kotak® Institutional Equities

INDIA DAILY

October 11, 2007

Contents

Results

Updates

News Roundup

Corporate

- The $4.5 bn tractor-to-real estate Mahindra group today announced a foray into the rapidly growing Indian organised retail market with a chain of premium lifestyle stores selling apparels, toys and furnishings. The new venture has been christened Mahindra Retail and would operate under group company Mahindra Intertrade. The roll out is planned over a year. (BS)
- State-owned Indian Oil Corporation Ltd (IOC) and private company Reliance Industries Ltd (RIL) are likely to join hands for exploration in the latter's oil block in East Timor. RIL and IOC have been in talks for a possible tie-up to acquire oil and gas assets abroad as well as exploring farm-in opportunities for the PSU major in the existing overseas assets of RIL. (BL)
- Potential buyers of a 26 per cent stake in the government-owned Industrial Finance Corporation of India's (IFCI), the country's oldest financial institution, have raised concerns over the stability of their shareholding and board representation. Interested parties are concerned about the possibility of 24 domestic banks and six financial institutions converting to equity US$370 mn (Rs 1,480 crore) worth of zero-coupon debentures to which they subscribed in 2002-03 (BS).
- Tata Power Company (TPC) will pump in around US$1.5 bn (Rs6000-6500 crores) in the next 3 to 4 years for producing around 1300MW. (FE)
- Reliance Energy Ltd (REL), Tata Power and NTPC are among the 10 qualified bidders in fray for the 4000 MW Krishnapatnam ultra mega power plant (UMPP) in Andra Pradesh, request for proposals for which will be accepted till October 24. (FE)

Economic and political

- The country's two biggest banks, State Bank of India (SBI) and ICICI Bank, cut interest rates on new home and other retail loans, a move that is expected to be followed by other banks. SBI, the country's largest lender, reduced interest rates on new home, car, truck and farm equipment loans by 50 to 200 basis points from October 8 as a special offer up to December 31 this year and reduced peak deposit rate by 25 basis points to 9 per cent. ICICI Bank, the largest private sector lender, has with immediate effect lowered interest rates on floating rate home loans by 50 basis points to 11 per cent and on other retail loans by 25-50 basis points, but there is no change in its peak deposit rate. (BS)

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

EQUITY MARKETS

		Change, %		
India	**10-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	18,658	2.1	20.0	25.1
Nifty	5,441	2.1	21.0	24.0
Global/Regional indices				
Dow Jones	14,079	(0.6)	5.8	3.7
Nasdaq Composite	2,812	0.3	8.2	6.0
FTSE	6,633	0.3	5.6	0.3
Nikkie	17,213	0.2	8.4	(4.6)
Hang Seng	28,738	0.6	20.0	27.1
KOSPI	2,046	0.2	10.7	8.2

Value traded - India

			Moving avg, Rs bn	
	10-Oct		**1-mo**	**3-mo**
Cash (NSE+BSE)	295.0		224.0	183.0
Derivatives (NSE)	797.9		373.3	327.2
Deri. open interest	917.7		799.6	759.0

Forex/money market

		Change, basis points		
	10-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.3	-	(123)	(105)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	(2)	10	-

Net investment (US$mn)

	8-Oct		MTD	CYTD
FIIs	838		1,453	14,472
MFs	(87)		(211)	390

Top movers -3mo basis

		Change, %		
Best performers	**10-Oct**	**1-day**	**1-mo**	**3-mo**
Reliance Energy	1,586	3.4	84.4	153.4
Tata Power	1,090	11.4	49.5	62.1
Neyveli Lignite	105	(0.3)	12.9	61.4
SAIL	213	3.6	24.1	54.2
Reliance Inds	2,617	0.7	31.8	53.8
Worst performers				
i-Flex	1,919	2.9	(1.8)	(21.9)
Punjab Tractors	225	0.4	(5.9)	(21.6)
Polaris	124	2.2	6.6	(18.2)
Novartis India	306	(2.7)	4.0	(16.3)
Britannia	1,429	(1.5)	(8.5)	(15.5)

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Technology

IGAT.BO, Rs340	
Rating	NR
Sector coverage view	Cautious
Target Price (Rs)	-
52W High -Low (Rs)	432 - 205
Market Cap (Rs bn)	11

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	8.1	8.5	10.2
Net Profit (Rs bn)	0.5	0.8	0.9
EPS (Rs)	15.7	23.8	29.3
EPS gth	*101.5*	*51.7*	*23.2*
P/E (x)	21.7	14.3	11.6
EV/EBITDA (x)	11.6	8.4	6.3
Div yield (%)	0.7	0.8	0.8

iGate Global Solutions: Potential delisting is the only catalyst. Core revenue growth performance disappoints.

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- **iGate Corp announces delisting of iGate Global Solutions**
- **De-listing price to be decided by reverse book building process**
- **Revenue growth suffers though improvement likely in the subsequent quarters**

iGate's reported net income of Rs229 mn for 2QFY08 was higher than our expectation of Rs172 mn. This was achieved though aggressive cost optimization measures, increase in utilization rates and keeping lateral recruitments under check. Revenues grew at an uninspiring 1.3% qoq to US$49.7 mn, the third straight quarter of low single digit growth and contributed by revenue decline from clients in the mortgage space. New client addition continues to be below expectations and was at a disappointing three for Sep' 07 quarter. We believe that the only catalyst for stock performance is potential delisting of the company; iGate Corp, the parent company, has announced a delisting of 81.1% owned iGate Global Solutions. Rating on the stock would be meaningless as the stock would move on potential de-listing price rather than fundamentals alone.

iGate Corp announces delisting of iGate Global Solutions; cites attempt to clean up the capital structure as the key reason: iGate management cited the following reasons for delisting (1) the group has been trying to simplify capital structure by having a single listed entity either in India or US. However potential tax inefficiencies made this attempt difficult; (2) the company indicates that administrative and legal overheads of having a dual listing structure i.e. in US (the parent company derives most of the value from IGS) and India are prohibitive; and (3) since the US markets give a better valuation to technology names, the management decided to retain US listing and de-list from India.

While the above arguments have merit, we believe that de-listing may also have been done to (1) facilitate an easier transaction with a potential value/ private equity investor or (2) make the company an easier take-out (acquisition) candidate to global players. Recent experience of the global players such as Oracle, Flextronics etc have been unpleasant when they attempted to delist the acquired Indian entities through the SEBI mandated reverse book building process.

De-listing price to be decided by reverse book building process: The delisting price would be decided by reverse book-building process. The floor price can be either of average price of the stock for the last 26 weeks prior to the announcement (after EGM) or a higher number as decided by the management. We believe that investor expectations would be **significantly higher than the current market price of Rs340,** though the parent company has stated that they would de-list only at a price at which it makes economic sense. iGate Corporation (the parent company) needs atleast 90% holding before the company is able to good ahead with delisting; the parent company presently holds 81.1% and employees hold 4.5% (excludes unvested and unexercised options). Assuming a price of Rs450 for de-listing, iGate Corp would have a cash outflow of US$68 mn (US$86 mn including 1.6 mn vested options). iGate Corp had cash and cash equivalents of US$71 mn as at end-June 2007.

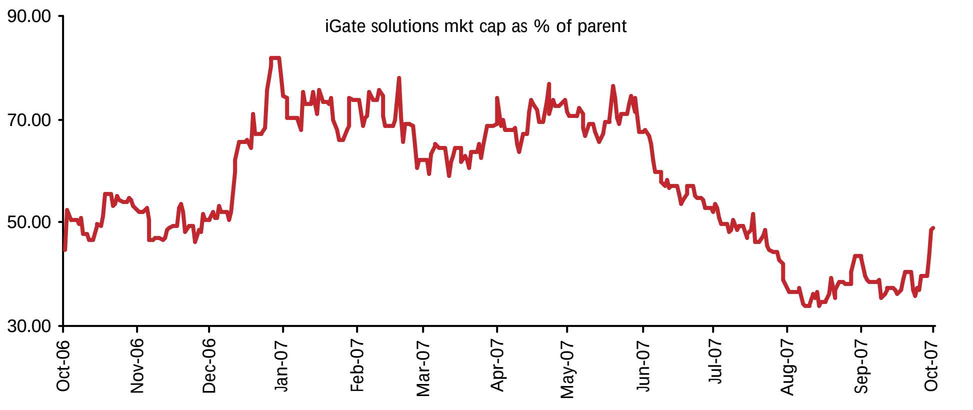
Revenue growth suffers though improvement likely in the subsequent quarters. iGate reported modest revenue growth of 1.3% qoq (US$ terms). Revenue growth was primarily impacted by slowdown in revenues from clients in the mortgage segment (5.5% of revenues in Sep' 07 quarter as compared to 7% in Jun' 07 and 9% in Mar' 07) in the US. iGate indicated that it now has only two active mortgage clients with whom it is working on servicing transactions. The company expects business continutity from these clients. Management further indicated that business may pick from Dec' 07 quarter on the back of ramp of from recent order wins from existing clients**.**

New client acquisition continues to trail to management expectations: We believe that the most critical factor for sustained stock performance of iGate is acceleration in revenue growth rates, which is contingent on two factors—a) new client acquisition, which has been slower than the management's stated target of 8-10 new customers each quarters—it added only three new clients in Sep '07 quarter b) ramp up from existing clients—conversion of new account wins to sustained revenue billing is again below expectations, though an improvement over the previous quarter. We expect iGate to once again trail industry revenue growth in FY2008. The company has inducted Hari Murthy, as Head of Global Sales and Marketing recently to boost the efficiency of the sales function.

