kotak® Institutional Equities

INDIA DAILY

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Updates

Wipro: Acquires SE Asia personal care company. Maintain OP rating

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News Roundup

Corporate

- Future group, the country's largest retailer, is learnt to be in talks for buying stakes in some international manufacturing companies, mainly in the consumer durables and home equipment space in an attempt to strengthen its back-end operations. (ET)
- Maruti, the country's largest small car maker, has roped in its 80-odd original equipment suppliers to sell cars in a difficult market. The strategy is similar to its earlier schemes to tap school teachers, NRIs and panchayats to drive deeper into the semi-urban and the rural markets to push sales. (ET)
- MTNL is believed to be close to buying Sri Lankan fixed line operator Suntel and has sent a high-level delegation to start technical assessment of the company. (BS)
- Indian Oil Corp (IOC) has been edged out by a Kazakh-Russian oil company in the final round of bidding for the Turkish company Petkim. (ET)

Economic and political

- The Reserve Bank of India (RBI) has opposed Finance Minister P Chidambaram's budget proposal to use part of the foreign exchange reserves of over US$200 bn to provide "credit wrap," or credit guarantee insurance, for financing infrastructure projects. (BS)
- Foreign direct investment of a maximum 100% in single-brand retail could get a look-in as part of a dual-option strategy being fine-tuned by the government. The other option is to permit 49% FDI in multi-brand retail in an effort to widen the scope of foreign investment in the sector. (FE)
- The country is likely to miss the export target of US$160 bn for 2007-08 by at least US$15 bn due to the strengthening rupee, an Assocham study has said. (BS)
- With land becoming a scarce resource after the political furore over land acquisition by states, the central government has decided to extend the validity of approvals provided to special economic zones (SEZ). (ET)

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

EQUITY MARKETS

		Change, %		
India	**6-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,964	0.7	6.4	13.6
Nifty	4,385	0.7	5.8	14.1
Global/Regional indices				
Dow Jones	13,612	0.3	1.4	8.3
Nasdaq Composite	2,667	0.4	3.6	8.0
FTSE	6,690	0.8	2.8	4.6
Nikkie	18,241	0.6	2.6	2.8
Hang Seng	22,689	0.7	10.6	12.3
KOSPI	1,886	1.3	9.2	25.6

Value traded - India

			Moving avg, Rs bn	
	6-Jul		**1-mo**	**3-mo**
Cash (NSE+BSE)	176.5		135.3	135.5
Derivatives (NSE)	412.5		312.1	249.6
Deri. open interest	698.5		567.3	444.5

Forex/money market

		Change, basis points		
	6-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.5	-	(36)	(249)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	-	(14)	(14)

Net investment (US$mn)

	5-Jul		MTD	CYTD
FIIs	313		1,759	5,855
MFs	48		111	(55)

Top movers -3mo basis

		Change, %		
Best performers	**6-Jul**	**1-day**	**1-mo**	**3-mo**
BALAJI TELEFILMS L	231	3.7	3.5	81.3
RELIANCE CAPITAL	1,149	1.5	19.2	75.5
MOSER BAER INDIA	498	0.7	9.5	65.2
GREAT EASTERN SH	339	(0.7)	18.3	61.2
STATE BANK OF IND	1,550	0.2	14.3	56.8
Worst performers				
POLARIS SOFTWARI	154	3.1	(8.4)	(10.1)
CIPLA LTD	212	(1.9)	0.2	(9.8)
RAYMOND LIMITED	304	(1.0)	(2.7)	(8.8)
BAJAJ AUTO LIMITE	2,109	0.9	(0.6)	(8.2)
DR. REDDY'S LABOF	673	(0.1)	6.5	(7.8)

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Technology

WIPR.BO, Rs519	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	655
52W High -Low (Rs)	690 - 441
Market Cap (Rs bn)	757.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	149.4	188.9	243.4
Net Profit (Rs bn)	28.5	35.5	44.4
EPS (Rs)	20.3	24.3	30.4
EPS gth	*42.4*	*20.1*	*25.0*
P/E (x)	25.6	21.3	17.1
EV/EBITDA (x)	20.8	16.1	12.1
Div yield (%)	1.0	1.3	1.7

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	79.6	-	-
FIIs	6.7	0.9	(2.0)
MFs	1.1	0.9	(2.0)
UTI	-	-	(2.9)
LIC	1.0	0.8	(2.1)

Wipro: Acquires SE Asia personal care company. Maintain OP rating

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- **Acquisition may drag EPS (after amortization of intangibles)**
- **Acquisition values the company at 20x ttm earnings; 16xFY2008E earnings**
- **Maintain Outperform with a Mar' 09 end DCF based target price of Rs655/share**

Wipro has announced an all cash acquisition of Unza Holdings, a Singapore based FMCG company, for US$246 mn. In addition Wipro would assume debt of US$45 mn. The acquisition is consistent with Wipro' s inorganic growth strategy; however utilization of funds generated from IT services business into large acquisitions in non-IT businesses may not be appreciated by investors. We however maintain our Outperform rating noting that (a) organic revenue growth of Global IT services business will likely be higher than FY2007 and ahead of street expectations (b) more levers than peers to protect operating margins and (c) faster ramp up from SEZs will likely lead to a lower tax rate increase in FY2010. Valuations are attractive; maintain end March 2009 DCF based target price of Rs655.

