kotak® Institutional Equities

INDIA DAILY

February 25, 2008

EQUITY MARKETS

		Change, %		
India	**22-Feb**	**1-day**	**1-mo**	**3-mo**
Sensex	17,349	(2.2)	(5.5)	(8.0)
Nifty	5,111	(1.6)	(5.1)	(8.9)
Global/Regional indices				
Dow Jones	12,381	0.8	1.4	(4.6)
Nasdaq Composite	2,303	0.2	(1.0)	(11.3)
FTSE	5,889	(0.7)	0.3	(6.0)
Nikkie	13,780	2.1	1.1	(7.4)
Hang Seng	23,407	0.4	(6.8)	(11.8)
KOSPI	1,706	1.2	0.8	(3.8)

Value traded - India

			Moving avg, Rs bn	
	22-Feb		**1-mo**	**3-mo**
Cash (NSE+BSE)	148.4		189.6	148.3
Derivatives (NSE)	358.5		443.1	711
Deri. open interest	755.9		911	1,064

Forex/money market

		Change, basis points		
	22-Feb	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.1	0	68	26
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.6	(2)	22	(30)

Net investment (US$mn)

	21-Feb		**MTD**	**CYTD**
FIIs	71		1,249	(4,306)
MFs	(57)		(69)	1,876

Top movers -3mo basis

		Change, %		
Best performers	**22-Feb**	**1-day**	**1-mo**	**3-mo**
NALCO	415	3.2	(4.8)	24.6
Rashtriya Chem	82	0.6	(14.5)	23.5
Punjab Tractors	244	(1.6)	(8.7)	21.1
Tata Power	1,357	0.8	7.4	18.0
Apollo Tyres	44	(1.9)	(10.4)	12.3
Worst performers				
Tvs Motor	40	(0.9)	(11.5)	(36.8)
Balaji Telefilms	219	(1.5)	(12.0)	(34.6)
Moser Baer	170	(2.9)	(26.4)	(33.4)
MRF	4,588	(1.1)	(8.7)	(31.3)
Acc	774	(0.7)	(1.7)	(30.4)

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News Roundup

Corporate

- Reliance Power Ltd on Sunday set a 3-for-5 bonus share issue in an attempt to cheer shareholders after a miserable debut following a record $3 billion initial public offer. Shareholders other than the founders will receive three bonus shares for every five held, effectively reducing the cost of the shares to Rs 269 for retail shareholders compared to a discounted IPO price of Rs 430. (FE)
- The boards of directors of HDFC Bank and Centurion Bank of Punjab have approved the merger of the two banks. HDFC Bank is expected to pay Rs 10,000-Rs 12,000 crore in shares for absorbing CBoP. (BS)
- Tata Motors is learnt to have kick-started the process of raising nearly $2.5 billion, mostly from the overseas markets, by giving the mandate to a battery of banks. A large chunk of this fund is expected to be utilized to purchase luxury British brands Jaguar and Land Rover from the US carmarker Ford. (ET)

Economic and political

- The government will issue new telecom licenses to nine firms which got LoIs last month, followed by allocation of start-up spectrum to roll out mobile services, a move that would fuel competition and bring about affordability in the cellular tariffs. (Hindu)
- The Income Tax Department has sought clarity from the Central Board of Direct Taxes on non-compete fee, which at present remains mostly outside the tax net. (BS)

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

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Strategy

Sector coverage view	N/A

For the people of 'Bharat' from the people of India

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- **Take from 'India' to pay to 'Bharat'; nothing wrong with it, in our view**
- **We do not expect major changes in direct or indirect taxes**
- **Sector impact: Autos, infra (+ve), airlines (+ve), IT (potential +ve), others (modest +/-ve)**
- **Strategy: Market in consolidation mode but risks from '3D' still exists**

We expect the FY2009 Union Budget to largely reflect the government's political agenda and focus on increased spending on rural infrastructure and agriculture. We rule out major economic reforms. The budget therefore may not be a major trigger for the market and we expect the market to consolidate for the next few months. We see autos (excise duty cuts, Sixth Pay Commission award), airlines ('Declared Goods' status for jet fuel) and IT (extension of certain tax-exemption schemes) as potential and unexpected beneficiaries.

