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News Roundup

Corporate

- Tata Teleservices (Maharashtra) (TTML) today said it will invest nearly US\$120mn during the current fiscal to almost double its telecom towers to 2,500 from the present 1,234. The company, which operates in Mumbai and Maharashtra circles, said its net loss narrowed by 68 per cent at US\$11mn in the fourth quarter ended March 31, 2007 as against a net loss of US\$37mn in the same period last fiscal. (ET)
- United Spirits Ltd (USL), the flagship of the UB Group, has acquired 100 per cent equity in Whyte & Mackay for US\$1.2bn, with the deal being sealed on Wednesday morning in Glasgow, Scotland. The acquisition pushes USL's consolidated sales up to 75mn cases per annum. (BL)
- Tata Power Company, which is developing India's first 4,000 mw ultra mega power project (UMPP) in Mundra, today signed contracts reportedly worth US\$1bn with Korea's Doosan Heavy Industries & Construction Company for supply of super-critical boilers and development of ancillary civic structures. (BS)

Economic and political

- Private GSM mobile operators are up in arms against telecom regulator TRAI's recommendation to allow Internet telephony to Internet Service Providers (ISPs) saying this will lead to back door entry for voice telephone services. With this, ISPs would directly compete with the access providers creating a non-level playing field while paying only a fraction of their license fees. (ET)

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

EQUITY MARKETS

India	Change, %			
	16-May	1-day	1-mo	3-mo
Sensex	14,127	1.4	3.8	(1.6)
Nifty	4,171	1.2	4.7	0.6
Global/Regional indices				
Dow Jones	13,488	0.8	5.6	5.6
Nasdaq Composite	2,547	0.9	1.2	2.0
FTSE	6,560	(0.1)	1.0	2.2
Nikkei	17,621	0.5	0.5	(1.4)
Hang Seng	21,049	0.5	1.3	2.3
KOSPI	1,615	0.9	5.7	11.5
Value traded - India				
		Moving avg, Rs bn		
	16-May	1-mo	3-mo	
Cash (NSE+BSE)	156.4	133.4	124.2	
Derivatives (NSE)	328.1	294.4	405.0	
Deri. open interest	565.3	542.6	620.6	

Forex/money market

	Change, basis points			
	16-May	1-day	1-mo	3-mo
Rs/US\$	40.8	-	(121)	(336)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	(3)	3	9

Net investment (US\$m)

	15-May	MTD	CYTD
FIs	(79)	1,257	40
MFs	(18)	237	(303)

Top movers -3mo basis

Best performers	Change, %			
	16-May	1-day	1-mo	3-mo
Balaji Telefilms	195	9.7	21.8	51.1
Thomas Cook	68	5.0	37.2	40.7
Castrol India	287	4.8	20.8	27.8
SAIL	140	1.9	13.2	23.4
Reliance Cap	838	1.7	19.9	21.5
Worst performers				
Polaris	168	1.5	(11.1)	(24.5)
Wipro	540	1.0	(6.0)	(20.2)
M&M	720	0.6	(3.9)	(20.1)
Arvind Mills	47	1.5	(0.7)	(18.2)
Ashok Leyland	38	0.5	(0.1)	(17.9)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Banking

ICBK.BO, Rs919

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	920
52W High -Low (Rs)	1007 - 440
Market Cap (Rs bn)	826.3

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	135.6	172.4	220.4
Net Profit (Rs bn)	31.1	35.7	48.0
EPS (Rs)	34.6	39.7	53.4
EPS gth	5.6	14.9	34.4
P/E (x)	26.6	23.1	17.2
P/B (x)	3.4	3.1	2.7
Div yield (%)	0.9	1.0	1.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIs	71.5	9.2	6.5
MFs	4.4	3.5	0.8
UTI	-	-	(2.7)
LIC	7.8	5.5	2.8

ICICI Bank: ICICI Standalone will likely benefit from higher valuation of ICICI Holding

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

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

- **Newspaper reports suggest a valuation of US\$10 bn for ICICI Holdings vis-a-vis our estimate of US\$7 bn.**
- **Higher value for the holding company will lead to reduction in ICICI Bank (standalone) valuations**

ICICI Bank is planning to do a private placement of ICICI Holdings Ltd, to raise around US\$500mn. ICICI Holdings will have four subsidiaries under its fold i.e ICICI Life Insurance, ICICI Lombard General Insurance, ICICI Prudential AMC and ICICI Prudential Trust. Based on recent newspaper reports ICICI Holdings Ltd. could be valued as high as US\$10 bn. This is significantly higher than our current estimate of US\$7 bn for these subsidiaries. We provide sensitivity analysis to our valuations assuming ICICI Holding company value at US\$7.5 bn to US\$10 bn. We believe that a higher value for the holding company of US\$10 bn will likely lead to reducing ICICI Bank (standalone) valuations at 1.9X PBR for FY2008. This would further fall to 1.4X PBR post the issuance of US\$5 bn of equity by the parent company, assuming the issue is priced at Rs850 per share. However, PER (FY2008) of ICICI Bank (standalone) would increase to 17.1X from 14.5X reflecting dilution of equity base. In such an eventuality, the standalone entity will likely trade at above our current fair value estimate of Rs920 per share. Note that our fair value estimate in the SOTP calculation attached factors in the lower RoE of 12% post the equity dilution.