Aggressive cost rationalization improves operating margin to over 15%: iGate reported an operating margin of 15.8%, a qoq improvement of 260 bps and better than our OPM expectation of 14.1%. In our view, the company pulled in fair portion of levers such as utilization, pyramid, SG&A efficiencies and offshore leverage. Pricing in our view remains the only sustainable lever to improve margins from hereon. We are worried that the company may end up under-investing in sales and marketing at a time where new customer acquisition is the key. SG&A of iGate has declined in absolute levels on a yoy basis, and now stands at a low level of 16.9% of revenues.

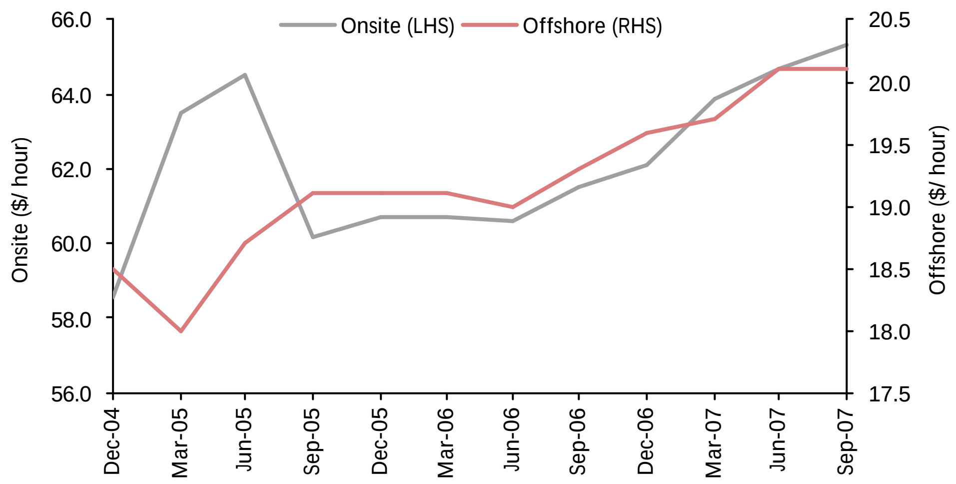
Revising estimates: We are revising upwards our FY2008 EPS estimates by 6.8% to Rs23.8 and FY2009 EPS estimates by 2.8% to Rs29.3. The revision primarily reflects a moderately optimistic view on OPM. We have however reduced our FY2008 revenue estimate by 5.1% and FY2009 estimate by 5.9%.

iGate's declining market cap as a % of the parent company is reflective of widening valuation differential



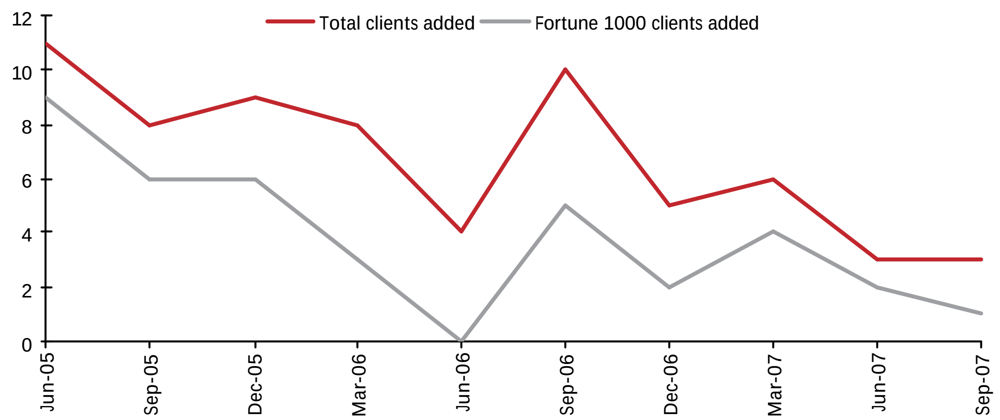
Source: Bloomberg

Pricing improvements have contributed significantly to iGate's yoy OPM improvement
iGate's onsite and offshore billing rates over the past few quarters



Source: Company reports

iGate's client acquisition pace has been below management's stated targets over the past 3-4 quarters
Total and Fortune 1000 client additions for iGate



Source: Company reports

Key changes to our FY2008 and FY2009 estimates

	New		Old		Change (%)	
Rs mn	**FY2008**	**FY2009**	**FY2008**	**FY2009**	**FY2008**	**FY2009**
Revenues	**8,538**	**10,244**	**9,000**	**10,887**	**(5.1)**	**(5.9)**
EBITDA	1,228	1,515	1,179	1,467	4.2	3.3
Depreciation	(445)	(487)	(445)	(488)	(0.0)	(0.2)
EBIT	875	1,116	787	1,064	11.1	4.8
Net Profit	**753**	**937**	**705**	**912**	**6.8**	**2.8**
EPS (Rs/ share)	**23.8**	**29.3**	**22.3**	**28.5**	**6.8**	**2.8**
Margins (%)						
EBITDA	14.4	14.8	13.1	13.5		
EBIT	10.2	10.9	8.7	9.8		
Revenue (US$ mn)	**212**	**263**	**222**	**272**	**(4.4)**	**(3.5)**
Re/US$ rate	**40.2**	**39.0**	**40.5**	**40.0**	**(0.7)**	**(2.5)**
Revenue Mix - IT Services (US$ mn)						
Onsite	98	120	103	122	(4.2)	(1.5)
Offshore	93	117	96	121	(3.8)	(3.5)

Source: Kotak Institutional Equities Estimates

iGate Global Solutions (erstwhile Mascot Systems)

Rs mn	2QFY07	4QFY07	1QFY08	2QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	Deviation %	Comments on QoQ performance
Revenues	**2,026**	**2,101**	**1,994**	**2,008**	**0.7**	**(0.9)**	**2,044**	(1.8)	Revenue growth of 1.3% qoq in US$ terms, lower than our expectation of 3.5% qoq growth. Revenue growth was impacted by a) further rampdown in mortgage segment and b) slow new client addition
Direct costs	(1,432)	(1,417)	(1,365)	(1,351)	(1.0)	(5.6)	(1,384)	(2.4)	
Gross profit	**594**	**684**	**629**	**656**	**4.4**	**10.5**	**660**	(0.6)	Gross profit margin improvement of 120bps qoq driven by (a) slow hiring leading to improved utilization (b) absorption of wage hikes and (c) Offshore shift in revenues
Other expenses	(394)	(362)	(365)	(340)	(7.1)	(13.7)	(372)	(8.7)	
Operating profit	**201**	**322**	**264**	**317**	**20.2**	**57.9**	**288**	9.9	OPM improved 260bps to 15.8% against our expectation of a 90bps improvement. Driven by aggressive cost optimization--both direct costs as well as SG&A expenses declined qoq
Other income	(3)	11	14	28			13	105.6	Includes forex gains on hedges of Rs16.4 mn
EBITDA	198	333	278	344	23.9	74.1	302	14.2	
Depreciation	(98)	(100)	(96)	(100)	5.0	2.9	(109)	(7.9)	
EBIT	**100**	**233**	**182**	**244**	**33.9**	**143.4**	**193**	26.7	
Interest	(7)	(7)	(7)	(7)		(12.2)	(7)	(9.6)	
PBT-before extra-ord items	93	227	176	237	35.1	155.8	185	28.1	
Extra-ord items	3	5	(26)	0			-		Prior-period tax reversal of Rs0.4 mn
PBT-after extra-ord items	96	231	150	238	58.9	148.7	185	28.3	
Tax	(6)	(13)	(15)	(9)	(43.4)	50.9	(22)	(61.3)	Effective tax rate at 3.6%, lower than our expectations of 12%
PAT-Reported	**90**	**218**	**135**	**229**	**70.4**	**154.9**	**163**	40.5	
Minority Interest	11	8	9	-			9		
Net Income	**101**	**227**	**143**	**229**	60.2	126.3	172	33.5	
Adjusted Net Income	**99**	**222**	**169**	**229**	35.3	132.3	172	33.2	
EPS - reported (Rs)	**2.9**	**7.0**	**4.2**	**7.2**	71.7	150.3	**5.4**	33.2	
Margins									
Gross profit margin (%)	29.3	32.6	31.5	32.7			32.3		
Operating profit margin (%)	9.9	15.3	13.2	15.8			14.1		
Net profit margin - reported (%)	5.0	10.8	7.2	11.4			8.4		
Revenues from GE (Rs mn)	526.8	544.8	496.7	498.6	0.4	(5.4)	-		GE revenues continue to show weak trend
Onsite: Offshore mix (Rs mn)									
Onsite	992	993	888	875	(1.5)	(11.8)	-		
Offshore	809	898	914	929	1.7	14.9	-		

