kotak® Institutional Equities

INDIA DAILY

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Reliance Industries, Reliance Petroleum: Slide in refining margins—the show may have just begun

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Telecom: TRAI releases recommendations allowing MVNOs in India; we do not see a meaningful near-term impact

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News Roundup

Corporate

- **Hansen Transmissions International** NV, the world's fifth largest gearbox maker owned by Pune-based **Suzlon Energy** Ltd, is in discussions with **Shanthi Gears** to buy a substantial stake in Shanthi Gears, India's second-largest industrial gearbox maker. (Mint)
- The exclusivity clause for closing the deal between private equity investor **WL Ross** and **SpiceJet** that ended on July 31 has been extended because the US-based company is renegotiating with creditors to write down their debt with the low-cost carrier. (BS)
- Retail chain **Subhiksha** feels it is being unfairly targeted by the Food and Drugs Administration of Maharashtra in initiating enquiries and hygiene checks on grounds that it is selling repackaged goods. (BS)
- **Bhel** may have to pay Punjab a penalty of up to 5% of the total cost of the 500-mw Lehra Mohabbat stage-4 thermal project. (BS)

Economic and political

- The government has agreed to agents at call centres working from home. The move helps the BPO industry to lower costs. (ET)
- The government may impose a cap on the revenues of oil producing companies like ONGC, OIL, Reliance Industries and Cairn, if the BK Chaturvedi committee recommendations are accepted (that any incremental revenues earned beyond US$57 per barrel would have to be given to the government as part of subsidy-sharing in the oil sector). (ET)
- The logjam continues: the empowered group on ministers on SEZs decided to continue with the 5,000-hectare land ceiling on the zones (the ceiling imposed in 2007 to counter still protests that claimed quality farmland was being offered for the SEZs). (FE)
- The union of BSNL has rejected an Esop offer by Communications Minister A Raja to coincide with the company's IPO. The union has opposed the IPO. (BS)

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

EQUITY MARKETS

		Change, %		
India	**7-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	15,117	0.3	13.2	(11.5)
Nifty	4,524	0.1	13.4	(11.0)
Global/Regional indices				
Dow Jones	11,431	(1.9)	0.4	(11.2)
FTSE	5,478	(0.2)	0.7	(12.7)
Nikkie	13,051	(0.6)	0.1	(6.4)
Hang Seng	22,130	0.1	4.3	(13.0)
KOSPI	1,572	0.5	2.5	(15.0)
Value traded - India				
			Moving avg, Rs bn	
	7-Aug		**1-mo**	**3-mo**
Cash (NSE+BSE)	186.1		190.8	186.5
Derivatives (NSE)	499.2		446.3	336
Deri. open interest	717.6		693	705

Forex/money market

		Change, basis points		
	7-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	42.1	0	(119)	32
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US$mn)

	6-Aug		MTD	CYTD
FIIs	404		(168)	(6,914)
MFs	(91)		28	2,710

Top movers -3mo basis

		Change, %		
Best performers	**7-Aug**	**1-day**	**1-mo**	**3-mo**
CIPLA LTD	227	1.3	9.7	7.3
RANBAXY LABORA	504	(1.9)	(4.1)	7.1
MAHANAGAR TELEI	110	4.5	22.1	4.9
CROMPTON GREAV	259	(3.7)	5.6	4.3
BHARTI AIRTEL LIMI	850	(2.2)	19.4	2.7
Worst performers				
INDIABULLS REAL E	322	(2.2)	21.5	(41.1)
UNITECH LIMITED	179	1.3	10.9	(40.3)
INFRASTRUCTURE D	105	(1.2)	(4.2)	(39.9)
HOUSING DEVELOP	482	0.0	15.0	(38.6)
INDIABULLS FINANC	310	0.2	31.1	(36.8)

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Strategy

Sector coverage view	N/A

Holiday time: Time to consolidate and realign

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- **Our BSE-30 Index of 16,000 by end-2008 now offers limited upside in the near term**
- **Valuations not very comfortable at current levels; earnings risks remain**
- **Changes in top-10 and model portfolio—even more market-neutral than before**

We see the Indian market offering limited upside in the near term (3-6 months) in the context of (1) expansion in the market's valuations over the past two months (15.2X FY2009E earnings compared to 13.1X in end-June), (2) 15.1% (11.6% ex-energy basis) earnings growth for BSE-30 Index and (3) continued macro-environment and earnings issues. The BSE-30 Index has significantly outperformed the regional indices over the past one month led by (1) better-than-expected 1QFY09 earnings, (2) UPA's trust vote win and (3) cool-off in the global crude oil prices. Our recommendation to move gradually towards an anti-crude portfolio (refer to our note '*US$1.2 tn question: Anti-crude or pro-crude portfolio?*' dated June 13, 2008) seems to have played out rather quickly. We are accordingly realigning sector weights in our model portfolio to factor (1) the recently-concluded 1QFY09 results and earnings revisions thereof, (2) very strong recent performance of certain stocks and (3) recent change in composition of the BSE-30 Index.

Revision in BSE-30 Index target. Exhibit 1 shows that our FY2009E earnings forecast for BSE-30 Index (ex-Energy) has declined further over the past four weeks. We now forecast our F2009E BSE-30 Index (ex-Energy) earnings growth at 11.6% versus 15% at the time of our July 1, 2008 report "*The shorter it goes, the better it gets*" (before the commencement of earnings season). Our revised BSE-30 Index target is 13,500-17,500 versus 14,000-18,000 previously based on 12-15X FY2009E earnings and fair value of embedded assets. Exhibit 2 shows the earnings forecast and valuations across BSE-30 Index sectors.

More market-neutral than before. Exhibit 3 shows our revised model portfolio. We recommend that investors follow a largely index-neutral strategy since we do not find any major factors for continued performance of the market from current levels. The market may jump further in case there is a forced liquidation of short positions (regulatory or otherwise) and specific sectors may perform based on favorable government actions. However, we do not see the settings of a further broad rally in the near term. We discuss key issues below.

1. **Valuations offer modest scope for re-rating after the recent run-up.** We find valuations fair after the recent market run-up and concurrent earnings downgrades. The BSE-30 Index is trading at 15.2X FY2009E earnings and 12.8X FY2009E earnings adjusted for 'embedded' assets. In contrast, the market was trading at 13.1X FY2009E earnings and 10.5X FY2009E earnings adjusted for value of 'embedded' assets at the time of our July 1, 2008 report. Exhibit 4 shows the market's valuations over the past 10 years on various parameters. We also highlight that the market looks somewhat more expensive adjusting for the energy sector at 16.4X FY2009E earnings and 14.2X FY2010E earnings on earnings growth of 11.6% in FY2009E and 15.5% in FY2010E.

2. **Several frontline stocks are trading close to our fair valuations for FY2009E.** We believe this leaves limited scope for re-rating of these stocks and hence, of the market in the near term. A bottom-up approach puts our fair valuation of the market at 16,400 or 8.3% upside from current levels (see Exhibit 5). On roll-forward to FY2010E, our fair valuation for the market would increase by a further 12-13%.

3. **Earnings risks continue in many sectors.** We continue to see high earnings risks in several sectors even though our earnings growth (ex-energy basis) forecast for FY2009E has come down significantly over the past few months.

   a. **Cost pressure (auto, cement, downstream oil).** We note that the full pass-through of the steep increase in global commodity prices (oil, steel) has not yet taken place in India. We see a price increase in India at some point in the future, which would likely impact the margins of automobiles (steel price increases) and cement (fuel and freight increase) negatively. We do not believe commodity prices will retrace to FY2008 levels.

   b. **Pricing (cement, chemicals, refining, real estate, technology).** We continue to see tremendous pricing and margin pressures in these sectors with incremental supply far exceeding incremental demand as discussed previously. New refining and NGL supply globally will exceed incremental demand in CY2008-10E by 2X (6.5 mn b/d versus 3.2 mn b/d), new ethylene capacity globally will exceed incremental demand by 2X (23 mtpa versus 12-13 mtpa) and new cement capacity in India will exceed demand by 2X in FY2009-10E (70 mtpa versus 35 mtpa of incremental consumption).

      We do not rule out pricing pressures in the technology sectors on weak demand for software services from certain sectors (BFSI) in the US and Europe. Net hiring trends of the top software companies are not very encouraging and suggest that the companies fear a softer operating environment in the future (see Exhibit 6).

   c. **Regulatory (telecom).** We see the dynamics of the telecom sector deteriorating significantly led by the entry of new players and the combined weight of all the regulatory developments—3G (likely high bids), MNP (enhanced competition and pressure on pricing), MVNO (more players and competition).

4. **Global oil prices are still quite high relative to domestic prices.** We note that domestic prices of the four regulated products are still very low in India relative to global prices even with oil coming down to around US$118/bbl (WTI) over the past few weeks from a high of US$147/bbl on July 11, 2008. We see the need for large increases to domestic prices to offset current large gross under-recoveries. At US$120/bbl Dated Brent price, we compute gross under-recoveries at Rs2 tn. We note that the proposed government solution results leaves a gap of about Rs400 bn in case it caps the losses of upstream and downstream companies at Rs450 bn and Rs200 bn and issues oil bonds of Rs946 bn only as 'decided' in the June 4, 2008 meeting of the Cabinet Committee of Political Affairs (CCPA). Downstream companies' earnings have significant downside risks even at current levels of crude price (see Exhibit 7).

5. **Fiscal situation continues to be grim.** We do not see India's fiscal situation having changed significantly despite oil prices coming off sharply from recent highs. Our economist computes actual gross fiscal deficit/GDP ratio at 4.3% for FY2009E versus 2.5% estimated in the Union Budget FY2009BE (see Exhibit 8).

We are making changes to our portfolio to factor (1) recently-concluded 1QFY09 earnings, (2) reflect changes in our top-10 recommendations (we are including Reliance Infrastructure in place of Maruti Suzuki and ONGC in place of HDFC Bank) and (3) recent change in composition of BSE-30 Index. We discuss the changes in the detail below:

1. **Earnings revisions.** We have made minor changes in our model portfolio to factor 1QFY09 earnings.

    - **Banking:** Our universe of banking stocks posted 12% yoy PAT growth (46% higher than our estimate) in 1QFY09. A large part of this performance was driven by stable NIMs, NII growth, and fees and recoveries as asset quality remained reasonably healthy. We have cut the weight of HDFC and HDFC Bank and redistributed it between ICICI Bank and SBI.

    - **Utilities:** We are now underweighting NTPC by 216 bps from our previous recommendation of index weight (neutral position). We believe that the stock is fully valued (our target is Rs179/share) at the current market price of Rs184/ share and recommend investors to switch to either Tata Power (TPWR) or Reliance Infrastructure (RELI).

2. **Changes in top-10.** We are replacing Maruti Suzuki with RELI in our top-10 list and HDFC Bank with ONGC (refer to details below). We are underweighting the automobile sector further to 261 bps from 115 bps. We have also increased our weight in Reliance Infrastructure overweighting the stock by 200 bps from our previous neutral stance. We have also increased the weight of ONGC (already overweight in Model Portfolio) to reflect its entry in the Top-10 list.

3. **Change in BSE-30 Index composition.** BSE-30 Index now includes (1) TPWR with free-float adjustment factor of 0.7 (replacing Ambuja Cements) and (2) Sterlite Industries with free-float adjustment factor 0.4 (replacing Cipla). Based on this, we are including Sterlite Industries in our model portfolio with recommended index-neutral weight of 0.7%. Tata Power is already a part of our portfolio (since it is one of the top-10 stocks) and we continue to recommend overweight position by 200 bps.

RELI replaces Maruti Suzuki and ONGC HDFC Bank in our top-10

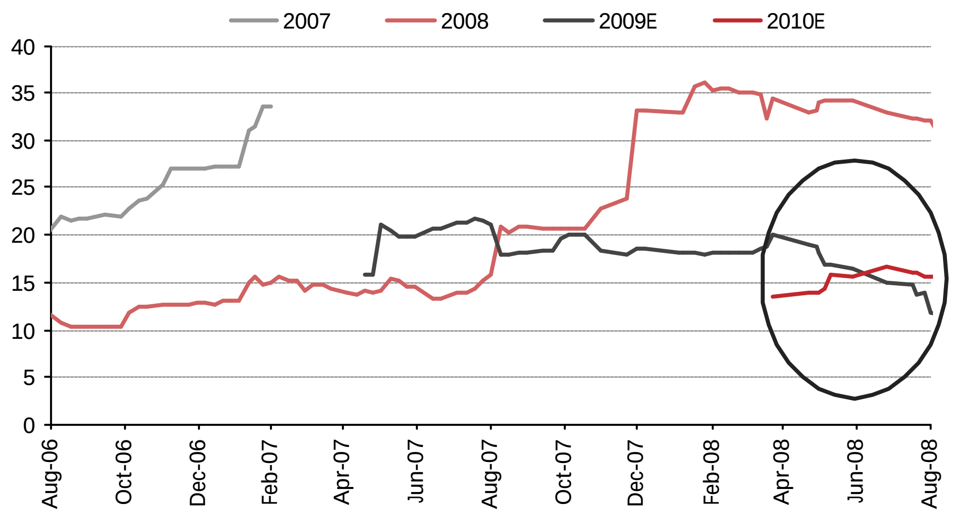
1. **We are replacing Maruti Suzuki with Reliance Infrastructure in our top-10.** We believe that Maruti's volume growth would be muted in the next couple of months due to (1) increase in financing costs and (2) higher inflation resulting in weak consumer sentiment. We expect high interest rates to sustain through 4QCY08. Furthermore, (1) the management has indicated further price hikes, which may affect the slowing demand and (2) there is also a likelihood of delay in implementation of Sixth Pay Commission recommendations. Finally, a likely increase in domestic steel prices may impact margins negatively. Exhibit 9 shows our recent downgrade in Maruti Suzuki's sales volume assumptions and margins.

