kotak® Institutional Equities

# INDIA DAILY

March 04, 2008

## Contents

### New Release

**Puravankara Project :** Southern comfort from real estate—initiating coverage with BUY rating and target price of Rs475

### Updates

**Telecom:** Competition intensifies further—Virgin Mobile enters India under a franchisee agreement with TTSL

## News Roundup

### Corporate

- A day after Richard Branson's Virgin Mobile announced a partnership with Tata Teleservices for mobile services, the government is studying the fine print of the agreement to see if it complies with India's licensing norms. The Department of Telecommunications has asked its licensing wing to look into the nuances of the deal under which Tata will provide Virgin-branded mobile services, under the code division multiple access technology. *(ET)*
- Global banking giant HSBC said that Indian IT major Infosys chief mentor N. R. Narayana Murthy would join its board in May at an annual remuneration of £65,000. *(FE)*
- Wind turbine manufacturer Suzlon Energy Ltd has announced a retrofit program to resolve blade cracking issues discovered during the operations of some of its S88 turbines in the US. The total cost of the retrofit program is estimated at $25 mn, for which a provision will be made in the fourth quarter of this fiscal. (BL)
- The pipeline to evacuate gas from Reliance Industries block in the Krishna-Godavari (KG) basin—the so called East-West pipeline linking Kakinada in Andhra Pradesh to Bharuch in Gujarat—is set to be commissioned in the next three months. *(BS)*

### Economic and political

- Trading timings of the Bombay Stock Exchange and the National Stock Exchange will be revised from March 4 till March 18, as the sun's position may disrupt connectivity. Accordingly, the two exchanges will stop trading between 11.45 am and 12.25 pm and resume trading from 12.30 pm. Trading on the bourses will start at 9.55 am and close at 4.15 pm local time. *(BS)*
- Indian companies with subsidiaries abroad and those planning overseas mergers & acquisitions would not benefit from the dividend distribution tax offset announced by finance minister P Chidambaram in Budget 2008-09. Finance ministry officials explained that the offset on dividend paid by a subsidiary company with that of the parent company would be allowed only for domestic subsidiaries. Dividend paid by offshore subsidiaries of Indian companies would not be allowed the offset. *(FE)*

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

## EQUITY MARKETS

| | | Change, % | | |
|---|---|---|---|---|
| **India** | **3-Mar** | **1-day** | **1-mo** | **3-mo** |
| Sensex | 16,678 | (5.1) | (8.6) | (14.9) |
| Nifty | 4,953 | (5.2) | (6.9) | (15.6) |
| **Global/Regional indices** | | | | |
| Dow Jones | 12,259 | (0.1) | (3.8) | (7.9) |
| Nasdaq Composite | 2,259 | (0.6) | (6.4) | (14.4) |
| FTSE | 5,819 | (1.1) | (3.5) | (8.9) |
| Nikkie | 13,087 | 0.7 | (5.6) | (15.5) |
| Hang Seng | 23,745 | 0.7 | (5.1) | (17.8) |
| KOSPI | 1,675 | 0.2 | (0.9) | (12.6) |

**Value traded - India**

| | | | Moving avg, Rs bn | |
|---|---|---|---|---|
| | **3-Mar** | | **1-mo** | **3-mo** |
| Cash (NSE+BSE) | 168.3 | | 189.6 | 148.3 |
| Derivatives (NSE) | 365.9 | | 358.3 | 548 |
| Deri. open interest | 644.6 | | 636 | 905 |

**Forex/money market**

| | | Change, basis points | | |
|---|---|---|---|---|
| | **3-Mar** | **1-day** | **1-mo** | **3-mo** |
| Rs/US$ | 40.4 | 0 | 95 | 98 |
| 6mo fwd prem, % | 0.7 | (25) | 71 | 24 |
| 10yr govt bond, % | 7.6 | (4) | 4 | (38) |

**Net investment (US$mn)**

| | **29-Feb** | | **MTD** | **CYTD** |
|---|---|---|---|---|
| FIIs | (61) | | 317 | (4,306) |
| MFs | 113 | | (411) | 1,876 |