Source: Kotak Institutional Equities

Banking

PWFC.BO, Rs208	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	225 - 85
Market Cap (Rs bn)	239

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	15.5	20.7	27.1
Net Profit (Rs bn)	11.5	14.3	18.3
EPS (Rs)	11.1	12.4	15.9
EPS gth	*9.5*	*12.2*	*28.3*
P/E (x)	18.8	16.7	13.1
P/B (x)	2.5	2.3	2.0
Div yield (%)	1.1	0.8	1.0

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	89.8	-	-
FIIs	4.9	0.1	0.1
MFs	1.2	0.2	0.2
UTI	-	-	-
LIC	-	-	-

Power Finance Corporation: Operational performance remains in line, valuations appear stretched

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- **PFC reported PAT for 2Q08 of Rs2.8 bn (up 23% yoy); operational profit growth remained healthy and was up 45% yoy in line with our estimates**
- **Improvement in spread and continued buoyancy in loan growth aid profits**
- **Valuations appear stretched despite high growth assumptions on key business parameters like loan growth and spread. Retain U rating on the stock**

Power Finance Corporation (PFC) reported a PAT of Rs2.8 bn (up 23% yoy) in 2QFY08, which was lower than our estimates by 10%. However, the operational performance was in line with our estimates with the company reporting an operational profit of Rs4.4 bn against our expectation of Rs4.5 bn. Hence, the difference between our estimates and reported PAT was due to non-operational factors (exchange rate related). We have used the quarterly results to increase our estimates for the company (explained later in the note) and target price to Rs150 (Rs125 earlier). We continue to maintain that despite the buoyant demand outlook for power sector and the dominant position of PFC in the power finance space, the current valuations of the stock at 1.9X PBR FY2009 appear to be stretched and reiterate our U rating on the stock.

Repricing of assets aids margin. PFC's spread for the current quarter improved to 2.04% from 1.93% in 1QFY08 (1.83% in 2QFY07). The company benefited from the repricing of certain loan assets, the asset re-pricing primarily stems from the interest-restructuring scheme introduced by PFC between April 2004 and December 2005. The scheme allowed long-term borrowers to reduce the rates of interest on their loans by making one-time payments to PFC but with an interest-reset clause of three years. Management indicated that it has repriced Rs42 bn of loan assets in the current quarter and expects to reprice a further Rs45 bn of loan assets in remainder of the current fiscal.

Un-hedged forex borrowings remain a risk. PFC follows a policy of valuing its forex assets and liabilities on the quarter-end and booking gains/ losses, as the case may be. PFC has about US$500 mn of forex loans of which US$125 mn are un-hedgded. The company booked a forex loss of Rs229 mn in 2QFY08 as against a gain of Rs409 mn in 1QFY08. As a prudent policy, the company restricts its net open position to a maximum of 30% of its networth.

Demand environment remains buoyant. PFC continues to experience a favorable demand environment given the planned capacity addition of 78 GW (inclusive of 10 GW of Xth five year plan slippage) in the power sector in the XIth five-year plan (FY2008-FY2012). This was reflected in the sanctions increasing by 76%yoy to Rs351 bn in 1HFY08, though the growth in disbursements was lower at 9% yoy to Rs65 bn compared to Rs60 bn in 1HFY07.

We now factor in strong growth in our estimates. Given the favorable demand environment and the strong operational performance of PFC in the recent period, we have now extrapolated this operational performance and expect this to continue over the next five years while retaining the terminal year growth assumptions. In our updated estimates, we expect the company to make disbursements of Rs1.8 tn over the XIth five year plan against the Rs51 bn made in Xth five year plan. This will imply that PFC will provide 25% of the overall debt funds required to fund the planned capacity addition in the XIth five-year plan. This is against the market share of 20% of the company in the Xth five-year plan.

Further, spread of the company is expected to range between 2-2.3% over the FY2008-FY2010 period against the reported spread of 1.6% and 1.7% in FY2006 and FY2007 respectively. This is to factor in the repricing of loan assets over the next two years and favorable asset liability position of the company.

We have also reduced our dividend payout ratio for the company to 15% from the earlier estimate of 35%. Observed dividend payout ratio for PFC has been 39% in FY2005, 37% in FY2006 and 26% in FY2007. The reduction in dividend payout ratio will allow the company to retain a larger portion of profits and support greater asset expansion.

Highlighting risks to our expectations on the operational performance. Electricity being an important component of the consumption basket is prone to political intervention. This is accentuated by the fact that power is a concurrent subject (responsibility of state and central government) under the Indian constitution. Hence, successful reform of the power sector requires coordinated actions by the state and central governments. Further, improvement in the state dominated coal sector and other sectors with fuel linkages to the electricity sector would be critical to enhance the electricity generation capacity in the economy. Slowdown in the reform process due to political compulsions could impact business opportunities for PFC.

Secondly, we note that PFC disbursed Rs38 bn of loans under the Accelerated Generation & Supply Program (AG&SP) scheme in FY2007, which was close to 28% of total disbursements made in FY2007. As highlighted by us in our updates on August 24, 2007 ('Flagging developments that could adversely impact profits') and September 17, 2007 ('Company clarifies on the suspension of the AG&SP scheme') the company used to get 3% interest subvention on loans lent under this scheme, which has consequently been withdrawn from the current year. Company, however is confident that the suspension of this scheme will not impact its profits and operations adversely.

Thirdly, PFC has benefited from a rising interest rate scenario due to its favorable ALM position where in 88% of its liabilities have a fixed rate while 66% of its interest earning assets have a floating rate. Hence, a faster than expected drop in interest rates could have an adverse impact on the margin of this company.

Valuations appear rich despite the strong growth prospects. PFC with its dominant position in the power finance industry will likely be a key beneficiary from the planned capacity addition in the power industry. However, we believe that the current market price more than captures the growth outlook for the company. Hence, from an equity investor perspective we believe the margin of safety appears low and would advice investors to reduce exposure. Key risk to our stock price call is the continued investor interest in the power sector in India and the favorable liquidity conditions.