    We recommend Reliance Infrastructure (RELI) as the stock offers 22% to our SOTP-based target price of Rs1,250 (see Exhibit10). It has a large order book in case of infrastructure, which provides visibility on earnings and has the funding to support aggressive expansion plans in a 45% power subsidiary (Reliance Power). Our SOTP-based target price of Rs1,250/share comprises (1) Rs173/share from the existing generation, transmission and distribution businesses, (2) Rs115/share for the EPC business, (3) Rs673/share for a 45% stake in Reliance Power valued at a 20% discount to our target price of Rs180/share, (4) Rs19/share as the equity- value of the five BOT road projects under-construction and (5) cash and investible surplus in books of Rs272/share.

2. We are replacing HDFC Bank with ONGC to reflect the fact that HDFC Bank is trading very close to our current target price of Rs1,300. We see ONGC stock as offering significant upside in case the government follows a more favorable subsidy-sharing arrangement compared to the historical one-third share for upstream companies. We compute ONGC's FY2009E EPS rising to Rs190 if the government was to restrict the share of ONGC's losses at Rs380 bn (85% of Rs450 bn) versus our current forecast of Rs129. Our 12-month target price of Rs1,225 is based on 9X normalized FCF computed using normalized crude price of US$50/bbl (see Exhibit 11). We use US$50/bbl to factor in subsidies in perpetuity; at our normal normalized assumption of US$75/bbl, we compute ONGC's fair value at Rs1,900 (see Exhibit 12). Exhibit 13 gives valuation summary of our revised top-10 list).

Sensex (ex-energy) earnings growth has declined sharply in the past few months

Expected growth in sensex ex-energy earnings for FY2008, FY2009E and FY2010E (%)



Source: Kotak Institutional Equities estimates

Valuation summary of BSE-30 sectors

	Mkt cap.	Adj mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ mn)	(US$ mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2008	2009E	2010E
Automobiles	14,346	8,851	5.8	(8.2)	0.5	12.8	14.0	13.9	8.4	8.6	8.2	2.7	1.7	1.6	1.6	1.8	21.3	12.5	11.3
Banking	71,311	53,626	43.9	(7.6)	31.1	20.1	21.7	16.6	—	—	—	2.7	2.4	2.1	1.2	1.1	13.3	11.1	12.6
Cement	7,441	5,150	25.7	(7.9)	(11.7)	8.2	8.9	10.1	4.5	4.7	4.9	1.9	1.6	1.4	2.3	2.4	23.7	18.2	14.2
Consumers	29,694	18,272	12.2	13.3	14.6	26.1	23.0	20.1	18.5	14.6	12.6	8.8	7.8	6.8	2.9	2.6	33.8	33.9	34.0
Diversified	4,812	2,887	20.7	54.7	53.5	33.2	21.4	14.0	15.7	11.6	10.8	4.1	3.5	2.9	0.0	0.0	12.2	16.3	20.6
Energy	123,456	46,057	12.9	24.3	39.1	15.2	12.2	8.8	7.4	5.9	4.2	2.7	2.2	1.9	1.6	1.9	17.7	17.8	21.3
Industrials	40,170	24,780	23.7	36.9	28.8	33.2	24.2	18.8	19.1	13.7	10.6	7.4	5.4	4.3	0.7	0.8	22.3	22.3	22.8
Metals	23,233	15,033	(2.7)	14.2	(1.4)	8.6	7.6	7.7	4.7	4.3	4.1	1.4	1.1	1.0	1.3	1.4	15.6	14.4	12.6
Pharmaceuticals	5,031	3,522	70.5	(44.5)	83.2	24.2	43.7	23.9	16.9	19.7	11.6	7.0	3.2	2.0	1.5	2.1	29.0	7.4	8.2
Property	22,636	3,395	284.0	13.9	10.5	12.7	11.2	10.1	10.9	9.4	7.7	4.8	3.5	2.8	0.9	1.3	38.0	31.7	27.4
Technology	65,853	34,603	19.3	22.9	17.1	19.1	15.5	13.3	13.9	11.0	8.8	6.0	4.7	3.8	1.8	2.0	31.2	30.3	28.7
Telecom	59,758	20,915	71.6	24.8	21.2	20.1	16.1	13.3	12.6	9.9	7.8	4.9	3.8	3.0	0.2	0.4	24.5	23.6	22.3
Utilities	47,570	13,156	7.3	7.9	8.6	21.8	20.2	18.6	13.2	14.4	15.2	2.7	2.5	2.3	1.7	1.8	12.6	12.4	12.5
BSE-30	**515,311**	**250,246**	**25.1**	**15.1**	**22.5**	**17.5**	**15.2**	**12.4**	**10.0**	**8.5**	**7.0**	**3.3**	**2.7**	**2.3**	**1.4**	**1.5**	**19.0**	**17.9**	**18.7**
BSE-30 ex-Energy	**391,855**	**204,189**	**30.4**	**11.6**	**15.5**	**18.4**	**16.4**	**14.2**	**11.4**	**10.0**	**8.8**	**3.6**	**2.9**	**2.5**	**1.3**	**1.4**	**19.6**	**17.9**	**17.6**
BSE-30 ex-Energy, Com.	**361,180**	**184,006**	**37.8**	**12.2**	**19.3**	**20.3**	**18.1**	**15.2**	**13.6**	**11.6**	**9.9**	**4.1**	**3.4**	**2.8**	**1.3**	**1.4**	**20.2**	**18.6**	**18.6**

Note:
(a) EV/EBITDA excludes Banking sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

We recommend market-neutral strategy
Kotak Institutional Equities Model Portfolio

	7-Aug		Weightage (%)		Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Mahindra & Mahindra	575	ADD	1.1	—	(113)
Maruti Suzuki	672	ADD	0.9	0.9	—
Tata Motors	446	SELL	1.5	—	(148)
Automobiles			**3.5**	**0.9**	**(261)**
State Bank of India	1,523	ADD	4.1	4.1	—
PSU Banking			**4.1**	**4.1**	**—**
HDFC	2,478	ADD	5.8	3.8	(200)
HDFC Bank	1,253	BUY	4.0	4.0	—
ICICI Bank	708	ADD	7.5	9.5	200
Pvt. Banking/Financing			**17.3**	**17.3**	**—**
ACC	639	REDUCE	0.7	—	(69)
Grasim Industries	2,089	ADD	1.4	—	(137)
Jaiprakash Associates	188	BUY	1.2	1.7	50
Cement			**3.2**	**1.7**	**(156)**
Hindustan Unilever	242	REDUCE	2.5	2.5	—
ITC	192	BUY	4.8	6.8	200
Consumers			**7.3**	**9.3**	**200**
Oil & Natural Gas Corporation	1,024	BUY	4.2	5.7	150
Reliance Industries	2,273	RS	14.2	11.0	(324)
Energy			**18.4**	**16.7**	**(174)**
Bharat Heavy Electricals	1,772	ADD	2.9	—	(289)
Larsen & Toubro	2,759	BUY	7.0	9.0	200
Industrials			**9.9**	**9.0**	**(89)**
Hindalco Industries	142	REDUCE	1.7	—	(166)
Jindal Steel & Power	2,086	BUY	—	3.0	300

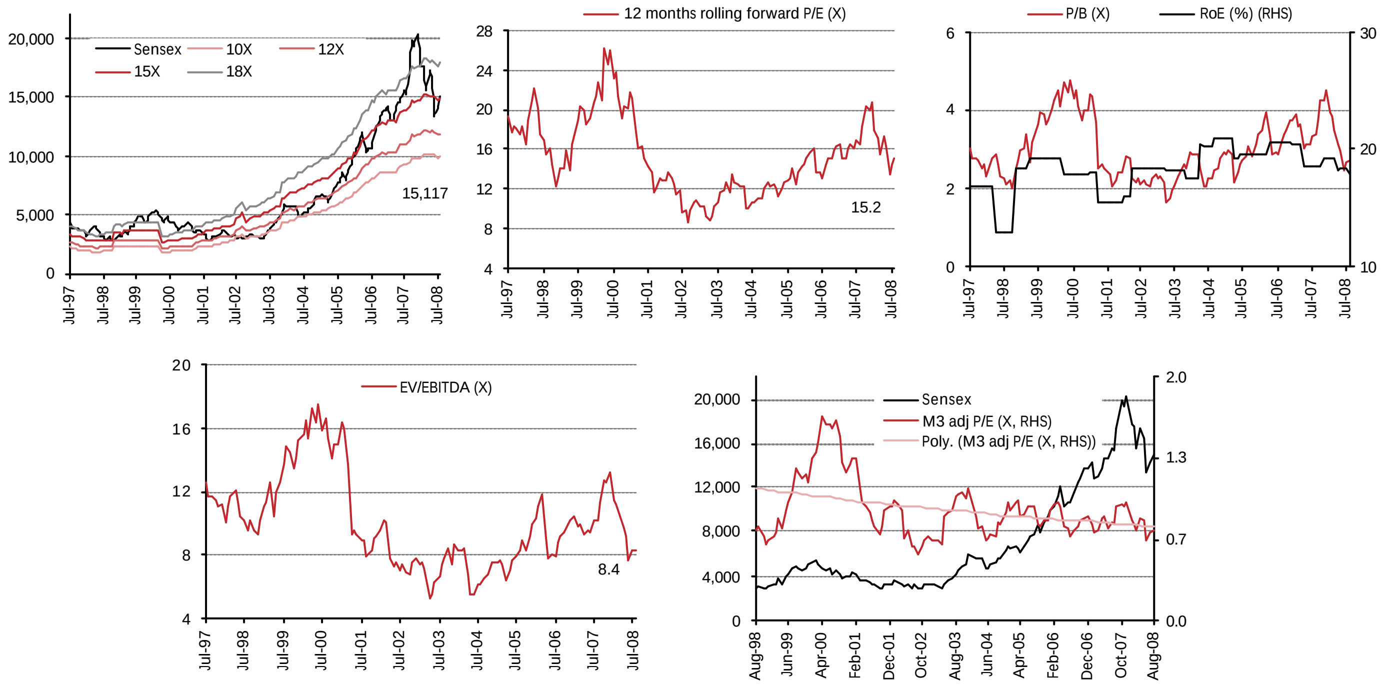
	7-Aug		Weightage (%)		Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Sterlite Industries	616	ADD	0.7	0.7	—
Tata Steel	645	ADD	3.7	3.7	—
Metals			**6.0**	**7.4**	**134**
Sun Pharmaceuticals	1,447	BUY	—	3.0	300
Ranbaxy Laboratories	504	REDUCE	1.4	—	(141)
Pharmaceuticals			**1.4**	**3.0**	**159**
DLF	557	BUY	1.4	2.9	150
Real estate			**1.4**	**2.9**	**150**
Infosys Technologies	1,726	BUY	8.0	9.5	150
Satyam Computer Services	417	BUY	2.6	3.1	50
TCS	853	REDUCE	2.0	—	(199)
Wipro	450	ADD	1.2	1.2	—
Technology			**13.8**	**13.8**	**1**
Bharti Airtel Limited	849	REDUCE	5.4	3.9	(150)
Reliance Communications	438	SELL	3.0	—	(298)
Telecom			**8.4**	**3.9**	**(448)**
NTPC	184	REDUCE	2.2	—	(216)
Reliance Infrastructure	1,025	BUY	1.6	3.6	200
Tata Power	1,050	BUY	1.5	3.5	200
Utilities			**5.3**	**7.1**	**184**
Biocon	386	BUY	—	0.6	60
Dishman Pharma & chemicals	310	BUY	—	0.6	60
Divi's Laboratories	1,458	BUY	—	0.6	60
Jubilant Organosys	354	BUY	—	0.6	60
Piramal Healthcare	345	BUY	—	0.6	60
Pharmaceutical mid-cap. basket			**—**	**3.0**	**300**
BSE-30			**100.0**	**100.0**	**—**

Note:
(1) Weights are with respect to August 7, 2008 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities

1-year rolling forward P/E of BSE-30 Index now trading at reasonable range

1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index



Source: BSE, RBI, Kotak Institutional Equities.

Based on bottom-up analysis, BSE-30 Index is offering a limited upside of 8.3%

Current price versus target price for BSE-30 Index companies

		Price (Rs/share)		Upside	Mkt cap. (US$ mn)	
		7-Aug-08	Target	(%)	7-Aug-08	Target
Reliance Industries	Energy	2,273	2,050	(9.8)	71,219	64,243
Oil & Natural Gas Corporation	Energy	1,024	1,225	19.6	52,237	62,470
Bharti Airtel Limited	Telecom	849	840	(1.1)	38,428	38,005
NTPC	Utilities	184	179	(2.5)	36,094	35,190
Infosys Technologies	Technology	1,726	2,100	21.7	23,623	28,739
State Bank of India	Banking	1,523	1,700	11.6	22,933	25,595
DLF	Property	557	660	18.5	22,636	26,822
Reliance Communications	Telecom	438	390	(10.9)	21,330	19,012
Bharat Heavy Electricals	Industrials	1,772	1,850	4.4	20,679	21,592
TCS	Technology	853	900	5.5	19,911	20,999
Larsen & Toubro	Industrials	2,759	3,600	30.5	19,491	25,436
ICICI Bank	Banking	708	870	22.9	18,781	23,080
ITC	Consumers	192	230	19.8	17,123	20,517
HDFC	Banking	2,478	2,350	(5.2)	16,955	16,082
Wipro	Technology	450	490	9.0	15,543	16,940
Tata Steel	Metals	645	800	24.1	13,214	16,401
Hindustan Unilever	Consumers	242	260	7.3	12,571	13,492
HDFC Bank	Banking	1,253	1,300	3.8	12,642	13,120
Satyam Computer Services	Technology	417	500	20.0	6,776	8,130
Tata Motors	Automobiles	446	425	(4.8)	6,187	5,890
Tata Power	Utilities	1,050	1,540	46.6	5,834	8,555
Hindalco Industries	Metals	142	150	5.3	5,918	6,232
Reliance Infrastructure	Utilities	1,025	1,250	22.0	5,642	6,882
Ranbaxy Laboratories	Pharmaceuticals	504	520	3.3	5,031	5,196
Jaiprakash Associates	Diversified	188	255	35.9	4,812	6,538
Maruti Suzuki	Automobiles	672	790	17.6	4,628	5,443
Grasim Industries	Cement	2,089	2,320	11.1	4,566	5,072
Sterlite Industries	Metals	616	800	29.9	4,102	5,328
Mahindra & Mahindra	Automobiles	575	720	25.2	3,531	4,419
ACC	Cement	639	610	(4.6)	2,875	2,744
BSE-30 Index		**15,117**	**16,374**	**8.3**	**515,311**	**558,161**

Note

(1) We have highlighted the stocks which are trading close to or above our fair valuations for FY2009.

