30.8	5.4	5.4	4.8	-	-	-	(0.0)	(0.1)	13.2	170	4.9	61.5
Oil & Gas		**Neutral**	**7,942,884**	**201,213**					**26.1**	**16.3**	**15.1**	**19.2**	**16.5**	**14.4**	**9.6**	**8.6**	**7.3**	**2.9**	**2.6**	**2.2**	**1.6**	**1.7**	**1.8**	**14.8**	**15.5**	**15.3**			
Property																													
DLF	862	IL	1,469,961	37,238	1,705	12.7	36.3	51.0	25.1	186.2	40.4	67.9	23.7	16.9	55.8	18.9	13.6	37.1	8.0	5.7	-	0.6	0.8	79.0	55.4	39.4	790	(8.4)	-
Mahindra Gesco	621	OP	26,079	661	42	8.9	11.3	47.5	66.7	27.8	319.4	70.1	54.8	13.1	43.0	33.7	10.9	3.2	3.0	2.5	0.3	0.5	0.6	7.2	5.5	20.5	920	48.2	5.9
Sobha	900	OP	65,575	1,661	73	22.2	30.7	41.4	(47.5)	38.3	34.9	40.5	29.3	21.7	27.6	19.9	14.1	8.0	6.5	5.1	0.6	0.3	0.4	34.0	24.5	26.3	930	3.4	3.3
Property		**Neutral**	**1,561,615**	**39,560**					**619.2**	**202.0**	**42.2**	**72.9**	**24.2**	**17.0**	**53.3**	**19.1**	**13.6**	**27.8**	**7.7**	**5.6**	**0.0**	**0.6**	**0.8**	**120.2**	**85.4**	**86.2**			
Pipes																													
Jindal Saw	599	OP	33,545	850	56	51.7	53.8	87.1	68.0	4.1	61.9	11.6	11.1	6.9	7.1	5.1	3.3	1.9	1.2	1.0	1.0	1.1	1.1	18.9	14.0	16.4	790	31.9	2.5
PSL	398	OP	16,512	418	41	21.2	27.6	41.1	22.1	30.2	48.8	18.8	14.4	9.7	11.7	8.9	6.2	4.3	2.3	2.1	1.0	1.4	1.6	10.3	12.6	15.0	420	5.4	1.4
Welspun Gujarat Stahl Rohren	311	U	58,025	1,470	187	10.6	17.4	18.2	48.7	64.6	4.5	29.4	17.9	17.1	20.8	12.8	8.9	7.9	3.2	2.9	0.5	0.6	0.9	22.0	24.4	18.8	210	(32.4)	19.8
Pipes		**Attractive**	**108,081**	**2,738**					**67.0**	**45.2**	**43.4**	**19.9**	**13.7**	**9.6**	**11.7**	**9.4**	**6.1**	**4.8**	**2.5**	**1.8**	**0.8**	**0.9**	**0.8**	**-**	**-**	**-**			
Retail																													
Pantaloon Retail	557	IL	81,791	2,072	147	6.1	10.5	15.0	26.7	73.1	42.7	92.0	53.2	37.3	36.3	25.6	18.6	7.8	7.2	6.3	0.6	0.7	0.8	10.7	13.2	16.3	425	(23.7)	4.7
Shipyards																													
ABG Shipyard	686	OP	34,930	885	51	22.2	32.7	57.4	35.1	47.5	75.3	30.9	21.0	12.0	19.1	13.0	7.0	5.4	4.1	2.9	0.3	0.4	0.4	19.8	22.3	28.4	575	(16.2)	1.6
Technology																													
HCL Technologies	305	IL	212,079	5,372	695	18.9	18.4	22.3	65.7	(2.4)	21.2	16.2	16.6	13.7	14.7	11.9	9.4	3.9	3.5	2.9	2.6	2.6	2.6	28.4	24.2	25.9	360	18.0	7.2
Hexaware Technologies	121	IL	17,240	437	142	8.9	10.0	12.7	16.1	12.3	27.3	13.7	12.2	9.6	10.5	7.7	5.7	2.3	2.0	1.7	1.3	1.3	1.3	22.8	17.6	19.2	140	15.4	0.6
i-flex solutions	1,914	U	159,394	4,038	83	33.2	41.7	64.1	15.9	25.4	53.7	57.6	45.9	29.9	42.4	31.9	21.3	7.1	6.4	5.5	-	0.5	0.6	15.3	14.6	19.6	1,675	(12.5)	2.8
iGate Global Solutions	219	U	6,937	176	32	15.7	22.3	28.5	101.5	42.0	28.0	14.0	9.8	7.7	7.4	5.7	4.1	2.2	1.9	1.5	1.1	1.2	1.3	17.2	20.7	22.2	260	18.8	0.2
