kotak® Institutional Equities

INDIA DAILY

January 10, 2008

EQUITY MARKETS

India	9-Jan	1-day	1-mo	3-mo
		Change, %		
Sensex	20,870	(0.0)	4.7	11.9
Nifty	6,272	(0.3)	5.2	15.3
Global/Regional indices				
Dow Jones	12,735	1.2	(7.2)	(9.5)
Nasdaq Composite	2,475	1.4	(9.0)	(12.0)
FTSE	6,273	(1.3)	(4.5)	(5.4)
Nikkie	14,482	(0.8)	(9.1)	(15.7)
Hang Seng	27,576	(0.1)	(3.2)	(3.5)
KOSPI	1,849	0.3	(3.0)	(9.4)

Value traded - India

	9-Jan		1-mo	3-mo
			Moving avg, Rs bn	
Cash (NSE+BSE)	305.4		76.0	26.2
Derivatives (NSE)	741.7		613.6	823.6
Deri. open interest	1,296.4		1,009	879.1

Forex/money market

	9-Jan	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	39.3	0	(12)	(5)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	(1)	(22)	(31)

Net investment (US$mn)

	8-Jan		MTD	CYTD
FIIs	261		14	281
MFs	3		(341)	402

Top movers -3mo basis

Best performers	9-Jan	1-day	1-mo	3-mo
		Change, %		
Neyveli Lignite	247	(0.5)	(4.2)	136.4
Rashtriya Chem	128	(5.0)	51.1	125.9
Engineers India	1,208	(5.0)	37.9	114.0
MRF	6,816	(0.9)	(6.9)	84.8
Balrampur Chini	126	4.0	21.9	67.5
Worst performers				
Infosys	1,656	(0.4)	(5.3)	(22.1)
Acc	970	(1.5)	(8.7)	(20.4)
i-Flex	1,585	8.2	(0.8)	(17.4)
Container Corp	1,790	(1.4)	(4.8)	(11.9)
Satyam Computer	428	0.8	(2.6)	(11.6)

Contents

News Roundup

Corporate

- Carlyle Asia Growth Capital Partners has committed to pick up 49% equity stake in the Chennai-based Repco Home Finance Ltd. for a consideration of US$27.7 mn. (BL)
- The Centre has overturned the contention by Delhi International Airport Ltd (Dial) that setting up a second airport would result in a massive drop in traffic and revenue for the existing Delhi airport. (FE)
- Bajaj Auto is looking at acquiring a car company to break into the higher segments of the market as a part of its long-term passenger car strategy. (BS)
- Teva Pharmaceuticals Industries, the world's largest manufacturer of generics, plans to invest over US$1 bn in India to acquire Indian drug companies and set up greenfield manufacturing facilities. (BS)

Economic and political

- Indian life insurance companies are rapidly catching up with the money power of foreign institutional investors (FIIs). In this financial year so far, insurance companies have invested around Rs36,000 crore in the stock markets against around Rs60,000 crore invested by FIIs. (BS)
- Indian companies raised a record US$17.14 bn through private equity deals in 2007, according to data from Grant Thornton. (BS)
- Within a week of the Tamil Nadu goverment's threat of nationalisation, private cement manufacturers have offered to make available 20 lakh bags of blended cement every month in all districts of Tamil Nadu at a subsidised price of Rs200 per 50 kg bag. (BS)

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

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

Banking

AXBK.BO, Rs1096	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	850
52W High -Low (Rs)	1125 - 399
Market Cap (Rs bn)	361.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	25.8	43.5	59.8
Net Profit (Rs bn)	6.6	10.8	15.0
EPS (Rs)	23.4	32.8	42.2
EPS gth	*35.5*	*41.4*	*29.4*
P/E (x)	46.8	33.4	26.0
P/B (x)	12.1	4.2	3.7
Div yield (%)	0.4	0.6	0.8

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	43.3	-	-
FIIs	38.8	1.2	0.5
MFs	8.2	1.6	0.9
UTI	-	-	(0.7)
LIC	-	-	(0.7)

AXIS Bank: Strong profit growth reflects improving operating parameters and equity issuance

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **PAT growth was strong at 66% yoy and in line with expectations**
- **Solid operational performance and equity issuance were PAT drivers**
- **We had recently downgraded the stock to REDUCE from ADD; retain this rating as performance was in line with our expectations**

Axis Bank reported strong operational performance in 3QFY08 with PAT of Rs3.1 bn—a growth of 66% yoy and 3% ahead of our estimate. The company also made excess provisions and improved its asset quality. Gross NPL and net NPL reduced sequentially, by 8% and 17%, respectively, in the quarter. We believe Axis Bank's share price and valuation reflects expectations of good results. We had recently downgraded the stock to REDUCE from ADD and retain this rating given that the performance was in line with our expectations. The stock trades at 3.9X PBR FY2009. Our stock price target remains unchanged at Rs850 per share based on FY2009 earnings estimates. Our target price based on FY2010 estimate stands at Rs960 per share.

Hefty NII growth aided by equity issuance and improving spreads

- Axis Bank reported NII of Rs7.5 bn in 3QFY08—growth of 80% yoy, 6% ahead of our estimates.
- NIM for the quarter increased to 3.9% from 3.0% in 3QFY07 and 3.3% in 2QFY08. This was on account of lower cost of funds and equity issuance.
- The equity infusion of Rs45 bn made in 2QFY07 aided NIM improvement and NII growth. Assuming a 9.5% effective yield in the current macro-environment, NII growth—stripped of this income—would have been closer to 54% yoy in the current quarter.
- The proportion of low cost deposits to overall deposits was maintained at 45% (same as 2QFY08) as of December 2007. This is a marked improvement over the CASA ratio of 35-40% reported by the company in the past.
- The increase in CASA ratio helped the company reduce its cost of funds to 5.7% in 3QFY08 from 6.2% in 2QFY08.
- Axis Bank has seen its high yielding loans, particularly agriculture and SME sectors, increase by close to 57% yoy in the current quarter compared to the overall loan growth of 50% yoy. This has likely enabled the bank to maintain its yield on advances.

Non-interest income contribution was also significant

- Axis Bank reported a sharp jump in treasury income to Rs1.3 bn in 3QFY08 from Rs793 mn in 3QFY07 aided by contribution from forex and equity markets.
- Non-interest income (ex-treasury) increased by 78%yoy to Rs3.6 bn. The company indicated that it is gaining significant traction from the sale of third party distribution products and has booked close to Rs1.1 bn of income in 9MFY08, up 7X yoy.

Provisions help the bank improve its asset quality

Axis Bank's gross and net NPLs declined sequentially to Rs4.5 bn and Rs2.3 bn, respectively, as of 3QFY08. It's gross NPL ratio stood at 0.8% and net NPL ratio at 0.4%. We believe the bank has likely taken some write-offs in this quarter, leading to higher provision numbers.