Power Finance Corporation (Rs mn)

	1QFY07	2QFY07	1QFY08	2QFY08	yoy change	2Q08KS	Actutal Vs KS
Profit and Loss statement							
Interest on loans	8,219	8,660	11,170	11,950	38.0	11,926	0.2
Interest expense	5,204	5,420	7,020	7,480	38.0	7,558	(1.0)
Net interest income	3,070	3,240	4,150	4,470	38.0	4,368	2.3
Loan loss provisions	65	(1)	41	0	(103.6)	50	(99.9)
Net income (after loan loss provisions)	3,005	3,241	4,109	4,470	37.9	4,318	3.5
Other operating income	60	70	130	120	71.4	300	(60.0)
Total operating income	3,130	3,310	4,280	4,590	38.7	4,368	5.1
Other income	(305)	170	409	(229)	(234.5)	250	(191.4)
Total income	2,825	3,480	4,689	4,361	25.3	4,918	(11.3)
Total income (after provisioning)	2,760	3,481	4,648	4,361	25.3	4,868	(10.4)
Operating expenses	112	130	105	147	13.0	180	(18.4)
Depreciation	-	6	11	12	93.2	12	(4.1)
PBT	2,648	3,346	4,532	4,203	25.6	4,676	(10.1)
Tax	1,069	1,050	1,450	1,379	31.3	1,543	(10.7)
Current tax	790	630	1,134	1,177	86.8	1,234	(4.6)
Deferred tax	279	420	316	202	(52.0)	309	(34.7)
PAT (reported)	1,579	2,296	3,082	2,824	23.0	3,133	(9.8)
PAT (included deferred tax)	1,858	2,716	3,398	3,026	11.4	3,441	(12.1)
PBT + provisions-interest on rest prem- forex gain	3,018	3,344	4,164	4,432	32.5	4,476	(1.0)
Tax rate (overall)	40.4	31.4	32.0	32.8		33.0	
Other details							
Sanctions (Rs bn)	123	76	133	219	187		
Disbursements (Rs bn)	29	31	32	33	6		
Loan assets (Rs bn)	367	386	452	466	21		
Yield on Assets (%)	9.0	9.2	9.9	10.1			
Cost of funds (%)	7.3	7.3	8.0	8.0			
Spreads (%)	1.7	1.8	1.9	2.0			
Net interest margins (%)	3.3	3.4	3.7	3.8			
Operating cost to average assets(%)	0.0	0.1	0.0	0.1			
Gross NPLs(%)	0.3	0.2	0.1	0.1			
Capital adequacy ratio (%)	18.3	17.8	18.6	18.6			

Source: Company, Kotak Institutional equities estimates.

Change in estimates for PFC

March fiscal year-ends, 2008E-2010E (Rs mn)

	Old estimates			New estimates			Old vs New		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	17,748	20,936	24,091	19,730	26,127	31,532	11.2	24.8	30.9
Loan growth (%)	23.4	20.3	17.9	31.6	33.2	27.6			
NIM (%)	3.6	3.5	3.4	3.8	3.8	3.6			
NPL provisions	246	749	891	255	845	1,099	3.7	12.9	23.3
Other income	1,000	1,000	1,000	1,000	1,000	1,000	0.0	0.0	0.0
Operating expenses	609	740	880	632	837	1,087	3.7	13.0	23.5
Employee	307	338	372	307	338	372	0.0	0.0	0.0
Others	302	403	509	325	499	715	7.5	23.9	40.6
PBT	17,853	20,407	23,280	19,803	25,405	30,307	10.9	24.5	30.2
Tax	6,249	7,142	8,148	6,931	8,892	10,607	10.9	24.5	30.2
PAT	11,605	13,264	15,132	12,872	16,513	19,699	10.9	24.5	30.2

Source: Kotak Institutional Equities estimates.

Construction

IVRC.BO, Rs459	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	320
52W High -Low (Rs)	0 - 0
Market Cap (Rs bn)	54.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	24.3	35.5	44.2
Net Profit (Rs bn)	1.4	2.1	2.5
EPS (Rs)	11.4	17.1	21.1
EPS gth	*45.8*	*50.1*	*23.2*
P/E (x)	40.2	26.8	21.7
EV/EBITDA (x)	27.4	18.9	15.5
Div yield (%)	0.2	0.2	0.2

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	9.9	-	-
FIIs	61.0	0.4	0.4
MFs	11.1	0.4	0.4
UTI	-	-	-
LIC	-	-	-

IVRCL Infrastructures: Reinstate coverage with outperform rating based on strong likely earning growth

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- **Robust order inflows and margin expansion drive strong earnings growth**
- **We forecast earnings per share of Rs13.5 for FY2008E and Rs20.4 for FY2009E**
- **Several synergy benefits between IVR Prime and IVRCL Infrastructure**
- **Reinstate coverage on IVRCL Infrastructure with a SOTP based target price of Rs570/share and Outperform rating**

We reinstate coverage on IVRCL Infrastructure with earnings estimates of Rs13.5/share for FY2008E and Rs20.4/share for FY2009E. Our SOTP based target price of Rs570/share is composed of (a) core business valuation of Rs364/share, (b) IVR Prime's contribution of Rs160/share, (c) incremental value from infrastructure projects worth Rs23/share and (d) Rs15/share contribution from Hindustan Dorr Oliver. We rate IVRCL Infrastructure as outperform based on (a) strong likely earnings growth led by execution as well as margin expansion, and (b) strong outlook for infrastructure and industrial investments.

Robust order inflows and margin expansion drive strong earnings growth

We highlight that robust order inflows and order backlog underlines strong growth visibility for the medium term for IVRCL Infrastructure (Exhibit 1). Operating leverage, pricing power in a strong demand environment reflecting an ability to choose projects in terms of size, segment, geography and client profile is likely to drive margin expansion. We forecast earnings per share of Rs13.5 for FY2008E and Rs20.4 for FY2009E. Our earnings estimates for FY2008E and FY2009E are based on an effective tax rate of 33%. IVRCL Infrastructure maintains the opinion that it is entitled to tax benefits related to construction contracts for infrastructure development projects and thus reported EPS may be higher (Exhibits 2, 3 and 4).

IVRCL had an order backlog of about Rs95 at the end of 1QFY08 comprised of water - Rs58 bn, transport – Rs16 bn, power – Rs9 bn and buildings – Rs12 bn. IVRCL has won further orders of Rs19.3 bn in 2QFY08 comprised of water – Rs15.3 bn, buildings – Rs3.3 bn and power – Rs0.6 bn.

Several synergy benefits between IVR Prime and IVRCL Infrastructure

IVR Prime Urban Developers Limited (PUDL), a subsidiary of IVRCL, is focusing on integrated townships, residential developments, and commercial projects, including hotels, retail malls, IT parks and other projects in various parts of India. As on June 21, 2007, its Land Reserves consisted of approximately 2,478 acres, representing approximately 75.4 mn sq. ft. of saleable area in the cities of Hyderabad, Visakhapatnam, Chennai, Bangalore, Pune and Noida (Exhibit 5). We believe that in-house execution expertise and the expertise of its parent would help in faster execution of projects versus real estate development. We use NAV of Rs600/share of IVR Prime's share as per our real estate analyst, and a 10% discount on that NAV for purpose of setting target price for IVRCL Infrastructure (Exhibit 6). We highlight that current order book of IVRCL Infrastructure does not include likely orders from IVR Prime for its real estate development business.

Reinstate coverage on IVRCL Infrastructure with a target price of Rs570/share and Outperform rating

We reinstate coverage on IVRCL Infrastructure with a SOTP based target price of Rs570 comprised of (a) core business valuation of Rs364/share, (b) IVR Prime's contribution of Rs160/share, (c) incremental value from infrastructure projects worth Rs23/share and (d) Rs15/share contribution from Hindustan Dorr Oliver (Exhibits 7 and 8). We rate IVRCL Infrastructure as outperform based on (a) strong likely earnings growth led by execution as well as margin expansion, and (b) strong outlook for infrastructure and industrial investments.

Strong revenue and earning growth expected in 2QFY08E

We highlight that we expect strong revenue and earnings growth of 68% and 57% respectively on a yoy basis for IVRCL Infrastructure. We expect revenues of Rs6.1 bn (from Rs3.6 bn in 2QFY07 and Rs6.7 bn in 1QFY08) and earnings of Rs244 mn (from Rs156 mn in 2QFY07 and Rs380 mn in 1QFY08).

Exhibit 1. Order inflows in FY08 so far have remained strong
Major orders booked by IVRCL in FY2008 so far

Date	Nature of Work	Size of Order (Rs mn)	Customers
9-Oct-2007	Lift irrigation works on EPC turnkey basis	7,612	Govt. of Andhra Pradesh, Irrigation & CAD Dept
24-Sep-2007	Construction of towers at Rajiv Gandhi Infotech Park, Hinjewadi, Pune	1,800	DLF Akruti Info Parks (Pune) Ltd
24-Sep-2007	Construction of Sea-Woods Estate Phase-II, Nerul, Navi Mumbai	851	City & Industrial Development Corpn of Maharashtra Ltd
24-Sep-2007	Construction and operation & maintenance of clear water sump and pumping station	678	Indore Municipal Corporation
24-Sep-2007	Laying of transmission lines and erection of substations	614	Maharashtra State Electricity Distribution Co Ltd
17-Sep-2007	Multiple water related projects and civil works projects in Chennai	3,681	Water utilities in Chennai and NTPC
30-Aug-2007	Irrigation works	3,202	Public Health and Engineering Dept, Govt of Rajasthan
23-Jul-2007	Irrigation works	6,414	Irrigation & C.A.D Dept, Govt of Andhra Pradesh
17-Jul-2007	Irrigation works	2,027	Karnataka Neeravari Nigam Ltd
21-May-2007	Reservoir works	5,510	Irrigation & C.A.D Dept, Govt of Andhra Pradesh
14-May-2007	Reservoir works	3,761	Irrigation & C.A.D Dept, Govt of Andhra Pradesh
	Total large order booking in FY2008 so far	**36,150**	

Source: Company data.

