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News Roundup

- The officials of **Tata Motors** led by its Managing Director, Mr Ravi Kant, held discussions with the Andhra Pradesh Chief Minister, Dr Y. S. Rajasekhara Reddy in Hyderabad and the Karnataka Chief Minister, Mr B. S. Yeddyurappa, in Bangalore on Sunday, on their respective offers for land and facilities to relocate the **Nano** project. (BL)
- The Adani group is planning entry into nuclear power. While it is not clear whether the nuclear foray will be undertaken directly by **Adani Power** or another subsidiary, sources said that the group is recruiting a team of nuclear power experts to plan project proposals. (BL)
- Retail-company **Subhiksha** has said that a Bench of the Bombay High Court has set aside all orders of Maharashtra Food and Drug Administration regarding the company's warehouse at Bhiwandi and three of its vendors located there. The retailer had come under the FDA scanner after its inspectors raised concerns on hygiene and the repackaging of goods at its warehouse in Bhiwandi on the outer fringes of the city. (BL)
- **Reliance Industries** is mulling the merger of its different formats to make its retail arm more efficient. The company is considering merging the management of hypermarkets (Reliance Hypermart), supermarkets (Reliance Super) and convenience formats (Reliance Fresh) just a year after these formats started as separate profit centres, according to people familiar with the development. The idea of the merger is still at a conceptual stage and the company hasn't taken a final decision. (ET)
- Japanese financial services major **Nomura Holdings** is all set to buy the Indian operations of beleaguered Lehman Brothers and is likely to retain nearly 2,000 strong workforce, media reports said. (Mint)
- Bangalore, Chennai, Delhi-NCR, Hyderabad, Mumbai and Pune are the six Indian cities in the list of top eight outsourcing cities of the world, according to a study by Global Services, the media platform for global IT outsourcing and BPO industry and Tholons, a global investment advisory firm. . (ET)
- The board of Securities and Exchange Board of India, which is scheduled to meet on Monday, is likely to ease the current restrictions on investments by foreign institutional investors (FIIs) through Participatory Notes. (BL)

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

EQUITY MARKETS

India	Change, %			
	3-Oct	1-day	1-mo	3-mo
Sensex	12,526	(4.1)	(13.5)	(6.9)
Nifty	3,818	(3.4)	(12.3)	(4.9)

Global/Regional indices				
Dow Jones	10,325	(1.5)	(8.0)	(8.5)
FTSE	4,980	2.3	(5.0)	(8.0)
Nikkie	10,568	(3.4)	(13.5)	(20.2)
Hang Seng	17,682	(2.9)	(11.3)	(17.5)
KOSPI	1,372	(3.4)	(3.9)	(14.6)

Value traded - India				
	Moving avg, Rs bn			
	3-Oct	1-mo	3-mo	
Cash (NSE+BSE)	166.1	175.5	173.2	
Derivatives (NSE)	449.8	588.9	516	
Deri. open interest	674.7	716	658	

Forex/money market

	Change, basis points			
	3-Oct	1-day	1-mo	3-mo
Rs/US\$	47.1	44	254	382
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US\$m)

	Change, %		
	1-Oct	MTD	CYTD
FIIs	(71)	-	(9,225)
MFs	31	-	3,166

Top movers -3mo basis

Best performers	Change, %			
	3-Oct	1-day	1-mo	3-mo
BHARAT PETROLEU	373	2.7	3.9	62.3
BANK OF BARODA	296	(5.0)	0.5	42.3
BAJAJ AUTO LIMITE	577	(3.9)	(4.9)	37.0
PUNJ LLOYD LIMITE	268	(8.1)	(9.8)	17.5
STATE BANK OF INDIA	1,484	(1.4)	(2.4)	31.9
Worst performers				
RANBAXY LABORAT	264	5.1	(41.4)	(50.9)
HOUSING DEVELOP	163	(2.8)	(46.9)	(49.3)
JSW STEEL LIMITED	411	(9.8)	(42.2)	(45.4)
INDIABULLS REAL E	161	(0.5)	(42.2)	(42.6)
INDIABULLS FINANC	146	(5.9)	(41.0)	(40.3)

Kotak Institutional Equities Research

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Property**INRL.BO, Rs161**

Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	275
52W High -Low (Rs)	850 - 147
Market Cap (Rs bn)	43.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1.4	1.5	5.1
Net Profit (Rs bn)	4.0	3.0	2.7
EPS (Rs)	16.4	10.9	9.9
EPS gth	2,384	(33.9)	(8.6)
P/E (x)	10	14.8	16.2
EV/EBITDA (x)	(1,571)	35.6	9.0
Div yield (%)	0.2	0.0	2.9

Indiabulls Real Estate: Rupee at a discount

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We believe IBREL has fashioned itself a sturdy launch pad by raising considerable funds, buying land and entering into multiple businesses. We see limited downside to the stock from current levels given the model, which in the past 30 months has fortified itself with (1) attributable funds of Rs184/share and (2) a 45% stake in a Singapore-based REIT. We initiate coverage with a BUY rating and target price of Rs275.

IBREL's current stock price offers negative value for non-IPIT real estate development

IBREL has developed a land bank of 226 mn sq. ft (201 mn sq. ft attributable to IBREL) comprising 15 mn sq. ft of retail, 77 mn sq. ft of residential and 134 mn sq. ft of SEZ area. Our target price of Rs275 comprises Rs103 for real estate development, Rs76 for cash and equivalents and Rs95 on account of the Indiabulls Properties Investment Trust (IPIT, Singapore REIT). We highlight that IBREL has raised attributable funds of Rs184/share and owns 45% of IPIT.

Built up sizeable equity, raised funds several times

IBREL has built up a net worth of Rs56.8 bn as of Mar '08 with cash and equivalents of Rs16.2 bn through a host of issuances. Key fundraising events include (1) GBP138 mn AIM fund, (2) Rs16.8 bn GDR, (3) SGD 353 mn through IPIT, (4) stake dilution in Raigarh SEZ and (5) investments in power business. Furthermore, promoters have injected Rs4 bn through warrant premium and conversion. In the interim, IBREL has entered into power, retail and multiplex businesses. We examine each of these events in detail inside.

Project launches, progress in power business to determine further upside

IBREL has a fully paid-up land bank of Rs22 bn with most projects in the early stages of construction. Projects which have been launched or are to be launched shortly include a residential project in Tehkand (Delhi) and five retail projects across the country. IBREL has also won a 1,320 MW thermal power project in Bhaiyathan in a competitive bid. Currently, we value investments in power projects at parity with their book value.

Key risks: Diversification, execution, competition and property prices

We see the following risks to our earnings estimates—(1) diversification into other businesses, (2) earnings in the near term not from operations, (3) execution challenges, (4) intergroup transactions which lead to lower transparency and (5) cyclical nature of property prices.

Our Mar'09 based NAV is Rs274/share

Key components of valuation (Rs bn)

	3%	March '09-based NAV		10%
		Growth rate in selling prices		
		5%		
		(Rs bn)	(Rs/share)	
Valuation of land bank (Rs bn)	31.6	28.1	102.9	70.7
Residential	12.6	16.2	59.4	26.7
Retail	8.4	10.5	38.5	16.1
SEZs	12.8	20.1	73.8	42.9
Less: Land cost to be paid (Rs bn)	(1.5)	(1.5)	(5.5)	(1.5)
Value of cash (Rs bn)				
Add: Net cash as of Mar' 08 (Rs bn)	12.8	12.8	47.1	12.8
Add: Loans and advances (ICDs)	37.0	37.0	135.7	37.0
Less: Minority interest	(14.2)	(14.2)	(52.3)	(14.2)
Less: Other current liabilities (OCDs),provisions	(17.0)	(21.3)	(78.3)	(17.0)
Add: Investments, Gross block, warrant premium	6.4	6.4	23.6	6.4
From IPIT (Rs bn)				
45% stake in IPIT	17.9	17.9	65.5	17.9
PV of management fees	2.6	2.6	9.5	2.6
PV of trustee fees	5.5	5.5	20.1	5.5
Total	81	75	274	120
Total no. of fully diluted shares (mn)				273
NAV/share	298	274	274	441

Source: Kotak Institutional Equities estimates.

Equity infusion of Rs184/share has taken place into IBREL

	Description	(Rs mn)
Starting cash in balance sheet	Opening cash in December 2006	5,500
GDR Issuance		16,000
Conversion of warrants, warrant premium	Amount invested by promoters	4,000
Propotionate stake of Sophia Power	IBREL owns 71.4% in power business. Total amount invested is Rs21.7 bn (Rs15.8 bn by LNM, Farallon)	15,512
Investments in Power business	IBREL invested Rs5.9 bn	(5,925)
DPD	DPD paid Rs4.5 to IBREL for acquisition of properties. DPD invested Rs3.5 bn in Raigarh SEZ (ownership stake of IBREL is 86.7%)	7,322
Investments into Raigarh SEZ	FIM and Karrick Ltd. invested Rs4.5 bn for a stake of 10% and 3.3% respectively	3,889
Current value of IPIT	Market value at IPIT price of S\$0.5	16,461
Others	Money received from IPIT, value of project management fees	8,100
Conversion of 15 mn warrants in FY2009E	Conversion price of Rs300/share	4,050
Total		74,908
Shares	Assuming warrants given to promoters are not converted. Very unlikely they will be converted since conversion price is Rs540	272
Per share		275
How the funds raised have been deployed		
Land purchase (Rs/share)	Inventory+ Loans and advances for land	77
Construction cost (Rs/share)	Inventory + Capital WIP	8

Source: Kotak Institutional Equities estimates.

Technology

Sector coverage view Neutral

Company	Rating	Price, Rs	
		3-Oct	Target
TCS	REDUCE	658	750
Wipro	ADD	342	380
Infosys	BUY	1,392	1,750
Satyam Comp	BUY	315	400
HCL Tech	REDUCE	207	220
Patni	SELL	194	200
Hexaware	SELL	31	35
Polaris Softwai	SELL	70	70
Tech Mahindre	BUY	624	750
Mphasis BFL	SELL	179	190
MindTree	BUY	296	450

Battening down

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- **Taking a conservative view for FY2010E estimates**
- **FY2009E revenue guidance will likely be tweaked downwards**
- **September quarter revenue guidance will likely be met; net income growth will be strong**
- **Valuations and 'low expectations' could be a trigger**

We reduce our FY2009 and FY2010 estimates for Indian IT services companies taking into consideration the deteriorating external environment (revised earnings growth of 17-30% for FY2009 and 9-14% for FY2010). We expect marginal tweaking of the guidance by Infosys and Satyam. Valuations of select stocks appear attractive despite the challenging external environment. We maintain our Neutral coverage view. Infosys and Satyam are our top picks among the tier-1 names.

Taking a conservative view for FY2010E estimates

We take an extremely conservative view of the demand environment and model revenue growth of 14-24% for FY2009E and 13-17% for FY2010E for tier-1 players. We also model a pricing decline of 3% in FY2010. Our revised forecast takes into consideration the recent turmoil in the financial markets, client-specific impact and slowdown in the global economy. Despite these changes, we expect still expect earnings growth of 9-14% for FY2010.

FY2009E revenue guidance will likely be tweaked down

We expect Infosys to reduce FY2009E revenue growth guidance to 18-19% and Satyam to reduce the same to 23-24% from 24-26% earlier, driven by (1) adverse movement of GBP and Euro against USD, (2) systemic risks after bankruptcies of Lehman and WAMU and (3) delays in decision making. We expect December 2008 qoq revenue growth guidance to be a moderate 3-4%. Expect EPS guidance to be increased on the back of Rupee depreciation versus the US\$.

September quarter revenue guidance will likely be met; net income growth will be strong

We expect Infosys and Satyam to meet the lower end of September quarter revenue growth guidance of 5-6% and 3.5-4.5%, respectively. We expect outperformance of net income guidance by Infosys. We forecast modest forex losses for Infosys and Satyam. The impact of US\$ appreciation against the GBP/EUR may impact US\$ revenue growth by 1-2%.

Valuations and "low expectations" could be a trigger

While growth for CY2009 remains uncertain, we take comfort in valuations. We find the implied FCF growth to perpetuity of 5.5% for Infosys and 4.6% for Satyam extremely conservative. We view IT services as cyclical stocks that are trading at trough valuations with low implied growth expectations. Low valuation multiples as well as earnings growth will support a strong return profile in case of an upturn or positive earnings surprises. We maintain a Neutral coverage view with Infosys and Satyam as our top picks.