Axis Bank quarterly results (Rs mn)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3QFY08KS	Actual Vs KS
Interest income	9,539	10,501	11,896	13,668	15,370	16,765	18,023			
Advances	5,503	6,110	7,053	8,362	10,124	11,334	12,297			
Investments	3,755	4,165	4,573	4,822	4,919	5,086	5,349			
Balance with RBI	280	226	270	484	326	344	377			
Interest expenses	6,321	6,849	7,738	9,025	10,901	10,878	10,550			
Net interest income	**3,218**	**3,652**	**4,158**	**4,642**	**4,468**	**5,887**	**7,473**	**79.7**	**7,030**	**6.3**
Non-interest income	2,245	2,048	2,797	3,011	3,423	3,829	4,879	74.4	4,200	16.2
Treasury income	400	233	793	430	708	1,025	1,310	65.2	1,000	31.0
Income excl treasury	1,846	1,814	2,005	2,581	2,715	2,804	3,569	78.0	3,200	11.5
Total income	**5,463**	**5,699**	**6,956**	**7,653**	**7,892**	**9,716**	**12,352**	**77.6**	**11,230**	**10.0**
Operating expenses	2,392	2,955	3,370	3,430	4,212	5,087	5,630	67.1	5,500	2.4
Employee cost	797	981	1,147	889	1,479	1,644	1,735	51.3	1,800	(3.6)
Other operating cost	1,595	1,974	2,223	2,541	2,733	3,443	3,895	75.2	3,700	5.3
Pre-prov profit	3,072	2,745	3,586	4,223	3,679	4,629	6,723	87.5	5,730	17.3
Provisions	1,248	588	763	1,065	1,009	1,145	2,000	162.2	1,150	73.9
Loan loss	357	214	303	83	496	640	1,840	507.9	700	162.9
Others incld invt. Depr.	891	134	460	950	513	505	160	(65.2)		
Standard Assets	220	240	330	450	370	130	160	(51.5)	200	(20.0)
Profit before tax	**1,824**	**2,157**	**2,823**	**3,158**	**2,670**	**3,484**	**4,723**	**67.3**	**4,580**	**3.1**
Tax	618	738	977	1,039	921	1,206	1,654	69.2	1,603	3.2
Profit after tax	**1,206**	**1,420**	**1,846**	**2,119**	**1,750**	**2,278**	**3,069**	**66.2**	**2,977**	**3.1**
Tax rate (%)	33.9	34.2	34.6	32.9	34.5	34.6	35.0		35.0	
PBT- treasury gains	**1,424**	**1,924**	**2,031**	**2,728**	**1,962**	**2,459**	**3,413**	**68.1**	**3,580**	**76.3**
PBT- treasury gains+provisions	**2,672**	**2,512**	**2,793**	**3,793**	**2,972**	**3,604**	**5,413**	**93.8**	**4,730**	**69.3**
Key balance sheet items (Rs bn)										
Deposits	421	490	509	588	611	641	686	34.6		
Demand deposits	149	196	189	234	231	291	310	64.3		
Savings	82	97	104	121	123	144	158	51.2		
Current	67	99	85	113	108	147	153	80.6		
Fixed deposits	272	294	320	354	380	350	375	17.1		
CASA ratio (%)	35.5	40.0	37.1	39.9	37.8	45.4	45.3			
Customer assets	323	360	393	436	477	511	558	42.1		
Advances	258	291	323	369	413	447	486	50.4		
Retail advances including CVs	78	85	92	89	NA	108	120	30.8		
Non-retail advances	180	206	232	279	NA	339	366	58.1		
SME advances	NA	51	57	29	NA	78	90	57.5		
Agricultural advances	NA	18	NA	41	NA	34	37	57.4		
Retail excld CVs	62	70	77	70	97	90	106	37.1		
Housing	28	32	39	48	54	61	70	76.5		
Auto	6	5	5	4	5	7	8	83.2		
CV	16	15	15	20	16	18	14	(1.9)		
2 Wheelers	1	1	1	0	0	0	0	(73.8)		
Consumer durables	-	1	0	NA	NA	1	1	227.1		
Others	6	6	6	7	7	9	12	83.2		
Total assets	530	598	650	733	791	835	906	39.4		
Investments	211	233	245	269	267	273	290	18.4		
Yield management measures (%)										
Cost of funds	5.45	5.42	5.53	5.9	6.4	6.2	5.7			
NIM	2.68	2.92	3.00	3.1	2.7	3.3	3.9			
Asset quality details										
Gross NPLs (Rs mn)	4,040	4,389	4,723	4,190	4,831	4,872	4,476	(5.2)		
Gross NPL (% of customer assets)	1.3	1.2	1.2	1.0	1.0	1.0	0.8			
Net NPLs (Rs mn)	2,330	2,639	2,669	2,660	2,812	2,809	2,343	(12.2)		
Net NPAs (% of customer assets)	0.7	0.7	0.7	0.6	0.6	0.6	0.4			
Capital adequacy details (%)										
CAR	10.3	11.5	11.8	11.6	11.5	17.6	16.9			
Tier I	6.7	6.7	7.0	6.4	6.3	13.0	12.6			
Tier II	3.6	4.8	4.9	5.2	5.2	4.6	4.3			
Other key details										
Branches	463	469	481	508	574	594	608			
ATM	1,959	2,021	2,126	-	2,428	2,500	2,595			
Cities	263	268	275	332	341	352	363			
CMS clients	1,547	1,773	1,773	2,164	2,322	2,592	2,951			
CMS TO (Rs bn)	554	955	955	1,357	1,401	1,635	2,303			
Debit cards (mn)	4.7	5.1	5.7	5.9	6.7	7.0	8.2			
Cash withdrawal (Rs mn)	22,610	25,820	29,050	27,280	32,310	33,550	37,870			
Number of transactions (mn)	12.4	14.2	14.5	14.3	13.8	13.9	14.3			
No of savings bank account customers (mn)	3.83	4.02	4.36	4.7	0.0	5.4	5.8			
Placements & syndications (Rs mn)	74,960	72,690	64,350	30,590	104,820	96,180	94,500			
Fee income composition (Rs mn)										
Corporate banking/credit	540	520	600	640	780	970	1,050	75.0		
Business Banking	330	340	340	390	450	490	550	61.8		
Capital markets	280	260	220	400	370	220	410	86.4		
Retail banking	470	580	760	960	1,000	1,210	1,470	93.4		
Break up credit as per rating										
AAA	2.0	3.0	3.0	1.0	1.0	1.0	0.0			
AA	22.0	21.0	28.0	26.0	21.0	21.0	21.0			
A	60.0	61.0	52.0	57.0	60.0	56.0	56.0			
BBB	13.0	12.0	12.0	14.0	15.0	17.0	18.0			
< BBB and unrated	4.0	4.0	4.0	2.0	3.0	5.0	5.0			

Source: Company, Kotak Institutional Equities estimates.

Cement

SHCM.BO, Rs1346	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	1,600
52W High -Low (Rs)	1695 - 851
Market Cap (Rs bn)	46.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	13.7	21.1	26.7
Net Profit (Rs bn)	1.6	3.9	4.6
EPS (Rs)	45.2	112.5	132.3
EPS gth	*(6.1)*	*153.3*	*18.2*
P/E (x)	29.8	12.0	10.2
EV/EBITDA (x)	8.9	5.5	4.5
Div yield (%)	0.4	0.5	0.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.7	-	-
FIIs	7.0	0.0	(0.1)
MFs	6.3	0.2	0.1
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Shree Cement: 3QFY08—Operational performance in line with expectations

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-6634-1125

- **Sluggish volume growth in cement compensated by sale of clinker**
- **Commissioned 1.5 mtpa grinding capacity during the quarter**
- **Retain ADD rating with target price of Rs1,600/share**

Shree Cement reported 43.6% increase in sales at Rs5.2 bn (our est. Rs5.2 bn), 41% increase in EBITDA at Rs2.2 bn (our est. Rs2.1 bn) and a 67% decline in net income at Rs0.3 bn (our est. Rs1.06 bn). Decline in net income was due to a higher depreciation expense of Rs1.8 bn against our estimate of Rs0.7 bn. Lower volume growth (16% yoy) was compensated by a firm price trend (23% yoy). We have revised earnings estimates to Rs112.5/share (Rs118/share previously) for FY2008 and Rs132.3/share (Rs138.4/share previously) for FY2009. We retain our ADD rating and target price of Rs1,600/share. Our target price implies EV/EBITDA of 4.9X and P/E of 12X on FY2009E.

Sluggish volumes growth in cement compensated by sale of clinker. Shree Cement sold 1.5 mn tonnes of cement during 3QFY08, an increase of 16% yoy. Lower volumes were partially compensated by sale of clinker outside the company's key markets. Freight expenses increased 51% yoy and 21% qoq to Rs598/tonne. Management ascribes increased freight cost to restrictions to overloading during the festive season. We believe that higher freight costs (due to impending revision of domestic fuel prices) and increased price of pet coke (due to firm price trend of domestic as well as international coal prices) will likely pressurize profitability in the forthcoming quarters.

Commissioned 1.5 mtpa grinding capacity during the quarter. We expect Shree Cement to benefit from increased cement consumption in its northern markets due to construction activity in the build up to the Commonwealth Games in FY2010. During the quarter, Shree Cement commissioned its second grinding unit (1.5 mtpa) near Gurgaon. Management indicates that the company has signed MoUs with various state governments for setting up additional cement capacities. However, these plans are still in very early stages. We note that Shree Cement has an excellent project implementation track record, having scaled up from the 3 mn tpa capacity three years ago. Management has indicated cement sales of 6.5 mn tonnes for FY2008 and 8 mn tonnes for FY2009.

Retain ADD rating with target price of Rs1,600/share. We retain our target price of Rs1,600/share with an earnings estimate of Rs112.5/share (Rs118/share previously) for FY2008 and Rs132.3/share (Rs138.4/share previously) for FY2009, which implies a P/E of 14.2X on FY2008E and 12X on FY2009E. Our revision factors in (1) higher volumes on expanded capacity and a stable price trend for 4QFY08 and (2) increase in freight and fuel costs. We expect realizations for Shree Cements to decline in FY2009 as new capacities get commissioned in North India. Government intervention in the interim remains a key risk to our estimates.