Exhibit 2. IVRCL: Income statement, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Net revenues	**10,547**	**14,957**	**23,059**	**35,070**	**49,047**	**70,694**
Key costs						
Material cost	3,987	6,681	9,308	14,203	19,742	28,454
Sub-contracting	5,261	6,282	10,189	15,255	21,458	30,929
Employee	270	441	854	1,403	1,839	2,474
Administration & Other Expense	165	210	407	614	785	1,060
Operating profit	**865**	**1,343**	**2,301**	**3,595**	**5,224**	**7,776**
Other operating income	24	57	74	83	77	156
EBIDTA	**889**	**1,400**	**2,375**	**3,678**	**5,301**	**7,932**
Depreciation + amortisation	(80)	(112)	(216)	(290)	(391)	(492)
Interest	(214)	(253)	(308)	(683)	(808)	(1,128)
PBT	**595**	**1,035**	**1,851**	**2,705**	**4,102**	**6,312**
Tax	(47)	(89)	(414)	(893)	(1,354)	(2,083)
Adjusted PAT	**547.99**	**945.36**	**1,437.39**	**1,812.46**	**2,748.32**	**4,229.07**
Shares outstanding (mn)						
Fully diluted	**77.30**	**118.65**	**115.75**	**134.71**	**134.71**	**134.71**
EPS (Rs)						
Fully Diluted	**7.09**	**7.97**	**12.42**	**13.45**	**20.40**	**31.39**
KEY RATIOS (%)						
Operating margin	8.2	9.0	10.0	10.3	10.7	11.0
Tax rate (%)	7.8	8.6	22.3	33.0	33.0	33.0
Revenue growth	36.4	41.8	54.2	52.1	39.9	44.1
PAT growth	86.8	72.5	52.0	26.1	51.6	53.9

Source: Company data, Kotak Institutional Equities estimates

Exhibit 3. IVRCL: Balance sheet, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Equity	170	214	259	259	259	259
Reserves	2,384	4,555	12,917	14,609	17,237	21,345
Shareholders' funds	**2,553**	**4,769**	**13,177**	**14,868**	**17,496**	**21,604**
Debt	2,472	6,786	5,552	6,552	6,802	10,802
Total liabilities	**6,533**	**11,598**	**18,825**	**21,421**	**24,298**	**32,407**
Fixed assets (incl intangible)	957	1,373	2,435	3,139	3,749	4,506
Investments	316	2,765	2,829	3,136	4,136	4,136
Net current assets	711	5,016	11,323	10,279	15,163	21,984
Cash	4,527	2,443	2,238	4,866	1,250	1,781
Debtors	3,066	4,765	6,332	9,608	13,438	19,368
Inventories	178	286	825	961	1,344	1,937
Total assets	**6,511**	**11,598**	**18,825**	**21,421**	**24,298**	**32,407**
KEY RATIOS						
Debtor days	106.1	116.3	100.2	100.0	100.0	100.0
Inventory days	6.2	7.0	13.1	10.0	10.0	10.0
RoCE	15.4	18.1	16.4	13.7	15.6	15.6
RoE	18.4	21.1	15.7	12.9	17.0	17.0
Gross asset turnover ratio	9.5	9.5	8.9	9.1	10.1	10.1

Source: Company data, Kotak Institutional Equities estimates

Exhibit 4. IVRCL: Cash flow statement, March fiscal year-ends, 2005-2010E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E
Cashflow from operating activities						
Net profit before tax and extraordinary items	595	1,035	1,851	2,705	4,102	6,312
Add: Depreciation	80	112	216	290	391	492
Add: Financial Charges	214	253	308	683	808	1,128
Tax paid	(47)	(89)	(414)	(893)	(1,354)	(2,083)
Operating profit before working capital changes	889	1,400	2,375	3,678	5,301	7,932
Change in working capital / other adjustments	(967)	(2,125)	(6,307)	1,044	(4,884)	(6,820)
Net cashflow from operating activites	**(168)**	**(804)**	**(4,331)**	**3,774**	**(937)**	**(971)**
Fixed Assets	(357)	(529)	(1,278)	(994)	(1,000)	(1,250)
Investments	(220)	(2,448)	(64)	(307)	(1,000)	-
Cash (used) / realised in investing activities	**(531)**	**(2,971)**	**(1,407)**	**(1,301)**	**(2,000)**	**(1,250)**
FREE CASH FLOW	**(699)**	**(3,775)**	**(5,738)**	**2,472**	**(2,937)**	**(2,221)**
Issue of share capital	1,396	(64)	7,227	(40)	-	-
Borrowings	750	4,314	(1,234)	1,000	250	4,000
Financial Charges	(214)	(253)	(308)	(683)	(808)	(1,128)
Cash (used) /realised in financing activities	**3,992**	**1,692**	**5,533**	**156**	**(679)**	**2,751**
Extraordinary receipts	-	-	-	-	-	-
Cash generated /utilised	3,293	(2,083)	(205)	2,628	(3,616)	530
Net cash at begn of year	1,234	4,527	2,443	2,238	4,866	1,250
Net cash at end of year	**4,527**	**2,443**	**2,238**	**4,866**	**1,250**	**1,781**

Source: Company data, Kotak Institutional Equities estimates

Exhibit 5. Land bank details of IVR Prime Urban Developers

	Land bank	Saleable area	NAV at different growth rates in selling price (Rs bn)				
	(acres)	(mn sq. ft)	0	3	5	7	10
Bangalore	73	4	2	2	3	3	3
Chennai	1,353	47	13	16	19	22	26
Hyderabad	17	3	6	7	8	8	9
NOIDA	80	7	7	8	8	9	10
Pune	687	5	1	1	2	2	2
Total	**2,210**	**66**	**29**	**35**	**39**	**43**	**50**

Source: Company, Kotak Institutional Equities

Exhibit 6. NAV calculation of IVR Prime Urban Developers Ltd. (Rs bn)

	March '08 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**29.5**	**35.2**	**39.2**	**49.7**
Less: Land payments outstanding	(1.6)	(1.6)	(1.6)	(1.6)
Less: land payments outstanding for NOIDA	(4.0)	(4.0)	(4.0)	(4.0)
Less: Net Debt	(3.5)	(3.5)	(3.5)	(3.5)
Add: IPO Proceeds	7.8	7.8	7.8	7.8
NAV	**28.22**	**33.91**	**37.87**	**48.38**
Number of shares				
Total no of shares				64.2
Price/share				590.3

Source: Kotak Institutional Equities estimates.

Exhibit 7. IVRCL - DCF model, March fiscal year-ends (Rs mn)

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	**23,059**	**35,070**	**49,047**	**70,694**	**95,184**	**110,622**	**130,757**	**150,092**	**170,603**	**191,075**	**214,005**	**239,685**
Revenue growth (%)	54	52	40	44	35	16	18	15	14	12	12	12
EBITDA	**2,301**	**3,595**	**5,224**	**7,776**	**10,470**	**12,168**	**14,383**	**16,510**	**18,766**	**21,018**	**23,540**	**26,365**
EBITDA margin (%)	10.0	10.3	10.7	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Depreciation	(216)	(290)	(391)	(492)	(605)	(728)	(875)	(1,043)	(1,246)	(1,246)	(1,246)	(1,246)
EBIT	**2,096**	**3,315**	**4,843**	**7,295**	**9,877**	**11,451**	**13,520**	**15,478**	**17,531**	**19,783**	**22,306**	**25,130**
Tax	(422)	(1,031)	(1,514)	(2,290)	(3,099)	(3,595)	(4,251)	(4,872)	(5,525)	(6,235)	(7,030)	(7,920)
Change in net working capital	(6,307)	1,044	(4,884)	(6,820)	(7,194)	(4,780)	(4,442)	(5,721)	(6,069)	(6,797)	(7,613)	(8,527)
Capex	(1,081)	(1,250)	(1,000)	(1,250)	(1,250)	(1,500)	(1,750)	(2,000)	(2,500)	(2,500)	(2,500)	(2,500)
Free cash flow	**(5,509)**	**2,358**	**(2,175)**	**(2,584)**	**(1,073)**	**2,294**	**3,940**	**3,917**	**4,672**	**5,486**	**6,398**	**7,419**
PV of each cash flow	-	2,358	(2,175)	(2,297)	(848)	1,611	2,460	2,174	2,305	2,405	2,493	2,570
Capex (% of sales)	4.7	3.6	2.0	1.8	1.3	1.4	1.3	1.3	1.5	1.3	1.2	1.0