Impact of divestment in ICICI Holding on valuations of ICICI Bank standalone**ICICI Bank valuations pre-issue**

	(Rs)	2008E		2009E	
		P/B standalone		P/E standalone	
		(X)	(X)	(X)	(X)
ICICI Bank current price	887				
ICICI Bank price adjusted for subsidiaries value					
Subsidiary valuation @ US\$ 7.5 bn	474	2.1	1.8	16.0	10.8
Subsidiary valuation @ US\$ 8.5 bn	428	1.9	1.6	14.4	9.7
Subsidiary valuation @ US\$ 10 bn	360	1.6	1.4	12.1	8.2

ICICI Bank valuations post equity issuance of US\$5 bn by parent company

	(Rs)	2008E		2009E	
		P/B standalone		P/E standalone	
		(X)	(X)	(X)	(X)
ICICI Bank current price	887				
ICICI Bank price adjusted for subsidiaries value					
Subsidiary valuation @ US\$ 7.5 bn	563	1.5	1.4	18.4	11.8
Subsidiary valuation @ US\$ 8.5 bn	527	1.4	1.3	17.2	11.1
Subsidiary valuation @ US\$ 10 bn	473	1.3	1.2	15.5	9.9

Source: Kotak Institutional Equities estimates.

ICICI Bank pre-issue SOTP (Rs/share)

	ICICI Share (%)	Based on FY2009E (Rs/share)	Assuming higher valuation for ICICI Holdings (US\$7.5 bn)	Assuming higher valuation for ICICI Holdings (US\$8.5 bn)	Assuming higher valuation for ICICI Holdings (US\$10 bn)	Valuation methodology adopted
Value of ICICI standalone	100	570	570	570	570	Based on Residual growth model
Subsidiaries						
ICICI Holdings		316	342	388	456	
ICICI Prudential Life	74	250				Appraisal value analysis = Embedded value + 18X NBAP FY2009
General Insurance	74	46				PBR of 6X FY2007 BVPS
Mutual Fund	51	20				6% of AUM value in FY2009 of Rs575
Venture capital/MF	100	24	24	24	24	15% of AUM FY2009E of US\$2.6bn
ICICI Securities	100	23	23	23	23	PBR of 4.5X FY2006 BVPS
ICICI One Source	25	13	13	13	13	3X FY2008E revenues
NCDEX	8	1	1	1	1	Valued at US\$300mn based on last transaction
ARCIL	29.7	2	2	2	2	Based on value assigned by IDFC at Rs7.15bn
NSE	6.5	8	8	8	8	Based on value assigned by recent divestment
Value of subsidiaries		387	414	459	528	
Value of company		957	983	1,029	1,097	

Source: Kotak Institutional Equities estimates.

ICICI Bank post-issue SOTP (Rs/share)

	ICICI Share (%)	Based on FY2009E (Rs/share)	Assuming higher valuation for ICICI Holdings (US\$7.5 bn)	Assuming higher valuation for ICICI Holdings (US\$8.5 bn)	Assuming higher valuation for ICICI Holdings (US\$10 bn)	Valuation methodology adopted
Value of ICICI standalone	100	587	587	587	587	Based on Residual growth model
Subsidiaries						
ICICI Holding		249	270	306	360	
ICICI Prudential Life	74	197				Appraisal value analysis = Embedded value + 18X NBAP FY2009
General Insurance	74	36				6x FY2007 BVPS
Mutual Fund	51	15				6% of AUM 2009
Venture capital/MF	100	19	19	19	19	US\$2.2 bn of funds in 2008 US\$2.6bn in 2009 valued at 10%
ICICI Securities	100	18	18	18	18	For 2008 - PBR of 4x FY2006 BVPS and for 2009 - 10% growth in value
ICICI One Source	25	9	9	9	9	3X FY2008E revenues
NCDEX	8	1	1	1	1	Valued at US\$300mn based on last transaction
ARCIL	29.7	2	2	2	2	Based on value assigned by IDFC at Rs7.15bn
NSE	6.5	6	6	6	6	Based on value assigned by recent divestment
Value of subsidiaries		303	324	360	414	
Value of company		890	911	947	1,001	

Source: Kotak Institutional Equities estimates.