Interim results of Shree Cements, March fiscal year-ends (Rs mn)

	y-o-y			q-o-q	
	Dec-07	Dec-06	Change (%)	Sep-07	Change (%)
Net sales	**5,236**	**3,645**	**43.6**	**4,664**	**12.3**
Raw materials	(490)	(426)		(413)	
Power & fuel	(893)	(617)		(883)	
Freight	(903)	(511)		(706)	
Personnel	(202)	(138)		(161)	
Others	(494)	(352)		(485)	
Total expenditure	(2,982)	(2,044)		(2,649)	
EBITDA	**2,253**	**1,601**	**40.7**	**2,015**	**11.8**
EBITDA (%)	*43*	*44*		*43*	
Other income	170	47		291	
Interest	(127)	(7)		(85)	
Depreciation	(1,875)	(248)		(688)	
Pre-tax profits	**421**	**1,394**	**(69.8)**	**1,534**	**(72.6)**
Tax	(57)	(338)		(447)	
Net income	**351**	**1,056**	**(66.8)**	**1,066**	**(67.1)**
Extraordinary	—	—		—	
Reported income	**351**	**1,056**	**(66.8)**	**1,066**	**(67.1)**
Sales ('000 tonnes)	1,510	1,295	16.6	1,433	5.4
Realization (Rs/tonne)	3,467	2,815	23.2	3,254	6.5
Cost (Rs/tonne)	1,975	1,578	25.1	1,848	6.9
Raw materials	325	329	(1.3)	288	12.7
Power & fuel	591	477	24.1	616	(4.1)
Freight	598	395	51.6	492	21.4
Personnel	134	107	25.2	113	18.8
Others	327	272	20.5	339	(3.4)
Operating profit (Rs/tonne)	1,492	1,236	20.7	1,406	6.1
Tax rate (%)	16.7	24.2		30.5	

Source: Company data, Kotak Institutional Equities.

Shree Cement Limited, Profit model, March fiscal year-ends, 2006-2010E

(Rs mn)

	2006	2007	2008E	2009E	2010E
Net sales	**6,677**	**13,655**	**21,144**	**26,732**	**27,694**
Raw materials	(896)	(1,642)	(2,085)	(2,938)	(3,291)
Power costs	(1,373)	(2,345)	(3,786)	(5,390)	(6,130)
Freight cost	(1,005)	(1,556)	(3,022)	(4,110)	(4,430)
Employee costs	(330)	(583)	(748)	(1,051)	(1,157)
Other expenses	(702)	(1,589)	(2,362)	(2,975)	(3,212)
Operating profits	**2,371**	**5,939**	**9,141**	**10,268**	**9,475**
Operating margin %	35.5	43.5	43.2	38.4	34.2
Other income	35	212	672	815	676
EBITD	2,406	6,151	9,813	11,083	10,151
Interest	(141)	(121)	(438)	(568)	(566)
Depreciation	(503)	(4,331)	(3,847)	(4,015)	(4,116)
Pretax profits	**1,761**	**1,700**	**5,528**	**6,499**	**5,469**
Tax	(29)	(852)	(1,386)	(2,596)	(2,341)
Deferred tax	(59)	727	(223)	706	820
Net profits	**1,674**	**1,575**	**3,919**	**4,610**	**3,947**
Extraordinaries	(1,483)	195	—	—	—
Reported net profits	**190**	**1,770**	**3,919**	**4,610**	**3,947**
Diluted EPS (Rs)	**48.0**	**45.2**	**112.5**	**132.3**	**113.3**
Reported EPS (Rs)	**5.5**	**50.8**	**112.5**	**132.3**	**113.3**
Diluted avg shares (mn)	34.8	34.8	34.8	34.8	34.8
Growth (%)					
Sales	14.7	104.5	54.8	26.4	3.6
EBITDA	32.8	155.7	59.5	12.9	(8.4)
Net income	61.4	(5.9)	148.8	17.6	(14.4)
EPS	61.4	(5.9)	148.8	17.6	(14.4)
Tax rate (%)	1.6	50.1	25.1	39.9	42.8
Total Tax rate	5.0	7.3	29.1	29.1	27.8

Source: Company data, Kotak Institutional Equities estimates.

Banking

IIFL.BO, Rs1845	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	1,350
52W High -Low (Rs)	1975 - 255
Market Cap (Rs bn)	99.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.3	8.4	14.8
Net Profit (Rs bn)	0.8	1.4	3.5
EPS (Rs)	15.1	26.8	49.9
EPS gth	*39.3*	*77.5*	*86.5*
P/E (x)	122.4	69.0	37.0
P/B (x)	30.5	18.4	4.8
Div yield (%)	0.2	-	-

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.8	-	-
FIIs	25.9	0.1	0.0
MFs	9.1	0.3	0.2
UTI	-	-	(0.1)
LIC	-	-	(0.1)

India Infoline: Revising estimates post capital infusion, downgrade to SELL

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252

- **IIL's recent capital infusion to fund margins with exchanges, support business from large FIIs**
- **Deployment plans not very clear, overall leverage levels will likely be lower than expected earlier**
- **We are revising our estimates; tweaking our target price to Rs1,350 from Rs1,300 earlier, downgrade to SELL**

We are revising our earnings model for India Infoline (IIL) to factor in the proposed preferential allotment by Orient Global and recent infusion in the insurance distribution business. We understand that IIL will need capital to fund margins with exchanges. It may likely increase capital contribution to support growth in its finance business as well. However, we expect high cash in its balance sheet and consequently its leverage will likely be lower-than-expected earlier. We are changing our earnings estimates by 5% for FY2009E and 11% for FY2010E.We are tweaking our price target to Rs1,350 from Rs1,300 (based on FY2009); our fair value based on FY2010E is Rs1,500. We find the stock overpriced at the current levels and recommend investors to book profits.

Key risks to our call

- Higher-than-expected equity market volumes would provide an upside to our earnings estimates.
- IIL may leverage itself optimally and deploy excess capital in proprietary business or set up an arbitrage desk, thus improving its earnings prospects.
- IIL has expressed its intention to set up a wealth management business—not currently factored in our estimates.

High capitalization levels at IIL. We expect IIL's networth to increase to Rs20 bn in FY2009E from Rs3 bn in FY2007. Key reasons.

- Orient Global, a Singapore-based private investment company, proposes to invest Rs5.5 bn in IIL though a preferential allotment of 3.7 mn equity shares of Rs1,500 per share.
- Orient Global will also invest Rs1.9 bn for 10% stake in India Infoline Marketing Services—IIL's group company which is engaged in insurance distribution business.
- IIL has issued warrants to promoters and four key employees of the institutional equities business. These warrants will likely get converted into equity shares in October/November 2008 and add Rs4.4 bn to its networth.

Higher capital crucial for business from large FIIs, will be utilized for exchange margins

- We understand that IIL will need to have high networth in order to get a higher share of business from FIIs. We expect IIL's institutional equities business to capture 7% market share in the institutional cash segment and 5% in institutional F&O segment by FY2010E.
- As the equity brokerage volumes increase over time, IIL will need higher capital to fund margins with exchanges. It will be difficult to estimate the exact quantum of margin requirements given the volatility in market volumes.

- IIL will also increase its equity contribution to the finance business as the loan book scales up over time. At the current juncture, the business seems adequately capitalised—IIL has contributed Rs2 bn capital and Orient Global: Rs3 bn. As of September 2007, the business had a loan book of about Rs6 bn (margin finance) and Rs250 mn (consumer finance). We have not factored an increase in IIL's capital contribution to its finance business in our estimates. We would like to highlight that, in the absence of company guidance, we have not consolidated the financials of the company's consumer finance business in our earnings estimates.

Changes in earnings model

- IIL's management has highlighted in the past that its rapid branch expansion strategy will moderate hereon. The company now proposes to set up large branches/hubs (about 20,000 sq. ft) in metros. IIL will likely purchase real estate for some of these branches and has already formed a separate company for this purpose. Based on our interaction with various retail brokers, we understand that the proportion of walk-in customers is low. As such, these large branches will likely be utilized to house sales force and provide support to other branches in the region. We factor about a 0.75-1% increase in IIL's retail business market share over next two years as against the 0.5% increase factored earlier.
- The company also intends to invest in back-up technology, training and a call centre for its insurance distribution business. IIL will likely continue its strong growth and we expect it to outperform industry growth.
- We are not very clear about the detailed capital deployment plan of IIL. In our revised estimates, we are reducing IIL's leverage for FY2009E and FY2010E to 0.5X from 1X estimated earlier. Growth in equity market volumes and the scale-up in finance business are key sensitivities for its capital deployment and leverage levels.

India Infoline (IIL) : Sum-of-parts based valuation

	Valuation of the company (Rs mn)	IIL's stake (%)	Value per share (Rs)	Comments
Brokerage & distribution busniess	85,354	100	1,208	PV of 18X FY2010 EPS in FY2009
India Infoline Investment Services	13,295	77.5	131	Based on placement of 22.5% stake at US$76.7 mn, 10% holding company discount
Total			**1,339**	

Source: Kotak Institutional Equities estimates.

-

India Infoline - fair value under various scenarios (FY2009)
Rs per share

Valuation multiple\ Market share of insitutional equities business (CM)	2.5%	5%	7.0%	10%	15%
15X	1,016	1,082	1,138	1,201	1,332
18X	1,194	1,273	1,339	1,415	1,573
20X	1,312	1,399	1,473	1,557	1,733

Source: Kotak Institutional Equities estimates.

India Infoline - fair value under various scenarios (FY2009)
Rs per share

Valuation multiple\ Market share of insitutional equities business (CM)					
15X	1,140	1,215	1,278	1,350	1,500
18X	1,342	1,432	1,508	1,594	1,774
20X	1,477	1,577	1,661	1,757	1,957

Source: Kotak Institutional Equities estimates.