Energy**RELI.BO, Rs1761**

Rating	RS
Sector coverage view	Cautious
Target Price (Rs)	-
52W High -Low (Rs)	3298 - 1745
Market Cap (Rs bn)	2,315

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,334	1,813	2,681
Net Profit (Rs bn)	142.5	160.2	249.0
EPS (Rs)	101.7	105.8	158.3
EPS gth	23.0	4.0	49.5
P/E (x)	17	16.6	11.1
EV/EBITDA (x)	10.5	8.3	5.0
Div yield (%)	0.7	0.8	1.2

Shareholding, June 2008

	% of		Over/(under) weight
	Pattern	Portfolio	
Promoters	44.2	-	-
FII's	21.0	9.7	0.8
MFs	2.8	7.1	(1.8)
UTI	-	-	(8.9)
LIC	5.1	10.8	1.9

Reliance Industries: Near fair value now but can go below it on global economic woes

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- **Multiples can come off further in line with other commodity stocks**
- **High global exposure makes earnings and multiples vulnerable**
- **Fair value is about Rs1,750 without option value of new E&P discoveries**

We do not rule out further contraction in multiples of RIL's cyclical commodity businesses given (1) increasing concerns about global GDP growth, which would determine the strength of global commodity prices and margins over the next two years and (2) ongoing sharp contraction in multiples of other commodity stocks. Also, we note that RIL's earnings are particularly vulnerable given (1) its high exposure to global commodity businesses, (2) no ownership of resources leading to high reliance on conversion margins and (3) steep increase in global supply of refined products and chemicals at a time of likely imploding demand. We see new E&P discoveries as a potential positive for the stock. We do not rule out the stock trading below our 12-month fair value of Rs1,750.

RIL still trades at higher multiples versus other global commodity stocks. As highlighted in our September 12 note, we believe RIL's multiples can contract further in light of (1) rising fears of a sharp slowdown in global GDP growth in CY2009E and (2) steep erosion in multiples of similar commodity stocks over the past few weeks. We note that RIL stock still trades at high multiples relative to other global cyclical commodity stocks (see Exhibits 1-5). The stock is trading at our fair SOTP valuation, which is based on 5.5-6X FY2010E EBITDA of the chemicals and refining segment.

RIL's higher multiples may partly reflect its superior financial position versus other similar stocks in India (highly leveraged due to aggressive acquisitions) but we doubt the market is going to be very picky in the current highly risk-averse environment. The low multiples of other stocks and sectors globally would suggest that the market expects street earnings estimates to be cut significantly on concerns of global economic slow-down.

Earnings vulnerable in light of likely sharp deterioration in supply-demand balance. We do not believe street estimates for RIL factor in the increasing likelihood of a steep deterioration in chemical and refining margins versus FY2008 levels. Our earnings are well below consensus forecasts but we still find our earning projections significantly higher versus the average of the past 4-5 years (pro forma basis) or those suggested by current margins.

We are quite concerned about a sharp slowdown in demand for both refined products and chemicals over the next 1-2 years. We present three charts—(1) US refining capacity utilization rate, (2) global polyester filament yarn utilization rate and (3) global polyester staple utilization rate—to show the sharp slow-down in demand over the past few months (see Exhibits 6 & 7). We are increasingly of the view that the global demand environment will deteriorate further.

In contrast, we continue to see significant addition to global refining and chemical capacity in CY2008-10E. We expect incremental global capacity/supply to be 2X of incremental global demand assuming reasonable global GDP growth of around 4%. However, weaker-than-expected global GDP growth rate may lead to a bigger imbalance versus our current forecasts.

Fair value is about Rs1,750 without any option value for new E&P gas

discoveries. Exhibit 8 shows a hypothetical valuation exercise for RIL based on (1) 6X EV/EBITDA multiple for chemicals and refining businesses, (2) average FY2005-08 EBITDA of refining segment, (3) 70% of FY2007-08 chemical segment EBITDA, (4) valuation of investment based on current market prices and (5) our estimated valuation of RIL's emerging businesses (upcoming E&P, retailing and SEZs).

Exhibit 9 shows our SOTP valuation model for RIL and Exhibit 10 is our simple valuation model for RIL based on 9X FY2010E EPS; FY2010E EPS will largely reflect full contribution from RIL's KG D-6 block and RPET. However, we note that on a 'as is' basis, FY2010E EPS will be significantly higher versus long-term recurring earnings (like-to-like basis) due to (1) zero share of government of profit petroleum of KG D-6 block, (2) FY2010E E&P earnings being in perpetuity and (3) no payment of income tax on RPET's earnings.

Clarification on change in shareholding in September 2008 quarter. We note that the 'lower' promoter shareholding between September 30, 2008 and June 30, 2008 as reported to the stock exchanges is merely a reclassification of a portion of treasury shares. RIL has historically shown treasury shares (199 mn) under the promoter and promoter group category and not under a separate category, which would have been a more correct presentation, in our view. The 95 mn treasury shares held by five companies, which were earlier shown as part of promoter shareholding, have been transferred to the public category in the September 2008 quarter. The balance 104.7 mn of treasury shares (7.2% of total) held by Petroleum Trust continues to be shown under promoter and promoter group category.

In another development, the promoter group has exercised 120 mn warrants on October 3, 2008. This would increase the promoter shareholding to 666.6 mn shares or 48.5% of outstanding shares (adjusted for the 199 mn treasury shares). The promoter shareholding prior to the exercise of warrants was 43.6%.

Global chemicals valuations

	Year Ending	Price 3-Oct	Market cap. (US\$ mn)	EV (US\$ mn)	P/E (X)			EV/EBITDA (X)		
					2008E	2009E	2010E	2008E	2009E	2010E
China										
Sinopec Shanghai Petrochem (CNY)	Dec	5.2	4,280	5,072	130.8	30.8	12.2	(16.9)	10.2	6.6
Sinopec Yizheng Chemical Fib (CNY)	Dec	3.7	1,525	1,292	(82.2)	(148.0)	67.3	28.9	28.3	8.1
Hong Kong										
Sinofert Holdings Ltd (HK\$)	Dec	3.7	3,291	3,709	10.4	7.9	6.8	8.5	7.0	6.2
India										
Reliance Industries Limited (Rs)	Mar	1,761	54,402	65,091	15.3	9.5	8.6	10.1	6.7	6.1
Japan										
Mitsui Chemicals Inc (JPY)	Mar	423	3,181	8,262	12.5	11.6	11.6	6.2	5.8	5.8
Mitsubishi Chemical Holdings (JPY)	Mar	484	6,922	15,546	11.2	10.9	10.1	6.3	5.9	5.6
Sumitomo Chemical Co Ltd (JPY)	Mar	421	6,617	14,567	24.7	7.6	6.8	7.0	7.2	7.1
Tosoh Corp (JPY)	Mar	289	1,650	5,461	7.5	6.9	6.9	6.0	5.9	5.9
Korea										
Daelim Industrial Co Ltd (W)	Dec	65,200	1,861	3,159	6.7	5.3	5.8	6.8	5.9	6.2
Hanwha Chemical Corp (W)	Dec	10,350	1,191	2,191	5.0	6.6	11.7	7.6	7.7	7.6
Honam Petrochemical Corp (W)	Dec	67,000	1,751	1,412	6.3	6.3	8.3	5.9	7.1	8.9
Lg Chem Ltd (W)	Dec	89,500	5,523	6,371	5.3	9.5	11.1	3.5	6.0	6.6
Malaysia										
Titan Chemicals Corp Bhd (MYR)	Dec	1.0	521	920	4.2	4.1	4.1	3.6	3.6	3.6
Thailand										
Ptt Chemical Pcl (Bt)	Dec	52.5	2,299	2,508	4.2	5.1	3.8	3.2	3.5	2.8
Thai Plastic & Chemicals Pcl (Bt)	Dec	16.8	430	608	5.5	5.4	5.1	5.0	4.8	5.6
USA										
Dow Chemical (US\$)	Dec	29.9	27,647	38,163	9.6	10.2	9.9	6.1	6.3	5.2
Du Pont (E.I.) De Nemours (US\$)	Dec	38.8	35,004	43,962	11.1	10.6	10.6	7.5	7.1	6.9
Eastman Chemical Company (US\$)	Dec	50.7	3,874	4,752	9.5	9.2	9.5	5.1	5.0	5.1
Nova Chemicals Corp (US\$)	Dec	19.0	1,579	3,312	6.5	7.4	13.6	4.3	4.7	5.5
Olin Corp (US\$)	Dec	16.9	1,276	1,318	7.5	7.5	9.5	3.7	3.7	5.0

Source: Bloomberg, Kotak Institutional Equities

Global integrated oils valuations

	Price	Market cap.	EV	P/E (X)			EV/EBITDA (X)		
	3-Oct	(US\$ mn)	(US\$ mn)	2008E	2009E	2010E	2008E	2009E	2010E
International majors									
Chevron Corp. (US\$)	79	163,084	161,366	6.8	6.8	5.8	3.0	3.0	2.6
Exxon Mobil Corp. (US\$)	78	404,821	374,758	8.6	8.5	7.5	3.8	3.8	3.6
Royal Dutch Shell Plc-A Shs (GBP)	1,628	178,499	232,347	5.9	6.1	5.8	2.7	2.9	2.9
Bp Plc (GBP)	468	155,161	237,691	5.7	5.8	5.7	3.2	3.2	3.2
Total Sa (EUR)	43	139,232	157,386	6.6	6.5	6.2	3.0	3.0	2.9
Regional majors									
Occidental Petroleum Corp. (US\$)	62	50,275	50,586	6.1	6.4	5.5	2.9	3.0	2.6
Conocophillips (US\$)	66	100,520	122,801	5.4	5.5	4.9	2.8	2.8	2.7
Marathon Oil Corp. (US\$)	36	25,104	31,961	5.8	5.2	4.9	3.0	2.6	2.4
Eni Spa (EUR)	18	101,481	128,652	6.1	6.2	6.0	3.1	3.0	2.9
Repsol Ypf Sa (EUR)	21	34,821	48,203	7.7	7.8	7.6	3.7	3.6	3.4
Emerging market oils									
Cnooc Ltd (HK\$)	8	47,890	36,856	7.5	7.4	7.0	3.9	3.8	3.6
Lukoil-Cls (US\$)	53	45,420	51,671	3.2	3.5	3.5	2.4	2.6	2.4
GAIL (India) Ltd (Rs)	394	7,075	6,884	10.5	10.1	9.9	6.9	6.4	6.0
Oil & Natural Gas Corp. Ltd (Rs)	1,020	46,351	42,569	8.5	8.7	8.1	4.0	4.1	3.9
Petrochina Co. Ltd-H (HK\$)	8	324,518	293,321	10.6	8.8	8.7	8.9	7.7	7.4
PTT Pcl (Bt)	226	18,673	24,408	6.4	6.2	5.9	4.8	4.5	4.2
PTT Explor & Prod Public Co. (Bt)	124	11,996	11,848	9.3	8.5	8.5	4.0	3.5	3.4
Santos Ltd (A\$)	18	8,228	10,071	16.5	18.5	19.0	7.2	7.7	7.9
China Petroleum & Chemical-H (HK\$)	6	122,172	140,886	14.1	9.3	7.9	13.1	8.5	7.3
Woodside Petroleum Ltd (A\$)	50	27,041	28,561	13.6	14.2	14.7	7.7	7.2	7.2
Reliance Industries Limited (Rs)	1,761	54,402	65,091	15.2	9.8	8.7	10.2	6.8	6.1
Nippon Oil Corp. (JPY)	480	6,675	19,518	7.4	8.8	9.5	6.5	7.9	6.4