Source: Bloomberg, Kotak Institutional Equities estimates

Net hiring for IT companies moderated during June 2008

Net hiring trends for the past 13 quarters, 1QFY05-1QFY09

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Infosys	3,056	6,390	3,226	3,293	5,694	7,741	3,282	2,809	3,730	4,530	8,100	2,586	3,192
TCS	4,352	4,459	6,174	3,616	4,698	6,663	5,562	5,827	5,512	9,268	4,037	3,299	4,895
Wipro	2,097	4,575	3,770	1,029	2,841	5,328	3,489	1,041	2,719	4,463	2,389	1,919	(499)
Satyam	1,341	1,977	950	3,079	1,123	4,025	2,746	1,265	2,716	3,037	3,424	1,122	651
Composite	**10,846**	**17,401**	**14,120**	**11,017**	**14,356**	**23,757**	**15,079**	**10,942**	**14,677**	**21,298**	**17,950**	**8,926**	**8,239**
Composite TTM hiring				**53,384**	**56,894**	**63,250**	**64,209**	**64,134**	**64,455**	**61,996**	**64,867**	**62,851**	**56,413**

Note:

(a) IT services hiring only for Satyam.

Source: Companies

Gross under-recoveries will likely be significantly higher in FY2009E

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2009E (Rs bn)

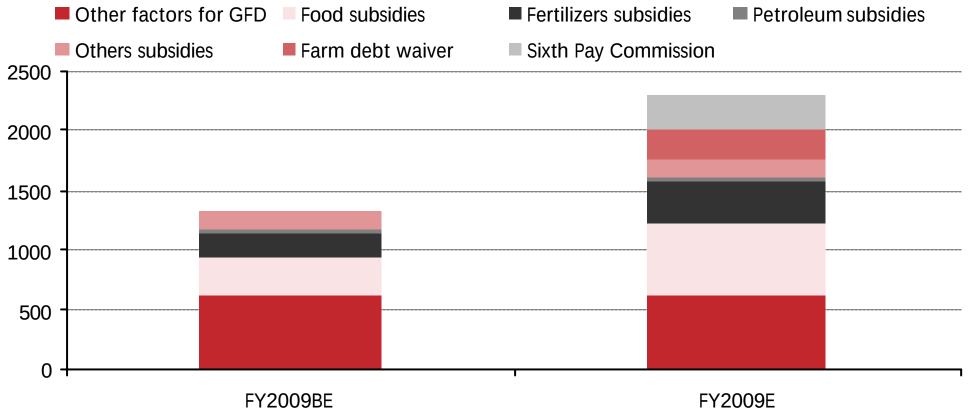
	2006	2007	2008	2009E		
Dated Brent crude oil price (US$/bbl)	**57**	**65**	**79**	**110**	**120**	**131**
Subsidy loss	**400**	**494**	**771**	**1,584**	**1,839**	**2,116**
Payment by government (oil bonds)	**115**	**241**	**353**	**815**	**946**	**1,088**
Share of BPCL	22	53	86	198	230	265
Share of HPCL	23	49	77	178	206	238
Share of IOCL	70	138	190	439	509	586
Net under-recovery of oil companies	**285**	**253**	**418**	**769**	**893**	**1,027**
Share of refining companies	27	—	—	—	—	—
Share of upstream companies	**140**	**205**	**257**	**528**	**613**	**705**
Share of ONGC	120	170	220	452	525	604
Share of GAIL (b)	11	15	14	29	33	38
Share of Oil India	10	20	23	47	55	63
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**161**	**241**	**280**	**322**
Pre-tax profits of R&M companies	**74**	**96**	**151**			

Note:
(a) Share of upstream companies assumed at 33.33% and share of oil bonds based on oil bonds announced for FY2008.
(b) Our official crude forecast for FY2009E is US$110/bbl.

Source: Kotak Institutional Equities estimates

Gross fiscal deficit set to increase sharply in FY2009E

Main contributions to GFD (in Rs bn)



Source: Government of India, Kotak Institutional Equities estimates

We have reduced our volume and margin assumptions for Maruti Suzuki

Change in estimates, March fiscal year-ends (Rs mn)

	Revised estimates		Old estimates		Change (%)	
	2009E	2010E	2009E	2010E	2009E	2010E
Net sales	215,981	247,990	222,727	267,860	(3.0)	(7.4)
EBITDA	27,484	30,674	35,039	40,406	(21.6)	(24.1)
EBITDA margin	**12.7**	**12.4**	**15.7**	**15.1**	**300 bps**	**272 bps**
PAT	17,350	18,811	20,842	22,992	(16.8)	(18.2)
EPS (Rs/share)	60.0	65.1	72.1	79.6	(16.8)	(18.2)
Sales volume	**842,000**	**936,500**	**876,500**	**1,001,500**	**(3.9)**	**(6.5)**

Source: Kotak Institutional Equities estimates

RELI offers 22% upside to our SOTP-based target price of Rs1,250

SOTP-based target price of Reliance Infrastructure (Rs/share)

	Value (Rs/share)	Comments
BSES (Mumbai distribution, Dahanu)	129	DCF-to-equity (Disc. rate:12%, Terminal year growth: 2%)
Other generating assets - BAPL, RSPCL, BSES Kerala Power, Windmills	29	DCF-to-equity (Discount rate:12%, Terminal year growth: Nil)
Delhi Distcoms- BRPL and BYPL (51% equity stake)	15	DCF-to-equity (Discount rate:12%, Terminal year growth: 4%)
EPC business	115	EV/EBITDA of 8X FY2010E for the Engineering sector in Kotak coverage universe.
Road projects	19	DCF-to-equity (Discount rate:15%, Terminal year growth: Nil)
Cash and investible surplus on books	269	Market value
Value of extant business and investments	**576**	
Value of 45% stake in Reliance Power	673	20% holding company disocunt to our target price of Rs180/share for RPWR
Total	**1,249**	

Source: Company data, Kotak Institutional Equities estimates

We value ONGC stock at Rs1,225 on US$50/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2009E	2010E	2011E
A. Core business valuation			
Normalized crude price assumption (US$/bbl)	50.0	50.0	50.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	(39,027)	75,792	136,244
Add: OCF after normalizing natural gas price	33,209	25,799	22,802
Add: OCF after removing subsidies	341,591	240,644	202,766
Recurring OCF	335,773	342,236	361,812
Recurring capex			
Production per annum (mn bbls)	397	390	392
Replacement or F&D costs (US$/bbl)	9.0	9.0	9.0
Recurring capex	149,943	145,624	144,749
Free cash flow	**185,830**	**196,612**	**217,063**
Free cash flow multiple (X)	9	9	9
Enterprise value	1,672,470	1,769,509	1,953,568
(Net debt)/cash	421,778	591,438	769,418
Investments	89,396	94,339	99,280
Equity value	2,183,644	2,455,285	2,822,266
Equity value of core business (Rs/share)	**1,021**	**1,148**	**1,319**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	49	55	62
MN-DWN-98/3 block (Rs/share)	15	16	18
Equity value of new discoveries (Rs/share)	**64**	**71**	**80**
Total equity value per share (Rs/share)	**1,085**	**1,219**	**1,399**

Source: Kotak Institutional Equities estimates.

ONGC's valuation is highly leveraged to normalised crude prices

Valuation sensitivity of ONGC to normalised crude price (Rs/share)

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$90/bbl	2,305	89
US$80/bbl	2,037	67
US$75/bbl	1,902	56
US$70/bbl	1,812	49
US$60/bbl	1,562	28
US$50/bbl	**1,219**	
US$45/bbl	1,018	(16)
US$40/bbl	889	(27)

Source: Kotak Institutional Equities estimates.

Biased towards solid long-term stocks

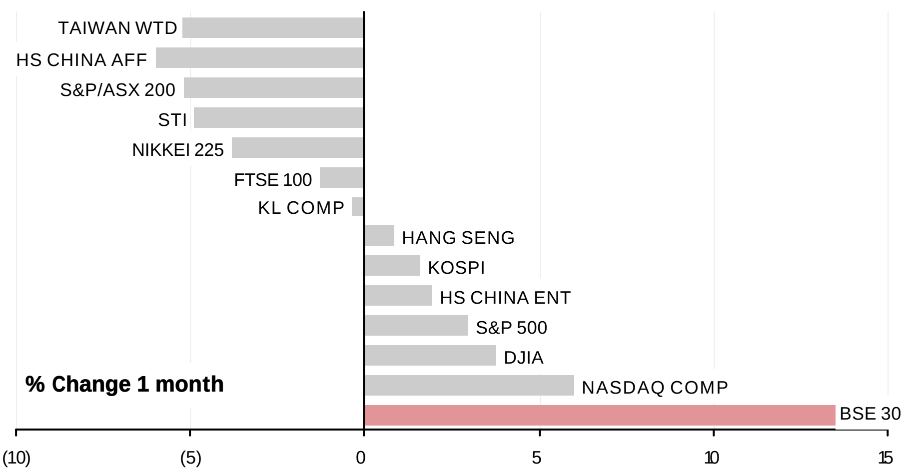
Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap. (US$ mn)	CMP (Rs)	Target (Rs)	EPS (Rs) 2008E	EPS (Rs) 2009E	EPS (Rs) 2010E	P/E (X) 2008E	P/E (X) 2009E	P/E (X) 2010E	EV/EBDITA (X) 2008E	EV/EBDITA (X) 2009E	EV/EBDITA (X) 2010E
ITC	Consumer products	BUY	16,954	192	230	8.0	9.1	10.4	23.9	21.1	18.4	15.8	13.8	11.9
Larsen & Toubro	Industrials	BUY	19,299	2,759	3,600	75.9	117.5	149.1	36.4	23.5	18.5	22.5	14.1	11.1
ICICI Bank	Banking	ADD	18,596	708	870	39.9	31.1	41.8	17.7	22.8	16.9	—	—	—
DLF	Property	BUY	22,413	557	660	43.8	49.8	55.1	12.7	11.2	10.1	11.2	9.6	7.9
Oil & Natural Gas Corporation	Energy	BUY	51,723	1,024	1,225	92.8	129.3	149.2	11.0	7.9	6.9	4.2	3.2	2.7
Reliance Infrastructure	Utilities	BUY	5,586	1,025	1,250	46.7	48.0	56.3	21.9	21.4	18.2	27.6	36.5	25.1
Jindal Steel and Power	Metals	BUY	7,581	2,086	2,900	80.4	111.6	117.0	25.9	18.7	17.8	16.3	12.1	11.0
Tata Power	Utilities	BUY	5,777	1,050	1,540	29.7	38.1	39.9	35.4	27.5	26.3	24.2	21.5	21.9
Sun Pharmaceuticals	Pharmaceuticals	BUY	7,105	1,447	1,780	71.5	84.3	77.5	20.2	17.2	18.7	16.6	12.9	13.4
Mid-cap. pharmaceutical basket														
Biocon	Pharmaceuticals	BUY	912	386	615	22.5	24.5	32.0	17.1	15.8	12.1	10.9	9.8	7.8
Dishman Pharma & Chemicals	Pharmaceuticals	BUY	590	307	515	14.7	19.7	27.7	20.9	15.6	11.1	15.6	11.7	8.7
Divi's Laboratories	Pharmaceuticals	BUY	2,222	1,458	2,330	56.6	77.9	103.6	25.8	18.7	14.1	22.3	15.3	11.0
Jubilant Organosys	Pharmaceuticals	BUY	1,514	354	700	22.1	19.5	35.5	16.0	18.1	10.0	12.6	13.6	8.7
Piramal Healthcare	Pharmaceuticals	BUY	1,702	345	530	17.6	20.0	26.5	19.6	17.3	13.0	14.2	11.8	9.1
BSE-30				**15,117**										

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Indian market has outperformed the regional markets over the past one month

Global/regional equity performance (Adjusted for currency changes)



Note:

(1) Returns are adjusted for currency changes.

Source: Bloomberg

Energy

RELI.BO, Rs2273	
Rating	RS
Sector coverage view	Cautious
Target Price (Rs)	-
52W High -Low (Rs)	3298 - 1683
Market Cap (Rs bn)	2,987

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,334	1,689	2,507
Net Profit (Rs bn)	142.5	147.5	270.4
EPS (Rs)	101.7	97.4	171.9
EPS gth	*23.0*	*(4.2)*	*76.4*
P/E (x)	22.3	23.3	13.2
EV/EBITDA (x)	13.3	11.5	6.1
Div yield (%)	0.5	0.6	0.9

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	44.2	-	-
FIIs	21.5	9.3	0.7
MFs	2.7	6.3	(2.3)
UTI	-	-	(8.6)
LIC	4.9	10.1	1.5

Energy

RPET.BO, Rs166	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	170
52W High -Low (Rs)	295 - 105
Market Cap (Rs bn)	745.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	0.0	186.0	900.0
Net Profit (Rs bn)	(4.7)	9.1	85.8
EPS (Rs)	(1.1)	2.0	19.1
EPS gth	-	-	*866.1*
P/E (x)	-	-	8.7
EV/EBITDA (x)	-	-	7
Div yield (%)	-	-	1.2

Shareholding, March 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	75.4	-	-
FIIs	1.8	0.2	(2.4)
MFs	0.7	0.5	(2.2)
UTI	-	-	(2.6)
LIC	1.7	1.1	(1.6)

Reliance Industries, Reliance Petroleum: Slide in refining margins—the show may have just begun

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- **Singapore refining margins abysmally low; diesel cracks implode; gasoline cracks at negligible levels**
- **Large capacity additions from 2HCY08 plus demand weakness will result in continued weak refining margins**
- **Risk to earnings of RIL and RPET; PSU R&M neutral as lower marketing losses may compensate for lower refining margins**

Singapore margins have plummeted into negative territory in the recent week led by a sharp contraction in diesel and kerosene cracks. We compute Singapore complex gross refining margins at -US$2.3/bbl in the latest week versus US$0.02/bbl in the previous week (ended August 1, 2008) and US$4.3/bbl in 2QCY08; the margins may vary depending on one's assumptions of product slate but the direction and magnitude of decline would be largely similar. We could see a short-term rebound from current very low levels but we believe that refining margins will remain weak for the next 12 months at least, led by (1) demand weakness and (2) large refining capacity additions from 2HCY08. Lower-than-expected refining margins will have a large negative impact on the earnings of standalone refiners (including RIL's existing and RPET's upcoming refinery). PSU R&M companies will not be impacted much given transfer of profits from refining division to marketing division. We retain our cautious stance on both RIL (RS, TP: NA) and RPET (REDUCE, TP: Rs170).

