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### Updates

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## News Roundup

### Corporate

- Reliance Entertainment has sealed a 50:50 joint venture with the London-based Great Wheel Corporation to develop and operate great wheels and observation platforms in five cities. (ET)
- ONGC Videsh and the Hinduja Group are in talks to ink a partnership with NICO, a subsidiary of the National Iranian Oil Company, to take up to 50% stake in the world's largest gas field, South Pars, and one of the biggest onshore oil blocks, Azadegan. (ET)
- Reliance Industries Limited and GAIL (India) Ltd have announced setting up of a Special Purpose Vehicle for petrochemical complexes outside India in feedstock rich countries. (BS)
- DLF Ltd is foraying into asset management by offering local and global mutual funds to Indian customers through a joint venture with Prudential Financial Inc of the US. (BS)

### Economic and political

- The ban on foreign airlines owning a stake in Indian carriers is likely to be lifted in a couple of years, civil aviation minister Praful Patel said. (FE)
- The government has approved 16 foreign direct investment proposals involving total inflow of Rs647.47 crore, including those of Russia's Sistema and Continental AG of Germany. (FE)

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

## EQUITY MARKETS

India	Change, %			
	4-Dec	1-day	1-mo	3-mo
Sensex	19,530	(0.4)	(0.3)	26.4
Nifty	5,858	(0.1)	0.2	30.9
<b>Global/Regional indices</b>				
Dow Jones	13,249	(0.5)	(2.2)	(0.4)
Nasdaq Composite	2,620	(0.7)	(6.3)	0.5
FTSE	6,315	(1.1)	(2.3)	0.7
Nikkei	15,426	(0.4)	(5.2)	(4.5)
Hang Seng	28,871	(0.0)	(0.2)	20.0
KOSPI	1,917	(0.0)	(4.9)	2.8
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	4-Dec	1-mo	3-mo	
Cash (NSE+BSE)	286.5	272.2	257.7	
Derivatives (NSE)	563.3	761.5	390.1	
Deri. open interest	934.1	908.9	711.2	

### Forex/money market

	Change, basis points			
	4-Dec	1-day	1-mo	3-mo
Rs/US\$	39.4	-	6	(155)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(3)	1	(4)

### Net investment (US\$m)

	3-Dec	MTD	CYTD
	FIs	28	-
MFs	114	-	654

### Top movers -3mo basis

Best performers	Change, %			
	4-Dec	1-day	1-mo	3-mo
Neywell Lignite	245	1.1	65.7	192.7
Reliance Energy	1,893	(0.4)	4.0	129.9
Reliance Cap	2,495	0.7	31.1	104.0
MRF	7,310	0.4	(4.8)	88.5
Tata Power	1,307	3.5	(4.3)	83.3
<b>Worst performers</b>				
i-Flex	1,509	(1.8)	0.9	(25.5)
Glaxosmithkline	950	(0.9)	(8.9)	(17.2)
Container Corp	1,864	1.5	(5.3)	(15.0)
Infosys	1,615	0.9	(13.0)	(14.9)
Punjab Tractors	210	2.1	6.5	(12.5)

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**Property****DLF.BO, Rs947**

Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	870
52W High -Low (Rs)	989 - 506
Market Cap (Rs bn)	1,614

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	39.2	137.0	178.1
Net Profit (Rs bn)	19.4	79.5	103.9
EPS (Rs)	12.7	46.6	61.0
EPS <i>gth</i>	1.0	267.2	30.7
P/E (x)	74.6	20.3	15.5
EV/EBITDA (x)	61.0	16.4	12.6
Div yield (%)	-	0.5	0.7

**Shareholding, September 2007**

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	88.2	-	-
FIs	7.3	1.1	(2.2)
MFs	0.3	0.3	(2.9)
UTI	-	-	(3.3)
LIC	-	-	(3.3)

**DLF Limited: DLF, Prudential Financial to form asset management JV**

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- **DLF's entry into asset management is an extension of its financial services business; will own 39% stake in the JV**
- **We retain our target price of Rs870/share and ADD rating**

DLF announced a JV with US-based Prudential Financial (PFI) to mark an entry into the asset management business. This joint venture is in line with DLF's strategy to expand its financial services. Under the agreement, PFI will hold 61% and DLF will own the remaining 39%. DLF's role will be primarily to provide its brand name and assistance in setting up the distribution tie-ups. In a conference call, management highlighted that other businesses in the financial space are on track and the first set of clearances for its insurance JV are expected in the 1HCY08. We maintain our ADD rating on the stock with a target price of Rs870, which is based on 20% premium to our NAV of Rs717.