Source: Bloomberg, Kotak Institutional Equities

Global refining valuations

	Price	Market cap.	EV	P/E (X)			EV/EBITDA (X)		
	3-Oct	(US\$ mn)	(US\$ mn)	2008E	2009E	2010E	2008E	2009E	2010E
Taiwan									
Formosa Petrochemical Corp. (NT\$)	77	22,237	26,976	11.7	13.8	18.4	7.9	9.0	8.5
Korea									
Gs Holdings Corp (W)	27,750	2,115	2,522	5.2	5.8	7.7	6.2	6.0	6.1
S-Oil Corporation (W)	69,800	6,445	7,533	8.7	13.6	17.8	5.0	7.8	8.5
Sk Holdings Co. Ltd (W)	106,500	4,102	5,892	8.6	7.0	5.9	9.1	7.6	7.0
Singapore									
Singapore Petroleum Co Ltd (SG\$)	4	1,560	1,866	4.4	5.1	5.1	3.5	3.9	3.9
Thailand									
Thai Oil Pcl (Bt)	40	2,387	2,884	4.3	4.9	5.3	3.0	3.3	3.5
Bangchak Petroleum Pcl (Bt)	10	311	632	6.6	4.6	3.8	4.9	3.7	3.8
Japan									
Nippon Mining Holdings Inc. (JPY)	374	3,297	12,061	4.5	4.6	4.5	7.3	7.2	6.8
Nippon Oil Corp (JPY)	480	6,675	19,518	7.4	8.8	9.5	6.5	7.9	6.4
Tonengeneral Sekiyu Kk (JPY)	866	4,647	5,677	22.9	19.8	18.5	9.1	7.6	7.5
Cosmo Oil Company Ltd (JPY)	225	1,811	6,776	6.0	7.2	6.8	6.4	7.3	6.2
US									
Ashland Inc. (US\$)	28	1,740	952	9.6	8.8	7.3	2.5	1.5	1.0
Sunoco Inc. (US\$)	31	3,570	5,620	20.4	9.6	7.1	6.1	4.4	3.6
Frontier Oil Corp. (US\$)	14	1,458	1,391	8.3	5.0	3.7	3.3	2.5	1.5
Tesoro Corp. (US\$)	14	1,919	3,681	(71.0)	8.7	4.9	7.9	4.1	3.0
Valero Energy Corp. (US\$)	26	13,450	18,281	6.6	5.9	4.6	3.6	3.4	2.8
Western Refining Inc. (US\$)	8	553	1,951	NA	9.9	9.7	8.2	6.2	5.0
Cheniere Energy Inc. (US\$)	2	93	3,051	(0.4)	(0.7)	(1.0)	(26.6)	25.2	11.4
India									
Bharat Petroleum Corp. Ltd (Rs)	373	2,862	4,253	10.0	9.1	8.6	6.3	5.6	4.8
Hindustan Petroleum Corp. (Rs)	242	1,740	5,247	8.0	7.5	6.6	9.7	8.7	6.8
Indian Oil Corporation Ltd (Rs)	401	10,157	15,275	8.1	8.2	10.2	5.8	5.7	5.1
Reliance Petroleum Ltd (Rs)	137	13,136	15,342	18.8	6.9	7.0	17.2	6.3	6.6

Source: Bloomberg, Kotak Institutional Equities

Global upstream companies valuations

	Price	Market cap.	EV	P/E (X)			EV/EBITDA (X)		
	3-Oct	(US\$ mn)	(US\$ mn)	2008E	2009E	2010E	2008E	2009E	2010E
US large/mid-cap									
Anadarko Petroleum Corp. (US\$)	41.5	19,460	30,321	7.0	8.0	6.8	3.3	3.2	3.1
Apache Corp. (US\$)	90.5	30,261	33,397	6.0	6.0	5.1	3.0	2.9	2.6
Chesapeake Energy Corp. (US\$)	28.9	16,749	31,141	7.6	7.3	6.2	6.2	4.6	3.8
Devon Energy Corporation (US\$)	82.5	36,453	39,444	6.9	6.9	5.8	3.5	3.2	2.8
Eog Resources Inc. (US\$)	79.9	19,889	20,928	9.2	8.3	7.0	4.2	3.5	3.1
Murphy Oil Corp. (US\$)	54.3	10,344	10,426	5.5	5.6	4.8	2.6	2.4	2.1
Xto Energy Inc. (US\$)	41.4	22,731	30,675	10.0	7.8	7.4	5.1	3.8	3.5
US small-cap									
Noble Energy Inc. (US\$)	46.6	8,051	8,919	5.8	4.7	4.6	2.9	2.3	2.3
Ultra Petroleum Corp. (US\$)	50.9	7,775	8,014	17.2	14.1	11.8	8.6	6.8	5.7
Newfield Exploration Co. (US\$)	27.5	3,633	5,524	6.4	4.6	4.3	3.4	2.5	2.3
Pioneer Natural Resources Co. (US\$)	45.7	5,467	8,117	9.0	6.5	5.2	4.6	3.7	3.1
Southwestern Energy Co. (US\$)	29.3	10,066	10,635	18.4	15.3	12.6	8.1	6.4	5.6
Russia									
Lukoil-Cls (US\$)	53.4	45,420	51,671	3.2	3.5	3.5	2.4	2.6	2.4
Gazprom Neft-Cls (US\$)	4.7	22,237	24,768	3.8	4.4	4.2	3.0	3.3	3.0
Europe									
Statoilhydro Asa (Nkr)	135.0	71,388	72,896	6.4	6.3	6.1	1.7	1.6	1.6
Bg Group Plc (GBP)	928.0	55,131	54,314	9.6	9.6	9.5	4.7	4.5	4.4
Cairn Energy Plc (GBP)	1854.0	4,307	6,947	125.0	20.3	4.2	19.7	6.2	1.3
Tullow Oil Plc (GBP)	632.0	8,115	8,891	22.7	22.9	18.1	8.5	9.4	8.8
Asia									
Cnooc Ltd (HK\$)	8.3	47,890	36,856	7.5	7.4	7.0	3.9	3.8	3.6
Oil & Natural Gas Corp. Ltd (Rs)	1020.1	46,351	42,569	8.5	8.7	8.1	4.0	4.1	3.9
Ptt Explor & Prod Public Co. (Bt)	124.0	11,996	11,848	9.3	8.5	8.5	4.0	3.5	3.4
Petrochina Co Ltd-H (HK\$)	7.7	324,518	293,321	10.6	8.8	8.7	8.9	7.7	7.4
Hindustan Petroleum Corp. (Rs)	241.8	1,740	5,247	8.0	7.5	6.6	9.7	8.7	6.8
Indian Oil Corporation Ltd (Rs)	401.0	10,157	15,275	8.1	8.2	10.2	5.8	5.7	5.1

Source: Bloomberg, Kotak Institutional Equities

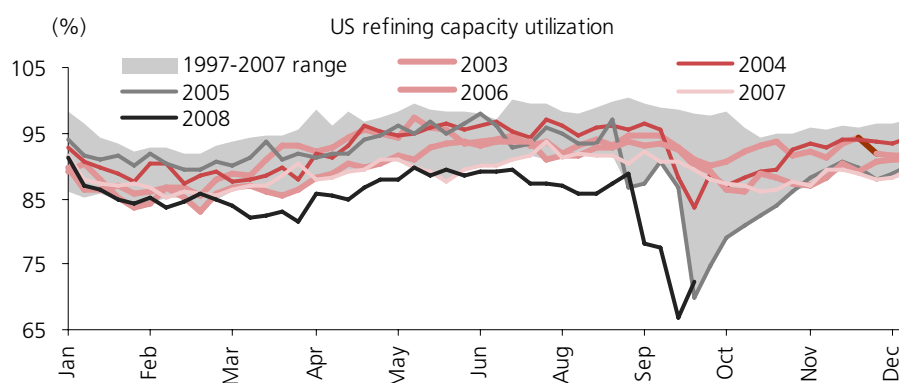
Global metals valuations

	Price	Market cap. (US\$ mn)	EV (US\$ mn)	P/E		EV / EBITDA		
	3-Oct			2008E	2009E	2007	2008E	2009E
Asia								
Nippon Steel	3.3	22,362	38,371	6.3	7.2	6.0	5.0	5.2
POSCO	340.8	29,711	29,160	6.8	6.8	4.4	4.3	4.3
Baoshan Iron & Steel	1.1	18,590	25,116	7.6	7.0	4.9	4.3	4.1
Tata Steel	8.3	6,100	19,978	4.0	3.2	11.6	4.8	4.2
SAIL	2.4	10,056	7,322	5.6	5.7	3.1	2.6	2.7
JSW Steel	8.7	1,634	5,176	3.9	4.2	8.6	6.3	5.4
JFE Holdings	26.9	16,510	30,578	6.2	5.4	5.3	4.3	4.3
Angang Steel	1.3	8,907	12,093	6.2	5.1	5.1	4.0	3.6
Maanshan Iron & Steel	0.6	3,817	6,626	8.5	8.1	7.2	4.7	4.5
Hyundai Steel	43.9	3,725	6,542	5.2	5.8	6.7	5.2	5.7
Mean		12,141	18,096	6.0	5.9	6.3	4.6	4.4
Median		9,482	16,036	6.2	5.8	5.6	4.5	4.3
Europe								
Arcelor Mittal	45.8	66,305	101,105	3.5	3.8	5.2	3.3	3.4
Evrax Group	29.8	10,952	17,603	2.4	2.2	4.2	2.1	2.1
Thyssenkrupp AG	28.1	13,718	19,196	4.6	4.2	2.4	2.7	2.4
Severstal	8.5	8,515	10,043	2.6	2.7	2.6	1.8	1.8
Mean		24,872	36,986	2.8	3.2	4.7	3.5	3.5
Median		12,335	18,399	2.6	3.2	5.2	3.3	3.4
America								
CSN	17.5	14,087	19,367	6.4	4.6	6.7	4.9	3.5
Nucor Corp.	34.8	11,001	11,793	4.6	4.8	4.0	2.7	2.6
US Steel	63.5	7,460	10,463	3.0	2.7	5.6	2.5	2.2
Mean		10,850	13,874	4.7	4.0	5.4	3.3	2.8
Median		11,001	11,793	4.6	4.6	5.6	2.7	2.6
World								
Mean			21,796	4.9	4.9	5.5	3.9	3.7
Median			17,603	4.9	4.8	5.2	4.3	3.6

Source: Bloomberg, Kotak Institutional Equities

Refinery utilization rates are below the 10-year average

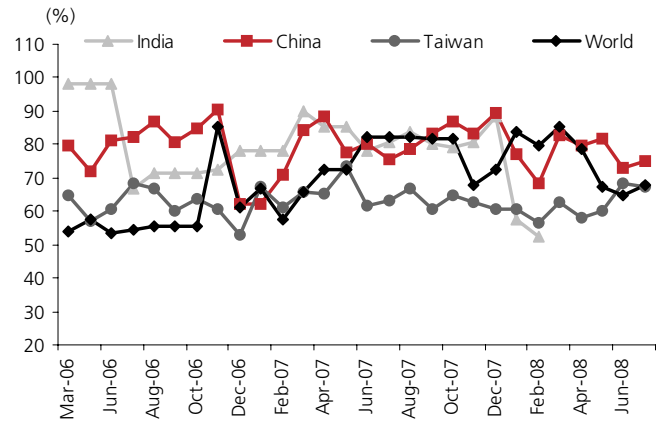
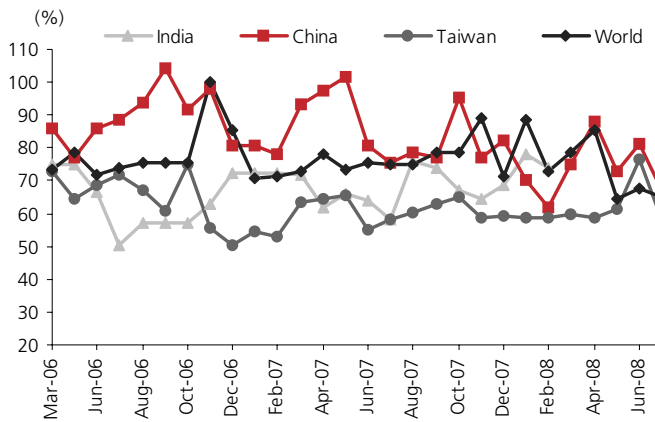
US refining capacity utilization rate (%)



Source: IEA, Kotak Institutional Equities

Operating rates have declined reflecting the sharp slow-down in demand over the past few months

Global operating rates for PSF and PFY (%)



Source: Tecnon OrbiChem

Our hypothetical exercise shows a fair value of Rs1,700 per share on FY2010E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV (Rs bn)	Value share (Rs)
	Other	EBITDA	Multiples	EV/EBITDA		
Chemicals (based on 70% of average EBITDA of FY2007-08)		67		6.0	403	293
Refining & Marketing (based on average EBITDA of FY2005-08)		88		6.0	527	384
Oil and gas—producing		33		4.0	133	97
Gas—developing (DCF-based) (a)	572	—	100%	—	572	416
Oil—KG-DWN-98/3 (b)	97	—	100%	—	97	71
Investments						
RPL (3.167 bn shares at Rs150)	475	—	100%	—	475	346
Others	2	—	100%	—	2	1
Retailing	42	—	2.0	—	84	61
SEZ development	75	—	100%	—	75	54
Total					2,270	1,722
PV of refining division's future sales tax incentives					2	2
Total value					2,272	1,724
Net debt (c)					26	19
Implied equity value					2,246	1,705

Note:

- (a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
- (b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
- (c) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.
- (d) We use 1.374 bn shares (excluding treasury shares) for our per share computation.