Implications of decline in refining margins. We note that RIL's and RPET's earnings are highly sensitive to refining margins and weaker-than-expected margins could significantly impact their earnings. A US$1/bbl decline in refining margins impacts RIL's FY2009E (standalone) EPS by 6% and RPET's FY2010E EPS by 9%. Exhibits 1 and 2 show the sensitivity of RIL's (standalone) and RPET's EPS to changes in refining margins, respectively. Currently weak refining margins, and more important, likely continued weakness here do not augur well for earnings of RIL and RPET.

However, the PSU R&M companies are not affected in the current situation as the decline in profitability of the refining segment due to decline in refining margins will be matched by a largely commensurate decline in marketing losses of the four regulated products; it will result in a transfer of profits from the refining division to the marketing division. In any case, earnings of PSU oil marketing companies (BPCL, HPCL and IOCL) have lost meaning in the current environment given (1) likely high gross under-recoveries, (2) low possibility of favorable government action given fiscal and political compulsions and (3) uncertainty regarding the subsidy-sharing scheme.

First gasoline, now diesel. Refining margins have declined sharply in recent weeks led by (1) demand weakness and (2) sharp contraction in product (diesel) cracks. We compute Singapore complex gross refining margins at -US$2.3/bbl in the latest week versus US$0.02/bbl in the previous week (week ended August 1, 2008) and US$4.3/bbl in 2QCY08 (see Exhibit 3). The sharp decline in refining margins has been led by an implosion in diesel cracks; diesel cracks were at US$22/bbl in the recent week versus US$35.7/bbl in July 2008 (see Exhibit 4). The sharp decline in diesel cracks follows the implosion in gasoline cracks, which had dwindled to negligible levels in early-July and continue to languish at US$1/bbl in the recent week.

We had highlighted our concerns regarding likely decline in diesel cracks in our note ***'Things will likely get worse from here'*** dated July 23, 2008. We believe that diesel cracks may come under more pressure with the start of several new refineries in China and India. In particular, the start of RPET's refinery will itself add around 12 mtpa (245,000 b/d) of diesel to available supply. This will likely result in lower diesel cracks and will impact refining margins negatively.

Large global capacity addition from 2HCY08 will likely put pressure on refining margins. We expect global refining margins to decline moderately from 2HCY08 with significant refining capacity coming online from 2HCY08, which includes capacity addition of 1.1 mb/d in China and RPET's 580,000 b/d refinery (see Exhibit 5). We expect refining capacity addition of 1.4 mb/d, 1.7 mb/d and 1.7 mb/d in CY2008E, CY2009E and CY2010E (see Exhibit 6). In addition, we note natural gas liquids (NGLs) supply would also increase by 0.4 mb/d, 0.8 mb/d and 0.6 mb/d in CY2008E, CY2009E and CY2010E (see Exhibit 7).

We highlight that high crude prices have resulted in weakness in demand as indicated by recent consumption data. The demand for petroleum products in the US has declined by 0.8 mn b/d in July 2008 versus demand in July 2007 (see Exhibit 8). The robust growth in demand for petroleum products in India has also taken a jolt after the increase in retail prices on June 4, 2008. Consumption of petroleum products grew by a moderate 0.8% yoy in June 2008; the moderate growth was due to a paltry 3% yoy growth in diesel and 6% yoy decline in gasoline consumption. The sharp mom decline may reflect pre-purchases but we note that India (and China) would have to increase domestic prices further to align them with global prices; this may dent demand further.

Reliance has high leverage to refining margins

Sensitivity of RIL's standalone (without RPET) earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	41.0	42.0	43.0	40.5	41.5	42.5	40.0	41.0	42.0
Net profits (Rs mn)	135,448	141,049	146,651	203,294	210,035	216,777	199,729	206,425	213,120
EPS (Rs)	89.5	93.2	96.9	129.2	133.5	137.8	126.9	131.2	135.5
% upside/(downside)	**(4.0)**		**4.0**	**(3.2)**		**3.2**	**(3.2)**		**3.2**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	137,728	141,049	144,371	206,105	210,035	213,965	202,593	206,425	210,256
EPS (Rs)	91.0	93.2	95.4	131.0	133.5	136.0	128.8	131.2	133.6
% upside/(downside)	**(2.4)**		**2.4**	**(1.9)**		**1.9**	**(1.9)**		**1.9**
Refining margins (US$/bbl)									
Margins (US$/bbl)	13.8	14.8	15.8	14.2	15.2	16.2	12.9	13.9	14.9
Net profits (Rs mn)	131,903	141,049	150,196	203,554	210,035	216,517	200,021	206,425	212,828
EPS (Rs)	87.2	93.2	99.2	129.4	133.5	137.6	127.1	131.2	135.3
% upside/(downside)	**(6.5)**		**6.5**	**(3.1)**		**3.1**	**(3.1)**		**3.1**

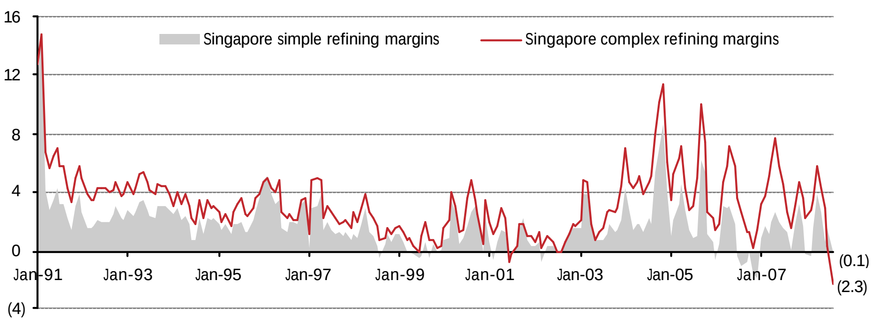
Source: Kotak Institutional Equities estimates.

Reliance Petroleum has high leverage to refining margins
Sensitivity of RPL's earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	41.0	42.0	43.0	40.5	41.5	42.5	40.0	41.0	42.0
Net profits (Rs mn)	8,413	9,122	9,830	82,430	85,822	89,214	74,531	77,615	80,699
EPS (Rs)	1.9	2.0	2.2	18.3	19.1	19.8	16.6	17.2	17.9
% upside/(downside)	**(7.8)**		**7.8**	**(4.0)**		**4.0**	**(4.0)**		**4.0**
Refining margins (US$/bbl)									
Margins (US$/bbl)	12.4	13.4	14.4	13.7	14.7	15.7	12.6	13.6	14.6
Net profits (Rs mn)	7,282	9,122	10,961	77,045	85,822	94,599	68,944	77,615	86,287
EPS (Rs)	1.6	2.0	2.4	17.1	19.1	21.0	15.3	17.2	19.2
% upside/(downside)	**(20.2)**		**20.2**	**(10.2)**		**10.2**	**(11.2)**		**11.2**

Source: Kotak Institutional Equities estimates

Singapore refining margins have declined sharply in the recent weeks
Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	(0.32)	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25	2.40
2Q	(0.08)	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.26
3Q	0.14	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32	
4Q	1.86	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.25	
Average	**0.40**	**1.43**	**0.50**	**1.20**	**1.67**	**3.34**	**2.28**	**0.45**	**1.45**	**2.04**

Complex refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	0.43	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58	4.31
2Q	1.19	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	(0.14)
3Q	0.41	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91	
4Q	2.64	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.78	
Average	**1.17**	**2.42**	**0.95**	**1.55**	**3.06**	**6.10**	**4.44**	**3.45**	**4.05**	**2.91**

Weekly margins (simple)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(0.05)	2.58	1.83	1.66	1.63

Weekly margins (complex)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.29)	0.02	(0.19)	(0.28)	0.89

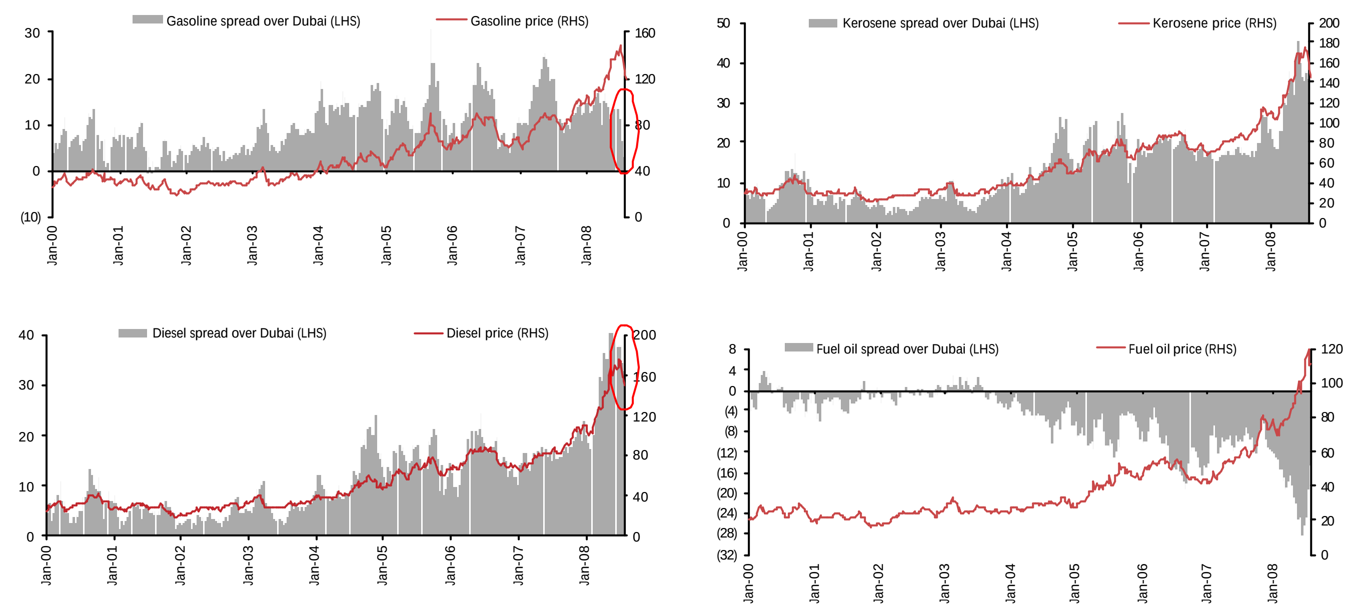
Singapore refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	2.04
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	2.91

Source: Bloomberg, Kotak Institutional Equities

Product cracks have declined sharply in the recent week

Spread between Arab Gulf product prices and Dubai crude (US$/bbl)



Significant refining capacity to come onstream in China and India from 2HCY08

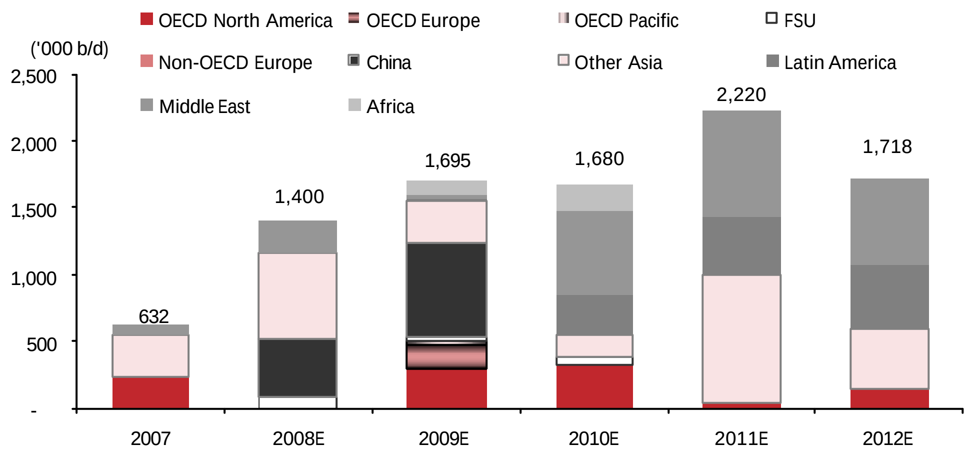
Upcoming refining capacity addition (b/d)

Company	Location	Capacity addition (b/d)	Expected completion
CNOOC	Daya Bay, Huizhou, Guangdong, China	240,000	3QCY08
Reliance Petroleum	Jamnagar, India	580,000	4QCY08
Sinopec	Qingdao, China	200,000	4QCY08
Sinopec	Maoming, China	130,000	4QCY08
Fujian Petrochemical	Quangang, Quanzhou City, China	160,000	1QCY09
Sinopec	Tianjin, China	150,000	1QCY09
Petrochina	Dagang, Quinzhou, China	200,000	1QCY09
Petrovietnam	Dung Quat, Vietnam	121,000	1QCY09
Total capacity addition		**1,781,000**	

Source: Oil & Gas journal, Kotak Institutional Equities estimates

Significant supply additions to global refining capacity

Global refinery capacity addition, calendar year ends, 2007-2012E ('000 b/d)



Source: IEA, Kotak Institutional Equities estimates

Expect high crude prices to cool off led by comfortable supply and demand weakness