India Infoline : Change in estimates
In Rs mn

	Old estimates (Rs mn)			New estimates (Rs mn)			Old vs New (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
IIL - volume (Rs bn)	5,596	9,776	14,588	5,596	10,329	15,746	—	6	8
Total income	**8,442**	**14,050**	**19,932**	**8,442**	**14,756**	**21,540**	**—**	**5**	**8**
Broking commission and interest income	5,635	9,789	13,785	5,635	10,043	13,991	—	3	1
Insurance, MF and loan disbribution	1,373	1,997	2,724	1,373	2,230	3,445	—	12	26
Other income	1,433	2,264	3,423	1,433	2,484	4,104	—	10	20
Operating expenses	**5,824**	**8,990**	**12,530**	**5,824**	**9,267**	**13,032**	**—**	**3**	**4**
Direct brokerage expenses	1,303	2,067	2,957	1,303	2,142	3,114	—	4	5
Employee expenses	2,055	3,192	4,394	2,055	3,385	4,759	—	6	8
Others expenses	2,466	3,730	5,179	2,466	3,740	5,159	—	—	—
PBT	**2,617**	**5,060**	**7,401**	**2,617**	**5,489**	**8,508**	**—**	**8**	**15**
Exceptional item	440			440					
Tax	740	1,720	2,516	740	1,866	2,892	—	8	15
PAT	**1,437**	**3,340**	**4,885**	**1,437**	**3,623**	**5,616**	**—**	**8**	**15**
Minority interest	—	—	—	—	(116)	(210)			
PAT (after minority interest)	**1,437**	**3,340**	**4,885**	**1,437**	**3,508**	**5,406**	**—**	**5**	**11**

Source: Kotak Institutional Equities estimates.

Automobiles

MRTI.BO, Rs926	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,200
52W High -Low (Rs)	1252 - 713
Market Cap (Rs bn)	267.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	146.5	184.1	224.3
Net Profit (Rs bn)	15.6	21.8	25.7
EPS (Rs)	54.0	75.3	88.9
EPS gth	*31*	*39.3*	*18.0*
P/E (x)	17.1	12.3	10.4
EV/EBITDA (x)	10.0	7.3	6.0
Div yield (%)	0.5	0.5	0.5

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	54.2	-	-
FIIs	14.1	0.5	(0.3)
MFs	7.9	1.6	0.9
UTI	-	-	(0.7)
LIC	12.5	2.3	1.6

Maruti Suzuki: Announces two new launches for CY2008

Amit Agarwal : agarwal.amit@kotak.com, +91-22-6749-3390

- **Two new launches planned for CY2008**
- **Unveils three new concept cars at Auto Expo**
- **Concerns over competition from Tata Motors' small car overplayed**
- **Maintain estimates and target price; reiterate BUY rating on the stock with target price of Rs1,200/share**

Maruti has unveiled three concept cars: *Splash, A-star* and *Kizash*i. The company plans to launch two new models (Swift Sedan and A-star) in 2008. We believe that concerns over competition to Maruti's existing models are overplayed, especially in case of the Tata Motors' small car. We believe that the recent decline in Maruti's stock is unjustified. We maintain our estimates and target price and reiterate our BUY rating on the stock with a target price of Rs1,200/share based on 8X FY2009E EV/EBTIDA.

New launches to take competition head-on

Maruti is all geared to launch new models to take on competition from other players in the industry. It has announced the launch of the sedan version of Swift by mid-CY2008 to replace the Esteem. Besides, Maruti has also unveiled its concept A-star and the Splash. Maruti plans to start production of A-star by 3QFY08 at its Manesar plant—the car will be sold mainly in Europe and India. Meanwhile, the Maruti management has announced that it would be launching at least one new model each year. We believe that Maruti's existing models (Swift, SX4 and Zen Estilo), along with the planned new launches, will continue to drive its volume growth. We expect volumes to grow at a CAGR of 17% over FY2008-10E.

Concerns over competition from Tata Motors' small car overplayed

We believe that the street's concern over competition from Tata Motors' small car is overplayed. The launch of the small car (Rs100,000) car will not affect Maruti's volumes as a bulk of its volumes come from the compact car segment (65% of total sales volume). Moreover, Maruti currently sells only around 5,000-6,000 units of Maruti-800 at the entry level segment. Maruti's management has clearly indicated that it has no plans to enter the small car segment nor does it intend to lower prices of its Maruti-800 to compete with Tata's small car.

Recent fall in stock prices unjustified—maintain estimates; reiterate our BUY rating with a target price of Rs1,200/share

We reiterate our BUY call on the stock with a target price of Rs1,200/share based on 8X FY2009E EV/EBITDA. The stock is currently trading at 6X FY2009E EV/EBITDA after the recent decline in the stock price. We believe that the recent fall in Maruti's stock prices is unjustified as the street is overplaying the competition issue. Maruti has recorded a volume growth of 19% for YTD FY2008. We maintain our earnings estimates, factoring in an overall growth of 20% in overall volumes for FY2008. We maintain our target price and reiterate our BUY rating on the stock—representing a potential upside of 30%.

Volume assumptions for Maruti Suzuki, March fiscal year-ends,

	2005	2006	2007	2008E	2009E	2010E
Segment-wise sales (no of vehicles)						
Entry (A) segment	116,262	89,000	79,245	80,000	75,000	50,000
Van-Segment	65,019	67,000	83,091	80,500	90,000	100,000
Compact (B) segment	271,270	335,000	440,375	535,500	638,000	756,000
Mid-size (C) segment	29,637	32,038	29,697	55,000	75,000	75,000
MUV	5,204	4,000	3,221	3,000	4,000	4,000
Domestic	**487,392**	**527,038**	**635,629**	**754,000**	**882,000**	**985,000**
Exports	48,882	34,781	39,295	55,000	85,000	125,000
Total	**536,274**	**561,819**	**674,924**	**809,000**	**967,000**	**1,110,000**
Segment-wise sales growth(yoy %)						
Entry (A) segment	(30.6)	(23.4)	(11.0)	1.0	(6.3)	(33.3)
Van-Segment	11.1	3.0	24.0	(3.1)	11.8	11.1
Compact (B) segment	53.7	23.5	31.5	21.6	19.1	18.5
Mid-size (C) segment	107.2	8.1	(7.3)	85.2	36.4	-
MUV	26.9	(23.1)	(19.5)	(6.9)	33.3	-
Domestic	**15.8**	**8.1**	**20.6**	**18.6**	**17.0**	**11.7**
Exports	(4.5)	(28.8)	13.0	40.0	54.5	47.1
Total	**13.6**	**4.8**	**20.1**	**19.9**	**19.5**	**14.8**

Maruti, Valuation details, March fiscal year-ends

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2009E	41,490	8.0	331,922	1,149	Based on Maruti's historical average EBITDA multiple and FY2009E EBITDA
Less: net debt			(13,466)	(47)	FY2009E net debt
Market capitalisation			**345,388**	**1,195**	
Target price				**1,200**	

Source: Kotak Institutional Equities estimates.

Technology

IGAT.BO, Rs401	
Rating	NR
Sector coverage view	Attractive
Target Price (Rs)	-
52W High -Low (Rs)	435 - 210
Market Cap (Rs bn)	12.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	8.1	8.5	10.1
Net Profit (Rs bn)	0.5	0.8	0.9
EPS (Rs)	15.7	23.8	28.0
EPS gth	*101.5*	*51.7*	*17.7*
P/E (x)	25.6	16.9	14.3
EV/EBITDA (x)	13.7	9.7	7.7
Div yield (%)	0.6	0.6	0.7

iGate Global Solutions: Terminating coverage on the stock

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **We are terminating coverage on iGate Global Solutions**

The company has successfully completed its reverse book building exercise, acquiring 4.02 mn shares at an exit price of Rs410/share, and will likely file for delisting its shares from Indian stock exchanges soon. The promoter's holding, post the reverse book building process stands at 93.44%, above the 90% minimum required for delisting the company. We had not assigned any rating on the stock pending completion of open offer.