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is about Rs1,750 per share on FY2010E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV (Rs bn)	Value share (Rs)
	Other	EBITDA	Multiple	EV/EBITDA		
Chemicals		66		6.0	397	289
Refining & Marketing		100		5.5	551	401
Oil and gas—producing		33		4.0	133	97
Gas—developing (DCF-based) (a)	572	—	100%	—	572	416
Oil—KG-DWN-98/3 (b)	97	—	100%	—	97	71
Investments						
RPL (3.167 bn shares at Rs150)	475	—	100%	—	475	346
Others	2	—	100%	—	2	1
Retailing	42	—	2.0	—	84	61
SEZ development	75	—	100%	—	75	54
Total					2,288	1,736
PV of refining division's future sales tax incentives					2	2
Total value					2,290	1,737
Net debt (c)					26	19
Implied equity value					2,265	1,719

Note:

- (a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.
(d) We use 1.374 bn shares (excluding treasury shares) for our per share computation.

Source: Kotak Institutional Equities estimates

Valuation of Reliance Industries stock (Rs)

	FY2010E EPS (Rs)	P/E (X)	Valuation (Rs/share)	Comments
Chemicals, refining, E&P (a) (b)	181	9	1,631	Consolidated FY2010E EPS including Reliance Petroleum
Valuation based on FY2010E EPS			1,538	12.5% discount rate; discounted to October, 2009
E&P (higher reserves in KG-DWN-98/3, other blocks)			—	We model 0.93 tcf of gas per annum production in perpetuity
E&P (NEC-25, CBM)			88	Based on KG D-6 reserves and valuation
New chemical projects (PX, new olefins complex)			26	
Investments			122	
Other investments			1	
Retailing			61	US\$2 bn valuation based on 2X amount invested in Reliance Retail as of end-FY2008
SEZ development			60	SEZs will require investment for the first few years
12-month fair valuation			1,773	

Notes:

- (a) FY2010E EPS is Rs158 on 1.573 bn shares after considering conversion of 120 mn warrants issued to the major shareholder.
(b) FY2010E EPS is adjusted for treasury shares or computed using 1.372 bn shares.

Source: Kotak Institutional Equities estimates.

Reliance has high leverage to refining margins

Sensitivity of RIL's standalone (without RPET) earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	42.3	43.3	44.3	41.5	42.5	43.5	41.0	42.0	43.0
Net profits (Rs mn)	146,963	152,681	158,400	189,140	195,396	201,656	184,849	191,046	197,252
EPS (Rs)	97.1	100.9	104.7	120.2	124.2	128.2	117.5	121.4	125.4
% upside/(downside)	(3.7)		3.7	(3.2)		3.2	(3.2)		3.2
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	148,754	152,681	156,609	191,667	195,396	199,126	187,365	191,046	194,727
EPS (Rs)	98.3	100.9	103.5	121.8	124.2	126.6	119.1	121.4	123.8
% upside/(downside)	(2.6)		2.6	(1.9)		1.9	(1.9)		1.9
Refining margins (US\$/bbl)									
Margins (US\$/bbl)	13.3	14.3	15.3	11.9	12.9	13.9	10.3	11.3	12.3
Net profits (Rs mn)	143,292	152,681	162,071	188,759	195,396	202,034	184,487	191,046	197,606
EPS (Rs)	94.7	100.9	107.1	120.0	124.2	128.4	117.3	121.4	125.6
% upside/(downside)	(6.1)		6.1	(3.4)		3.4	(3.4)		3.4

Source: Kotak Institutional Equities estimates.

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)										
Net sales	451,133	510,715	656,223	809,113	1,114,927	1,334,430	1,813,149	2,681,280	2,636,824	2,612,150
EBITDA	75,808	91,148	123,820	139,991	198,462	233,056	273,966	443,110	416,725	426,986
Other income	10,012	11,381	14,498	6,829	4,783	8,953	13,065	12,379	14,503	22,151
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(13,247)	(15,509)	(22,624)	(20,903)	(7,730)	4,387
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(48,152)	(48,471)	(62,663)	(87,513)	(93,730)	(100,714)
Pretax profits	41,897	55,711	86,397	104,041	141,846	178,028	201,744	347,072	329,769	352,810
Extraordinary items	7,845	7,300	4,290	3,000	2,000	47,335	—	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(16,574)	(26,520)	(39,739)	(76,555)	(80,542)	(91,381)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(9,196)	(8,999)	1,294	1,039	5,558	9,114
Minority interest	—	—	—	—	—	—	(3,145)	(22,559)	(18,879)	(19,554)
Net profits	41,043	51,601	75,717	90,693	118,076	189,844	160,154	248,998	235,905	250,988
Adjusted net profits	34,570	45,623	72,135	88,152	116,434	147,869	160,154	248,998	235,905	250,988
Earnings per share (Rs)	24.8	32.7	51.7	63.3	80.1	101.7	105.8	158.3	149.9	159.5
Balance sheet (Rs mn)										
Total equity	303,744	344,525	404,033	430,543	673,037	847,853	1,137,402	1,349,861	1,548,655	1,738,945
Deferred taxation liability	26,848	34,748	42,668	49,708	69,820	78,725	77,432	76,393	70,836	61,722
Minority interest	—	—	—	—	33,622	33,622	36,277	52,684	65,986	71,961
Total borrowings	197,583	209,447	187,846	218,656	332,927	493,072	361,633	245,126	115,804	75,477
Current liabilities	109,666	122,855	171,315	164,545	192,305	251,427	316,168	362,576	356,672	348,781
Total liabilities and equity	637,842	711,574	805,863	863,452	1,301,712	1,704,700	1,928,911	2,086,642	2,157,953	2,296,885
Cash	1,472	2,242	36,087	21,461	18,449	42,822	32,955	31,859	66,745	149,204
Current assets	227,809	218,159	248,438	224,283	286,566	402,721	509,224	628,918	622,056	614,726
Total fixed assets	340,863	351,460	350,823	626,745	899,403	1,081,638	1,176,712	1,178,345	1,181,633	1,230,435
Investments	67,227	139,714	170,515	(9,038)	97,294	177,519	210,019	247,519	287,519	302,519
Deferred expenditure	472	—	—	—	—	—	—	—	—	—
Total assets	637,842	711,574	805,863	863,452	1,301,712	1,704,700	1,928,911	2,086,641	2,157,953	2,296,885
Free cash flow (Rs mn)										
Operating cash flow, excl. working cap	67,072	83,301	107,002	119,520	164,285	180,718	202,104	339,114	318,111	324,895
Working capital	(17,614)	20,265	46,875	(32,188)	(13,075)	(31,071)	(41,763)	(73,286)	958	(561)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(247,274)	(239,691)	(137,877)	(83,838)	(86,675)	(134,420)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(105,760)	(78,953)	(32,500)	(37,500)	(40,000)	(15,000)
Other income	5,219	5,902	3,032	5,159	4,143	6,132	13,065	12,379	14,503	22,151
Free cash flow	(16,569)	(2,153)	56,276	(34,146)	(197,681)	(162,865)	3,029	156,869	206,897	197,064
Ratios (%)										
Debt/equity	59.8	55.2	42.1	45.5	44.8	53.2	29.8	17.2	7.2	4.2
Net debt/equity	59.3	54.6	34.0	41.1	42.3	48.6	27.1	15.0	3.0	(4.1)
RoAE	10.7	12.7	17.6	19.9	20.1	18.3	15.3	19.2	15.7	14.8
RoACE	8.8	9.7	13.0	13.8	13.9	12.6	11.7	17.1	14.8	14.4

Source: Kotak Institutional Equities estimates.

Media**DSTV.BO, Rs26**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	38
52W High -Low (Rs)	106 - 24
Market Cap (Rs bn)	16.8

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.1	8.6	13.1
Net Profit (Rs bn)	(4.1)	(3.6)	(2.1)
EPS (Rs)	(9.6)	(5.7)	(2.2)
EPS gth	-	-	-
P/E (x)	(2.7)	(4.6)	(11.6)
EV/EBITDA (x)	(9.7)	(9.9)	58.9
Div yield (%)	-	-	-

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	57.9	-
FII's	12.7	0.0
MFs	3.2	0.0
UTI	-	(0.0)
LIC	2.9	0.0

Dish TV: Equity capital at last, but at a steep cost

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- **Dish TV rights issue of 1.21 new shares for every existing share at Rs22/share**
- **Turbulent capital markets result in rights issue at a steep discount to fair valuation, in our view**
- **Retain BUY but cut 12-month DCF-based TP to Rs38 from Rs48**

Dish TV announced the details of its Rs11.4 bn rights issue to sustain its aggressive subscriber acquisition and expansion plan; Dish TV will issue 1.21 new shares for every existing share held at a price of Rs22/share. We have previously highlighted Dish TV's weak balance sheet and the need to raise equity capital to compete effectively against strong, well-financed competition. We retain our BUY rating on the stock but have reduced our 12-month DCF-based target price to Rs38 from Rs48 to factor in the higher-than-expected dilution. However, Dish TV's dependence on high-cost debt will also reduce with the infusion of equity capital and thus, we now estimate lower net loss at Rs3.6 bn (Rs4.0 bn previously), Rs2.1 bn (Rs2.6 bn) and Rs433 mn (Rs1.1 bn) for FY2009E, FY2010E and FY2011E. Key risks include rising competitive intensity in the DTH segment and lower-than-expected ARPUs.

Dish TV rights issue details. Dish TV announced the details of its Rs11.4 bn rights issue to sustain its aggressive subscriber acquisition and expansion plan. Dish TV plans to issue 1.21 new shares (total 518 mn new shares) for every existing share held (428 mn shares) at an issue price of Rs22/share, a 15% discount to the current market price of Rs26/share. We have previously highlighted (see our note "Cancellation of Dish TV's private placement to Future Group negative" dated February 25, 2008) the weak balance sheet of Dish TV may act as a constraint for its explosive growth.

We estimate Dish TV's requirement of funds for FY2008-2011E at Rs9.1 bn assuming conservative subscriber addition estimates. We model Dish TV's subscriber addition in FY2009E, FY2010E and FY2011E at 1.5 mn, 1.2 mn and 1.0 mn, respectively. However, Dish has higher targets of 1.8 mn, 2.0 mn and 1.5 mn subscribers in FY2009E, FY2010E and FY2011E; we find management estimates aggressive given the entry of new competition (Bharti Airtel, Videocon) and aggressive expansion plans of existing operators (Reliance Big TV, Sun Direct).

Valuations, earnings revisions. We have revised our 12-month DCF-based target price to Rs38 (Rs48 previously) to factor in higher dilution if the equity base after the rights issue at a lower-than-expected price. We previously modeled the 1:2 rights issue (one new share for every two existing shares) at Rs30/share—a substantial discount to our fair value of Dish TV stock at Rs55/share. However, we note that the net loss of Dish TV will likely decline post infusion of equity capital as it will save on interest expense of high-cost debt. We have reduced our net loss estimates for FY2009E, FY2010E and FY2011E to Rs3.6 bn (Rs4.0 bn previously), Rs2.1 bn (Rs2.6 bn) and Rs433 mn (Rs1.1 bn) due to lower interest expense at Rs327 mn (Rs632 mn previously), Rs158 mn (Rs812 mn) and Rs295 mn (Rs1.1 bn).