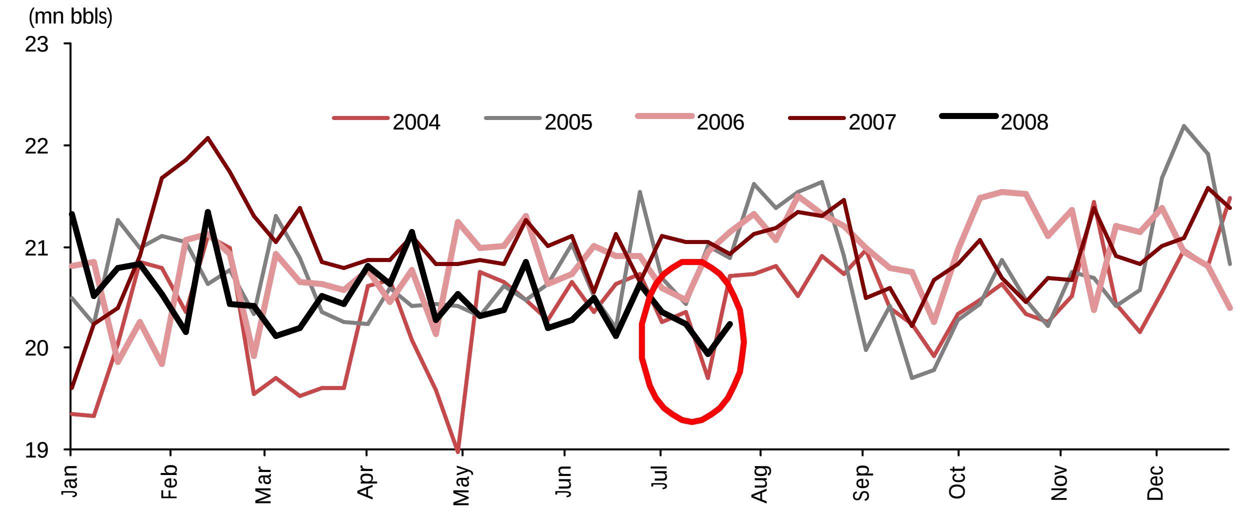
Estimated global crude demand, supply and prices, Calendar year-ends

	2004	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)										
Total demand	82.5	83.8	84.7	86.0	86.9	87.7	89.2	90.7	92.4	94.1
Yoy growth	3.3	1.3	0.9	1.3	0.9	0.9	1.5	1.5	1.7	1.8
Supply (mb/d)										
Non-OPEC	48.8	48.6	49.1	49.6	49.9	50.5	50.6	50.7	50.7	51.1
Yoy growth	0.6	(0.2)	0.5	0.5	0.3	0.6	0.1	0.1	0.0	0.4
OPEC										
Crude	29.5	30.7	30.9	31.6	31.8	31.3	32.1	33.2	34.6	35.9
NGLs	4.2	4.5	4.6	4.8	5.1	5.9	6.5	6.8	7.1	7.2
Total OPEC	**33.7**	**35.2**	**35.5**	**36.4**	**37.0**	**37.2**	**38.6**	**40.1**	**41.7**	**43.1**
Total supply	**83.4**	**84.6**	**85.4**	**86.0**	**86.9**	**87.7**	**89.2**	**90.7**	**92.4**	**94.1**
Total stock change	1.0	0.7	0.8							
OPEC crude capacity				**34.4**	**35.3**	**36.4**	**37.4**	**37.3**	**37.6**	**37.9**
Implied OPEC spare capacity				**2.8**	**3.5**	**5.2**	**5.3**	**4.0**	**2.9**	**2.0**
Demand growth (yoy, %)	**4.2**	**1.6**	**1.1**	**1.5**	**1.0**	**1.0**	**1.7**	**1.7**	**1.8**	**1.9**
Supply growth (yoy, %)										
Non-OPEC	**1.2**	**(0.4)**	**1.0**	**1.0**	**0.6**	**1.2**	**0.1**	**0.2**	**0.0**	**0.8**
OPEC	**8.4**	**4.5**	**0.9**	**2.5**	**1.5**	**0.7**	**3.8**	**3.8**	**4.1**	**3.2**
Total	**4.4**	**1.4**	**0.9**	**0.7**	**1.0**	**1.0**	**1.7**	**1.7**	**1.8**	**1.9**
Dated Brent (US$/bbl)	**38.3**	**54.4**	**65.8**	**72.7**	**110.0**	**95.0**	**90.0**	**90.0**	**90.0**	**75.0**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

Demand has started weakening in US

US demand for petroleum products (mn bbls)



Source: EIA

Growth in consumption of petroleum products has moderated after price hike

Consumption of petroleum products in India ('000 tons)

	Jun-08	Jun-07	Change yoy (%)
LPG	886	859	3.1
Gasoline/Petrol	803	854	(6.0)
Naphtha + NGL	698	583	19.8
Jet fuel	375	347	7.9
Kerosene	773	776	(0.3)
Diesel	**4,059**	**3,929**	**3.3**
LDO	49	55	(11.2)
Furnace oil/LSHS	939	1,095	(14.3)
Bitumen	366	350	4.6
Others	673	692	(2.7)
Total-petroleum products	**9,619**	**9,539**	**0.8**

Source: Ministry of petroleum and natural gas

Energy

BPCL.BO, Rs329	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	360
52W High -Low (Rs)	560 - 206
Market Cap (Rs bn)	107.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,105	1,489	1,499
Net Profit (Rs bn)	14.4	14.7	13.8
EPS (Rs)	39.8	40.7	38.3
EPS gth	*(24.0)*	*2.1*	*(5.9)*
P/E (x)	8.2	8.1	8.6
EV/EBITDA (x)	3.3	3.7	2.7
Div yield (%)	1.3	1.3	1.2

Energy

HPCL.BO, Rs239	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	260
52W High -Low (Rs)	406 - 164
Market Cap (Rs bn)	81.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,068	1,333	1,330
Net Profit (Rs bn)	7.9	8.9	11.3
EPS (Rs)	33.5	26.1	33.4
EPS gth	*(16.4)*	*(21.9)*	*27.7*
P/E (x)	7.1	9	7.2
EV/EBITDA (x)	5.8	3.8	2.3
Div yield (%)	1.3	1.0	1.3

Energy

IOC.BO, Rs443	
Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	500
52W High -Low (Rs)	810 - 300
Market Cap (Rs bn)	522.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	2,733	3,306	3,356
Net Profit (Rs bn)	72.1	48.7	73.7
EPS (Rs)	60.5	40.9	61.8
EPS gth	*29.2*	*(32.5)*	*51.2*
P/E (x)	7.3	10.8	7.2
EV/EBITDA (x)	4.7	8.4	7.7
Div yield (%)	1.3	1.1	1.6

BPCL, HPCL, IOCL: Use recent rally to exit R&M stocks or move to upstream stocks

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- **Crude prices may have come off but nowhere near comfort zone**
- **Use recent run up in stocks to book profits or move to upstream stocks**
- **Significant downside risks to earnings of downstream companies exist**

BPCL, HPCL and IOCL stocks have surged by 35-50% since July 1, 2008 on the back of sharp decline in crude prices reflecting the street's positive sentiment on likely reduction in the under-recoveries for the industry. The recent decline in crude prices (US$25/bbl in the last one month) is positive for the sector and would help in reducing the subsidy burden. However, we note that even at current levels at crude prices (US$120/bbl), the under-recoveries remain high (at ~Rs2 tn). The government's subsidy-sharing scheme for FY2009E still leaves an unfunded gap of Rs400 bn. We advise investors to exit positions at current levels as significant downside risks exist to earnings of downstream companies. We retain our earnings estimates and 12-month target prices (Rs360 for BPCL, Rs260 for HPCL and Rs500 for IOCL based on 8X FY2010E EPS plus value of treasury shares). However, we highlight that earnings and target price are largely irrelevant in the current environment pending resolution of the subsidy-sharing scheme.

Recent run-up in stock prices might be a case of premature exuberance. BPCL, HPCL and IOCL stocks have rallied 52%, 37% and 40% since July 1, 2008 versus the BSE-30 Index's 16% increase over the same period on the back of decline in crude prices (see Exhibit 1). However, we believe that the run-up in stock prices might be premature given that crude prices are still very high relative to domestic prices resulting in high under-recoveries for the industry. We recommend investors to utilize this opportunity and book profits given significant downside risks to earnings of downstream companies even at current levels.

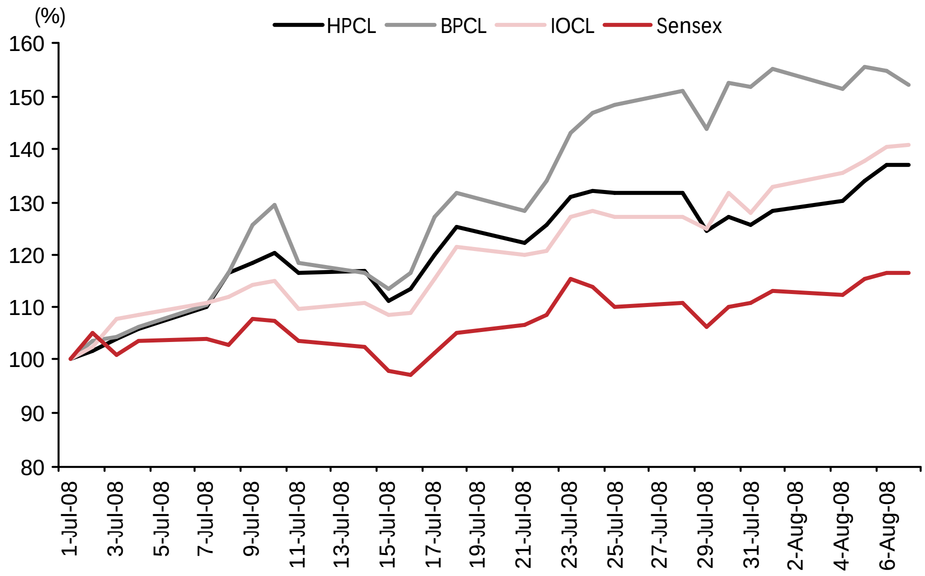
Crude prices might have tumbled but are still high relative to domestic prices. The recent spurt in stock prices of R&M companies was led by sharp decline in crude prices by US$25/bbl in the last one month after touching a record high of US$145/bbl (Dated Brent price). This would help in reducing the overall subsidy burden for the industry but we note that domestic prices of the four regulated products are still very low in India relative to global prices resulting in high under-recoveries. Exhibit 2 gives the marketing losses for the four products for August 2008 and at current global prices.

We note that the proposed fiscal package announced by the government (based on crude price of around US$118/bbl for Dated Brent) leaves a gap of about Rs400 bn assuming the losses of upstream and downstream companies are capped at Rs450 bn and Rs200 bn and issue of oil bonds of Rs946 bn only as 'decided' in the June 4, 2008 meeting (Exhibit 3). We believe that the earnings of downstream companies have significant downside risks even at current levels unless (1) government decides to issue additional oil bonds to fund the gap of Rs400 bn or (2) crude prices come off significantly from current levels.

Exhibit 4 gives the under-recoveries at various levels of crude price. At US$120/bbl Dated Brent price, we compute gross under-recoveries at Rs2 tn. We note that at crude price of US$120/bbl, the net subsidy burden to be borne by downstream companies would be Rs280 bn, assuming upstream companies bear 33.3% of the under-recoveries and the government gives oil bonds worth Rs946 bn. This is significantly higher than Rs161 bn of net under-recoveries of downstream companies in FY2008 and Rs 151 bn of pre-tax profits. If the government caps the subsidy loss for upstream companies at Rs450 bn and issues only Rs946 worth of oil bonds, the net under-recoveries for downstream companies would jump to Rs443 bn. This is significantly higher than the downstream sector's FY2008 adjusted pre-tax profits (before under-recoveries).

R&M companies have outperformed the market significantly in the last month

Relative stock performance of BPCL, HPCl and IOCL (%)



Source: Bloomberg

Current marketing losses are still very high

Estimation of marketing losses

	FY2007	FY2008	Current
Subsidy loss on diesel (Rs/l)	2.0	3.6	11.5
Subsidy loss on gasoline (Rs/l)	1.6	4.6	6.3
Subsidy loss on LPG (Rs/cylinder)	187	248	298
Subsidy loss on kerosene (Rs/l)	16.5	17.1	31.3
Dated Brent price(US$/bbl)	**64.8**	**82.4**	**115.8**

Source: MOPNG, Kotak Institutional Equities estimates.

Measures announed by government might not be sufficient given high under-recoveries

Fiscal package announced and subsidy sharing for FY2009E (Rs bn)

Hike in retail price of gasoline, diesel and LPG	212
Savings from reduction in import and excise duty	227
Subsidy burden to be borne by upstream companies (ONGC, GAIL, OIL)	450
Oil bonds to be issued by the government	946
Net under-recoveries for downstream companies (BPCL, HPCL, IOCL)	200
Balance uncovered under-recoveries for the industry	**419**
Total under-recovery for the industry prior to price hike and duty cuts	**2,453**
Assumed crude price for computation of the above under-recovery (US$/bbl) (a)	**113**

Source: Ministry of petroleum and natural gas, industry.

Gross under-recoveries will likely be significantly higher in FY2009E

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2009E (Rs bn)

	2006	2007	2008		2009E	
Dated Brent crude oil price (US$/bbl)	57	65	79	110	120	131
Subsidy loss	**400**	**494**	**771**	**1,584**	**1,839**	**2,116**
Payment by government (oil bonds)	**115**	**241**	**353**	**815**	**946**	**1,088**
Share of BPCL	22	53	86	198	230	265
Share of HPCL	23	49	77	178	206	238
Share of IOCL	70	138	190	439	509	586
Net under-recovery of oil companies	**285**	**253**	**418**	**769**	**893**	**1,027**
Share of refining companies	27	—	—	—	—	—
Share of upstream companies	**140**	**205**	**257**	**528**	**613**	**705**
Share of ONGC	120	170	220	452	525	604
Share of GAIL (b)	11	15	14	29	33	38
Share of Oil India	10	20	23	47	55	63
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**161**	**241**	**280**	**322**
Pre-tax profits of R&M companies	**74**	**96**	**151**			

Note:

(a) Share of upstream companies assumed at 33.33% and share of oil bonds based on oil bonds announced for FY2008.

(b) Our official crude forecast for FY2009E is US$110/bbl.

Source: Kotak Institutional Equities estimates.