**Top movers -3mo basis**

| | | Change, % | | |
|---|---|---|---|---|
| **Best performers** | **3-Mar** | **1-day** | **1-mo** | **3-mo** |
| Punjab Tractors | 264 | (6.6) | (2.6) | 25.7 |
| NALCO | 466 | 0.5 | 10.7 | 26.3 |
| Asian Paints | 1,156 | 4.0 | (3.3) | 16.1 |
| Glaxosmithkline | 1,117 | 0.7 | 24.1 | 17.6 |
| BPCL | 467 | 1.6 | 8.1 | 11.5 |
| **Worst performers** | | | | |
| Neyveli Lignite | 141 | (7.1) | (5.5) | (42.5) |
| Arvind Mills | 46 | (6.6) | (6.2) | (43.2) |
| Moser Baer | 169 | (4.4) | (18.5) | (39.6) |
| MRF | 4,482 | (2.1) | (10.4) | (38.7) |
| Balaji Telefilms | 211 | (0.2) | (9.4) | (38.8) |

**Kotak Institutional Equities Research**
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

**Property**

| PVKP.BO, Rs0 | |
|---|---|
| Rating | BUY |
| Sector coverage view | Neutral |
| Target Price (Rs) | 475 |
| 52W High -Low (Rs) | 0 - 0 |
| Market Cap (Rs bn) | 0 |

**Financials**

| March y/e | 2007 | 2008E | 2009E |
|---|---|---|---|
| Sales (Rs bn) | 4 | 7 | 12 |
| Net Profit (Rs bn) | 1.3 | 2.5 | 4.0 |
| EPS (Rs) | 6.7 | 11.5 | 18.8 |
| *EPS gth* | *(85.4)* | *71.8* | *63.1* |
| P/E (x) | - | - | - |
| EV/EBITDA (x) | 4.7 | 2.6 | 2.8 |
| Div yield (%) | #DIV/0! | #DIV/0! | #DIV/0! |

**Shareholding, December 2007**

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

# Puravankara Project : Southern comfort from real estate—initiating coverage with BUY rating and target price of Rs475

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Advance sales in housing to drive earnings growth**
- **Expanded presence in five cities across Southern India**
- **Premium image in Bangalore market to help sell faster than competition**

PPL's track record in quality and customer satisfaction places it well to benefit from the expanding residential real estate market. PPL, along with its partners, has launched 18 mn sq. ft of residential projects, providing high near-term revenue visibility. We initiate coverage with a BUY rating and a target price of Rs475.

### Advance sales in housing to drive earnings growth

PPL, along with its partners, has launched 16 residential projects with a saleable area of 17.7 mn sq. ft in four cities in Southern India—Bangalore, Kochi, Mysore and Chennai—and another one in Kolkata. These projects, comprising 10,600+ apartments, have seen good response with 50% sold already. These projects constitute 72% of FY2008-10E revenues, thus providing high visibility to revenues.

### Expanded presence in five cities across Southern India

With 125 mn sq. ft. of fully paid up saleable area acquired (attributable land bank of 111 mn sq. ft), PPL is ideally positioned to participate in the strong growth we expect in South India's real estate sector. We highlight the fact that PPL's land bank is largely metro-centric, implying it can be exploited in the near future.

### Premium image in Bangalore market to help sell faster than competition

Over the past decade, PPL has earned a premium position in Bangalore with its quality construction and innovative designs. The company's ability to anticipate the changing preferences of customers and addressing them with novel design ideas is a key strength.

### We initiate coverage with a BUY rating and a target price of Rs475

Our target price of Rs475 is based on parity with a March 2009 NAV of Rs475/ share. The current stock price discounts flat property prices alongside a 5% increase in construction costs. We model PPL's net income to increase to Rs6.5 bn in FY2010E from Rs1.3 bn in FY2007, driven by an increase in revenues to Rs19.2 bn from Rs4.3 bn.

### Key risks: Property prices, interest rates, land cost

(1) Increase in competition can pressure property prices; (2) A sharp decline in property prices may pose risks to our earnings forecasts—property prices have risen sharply over the past three years, reducing affordability; (3) Near-term profitability is overly dependent on a single geography—Bangalore.