Our DCF-based target price for Dish TV is Rs38

Discounted cash flow analysis of Dish TV (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBITDA	(1,530)	292	2,406	3,782	4,872	5,949	7,065	8,248	8,992	9,788
Tax expense	—	—	—	(153)	(263)	(406)	(534)	(900)	(2,252)	(2,548)
Working capital changes	(2,320)	395	(862)	(176)	(594)	599	663	179	477	508
Cash flow from operations	(3,850)	687	1,544	3,452	4,015	6,142	7,194	7,527	7,217	7,748
Capital expenditure	(3,682)	(2,822)	(2,255)	(3,032)	(2,797)	(2,742)	(2,683)	(2,462)	(2,402)	(2,341)
Free cash flow to the firm	(7,532)	(2,135)	(711)	420	1,218	3,400	4,511	5,065	4,815	5,407
	Now	+ 1-year	+ 2-years							
Total PV of free cash flow (a)	499	10,358	15,901							
FCF one-year forward	5,870	6,222	6,595							
Terminal value	78,260	82,956	87,933							
PV of terminal value (b)	23,497	24,906	26,401							
Total PV (a) + (b)	23,995	35,264	42,302							
Net debt	5,067	(670)	1,349							
Equity value	18,928	35,935	40,953							
Equity value (US\$ mn)	418	893	947							
Shares outstanding (mn)	428	946	946							
Equity value/per share (Rs)	44	38	43							
Discount rate (%)	13.5									
Growth from 2017 to perpetuity (%)	6.0									
Exit free cash multiple (X)	13.3									
Exit EBITDA multiple (X)	8.0									

Source: Kotak Institutional Equities estimates

Dish's subscribers will likely increase to 4.7 mn by FY2010E and to 7.2 mn by FY2015E

Key financial and operating data of Dish TV, March fiscal year-ends, 2007E-2018E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues (Rs bn)	1.9	4.1	8.6	13.1	17.4	20.7	23.9	27.2	30.5	33.7	36.6	39.5
EBITDA (Rs bn)	(1.9)	(2.2)	(1.5)	0.3	2.4	3.8	4.9	5.9	7.1	8.2	9.0	9.8
EBITDA margin (%)	(97.0)	(52.1)	(17.8)	2.2	13.9	18.2	20.4	21.9	23.2	24.5	24.6	24.8
Year-end # of paying subscribers (mn)	1.6	2.5	3.8	4.8	5.4	6.0	6.4	6.9	7.2	7.5	7.8	8.0
Increase/(decrease) in # of paying subs (mn)	0.9	0.9	1.3	0.9	0.6	0.6	0.4	0.4	0.4	0.3	0.2	0.2
Average # of paying subscribers (mn)	1.2	2.1	3.2	4.3	5.1	5.7	6.2	6.6	7.1	7.4	7.6	7.9
Subscription fees per month (Rs/sub/month)	98	130	205	230	255	275	295	315	335	352	371	390
Gross ARPU (Rs/sub/month)	114	153	212	243	274	294	312	332	352	372	391	410

Source: Kotak Institutional Equities estimates

Pricing has a more significant impact on valuation of Dish TV than volume

Sensitivity of Dish TV's valuation to number of subscribers and subscription fees

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	42	11
10%	40	5
Base case	38	
-10%	36	(5)
-20%	34	(11)
Change in monthly subscription fees (%)		
20%	73	91
10%	55	46
Base case	38	
-10%	22	(43)

Source: Kotak Institutional Equities estimates

Profit model of Dish TV, March fiscal year-ends, 2006-2017E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net revenues	315	1,909	4,127	8,582	13,093	17,367	20,735	23,940	27,152	30,499	33,688	36,561
Transponder costs	(331)	(338)	(345)	(477)	(573)	(603)	(588)	(609)	(630)	(630)	(651)	(672)
License fees	(36)	(156)	(407)	(645)	(753)	(1,003)	(1,204)	(1,396)	(1,587)	(1,787)	(1,977)	(2,148)
Content costs	(229)	(1,556)	(2,533)	(4,606)	(6,556)	(8,180)	(9,616)	(11,130)	(12,625)	(14,192)	(15,669)	(17,099)
Direct operating costs	(185)	(197)	(350)	(511)	(611)	(676)	(718)	(769)	(814)	(861)	(918)	(969)
Employee costs	(21)	(149)	(295)	(391)	(472)	(543)	(620)	(712)	(809)	(913)	(1,018)	(1,128)
SG&A costs	(341)	(1,364)	(2,350)	(3,483)	(3,835)	(3,956)	(4,207)	(4,453)	(4,737)	(5,051)	(5,206)	(5,553)
EBITDA	(830)	(1,852)	(2,152)	(1,530)	292	2,406	3,782	4,872	5,949	7,065	8,248	8,992
Other income	—	34	30	77	96	76	84	90	92	87	77	94
Interest (expense)/income	(17)	(118)	(513)	(327)	(158)	(295)	(350)	(350)	(313)	(193)	(55)	—
Depreciation	(18)	(565)	(1,480)	(1,897)	(2,484)	(2,840)	(2,504)	(2,630)	(2,453)	(2,436)	(2,501)	(2,386)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(5)	—	—	—
Pretax profits	(875)	(2,511)	(4,126)	(3,687)	(2,264)	(663)	1,001	1,971	3,270	4,523	5,770	6,700
Extraordinary inc/(chrg)	(1,203)	—	—	—	—	—	—	—	—	—	—	—
Prior Period Adjustments	—	(5)	—	—	—	—	—	—	—	—	—	—
Tax-cash	—	(3)	(6)	—	—	—	(113)	(223)	(371)	(512)	(892)	(2,252)
Tax-deferred	—	—	—	46	135	230	76	75	(8)	(26)	—	(25)
Net income	(2,078)	(2,519)	(4,132)	(3,641)	(2,129)	(433)	964	1,823	2,892	3,984	4,878	4,423
Shares outstanding year-end (mn)		428	428	946	946	946	946	946	946	946	946	946
Shares primary (mn)		428	428	644	946	946	946	946	946	946	946	946
Shares fully diluted (mn)		428	428	644	946	946	946	946	946	946	946	946
EPS primary (Rs)		(5.9)	(9.6)	(5.7)	(2.2)	(0.5)	1.0	1.9	3.1	4.2	5.2	4.7
EPS fully diluted (Rs)		(5.9)	(9.6)	(5.7)	(2.2)	(0.5)	1.0	1.9	3.1	4.2	5.2	4.7
Cash flow per share (Rs)		(4.2)	(6.0)	(2.9)	0.1	2.2	3.5	4.5	5.6	6.7	7.7	7.1
Growth (%)												
Net income	—	—	64	(12)	(42)	(80)	(322)	89	59	38	22	(9)
EPS	—	—	64	(41)	(60)	(80)	(322)	89	59	38	22	(9)
Gross cash flow	—	—	41	(27)	(107)	1,474	57	30	23	21	15	(8)
Tax rate-cash (%)												
	—	—	—	—	—	—	11	11	11	11	15	34
Tax rate-effective (%)												
	—	—	—	1	6	35	4	8	12	12	15	34
Dividend per share (Rs)	—	—	—	—	—	—	—	1.0	2.0	3.0	3.5	4.0
Dividend pay-out ratio (%)	—	—	—	—	—	—	—	52	65	71	68	86

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Dish TV, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,127	8,582	13,093	17,367	20,735
EBITDA	(830)	(1,852)	(2,152)	(1,530)	292	2,406	3,782
Other income	—	34	30	77	96	76	84
Interest (expense)/income	(17)	(118)	(513)	(327)	(158)	(295)	(350)
Depreciation	(18)	(565)	(1,480)	(1,897)	(2,484)	(2,840)	(2,504)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	(875)	(2,511)	(4,126)	(3,687)	(2,264)	(663)	1,001
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	(6)	—	—	—	(113)
Deferred taxation	—	—	—	46	135	230	76
Net income	(2,078)	(2,519)	(4,132)	(3,641)	(2,129)	(433)	964
Earnings per share (Rs)	—	(5.9)	(9.6)	(5.7)	(2.2)	(0.5)	1.0
Balance sheet							
Total equity	1,915	(395)	(4,527)	3,231	1,102	669	1,632
Deferred taxation liability	—	—	—	(46)	(181)	(411)	(487)
Total borrowings	84	1,751	5,266	684	2,184	3,184	3,184
Current liabilities	1,820	8,596	11,376	11,441	12,375	11,750	12,194
Total liabilities and equity	3,819	9,952	12,116	15,310	15,480	15,191	16,523
Cash	59	113	199	1,354	835	685	1,112
Other current assets	1,528	2,271	3,276	3,540	3,901	4,356	4,744
Total fixed assets	1,067	6,107	7,190	8,975	9,314	8,729	9,257
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	3,819	9,952	12,116	15,310	15,480	15,191	16,523
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,552)	(1,857)	134	2,111	3,318
Working capital changes	599	3,507	2,129	(199)	573	(1,081)	57
Capital expenditure	(1,025)	(2,921)	(2,579)	(3,682)	(2,822)	(2,255)	(3,032)
Investments	185	(451)	(293)	—	—	—	—
Other income	3	5	9	77	96	76	84
Free cash flow	(1,088)	(1,674)	(3,287)	(5,662)	(2,019)	(1,150)	426
Ratios (%)							
Debt/equity	4.4	(443.6)	(116.3)	21.2	198.1	476.1	195.0
Net debt/equity	1.3	(414.9)	(111.9)	(20.7)	122.4	373.6	126.9
ROAE (%)	(217.0)	(331.3)	167.9	542.8	(103.7)	(73.5)	137.4
ROACE (%)	(89.6)	(283.2)	(345.3)	(144.0)	(56.8)	(7.3)	33.5

Source: Kotak Institutional Equities estimates

Economy

Sector coverage view

N/A

Inflation falls below 12% mark on base effects and fall in agro prices

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- **Headline inflation falls to 11.99%; price level also drops 0.04% over the week**
- **Fall in inflation over the week led by softer oilseeds and edible oil prices**
- **We expect inflation rate to stay flat next week and rise a bit in October**
- **Inflation likely to stay in 11.5-13% range in 3Q and fall sharply in 4Q to around 9.0% by end-FY09**

After staying in the 12-plus zone for nine weeks, headline inflation for the week-ended September 20, 2008 fell to below 12% mark. The price level (at WPI of 241.0) also fell by 0.04% from the preceding week. Most of the fall this week was on account of favorable base effects, which will stay for another week. They reverse for the weeks in October when festival season may also impact prices upwards a little. However, these seasonal pressures may be partially offset by another steel price cut (HR coil prices have been cut by more than 10% from the start of October).

Headline inflation drops to 11.99% against market consensus of 12.12%

Inflation news this week was a sweetener amidst tight liquidity and falling stock market indices. Headline inflation dropped more than our expectations and that of the market. The fall in price levels over the week was led by a fall in prices of oilseeds (-3.1%), edible oils (-1.1%), vegetables (-1.3%), oil cakes (-0.9%) and plastic products (-0.4%). Cereals, pulses and sugar prices also declined marginally.

However, prices also rose for some commodities. In case of manufactured products, prices were higher for paper and paper products (+0.9%), iron and steel products (+0.4%), refrigeration and non-electrical machinery (+0.8%), transport equipment and parts (+0.7%) and chemical and chemical products (+2.6%). Prices also increased for some primary products, most notably 'egg, meat and fish' (+1.4%), milk (+0.6%).

A fall in the prices of naphtha and furnace oil from September 15 was not captured in the WPI and all energy prices were shown unchanged in the WPI.

We stay with our inflation trajectory projections

Though this week's inflation data turned out to be more favorable than our expectations, it stops short of altering our projection that inflation will hover in the 11.5-13% band in 3QFY09 and fall steeply in 4QFY09 to 9% levels for the year-end.

We expect inflation to stay flat at around 12% in the next week's data. The festival season ahead could put some temporary upward pressure on prices thereafter, especially in case of primary and manufactured food articles. However, most of this could be offset by price declines elsewhere—such as the 10% reduction in HR coil steel prices. A similar price cut in most of the steel products in the first week of September was not captured in the WPI. If this does get captured, we could well see the inflation rate contained within 12-12.5% in October.

Banking

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		3-Oct	Target
SBI	ADD	1,484	1,700
HDFC	ADD	2,080	2,350
HDFC Bank	BUY	1,276	1,300
ICICI Bank	ADD	504	650
Corp Bk	ADD	262	355
BoB	ADD	296	310
PNB	BUY	489	650
OBC	ADD	157	200
Canara Bk	REDUCE	183	210
LIC Housing	ADD	276	380
Axis Bank	REDUCE	702	750
IOB	ADD	93	130
Shriram Transf	REDUCE	297	320
SREI	BUY	58	160
MMFSL	SELL	242	215
Andhra	REDUCE	55	65
IDFC	ADD	70	100
PFC	REDUCE	123	130
Federal Bank	BUY	203	275
J&K Bank	ADD	444	750
India Infoline	ADD	90	155
Indian Bank	ADD	128	140
Union Bank	BUY	145	200
Central Bank c	SELL	49	55
Future Capital	BUY	264	440
Bank of India	BUY	288	375

Government to pay interest on farmer debt waiver sums—positive for banks

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- **Gov to pay interest of 9.56% on loans that have been waived, likely to result in Rs38.7 bn in interest outgo**
- **Expected to be positive for banks as they do not have to make additional provisions**
- **Banks would likely have to hold the NPL provisions on written off assets and transfer these to their networth only in July 2011**
- **Difficult to ascertain the financial implications for individual banks given the lack of sufficient information**

Government of India (GoI) has clarified that it will pay interest on the loans (to banks) that have been waived under the debt-waiver scheme announced in the Union Budget FY2009. The implication of this announcement for banks is likely to be positive as they do not have to make additional provisions. However, banks might have to hold the NPL provisions already made on the written-off assets in a separate account and transfer the same to their networth only in July 2011 (details are explained later in the note). It is difficult to quantify the financial impact on individual banks given the lack of detailed information on the loans written-off and provisions write back made by them. The agriculture debt waiver scheme is expected to cover upto Rs781 bn of agriculture loans made by banks (including co-operatives) and this announcement on interest payment is likely to result in an outgo of Rs38.7 bn for GoI. In another development, GoI has decided to increase the interest subvention on short-term agriculture loans to 3% from the current 2%. This is likely to result in an additional budgetary provision of about Rs14 bn.