Economy

Sector coverage view	N/A

Monsoon update—Rains revive but sowing still impacted

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- **Monsoon till August 6 deficient only in 7 meteorological sub-divisions**
- **Reservoir levels below last year, but at 'normal' levels**
- **Rains revive, but sowing remains impacted**
- **Agricultural growth could drop to below 2.0% in FY2009 on present indications**

After a dry spell in first three-weeks of July, the monsoon revived and have continued in the first week of August. However, sowing sorrows have been difficult to reverse with the area sown so far being less in case of coarse cereals, pulses, cotton and sugarcane. In spite of good overall monsoon, the spatial and temporal unevenness could impact output. In our view, the agricultural growth could drop to below 2.0% as a result of this uneven rains and high base last year.

In our Economy report of July 24, 2008, '*Cotton textile, sugar industry may be hurt as monsoon wanes in July*', we had said that unless the monsoon revives immediately, crop output could suffer and put added pressure on inflation through primary commodity prices. Monsoon has revived since then. However, the area sown is till lagging.

Monsoons so far less than in the past three years

The monsoon so far (up to August 6, 2008) has been normal/excess in 29 of the 36 meteorological sub-divisions (see Exhibit 1) and is now deficient only in the following seven:

- Marathawada (-41%), central Maharashtra (-33%), north interior Karnataka (-34%), coastal Karnataka (-30%), Kerala (-33%), 'Nagaland, Manipur, Mizoram and Tripura (-26%) and Assam and Meghalaya (-24%).
- It has been excess in Eastern UP, Western UP, Uttrakahand, Jammu & Kashmir, Gangetic West Bengal, Bihar, Punjab, Haryana and West Rajasthan.

Sowing operations moderately impacted due to uneven monsoon

Area sown so far (till August 1) is up for rice (+11%) but has dropped in comparison of last year for the following major crops (see Exhibit 2):

- Coarse cereals (-15.7%)
- Pulses (-23.5%)
- Cotton (-12.0%)
- Sugarcane (-17.1%)

Fertilizer shortages likely to persist in August

Fertilizer shortages are likely in case of DAP and complex fertilizers in August (see Exhibit 3) and this could impact yields adversely.

Reservoir levels lower than last year

Storage in top 81 reservoirs was 32% of the live capacity at full reservoir level by end-July 2008. While this is broadly in line with the 10-year average (34% at end-July), the levels are less than last year when the reservoirs were 55% full at this stage. Current year's storage is 94% of the average, but only 58% of last year's at this half way stage of the monsoon. We believe that heavy rain is over the next two months for reservoirs to fill up. The rabi crop could get impacted in its absence.

Overall agricultural growth could drop to below 2.0% on the current indications

In our assessment, agriculture growth may drop to below 2.0% due to high base and uneven monsoon based on current indications (see Exhibit 1 and 4). It may, however, be added that it is yet early to assess crop size with reasonable accuracy and as such the estimate may be considered with possible large deviations on either side. The full sowing picture would be known only after a fortnight and the monsoons till the end of season can impact yields.

Exhibit 1: Monsoon progressing satsfactorily - most areas get good rainfall

Rainfall till August 6, 2008 during the monsoon season (June1-September 30)

Rainfall	2004	2005	2006	2007	2008	2009
Normal/Excess	**33**	**24**	**31**	**26**	**32**	**29**
Excess	11	0	10	6	14	9
Normal/Excess	22	24	21	20	18	20
Deficient/Scanty	**3**	**12**	**5**	**10**	**4**	**7**
Deficient	3	12	5	10	4	7
Sacnty	0	0	0	0	0	0
Total	**36**	**36**	**36**	**36**	**36**	**36**
Foodgrains output (in mt)	213.2	198.4	208.6	217.3	230.7	236.2
Foodgrains growth (%)	22.0	-7.0	5.2	4.2	5.5	2.1E
Agricultural growth (%)	21.7	-3.1	8.1	2.9	6.0	1.8E

Source: India Meteorological Department; Ministry of Agriculture; KIE estimates

Exhibit 2: Area sown lagging for both foodgrains and non-foodgrains

area sown during Kharif (summer) under foodgrains and major cash crops (in mn hectares)

			till August 1				
	Crop	normal area	FY2008	FY2009	increase	% increase	% of normal
1	Rice	39.12	20.76	23.13	2.38	11.4	59.1
2	Jowar	4.21	2.95	2.28	(0.67)	(22.7)	54.1
3	Bajra	9.18	7.32	6.01	(1.31)	(17.9)	65.4
4	Maize	6.37	6.60	5.85	(0.76)	(11.4)	91.7
5	Other cereals	2.89	1.10	1.01	(0.09)	(8.3)	34.8
6	Total coarse cereals (2 to 5)	22.65	17.96	15.14	(2.83)	(15.7)	66.8
7	Total cereals (1+6)	61.77	38.72	38.27	(0.45)	(1.2)	62.0
8	Arhar (tur)	3.46	2.86	2.24	(0.62)	(21.7)	64.8
9	Urad	2.53	2.02	1.57	(0.45)	(22.2)	62.0
10	Moong	2.62	2.68	1.84	(0.84)	(31.4)	70.4
11	Other pulses	2.26	1.72	1.45	(0.27)	(15.9)	64.0
12	Total pulses (8 to 11)	10.87	9.29	7.10	(2.18)	(23.5)	65.3
13	**TOTAL FOODGRAINS (7+12)**	**72.64**	**48.01**	**45.37**	**(2.63)**	**(5.5)**	**62.5**
14	Groundnut	5.35	4.44	4.13	(0.31)	(7.0)	77.1
15	Soyabean	7.25	7.94	8.77	0.83	10.5	120.9
16	Sunflower	0.76	0.57	0.20	(0.37)	(64.8)	26.5
17	Sesamum	1.45	1.20	1.10	(0.10)	(8.4)	75.7
18	Nigerseed	0.38	0.09	0.06	(0.03)	(30.0)	16.4
19	Castorseed	0.70	0.44	0.17	(0.26)	(60.3)	24.8
20	**Total nine oilseeds (14 to 19)**	**15.90**	**14.67**	**14.43**	**(0.24)**	**(1.6)**	**90.8**
21	Cotton	8.37	7.92	6.97	(0.95)	(12.0)	83.3
22	Sugarcane	4.15	5.30	4.39	(0.90)	(17.1)	105.9
23	Jute	0.82	0.83	0.74	(0.09)	(10.8)	89.4
24	**TOTAL NON-FOODGRAINS (20 to 23)**	**29.24**	**28.72**	**26.53**	**(2.18)**	**(7.6)**	**90.7**
25	**TOTAL ALL CROPS (13+24)**	**101.88**	**76.72**	**71.91**	**(4.82)**	**(6.3)**	**70.6**

Source: Ministry of agriculture; Kotak institutional equities

Exhibit 3: DAP, complex fertilizer supply constraints may affect yields

Fertilizer position during April 1-July 31, 2008 (in '000 tonnes)

	Urea	DAP	MOP	Complex
Requirement during monsoon	9032	2819	1088	3116
Availability (April 1-July 31, 2008)	8513	2850	1316	1980
Excess Demand till July 31, 2008	519	-31	-228	1136
Sales (April 1-July 31,, 2008)	6235	2559	1181	1725
Closing stock as on July 31, 2008	2278	291	135	255
Requirement for August, 2008	2590	707	305	924
Excess Demand in August	**312**	**416**	**170**	**669**

Source: Department of Fertilizer, GOI; Kotak Institutional Equities

Exhibit 4: Agriculture growth to trim on high base and uneven monsoon

output of major foodgrains and cash crops (mn tons; except cotton and jute & mesta cotton in mn bales of 170 kgs each; jute & mesta in mn bales of 180 kgs each), July-June agriculture year

	2004	2005	2006	2007	2008	2009E	% change
Rice	88.5	83.1	91.8	93.4	96.4	99.0	2.6
Wheat	72.2	68.8	69.4	75.8	78.4	81.9	4.4
Coarse cereals	37.6	33.5	34.1	33.9	40.7	40.6	(0.3)
Pulses	14.9	13.1	13.4	14.2	15.1	14.8	(2.2)
Total foodgrain	**213.2**	**198.4**	**208.6**	**217.3**	**230.7**	**236.2**	**2.4**
o/w: Kharif	117.0	103.3	109.9	110.6	121.0	123.5	2.1
Rabi	96.2	95.1	98.7	106.7	109.7	112.7	2.7
Non-foodgrain							
Oilseeds#	25.2	24.4	28.0	24.3	28.8	29.7	2.9
Cotton	13.7	16.4	18.5	22.6	25.8	24.7	(4.3)
Jute & Mesta	11.2	10.3	10.8	11.3	11.2	11.4	2.0
Sugarcane	233.9	237.1	281.2	355.5	340.6	338.8	(0.5)

Note:

(1) Data for FY2008 are 4th Advance Estimates released by GOI on July 9, 2008

(2) Data for FY2009 are Kotak Institutional Estimates based on monsoon progress till August 6

(3) '#: For nine out of total of 11 oilseesd

(4) * Except cotton and jute & mesta cotton in mn bales of 170 kgs each; jute & mesta in mn bales of 180 kgs each

Source: Ministry of agriculture; Kotak institutional equities

Energy

Sector coverage view	Cautious

		Price, Rs	
Company	Rating	7-Aug	Target
IOC	REDUCE	443	500
BPCL	REDUCE	329	360
HPCL	REDUCE	239	260

Round-up of 1QFY09 results

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- **Stronger-than-expected results for upstream companies due to favorable subsidy sharing scheme**
- **Refiners benefit from strong refining margins and adventitious gains**
- **Reiterate positive view on upstream companies (ONGC, GAIL); cautious view on refiners (RIL, RPET) and downstream companies (BPCL, HPCL and IOCL)**

1QFY09 results—(1) positive for upstream companies as they benefitted from lower-than-expected subsidy losses, (2) positive for refining companies due to strong refining margins and high adventitious gains and (3) negative for downstream companies as they had to bear a higher subsidy burden due to lack of commensurate compensation in the form of oil bonds and lower contribution from upstream companies. We reiterate our positive view on upstream companies and see significant upside to our earnings forecasts for ONGC and GAIL if the government follows the current plan for subsidy sharing for FY2009E restricting the subsidy loss for upstream companies at Rs450 bn. We maintain our cautious view on the refining cycle and expect likely weakening of refining margins from 2HCY08, which will impact margins and earnings of refiners (RIL, RPET). We maintain our cautious view on PSU R&M companies (BPCL, HPCL and IOCL) as earnings uncertainty persists given lack of clarity on the subsidy sharing scheme.

Some key factors that influenced 1QFY09 results

We discuss some of the key issues which influenced 1Q FY09 results for energy sector companies.

Subsidy issue—remains unresolved but allays concerns of higher burden on upstream companies. 1QFY09 results did not bring any clarity on the subsidy sharing issue. While the upstream companies benefitted from lower-than-expected subsidy losses, the downstream companies reported large losses due to (1) lower-than expected oil bonds and (2) lower contribution from upstream companies. The share of upstream companies for 1QFY09 was restricted to Rs112 bn (1/4 of Rs450 bn fixed for FY2009); however, the net burden on downstream companies (BPCL, HPCL and IOCL) was Rs159 bn (see Exhibit 2) due to lack of commensurate compensation in the form of oil bonds.

1QFY09 results will partly allay street's concerns on upstream companies being asked to share a higher subsidy burden (versus 33.3% previously) although the level of oil prices will also play a big role in the eventual subsidy-sharing arrangement. On the contrary, we see significant upside to our FY2009E EPS for ONGC and GAIL in case the government restricts the share of gross under-recoveries of upstream companies to Rs450 bn. At present, we conservatively assume share of upstream companies at 33.33%.

However, uncertainty prevails over earnings of downstream companies pending finalization of the subsidy sharing scheme. Although the government had decided to restrict the subsidy burden on downstream companies to Rs200 bn, the government did not issue commensurate oil bonds (in fact, none) in 1QFY09. We highlight that downstream companies booked oil bonds on a provisional basis corresponding to Rs946 bn of total bonds for FY2009E as was 'decided' by the government in its June 4, 2008 meeting. However, we expect this figure to be revised up as the downstream oil companies will report significant losses otherwise.

Refining margins remained strong, in line with global margins. Refining companies benefitted from strong refining margins in 1QFY09. Most refiners reported a sharp jump in refining margins qoq and yoy led by (1) rise in global refining margins and (2) high adventitious gains. Exhibit 3 gives the refining margins reported by various refining companies. However, Reliance Industries reported only a moderate increase in refining margins (+US$0.2/bbl qoq and +US$0.3/bbl yoy), which includes US$1.7/bbl of adventitious gains. We find this surprising as a moderate rise in refining margins would suggest that (1) underlying margins have declined, which is very difficult to understand in light of the very strong spreads for middle distillates or (2) 4QFY08 margins included very high amounts of adventitious gains, which seems unlikely based on the movement in crude oil prices.

Refiners benefitted from inventory gains. Strong refining margins reported by refining companies were driven by high adventitious gains. We note that crude prices have increased by US$27/bbl during 1QFY09 (based on end-February 2008 to end-May 2008). We compute that the escalation in crude prices would have led to adventitious gains of about US$9-12/bbl (US$27/bbl X 30/91 or X 40/91) assuming a typical cycle of 30-40 days between purchase of a barrel of crude and sale of the corresponding barrel of refined products.

The adventitious gains reported by integrated R&M companies would be lower as the gains in the refining segment would be partly compensated by losses in the marketing segment. This is on account of fixed retail selling prices for the regulated products (LPG, gasoline, diesel and kerosene). However, the adventitious gains reported by Reliance Industries seem low in light of significantly higher inventory gains reported by standalone refining companies. For example, MRPL reported inventory gains of Rs6.55 bn corresponding to US$11.3/bbl refining margin (see Exhibit 4).

Earnings revision. Exhibit 5 gives details of earnings revision post 1QFY09 results.

Upstream companies. We retain our earnings for upstream companies (ONGC, GAIL and Cairn). However, we see potential upside to our FY2009E EPS for ONGC and GAIL in case the government restricts the share of gross under-recoveries of upstream companies to Rs450 bn. If the government follows the announced subsidy-sharing scheme for FY2009, our EPS estimate would jump to Rs190 (Rs129 currently) for ONGC and Rs45.4 (Rs36.8 currently) for GAIL.