**DLF enters asset management business**

DLF has signed an agreement with US-based Prudential Financial to form an asset management joint venture, DLF Pramerica Asset Managers Pvt Ltd. The joint venture, to be based out of Mumbai, will offer a broad range of mutual fund and investment products. Under the agreement, PFI will own 61% in the JV while DLF will hold the remaining 39%. DLF will own the stake through a 100% owned subsidiary. The management cited that the JV would invest US\$50 mn over the near term to grow its asset management business. The management team for the JV is likely to be in place shortly.

The JV will likely be operational in another six months considering the time lag in getting regulatory approvals and setting up the distribution network. PFI has been an aggressive player in most other emerging markets including Korea and Latin America and brings core expertise in mutual fund business to penetrate the growing Indian market. PFI is expected to take care of core business issues while DLF's role would be limited to extending its brand identity and providing distribution tie-ups. We expect the JV to accelerate setting up of DLF's financial distribution network and this is likely to help DLF to offer a greater variety of financial services.

PFI is expanding its financial services under its brand "*Pramerica*". *Pramerica* is the brand name used in India and select countries by Prudential Financial, Inc.,

**Update on other JVs**

In order to enter into financial services, DLF had announced a JV with PFI, DLF Pramerica Life Insurance Company Ltd. to enter the life insurance business in India, in February, 2007. Under the agreement, DLF has a 74% stake and PFI a 26% stake in the JV. We highlight as per Indian regulations, FDI in insurance is permitted only to the extent of 26%. The JV has applied for approvals, first sets of which are expected in the first half of 2008. The JV plans to invest Rs10 bn over the next six years to grow the insurance business.

DLF also intends to start an infrastructure fund in a 50:50 JV with Laing O'Rourke. The fund that is targeted to raise US\$1.5 bn will target investments mainly from foreign investors to invest in an array of projects, including railways, national highways, airports and oil, gas, water pipelines. The fund would invest not only in infrastructure projects undertaken by DLF Laing O'Rourke, but also in other projects which offer high returns.

**We retain our target price of Rs870/share; ADD rating**

Our NAV estimate for DLF is Rs717/share and our target price of Rs870 is based on a 20% premium to NAV. We assign a 20% premium on NAV on account of several factors (1) NAV accretion possibility on account of large ticket projects, (2) yield compression on its commercial assets—1% yield compression results in 4% enhancement to NAV, (3) Progress of SEZs— potential NAV accretion is Rs100 bn or Rs58/share, (4) Hotel business— we have only taken value of land, (5) Power business—DLF has 57.5 MW power plant and is entering wind power business, (6) value accretion from joint ventures—insurance and asset management, healthcare, telecom.

**Our estimate for DLF's NAV is Rs717/share**

	March '09 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
<b>Valuation of land reserves</b>	<b>767</b>	<b>946</b>	<b>1,127</b>	<b>1,505</b>
Add: 22 Hotel sites	25	25	25	25
Add: Construction JV	20	20	20	20
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	22	22	22	22
Add: Present value of project management fees	8	8	8	8
Add: Investments as on March 31, 2008	20	20	20	20
Add: Bidadi township	65	65	65	65
Less: Net debt as on March 31, 2008	(23)	(23)	(23)	(23)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
<b>NAV</b>	<b>874</b>	<b>1,053</b>	<b>1,234</b>	<b>1,612</b>
Total no. of shares including ESOPs of 17 mn shares (mn)				1,722
<b>NAV/share</b>				<b>717</b>

Source: Kotak Institutional Equities.