Key developments on the agricultural debt waiver scheme

- The agricultural loan waiver scheme consists of two categories:
 - loans provided to the small and marginal farmers that meet the requisite guidelines are to be completely waived
 - one-time settlement scheme (OTS) to be provided to 'large' farmers, wherein 25% relief would be provided to farmers if they repay 75% of the loan outstanding
- RBI issued detailed guidelines on July 30, 2008 that offered some clarity on the implementation and accounting treatment of these loans
 - RBI guidelines required banks to value these assets on an NPV basis factoring in the repayment schedule as announced by GoI and assuming a discount rate of 9.56% (one-year Gsec yield on the date of issuance of RBI circular).
 - The implementation of the RBI guidelines would have resulted in the banks having to make provisions to the extent of 10.4% of loans that were completely waived since they were foregoing interest on these loan assets.
- Banks treated the loans that were to be completely written off assets as receivables from GoI and reversed the NPL and standard asset provisions made on these loans in 1QFY09. This boosted their profits in 1QFY09.
- Consequent to the October 3, 2008 announcement of GoI that it will be paying an interest of 9.56% (equaling the discount rate used in NPV calculation) to banks, they will not have to make any additional provision on these loan assets.

Detailed RBI guidelines for the accounting treatment of loans that qualify to be completely waived off

- Banks have to create a separate account titled 'Amount receivable from Government of India under Debt Waiver Scheme 2008' and reflect it as part of their advances.
- Banks have to recognize these assets on a net present value (NPV) basis as the payment from the Government of India for these loans would be staggered. Banks would receive payment from Gol in the following installments: (1) 32% of the total amount due by September 30, 2008, (2) 19% by July 31, 2009, (3) 39% by July 31, 2010 and (4) remaining 10% by July 2011. It is to be noted that the banks are now scheduled to receive their first installment from Gol on November 1, 2008.
- The discount rate for the calculation of the NPV of these loans would be 9.56%, which was the one year Gsec yield on the date of issuance of the RBI circular (July 30, 2008).
- Banks can use the specific NPL provisions that they have already made on the gross NPLs under this portfolio for meeting the shortfall on valuing these loans on a NPV basis.
- In the event of banks having excess provisions (than required to meet the NPV shortfall), they would be allowed to transfer this amount to their networth on receipt of the final installment from the Government of India (i.e. July 2011).
- Most banks appear to have written back the provision made on the loans. Data on the loans written-off is not available. PNB and Union Bank had, in their communication to the exchanges, said that they had reversed Rs727 mn (6.5% of loan assets) and Rs510 mn (6.4% of loan assets) of NPL provisions in 1QFY09. Note that these are NPL provisions on loans given to 'small and marginal farmers' and qualify to be completely waived.

Procedural and accounting treatment of loans that qualify under the OTS scheme

- Agriculture debt relief scheme provides for the farmer to make 75% of his loan outstanding in three installments. The dates for repayment of the outstanding dues by the farmer are September 30, 2008; March 31, 2009 and June 30, 2010. Gol is expected to make its contribution of 25% by June 30, 2010.
- Once a farmer agrees to a repayment schedule under this scheme, the banks would be allowed to classify these loans as standard assets and value these assets on a NPV basis using the same discount rate of 9.56%. The valuation of these assets would be based on the expected cash flows as agreed to by the farmer.
- The banks would thus, in the initial stage, have to provide for standard asset provisions on these assets and provide for the shortfall on account of valuing these assets on a NPV basis. Banks would be allowed to use the specific NPL provisions that they have made in the past to meet the shortfall in these requirements.
- The asset classification norms for the loans under the OTS scheme are more stringent than those on other assets. An asset covered by this OTS scheme would be classified as an NPL on a 30-day overdue basis rather than the 90-day overdue norm that currently exists in India. Once there is a slippage in loan quality, banks would have to maintain provisions as per the extant NPL provision norms.
- Thus, banks would have to maintain provisions for the following categories on the loans covered under the agriculture debt waiver scheme (1) standard asset provisions, (2) provision for difference in the current book value and the asset valued on a NPV basis, (3) NPL provisions (if any) on account of slippage in asset quality

Telecom

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		3-Oct	Target
Bharti	REDUCE	756	840
Rcom	SELL	335	390
Idea Cellular	REDUCE	73	100

Policy bonanza for incumbents after long—lower USO levy on achieving 95% coverage in a service area

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- **A policy move, positive for incumbents, after long**
- **No impact on FY2009E estimates**
- **Impact on FY2010/11E estimates depends on the ability of the operators to retain these benefits**
- **Remain Cautious on the sector; regulatory risks remain**

In an unanticipated and rather surprising move, the Department of Telecommunications (the DoT) has announced a reduction in the USO levy (currently at 5% of AGR) by 2% pts to 3%, provided an operator achieves 95% coverage of development blocks in a specific service area. The new USO levy would be applicable for all licensees (UAS, CMTS, and Basic) from April 1, 2009 and excludes the metro circles. We see Bharti as the biggest beneficiary of the move—Bharti, which is likely to reach 85% coverage by end-FY2009, will likely increase its coverage to 95% in most circles in the course of FY2010, and should benefit from the reduction in license fees. Net income/ EBITDA impact would hinge on the ability of the wireless operators to retain these benefits; we expect some retention given the non-uniform accretion of benefits to various players. More importantly, the move improves the competitive positioning of the incumbents versus the new entrants in the market. We shall review our estimates on the companies under our coverage post Sep 2008 results. We maintain our Cautious coverage view on the sector.

A policy move, positive for incumbents, after long. In a bid to boost investment in rural telephony, the DOT has announced a reduction in USO levies (excluding metro circles) by 2% pts to 3% of AGR for operators achieving 95% coverage of developmental blocks in a licensed service area. The revised USO levy structure is applicable from April 1, 2009. Exhibit 1 depicts the changes proposed—effectively, the licensee applicable in category A, B, and C circles will reduce to 8%, 6%, and 4% of AGR from the current 10%, 8%, and 6% of AGR as and when an operator meets the 95% coverage requirement. We see the announcement as a positive for the incumbents (especially Bharti and RCOM, with their already deep coverage) given that their wide coverage now gives them a direct cost benefit in addition to being a competitive advantage in subscriber acquisition over newer operators. Bharti with 74% population coverage at end-June 2008 (likely to reach 85% by end-March 2009) and RCOM with 90% population coverage on the CDMA platform would be the biggest beneficiaries. We do highlight here that the next Government may look at making up for the revenue shortfall arising out of this move through an increase in spectrum charges (in case it does not happen in this Government's regime), one-time excess spectrum charge, etc.

No impact on FY2009E estimates; impact on FY2010/11E estimates depends on the ability of the operators to retain these benefits. Impact on our FY2010E and FY2011E estimates for the listed wireless plays (Bharti, RCOM, and Idea) would hinge on multiple factors—(1) timing of reaching 95% coverage; Bharti and RCOM (CDMA) are well positioned on this aspect (based on the coverage data disclosed in their quarterly results and earnings call), and (2) the ability of the operators to retain the benefits—given the non-uniform nature of the benefits (different operators start benefitting at different times in different circles), we expect the operators to retain some part of the benefits; accelerated entry of some of the new players could, however, lead the incumbents to pass these benefits on to consumers in the form of lower tariffs, making survival difficult for the new players.

Exhibits 2, 3 and 4 give earnings impact of the USO levy reduction on Bharti, RCOM, and Idea, respectively. We discuss the company-wise impact in detail below

- **Bharti.** We believe that the USO levy reduction can benefit Bharti by 1.5% at the EBITDA and 2.3% at the net income level for FY2010E (1.2% and 1.7% for FY2011E) assuming the company (1) gains the benefits of the reduction on 75% and 90% of its non-metro revenues for FY2010E and FY2011E respectively and (2) retains 75% and 50% of the benefits in FY2010E and FY2011E respectively.
- **RCOM.** For RCOM, we assume that the company benefits on 80% and 90% of its CDMA + GSM non-metro revenues for FY2010E and FY2011E, respectively. This leads to a positive impact of 1.5% and 1% on FY2010E and FY2011E EBITDA, and 2.4% and 1.7% on FY2010E and FY2011E net income, respectively.
- **Idea.** For Idea, we assume that the company gets benefits on 25% and 50% of its non-metro revenues for FY2010E and FY2011E, respectively (based on an assumption that the company reaches 95% coverage in all the circles where it is currently a top-3 player by market share, over the next two years). This leads to a positive impact of 0.9% and 1.1% on FY2010E and FY2011E EBITDA, and 2.2% and 2.6% on FY2010E and FY2011E net income, respectively.

We highlight that we do not consider any incremental capex implications in our analysis. We believe that our current 2G capex assumptions for Bharti, RCOM, and Idea capture our assumptions on coverage expansion considered in the above analysis.

Remain Cautious on the sector; certain regulatory risks remain. Despite the potentially positive development for the incumbents, we continue to maintain our Cautious stance on the sector. We highlight some of our key concerns on the industry—(1) impending competition and its impact on pricing and profitability; we expect the pressure on wireless tariffs to continue, (2) 3G auction bids—we expect aggressive bidding in metro circles, and (3) likely regulatory changes—potential reduction in termination charges and increase in spectrum charges (both negative for the sector). We continue to maintain our REDUCE rating on Bharti and Idea and SELL on RCOM.

Revised and current licensee fees structure category-wise (as % of adjusted gross revenues)

Circle	Revised			Earlier		
	USO levy	ex-USO	Total	USO levy	ex-USO	Total
Metros						
Coverage <= 95%	5	5	10	5	5	10
Coverage > 95%	5	5	10			
A						
Coverage <= 95%	5	5	10	5	5	10
Coverage > 95%	3	5	8			
B						
Coverage <= 95%	5	3	8	5	3	8
Coverage > 95%	3	3	6			
C						
Coverage <= 95%	5	1	6	5	1	6
Coverage > 95%	3	1	4			

Note:

(1) Coverage defined as percentage coverage of total number of development blocks in a service area covered by the licensee

Source: DOT

Reduction in USO levy in non-metro circles - impact on Bharti, fiscal year-ends March, 2010E-11E (Rs mn)

	FY2010E	FY2011E
Current estimates		
EBITDA	200,623	232,216
Net income	108,117	128,277
Impact of reduction		
Non-metro wireless revenues	325,923	370,761
Interconnection costs (as % of wireless revenues)	19.6	19.2
% of non-metro wireless revenues on which benefit retained	75.0	90.0
Licensee fee benefit at 2% of AGR	3,931	5,392
% benefit retained (not passed on as lower tariffs)	75.0	50.0
EBITDA impact	2,948	2,696
% of current EBITDA estimate	1.5	1.2
Effective tax rate	16.4	19.3
Net income impact	2,464	2,175
As % of current net income estimate	2.3	1.7

Source: Kotak Institutional Equities estimates

Reduction in USO levy in non-metro circles - impact on RCOM, fiscal year-ends March, 2010E-11E (Rs mn)

	FY2010E	FY2011E
Current estimates		
EBITDA	133,110	159,805
Net income	75,098	81,991
Impact of reduction		
Non-metro wireless revenues	189,857	211,427
Interconnection costs (as % of wireless revenues)	14.6	14.3
% of non-metro wireless revenues on which benefit retained	80.0	90.0
Licensee fee benefit at 2% of AGR	2,593	3,262
% benefit retained (not passed on as lower tariffs)	75.0	50.0
EBITDA impact	1,945	1,631
% of current EBITDA estimate	1.5	1.0
Effective tax rate	5.7	13.3
Net income impact	1,835	1,414
As % of current net income estimate	2.4	1.7

Source: Kotak Institutional Equities estimates

Reduction in USO levy in non-metro circles - impact on Idea, fiscal year-ends March, 2010E-11E (Rs mn)

	FY2010E	FY2011E
Current estimates		
EBITDA	41,459	50,800
Net income	14,563	17,922
Impact of reduction		
Non-metro wireless revenues	115,841	135,670
Interconnection costs (as % of wireless revenues)	18.0	17.8
% of non-metro wireless revenues on which benefit retained	25.0	50.0
Licensee fee benefit at 2% of AGR	475	1,115
% benefit retained (not passed on as lower tariffs)	75.0	50.0
EBITDA impact	356	558
% of current EBITDA estimate	0.9	1.1
Effective tax rate	10.3	15.5
Net income impact	319	471
As % of current net income estimate	2.2	2.6