About Unza: Unza is South East Asia's largest independent manufacturer and marketer of personal care products. The company has operations in 40 countries and has wide portfolio of personal care brands such as Enchanteur, safi, Romano and Izzi. The company achieved revenues of US$166 mn, operating profit of US$20 mn, and net income of US$13 mn for the year ended April 2007. The company has grown by 15% in the previous year.

Acquisition values the company at 20x ttm earnings: The acquisition price of US$246 mn, values Unza at 20x ttm earnings. Wipro will also assume debt of US$45 mn as a part of this transaction. The acquisition addresses high growth markets, especially China and presents significant opportunities for cross sell. The combined consumer care business will have revenues of Rs15 bn (from Rs8.2 bn in FY2007). From an overall perspective, the acquisition adds 3.6% to Wipro's FY2007 revenues and 2% to FY2007 EBIT. We believe that the transaction would be EPS neutral in the first year excluding amortization of intangibles and EPS negative including amortization.

Energy

CAIR.BO, Rs157	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	130
52W High -Low (Rs)	160 - 111
Market Cap (Rs bn)	276.5

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	18.3	19.0	21.3
Net Profit (Rs bn)	1.1	0.7	1.1
EPS (Rs)	0.6	0.4	0.6
EPS gth	*(68.1)*	*(40.1)*	*61.7*
P/E (x)	256.8	420.3	262.8
EV/EBITDA (x)	46.3	44.2	36.7
Div yield (%)	-	-	-

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.0	-	-
FIIs	11.0	0.4	0.4
MFs	0.5	0.1	0.1
UTI	-	-	-
LIC	2.2	0.5	0.5

Cairn India: Pipeline approval from government but already in model

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- **Stock price seems to be discounting US65/bbl crude oil in perpetuity at current disclosed reserves**
- **Our model assumes full recovery of pipeline cost and no cess or royalty on Cairn's portion of crude oil**
- **Maintain 12-month DCF-based fair valuation of Rs130**

According to press reports, the Indian government has approved Cairn India's plan to construct a crude oil pipeline to evacuate crude oil from its Rajasthan block RJ-ON-90/1. The stock price has rallied on the back of this development perhaps allaying the street's concern on evacuation of crude oil. We note that this was widely regarded as a given and we had already assumed this to be the case. Our model assumes that the cost of the pipeline (US$500 mn net to Cairn) is treated as part of the upstream capex and Cairn will recover both capex and opex related to the pipeline as part of the overall production sharing contract for the block. We also do not assume any cess or royalty on Cairn's portion of crude oil. As such, we are not changing our estimates and 12-month DCF-based target price of Rs130. Key upside risks stem from higher-than-expected crude oil price in perpetuity.

Stock price appears to be discounting US$65/bbl Dated Brent price in perpetuity. Assuming Cairn is unable to discover more crude oil and gas and its recoverable reserves in Rajasthan block do not increase, our reverse valuation exercise suggests that Cairn’s current stock price is discounting US$65/bbl crude oil Dated Brent price in perpetuity at Rs41/US Dollar. We find this very aggressive even though forward strip crude oil prices suggest high prices for the next several months. We note that we do not assume any potential liability for Cairn from imposition of cess or royalty on its portion of crude oil.

More recoverable reserves is key to Cairn stock price. Our model assumes about 800 mn bbls of crude oil production (gross basis) from RJ-ON-90/1out of original oil in place reserves of 3.6 bn bbls. The key challenge for Cairn is to (1) increase recovery factor through EOR or (2) convert 1.4 bn bbls of contingent resources (especially in Barmer Hill formation) to reserves. We note that our 12-month valuation of Cairn factors in US$400 mn of additional value (10% of base valuation of Cairn’s 70% stake in the block for upward revision to reserves.