3Q results—decent qoq revenue growth, disappointing on a yoy basis

iGate reported 6.6% revenue growth in US$ terms, and 4.3% in Re terms (down 0.7% yoy). Revenue growth was driven by a volume growth of 2.5%, 3.5% improvement in onsite and 1.5% improvement in offshore realizations. On the bright side, the company reported improvement in operating margins to the tune of 170 bps qoq and 480 bps yoy to 17.5%. The management reiterated its target of 20%+ EBITDA margin by the Mar '09 quarter. Margin improvement was driven by (1) substantial improvement in realizations, both onsite and offshore (2) aggressive SG&A optimization; and (3) broadening of the employee pyramid. Net income for the quarter was Rs289 mn, implying growth of 26% qoq and 81% yoy. Client additions continued to disappoint with only 3 new clients (1 F-500) added during the quarter.

iGate Global Solutions (erstwhile Mascot Systems)

Rs mn	3QFY07	2QFY08	3QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	Deviation %	Comments on QoQ performance
Revenues	**2,107**	**2,008**	**2,094**	**4.3**	**(0.7)**	**2,158**	(3.0)	Revenue growth of 6.6% qoq in US$ terms, lower than our expectation of 8.5% qoq growth. Revenue growth driven by volume growth of 2.5% and realization improvement of 3.5% onsite and 1.5% offshore
Direct costs	(1,449)	(1,351)	(1,376)	1.9	(5.0)	(1,457)	(5.5)	
Gross profit	**658**	**656**	**717**	**9.2**	**9.0**	**701**	2.2	Gross margin improvement of 160bps despite a 2.2% rupee appreciation driven by (1) strong pricing improvements (3.5% onsite and 1.5% offshore) and (2) lower average cost per employee driven by broadening of employee pyramid
Other expenses	(391)	(340)	(350)	3.1	(10.5)	(391)	(10.3)	
Operating profit	**267**	**317**	**367**	**15.8**	**37.6**	**311**	18.1	OPM improvement of 170bps qoq driven by improvement in blended realizations and SG&A efficiencies
Other income	(1)	28	34	22.9	nmf	25	37.3	Includes forex gains on hedges of Rs20.7 mn as against Rs16.4 mn in the Sep '07 quarter
EBITDA	265	344	401	16.4	51.0	335	19.5	
Depreciation	(102)	(100)	(97)	(3.6)	(5.3)	(113)	(14.7)	
EBIT	**163**	**244**	**304**	**24.6**	**86.3**	**222**	36.9	
Interest	(7)	(7)	(1)	(80.0)	(81.9)	(7)	(82.2)	
PBT-before extra-ord items	156	237	303	27.5	94.1	215	41.0	
Extra-ord items	-	0	(1)			-		Priod-period tax write-off
PBT-after extra-ord items	156	238	301	26.7	93.2	215	40.3	
Tax	(10)	(9)	(13)	47.7	28.3	(26)	(50.7)	Effective tax rate at 4.2%, lower than our expectations of 12%
PAT-Reported	**146**	**229**	**289**	**25.9**	**97.6**	**189**	52.7	
Minority Interest	14	-	-			-		
Net Income	**160**	**229**	**289**	25.9	80.9	189	52.7	
Adjusted Net Income	**160**	**229**	**290**	26.7	81.8	189	53.5	
EPS - reported (Rs)	**4.7**	**7.2**	**5.9**	(17.6)	27.0	**5.9**	-	
Margins								
Gross profit margin (%)	31.2	32.7	34.3			32.5		
Operating profit margin (%)	12.7	15.8	17.5			14.4		
Net profit margin - reported (%)	7.6	11.4	13.8			8.8		
Revenues from GE (Rs mn)	557.3	498.6	539.1	8.1	(3.3)	-		Robust growth in GE revenues
Onsite: Offshore mix (Rs mn))								
Onsite	1,012	875	928	6.1	(8.3)	-		
Offshore	874	929	943	1.5	7.9	-		

Source: Kotak Institutional Equities

Telecom

Sector coverage view	Cautious

		Price, Rs	
Company	**Rating**	**9-Jan**	**Target**
Bharti	REDUCE	973	790
MTNL	SELL	197	135
VSNL	REDUCE	682	550
Idea Cellular	SELL	135	120

GSM net adds for December flattish MoM; Bharti's net adds accelerate while Vodafone-Essar disappoints yet again

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397
Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

- **GSM operators (excluding RCL's GSM operations) add 5.73 mn subs in November**
- **Acceleration in Bharti's net adds are likely driven by its aggressive new tariff plans**
- **Total subs addition may be 8.1 mn in December assuming that CDMA operators maintain their November 2007 subs addition**

GSM operators (excluding RCL) added 5.73 mn subs in December 2007, a marginal decline from 5.82 mn in November 2007 (6.15 mn including RCL). We believe the total subs addition for Dec 2007 may be 8.1 mn (versus 8.2 mn in Nov 07), assuming that CDMA operators maintain their Nov 2007 subs additions pace. Key highlights of the Dec '07 GSM subs net adds were (1) acceleration in Bharti's net adds after a flattish performance for the past six months—Bharti added a record 2.2 mn subscribers in Dec '07. We believe this acceleration in net adds pace was aided by aggressive coverage expansion and new tariff plans; (2) another month (5th consecutive) of deceleration in net adds for Vodafone; and (3) no signs of acceleration in overall net adds—note that the street's assumptions factor in an acceleration in net adds in FY2009 over FY2008. We maintain our REDUCE rating on Bharti and SELL rating on Idea with 12-month forward DCF-based target price of Rs790 and Rs120, respectively (including value accretion from stakes in Indus towers). Key risk is higher than expected profitability.

Overall net adds decline marginally mom. Aggregate GSM (ex-RCL) net adds for the month of Dec '07 (5.73 mn) were lower than the previous month's 5.82 mn despite an additional day in the month. We are slightly disappointed with the decline in subs net add in December given the aggressive network expansion by various players and the introduction of attractive tariff plans. However, we do not see a risk to our end-March 2008 subs estimates of 247.6 mn—implying a monthly run rate of 7.7 mn net adds per month from Jan '08 to Mar '08, conservative in our view.

Bharti continues to be the show-stealer; being the leader in the industry has its advantages. Bharti strengthened its market-leader position, adding a record 2.2 mn subs in the month of Dec '07 (38.4% of net adds ex-RCL GSM versus 35.3% in Nov '07). The acceleration in Bharti's net adds pace (after a flattish trajectory for the past six months) was driven by its rapid network expansion and aggressive new plan launches, in our view. We believe that over the past 12 to 24 months, Bharti has emerged as the leader in the industry in introducing new plans—it was the first player to (1) introduce the Rs499 lifetime plan, (2) offer flat local call pricing (Re1) to lifetime (Rs999) subs; and (3) launch full-talktime validity plans (Happy Recharge). Very recently, it also took the lead in offering a flat pricing (Re1) on local calls to its prepaid customers. We believe that Bharti's has been able to encash on its first-mover position to maintain or improve its share of net adds over the past few months. However, we remain concerned about the pressure that such aggressive plans/pricing can put on the company's (and industry's) profitability. Our Mar '08 subs estimate for Bharti (62.3 mn) implies net adds of 2.37 mn per month from Jan '08 to Mar '08; we expect Bharti to accelerate its net add pace further over the next few months and see little risk to our Mar '08 subs estimates.

Another month of deceleration in net adds for Vodafone-Essar; has the new parent shifted the company's focus to profitability? Dec '07 net adds for Vodafone-Essar at 1.3 mn were below the Nov '07 net adds of 1.38 mn, and marked the fifth consecutive month of declining net adds. We find the deceleration in net adds pace surprising given (1) Vodafone recently launched its bundled-handset offering priced at Rs1,450; the company indicated in its India Analyst day that it sold 1 mn bundled handsets within two months of launch; and (2) the company's aggressive marketing campaigns starting with the mega re-branding campaign only a few months back. We attribute the decline to either (1) a transition phase of re-branding to Vodafone from Hutch earlier or (2) shift on focus (driven by the new parent) to higher profitability from aggressive pursuit of subs acquisition. We note that unlike in the past, Vodafone did not follow Bharti and reduce the local calling rates for its prepaid customers. Even the company's recent campaigns have been around its VAS offerings and not pricing/bundled offerings.

Idea Cellular—impressive month; consistency remains the key though. Idea's net adds of 832,000 subs (14.5% of GSM market net adds ex-RCL vs 13.8% in Nov '07) was ahead of our expectations. Idea would need to achieve monthly net adds of 768,000 from Jan '08 to Mar '08 to meet our end-FY2008 subs forecast of 23.4 mn subs, reasonable in our view.

BSNL—net add performance will likely remain volatile till new capacity kicks in. BSNL reported subs net adds of 767,000 for the month of Dec '07, down from 912,000 in the month of November. We believe that BSNL's performance over the next few months (till its new capacity gets commissioned) remains contingent on its performance in the select circles where it does not face capacity constraints.

BSNL's much talked about new capacity may finally come on stream (in the next six to nine months) though with far lower number (22.7 mn versus 45.5 mn lines earlier). Ericsson has signed on revised purchase order with BSNL for 13.1 mn lines. As per press reports, Nokia Siemens Networks has refused to accept its share of 9.6 mn lines, and BSNL will likely issue a fresh tender for the same.

Others—weak month for Aircel, a strong one for Spice. Aircel added 402,000 subs in Dec '07, down from 502,000 in November and its lowest monthly net add since July '07. MTNL added 65,000 subs vs 64,000 in Nov '07) and Spice added 139,000 subs vs 91,000 in Nov '07.