Infosys Technologies	1,995	OP	1,145,187	29,010	574	67.0	80.7	99.9	48.7	20.5	23.8	29.8	24.7	20.0	24.7	20.5	15.6	10.1	7.7	5.9	0.6	0.8	1.0	40.7	35.2	33.5	2,250	12.8	94.2
Mphasis BFL	281	IL	58,669	1,486	208	7.3	14.1	18.8	(21.5)	92.5	33.7	38.5	20.0	15.0	28.1	12.3	9.1	5.8	0.8	3.9	0.8	1.2	1.4	14.4	26.4	28.8	300	6.6	1.3
Mindtree	502	U	19,394	491	39	21.8	25.7	33.8	18.2	18.0	31.2	23.0	19.5	14.9	17.4	15.0	10.9	4.5	3.6	2.9	0.2	0.5	0.7	30.5	21.0	22.4	550	9.5	2.5
Patni Computer Systems	459	IL	63,864	1,618	139	25.7	30.0	34.2	19.2	16.7	13.9	17.9	15.3	13.4	10.6	9.5	7.6	2.8	2.6	2.3	0.4	0.7	0.7	12.5	18.6	18.2	450	(2.1)	13.1
Polaris Software Lab	126	U	12,401	314	98	10.3	10.5	12.9	359.1	1.8	23.3	12.3	12.1	9.8	6.9	6.9	5.1	2.1	1.8	1.6	1.4	1.4	1.4	17.7	16.0	17.2	110	(12.8)	3.4
Satyam Computer Services	450	OP	302,252	7,657	671	21.4	25.3	31.5	41.7	18.0	24.5	21.0	17.8	14.3	17.2	13.7	10.3	5.3	4.3	3.5	1.7	2.2	2.7	27.9	26.4	26.7	570	26.5	40.3
TCS	1,079	IL	1,055,578	26,740	979	42.2	51.8	61.9	43.3	22.7	19.5	25.5	20.8	17.4	20.4	16.8	13.5	11.8	9.1	7.1	1.1	1.9	2.3	55.8	49.3	45.8	1,300	20.5	35.5
Tech Mahindra	1,304	IL	158,925	4,026	122	47.0	66.0	96.0	124.3	40.5	45.6	27.8	19.8	13.6	21.5	15.9	10.0	17.8	9.3	5.4	0.2	0.3	0.4	81.3	66.0	54.1	1,500	15.0	7.7
Wipro	461	OP	668,885	16,945	1,450	19.8	23.1	29.2	39.3	16.7	26.4	23.3	19.9	15.8	18.2	15.4	11.3	6.6	5.3	4.2	1.2	1.4	1.9	31.7	29.4	29.8	560	21.4	17.5
Technology		**Cautious**	**3,880,806**	**98,310**					**48.4**	**21.1**	**24.6**	**25.6**	**21.1**	**17.0**	**20.4**	**16.6**	**12.6**	**7.7**	**6.2**	**4.9**	**1.0**	**1.4**	**1.7**	**30.2**	**29.3**	**28.9**			
Telecom																													
Bharti Airtel Ltd	961	U	1,822,277	46,163	1,896	21.4	34.4	45.8	n/a	60.9	33.1	44.9	27.9	21.0	25.1	16.2	11.8	15.6	10.2	7.1	-	0.2	0.4	42.4	44.2	39.8	750	(22.0)	28.9
IDEA	132	U	348,821	8,836	2,635	2.2	4.9	6.0	146.3	125.9	21.8	60.7	26.9	22.1	25.5	15.6	11.7	9.8	7.2	5.4	0.7	-	-	21.5	30.8	27.9	110	(16.9)	20.6
MTNL	159	U	99,950	2,532	630	7.2	9.4	10.0	8.1	31.4	6.5	22.1	16.9	15.8	8.6	6.5	6.2	0.9	0.9	0.8	3.8	4.8	5.0	3.4	4.4	4.6	135	(14.9)	6.5
Reliance Communications	635	U	1,297,311	32,864	2,045	14.2	23.9	32.1	n/a	68.4	34.4	44.7	26.5	19.7	23.1	15.3	11.3	5.7	4.7	3.8	0.1	0.2	0.2	17.8	20.3	22.3	500	(21.2)	100.3
VSNL	451	OP	128,435	3,254	285	17.2	18.1	20.6	(7.8)	5.3	13.7	26.2	24.9	21.9	10.7	10.8	9.6	2.0	1.9	1.8	1.0	1.0	1.1	7.4	7.4	8.0	550	22.0	4.3
Telecom		**Cautious**	**3,696,794**	**93,649**					**134.0**	**65.6**	**30.8**	**42.8**	**25.9**	**19.8**	**22.6**	**15.2**	**11.3**	**6.6**	**5.3**	**4.3**	**0.2**	**0.3**	**0.5**	**15.4**	**20.7**	**21.8**			

