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### Updates

**India Infoline:** Preferential allotment to improve capitalization, retain ADD

## News Roundup

### Corporate

- World's fifth largest wind turbine maker Suzlon Energy on Monday said it has secured an order from Oil and Natural Gas Corporation to supply wind turbines with a total capacity of 51 MW. (FE)
- Gujarat NRE Coke said it has completed the acquisition of the Australia-based Elouera mine from BHP Billiton a part of the Australia-based Illawarra Coal Business for an undisclosed amount. (FE)
- The board of Ispat Industries has approved issue of share warrants, carrying a right to convert into equity shares, to the promoter group, on a preferential basis, not exceeding 5% of the post-issue voting rights in any financial year up to 18 months from the date of allotment. (BL)

### Economic and political

- As part of its exercise to tame the wheat imports price in the longer term, India plans to import wheat from Russia on a government-to-government basis. It is likely to despatch a delegation of food, commerce, STC and MMTC officials to Russia towards end January or February to seal a deal. (ET)
- The appreciation of the rupee against the dollar and anticipated lower imports are likely to reduce the India's fertilizer subsidy bill by around Rs 3,000 crore for the current financial year. (BL)
- The Indian government expects to reap rich dividends from the high volatility in the stock markets, with the security transaction tax (STT) likely to touch Rs7,500 crore in the current fiscal. "Thanks to the action in the stock markets, STT collections rose nearly 75% to Rs5,895 crore till 15 December this year, and are expected to touch Rs7,500 crore in 2007-08," a senior finance ministry official said. (Mint)

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

## EQUITY MARKETS

India	Change, %			
	24-Dec	1-day	1-mo	3-mo
Sensex	19,854	3.6	5.3	17.5
Nifty	5,985	3.8	6.7	21.2
<b>Global/Regional indices</b>				
Dow Jones	13,549	0.7	4.4	(1.7)
Nasdaq Composite	2,714	0.8	4.5	1.1
FTSE	6,479	-	3.5	1.3
Nikkei	15,584	0.2	3.0	(5.2)
Hang Seng	28,129	1.8	6.0	6.4
KOSPI	1,910	(0.5)	7.7	(0.5)
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	24-Dec	1-mo	3-mo	
Cash (NSE+BSE)	195.0	273.4	281.4	
Derivatives (NSE)	805.8	667.4	794.0	
Deri. open interest	1,186.9	1,093	984.8	

### Forex/money market

	Change, basis points			
	24-Dec	1-day	1-mo	3-mo
Rs/US\$	39.5	#####	(34)	(24)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	-	(3)	(8)

### Net investment (US\$m)

	20-Dec	MTD	CYTD
FIs	(128)	256	16,403
MFs	167	63	710

### Top movers -3mo basis

Best performers	Change, %			
	24-Dec	1-day	1-mo	3-mo
Neywell Lignite	246	2.2	8.8	129.0
Reliance Energy	2,059	6.1	15.1	100.6
MRF	7,012	0.9	3.6	87.5
VSNL	741	8.8	39.6	70.4
Thomas Cook	109	(9.8)	40.4	69.3
<b>Worst performers</b>				
i-Flex	1,505	2.2	3.9	(18.9)
Container Corp	1,845	0.3	2.6	(15.0)
Acc	1,001	(0.1)	(11.3)	(13.4)
Moser Baer	294	2.5	13.3	(9.3)
Glaxosmithkline	1,026	0.8	(3.2)	(8.7)

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**Banking****IIFL.BO, Rs1536**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	1,300
52W High -Low (Rs)	1598 - 255
Market Cap (Rs bn)	82.5

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	4.3	8.4	14.1
Net Profit (Rs bn)	0.8	1.4	3.3
EPS (Rs)	15.1	26.8	50.1
EPS <i>gth</i>	39.3	77.5	87.5
P/E (x)	101.9	57.4	30.6
P/B (x)	25.4	15.3	6.1
Div yield (%)	0.2	-	-

**Shareholding, September 2007**

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

**India Infoline: Preferential allotment to improve capitalization, retain ADD**

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- **IIL will make a preferential allotment of 3.7 mn equity shares to Orient Global at Rs1,500 per share**
- **We will review our estimates, recommendation and target price after getting clarity on IIL's fund deployment and growth plans**

India Infoline (IIL) will make a preferential allotment of 3.7 mn equity shares to Orient Global, the Singapore-based investment group, at Rs1,500 per share. Orient Global will also invest Rs1.9 bn for 10% stake in India Infoline Marketing Services—IIL's group company which is engaged in insurance distribution business. We will review our estimates after getting details on IIL's capital deployment plans and growth prospects.