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	3-Oct-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Shares (mm)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target price (Rs)	Upside (%)	ADV-3mo (US\$ mn)									
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E				2010E								
Automobiles																														
Bajaj Auto	577	ADD	83,475	145	59.3	58.7	63.2	(53.4)	(1.1)	7.8	9.7	9.8	9.1	6.8	6.9	6.3	5.2	4.2	3.4	3.5	3.5	3.5	21.0	41.5	36.4	630	9.2	—		
Hero Honda	888	REDUCE	177,413	3,761	200	48.5	59.9	66.1	12.8	23.5	10.4	18.3	14.8	13.4	11.6	10.5	9.4	5.7	4.6	3.8	2.1	2.3	3.0	34.0	34.6	31.1	790	(11.1)	7.7	
Mahindra & Mahindra	515	ADD	132,896	2,817	258	38.1	36.9	37.2	(2.0)	(2.9)	0.6	13.5	13.9	13.9	9.9	9.8	8.9	3.0	2.4	2.0	2.1	1.8	1.9	27.8	22.0	17.8	640	24.3	5.4	
Maruti Suzuki	683	ADD	197,344	4,184	289	59.9	60.0	65.1	10.8	0.2	8.4	11.4	11.4	10.5	6.4	6.2	5.6	2.3	1.9	1.6	0.7	0.7	0.7	22.1	18.3	16.8	790	15.7	15.5	
Tata Motors	331	SELL	192,114	4,073	581	47.4	25.1	22.3	(0.9)	(47.1)	(10.9)	7.0	13.2	14.8	7.0	8.2	8.4	2.1	0.8	1.0	3.0	3.9	3.9	24.3	9.8	7.4	425	28.6	9.1	
Automotives																														
Cautious																														
Banking/Financial Institutions																														
Andhra Bank	55	REDUCE	26,748	567	11.9	10.1	11.6	7.0	(15.0)	15.0	4.6	5.5	4.8	—	—	—	0.9	0.8	0.7	7.3	4.6	5.3	18.0	14.3	14.8	65	17.9	0.7		
Axis Bank	702	REDUCE	251,220	5,326	322	35.8	55.1	37.7	11.6	23.9	21.8	19.6	12.8	—	—	—	1.3	2.6	2.2	0.8	1.0	1.5	17.6	13.8	18.7	750	6.8	68.4		
Bank of Baroda	296	ADD	108,288	2,296	366	39.3	34.7	42.6	30.8	(11.6)	52.6	7.5	8.5	7.0	—	—	1.3	1.1	1.0	2.7	2.4	2.9	14.6	11.1	12.6	310	4.6	7.7		
Bank of India	288	BUY	151,595	3,214	526	40.6	41.6	49.8	76.6	2.4	19.6	7.1	6.9	5.8	—	—	1.9	1.5	1.2	1.4	1.5	1.8	27.6	22.4	22.0	375	30.1	22.8		
Canara Bank	183	REDUCE	75,194	1,594	410	38.2	23.4	36.6	10.1	(88.6)	64.7	4.8	7.8	4.7	—	—	1.0	0.9	0.8	4.4	3.8	4.1	15.0	8.9	13.6	210	14.5	3.7		
Central Bank of India	49	SELL	19,641	416	404	11.6	5.6	16.3	(24.6)	(52.1)	194.4	4.2	8.8	3.0	—	—	0.9	0.6	0.5	4.1	—	—	15.3	7.9	16.7	55	13.2	0.5		
Corporation Bank	263	ADD	37,588	797	143	51.3	44.8	53.6	37.2	(12.5)	19.6	5.1	5.8	4.9	—	—	0.9	0.8	0.7	4.0	3.5	4.2	18.4	14.4	15.4	355	35.5	0.4		
Federal Bank	202	BUY	34,745	737	171	34.4	20.8	32.4	0.5	(39.4)	55.6	5.9	9.8	6.3	—	—	0.9	0.8	0.7	2.0	1.9	3.0	13.6	8.8	12.5	275	35.4	1.5		
Future Capital Holdings	264	BUY	16,701	354	63	(4.5)	4.5	28.8	(68.8)	(198.6)	546.1	(58.5)	59.3	9.2	—	—	2.3	2.2	1.8	—	—	—	(6.7)	3.8	21.4	440	66.6	1.2		
HDPC	2,080	ADD	596,893	12,654	287	85.8	83.7	100.1	38.2	(2.4)	19.6	24.2	24.8	20.8	—	—	5.0	4.3	3.8	1.2	1.2	1.4	27.8	18.6	19.3	2,350	13.0	68.8		
HDFC Bank	1,276	BUY	540,009	11,448	423	46.0	52.5	67.4	28.7	14.1	28.4	27.7	24.3	18.9	—	—	4.7	3.7	2.6	0.6	0.8	1.0	17.7	17.0	16.9	1,300	1.9	50.1		
ICICI Bank	504	ADD	561,179	11,897	1,113	39.9	31.7	37.7	15.4	(20.7)	19.0	12.6	15.9	13.4	—	—	1.2	1.1	1.1	2.2	1.6	1.9	11.7	7.4	8.3	650	28.9	156.0		
IDFC	70	ADD	91,183	1,933	1,294	5.7	6.8	8.1	2.9	19.2	19.0	12.4	10.4	8.7	—	—	1.6	1.5	1.3	1.7	1.7	2.0	17.6	14.9	15.7	100	41.9	27.6		
India Infoline	90	ADD	31,543	669	350	5.6	6.7	9.8	85.6	19.1	47.4	16.1	13.5	9.2	6.1	6.8	5.3	2.6	1.6	1.5	1.1	1.6	2.4	20.7	14.9	17.0	155	71.9	4.2	
Indian Bank	128	ADD	54,882	1,163	430	22.5	19.5	25.6	33.9	(13.3)	30.8	5.7	6.5	5.0	—	—	1.3	1.1	0.9	2.3	2.0	2.6	23.4	16.4	18.4	140	9.6	2.8		
Indian Overseas Bank	93	ADD	50,666	1,074	545	22.1	18.9	22.5	19.2	(14.2)	18.7	4.2	4.9	4.1	—	—	1.0	0.9	0.8	4.0	5.3	5.9	27.2	19.7	20.1	130	39.8	1.1		
J&K Bank	444	ADD	21,523	458	48	74.2	75.7	77.5	31.2	2.0	2.4	6.0	5.9	5.7	—	—	1.0	0.9	0.8	3.5	3.6	3.6	16.8	15.2	13.9	750	69.0	0.4		
IUC Housing Finance	276	ADD	23,472	498	85	45.5	56.5	59.5	38.7	24.1	5.3	6.1	4.9	4.6	—	—	1.2	1.0	0.9	3.6	4.5	4.7	—	—	—	380	37.6	4.5		
Mahindra & Mahindra Financial	242	SELL	23,072	489	95	20.8	22.9	27.2	(27.6)	10.3	16.4	11.6	10.5	8.9	—	—	1.8	1.6	1.4	1.9	2.4	2.8	16.9	15.7	16.6	215	(11.2)	0.1		
Oriental Bank of Commerce	157	ADD	39,397	835	251	23.9	26.3	30.7	32.6	10.1	16.4	6.6	6.0	5.1	—	—	0.8	0.7	0.6	3.0	3.3	3.9	6.2	10.9	11.7	200	27.2	1.8		
PFC	123	REDUCE	140,716	2,983	1,148	11.4	13.0	15.8	2.6	14.3	21.1	10.8	9.4	7.8	—	—	1.6	1.3	1.1	2.7	2.8	3.3	18.0	16.7	17.1	650	32.9	10.2		
Punjab National Bank	489	BUY	154,199	3,269	315	65.0	69.2	79.8	33.0	6.5	15.2	7.5	7.1	6.1	—	—	1.6	1.3	1.1	2.7	2.8	3.3	18.0	16.7	17.1	650	32.9	10.2		
SREI	58	BUY	7,838	166	134	11.4	5.5	8.1	57.4	(51.8)	47.8	5.1	10.6	7.2	—	—	1.2	0.6	0.6	1.8	3.9	4.8	23.1	11.6	12.5	160	173.7	0.7		
State Bank of India	1,484	ADD	936,881	19,862	631	106.6	93.5	119.2	23.5	(22.2)	27.4	13.9	15.9	12.5	—	—	2.2	2.0	1.7	1.4	1.4	1.5	16.8	11.5	13.4	1,700	14.6	84.6		
Union Bank	145	BUY	73,419	1,556	505	27.5	20.8	29.3	64.1	(24.2)	40.9	5.3	7.0	5.0	—	—	1.0	0.9	0.8	2.8	2.1	3.0	26.8	17.4	20.9	200	37.6	3.8		
Banks/Financial Institutions																														
Attractive																														
4,068,591																														
Centent																														
ACC	625	REDUCE	117,919	2,500	189	64.1	61.2	47.7	13.0	(4.5)	10.2	9.8	10.2	13.1	5.1	5.2	6.8	2.6	2.3	2.1	3.7	3.7	33.3	25.3	17.5	610	(2.4)	7.0		
Ambuja Cements	78	REDUCE	118,821	2,519	1,522	7.6	8.0	6.6	(11.2)	6.4	(17.5)	10.3	9.7	11.8	5.2	5.9	6.4	2.4	1.9	1.7	3.3	3.8	2.7	26.6	21.7	15.4	95	21.7	2.9	
Grasim Industries	1,759	ADD	161,274	3,419	92	284.6	257.6	240.4	32.6	(9.5)	(6.7)	6.2	6.8	7.3	3.7	3.8	3.5	1.4	1.1	1.0	1.8	1.9	25.3	18.3	14.5	2,320	31.9	4.3		
India Cements	118	ADD	33,218	704	282	24.5	19.1	19.9	n/a	(21.8)	4.1	4.8	6.2	5.9	3.7	3.9	3.3	1.0	0.9	0.8	1.6	1.8	1.8	25.9	15.8	14.4	160	35.8	2.2	
Shree Cement	502	BUY	17,499	371	35	85.9	98.5	60.0	90.0	14.7	(39.0)	5.8	5.1	8.4	2.5	2.2	2.1	2.6	1.8	1.6	1.4	1.6	1.6	53.5	42.5	20.5	1,080	115.0	0.3	
Ultra Tech Cement	517	BUY	64,709	1,372	125	81.4	80.6	59.1	28.5	(0.9)	(26.7)	6.3	6.4	8.7	4.5	4.5	5.1	2.0	1.5	1.3	1.5	1.5	1.6	1.6	45.2	32.1	18.9	700	35.5	0.9
Centent																														
513,440																														
Consumer (Discretionary)																														
Radio Khaitan	62	REDUCE	7,241	154	118	3.4	3.2	3.8	8.4	(7.0)	21.5	18.1	19.5	16.0	8.9	8.9	8.1	1.4	1.3	1.2	0.7	0.7	0.7	9.4	8.1	9.0	91	47.8	0.4	
United Breweries	129	REDUCE	31,014	658	240	1.9	2.4	4.4	(11.6)	25.7	82.1	67.8	53.9	29.6	17.0	13.1	9.9	5.4	3.0	2.7	—	—	—	8.3	7.1	9.6	160	23.8	0.2	
United Spirits	1,269	BUY	118,863	2,520	94	40.0	45.5	59.1	50.8	13.7	29.8	31.7	27.9	21.5	15.6	13.7	11.8	5.0	4.0	3.6	0.0	0.0	0.0	18.8	17.9	19.4	1,600	26.1	6.8	
Consumer (Discretionary)																														
Attractive																														
157,119																														
Consumer products																														
Asian Paints	1,151	ADD	110,408	2,341	96	38.3	44.3	52.4	36.1	15.8	18.2	30.1	26.0	22.0	18.1	15.2	12.6	11.4	9.2	7.4	7.4	1.3	1.5	1.7	43.5	40.2	38.3	1,240	7.7	0.7
Colgate-Palmolive (India)	395	REDUCE	53,690	1,138	136	17.3	19.2	22.4	18.4	10.6	17.0	22.8	20.6	17.6	18.0	15.2	12.8	28.7	24.4	20.8</										