Source: Bloomberg, Company reports, Kotak Institutional Equities estimates.

Valuation summary of key Indian companies (contd.)

	4-Oct-07		Mkt cap.		O/S Shares	EPS (Rs)			EPS Growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend Yield (%)			RoE (%)			Target Price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs m)	(US$ m)	(mn)	2007	2008E	2009E	2007	2008E	2009E	2007	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E	2007	2008E	2009E	2007E	2008E	2009E	(Rs)	(%)	US$ mn
Textiles																													
Vardhman	155	IL	9,784	248	63	29.5	22.7	31.6	3.9	(22.9)	39.0	5.3	6.8	4.9	5.9	7.0	5.0	0.6	0.6	0.5	2.3	2.0	2.9	14.1	8.9	11.2	220	41.6	0.1
Transmission Towers																													
JSL	236	OP	19,570	496	83	6.6	10.7	13.1	81.2	61.1	23.0	35.7	22.2	18.0	16.5	11.8	9.9	7.7	5.8	4.4	0.2	0.3	0.3	29.8	30.0	28.0	275	16.4	1.1
Kalpataru Power Transmission	1,636	OP	43,338	1,098	26	60.2	77.4	91.8	67.6	28.7	18.6	27.2	21.1	17.8	16.9	13.5	11.0	6.6	5.2	4.1	0.5	0.6	0.6	38.8	27.6	25.9	1,650	0.9	1.1
KEC	626	OP	23,732	601	38	27.3	34.5	42.6	92.4	26.3	23.4	22.9	18.1	14.7	10.4	9.2	8.0	8.4	5.9	4.3	0.3	0.5	0.6	43.5	37.9	33.8	725	15.8	0.9
Transmission		**Attractive**	**86,640**	**2,195**					**115.0**	**33.5**	**21.0**	**27.3**	**20.4**	**16.9**	**14.2**	**11.5**	**9.7**	**7.2**	**5.5**	**4.2**	**0.4**	**0.5**	**0.5**	**26.6**	**26.9**	**25.2**			
Transportation																													
Container Corporation	2,057	IL	133,691	3,387	65	106.3	129.6	149.8	31.9	22.0	15.5	19.4	15.9	13.7	13.4	10.9	9.3	5.0	4.0	3.2	0.9	1.0	1.1	29.1	28.1	25.9	2,425	17.9	1.9
Gateway Distriparks	140	OP	16,176	410	115	6.8	6.8	9.0	8.7	(0.4)	33.2	20.7	20.7	15.6	16.8	15.1	11.2	2.6	2.4	2.1	1.2	1.2	1.6	13.0	11.8	14.4	180	28.3	1.9
GE Shipping	373	IL	56,728	1,437	152	59.6	35.6	29.7	(3.9)	(40.2)	(16.6)	6.3	10.5	12.5	6.3	7.1	7.7	1.8	1.6	1.5	4.0	2.4	2.0	33.1	16.6	12.5	335	(10.1)	5.0
Jet Airways	942	U	81,288	2,059	86	(0.2)	0.2	57.0	(116.5)	(190.5)	-	-	-	-	31.3	12.5	6.2	2.9	3.3	2.9	0.1	0.0	1.2	(0.1)	0.1	18.7	800	(17.4)	4.5
Transportation		**Neutral**	**287,883**	**7,293**					**(15.9)**	**(12.5)**	**38.0**	**17.2**	**19.7**	**14.2**	**13.1**	**10.5**	**7.4**	**3.2**	**2.9**	**2.5**	**1.3**	**1.0**	**1.3**	**18.4**	**14.8**	**17.5**			
Utilities																													
CESC	588	IL	67,853	1,719	115	36.2	26.4	29.4	32.4	(27.0)	11.1	16.2	22.3	20.0	10.8	11.0	10.6	3.2	2.8	2.4	0.4	0.7	0.7	16.0	13.4	12.9	425	(27.7)	6.6
LANCO	405	OP	89,931	2,278	222	8.5	15.2	30.5	52.4	79.5	100.7	47.7	26.6	13.2	25.2	20.7	12.2	6.0	4.9	3.6	-	-	-	23.5	20.1	31.0	252	(37.7)	22.9
NTPC	226	IL	1,866,773	47,290	8,245	8.3	9.3	10.2	17.8	11.9	9.7	27.2	24.3	22.1	17.9	17.5	17.6	3.8	3.5	3.2	1.4	1.6	1.8	14.5	15.0	15.1	215	(5.0)	33.3
Reliance Energy	1,478	IL	336,536	8,525	228	34.8	35.2	36.4	(4.0)	1.0	3.4	42.4	42.0	40.6	47.7	41.6	39.7	3.5	3.3	3.1	0.2	0.6	0.6	8.5	8.1	8.0	810	(45.2)	110.5
Tata Power	993	IL	231,343	5,860	233	23.8	32.2	42.5	(9.8)	35.4	32.1	41.8	30.9	23.4	25.5	22.9	21.0	3.7	3.1	2.5	0.8	0.9	1.0	8.4	10.9	11.8	670	(32.5)	11.9
Utilities		**Attractive**	**2,592,436**	**65,673**					**17.1**	**14.7**	**14.1**	**30.1**	**26.2**	**23.0**	**20.0**	**19.3**	**18.3**	**3.8**	**3.4**	**3.1**	**1.1**	**1.4**	**1.5**	**12.5**	**13.1**	**13.5**			
KS universe (b)			**34,995,868**	**886,532**					**40.1**	**20.8**	**19.7**	**24.4**	**20.2**	**16.9**	**14.2**	**12.0**	**10.1**	**4.6**	**3.7**	**3.1**	**1.0**	**1.2**	**1.3**	**18.9**	**18.1**	**18.3**			
KS universe (b) ex-Energy			**27,052,983**	**685,319**					**46.7**	**22.6**	**21.5**	**26.6**	**21.7**	**17.8**	**17.2**	**14.1**	**11.6**	**5.6**	**4.2**	**3.5**	**0.8**	**1.0**	**1.2**	**21.2**	**19.4**	**19.8**			
KS universe (d) ex-Energy & ex-Commodities			**23,485,850**	**594,955**					**36.4**	**30.6**	**26.2**	**31.4**	**24.0**	**19.1**	**22.4**	**17.0**	**13.2**	**6.0**	**4.6**	**3.9**	**0.8**	**1.0**	**1.2**	**19.2**	**19.2**	**20.3**			