Take from 'India' to pay to 'Bharat'; nothing wrong with it, in our view

We see the thrust of the FY2009 Union Budget on rural India with (1) increased spending for rural infrastructure (electrification, roads, irrigation), (2) financial support to agriculture workers (partial waiver of loans, increase in credit) and (3) social development (education, health). High revenue buoyancy with strong growth in income and corporate tax collections will support the likely increase in spending. Autos (2-W, tractors), banks and consumer companies may benefit from the government's thrust on rural spending.

We do not expect major changes in direct or indirect taxes

We see limited scope for a reduction in income and corporate taxes despite high tax buoyancy given the likely sharp increase in spending on account of general elections in CY2009. The increased spending will reflect (1) funding of developmental programs and (2) provisions for the Sixth Pay Commission award. We expect Fiscal Responsibility and Budget Management (FRBM) targets to be met in FY2008E given high revenue buoyancy.

Sector impact: Autos, infra (+ve), airlines (+ve), IT (potential +ve), others (modest +/-ve)

We see autos, airlines and IT as potential and unexpected beneficiaries from the FY2009 Union Budget. We do not believe that street estimates factor in the potential positives. In addition, the Pay Commission award will give a fillip to demand for autos, consumer durables and real estate. Finally, we expect the budget to provide new initiatives to the fertilizer and mining sectors.

Strategy: Market in consolidation mode but risks from '3D' still exists

We do not see the FY2009 Union Budget providing a major trigger for the market given the limitations of an 'election-year budget' and extant global issues. We are now less concerned by the risks emanating from our '3D' framework (downgrades to earnings, de-rating of multiples and de-mystification) after the recent large market correction although the risks have not entirely dissipated. Our 12-month forward range for the BSE-30 Index (Sensex) is unchanged at 17,000-21,000.

Banking

HDBK.BO, Rs1475	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,500
52W High -Low (Rs)	1825 - 890
Market Cap (Rs bn)	511.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	52.3	78.8	102.3
Net Profit (Rs bn)	11.4	16.8	22.9
EPS (Rs)	35.7	48.4	64.4
EPS gth	*28.5*	*35.4*	*33.0*
P/E (x)	41.3	30.5	22.9
P/B (x)	7.9	4.3	3.7
Div yield (%)	0.4	0.7	0.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	23.3	-	-
FIIs	48.1	2.8	1.6
MFs	4.1	1.5	0.2
UTI	-	-	(1.3)
LIC	2.7	0.9	(0.4)

HDFC Bank: HDFC Bank and CBOP to merge, long-term positive for both, current price of CBOP reflects takeover premium

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- **HDFC Bank and CBOP boards have given an in-principle approval for merger between the two banks**
- **We believe a merger between the two banks would be long-term positive for both the banks**
- **At current market price, merger appears to be more beneficial to CBOP's shareholders than HDFC Bank**

HDFC Bank and CBOP boards met on Saturday, 23 February 2008, and have given an in-principle approval for a merger between the two banks. We believe a merger between the two banks would be long-term positive for both the banks. At current price (Rs56 for CBOP and Rs1,475 for HDFC Bank), the merger would be more in favour of CBOP's shareholders than HDFC Bank, given CBOP's stretched valuation v/s its fundamentals. CBOP's current price already reflects a takeover premium and we therefore believe that HDFC Bank should not be merging this bank at higher than the current price (25% premium to our fair value estimate). At current price the merger ratio will be one share of HDFC Bank for 28 shares of CBOP.

Valuation of CBOP is expensive relative to its fundamentals. CBOP and HDFC Bank, both trade at similar valuations of 4X PBR FY2009E. However, HDFC Bank generates higher RoE on a consistent basis of 18-20%, whereas this has been a low 10-12% for CBOP. Even on a PER basis, CBOP trades at 34X EPS FY2009E v/s HDFC Bank 24X. At our fair value estimate for CBOP of Rs45 the merger ratio should be 35 shares of CBOP for one share of HDFC Bank (note CBOP per share face value is Rs1). However, we believe that in such a merger the acquirer will likely need to pay a premium and the deal is unlikely to happen at a price lower than the market price.