Subscriber details of leading GSM cellular operators ('000)

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Subs ('000)													
Bharti Airtel	31,974	33,732	35,440	37,141	38,892	40,744	42,704	44,763	46,815	48,876	50,909	52,961	55,163
Vodafone-Essar	23,306	24,414	25,343	26,442	27,703	29,209	30,752	32,437	34,115	35,658	37,187	38,563	39,865
IDEA Cellular	12,442	13,072	13,640	14,011	14,563	15,267	16,126	17,004	17,871	18,672	19,422	20,222	21,054
BPL	1,056	1,062	1,066	1,071	1,077	1,082	1,088	1,095	1,102	1,153	1,201	1,221	1,239
Spice Telecom	2,450	2,520	2,579	2,729	2,815	3,007	3,170	3,290	3,398	3,482	3,570	3,661	3,801
Reliance	3,641	3,876	4,111	4,348	3,625	3,864	4,139	4,439	4,734	5,036	5,342	5,669	5,669
MTNL	2,425	2,498	2,579	2,747	2,484	2,548	2,609	2,669	2,729	2,772	2,826	2,890	2,955
BSNL	23,619	24,442	25,444	27,429	27,756	27,994	28,423	28,979	29,704	30,303	31,033	31,945	32,712
Aircel	4,513	4,802	5,095	5,514	5,928	6,409	6,775	7,162	7,621	8,039	8,524	9,026	9,428
Total market	**105,425**	**110,420**	**115,297**	**121,431**	**124,843**	**130,124**	**135,787**	**141,839**	**148,089**	**153,991**	**160,014**	**166,157**	**171,886**
Market share of subs (%)													
Bharti Airtel	30.3	30.5	30.7	30.6	31.2	31.3	31.4	31.6	31.6	31.7	31.8	31.9	32.1
Vodafone-Essar	22.1	22.1	22.0	21.8	22.2	22.4	22.6	22.9	23.0	23.2	23.2	23.2	23.2
IDEA Cellular	11.8	11.8	11.8	11.5	11.7	11.7	11.9	12.0	12.1	12.1	12.1	12.2	12.2
BPL	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.8	0.7	0.7
Spice Telecom	2.3	2.3	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2	2.2
Reliance	3.5	3.5	3.6	3.6	2.9	3.0	3.0	3.1	3.2	3.3	3.3	3.4	3.3
MTNL	2.3	2.3	2.2	2.3	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.7	1.7
BSNL	22.4	22.1	22.1	22.6	22.2	21.5	20.9	20.4	20.1	19.7	19.4	19.2	19.0
Aircel	4.3	4.3	4.4	4.5	4.7	4.9	5.0	5.0	5.1	5.2	5.3	5.4	5.5
Growth (%)													
Bharti Airtel	5.7	5.5	5.1	4.8	4.7	4.8	4.8	4.8	4.6	4.4	4.2	4.0	4.2
Vodafone-Essar	4.6	4.8	3.8	4.3	4.8	5.4	5.3	5.5	5.2	4.5	4.3	3.7	3.4
IDEA Cellular	5.1	5.1	4.3	2.7	3.9	4.8	5.6	5.4	5.1	4.5	4.0	4.1	4.1
BPL	0.3	0.6	0.3	0.5	0.6	0.5	0.5	0.6	0.7	4.7	4.2	1.6	1.5
Spice Telecom	3.9	2.9	2.3	5.8	3.1	6.8	5.4	3.8	3.3	2.5	2.5	2.6	3.8
Reliance	6.8	6.5	6.0	5.8	(16.6)	6.6	7.1	7.2	6.7	6.4	6.1	6.1	-
MTNL	2.1	3.0	3.2	6.5	(9.6)	2.6	2.4	2.3	2.3	1.6	1.9	2.3	2.3
BSNL	2.8	3.5	4.1	7.8	1.2	0.9	1.5	2.0	2.5	2.0	2.4	2.9	2.4
Aircel	6.5	6.4	6.1	8.2	7.5	8.1	5.7	5.7	6.4	5.5	6.0	5.9	4.5
Total market	**4.6**	**4.7**	**4.4**	**5.3**	**2.8**	**4.2**	**4.4**	**4.5**	**4.4**	**4.0**	**3.9**	**3.8**	**3.4**
Net monthly adds ('000)													
Bharti Airtel	1,712	1,758	1,708	1,701	1,751	1,851	1,960	2,059	2,051	2,061	2,033	2,053	2,202
Vodafone-Essar	1,032	1,108	929	1,099	1,261	1,506	1,542	1,686	1,678	1,542	1,529	1,376	1,302
IDEA Cellular	601	629	568	371	553	703	860	878	867	801	750	800	832
BPL	4	6	4	5	6	5	6	7	7	51	48	19	19
Spice Telecom	92	70	59	150	86	192	163	120	107	84	89	91	139
Reliance	231	235	235	237	(723)	239	275	300	296	302	306	327	-
MTNL	50	74	81	168	(263)	64	61	60	60	43	54	64	65
BSNL	643	824	1,002	1,985	327	239	429	556	725	599	730	912	767
Aircel	275	290	292	420	413	481	366	387	458	419	485	502	402
Total market	**4,639**	**4,994**	**4,877**	**6,135**	**3,412**	**5,282**	**5,662**	**6,052**	**6,250**	**5,903**	**6,022**	**6,144**	**5,728**
Market share of net adds (%)													
Bharti Airtel	36.9	35.2	35.0	27.7	51.3	35.1	34.6	34.0	32.8	34.9	33.8	33.4	38.4
Vodafone-Essar	22.2	22.2	19.0	17.9	37.0	28.5	27.2	27.9	26.8	26.1	25.4	22.4	22.7
IDEA Cellular	13.0	12.6	11.6	6.0	16.2	13.3	15.2	14.5	13.9	13.6	12.5	13.0	14.5
BPL	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.9	0.8	0.3	0.3
Spice Telecom	2.0	1.4	1.2	2.5	2.5	3.6	2.9	2.0	1.7	1.4	1.5	1.5	2.4
Reliance	5.0	4.7	4.8	3.9	(21.2)	4.5	4.9	4.9	4.7	5.1	5.1	5.3	-
MTNL	1.1	1.5	1.7	2.7	(7.7)	1.2	1.1	1.0	1.0	0.7	0.9	1.0	1.1
BSNL	13.9	16.5	20.5	32.4	9.6	4.5	7.6	9.2	11.6	10.1	12.1	14.8	13.4
Aircel	5.9	5.8	6.0	6.8	12.1	9.1	6.5	6.4	7.3	7.1	8.0	8.2	7.0
Circlewise subs ('000)													
Metros	20,072	20,634	21,322	21,959	22,082	22,784	23,499	24,297	25,066	25,884	26,691	27,460	28,130
Circle A	37,443	39,237	40,717	42,680	44,453	46,252	48,139	50,430	52,996	55,247	57,719	60,089	62,479
Circle B	37,130	39,137	41,072	43,543	44,724	46,794	49,201	51,587	53,867	56,089	58,259	60,498	62,475
Circle C	10,779	11,412	12,185	13,250	13,584	14,295	14,948	15,525	16,160	16,771	17,345	18,111	18,802
Total	**105,425**	**110,420**	**115,297**	**121,431**	**124,843**	**130,124**	**135,787**	**141,839**	**148,089**	**153,991**	**160,014**	**166,157**	**171,886**
Circlewise net adds ('000)													
Metros	601	561	688	637	124	702	715	798	769	817	807	770	670
Circle A	1,385	1,794	1,480	1,963	1,772	1,800	1,886	2,292	2,566	2,252	2,471	2,370	2,391
Circle B	2,033	2,007	1,935	2,470	1,181	2,070	2,408	2,385	2,280	2,222	2,170	2,239	1,976
Circle C	620	632	774	1,064	334	711	653	577	635	611	574	765	692
Total	**4,639**	**4,994**	**4,877**	**6,135**	**3,412**	**5,282**	**5,662**	**6,052**	**6,250**	**5,903**	**6,022**	**6,144**	**5,728**
Circlewise subs (%)													
Metros	19	19	18	18	18	18	17	17	17	17	17	17	16
Circle A	36	36	35	35	36	36	35	36	36	36	36	36	36
Circle B	35	35	36	36	36	36	36	36	36	36	36	36	36
Circle C	10	10	11	11	11	11	11	11	11	11	11	11	11
Circlewise net adds (%)													
Metros	13	11	14	10	4	13	13	13	12	14	13	13	12
Circle A	30	36	30	32	52	34	33	38	41	38	41	39	42
Circle B	44	40	40	40	35	39	43	39	36	38	36	36	35
Circle C	13	13	16	17	10	13	12	10	10	10	10	12	12

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

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

Vodafone's sub-par performance has been Bharti's gain

Bharti and Vodafone-Essar's subscriber net adds in Vodafone-Essar's 16 circles, Dec '06 - Dec '07 ('000)