ICICI Bank forecasts and valuation pre-issue

March y/e	Profit after tax (Rsmn)	EPS (Rs)	P/E (x)	BVPS (Rs)	P/B (x)	RoA (%)	RoE (%)	EPS excl treasury & dividend (Rs)	P/E ICICI Bank Standalone (x)	BVPS (adjt for subsidiaries) (Rs)	P/B ICICI Bank standalone (x)
2005	20,052	27.2	32.6	170.3	5.2	1.4	19.5	17.3	29.0	142.3	3.5
2006	25,401	32.8	27.1	249.6	3.6	1.2	14.6	21.2	23.6	217.4	2.3
2007	31,102	34.6	25.6	270.4	3.3	1.0	13.4	18.1	27.7	213.3	2.3
2008E	35,732	39.7	22.3	299.0	3.0	0.9	14.0	29.6	16.9	229.9	2.2
2009E	48,012	53.4	16.6	338.1	2.6	1.0	16.8	43.9	11.4	260.3	1.9
2010E	60,457	67.2	13.2	387.2	2.3	1.1	18.5	59.5	8.4	309.5	1.6

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Forecasts and valuation post issue

<http://deadpresident.blogspot.com>

March y/e	Profit after tax (Rsmn)	EPS (Rs)	P/E (x)	BVPS (Rs)	P/B (x)	RoA (%)	RoE (%)	EPS excl treasury & dividend (Rs)	P/E ICICI Bank Standalone (X)	BVPS (adjt for subsidiaries) (Rs)	P/B ICICI Bank standalone (X)
2005	20,052	27.2	32.6	170.3	5.2	1.4	19.5	24.6	23.7	142.3	4.1
2006	25,401	32.8	27.1	249.6	3.6	1.2	14.6	22.5	26.0	217.4	2.7
2007	31,102	34.6	25.6	270.4	3.3	1.0	13.4	19.9	29.4	213.3	2.7
2008E	42,822	37.6	23.6	420.0	2.1	1.1	11.9	30.6	19.1	365.6	1.6
2009E	61,561	54.0	16.4	459.5	1.9	1.3	12.3	47.6	12.3	398.2	1.5
2010E	74,643	65.5	13.6	507.4	1.7	1.3	13.5	59.9	9.7	446.1	1.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates.

Banking**SBI.BO, Rs1284**

Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	1,400
52W High -Low (Rs)	1379 - 684
Market Cap (Rs bn)	676.0

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	235.0	253.2	278.2
Net Profit (Rs bn)	45.4	55.1	56.3
EPS (Rs)	86.3	104.8	106.9
EPS gth	3.1	21.4	2.0
P/E (x)	14.9	12.3	12.0
P/B (x)	2.5	2.1	1.8
Div yield (%)	1.1	1.4	1.4

Shareholding, March 2007

	% of Pattern	Portfolio	Over/(under) weight
Promoters	59.7	-	-
FIs	19.8	1.7	(0.1)
MFs	5.7	3.1	1.2
UTI	-	-	(1.8)
LIC	4.1	2.0	0.1

State Bank of India: SBI Subsidiary (Amendment) Bill a clear positive

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

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

- **Lok Sabha approves the SBI Subsidiary (Amendment) Bill**
- **Enable bank associates to tap capital markets and unlock value for SBI's bank investments**

The Lok Sabha passed the SBI Subsidiary Bank (Amendment) Bill yesterday. This will now be placed in the Raj Sabha, and we expect this to be cleared in the upper house as well. The key changes in the bill were:

- (1) removal of restriction on an individual holding more than 200 shares,
- (2) allow splitting Rs100 share into Rs10 share,
- (3) allow issue of bonus share and
- (4) allow SBI to reduce holding to 51% from 55%
- (5) investors will have maximum of 10% voting right compared to 1% earlier

We believe these to be positive for SBI, as its associate banks can now raise capital from the market releasing pressure on the parent capital adequacy and also lead to unlocking of value in the associate banks. Three of the seven associate banks, are currently listed. We retain our positive stance on SBI and target price of Rs1,400. The stock trades at 9.4X and 1.6X PER and APBR FY2008.

Key details on SBI subsidiaries

	SBI's holding (%)	Current share price (Rs)	2007 BVPS (Rs)	PBR (X)
State Bank of Bikaner and Jaipur	75%	4,338	3,268	1.3
State Bank of Travancore	75%	4,385	3,174	1.4
State Bank of Mysore	92%	7,490	3,189	2.3
State Bank of Indore	98%		6,709	NA
State Bank of Hyderabad	100%		1,473	NA
State Bank of Patiala	100%		1,005	NA
State Bank of Saurashtra	100%		332	NA

Note: SBH and SBP are the only SBI subsidiaries that have published their FY2007 annual report in newspapers as yet

Source: Companies, Bloomberg, Kotak institutional equities estimates.

Energy

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		16-May	Target
IOC	IL	487	500
BPCL	OP	368	450
HPCL	OP	296	375

Energy: Raised earnings and target prices

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229

Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286

- **Adjusted earnings model for likely higher subsidy payment and refining margins**
- **Difficult to forecast earnings but FY2008 should be at least as good as FY2007**
- **Raised target prices on higher cash (due to higher earnings) and normalized refining margins**

We have updated our earnings model for the recently released subsidy receipt figures for BPCL, HPCL and IOCL for 4QFY07 and other changes' higher share of losses for upstream companies based on FY2007 sharing, higher refining margins, stronger rupee. The subsidy payments from the upstream companies to the R&M companies for 4QFY07 are well ahead of our expectations for 4QFY07 and versus 3QFY07. BPCL, HPCL and IOCL will receive Rs11.8 bn, Rs11.4 bn and Rs34 bn, respectively from the upstream companies versus 3QFY07 corresponding amounts of Rs5.6 bn, Rs5.5 bn and Rs15.7 bn. Our revised target prices for BPCL, HPCL and IOCL are Rs450, Rs375 and Rs500, respectively versus Rs400, Rs335 and Rs450, respectively, previously. The higher target prices reflect (1) higher cash balance due to higher earnings and subsidy payments in FY2007 and (2) moderately higher normalized refining margins. Our 12-month target prices are based on 5X normalized EBITDA plus value of investments. Key downside risks stem from higher-than-expected net under-recoveries.