PV of cash flows	13,058	27%
PV of terminal value	35,981	73%
EV	49,039	100%
Debt	(28)	
Equity value	49,067	
Shares outstanding (mn)	135	
Equity value (Rs/share)	**364**	
Equity value (US$ mn)	**1,068**	
Exit FCF multiple (X)	**14.0**	
Exit EBITDA multiple (X)	**3.9**	

FCF in terminal year (Rs mn)	7,419
Exit FCF multiple: (1+g)/(WACC-g)	14.0
Terminal value of FCF (Rs mn)	103,861
Exit EBITDA multiple	3.9

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.0
Market risk premium—(Rm-Rf) (%)	5.5
Beta (x)	1.1
Cost of equity-Ke (%)	14.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	33.6
Debt/Capital (%)	39.1
Equity/Capital (%)	60.9
WACC (%)	11.7
Used WACC (%)	12.5

Sensitivity of DCF value to WACC, Terminal Growth rate

Terminal Growth rate (%)	WACC 11.5	12.0	12.5	13.0	13.5
4.0	390	358	331	306	284
5.0	438	398	364	335	309
6.0	502	451	408	372	340
7.0	595	525	468	421	381
8.0	742	637	555	490	437

Base case

Source: Kotak Institutional Equities estimates

Exhibit 8. SOTP based target results in an upside of % for IVRCL

Derivation of SOTP based target price for IVRCL

	Equity commitment (Rs mn)	P/B Multiple (X)	Per share (Rs)
Value of core construction business			364.2
Roads			
Jallandhar- Amristar Tollways	400	1.0	3.0
Salem - Kumarapalayam	760	1.0	5.6
Sumarapalayam Chenagmpalli	1,290	1.0	9.6
Water			
Chennai Water	713	1.0	5.3
Value of Hindustan Dorr Oliver		Current Market Price	15.3
Value of IVRCL Prime Developers limited		DCF	160.3
Total			**563.3**

Source: Kotak Institutional Equities estimates.

Telecom

Sector coverage view	Cautious

		Price, Rs	
Company	**Rating**	**10-Oct**	**Target**
Bharti	U	1,072	750
Rcom	U	724	500
MTNL	U	153	135
VSNL	OP	501	550
Idea Cellular	U	142	110

GSM subscriber growth takes a breather; the leader continues its march, though

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- **GSM operators (excluding RCL's GSM operations) add 5.6 mn subs in September**
- **Subscriber growth slows down for all players except Bharti**
- **Total subs addition may be 7.9 mn in September assuming that CDMA operators maintain their August 2007 subs addition**

GSM operators (excluding RCL) added 5.6 mn subs in September 2007, a decline from 5.95 mn in August 2007 (6.25 mn including RCL). Bharti and BPL were the only GSM operators to increase their subscriber additions mom. We believe that the total subs addition for Sep 2007 may be 7.9 mn (versus 8.25 mn in Aug 07), assuming that CDMA operators maintain their Aug 2007 subs additions pace. Subscriber addition in Sep 07 is in-line with our FY2008 net add forecasts (8.1 mn implied in our assumptions from October 2007-March 2008); we expect the subs addition pace to pick up as the festive season kicks in and Vodafone-Essar completes its re-branding exercise. We maintain our U rating and target prices on Bharti (Rs750), RCOM (Rs500), and Idea (Rs110). Key risk is higher than expected profitability.

Bharti keeps marching along; 'battery recharge' time for others: Overall GSM subscriber addition slowed down to 5.6 mn net adds (ex RCL) for the month of September as against 5.95 mn in August 2007. Bharti was the only major player to report a mom improvement (2.06 mn versus 2.05 mn in Aug) in subs addition pace—it increased its share of net adds (ex RCL) to 36.8% from 34.5% in the previous month. We continue to be impressed with the execution engine of Bharti and expect the company to meet our end-March 2008 subscriber forecast of 62.3 mn subs (2.2 mn implied net adds per month over the next six months).

Slowdown in Vodafone-Essar's net add pace likely a blip; expect net adds to improve. We believe that the slowdown in Vodafone-Essar's net add pace was likely a result of the company undertaking its re-branding exercise during the month. Vodafone-Essar reiterated its target of a 25% market share in India within the next three years. We expect the company to adopt aggressive pricing and handset-bundling strategies in the next few months, which would likely reflect in increased subs addition pace.

Idea Cellular—no surprises this time. Idea's net adds of 801,000 subs (13.6% of GSM market net adds ex-RCL) was line with our expectations, after 3 months of positive surprise (average net adds of 868,000 over the past three months). At its current pace, Idea will likely exceed our end-FY2008 subscriber estimate; our forecasts imply net subs addition of 781,000 subs per month over the next six months. However spectrum allocation is the key for our FY2009 subs estimate of 33.6 mn.

BSNL—slows down again. BSNL's continues to struggle with its capacity constraints adding 599,000 subs this month versus 725,000 in August. We model 672,000 net adds per month for BSNL from hereon till March 2008. BSNL's much talked about new capacity may finally come on stream (in the next six to nine months) though with half of originally planned size (22.7 mn versus 45.5 mn lines earlier). Ericsson has signed on revised purchase order with BSNL for 13.1 mn lines. Nokia Siemens Networks is yet to sign on it share of 9.6 mn lines.

Others—volatility continues. Subs adds for the all the other players (Spice, Aircel, MTNL) slowed down on a mom basis. Spice had its lowest net adds (84,000) since April, while Aircel (419,000) and MTNL (43,000) too had lower net adds than in the previous month.

Subscriber details of leading GSM cellular operators ('000)