R&M companies. We have made moderate downward revisions to the earnings of refining companies to factor decline in global refining margins in the recent months on account of spurt in crude prices and weak product prices. We expect refining margins to decline in FY2009E and FY2010E due to (1) global demand weakness and (2) significant refining capacity additions from 2HCY08. We see high risks to earnings of refining companies such as RIL, RPET and other standalone refiners from potentially weaker-than-expected refining margins. We would focus less on short-term volatility in refining margins and more on the likely deterioration in supply-demand balance of refined products from 2HCY08.

For PSU R&M companies (BPCL, HPCL and IOCL), we work on the philosophy that the government will ensure profits of the downstream oil companies at a certain ‘minimum’ level over the next few years (until the situation improves). We have revised our earnings for Castrol by 21% for CY2008 and 15% for CY2009 noting strong performance in 1HCY08 where the company was able to maintain strong margins despite sharp rise in raw material (LOBS) cost.

Gas companies. We retain our earnings estimates for GSPL and PLNG due to in line results reported by the companies.

Upstream companies did better than expectations

Quarterly reported results of energy sector companies, March fiscal year-ends (Rs mn)

	1QFY09	4QFY08	1QFY08	1QFY09E	A versus E (%)	Growth (%) Yoy	Growth (%) Qoq
BPCL	(3,029)	584	(548)	7,860	—	—	—
HPCL	(8,882)	(241)	(2,569)	4,768	—	246	3,585
IOCL	27,561	(4,143)	3,306	17,129	60.9	733.7	—
ONGC	65,929	49,751	46,105	51,609	27.7	43.0	32.5
GAIL (India)	8,969	8,728	6,852	7,278	23.2	30.9	2.8
Castrol India	828	745	644	717	15.5	28.6	11.1
Petronet LNG	1,056	1,200	1,080	1,021	3.4	(2.2)	(12.0)
Reliance Industri	41,100	39,130	34,600	43,081	(4.6)	18.8	5.0
GSPL	326	406	179	340	(4.0)	82.7	(19.5)
Cairn India	1,133	979	691	2,658	(57.4)	63.9	15.8

Source: Company, Kotak Institutional Equities estimates

Gross under-recoveries will likely be significantly higher in FY2009E

Share of various participants of under-recoveries in 1QFY09 (Rs bn)

Dated Brent crude oil price (US$/bbl)	113
Subsidy loss as per government	**519**
Subsidy loss reported by downstream companies	**488**
Payment by government (oil bonds) (a)	**217**
Share of BPCL	58
Share of HPCL	24
Share of IOCL	135
Net under-recovery of oil companies	**272**
Share of refining companies	—
Share of upstream companies (b)	**112**
Share of ONGC	98
Share of GAIL (b)	4
Share of Oil India	11
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**159**

Note:

(a) Oil bonds have been booked by downstream companies on the basis of Rs946 bn of total oil bonds for FY2009E as was 'decided' by the government in its June 4, 2008 meeting.

(b) Share of upstream companies based on subsidy loss for upstream companies at Rs450 bn for FY2009.

Source: Kotak Institutional Equities estimates

Sharp improvement in refining margins in 1QFY09

Reported refining margins (US$/bbl)

	1QFY09	4QFY08	1QFY08	Change (US$/bbl) qoq	Change (US$/bbl) yoy
BPCL	12.8	6.8	7.1	6.1	5.8
CPCL	15.9	9.6	8.8	6.3	7.1
HPCL	16.5	7.4	8.4	9.1	8.1
IOCL	16.8	8.8	10.7	8.0	6.1
MRPL	18.0	6.7	8.1	11.3	9.9
Reliance Industries	15.7	15.5	15.4	**0.2**	**0.3**

Source: Company

Sharp improvement in refining margins in 1QFY09 was led by high inventory gains

Reported inventory gains (US$/bbl)/(Rs mn)

	Rs mn	US$/bbl
BPCL	4,000	—
HPCL	9,110	—
IOCL	14,120	—
MRPL	6,550	11.3
Reliance Industries	—	1.7

Source: Company

Earnings revision for energy sector companies, March fiscal year-ends (Rs/share)

	2009	2010	2011
BPCL			
Previous	38.4	39.1	42.3
New	40.7	38.3	40.9
% change	**5.9**	**(2.0)**	**(3.3)**
Cairn (a)			
Previous	3.9	19.4	62.2
New	3.9	19.4	62.2
% change	—	—	—
Castrol (a)			
Previous	19.5	20.9	22.5
New	23.6	24.1	25.8
% change	**21.3**	**15.3**	**14.8**
GAIL (India)			
Previous	36.8	42.0	41.3
New	36.8	42.0	41.3
% change	—	—	—
HPCL			
Previous	30.9	33.4	33.8
New	26.1	33.4	31.7
% change	**(15.4)**	**(0.1)**	**(6.1)**
IOCL			
Previous	42.7	61.9	—
New	42.3	63.1	—
% change	**(1.0)**	**1.9**	—
ONGC			
Previous	133.6	153.1	167.3
New	129.3	149.2	167.9
% change	**(3.2)**	**(2.6)**	**0.3**
Petronet LNG			
Previous	5.8	6.5	8.6
New	5.8	6.5	8.6
% change	—	—	—
Reliance Industries			
Previous	106.0	174.3	169.6
New	97.4	171.9	165.9
% change	**(8.1)**	**(1.4)**	**(2.1)**

Note:
(a) Calender year-ends; estimates given as 2009 correspond to estimates for CY2008.

Source: Kotak Institional Equities

Indian energy companies valuation analysis, March fiscal year-ends, 2005-2009E

	Price (Rs)	Target price	P/E (X)					P/CEPS (X)				
	7-Aug-08	(Rs)	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Bharat Petroleum Corp.	329	360	43.3	6.6	8.2	8.1	8.6	12.8	4.0	8.7	7.2	14.4
Cairn India	246	230	136.2	104.9	NM	63.4	12.6	23.3	11.6	NM	22.8	11.9
Castrol	320	350	27.1	26.2	15.9	13.5	13.3	25.6	28.2	19.3	14.7	14.3
GAIL (India)	407	450	14.9	14.4	13.2	11.1	9.7	13.7	14.4	13.1	10.8	7.9
Gujarat State Petronet	60	69	51.4	36.7	33.9	16.6	11.9	16.0	28.2	26.8	7.6	6.5
Hindustan Petroleum Corp.	239	260	36.0	6.0	7.1	9.1	7.2	8.0	3.4	12.8	12.9	(6.0)
Indian Oil Corp. (cons.)	443	500	11.4	8.5	7.1	10.5	7.0	(45.8)	(11.0)	9.5	13.5	20.2
Oil and Natural Gas Corp. (cons.)	1,024	1,225	14.3	12.4	10.9	7.9	6.9	10.2	8.8	9.5	7.8	7.0
Petronet LNG	62	70	25.4	14.9	9.8	10.6	9.6	13.2	9.4	6.7	8.7	6.5
Reliance Industries	2,273	—	35.0	27.6	21.7	22.7	12.8	25.7	19.5	17.8	17.7	9.6
Reliance Petroleum	166	170	—	—	—	81.7	8.7	—	—	—	53.2	7.4
	KS	**Market cap.**	**EV/EBITDA (X)**					**EV/DACF (X)**				
	rating	**(US$ mn)**	**2006**	**2007**	**2008E**	**2009E**	**2010E**	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Bharat Petroleum Corp.	REDUCE	2,606	16.9	3.8	4.6	4.6	3.9	17.2	5.4	6.6	5.7	4.6
Cairn India	SELL	10,301	79.9	70.7	63.8	24.0	8.2	86.5	102.0	71.8	30.9	9.4
Castrol	ADD	905	18.0	17.4	10.1	8.7	8.4	26.9	29.5	17.0	14.0	13.6
GAIL (India)	BUY	8,013	8.5	10.6	8.3	7.4	7.3	11.7	12.8	12.3	10.3	9.0
Gujarat State Petronet	ADD	834	18.6	14.7	11.1	7.5	5.2	15.8	27.2	23.1	8.3	6.7
Hindustan Petroleum Corp.	REDUCE	1,888	9.4	6.2	6.5	7.3	5.0	15.5	7.0	11.9	6.0	7.1
Indian Oil Corp. (cons.)	REDUCE	12,083	9.2	6.0	6.1	6.7	4.9	12.1	7.8	9.0	8.5	6.6
Oil and Natural Gas Corp. (cons.)	BUY	50,392	6.8	5.5	4.8	3.5	3.0	8.7	7.3	6.5	4.7	4.2
Petronet LNG	ADD	1,129	11.7	8.4	6.1	7.5	6.2	12.6	8.4	8.6	9.5	7.3
Reliance Industries	RS	—	24.3	17.7	15.6	14.2	7.6	26.4	19.6	17.9	16.2	8.7
Reliance Petroleum	REDUCE	18,447	—	—	—	35.8	7.2	—	—	—	35.8	7.2

Telecom

Sector coverage view	Cautious

		Price, Rs	
Company	**Rating**	**7-Aug**	**Target**
Bharti	REDUCE	849	840
Rcom	SELL	438	390
MTNL	REDUCE	110	100
VSNL	REDUCE	458	430
Idea Cellular	REDUCE	89	100

TRAI releases recommendations allowing MVNOs in India; we do not see a meaningful near-term impact

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- **Neutral for wireless operators in the near term, in our view**
- **Potential positive for operators with low network utilization**

The Telecom Regulatory Authority of India (TRAI) has issued recommendations enabling the entry of 'Mobile Virtual Network Operators' (MVNO) in the country. MVNOs are non/partial-facility based (do not own spectrum and some or all of other network elements) telecom operators who buy mobile bandwidth (voice minutes/data capacity) from the facility-based mobile network operators (MNOs), and resell the same to end-users. TRAI has not mandated the technical nature of MVNOs—these can be full, intermediate, or thin MVNOs. Global experience on MVNOs has been a mixed bag with a few successful MVNOs like Virgin Mobile (in the US and the UK) with a number of failures like ESPN-mobile, Disney, Amp'd, etc. as well. We believe the entry of MVNOs will provide MNOs an opportunity to increase their network utilization (without significant incremental costs) by selling wholesale network capacity to the MVNOs—a potential positive for some of the existing telcos (like RCOM and TTSL) with low network utilization and new players likely to enter the market over the next 9-18 months with empty networks. We do not see a meaningful incremental negative impact for the MNOs in the near term. Maintain our Cautious coverage view on the sector.

TRAI releases recommendations on MVNOs. TRAI has announced a set of guidelines enabling the entry of MVNOs in the country. We highlight the key details of the guidelines below

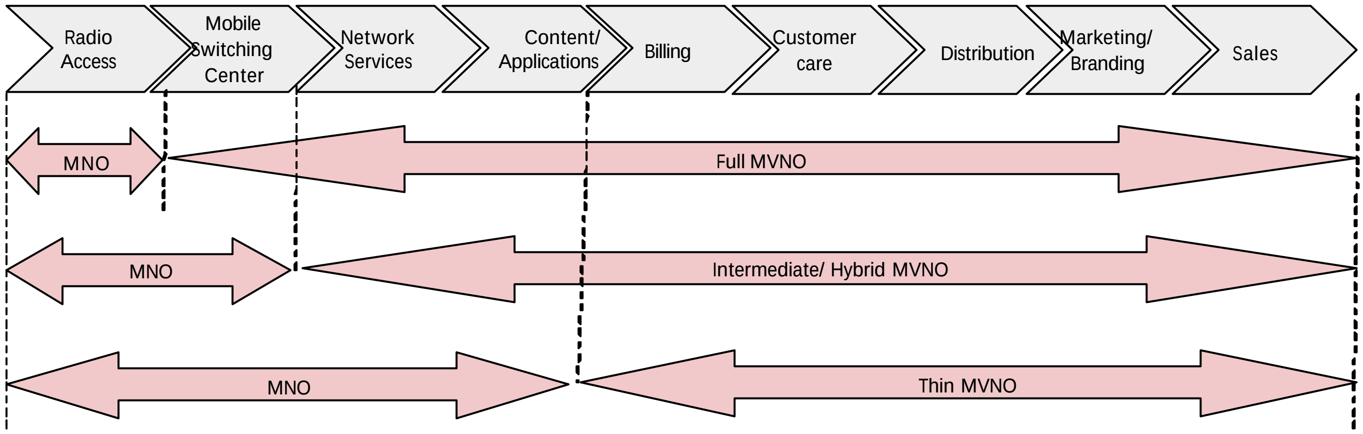
- A separate licensing regime will be put in place for MVNOs; any Indian or international player satisfying the licensing conditions (minimum networth, FDI, substantial equity, etc.) will be eligible for an MVNO license.
- The MVNO will be free to choose its business model (full or intermediate or thin). See Exhibit 1 for the differences between the business models.
- The license areas will be the same as applicable for MNOs (or UAS licenses); licenses will be issued circle-wise, as is the case with UAS license.
- The MVNOs will have to pay an entry fee which would be 10% of the entry fee applicable to MNOs subject to a maximum of Rs50 mn for Metros/Category A, Rs30 mn for Category B, and Rs10 mn for Category C circles.
- The MVNO will need to have a commercial agreement in place with an MNO before applying for an MVNO license in a specific circle; the MVNO will not share any of the regulatory or licensing costs of the MNO.
- Commercial agreements between MVNOs and MNOs shall be determined by market forces with no regulatory intervention.
- Annual license fees for the MVNOs shall be the same as the MNO of the same service area; the MNOs currently pay 10% of AGR as license fees for the metros and A circle, 8% for B circle, and 6% for C circle.
- There would be no limit on the number of MVNOs attached to an MNO; in other words an MNO like a Bharti or an Idea can get into wholesale capacity sale agreement with more than one MVNO.
- There would be no rollout obligations for an MVNO; this would enable MVNOs to restrict their services to specific regions of a service area, if they choose to.
- M&A guidelines for MVNOs will be the same as applicable to MNOs.

We do not see scope for a low-cost MVNO in India; MVNOs will have to differentiate on service offerings to be successful. We do not see a case for an MVNO adopting a low-cost strategy in India. The likely higher marketing and acquisition costs per subscriber will limit the extent to which an MVNO can compete with the MNOs on pricing, in our view. Thus, we believe that success for an MVNO in India will hinge on their ability to offer differentiated service offerings to the customers.