FY2008 should be somewhat better versus FY2007. We believe absolute earnings estimates for FY2008 may be somewhat difficult to establish at this stage. However, we think the R&M companies should report similar (if not better) earnings in FY2008 versus FY2007 for the following reasons. (1) We expect crude price (Dated Brent) at US\$65/bbl for FY2008E, same as FY2007, which will mean moderately higher (at best) gross under-recoveries for FY2008 versus FY2007 even if the government does not raise product prices of the four subsidized products during FY2008. We note higher sales volume of subsidized products in FY2008 versus FY2007 and moderately lower current selling price for diesel and gasoline versus average of FY2007 will result in moderately higher gross under-recoveries; current diesel retail price is about Rs0.5/liter lower than FY2007 price while LPG and kerosene is same. (2) We expect moderately higher refining margins and refining profits (from non-controlled products at 30% of total volumes) in FY2008 versus FY2007 due to improved global supply-demand conditions; we note margins in 2HCY07 were quite depressed. (3) A stronger rupee (Rs43/US\$ assumed as of now versus Rs45.3/US\$ in FY2007) will result in lower gross under-recoveries. A Rs/US\$ appreciation results in gross under-recovery declining by Rs32-34 bn.

Revised earnings estimates but modeling remains a very difficult exercise. We admit that forecasting earnings for the downstream oil companies is very difficult and will depend on several unpredictable variables including the (1) the government's pricing policy on subsidized products and (2) the government's policy on sharing of gross under-recoveries among various constituents (government through oil bonds, upstream companies through subsidy payments to downstream companies and the downstream companies).

We present our broad assumptions for the three R&M companies below, which may be more material than company-specific assumptions.

1. **Crude price assumption.** We model crude price (Dated Brent) at US\$65/bbl for FY2008E and US\$60/bbl for both FY2009E and FY2010E.
2. **Compensation from the government in the form of oil bonds.** We model the amount of government bonds at Rs240 bn, Rs160 bn and Rs120 bn for FY2008E, FY2009E and FY2010E, respectively. The government has given Rs241 bn of oil bonds to the R&M companies in FY2007.
3. **Subsidy payment from the upstream companies.** We assume the upstream oil companies will bear 41.5% of the gross under-recoveries for the next three years (FY2008-FY2010) compared to our previous assumption of 33%. The 41.5% share reflects the share of upstream companies for FY2007 (Rs205 bn on total industry under-recovery of Rs494 bn as per the government's calculations). This is the primary reason for the large upward revisions to our earnings estimates of BPCL, HPCL and IOCL for FY2007-FY2009 (discussed in more detail in the next section).
4. **Refining margins.** We model refining margin to increase by US\$0.5-1/bbl in FY2008E versus FY2007, remain stable in FY2009E and decline marginally in FY2010E.
5. **Rupee-dollar forecast.** We model Rs43/US\$ for FY2008, FY2009 and FY2010. The average rupee-US Dollar rate in FY2007 was Rs45.3.

Earnings revisions

BPCL. We have raised FY2007-FY2009 EPS estimates for BPCL to Rs53.2, Rs48.6 and Rs55, respectively versus Rs42.5, Rs45.1 and Rs49.2, respectively, previously. The yoy decline in EPS for FY2008E reflects flat crude throughput but higher costs (employee, SG&A).

HPCL. We have raised FY2007-FY2009 EPS estimates for HPCL to Rs43.3, Rs48.9 and Rs55.8, respectively versus Rs37.3, Rs38.9 and Rs41.5, respectively, previously. The yoy increase for HPCL reflects increase in refining throughput from start of expanded capacities at both Mumbai and Vizag refineries. We see the full impact of the 3.2 mtpa expansion in FY2009.

IOCL. We have raised FY2007-FY2009 EPS estimates for IOCL to Rs54.3, Rs62.8 and Rs62.1, respectively versus Rs44.1, Rs48.4 and Rs44.7, respectively, previously. The stronger upward revision to earnings for IOCL versus BPCL and HPCL reflects higher selling prices for chemicals other than the common factors discussed above.