## Insurance

## LIC degrows once again, we expect at least one more month of pain

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Individual adjusted premium equivalent (APE) collection for October dipped 27% yoy (4% in Sep) with LIC reporting a sharp fall of 65% yoy (57% in Sep '07). However, the private sector showed strong growth at 117% yoy. Reliance, HDFC SL, SBI Life, and Birla Sun Life, reported over 100% growth while ICICI Prudential Life, Bajaj Allianz and Max reported over 80%. Deceleration for LIC has come off the high base (of 278%) of last year and we expect the company to report a similar trend in November 2007. In November 2006, LIC reported a 300% growth in premium collection, the degrowth, therefore, could be sharp. LIC's market share has come off sharply to 38%, but, we expect this to rebound from December. However, in the long run, LIC will likely continue to lose market share. Key risks to the sector volume growth and valuations could arise from a sharp correction in the stock market. ULIPs account for 70-95% of policy sales with a significant 80% parked in equity/growth funds.

## Life insurance premium income collections adjusted for single premium (Rs mn)

	Oct-07						YTD FY2008					
	yoy growth		yoy growth		yoy growth		yoy growth		yoy growth		yoy growth	
	Individual	(%)	Group	(%)	Total	(%)	Individual	(%)	Group	(%)	Total	(%)
Bajaj Allianz	3,263	93	3	38	3,266	93	23,625	140	20	33	23,646	139
Bharti Axa	69	—	—	—	69	—	252	—	—	—	252	—
Birla Sunlife	1,430	198	19	27	1,449	192	6,982	126	51	(16)	7,032	123
HDFC Standard Life	1,736	119	16	(35)	1,753	114	9,332	81	78	(8)	9,410	80
ICICI Prudential	4,547	84	89	47	4,637	83	26,283	61	381	25	26,665	61
ING Vysya	528	163	0	(83)	528	163	2,909	56	3	(52)	2,913	56
Max NY	788	81	5	2,876	793	82	5,649	61	25	1,291	5,674	61
Reliance Life	1,435	386	40	2,180	1,474	397	6,214	195	148	1,021	6,362	200
SBI Life	1,661	179	33	(35)	1,694	162	8,106	98	207	(12)	8,313	92
Tata AIG	620	54	23	364	643	58	3,484	31	77	37	3,560	31
<b>Private sector</b>	<b>18,082</b>	<b>119</b>	<b>240</b>	<b>43</b>	<b>18,321</b>	<b>118</b>	<b>103,613</b>	<b>90</b>	<b>1,057</b>	<b>27</b>	<b>104,670</b>	<b>89</b>
LIC	11,014	(65)	603	(40)	11,617	(64)	131,813	(3)	4,474	0	136,287	(3)
<b>Total</b>	<b>29,096</b>	<b>(27)</b>	<b>842</b>	<b>(29)</b>	<b>29,938</b>	<b>(27)</b>	<b>235,427</b>	<b>24</b>	<b>5,531</b>	<b>6</b>	<b>240,957</b>	<b>23</b>

\* Nos are not adjusted for single premium

Source: IRDA.