What would HDFC Bank get? HDFC Bank’s advances and deposits will both increase by 20%. However, the bank would see an increase of 52% in its branch network to 1,148. We believe HDFC Bank has a far superior brand name and would be in a position to increase CBOPs CASA ratio from 25% (HDFC Bank has CASA ratio in excess of 50%) and shift its deposit profile to retail (we estimate 50% of CBOP’s term deposits are non-retail).

Why is CBOP considering a merger? We believe the premium valuation at CBOP is likely driven by expectations of a sale to a foreign bank. In our view, this scenario is unlikely to materialize for another 5-7 years and CBOP’s valuations could thus carry risk of downside in case the May 2009 election do not result in a pro-reform party at the centre. Sale of CBOP to a bank like HDFC Bank at current valuations therefore makes sense. The only clear advantage to HDFC Bank is the large branch network of CBOP. Since the current price already reflects a takeover premium, we believe that the transaction should not be done at higher than the current price.

Exhibit 1: Comparison between HDFC Bank and CBOP across key variables

March fiscal year-ends

	Centurion Bank	HDFC Bank	CBOP as % of HDFC Bank
Market Cap (Rs bn)	106	522	20
No of branches	394	754	52
No of ATMs	452	1,906	24
No of employees (*)	6,995	21,200	33
Advances (Rs bn)	151	714	21
Deposits (Rs bn)	207	994	21
Net NPLs (Rs bn) as of December 2007	2.5	2.8	90
Net NPLs (%) as of December 2007	1.7	0.4	
Shareholders funds 2008E (Rs bn)	21	119	18
Tier I (%) as of December 2007	10.0	10.5	
RoE(%)			
2008E	10.1	18.3	
2009E	12.7	17.9	
RoA (%)			
2008E	0.8	1.5	
2009E	0.9	1.5	
EPS (Rs)			
2008E	1.0	48.4	
2009E	1.5	64.4	
BVPS (Rs)			
2008E	11.1	335.4	
2009E	12.4	384.8	
PER (X)			
2008E	44.2	30.5	
2009E	31.6	22.9	
PBR (X)			
2008E	4.2	4.4	
2009E	3.8	3.8	

* Data for March 2007

Source:Companies, Bloomberg, Kotak Institutional Equities estimates.

Exhibit 2: Valuations of the merged entity at various swap ratios
March fiscal year-ends, 2009-2010E

	Swap ratio of 1:24		Swap ratio of 1:28		Swap ratio of 1:35	
	2009E	2010E	2009E	2010E	2009E	2010E
PAT of merged entity (Rs mn)	25,819	33,702	25,819	33,702	25,819	33,702
EPS of merged entity (Rs)	59.5	77.7	61.1	79.7	63.1	82.4
BVPS of merged entity (Rs)	372	434	382	446	394	460
Number of shares post merger (mn)	434	434	423	423	409	409
HDFC Bank current price (Rs)	1,475	1,475	1,475	1,475	1,475	1,475
HDFC Bank adjusted price post merger (Rs)	1,448	1,448	1,486	1,486	1,535	1,535
Implied price per share of CBOP (Rs)	64	64	57	57	45	45
PER on adjusted price (X)	24.3	18.6	24.3	18.6	24.3	18.6
PBR on adjusted price (X)	3.9	3.3	3.9	3.3	3.9	3.3

Note:
(1) Adjusted price of HDFC Bank calculated thus,
(Cumulative market capitalization of CBOP and HDFC Bank)/ (Outstanding shares of the merged entity).
(2) Market capitalization and market price of companies is based on closing prices of February 22, 2008.

Source:Companies, Bloomberg, Kotak Institutional Equities estimates.