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
Subscriber net adds													
Bharti Airtel (total)	**1,321**	**1,383**	**1,311**	**1,196**	**1,295**	**1,398**	**1,470**	**1,656**	**1,650**	**1,698**	**1,710**	**1,614**	**1,735**
Andhra Pradesh	103	154	166	183	193	142	162	194	252	203	217	153	201
Calcutta	80	37	56	44	58	42	69	64	50	80	98	36	43
Chennai	30	26	42	47	58	48	51	43	40	59	81	76	72
Delhi	115	71	155	31	57	107	77	64	76	126	65	63	38
Gujarat	75	133	29	4	53	33	46	103	83	113	44	78	152
Karnataka	130	242	168	207	208	177	174	277	262	232	276	169	212
Kerala	56	53	41	40	37	65	40	49	65	59	35	48	47
Maharashtra	133	130	101	111	146	123	98	77	154	142	189	122	153
Mumbai	92	59	35	18	34	35	63	44	65	37	51	73	52
Haryana	39	31	14	48	20	9	7	20	14	5	8	40	41
Rajasthan	157	122	108	66	115	195	149	196	92	188	134	231	206
Tamil Nadu	56	116	136	149	131	124	136	188	239	150	207	221	181
Uttar Pradesh (East)	76	100	110	136	41	73	125	151	152	137	133	106	138
Punjab	87	29	57	12	28	65	41	45	37	47	35	101	59
Uttar Pradesh (West)	34	26	44	41	33	85	80	24	9	25	25	37	40
West Bengal	57	57	49	58	82	72	154	117	62	95	110	60	100
Total													
Vodafone-Essar (total)	**1,032**	**1,108**	**929**	**1,099**	**1,261**	**1,506**	**1,542**	**1,686**	**1,678**	**1,542**	**1,529**	**1,376**	**1,302**
Andhra Pradesh	61	65	50	56	65	81	90	101	100	100	101	72	86
Calcutta	20	20	29	38	40	50	45	54	60	50	60	65	65
Chennai	28	24	25	27	30	31	35	40	50	45	40	45	40
Delhi	32	64	62	86	29	141	64	122	97	83	98	65	64
Gujarat	202	182	126	145	156	200	145	145	130	136	155	155	176
Karnataka	51	46	32	42	56	80	90	110	126	110	101	95	85
Kerala	19	28	22	45	65	76	101	111	130	103	101	87	75
Maharashtra	11	20	34	50	66	80	100	125	126	127	118	131	132
Mumbai	32	33	23	27	64	63	72	78	78	79	89	91	100
Haryana	52	52	51	55	61	65	66	55	43	10	10	15	35
Rajasthan	85	120	90	91	95	115	125	130	142	140	122	105	101
Tamil Nadu	83	69	55	61	150	103	152	175	201	201	211	276	205
Uttar Pradesh (East)	82	81	86	122	133	150	168	152	161	151	116	(58)	(113)
Punjab	50	55	42	52	60	65	68	60	51	30	10	26	25
Uttar Pradesh (West)	103	104	101	101	109	91	105	110	81	90	76	100	106
West Bengal	120	146	100	100	82	115	115	116	101	85	122	105	120

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

Construction

Sector coverage view	Attractive

		Price, Rs	
Company	**Rating**	**9-Jan**	**Target**
Punj	REDUCE	546	500
NCCL	BUY	343	365
IVRCL	BUY	530	570
Sadbhav Engin	BUY	1,356	1,385

Award of five projects under NHDP Phase-V marks the end of the lull in ordering activity in the roads sector

Lokesh Garg : lokesh.garg@kotak.com, +91-22-6634-1496

Sandip Bansal : sandip.bansal@kotak.com, +91-22-6749-3327

- **Award of five NHDP Phase-V projects probably marks resumption of ordering activity in the roads sector after prolonged lull**
- **Foreign players make their presence felt, pure infrastructure developers, mid-sized construction companies stay away for now**
- **Bidding process driven by new MCA for roads sector —shift of bidding model from negative grants to revenue share**

As per news reports, five projects for NHDP Phase-V (six-laning of already four-laned stretches of the Golden Quadrilateral (GQ) and the North-South-East-West (NSEW) corridor), totaling about 900 kms have been awarded. In our view, these awards are the harbingers for a very large set of projects on NHDP Phase-V (totaling 6,500 kms) likely to be awarded over the next two years. Foreign players have made their presence felt by winning three projects in consortium with Indian partners. Pure infrastructure development companies and mid-sized construction companies have stated away for now, probably because of their limited appetite for risk as well as their ability to take up huge construction projects in the roads sector. This round of bidding marks a shift to the new MCA and revenue-share-based bidding for NHAI projects as compared to negative-grants based bidding earlier.

Award of five NHDP Phase-V projects probably marks resumption of ordering activity in the roads sector after prolonged lull

As per news reports, five projects for NHDP Phase-V (six-laning of four-laned stretches of the Golden Quadrilateral (GQ) and the North-South-East-West (NSEW) corridor), totaling about 900 kms have been awarded (Exhibit 1). Foreign bidders (in consortiums with Indian companies) have won three projects while two projects have gone to Indian companies. Busy corridors of Jaipur-Gurgaon and Surat-Dahisar were bid at high revenue shares of 48% and 38%, respectively.

NHAI had stated that no single company would be awarded more than two projects in a particular round of bidding of NHDP Phase-V. The NHDP Phase-V projects, with an average size of about 150 km, are larger compared to the typical road projects awarded so far. We believe that the above two facts would have driven companies to bid aggressively for one, and at most two, projects.

In our view, these projects are the harbingers for a large set of projects on under NHDP Phase-V and NHDP Phase-III likely to be awarded over the next 2-3 (Exhibits 2 and 3). We believe that these projects mark the end of the lull in ordering activity and the roads sector is likely to witness increased activity going forward.

Foreign players make their presence felt, pure infrastructure developers, mid-sized construction companies stay away for now

It is to be noted that apart from IRB and Larsen and Toubro, no other Indian company has won a large project on its own in this round. Foreign bidders (in consortiums with Indian companies) have won three projects of the five awarded. Indian companies forming consortiums with foreign bidders also stand to gain significantly as (1) they earn qualifications for the future and (2) the foreign companies enable the fulfillment of financial criteria for large projects.

Several mid-sized construction companies (Lanco Infratech Ltd, Ramki Infrastructure Ltd, Hindustan Construction Company Ltd, Nagarjuna Construction Company Ltd, Gammon India Ltd, IVRCL Infrastructures and Projects Ltd) that already manage a number of toll-road projects had participated. They may not have bid aggressively as (1) large-sized projects and correspondingly higher risks of execution may have acted as a deterrent (though many of these companies had formed consortiums to enable sharing of capital costs and risks), (2) capping of upside (through definition of target traffic) in the new MCA may have made the projects less attractive, (3) huge order backlogs limit ability to take on large construction projects in the near term particularly in the roads sector that is perceived as low return, higher risk and carries an element of surprise as this was first round of bidding based on the revised MCA.

Pure infrastructure development companies (GMR Infrastructure Ltd, GVK Power and Infrastructure Ltd, Infrastructure Leasing and Financial Services Ltd) may not have bid aggressively as they lack construction capabilities. Construction capability is the key to such large projects as large stretches of road need to be completed with in the mandated two and a half year period.

Bidding process driven by new MCA for roads sector - shift of bidding model from negative grants to revenue share

This round of bidding marks a shift to the new MCA (Exhibit 4) and revenue-share based bidding for NHAI projects as compared to negative-grants based bidding earlier. NHDP Phase V projects are on the road stretches that are already four-laned, thus tolling can start as the project commences and revenue share needs to be paid to NHAI on the same. Other key points of the new MCA are (1) the stated revenue share increases by 1% point every year for the period of the concession, (2) the concession period is fixed at 12 years, (3) a 'target traffic' is defined, and if the target traffic is reached by FY2018E then either the concession period is reduced by 10% or the concessionaire has to pay 25% higher revenue share.

The revenue share arrangement enables the government to benefit from the project upside. We believe that the new MCA partially limits the upside for project developers (as we believe that the defined target traffic defined is low and hence is likely to be breached in most cases on the target date) and hence makes the roads BOT sector comparatively less attractive than previously for large developers. However, it encourages new entrants/ smaller players as the traffic risk is shared with NHAI in the form of revenue share, making the sector more bankable in comparison to the earlier system of payment of large negative grants.

Exhibit 1. Ordering activity in the road sector restarts with the ordering of 5 projects under NHDP Phase-V

Details of the 5 projects ordered in the recent round of NHDP Phase-V

Project name	Project size (Rs bn)	Project length (km)	Winner	Revenue share offered (%)
Surat-Dahisar, Maharashtra	25	239	Ideal Road Builders	38.0
Panipat-Jallandhar, Haryana	22	291	Consortium of SOMA and Isolux Curson Group (Sweden)	20.0
Jaipur-Gurgaon, Rajasthan	15	226	Consortium of KMC Construction and Emirates Trading Agency	48.0
Chennai-Tada, Tamil Nadu	3	43	L&T	17.0
Vijaywada-Elluri, Andhra Pradesh	5	82	Consortium of IJM Malaysia and IDFC	2.0
Total	**70**	**881**		

Source: News reports, Kotak Institutional equities.