**Telecom**

| Sector coverage view | Cautious |
|---|---|

| | | Price, Rs | |
|---|---|---|---|
| **Company** | **Rating** | **3-Mar** | **Target** |
| Bharti | REDUCE | 791 | 810 |
| Rcom | SELL | 541 | 550 |
| MTNL | SELL | 115 | 110 |
| Tata Comm. | REDUCE | 492 | 530 |
| Idea Cellular | SELL | 103 | 115 |

## Competition intensifies further—Virgin Mobile enters India under a franchisee agreement with TTSL

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Virgin Mobile enters the Indian wireless market under a franchisee agreement with TTSL**
- **Initial launch in 50 cities across 17 circles; plans to expand to 1,000 cities with a target of 5mn subscribers in three years**
- **Announces innovative pricing at the get-go—Rs0.50/min local outgoing call rates, and a unique cash-back offer for incoming calls**
- **Maintain REDUCE rating on Bharti and SELL rating on RCOM and Idea**

Virgin Mobile, one of the world's leading Mobile Virtual Network Operators (MVNO) with operations in six countries currently, has launched its services in India under a franchisee agreement with Tata Teleservices, a leading CDMA operator in the country. Effectively this is a back-door entry for an MVNO, though it remains to be seen whether this would come under the close scanner of the regulator. We see Virgin's entry into India as significant from several perspectives (1) it intensifies competition further and will mean no let-up in the pressure on tariffs/pricing in the industry (2) Virgin brings a novel approach to customer segmentation and focus on customer service, providing a new dimension to the pricing-based competition prevalent in the industry currently (3) we expect Virgin to be aggressive on pricing front; the company has already displayed its intent with its announcements of Rs0.5/min local outgoing call rates and a Rs0.10 cash back for every 60 seconds of incoming calls (4) success of the franchisee model could lead to other global operators enter the Indian market via this route; new players entering the market over the next 12 to 24 months (with fresh spectrum) could be the ideal partners for these global telcos. We continue to expect pricing to come under significant pressure and maintain our cautious view on the sector.

**Virgin Mobile to focus on targeting the youth segment; targets subs base of 5 mn in three years.** Virgin Mobile, among the world's leading MVNOs has launched its brand in India under a franchisee agreement with TTSL. The company intends to focus on tapping the youth market in the country with innovative pricing schemes and value-added services. TTSL will offer both 'Tata Indicom' and 'Virgin' brands to the customers through its country-wide sales and distribution network. In addition, Virgin will be setting its own kiosks for distribution and customer service. The financial arrangements of the agreement have not been announced; however, press reports suggest that TTSL will likely pay royalty to Virgin for use of the brand; the royalty will likely be a % share of upfront and recurring revenues. Virgin management indicated its intention of focusing on the youth segment with a target subscriber base of 5 mn over the next three years.

**Announces aggressive outgoing tariffs and first-of-its-kind credit for incoming calls.** We highlight some of the key features of the tariff plan announced by Virgin mobile:

1. **Aggressive outgoing tariff to spur usage:** Virgin will offer Rs0.5/min local outgoing tariff (after the first two minutes local outgoing everyday, which will be charged at Rs1/min). This compares favorably with the existing Re1/min local outgoing tariffs of other operators (except TTSL, which recently announced local outgoing tariffs of Rs0.49/min for its outgoing calls on select plans). We believe that the aggressive local pricing by TTSL for both Tata Indicom and Virgin customers reflects its intent to spur usage, perhaps indicating the under-utilization of TTSL's CDMA capacity.

2. **Credit for incoming calls—a first in the industry:** In another move to spur higher usage, Virgin has announced a Rs0.1/min credit for every 60 seconds of incoming calls to its subscribers (from any network); we note that operators terminating the call get a charge of Rs0.3/min from the operator originating the call. We believe that this move may lead to more operators trying to spur outgoing usage by paying credits for incoming calls. In any case, we believe that there is a risk of reduction in termination charges by the regulator.

3. **Focus on youth segment; a new lease of life to the hitherto 'unassuming' Tata Indicom brand:** We believe that an association with Virgin will likely improve the brand visibility of Tata Indicom among the youth segment; Tata Indicom is mostly seen as a price warrior in the market.