Impact on MNOs—neutral in the near term, may have a negative impact once pan-India MNP rollout is complete. We highlight our thoughts on the likely impact of MVNO entry on the telecom operators in the country

- We do not see a meaningful impact on the market structure in the near term. We highlight that the successful MVNOs in the other markets have largely been the ones who have been able to differentiate themselves (on service offerings/appeal to specific user groups, etc.). It took Virgin Mobile (which started as an MVNO in the UK in 1999) several years before getting its business model (differentiation, cost structure, etc.) right; we do not see an MVNO having a near-term impact on the current market structure. We would like to highlight here that the entry of Virgin in India (in March, 2008 as essentially a back-door MVNO) in a franchisee agreement with TTSL has not been to alter the market structure or competitive scenario in the Indian wireless market at all. Long time to break-even would also necessitate a strong balance sheet for an MVNO to be successful.
- Entry of MVNOs can be a potential positive for the existing wireless operators with low network utilization (RCOM, TTSL, in our view) and new players entering the market over the next 9-18 months with empty networks. These operators can potentially attach several MVNOs to their network, thereby driving their network utilization and revenues up, without significant incremental costs.
- Entry of MVNOs can add to the negative implications of MNP rollout. As highlighted earlier in the note, we do not see a business case for an MVNO trying to compete on pricing with the MNOs in the Indian market. Thus, the MVNOs will have to devise differentiated service offerings (which would have to be around better data offerings as voice services do not lend themselves to differentiation) or provide substantially superior customer service to gain subs market share in India. We highlight here that the typical users of high-end data services tend to be the profitable business subscribers, where the churn rate is low, in the absence of Mobile Number Portability currently. Rollout of MNP will open up this segment of the market to the MVNOs (in addition to the existing and new MNOs).

Exhibit 1: Typical MVNO models (technical)



Source: TRAI report

Key licensing conditions for MVNOs as recommeded by the TRAI

Item	Condition/ Recommendation
License duration	Max (20 years, remaining license duration of the parent MNO)
Networth criteria	Rs100 mn for Metros/ Category A circles Rs50 mn for Category B circles Rs30 mn for Category C circles
FDI	<=74% (same as UAS license)
Annual license fees	10% of AGR for Metros/ Category A circles 8% of AGR for Category B circles 6% of AGR for Category C circles
Spectrum charges	Nil (as the MVNOs are not entitled to spectrum)
Entry fee	Max (10% of UAS license fees, Rs50 mn) for Metros/ Category A circles Max (10% of UAS license fees, Rs30 mn) for Category B circles Max (10% of UAS license fees, Rs10 mn) for Category C circles
Commercial agreement between MVNO and MNO	Determined by market forces
M&A	UAS license M&A guidelines applicable to MVNO license as well
Spectrum allocation criteria for parent MNO	MVNO's subscribers to be counted towards the parent MNO for the purpose of spectrum allotment based on subscriber-based criteria
Financial Bank Guarantee (FBG)	5% of FBG for the MNO in that service area
Performance Bank Guarantee	Rs10 mn for Metros/ Category A circles Rs5 mn for Category B circles Rs1 mn for Category C circles
Substantial Equity Clause	No entity can hold >10% in more than one MNO/MVNO simultaneously
Roll-out obligation	None

Source: TRAI recommendations.

Utilities

Sector coverage view			Attractive

		Price, Rs	
Company	Rating	7-Aug	Target
Reliance Infras	BUY	1,025	1,250
Reliance Powe	REDUCE	167	180
Tata Power	BUY	1,050	1,540
NTPC	REDUCE	184	179
Lanco	BUY	333	530
CESC	BUY	367	500

Working towards capacity addition and earnings growth

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- **Revenue growth in 1QFY09 largely attributable to higher fuel costs**
- **EPC contractors report strong growth in project execution**
- **Remain optimistic on long-term growth prospects of power sector**

Power utility companies reported 15% yoy growth in revenues and 12% yoy decline in net profits during 1QFY09. Revenue growth was mainly on account of reimbursement of higher fuel costs rather than new capacity addition, and hence not reflective in operating profits (flat yoy) and net income. We note that the 12% yoy decline in net income is mainly attributable to NTPC (accounting for 80% of the profits), where the net income growth was impacted by higher wage provisioning during 1QFY09 while 1QFY08 also had the benefit of high prior-period revenues and forex gains. In our view earnings growth for regulated utility companies would be a function of commissioning of fresh capacities. We believe implementation of projects as per committed timelines will be the litmus test for these companies. We observe steady progress by companies towards achieving their planned capacity additions ' (1) obtaining regulatory approvals, (2) progressing on fuel tie-up and land acquisition, (3) award of EPC contracts and (4) progress on construction. Our belief in the steady project execution reflects the strong double-digit revenue growth reported by the EPC contractors during 1QFY09. We continue to be optimistic about the long-term growth prospects of the power sector and expect 65 GW of generation capacity addition during the current XIth plan against a target of 78 GW. Tata Power (TP: Rs1,540), Lanco Infratech (TP: Rs530) and Reliance Infrastructure (TP: Rs1,250) are our preferred stocks.

Revenue growth in 1QFY09 largely attributable to higher fuel costs.

Double-digit growth in revenues for utility stocks under coverage was mainly on account of higher reimbursement of fuel costs, while the sedate growth in operating income is attributed to lack of new capacity addition. We note that for regulated power utilities, commissioning of new capacities results in increase in equity base which results in earnings growth. Lower revenue growth for NTPC was on account of delay in commercialization of fresh capacities and reduced generation from gas-based projects. We note that NTPC will likely benefit from the commercialization of 1,000 MW (500 MW each at Sipat and Kahalgaon) towards the end of the quarter.

Revenue growth for Reliance Infrastructure was aided by recognition of Rs0.9 bn of revenue and Rs0.8 bn of PAT pertaining to the creation of regulatory asset of Rs3.56 bn in the Mumbai licence area. However, the regulatory asset is only transient in nature and is created to avoid ‘tariff-shocks’ to retail consumers, It is recovered from future tariffs and reimbursed along with carrying cost (interest). We note regulatory assets created in the past in the distribution companies in Delhi and CESC have been wiped off.

EPC contractors report strong growth in project execution.

Our confidence on timely execution of new power capacities is boosted by the strong revenue growth (+46% yoy) reported during 1QFY09 by companies engaged in the business of executing power plants. Exhibit 2 highlights the growth in revenues for leading EPC contractors during the quarter. In our view, strong execution growth and increasing order inflows for EPC contractors are leading indicators of on-the-ground progress on project implementation. Exhibit 3 highlights the progress made by utility companies towards achieving their respective capacity additions.

Remain optimistic on long-term growth prospects of power sector. We continue to remain optimistic about the long-term growth prospects of the power sector and estimate capacity addition of 65GW during the current XIth five year plan against a target of 78 GW. We prefer companies which have made significant progress towards achieving their planned capacity additions. Tata Power (TP:Rs1,540;CMP:Rs1,050); Lanco Infratech (TP:Rs530;CMP: Rs333); and Reliance Infrastructure (TP:Rs1,250; CMP: Rs1,025) remain our preferred stocks. We like Tata Power and Lanco Infratech on account of traction on completion of projects, while we like Reliance Infrastructure due to the potential of its EPC business to win more contracts for execution of Reliance Power's large portfolio of power projects.

Strong revenue growth did not translate into higher operating incomes

Interim results for utility companies under coverage (Rs mn)

					Growth (%)	
Company	**Jun-07**	**Mar-08**	**June-08A**	**June-08E**	**qoq**	**yoy**
Net sales (Rs mn)						
Reliance Infra	16,240	16,420	21,981	17,194	34	35
Tata Power	15,115	16,345	20,261	18,551	24	34
NTPC	89,697	107,436	95,395	104,803	(11)	6
CESC	7,170	6,520	7,830	7,622	20	9
Lanco	5,914	12,249	9,139	10,392	(25)	55
Total	**134,136**	**158,970**	**154,606**	**158,562**	**(3)**	**15**
Operating Profits (Rs mn)						
Reliance Infra	376	2,024	1,918	1,170	(5)	410
Tata Power	2,524	1,589	3,049	2,605	92	21
NTPC	26,945	28,222	24,218	31,489	(14)	(10)
CESC	1,300	1,263	1,220	1,365	(3)	(6)
Lanco	1,147	2,799	1,751	1,748	(37)	53
Total	**32,292**	**35,897**	**32,155**	**38,376**	**(10)**	**(0)**
PAT (Rs mn)						
Reliance Infra	2,216	3,114	4,395	1,830	41	98
Tata Power	1,523	685	1,788	1,546	161	17
NTPC	23,699	13,395	17,265	20,875	29	(27)
CESC	700	845	825	752	(2)	18
Lanco	745	2,050	1,090	1,090	(47)	46
Total	**28,883**	**20,090**	**25,362**	**26,093**	**26**	**(12)**

Source: Company data, Kotak Institutional Equities estimates.

Strong revenue growth in construction business indicative of steady progress in execution of power projects

Net revenues and order book details for construction business (Rs mn)

	Construction revenue			Order book		
	Jun-08	Jun-07	*(% chg)*	Total	Power	*(% of power)*
Reliance Infrastructure	4,344	3,386	*28*	210,440	195,940	*93*
Jaiprakash Associates	5,246	4,480	*17*	445,940	82,270	*18*
Lanco Infratech	5,182	1,479	*250*	126,117	108,017	*86*
L&T	69,014	45,052	*53*	582,000	110,580	*19*
BHEL (power business)	35,087	27,362	*28*	950,000	855,000	*90*
BGR Energy	3,068	2,324	*32*	110,000	93,500	*85*
Shriram EPC	1,613	502	*221*	18,900	2,835	*15*
Total	**123,553**	**84,585**	***46***	**2,443,397**	**1,448,142**	***59***

Source: Company data, Kotak Institutional Equities estimates.

Utility companies are progressing well towards commissioning planned capacity additions

Progress of planned capacity addition by utility companies (MW)

	Capacity addition planned	Under construction	Financial closure achieved
NTPC	22,430	16,680	NA
Lanco	6,135	3,405	3,405
Reliance Power	28,200	4,600	600
CESC	3,050	250	250
Tata Power	11,340	5,740	5,660
Jaiprakash Power Ventures	5,245	1,000	1,000

Note:

(a) NTPC does balance sheet financing of power projects.

Source: Company data, Kotak Institutional Equities.

Summary Valuation of Utility Companies

			Mkt Cap.	Price	EV/EBITDA (X)			P/E (X)		
	Category	Rating	(US$ bn)	7-Aug	2008E	2009E	2010E	2008E	2009E	2010E
Reliance Infrastructure	Int	BUY	5.59	1,025	25.7	32.9	22.4	21.9	21.4	18.2
Tata Power	Int	BUY	5.78	1,050	24.2	21.5	21.9	35.4	27.5	26.3
Tata Power - adj.	Int				8.9	8.6	10.2	6.3	4.7	4.5
CESC	Int	BUY	1.08	367	0.8	0.6	0.5	13.2	13.0	10.7
NTPC	Gen	REDUCE	35.7	184	14.8	15.8	15.7	20.5	19.2	17.8
NTPC - adj.					11.9	12.8	12.8	22.2	19.8	16.3
Lanco Infratech	Div	BUY	1.75	333	19.5	18.7	13.2	20.9	17.8	10.6
Reliance Power	Gen	REDUCE	9.42	167	(661)	(894)	1,458	437.8	80.5	64.3

	P/BV (X)			Div Yield (%)		ROCE (%)			ROE (%)		
	2008E	2009E	2010E	2007	2008	2008E	2009E	2010E	2008E	2009E	2010E
Reliance Infrastructure	2.0	1.9	1.7	0.0	0.5	7.9	5.9	6.5	4.4	4.8	7.7
Tata Power	3.2	2.7	2.3	0.8	0.9	6.5	6.2	5.2	10.6	11.0	9.5
Tata Power - adj.											
CESC	1.8	1.6	1.4	1.0	1.1	11.3	10.0	9.9	16.8	13.3	14.0
NTPC	2.8	2.6	2.5	1.7	1.9	9.9	8.5	7.4	14.4	14.2	14.3
NTPC - adj.	4.9	4.1	3.6								
Lanco Infratech	3.7	3.1	2.4	0.0	1.8	13.7	8.3	8.3	20.2	18.9	25.2
Reliance Power	2.7	2.8	2.7	0.0	0.0	0.0	0.0	1.6	1.2	3.5	4.3

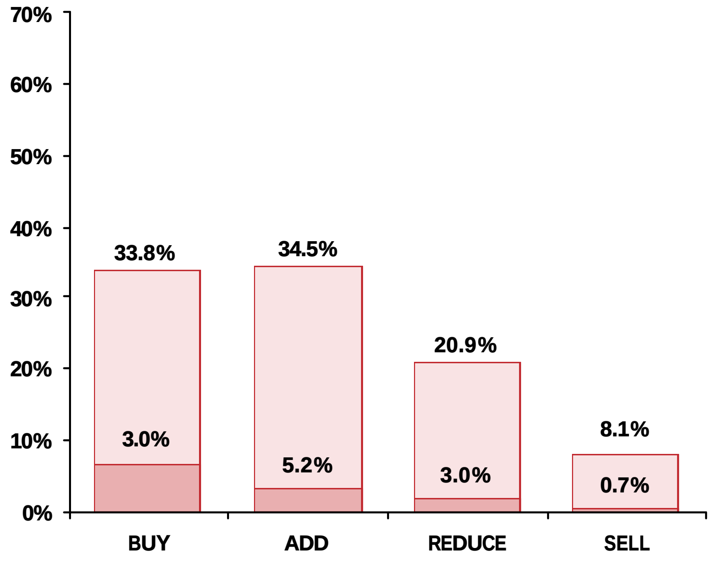
Note:
(a) Tata Power-adj. reflects the adjustment made for the value of the investment portfolio and stake in coal mines in Indonesia.
(b) NTPC - adj.: P/E and P/BV - adjusted for the treasury portfolio and income.

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, Mridul Saggar, Kawaljeet Saluja, Aman Batra."

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 30/06/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities. As of June 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

Other definitions

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