Indian downstream oil stocks are inexpensive on long-term valuations

P/B and EV/GCI for BPCL, HPCL and IOCL

	2006			2007E			2008E		
	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL	BPCL	HPCL	IOCL
Stock price (Rs)	368	296	487	368	296	487	368	296	487
Year-end book value (Rs)	290	299	304	324	328	366	356	359	407
P/B (X)	1.3	1.0	1.6	1.1	0.9	1.3	1.0	0.8	1.2
ROAE (%)	3.1	4.1	15.0	17.3	15.7	16.3	14.3	14.2	16.3
EV (Rs bn)	212	166	852	216	201	837	194	194	746
Gross cash invested (Rs bn)	258	229	861	284	280	962	282	292	951
EV/GCI (X)	0.8	0.7	1.0	0.8	0.7	0.9	0.7	0.7	0.8
Cash returns (Rs bn)	9	8	59	26	20	82	25	27	91
CROCI (%)	3.6	3.4	6.8	9.2	7.0	8.6	9.0	9.1	9.5

Note:

- (a) IOC's book value does not include unrealized gain from investments in ONGC, GAIL amounting to Rs95/share.
- (b) Book value of Indian R&M stocks may be depressed due to full depreciation of certain assets (old refineries, LPG cylinders).

Source: Kotak Institutional Equities estimates.

Normalized earnings forecasts are significantly higher versus actual forecasts

Comparison of normalized marketing margins with FY2009 estimates (Rs/tonne)

	BPCL		HPCL		IOCL	
	2009E	Normalized	2009E	Normalized	2009E	Normalized
LPG	(8,000)	2,000	(8,000)	2,000	(8,000)	2,000
Naphtha	1,750	500	1,750	500	2,500	1,000
Gasoline	(1,350)	1,700	(1,350)	1,700	(1,350)	2,000
Jet fuel	1,900	1,400	1,900	1,400	2,300	1,700
Kerosene	(17,500)	600	(17,500)	600	(17,500)	600
Diesel	(1,210)	1,500	(1,210)	1,500	(1,210)	1,800
Light diesel oil	1,200	500	1,200	500	2,000	1,000
Low sulphur heavy stock	1,400	500	1,400	500	2,400	1,000
Fuel oil	1,400	500	1,400	500	2,400	1,000
Bitumen	1,600	1,000	1,600	1,000	2,800	1,600
EPS (Rs)	55.0	64.2	55.8	72.2	62.1	73.5
EBITDA (Rs bn)	37.5	42.5	38.2	46.6	126.6	147.2

Note:

- (a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2009.

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2010E (Rs mn)

<http://deadpresident.blogspot.com>

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	479,840	578,774	755,333	1,076,807	1,068,386	1,078,325	1,097,084
EBITDA	38,686	26,231	9,407	35,931	34,487	37,522	39,318
Other income	4,348	4,015	4,653	6,330	6,861	6,432	5,913
Interest	(1,447)	(1,748)	(2,474)	(4,891)	(5,328)	(4,311)	(3,033)
Depreciation	(6,754)	(7,130)	(7,680)	(8,401)	(9,389)	(9,501)	(10,377)
Pretax profits	34,833	21,368	3,906	28,970	26,632	30,142	31,821
Extraordinary items	(420)	810	176	—	—	—	—
Tax	(12,026)	(7,250)	(140)	(8,481)	(7,609)	(9,342)	(8,460)
Deferred taxation	(805)	(1,230)	(1,025)	(1,270)	(1,443)	(904)	(2,355)
Net profits	21,582	13,698	2,916	19,219	17,580	19,897	21,005
Net profits after minority interests	19,086	11,334	2,916	19,219	17,580	19,897	21,005
Earnings per share (Rs)	64.6	37.2	7.6	53.2	48.6	55.0	58.1

Balance sheet (Rs mn)							
Total equity	69,960	82,887	91,394	102,426	112,392	123,671	135,579
Deferred taxation liability	11,304	12,533	13,558	14,828	16,271	17,175	19,531
Total borrowings	32,701	46,589	83,736	88,286	66,316	49,816	33,776
Current liabilities	95,495	104,462	94,070	98,427	97,800	99,764	103,208
Total liabilities and equity	209,459	246,472	282,758	303,967	292,778	290,426	292,093
Cash	9,319	6,644	4,921	4,731	5,221	5,022	4,587
Current assets	97,729	130,393	128,208	118,832	107,162	107,637	109,463
Goodwill	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	122,715	127,707	140,078	155,354
Investments	13,927	10,893	38,774	57,689	52,689	37,689	22,689
Total assets	209,459	246,472	282,758	303,967	292,778	290,426	292,093

Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	30,727	21,118	9,275	21,288	21,221	23,869	27,825
Working capital	1,025	(18,393)	1,577	13,733	11,043	1,489	1,618
Capital expenditure	(17,001)	(17,120)	(19,945)	(18,990)	(14,051)	(21,872)	(25,654)
Investments	1,278	2,992	(28,146)	(18,915)	5,000	15,000	15,000
Other income	1,985	2,445	1,785	6,330	6,861	6,432	5,913
Free cash flow	18,015	(8,957)	(35,455)	3,447	30,074	24,918	24,702

Ratios (%)							
Debt/equity	40.2	48.8	91.6	86.2	59.0	40.3	24.9
Net debt/equity	28.8	41.9	86.2	81.6	54.4	36.2	21.5
RoAE	28.8	14.4	3.3	17.3	14.3	14.8	14.2
RoACE	21.2	12.0	4.1	12.1	11.4	12.3	13.5