	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Subs ('000)													
Bharti Airtel	27,061	28,612	30,262	31,974	33,732	35,440	37,141	38,892	40,744	42,704	44,763	46,815	48,876
Vodafone-Essar	20,357	21,267	22,275	23,306	24,414	25,343	26,442	27,703	29,209	30,752	32,437	34,115	35,658
IDEA Cellular	10,364	10,980	11,841	12,442	13,072	13,640	14,011	14,563	15,267	16,126	17,004	17,871	18,672
BPL	1,045	1,049	1,053	1,056	1,062	1,066	1,071	1,077	1,082	1,088	1,095	1,102	1,153
Spice Telecom	2,197	2,266	2,357	2,450	2,520	2,579	2,729	2,815	3,007	3,170	3,290	3,398	3,482
Reliance	2,958	3,184	3,410	3,641	3,876	4,111	4,348	3,625	3,864	4,139	4,439	4,734	4,734
MTNL	2,290	2,326	2,375	2,425	2,498	2,579	2,747	2,484	2,548	2,609	2,669	2,729	2,772
BSNL	20,936	22,054	22,975	23,619	24,442	25,444	27,429	27,756	27,994	28,423	28,979	29,704	30,303
Aircel	3,804	4,005	4,238	4,513	4,802	5,095	5,514	5,928	6,409	6,775	7,162	7,621	8,039
Total market	**91,014**	**95,742**	**100,786**	**105,425**	**110,420**	**115,297**	**121,431**	**124,843**	**130,124**	**135,787**	**141,839**	**148,089**	**153,689**
Market share of subs (%)													
Bharti Airtel	29.7	29.9	30.0	30.3	30.5	30.7	30.6	31.2	31.3	31.4	31.6	31.6	31.8
Vodafone-Essar	22.4	22.2	22.1	22.1	22.1	22.0	21.8	22.2	22.4	22.6	22.9	23.0	23.2
IDEA Cellular	11.4	11.5	11.7	11.8	11.8	11.8	11.5	11.7	11.7	11.9	12.0	12.1	12.1
BPL	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.8
Spice Telecom	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Reliance	3.3	3.3	3.4	3.5	3.5	3.6	3.6	2.9	3.0	3.0	3.1	3.2	3.1
MTNL	2.5	2.4	2.4	2.3	2.3	2.2	2.3	2.0	2.0	1.9	1.9	1.8	1.8
BSNL	23.0	23.0	22.8	22.4	22.1	22.1	22.6	22.2	21.5	20.9	20.4	20.1	19.7
Aircel	4.2	4.2	4.2	4.3	4.3	4.4	4.5	4.7	4.9	5.0	5.0	5.1	5.2
Growth (%)													
Bharti Airtel	5.5	5.7	5.8	5.7	5.5	5.1	4.8	4.7	4.8	4.8	4.8	4.6	4.4
Vodafone-Essar	5.0	4.5	4.7	4.6	4.8	3.8	4.3	4.8	5.4	5.3	5.5	5.2	4.5
IDEA Cellular	6.5	5.9	7.8	5.1	5.1	4.3	2.7	3.9	4.8	5.6	5.4	5.1	4.5
BPL	0.2	0.4	0.3	0.3	0.6	0.3	0.5	0.6	0.5	0.5	0.6	0.7	4.7
Spice Telecom	2.3	3.1	4.0	3.9	2.9	2.3	5.8	3.1	6.8	5.4	3.8	3.3	2.5
Reliance	8.1	7.6	7.1	6.8	6.5	6.0	5.8	(16.6)	6.6	7.1	7.2	6.7	-
MTNL	1.2	1.5	2.1	2.1	3.0	3.2	6.5	(9.6)	2.6	2.4	2.3	2.3	1.6
BSNL	4.4	5.3	4.2	2.8	3.5	4.1	7.8	1.2	0.9	1.5	2.0	2.5	2.0
Aircel	5.6	5.3	5.8	6.5	6.4	6.1	8.2	7.5	8.1	5.7	5.7	6.4	5.5
Total market	**5.1**	**5.2**	**5.3**	**4.6**	**4.7**	**4.4**	**5.3**	**2.8**	**4.2**	**4.4**	**4.5**	**4.4**	**3.8**
Net monthly adds ('000)													
Bharti Airtel	1,413	1,551	1,650	1,712	1,758	1,708	1,701	1,751	1,851	1,960	2,059	2,051	2,061
Vodafone-Essar	977	910	1,008	1,032	1,108	929	1,099	1,261	1,506	1,542	1,686	1,678	1,542
IDEA Cellular	629	616	862	601	629	568	371	553	703	860	878	867	801
BPL	3	4	4	4	6	4	5	6	5	6	7	7	51
Spice Telecom	49	69	91	92	70	59	150	86	192	163	120	107	84
Reliance	222	225	226	231	235	235	237	(723)	239	275	300	296	-
MTNL	26	35	49	50	74	81	168	(263)	64	61	60	60	43
BSNL	873	1,118	921	643	824	1,002	1,985	327	239	429	556	725	599
Aircel	203	201	233	275	290	292	420	413	481	366	387	458	419
Total market	**4,394**	**4,728**	**5,044**	**4,639**	**4,994**	**4,877**	**6,135**	**3,412**	**5,282**	**5,662**	**6,052**	**6,250**	**5,600**
Market share of net adds (%)													
Bharti Airtel	32.1	32.8	32.7	36.9	35.2	35.0	27.7	51.3	35.1	34.6	34.0	32.8	36.8
Vodafone-Essar	22.2	19.2	20.0	22.2	22.2	19.0	17.9	37.0	28.5	27.2	27.9	26.8	27.5
IDEA Cellular	14.3	13.0	17.1	13.0	12.6	11.6	6.0	16.2	13.3	15.2	14.5	13.9	14.3
BPL	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.9
Spice Telecom	1.1	1.5	1.8	2.0	1.4	1.2	2.5	2.5	3.6	2.9	2.0	1.7	1.5
Reliance	5.0	4.8	4.5	5.0	4.7	4.8	3.9	(21.2)	4.5	4.9	4.9	4.7	-
MTNL	0.6	0.7	1.0	1.1	1.5	1.7	2.7	(7.7)	1.2	1.1	1.0	1.0	0.8
BSNL	19.9	23.6	18.3	13.9	16.5	20.5	32.4	9.6	4.5	7.6	9.2	11.6	10.7
Aircel	4.6	4.2	4.6	5.9	5.8	6.0	6.8	12.1	9.1	6.5	6.4	7.3	7.5
Circlewise subs ('000)													
Metros	18,525	18,977	19,472	20,072	20,634	21,322	21,959	22,082	22,784	23,499	24,297	25,066	25,881
Circle A	32,443	34,191	36,059	37,443	39,237	40,717	42,680	44,453	46,252	48,139	50,430	52,996	55,247
Circle B	31,101	33,073	35,097	37,130	39,137	41,072	43,543	44,724	46,794	49,201	51,587	53,867	55,975
Circle C	8,945	9,501	10,159	10,779	11,412	12,185	13,250	13,584	14,295	14,948	15,525	16,160	16,586
Total	**91,014**	**95,742**	**100,786**	**105,425**	**110,420**	**115,297**	**121,431**	**124,843**	**130,124**	**135,787**	**141,839**	**148,089**	**153,689**
Circlewise net adds ('000)													
Metros	600	452	495	601	561	688	637	124	702	715	798	769	814
Circle A	1,618	1,749	1,867	1,385	1,794	1,480	1,963	1,772	1,800	1,886	2,292	2,566	2,252
Circle B	1,639	1,972	2,024	2,033	2,007	1,935	2,470	1,181	2,070	2,408	2,385	2,280	2,108
Circle C	536	555	659	620	632	774	1,064	334	711	653	577	635	426
Total	**4,394**	**4,728**	**5,044**	**4,639**	**4,994**	**4,877**	**6,135**	**3,412**	**5,282**	**5,662**	**6,052**	**6,250**	**5,600**
Circlewise subs (%)													
Metros	20	20	19	19	19	18	18	18	18	17	17	17	17
Circle A	36	36	36	36	36	35	35	36	36	35	36	36	36
Circle B	34	35	35	35	35	36	36	36	36	36	36	36	36
Circle C	10	10	10	10	10	11	11	11	11	11	11	11	11
Circlewise net adds (%)													
Metros	14	10	10	13	11	14	10	4	13	13	13	12	15
Circle A	37	37	37	30	36	30	32	52	34	33	38	41	40
Circle B	37	42	40	44	40	40	40	35	39	43	39	36	38
Circle C	12	12	13	13	13	16	17	10	13	12	10	10	8

Note:
(a) Sep '07 numbers for RCL not reported yet

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

Bharti added more subscribers than Vodafone-Essar in Vodafone-Essar's 16 circles of operation for the first time since April 2007
Bharti and Vodafone-Essar's subscriber net adds in Vodafone-Essar's 16 circles, Sep '06 - Sep '07 ('000)

	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Subscriber net adds													
Bharti Airtel (total)	**1,111**	**1,268**	**1,296**	**1,321**	**1,383**	**1,311**	**1,196**	**1,295**	**1,398**	**1,470**	**1,656**	**1,650**	**1,698**
Andhra Pradesh	142	225	234	103	154	166	183	193	142	162	194	252	203
Calcutta	51	19	22	80	37	56	44	58	42	69	64	50	80
Chennai	19	9	17	30	26	42	47	58	48	51	43	40	59
Delhi	113	78	87	115	71	155	31	57	107	77	64	76	126
Gujarat	62	93	89	75	133	29	4	53	33	46	103	83	113
Karnataka	167	178	168	130	242	168	207	208	177	174	277	262	232
Kerala	20	27	22	56	53	41	40	37	65	40	49	65	59
Maharashtra	94	106	126	133	130	101	111	146	123	98	77	154	142
Mumbai	47	46	43	92	59	35	18	34	35	63	44	65	37
Haryana	53	56	42	39	31	14	48	20	9	7	20	14	5
Rajasthan	45	71	61	157	122	108	66	115	195	149	196	92	188
Tamil Nadu	68	43	84	56	116	136	149	131	124	136	188	239	150
Uttar Pradesh (East)	37	111	91	76	100	110	136	41	73	125	151	152	137
Punjab	75	82	122	87	29	57	12	28	65	41	45	37	47
Uttar Pradesh (West)	46	67	57	34	26	44	41	33	85	80	24	9	25
West Bengal	72	57	31	57	57	49	58	82	72	154	117	62	95
Total													
Vodafone-Essar (total)	**977**	**910**	**1,008**	**1,032**	**1,108**	**929**	**1,099**	**1,261**	**1,506**	**1,542**	**1,686**	**1,678**	**1,542**
Andhra Pradesh	55	45	61	61	65	50	56	65	81	90	101	100	100
Calcutta	21	20	15	20	20	29	38	40	50	45	54	60	50
Chennai	27	13	18	28	24	25	27	30	31	35	40	50	45
Delhi	40	31	39	32	64	62	86	29	141	64	122	97	83
Gujarat	126	153	218	202	182	126	145	156	200	145	145	130	136
Karnataka	60	49	75	51	46	32	42	56	80	90	110	126	110
Kerala	52	40	28	19	28	22	45	65	76	101	111	130	103
Maharashtra	44	31	17	11	20	34	50	66	80	100	125	126	127
Mumbai	60	40	36	32	33	23	27	64	63	72	78	78	79
Haryana	34	44	55	52	52	51	55	61	65	66	55	43	10
Rajasthan	65	101	69	85	120	90	91	95	115	125	130	142	140
Tamil Nadu	51	20	31	83	69	55	61	150	103	152	175	201	201
Uttar Pradesh (East)	130	121	102	82	81	86	122	133	150	168	152	161	151
Punjab	45	40	53	50	55	42	52	60	65	68	60	51	30
Uttar Pradesh (West)	91	81	101	103	104	101	101	109	91	105	110	81	90
West Bengal	76	80	90	120	146	100	100	82	115	115	116	101	85