4. **Break-even by the third year.** Virgin indicated a break-even period of three years with a target subscriber base of 5 mn within that period. Effectively the company appears to be targeting revenues of Rs12 bn in the third year, assuming MOUs of 400 and ARPU of Rs200. We find the break-even target aggressive.

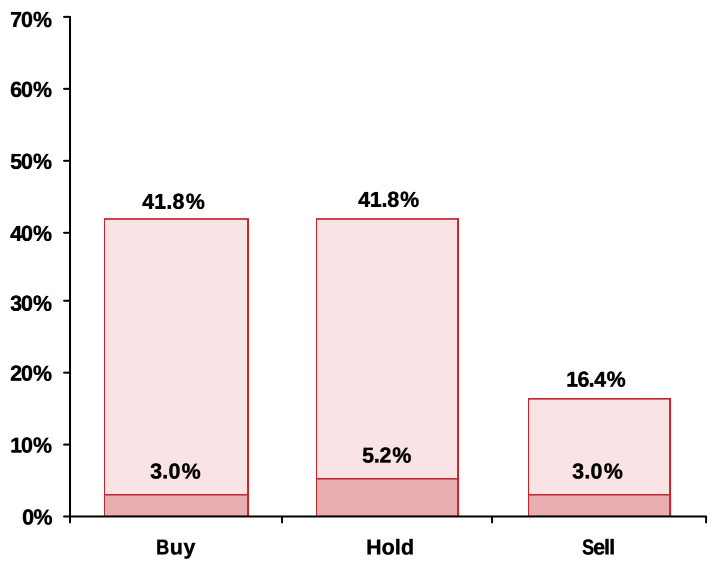
**Bottomline remains that pricing will continue to remain under pressure:** We believe that the pricing strategy of Virgin highlights the price sensitivity of Indian customers, the current super normal profitability of existing operators and the potential pricing pressure as new players crowd out the market. In particular, Virgin's aggressive **'get paid to receive calls'** plan brings incoming calls under the ambit of pricing wars, in addition to the intense competition already prevalent on outgoing tariffs. We do not rule out other global telcos/MVNOs adopting the franchisee route to enter the Indian market, especially after some of the new players with fresh GSM spectrum roll-out their networks and have excess capacity to offer. All this, in addition to the other factors like new competition, more aggression from existing players, and pricing being the critical lever to increase adoption in rural/sub-urban areas, will continue to exert pressure on pricing, in our view.

We continue to believe that pricing has much more scope to fall. We have long highlighted the super-normal profitability that the Indian wireless operators have been able to earn in a relatively benign competitive environment thus far. Even with a RPM of Rs0.5/min (Bharti's 3QFY08 RPM was Rs0.74/min and our long-term average RPM assumption is Rs0.68/min), Bharti will earn an RoACE of 30% in the terminal year. We believe that ours and street's assumptions on RPM/EPM could be at risk in the increasingly competitive market. We maintain our Cautious coverage view on the sector with a REDUCE rating on Bharti and SELL on RCOM and Idea.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Puneet Jain, Kawaljeet Saluja."

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships




Percentage of companies covered by Kotak Institutional Equities, within the specified category.

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

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

Source: Kotak Institutional Equities. As of September 30, 2007

## Ratings and other definitions/identifiers

### New rating system

Definitions of ratings

**BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
**REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
**SELL:** We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

### Old rating system

Definitions of ratings

**OP = Outperform**. We expect this stock to outperform the BSE Sensex over the next 12 months.
**IL = In-Line.** We expect this stock to perform in line with the BSE Sensex over the next 12 months.
**U = Underperform.** We expect this stock to underperform the BSE Sensex over the next 12 months.

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

### Other definitions

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

### Other ratings/identifiers

**NR = Not Rated.** The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.
**NC = Not Covered.** Kotak Securities does not cover this company.
**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.
**NM = Not Meaningful.** The information is not meaningful and is therefore excluded.

**Corporate Office**
**Kotak Securities Ltd.**
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

**Overseas Offices**

**Kotak Mahindra (UK) Ltd.**
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

**Kotak Mahindra Inc.**
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel: +1-914-997-6120



Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.