Exhibit 3: Holding of key shareholders pre and post-merger

			Shareholding post-merger					
Key shareholders of CBOP	Pre-merger		Post-merger at a swap ratio of 1:24		Post-merger at a swap ratio of 1:28		Post-merger at a swap ratio of 1:35	
	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)
Bank Muscat S A O G	262.5	14.0	11.4	2.6	10.1	2.4	8.0	2.0
Kephinance Investment Mauritius Private Limited	114.8	6.1	5.0	1.2	4.4	1.0	3.5	0.9
HSBC Financial Service Middle East Limited	88.3	4.7	3.8	0.9	3.4	0.8	2.7	0.7
Western India Trustee & Executor Company Limited	75.0	4.0	3.3	0.8	2.9	0.7	2.3	0.6
Deutsche Securities Mauritius Limited	73.9	4.0	3.2	0.7	2.8	0.7	2.2	0.5
Ambit Capital Private Limited	70.0	3.7	3.0	0.7	2.7	0.6	2.1	0.5
Sabre Capital Worldwide (Mauritius) Limited	65.2	3.5	2.8	0.7	2.5	0.6	2.0	0.5

Key shareholders of HDFC Bank	Pre-merger		Post-merger at a swap ratio of 1:24		Post-merger at a swap ratio of 1:28		Post-merger at a swap ratio of 1:35	
	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)	Shares held (mn)	Shareholding (%)
HDFC	82.4	23.3	82.4	19.1	82.4	19.6	82.4	20.2

Source: BSE, Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs63	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	70
52W High -Low (Rs)	143 - 51
Market Cap (Rs bn)	27.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.9	4.1	7.8
Net Profit (Rs bn)	(2.5)	(4.0)	(4.0)
EPS (Rs)	(5.8)	(9.0)	(8.9)
EPS gth	-	-	-
P/E (x)	(10.8)	(7.0)	(7.0)
EV/EBITDA (x)	(15.4)	(15.8)	(33.2)
Div yield (%)	-	-	-

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	19.1	0.1	(0.0)
MFs	5.2	0.1	0.0
UTI	-	-	(0.1)
LIC	2.7	0.1	(0.0)

Dish TV: Cancellation of Dish TV's private placement to Future Group negative

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- **Dish TV was to raise Rs2.5 bn through issue of equity and warrants to Future Group**
- **Subscriber addition remains strong in the month of January with 101,000 subscribers**
- **Competition, low ARPUs, weak balance sheet will weigh on Dish TV stock**
- **Retain REDUCE with a 12-month DCF-based target price of Rs70 (Rs75 previously)**

Dish TV has announced the cancellation of a proposed investment (announced in December 2007) of Rs2.5 bn by Indivision India Partners (IIP) in Dish TV. The deal fell through over disagreements on the structure of capital infusion; Dish TV stock price has declined 29% over the last two months in line with the broader market and IIP did not find the large difference between the current stock price (Rs63) and the price of the warrants (Rs130) attractive. This negative development will revive concerns about Dish TV's weak balance sheet and its ability to raise capital. Dish TV's distribution alliance with the Future Group may also be in jeopardy. We have made adjustments to our earnings model to reflect changes to Dish's balance sheet (higher debt) and ability to effectively compete against strong competition; we retain our REDUCE rating with a 12-month DCF-based target price of Rs70 (Rs75 previously).

Private placement of Rs2.5 bn to IIP falls through. Under the agreement between Dish TV and IIP in December 2007, Dish was to issue 12.5 mn equity shares at a price of Rs100 and 9.6 mn warrants convertible into 9.6 mn equity shares at Rs130 per equity share within 18 months from the date of issue. This implied immediate capital infusion of Rs1.4 bn into Dish TV and further Rs1.1 bn over 18 months if and when the warrants were converted. Dish TV stock price declined 29% over the last two months coinciding with the fall in the broader market in January. The large gap between the current stock price (Rs63) and the conversion price of the warrants (Rs130) made the deal structure unattractive for IIP. The inability of the two parties to come to an agreement over revised terms led to cancellation of the entire private placement. The future of the marketing tie-up Dish TV has with Future Group, the parent entity of IIP, is also unclear.