Key assumptions (standalone until FY2005)							
Crude throughput (mn tonnes)	8.8	9.1	17.2	19.8	19.8	20.0	20.5
Effective tariff protection (%)	7.2	4.8	2.9	1.4	1.2	1.3	1.2
Net refining margin (US\$/bbl)	4.2	3.9	2.2	2.9	3.7	3.5	2.8
Sales volume (mn tonnes)	20.9	21.5	23.3	24.6	25.4	26.1	26.9
Marketing margin (Rs/tonne)	1,893	1,732	(671)	(1,138)	(1,326)	387	1,442
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(16,958)	(15,468)	(11,046)	(1,932)

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of BPL to refining margins, import duties and marketing margins (Rs mn)

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins									
Refining margins (US\$/bbl)	2.7	3.7	4.7	2.5	3.5	4.5	1.8	2.8	3.8
Net profits (Rs mn)	13,323	17,580	21,837	15,659	19,897	24,135	16,676	21,005	25,334
EPS (Rs)	36.8	48.6	60.4	43.3	55.0	66.8	46.1	58.1	70.1
% upside/(downside)	(24.2)		24.2	(21.3)		21.3	(20.6)		20.6
Import tariffs									
Tariff protection	0.7	1.2	1.7	0.8	1.3	1.8	0.7	1.2	1.7
Net profits (Rs mn)	16,738	17,580	18,421	19,045	19,897	20,749	20,123	21,005	21,887
EPS (Rs)	46.3	48.6	51.0	52.7	55.0	57.4	55.7	58.1	60.5
% upside/(downside)	(4.8)		4.8	(4.3)		4.3	(4.2)		4.2
Marketing margins									
Auto fuels marketing margin (Rs/tonne)	(2,650)	(2,500)	(2,350)	(150)	0	150	1,396	1,546	1,696
Net profits (Rs mn)	16,826	17,580	18,333	19,114	19,897	21,235	19,618	21,005	22,392
EPS (Rs)	46.5	48.6	50.7	52.9	55.0	58.7	54.3	58.1	61.9
% upside/(downside)	(4.3)		4.3	(3.9)		6.7	(6.6)		6.6

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	512,001	597,020	708,609	910,336	908,392	919,419	928,576
EBITDA	31,858	20,511	8,056	25,278	32,165	38,155	40,287
Other income	6,583	5,841	4,711	3,582	3,024	3,385	4,169
Interest	(557)	(816)	(1,587)	(4,069)	(5,834)	(5,969)	(4,336)
Depreciation	(6,054)	(6,584)	(6,902)	(6,634)	(7,821)	(9,375)	(9,277)
Pretax profits	29,042	16,406	2,851	22,170	25,093	28,652	31,385
Extraordinary items	—	1,471	2,201	3,030	—	—	—
Tax	(10,225)	(5,897)	(898)	(8,218)	(7,421)	(8,230)	(9,420)
Deferred taxation	(540)	793	(97)	(264)	(1,108)	(1,509)	(1,247)
Prior period adjustment	762	—	—	—	—	—	—
Net profits	19,039	12,773	4,056	16,717	16,564	18,913	20,717
Earnings per share (Rs)	56.2	34.8	6.6	43.3	48.9	55.8	61.1

Balance sheet (Rs mn)

Total equity	77,428	84,409	87,357	97,113	106,539	117,302	129,091
Deferred tax liability	14,541	13,748	13,844	14,109	15,217	16,726	17,973
Total borrowings	17,008	21,854	66,638	100,638	94,638	69,388	47,027
Current liabilities	76,551	69,887	79,549	83,728	85,157	89,148	90,566
Total liabilities and equity	185,528	189,896	247,389	295,587	301,550	292,564	284,657
Cash	1,971	2,016	426	208	470	473	310
Current assets	92,331	93,007	109,674	114,230	113,987	116,400	116,889
Total fixed assets	70,743	77,305	97,013	122,892	133,835	137,433	144,199
Investments	20,484	17,568	40,276	58,258	53,258	38,258	23,258
Total assets	185,528	189,896	247,389	295,587	301,551	292,564	284,657

Free cash flow (Rs mn)

Operating cash flow, excl. working capital	29,062	15,977	10,126	13,914	17,694	23,957	26,531
Working capital changes	(13,410)	(3,614)	(5,351)	(377)	1,672	1,579	928
Capital expenditure	(8,895)	(12,849)	(25,298)	(30,406)	(17,548)	(12,974)	(16,043)
Investments	(342)	2,995	(22,884)	(17,982)	5,000	15,000	15,000
Other income	1,052	800	941	7,595	6,583	5,841	4,711
Free cash flow	7,466	3,310	(42,466)	(27,256)	13,400	33,402	31,127

Ratios (%)

Debt/equity	18.5	22.3	65.8	90.5	77.7	51.8	32.0
Net debt/equity	16.4	20.2	65.4	90.3	77.3	51.4	31.8
RoAE	22.0	13.4	4.1	15.7	14.2	14.8	14.7
RoACE	18.9	10.1	2.5	9.3	10.2	11.8	12.6