Exhibit 2. NHDP Phase-V is planned completely on BOT basis and individual stretches are longer than typical NHAI projects

Projects identified for six laning under NHDP Phase-V

S. No	Road stretch	State	Length (Km)	Estimated project cost (Rs bn)
1	**Chilkaluripet-Vijayawada-Elluru-Rajamundri**	**Andhra Pradesh**	**270**	**17.1**
2	**Panipat-Jalandhar**	**Haryana**	**291**	**22.0**
3	**Surat-Dahisar**	**Maharashtra**	**239**	**25.0**
4	**Gurgaon-Kotputli-Jaipur**	**Rajasthan**	**226**	**15.0**
5	**Chennai-Tada**	**Tamil Nadu**	**43**	**3.0**
6	Tada-Neliore Bypass	Andhra Pradesh	130	8.2
7	Vishakapatnam-Ankapalli- Rajamundri	Andhra Pradesh	200	12.7
8	Srikakulam-Vishakhapattnam Ankapalli	Andhra Pradesh	135	8.6
9	Neliore-Chilkaluripet	Andhra Pradesh	184	11.7
10	Icchapuram-Srikakulam	Andhra Pradesh	140	8.9
11	Aurangabad-Barwa Adda	Bihar	220	14.0
12	Samaikhiali-Gandhidham	Gujarat	56	3.6
13	Ahmedabad-Vadodara Expressway	Gujarat	95	6.0
14	Surat-Dahisar(Gujarat portion)	Gujarat	115	7.3
15	Gurgaon-Kotputli-Jaipur(Haryana portion)	Haryana	126	8.0
16	Bangalore-Tumkur	Karnataka	65	4.1
17	Hubli-Chitradurga	Karnataka	200	12.7
18	ChitradurgaBypass-TumkurBypass	Karnataka	145	9.2
19	Bangalore-Krishnagiri	Karnataka	95	6.0
20	Belgaum-Hubli	Karnataka	110	7.0
21	Indore-Dewas	Madhya Pradesh	55	3.5
22	Satara-Kagal-Belgaum	Maharashtra	210	13.3
23	Pune-Satara	Maharashtra	145	9.2
24	Chandikhol-Paradeep	Orissa	80	5.1
25	Chandikhol-Jagatpur- Bhubaneswar	Orissa	70	4.4
26	Balasore Chandikhol	Orissa	140	8.9
27	Bhubneshwar-IchchaDuram	Orissa	185	11.7
28	Ludhiana-Chandigarh	Punjab	85	5.4
29	Kishangarh Udaipur	Rajasthan	315	20.0
30	Udaipur-Ahmedabad	Rajasthan	235	14.9
31	Krishnagiri-Poonamalee	Tamil Nadu	240	15.2
32	Agra-Etawah Bypass	Uttar Pradesh	125	7.9
33	Etawah -Allahabad	Uttar Pradesh	310	19.7
34	Allahabad Bypass-Varanasi	Uttar Pradesh	160	10.1
35	Varanasi-Aurangabad	Uttar Pradesh	190	12.1
36	Hapur-Moradabad	Uttar Pradesh	110	7.0
37	Delhi-Hapur	Uttar Pradesh	60	3.8
38	Delhi-Agra	Uttar Pradesh	180	11.4
39	Agra-Gwalior	Uttar Pradesh	85	5.4
40	Dhankuni-Baleshwar	West Bengal	240	15.2
41	BarwaAdda-Panagarh	West Bengal	120	7.6
42	Panagarh-Dhankuni	West Bengal	135	8.6
	Total		**6,560**	**430.3**

Source: National Highway Authority of India, Kotak Institutional Equities.

Exhibit 3. Significant opportunities exist in the roads sector in India
Phase-wise status of NHDP Phases III to VII (as of August 31, 2007)

		Length (Kms)			
		Total	Completed	Under implementation	Contracts to be awarded
I	Golden Quadilateral (GQ) - 4-laning of roads connecting Mumbai-Delhi-Kolkata-Chennai	5,846	5,603	249	-
II	NSEW Corridor - 4-Laning of raods connecting Silchar-Porbandar and Kashmir Kanyakumari	7,300	1,530	4,788	822
	Port connectivity	380	182	178	6
	Others				
IIIA	Stretches connecting important tourist and religious places with urban centres	4,000	260	1,652	2,088
IV	2-laning of less important national highways	20,000	-	-	20,000
V	6-laning of high density corridors in GQ, NSEW	6,500	-	1,029	5,471
VI	New expressway construction	1,000	-	-	1,000
VII	Urban areas - ring roads etc.	1,000	-	-	1,000

Source: National Highway Authority of India, Kotak Institutional Equities.

Exhibit 4. Revised MCA agreement irons out several issues with road BOT projects and is likely to make the sector more bankable and competitive
Key changes brought about by the revised model concession agreement

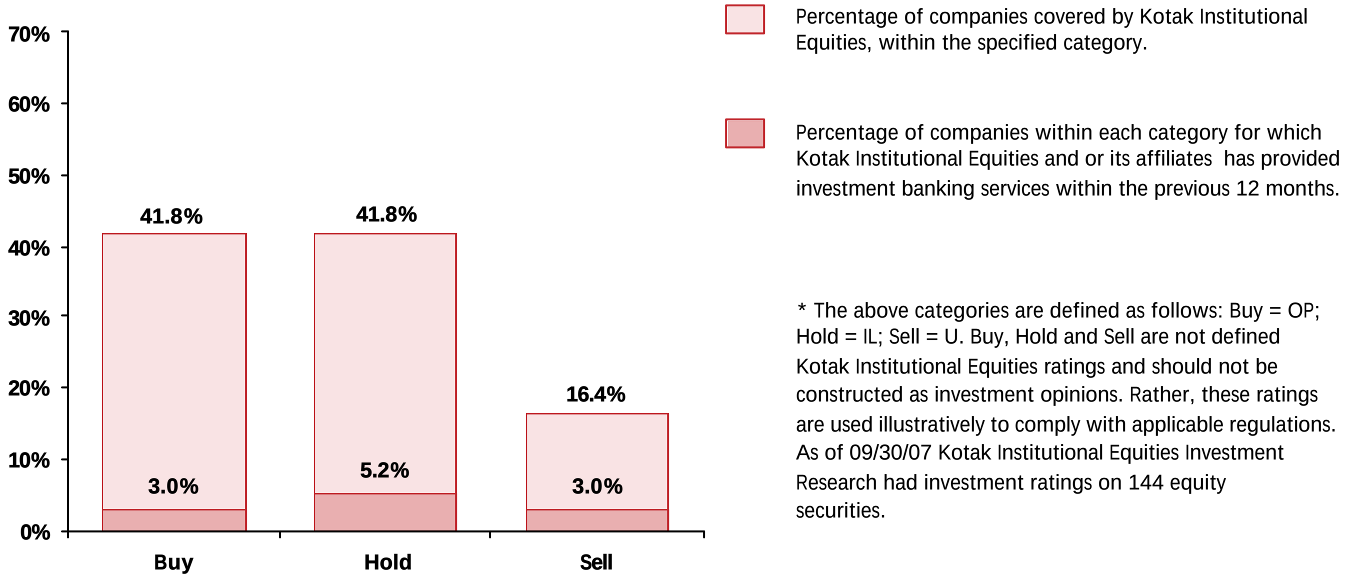
Key area	Driver	Change	Reasoning/benefits/costs
Quality of road and cost	Emphasis on final service delivery rather than on inputs	Detailed design and engineering left to concessionaire Phased development rather than entire capex upfront	Private sector can innovate designs Provide for capex as necessary
Traffic risk	Risk related to traffic can be shared between NHAI and concessionaire Toll paying user should not be subjected to incoveniencve of congestion	Concession period can be reduced in case traffic is below 'target traffic' and vice versa	Makes the project less risky for a developer. Lengthens concession in case when there is no need of additional capacity (lower than target traffic)
Large negative grants	Vaibility gap funding for several projects may be negative	Revenue share rather than upfront negative grant Revenue share can have balooning structure as debt repayment comes down	Revenue share model distributes risk much better Makes the projects much more bankable
Local traffic	Tolling on local traffic creates local resentment	Local traffic should be allowed to use the road without any payment	Ensures local support for the project
Land acquisition	Land acquisition on part of NHAI delays projects even after award of concession	NHAI required to acquire 80% of the required land even before awarding the project	Helps concessionaire tightly manage execution schedule and thus the costs
Revenue leakage	Revenue leakage may create problems for lenders	Define a floor level of present and projected traffic	Provides comfort to lenders about debt servicing

Source: Overview of the framework, Planning commission.

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

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

Source: Kotak Institutional Equities.

As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

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

Old rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

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

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

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

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

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

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

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

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