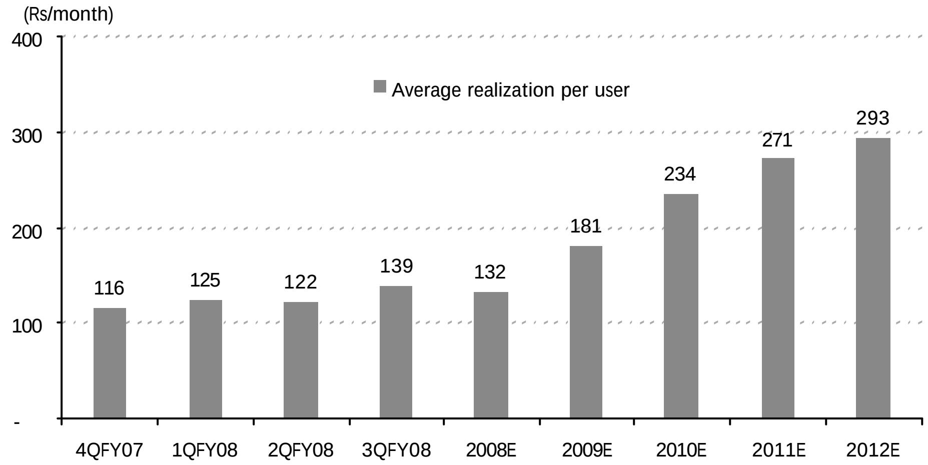
Weak balance sheet may act as a constraint to growth. Dish TV is in the initial stages of investment and requires large amounts of cash to fund its capital expenditure plan and cash loses for the first few years of operations; we estimate the capital requirement of Dish TV at Rs8.5 bn over FY2009-11E. Dish TV's weak balance sheet with negative equity of Rs4.3 bn at end-FY2008E and debt of about Rs4.25 bn as of end-3QFY08 has always been a cause of concern. IIIP's proposed Rs.2.5 bn capital infusion into Dish TV had partly allayed these concerns; Dish TV had also gained a strong distribution partner in the Future Group. The fallout of the deal has not only raised question marks on Dish TV's ability to fund its expansion but also to compete effectively against strong well-capitalized competition. Dish TV's major shareholder has reiterated its commitment to the growth of the company but has not yet put forward any concrete plan of action for meeting the funding requirements of Dish TV.

Robust subscriber addition but concerns about competition, ARPUs and now financing. Dish TV added 101,000 subscribers in January 2008 compared to 82,000 subscribers in December 2007 and average 99,000 subscribers in 3QFY08; the subscriber addition may have also been supported by the tie-up with the Future Group and its yearly sale "Sabse Saste 3 Din" in January. Dish TV's end-January subscriber figure stood at 2.76 mn and it looks set to achieve our expected 2.98 mn subscriber base at end-FY2008E. However, financially-strong players in the form of Big TV (R-ADAG group) and Bharti will enter the market in 1QFY09E; we believe the lack of capital will affect Dish TV's ability to continue its aggressive consumer acquisition strategy. Moreover, the valuation of Dish TV stock is highly sensitive to long-term ARPUs and we note the sluggish growth in Dish TV ARPUs in the recent past (see Exhibits 1 & 2). We await the entry of competition and clarity on ARPUs of Dish TV before reviewing our view on the stock.

Changes to Dish TV earnings model to reflect higher debt and likely slower subscriber addition. We have reduced our expected subscriber addition for Dish TV to 1.0 mn and 1.0 mn in FY2009E and FY2010E, respectively, from 1.2 mn and 1.1 mn, respectively, previously. We now expect Dish TV to reach a subscriber base of 4.0 mn (4.2 mn previously) and 5.0 mn (5.3 mn) by end-FY2009E and FY2010E, respectively.