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

Cement

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**10-Oct**	**Target**
Gujarat Ambuj	IL	151	130
ACC	U	1,218	900
Grasim	IL	3,649	2,900
India Cements	IL	283	230
UltraTech Cem	U	1,088	750
Shree Cement	IL	1,601	1,300

Monsoon affects despatches, prices remain stable.

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- **Moderate despatch growth of 4.5% yoy in September 2007.**
- **Cement prices stable at Rs231/bag.**
- **We retain Cautious view on the sector.**

Moderate despatch growth of 4.5% yoy in September 2007. Cement despatches recorded a moderate growth of 4.5% yoy in September 2007. The YTD growth for the industry now stands at 8.9% against our estimate of 10% for FY2008. Ambuja Cements (-4.2%) and Madras Cements (-2.1%) reported negative growth in despatches. Despatches in the monsoon season (June to September) are usually erratic and dependent on the temporal distribution of rainfall. Despatches for Ambuja Cements and Ultratech were affected during September 2007 due to the incessant rains in Gujarat. We expect despatches to remain buoyant post monsoon as construction activity gathers steam after the wet season.

Cement prices remain stable at Rs231/bag. All India average cement prices in September 2007 remained stable at Rs231/bag (Rs199/bag in September 2006). Prices in South India did not rise for the first time since January 2007. We note that cement companies in North have already taken a price increase of Rs3-5/bag in October as construction activity peaks after the monsoons. We note that the current supply-demand balance remains in favor of cement manufacturers, who are likely to retain their pricing power (barring any government intervention) till the first few months of FY2009. Commissioning of new capacities in 1QFY2009 will likely change this pricing equation, in our view.

We retain our Cautious view on the sector. We note that while the next two quarters will see the demand-supply balance remaining in favor of cement manufacturers, new capacities getting commissioned in FY2009 will likely change the currently favorable demand-supply environment. We estimate 30 mn tpa of new capacity to get commissioned in FY2009, far exceeding the incremental cement demand. We will likely see concentrated capacity addition in North when Grasim’s two new capacities of 4 mn tpa each commission in Rajasthan during 1QFY2009 and 2QFY2009. Government intervention remains a key risk to the sector in the interim.

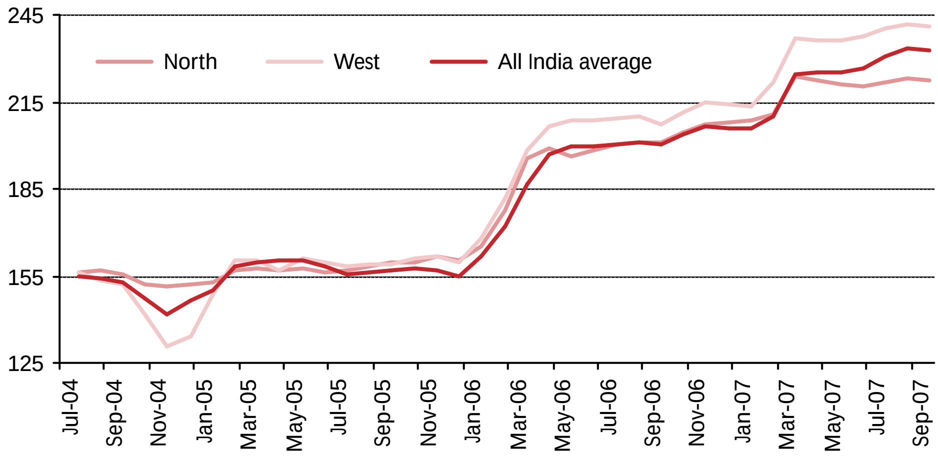
Exhibit 1: Cement despatch growth rates for major companies

	Sep-07 (mn tons)	Growth (%) y-o-y	YTD
ACC	1.52	10.4	11.3
Gujarat Ambuja	1.29	(4.2)	2.4
UltraTech	1.08	0.6	5.1
Grasim Industries	1.26	2.1	7.2
Shree Cement	0.47	19.0	25.7
India Cements	0.74	6.3	5.0
Madras Cements	0.43	(2.1)	2.8
Industry	**12.7**	**4.5**	**8.9**

Source: CMA, Kotak Institutional Equities.

Exhibit 2: Cement prices have remained stable in September

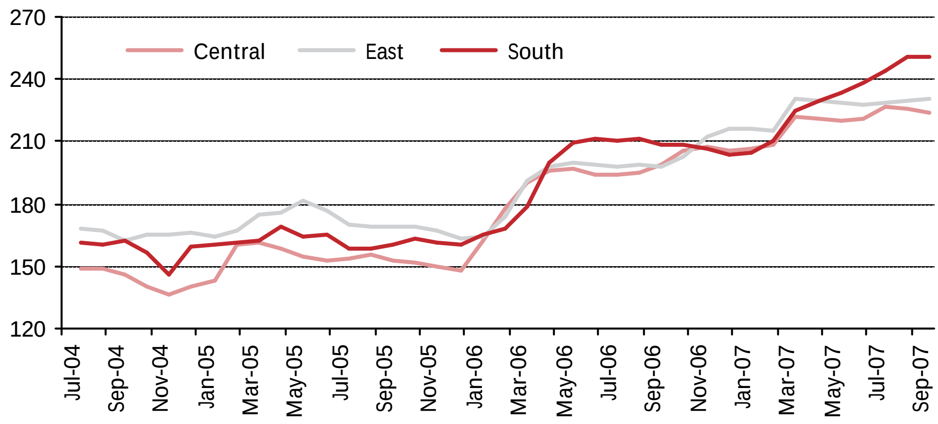
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities.

Exhibit 3: Cement prices in South have stabilised for the first time since January 2007

Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities.

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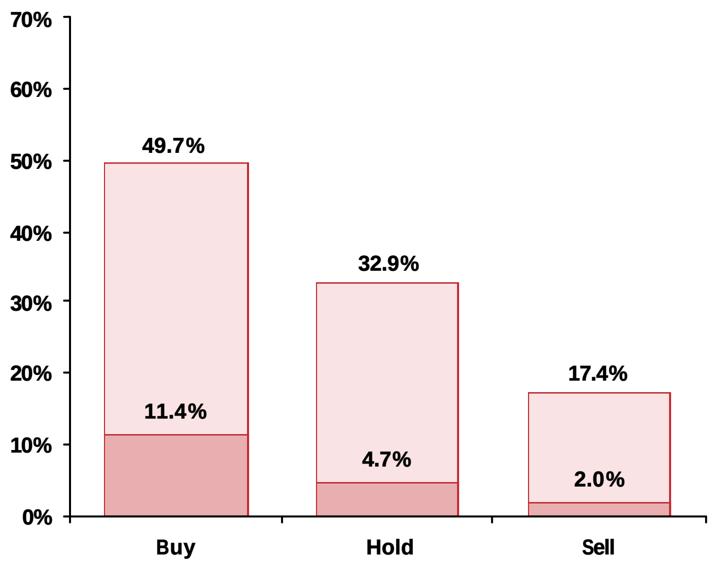

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Source: Kotak Institutional Equities. As of June 30, 2007

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Definitions of ratings

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

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