Key assumptions

Crude throughput (mn tonnes)	13.7	13.9	14.0	16.8	17.8	19.3	19.3
Effective tariff protection (%)	7.4	5.6	3.1	1.5	1.3	1.5	1.2
Net refining margin (US\$/bbl)	4.4	4.5	3.9	4.1	5.0	4.9	4.1
Sales volume (mn tonnes)	20.1	20.6	21.3	22.5	23.0	23.6	24.2
Marketing margin (Rs/tonne)	1,861	1,688	(463)	(872)	(1,104)	464	1,425
Subsidy under-recoveries (Rs mn)	(12,870)	(26,708)	(29,671)	(20,268)	(16,854)	(14,321)	(6,736)

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of HPCL to refining margins, import duties and marketing margins (Rs mn)

	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	Base Case	Upside	Downside	Base Case	Upside	Downside	Base Case	Upside
Refining margins									
Refining margins (US\$/bbl)	4.0	5.0	6.0	3.9	4.9	5.9	3.1	4.1	5.1
Net profits (Rs mn)	12,729	16,564	20,398	14,827	18,913	23,000	16,636	20,717	24,799
EPS (Rs)	37.6	48.9	60.2	43.7	55.8	67.9	49.1	61.1	73.2
% upside/(downside)	(23.1)		23.1	(21.6)		21.6	(19.7)		19.7
Import tariffs									
Tariff protection	(0.2)	1.3	2.8	(0.0)	1.5	3.0	(0.3)	1.2	2.7
Net profits (Rs mn)	14,137	16,564	18,990	16,206	18,913	21,620	17,979	20,717	23,455
EPS (Rs)	41.7	48.9	56.0	47.8	55.8	63.8	53.0	61.1	69.2
% upside/(downside)	(14.6)		14.6	(14.3)		14.3	(13.2)		13.2
Marketing margins									
Transportation fuels margins (Rs/tonne)	(2,650)	(2,500)	(2,350)	(150)	0	150	1,397	1,547	1,697
Net profits (Rs mn)	15,956	16,564	17,171	18,282	18,913	19,992	19,598	20,717	21,836
EPS (Rs)	47.1	48.9	50.7	53.9	55.8	59.0	57.8	61.1	64.4
% upside/(downside)	(3.7)		3.7	(3.3)		5.7	(5.4)		5.4

Source: Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2010E (Rs mn)

	2004	2005	2006	2007E	2008E	2009E	2010E
Profit model (Rs mn)							
Net sales	1,173,450	1,379,018	1,732,849	2,212,179	2,227,605	2,267,372	2,341,801
EBITDA	114,303	86,765	82,024	101,894	129,259	126,564	123,724
Other income	17,565	16,138	25,714	24,405	25,077	21,739	20,074
Interest	(5,043)	(7,433)	(12,101)	(16,165)	(10,031)	(4,739)	(4,506)
Depreciation	(20,626)	(23,140)	(24,711)	(28,370)	(31,030)	(31,627)	(33,549)
Pretax profits	106,199	72,330	70,926	81,765	113,274	111,937	105,743
Extraordinary items	3,553	4,283	5,590	37,954	5,608	5,568	5,533
Tax	(25,966)	(13,658)	(19,975)	(16,334)	(35,463)	(37,221)	(32,750)
Deferred taxation	(5,157)	(2,335)	(1,282)	(5,876)	(2,032)	26	(2,438)
Net profits	79,052	59,475	55,509	97,508	81,387	80,309	76,088
Net profits after minority interests	73,298	52,666	49,643	64,709	74,915	74,029	71,168
Earnings per share (Rs)	62.8	45.1	42.5	54.3	62.8	62.1	59.7

Balance sheet (Rs mn)							
Total equity	233,386	271,302	317,977	394,900	442,901	490,510	535,129
Deferred tax liability	47,934	50,367	50,602	57,460	59,492	59,466	61,903
Total borrowings	146,147	197,809	292,395	277,355	186,128	110,422	68,341
Current liabilities	219,522	266,430	286,716	376,102	387,141	397,818	413,400
Total liabilities and equity	646,988	785,907	947,691	1,105,817	1,075,661	1,058,215	1,078,774
Cash	13,777	13,356	8,080	7,312	7,849	6,502	6,265
Current assets	278,550	368,158	413,904	520,528	523,752	530,901	545,391
Total fixed assets	320,647	370,003	383,717	409,085	415,167	431,919	458,225
Investments	34,013	34,391	141,990	168,892	128,892	88,892	68,892
Total assets	646,988	785,907	947,691	1,105,817	1,075,661	1,058,215	1,078,774

Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	99,896	82,461	82,707	97,135
Working capital changes	1,710	(33,421)	(8,136)	(17,516)	3,683	4,524	(6,007)
Capital expenditure	(47,179)	(73,626)	(49,042)	(41,442)	(40,520)	(50,071)	(54,836)
Investments	(509)	(1,172)	(17,778)	(27,349)	40,000	40,115	20,000
Other Income	5,826	7,814	10,317	23,955	24,913	21,787	20,139
Free cash flow	53,560	(28,641)	(74,973)	37,543	110,536	99,062	76,432