## Premium income collection comes off as LIC's collections dive on the back of a high base

Individual business premium income growth (%), March fiscal year-ends, 2005-2007

	2005	2006	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	2007	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	YTD
Bajaj Allianz	153	244	114	134	71	166	150	142	128	52	122	80	93	180	287	93	140
Birla Sunlife	89	11	(3)	36	18	24	29	16	24	12	16	41	54	243	290	198	126
HDFC Standard Life	158	123	42	58	61	82	37	45	57	28	119	27	92	136	57	119	81
ICICI Prudential	112	58	55	99	66	98	82	88	87	69	35	(6)	72	115	105	84	61
Max NY	72	103	23	68	91	46	40	61	75	40	53	80	52	57	53	81	61
Reliance Life	(4)	222	646	1,136	900	728	1,069	678	833	23	65	121	157	317	318	386	195
SBI Life	75	227	406	486	403	319	261	150	290	176	80	50	(6)	187	167	179	98
<b>Private sector</b>	<b>116</b>	<b>87</b>	<b>69</b>	<b>114</b>	<b>83</b>	<b>109</b>	<b>96</b>	<b>93</b>	<b>98</b>	<b>48</b>	<b>62</b>	<b>33</b>	<b>63</b>	<b>142</b>	<b>151</b>	<b>117</b>	<b>89</b>
LIC	(1)	23	278	302	(21)	5	5	27	88	170	49	(3)	30	55	(57)	(65)	(3)
<b>Total</b>	<b>15</b>	<b>40</b>	<b>200</b>	<b>237</b>	<b>19</b>	<b>41</b>	<b>41</b>	<b>48</b>	<b>91</b>	<b>112</b>	<b>54</b>	<b>9</b>	<b>41</b>	<b>75</b>	<b>(4)</b>	<b>(27)</b>	<b>24</b>

As expected, LIC once again reported degrowth in premium collection in October, pulling down the overall industry growth rates. We expect LIC to report a similar trend for another month on a very high base

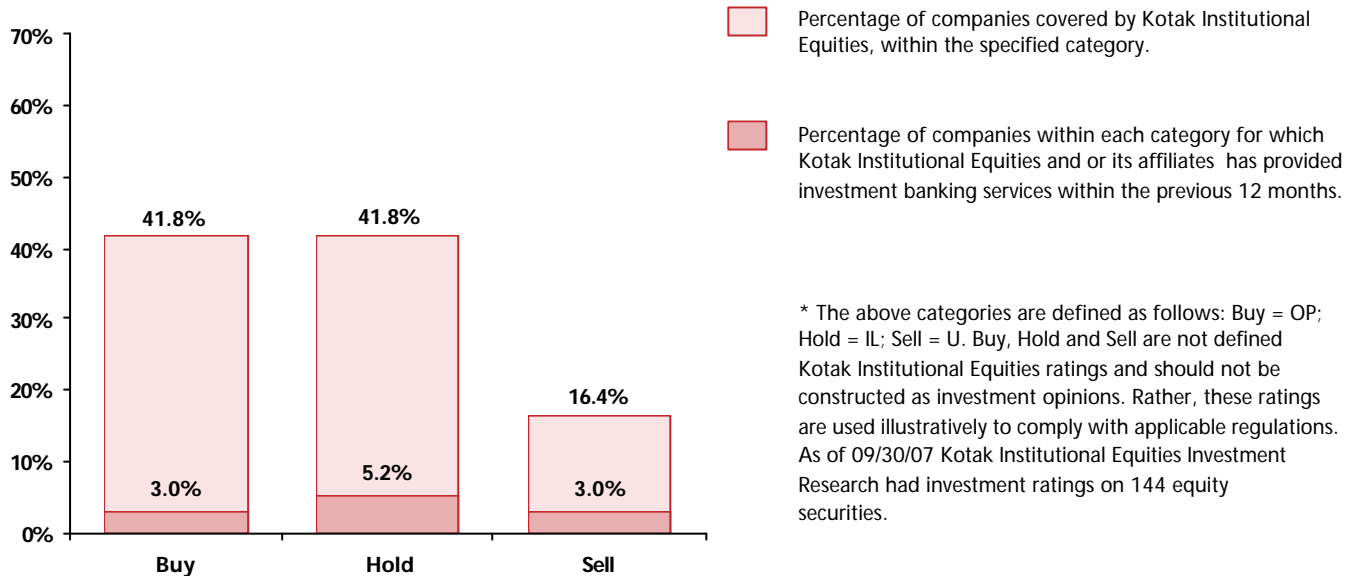
Amongst private players, Reliance, Birla Sun Life, HDFC SL and SBI Life reported growth in excess of 100%. ICICI Prudential Life, Max NYL and Bajaj Allianz reported strong growth of over 80%. We expect premium income collection for Bajaj Allianz to come off further due to the withdrawal of the actuarially-funded product and increasing competition in non-metros.

Source: IRDA, Kotak Institutional Equities.

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Source: Kotak Institutional Equities.

As of September 30, 2007

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