We value Cain India stock at Rs130

EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	3,631	4,265	5,153
CB-OS-2	161	114	74
Ravva	340	303	264
Upside potential (KG-DWN-98/2, RJ-ON-90/1)	563	625	694
Total	**4,695**	**5,307**	**6,185**
Net debt	(157)	39	487
Equity value	**4,852**	**5,267**	**5,698**
Equity shares (mn)	1,765	1,765	1,765
Equity value per share (Rs/share)	**118**	**128**	**139**

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Profit model (Rs mn)								
Net sales	18,306	19,048	21,262	44,056	101,112	84,436	81,760	79,651
EBITDA	**5,288**	**5,767**	**8,008**	**29,985**	**76,435**	**52,180**	**38,118**	**31,037**
Other income	524	531	85	105	138	388	791	1,119
Interest	(404)	(62)	(69)	(500)	(406)	—	—	—
Depreciation	(3,935)	(5,477)	(6,265)	(7,727)	(9,517)	(9,146)	(9,228)	(9,348)
Pretax profits	1,474	759	1,759	21,863	66,649	43,422	29,682	22,808
Tax	(372)	(24)	(607)	(3,755)	(8,426)	(5,625)	(4,159)	(3,402)
Deferred taxation	(25)	(77)	(100)	(1,001)	(1,074)	(524)	(92)	244
Net profits	**1,077**	**658**	**1,052**	**17,107**	**57,149**	**37,273**	**25,431**	**19,650**
Earnings per share (Rs)	**0.6**	**0.4**	**0.6**	**9.7**	**32.4**	**21.1**	**14.4**	**11.1**
Balance sheet (Rs mn)								
Total equity	283,527	284,185	285,237	302,344	318,185	322,412	325,296	327,525
Deferred tax liability	3,205	3,283	3,383	4,384	5,458	5,982	6,074	5,831
Total borrowings	21,245	3,745	23,745	16,245	—	—	—	—
Currrent liabilities	1,742	1,791	1,787	1,924	3,536	4,688	6,411	7,168
Total liabilities and equity	**309,720**	**293,004**	**314,152**	**324,898**	**327,180**	**333,083**	**337,782**	**340,524**
Cash	28,366	2,049	2,806	3,188	4,711	17,504	27,832	36,268
Current assets	1,755	1,827	2,039	4,225	9,696	8,097	7,840	7,638
Total fixed assets	25,301	36,534	60,202	32,140	23,072	20,634	18,092	15,446
Net producing properties	7,698	5,995	2,505	38,746	43,102	40,249	37,419	34,573
Investments	4	4	4	4	4	4	4	4
Goodwill	246,595	246,595	246,595	246,595	246,595	246,595	246,595	246,595
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	**309,720**	**293,004**	**314,152**	**324,898**	**327,180**	**333,083**	**337,782**	**340,524**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	3,109	3,069	4,464	23,081	65,452	45,106	32,509	26,186
Working capital changes	998	(22)	(216)	(2,049)	(3,859)	2,751	1,980	959
Capital expenditure	(14,946)	(12,395)	(23,575)	(13,255)	(2,656)	(2,406)	(2,406)	(2,406)
Investments/Goodwill	(249,804)	—	—	—	—	—	—	—
Other income	524	531	85	105	138	388	791	1,119
Free cash flow	**(260,120)**	**(8,818)**	**(19,242)**	**7,882**	**59,076**	**45,839**	**32,875**	**25,858**
Key assumptions								
Gross production ('000 boe/d)	91	89	89	119	205	202	193	185
Net production ('000 boe/d)	25	26	29	53	117	118	114	111
Dated Brent (US$/bbl)	65	65	60	60	60	50	50	50
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2	4	4	4	4	4	4	4

Source: Kotak Institutional Equities estimates.

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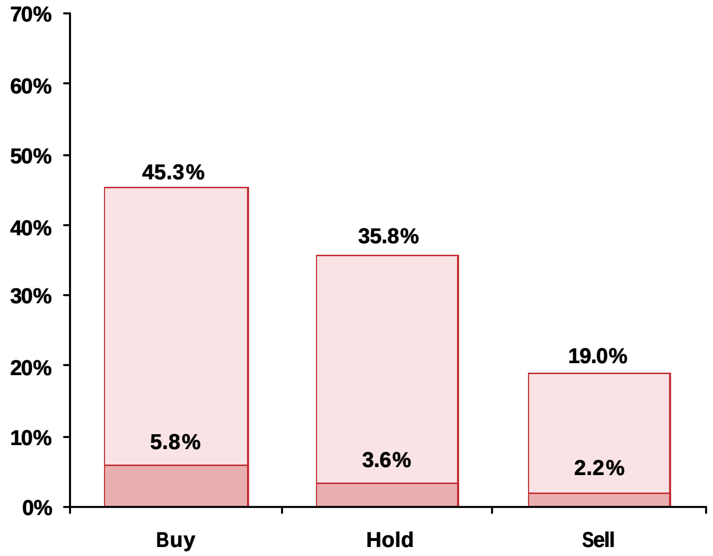

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Source: Kotak Institutional Equities. As of March 31, 2007

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