We have also adjusted our balance sheet model of Dish TV to exclude the proposed equity infusion by IIP; debt has increased consequently. We note that Dish TV is paying about 10.5-11.0% interest on the Rs4.25 bn of debt in its books. We expect Dish TV to report FY2009E, FY2010E and FY2011E revenues of Rs7.7 bn, 12.8 bn and Rs18 bn, respectively, versus Rs7.8 bn, Rs13.5 bn and Rs19.0 bn, respectively, previously. We model Dish TV to report EBITDA of Rs1.2 bn and Rs3.6 bn in FY2010E and FY2011E, respectively, down from Rs1.3 bn and Rs3.9 bn, respectively, previously; Dish TV is likely to report negative EBITDA of Rs1.0 bn in FY2009E.

Dish TV ARPUs need to increase sharply for current low levels for any meaningful value creation
Average revenue per user for Dish TV DTH services, March fiscal year-ends, 2007-2013E (Rs/month)



Source: Kotak Institutional Equities estimates.

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

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

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	83	17
10%	77	8
Base case	**71**	
-10%	65	(9)
-20%	61	(15)
Change in monthly subscription fees (%)		
20%	160	126
10%	115	63
Base case	**71**	
-10%	33	(53)

Source: Kotak Institutional Equities estimates.

Dish's subscribers will likely increase to over 5 mn by FY2010E and to 9 mn by FY2015E

Key financial and operating data of Dish TV, March fiscal year-ends, 2007-2017E

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs bn)	1.9	4.1	7.7	12.8	18.0	22.8	27.0	31.6	36.0	40.3	44.5
EBITDA (Rs bn)	(1.9)	(2.0)	(1.0)	1.2	3.6	5.2	6.2	7.5	8.6	9.7	10.6
EBITDA margin (%)	**(97.0)**	**(49.0)**	**(13.0)**	**9.5**	**19.7**	**22.7**	**23.1**	**23.6**	**23.9**	**24.1**	**23.7**
Year-end # of paying subscribers (mn)	**1.9**	**3.0**	**4.0**	**5.0**	**6.0**	**6.9**	**7.7**	**8.4**	**9.0**	**9.5**	**10.0**
Increase/(decrease) in number of subs	1.0	1.1	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.5	0.5
Average # of paying subscribers (mn)	1.4	2.4	3.5	4.5	5.5	6.4	7.3	8.0	8.7	9.2	9.7
Subscription fees per month (Rs/sub/month)	95	111	157	210	247	267	283	302	321	340	361
ARPU (Rs/sub/month)	**108**	**132**	**181**	**234**	**271**	**293**	**308**	**326**	**344**	**363**	**380**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for Dish TV is Rs70

Discounted cash flow analysis of Dish TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**(2,011)**	**(998)**	**1,215**	**3,558**	**5,174**	**6,250**	**7,457**	**8,609**	**9,726**	**10,569**
Tax expense	—	—	—	—	(241)	(358)	(466)	(575)	(801)	(2,477)
Working capital changes	(2,178)	(157)	872	466	1,776	1,462	881	626	188	203
Cash flow from operations	**(4,189)**	**(1,155)**	**2,087**	**4,024**	**6,709**	**7,354**	**7,873**	**8,661**	**9,113**	**8,295**
Capital expenditure	(3,368)	(2,988)	(2,844)	(2,706)	(4,854)	(4,557)	(3,959)	(3,587)	(3,238)	(2,912)
Free cash flow to the firm	**(7,557)**	**(4,143)**	**(757)**	**1,317**	**1,855**	**2,796**	**3,913**	**5,074**	**5,875**	**5,383**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**1,435**	**11,735**	**19,699**
FCF one-year forward	5,706	6,049	6,412
Terminal value	81,521	86,413	91,597
PV of terminal value (b)	**23,514**	**24,925**	**26,420**
Total PV (a) + (b)	**24,949**	**36,660**	**46,119**
Net debt	1,638	6,324	11,673
Equity value	23,312	30,335	34,446
Equity value (US$ mn)	**515**	**758**	**895**
Shares outstanding (mn)	428	428	428
Equity value/per share (Rs)	**54**	**71**	**80**

Discount rate (%)	13.0
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	14.3
Exit EBITDA multiple (X)	7.7

Source: Kotak Institutional Equities estimates.