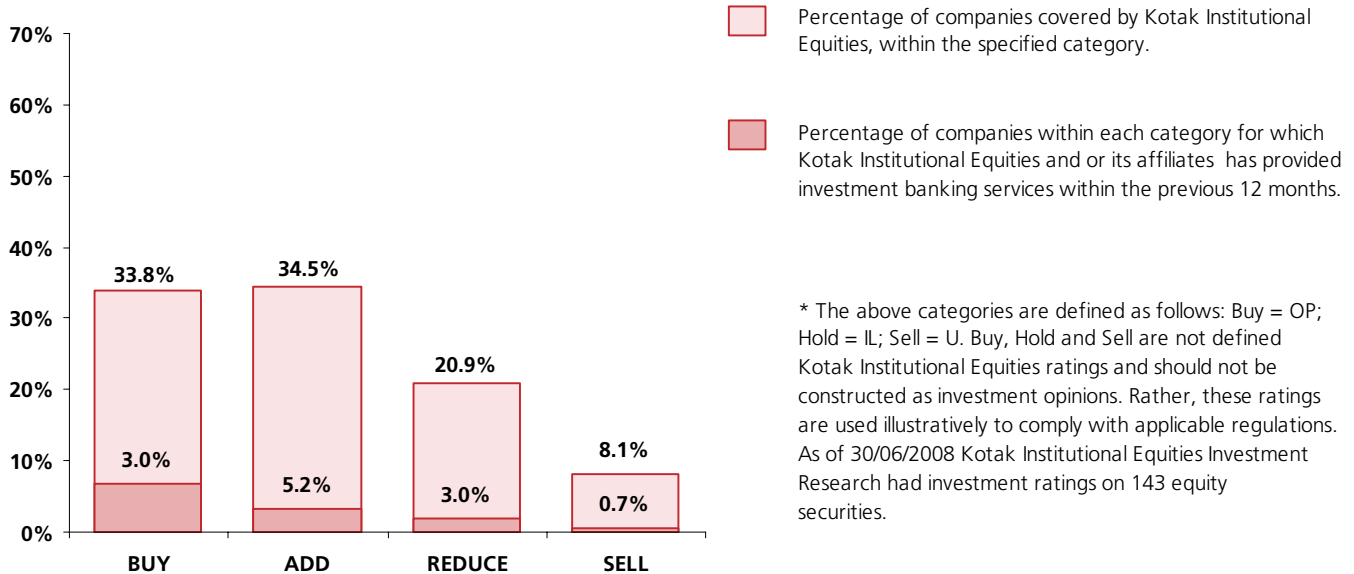
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	Price (Rs)	Rating	(Rs mm)	(US\$ mm)	(mm)	2008 2009E	2010E	2008 2009E	2010E	2008 2009E	2010E	2008 2009E	2010E	(Rs)	(%)	(US\$ mm)																	
Retail																																	
Pantabon Retail	255	BUY	43,873	930	172	8.0	12.1	18.4	93.1	50.4	52.2	31.8	21.1	13.9	12.0	8.2	6.7	2.6	1.6	1.5	0.2	0.3	0.4	8.5	9.1	10.8	400	56.8	1.2				
Titan Industries	1,078	BUY	47,852	1,014	44	35.1	41.1	49.8	55.2	17.3	21.0	30.8	26.2	21.7	20.7	16.1	12.9	10.2	7.8	6.1	0.7	0.9	1.0	37.7	33.6	31.6	1,350	25.2	2.2				
Vibhal Retail	253	ADD	5,674	120	22	18.1	21.6	35.6	37.2	19.2	65.2	14.0	11.7	7.1	8.4	6.0	4.7	2.1	1.8	1.4	-	-	-	-	20.2	16.2	22.1	485	91.5	0.2			
Retail			97,398	2,065					318	362	40.7	30.2	22.2	15.8	14.0	9.8	7.7	4.0	2.7	2.3	4.0	2.7	2.3	0.5	0.6	0.7	13.2	12.2	14.9				
Technology																																	
HCL Technologies	207	REDUCE	144,074	3,054	695	15.3	21.8	24.0	(19.0)	42.9	9.8	13.6	9.5	8.6	7.5	5.7	5.1	2.9	2.3	2.1	3.9	3.9	3.9	3.9	3.9	3.9	21.4	26.4	25.6	220	61	4.1	
Hexaware Technologies	31	SELL	4,370	93	142	7.7	4.6	5.1	(13.7)	89.8	10.6	4.0	6.7	6.0	1.0	0.7	0.2	0.6	0.6	0.6	3.0	5.2	5.2	5.2	5.2	5.2	15.1	9.1	9.5	35	13.8	0.2	
Infosys Technologies	1,392	BUY	16,938	574	79.1	103.5	114.8	18.0	30.9	11.0	17.6	13.0	12.1	12.1	13.7	10.0	8.4	5.8	4.4	3.5	2.4	1.8	2.0	2.2	2.0	36.1	37.2	32.2	1,750	25.7	78.0		
Mphasis BFL	179	SELL	37,393	793	208	12.2	17.1	18.0	67.6	39.6	5.6	14.5	10.5	9.9	8.7	6.4	5.5	3.2	0.4	2.2	2.0	2.2	2.5	2.3	2.5	23.6	27.7	24.3	190	5.9	1.9		
Midtree	296	BUY	7,519	159	25	26.7	30.4	39.4	12.3	13.6	29.6	11.1	9.7	7.5	5.2	3.0	1.9	1.4	1.1	0.9	1.4	-	-	-	-	16.8	17.7	16.7	450	52.1	0.5		
Patri Computer Systems	194	SELL	27,001	572	139	33.4	25.8	28.2	29.7	82.6	9.4	5.8	7.5	6.9	2.8	2.3	1.6	1.0	0.9	0.9	1.0	1.2	1.3	1.9	1.2	1.3	19.2	11.7	11.6	200	3.0	1.7	
Rolife Software Lab	70	SELL	6,896	146	98	7.4	10.1	11.2	(27.6)	35.6	10.3	9.4	6.9	6.3	4.3	3.1	2.5	1.1	0.9	0.8	2.5	2.5	2.5	2.5	2.5	11.7	14.3	14.1	70	(0.2)	5.4		
Satyam Computer Services	315	BUY	214,631	4,550	682	25.2	32.8	36.2	17.7	30.1	10.5	12.5	9.6	8.7	9.4	6.3	5.2	3.0	2.4	2.0	3.1	3.8	4.4	2.6	2.0	27.6	24.8	40.0	27.1	39.8			
TCS	658	REDUCE	643,436	13,641	979	59.1	60.4	65.9	21.5	17.9	9.0	12.8	10.9	10.0	10.3	8.4	7.4	5.2	4.0	3.3	2.1	3.2	4.0	4.7	4.0	41.8	36.6	75.0	14.1	23.1			
Tech Mahindra	624	BUY	77,717	1,648	125	59.1	73.4	84.3	25.7	24.2	14.9	10.6	10.5	7.4	9.3	6.0	4.5	2.6	2.4	0.6	0.6	1.0	1.0	1.0	1.0	70.7	55.0	40.0	75.0	20.2	3.8		
Wipro	342	ADD	495,465	10,504	1,450	22.2	26.9	30.5	12.6	20.9	13.5	15.4	12.7	11.2	12.2	8.9	7.5	3.8	3.1	2.6	1.9	2.3	2.7	2.7	2.7	27.9	27.1	25.4	380	11.2	11.4		
Technology			2,457,451	52,098					16.1	24.7	10.9	14.2	11.4	10.3	10.8	8.1	6.9	4.2	3.3	2.7	2.3	2.5	2.3	2.5	3.0	29.5	29.1	26.5					
Telecom																																	
Bharti Airtel Ltd	756	REDUCE	1,435,382	30,430	1,898	35.3	47.0	57.0	65.0	33.2	21.1	18.4	16.1	13.3	13.0	9.5	7.3	6.4	4.5	3.4	-	0.5	0.8	0.8	0.8	39.1	32.9	29.1	840	11.1	81.2		
IDEA	73	REDUCE	191,600	4,062	2,639	3.9	4.6	5.5	78.5	15.7	20.8	18.4	15.9	13.2	11.0	8.2	6.9	5.4	4.0	3.1	-	-	-	-	-	36.4	29.1	26.6	100	37.7	13.9		
MTNL	84	REDUCE	52,889	1,121	630	6.0	6.5	7.0	(25.2)	7.7	8.2	14.0	13.0	12.0	0.7	0.8	0.8	0.5	0.5	0.5	7.1	7.1	7.1	7.1	7.1	2.7	2.9	3.2	100	19.1	3.1		
Reliance Communications	335	SELL	690,821	14,645	2,064	25.0	28.6	34.8	76.4	14.1	21.9	13.4	11.7	9.6	9.6	8.3	6.5	2.4	2.0	1.7	0.2	-	-	-	-	16.1	19.9	19.8	390	16.5	75.4		
Tata Communications	451	REDUCE	128,521	2,725	285	10.9	12.0	13.3	(56.3)	9.2	11.2	41.2	37.7	33.9	17.2	16.0	13.9	1.9	1.9	1.8	1.0	1.1	1.4	4.4	4.7	4.9	430	(4.6)	3.5				
Telecom			2,499,212	52,983					61.9	23.9	20.6	17.7	14.3	11.8	11.3	8.9	7.0	3.4	2.8	2.3	0.4	0.6	0.7	0.7	0.7	19.4	19.6	19.3					
Transportation																																	
Container Corporation	812	ADD	105,576	2,238	130	57.7	67.5	75.0	17.0	11.0	14.1	12.0	10.8	9.5	8.1	6.7	3.3	2.7	2.3	2.3	1.5	1.8	2.0	2.5	2.8	24.9	23.1	95.0	17.0	1.1			
Gateway Distriparks	87	BUY	9,987	212	115	6.4	8.1	10.8	(5.0)	26.5	33.5	13.5	10.7	8.0	9.4	7.0	5.4	1.3	1.2	1.2	3.4	3.8	3.9	10.8	12.9	15.8	125	44.5	0.7				
GE Shipping	299	BUY	45,574	966	152	105.9	72.7	48.2	77.6	(33.7)	2.8	4.1	6.2	4.2	4.2	5.2	6.0	1.1	0.9	0.8	5.0	6.1	4.0	43.2	23.4	13.7	500	67.1	2.6				
Jet Airways	383	SELL	33,095	702	86	(76.5)	(123.3)	96.4	(2,857)	71	206.7	(5.0)	(3.1)	4.0	55.6	16.6	5.9	0.7	0.9	0.8	-	-	-	-	-	18	(19.5)	(26.5)	21.5	450	20.2	1.0	
Transportation			194,232	4,118					3.9	(42.9)	162.9	10.9	19.1	7.3	11.2	9.4	6.1	1.5	1.5	1.3	2.2	2.6	2.5	2.2	2.6	2.5	13.9	7.7	17.4				
Utilities																																	
BESC	287	BUY	35,857	760	125	27.8	28.2	31.1	(23.3)	1.4	10.4	10.3	10.2	9.2	5.3	6.1	7.1	1.1	1.0	0.9	1.4	1.4	1.4	1.7	1.7	12.5	10.6	10.5	500	74.2	1.3		
Lanco Infratech	178	BUY	39,658	841	222	16.0	18.7	31.3	88.4	17.4	67.1	11.2	9.5	5.7	10.7	14.4	12.3	2.0	1.6	1.3	(3.3)	-	-	-	20.2	18.9	25.2	530	197.1	13.9			
NTPC	172	REDUCE	1,416,983	30,040	8,245	8.9	9.5	10.3	3.5	6.7	8.0	19.2	18.0	16.7	13.9	15.0	15.1	2.7	2.5	2.3	2.1	2.2	3.0	14.4	14.2	14.3	179	4.2	30.8				
Reliance Infrastructure	741	BUY	171,023	3,626	231	37.6	49.4	50.0	13.9	31.3	1.2	19.7	15.0	14.8	26.3	24.0	22.1	1.0	1.0	1.0	0.9	1.0	1.1	-	-	-	-	-	1,250	68.8	95.9		
Reliance Power	149	REDUCE	357,483	7,579	2,397	0.4	2.1	2.6	-	443.9	25.2	39.2	72.1	57.6	-	-	-	2.6	2.4	2.4	-	-	-	-	-	1.2	3.5	4.3	180	20.7	38.2		
Tata Power	887	BUY	206,681	4,382	233	29.7	38.1	39.9	11.6	28.5	4.6	29.9	23.3	22.2	21.2	19.0	19.6	2.8	2.1	1.9	1.0	1.1	1.1	1.1	1.0	10.0	10.3	9.0	1,540	73.6	26.9		
Utilities			2,227,685	47,227					8.8	14.8	10.1	22.9	20.0	18.1	16.3	18.1	18.8	2.3	2.1	2.0	1.4	1.6	1.6	1.6	1.6	10.1	10.7	11.0					
Others																																	
Aban Offshore	1,745	ADD	67,449	1,430	39	72.3	263.4	482.1	(1,066)	264.4	83.0	24.1	6.6	3.6	15.1	7.2	4.6	7.7	3.2	1.8	0.2	0.6	0.9	51.7	59.4	53.6	2,700	54.8	17.1				
Aditya Birla Nuvo	967	ADD	90,212	1,912	93																												

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As of June 30, 2008

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