Note:
(a) 2003 means calendar year 2002, similarly for 2004 and 2005 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 39.48

Source: Bloomberg, Company reports, Kotak Institutional Equities estimates.

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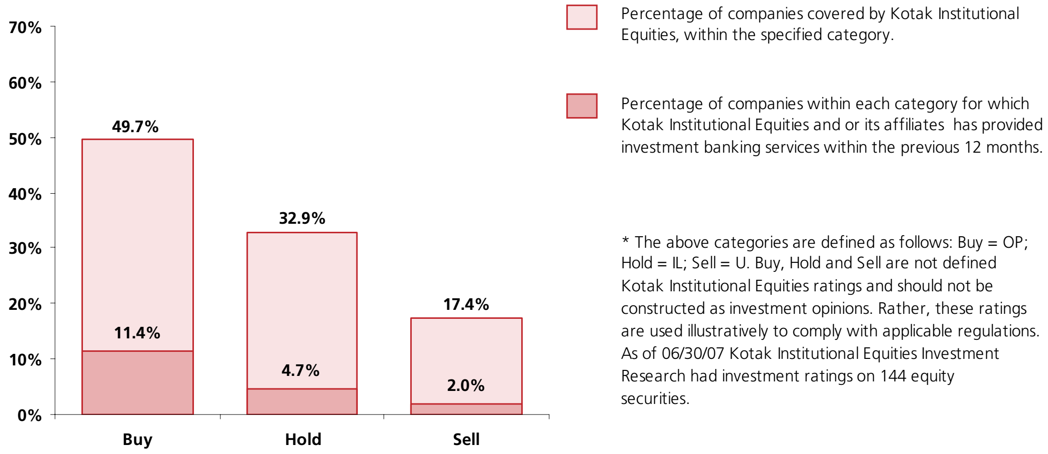

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Source: Kotak Institutional Equities.

As of June 30, 2007

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