With the aforesaid investment of Rs5.5 bn (in the parent company) and likely warrant conversion of Rs4.3 bn in FY2009, IIL's net worth will increase considerably. (Rs18-19 bn in FY2009E vs Rs3.25 bn in FY2007). IIL has recently infused private investments to fund growth in various group businesses (consumer finance and insurance distribution businesses). As such, at this stage, we are not very clear about IIL's capital deployment plans.

**Some likely avenues for capital deployment**

**Retail brokerage business.** IIL's brokerage business had a 3.3% share of equity volumes on BSE and NSE (during 2QFY08). Although its branch expansion drive will moderate, capital will likely be utilized in this business to (a) increase margins with exchanges, (b) set up large branches (hubs) and enhance existing systems to improve branch productivity.

**Finance business.** IIL has currently contributed capital of Rs2 bn to India Infoline Investment Services (IISL)—the holding company for its finance business. (Orient Global, the private investor in this venture, has recently infused Rs3 bn). IIL will likely have to increase its capital contribution in this company, as the finance business scales up.

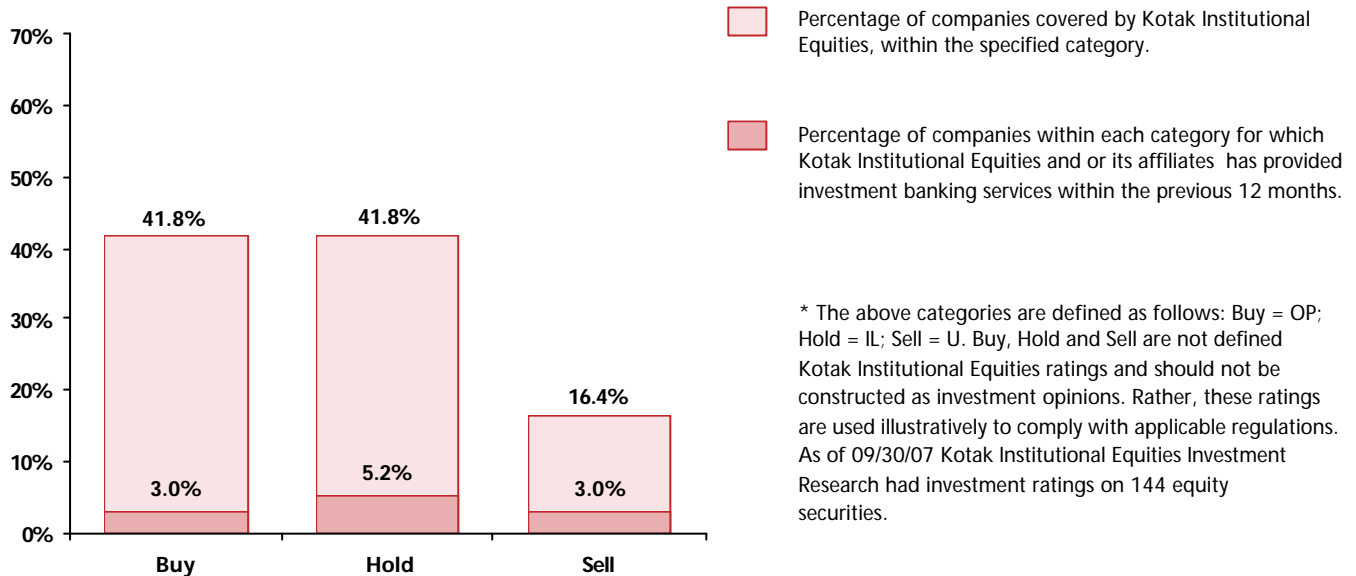
**However, institutional equities business (cash segment) is not capital intensive.**

We expect IIL's recently set up institutional equities business to grow considerably (we estimate a market share of 7% by FY2010E in the cash segment of the institutional equities business). However, this business is not capital intensive.

"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: Nischint Chawathe."

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Distribution of ratings/investment banking relationships



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

Source: Kotak Institutional Equities.

As of September 30, 2007

### Ratings and other definitions/identifiers

#### New rating system

Definitions of ratings

**BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

#### Old rating system

Definitions of ratings

**OP = Outperform.** We expect this stock to outperform the BSE Sensex over the next 12 months.

**IL = In-Line.** We expect this stock to perform in line with the BSE Sensex over the next 12 months.

**U = Underperform.** We expect this stock to underperform the BSE Sensex over the next 12 months.

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

#### Other definitions

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

#### Other ratings/identifiers

**NR = Not Rated.** The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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