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

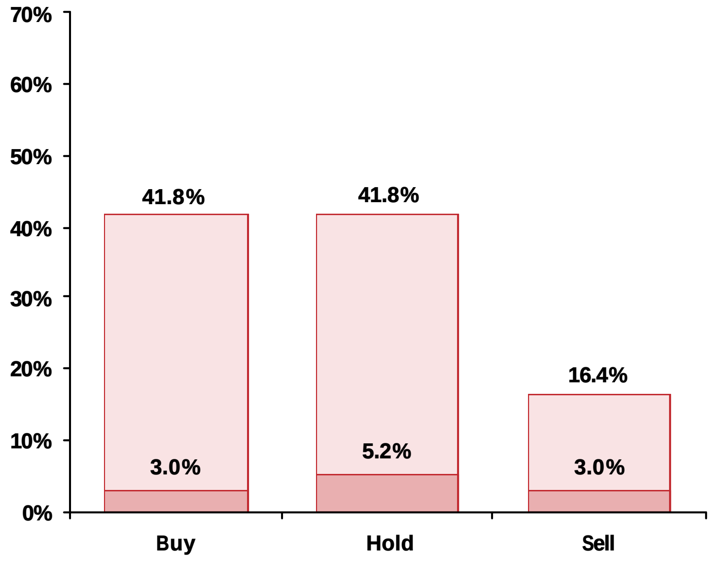
	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,105	7,683	12,762	18,036	22,822
EBITDA	**(830)**	**(1,852)**	**(2,011)**	**(998)**	**1,215**	**3,558**	**5,174**
Other income	—	34	38	37	41	41	43
Interest (expense)/income	(17)	(118)	(491)	(824)	(1,126)	(1,242)	(1,132)
Depreciation	(18)	(565)	(1,478)	(2,164)	(2,734)	(3,187)	(3,079)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(3,952)**	**(3,958)**	**(2,614)**	**(840)**	**996**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	—	(113)
Deferred taxation	—	—	(63)	15	150	272	106
Net income	**(2,078)**	**(2,519)**	**(4,014)**	**(3,944)**	**(2,464)**	**(568)**	**989**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.4)**	**(9.2)**	**(5.8)**	**(1.3)**	**2.3**
Balance sheet							
Total equity	1,915	(395)	(4,284)	(8,228)	(10,817)	(11,385)	(10,396)
Deferred taxation liability	—	—	63	48	(102)	(373)	(479)
Total borrowings	84	1,751	6,494	11,744	14,494	14,244	12,744
Current liabilities	1,820	8,596	8,589	7,853	8,626	9,516	12,618
Total liabilities and equity	**3,819**	**9,952**	**10,861**	**11,417**	**12,202**	**12,001**	**14,486**
Cash	59	113	169	70	280	75	348
Other current assets	1,528	2,271	1,244	1,085	1,560	2,055	2,500
Total fixed assets	1,067	6,107	7,997	8,821	8,931	8,451	10,226
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**10,861**	**11,417**	**12,202**	**12,001**	**14,486**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,503)	(1,822)	89	2,316	3,929
Working capital changes	599	3,507	1,020	(577)	299	394	2,656
Capital expenditure	(1,025)	(2,921)	(3,368)	(2,988)	(2,844)	(2,706)	(4,854)
Investments	185	(451)	—	—	—	—	—
Other income	3	5	38	37	41	41	43
Free cash flow	**(1,088)**	**(1,674)**	**(4,812)**	**(5,349)**	**(2,415)**	**45**	**1,774**
Ratios (%)							
Debt/equity	4.4	(443.6)	(151.6)	(142.7)	(134.0)	(125.1)	(122.6)
Net debt/equity	1.3	(414.9)	(147.6)	(141.9)	(131.4)	(124.5)	(119.2)
ROAE (%)	(217.0)	(331.3)	173.9	63.6	25.8	5.0	(8.7)
ROACE (%)	**(89.6)**	**(283.2)**	**(193.8)**	**(107.0)**	**(39.3)**	**9.0**	**97.0**

Source: Kotak Institutional Equities estimates.

"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: Sanjeev Prasad, Tabassum Inamdar."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* 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

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