Ratios (%)							
Debt/equity	52.0	61.5	79.3	61.3	37.0	20.1	11.4
Net debt/equity	47.1	57.3	77.1	59.7	35.5	18.9	10.4
RoAE	30.0	18.3	15.0	16.3	16.3	14.6	12.9
RoACE	20.4	13.7	10.1	11.3	11.9	11.5	11.5

Key assumptions (IOC standalone)							
Crude throughput (mn tonnes)	37.7	36.6	38.5	44.0	46.7	48.2	49.7
Effective tariff protection (%)	7.9	5.8	3.3	1.9	1.7	1.7	1.5
Net refining margin (US\$/bbl)	5.4	6.2	4.8	4.5	5.5	5.3	4.8
Sales volume (mn tonnes)	47.1	48.2	50.4	53.3	55.1	57.0	59.1
Marketing margin (Rs/tonne)	2,092	1,982	26	(633)	(783)	757	1,681
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(43,592)	(35,346)	(31,178)	(12,210)

Source: Kotak Institutional Equities estimates.

Earnings sensitivity of IOC (standalone) to refining margins, import duties and marketing margins (Rs mn)

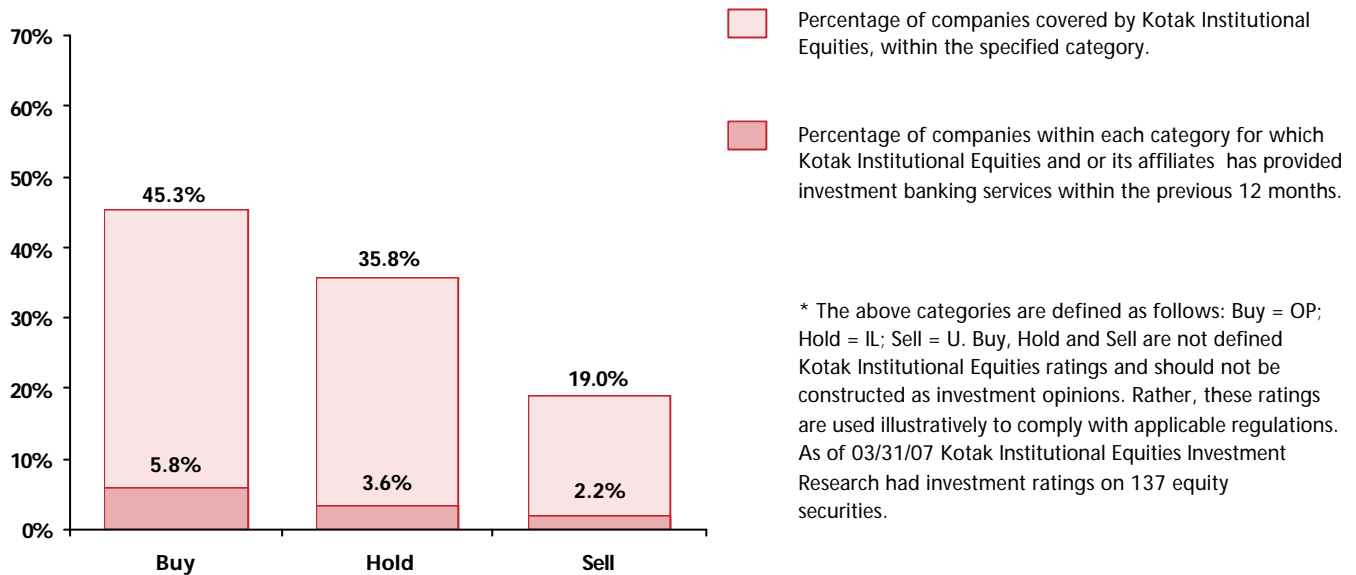
	Fiscal 2008E			Fiscal 2009E			Fiscal 2010E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Refining margins									
Refining margins (US\$/bbl)	4.5	5.5	6.5	4.3	5.3	6.3	3.8	4.8	5.8
Net profits (Rs mn)	63,215	73,289	83,364	63,014	73,251	83,488	61,359	71,873	82,388
EPS (Rs)	53.0	61.5	69.9	52.8	61.4	70.0	51.5	60.3	69.1
% upside/(downside)	(13.7)		13.7	(14.0)		14.0	(14.6)		14.6
Import tariffs									
Tariff differential	1.2	1.7	2.2	1.2	1.7	2.2	1.0	1.5	2.0
Net profits (Rs mn)	71,181	73,289	75,397	71,054	73,251	75,448	69,586	71,873	74,160
EPS (Rs)	59.7	61.5	63.2	59.6	61.4	63.3	58.4	60.3	62.2
% upside/(downside)	(2.9)		2.9	(3.0)		3.0	(3.2)		3.2
Marketing margins									
Transportation fuels margins (Rs/tonne)	(2,650)	(2,500)	(2,350)	(150)	0	150	1,382	1,532	1,682
Net profits (Rs mn)	71,687	73,289	74,891	71,577	73,251	76,111	68,885	71,873	74,862
EPS (Rs)	60.1	61.5	62.8	60.0	61.4	63.8	57.8	60.3	62.8
% upside/(downside)	(2.2)		2.2	(2.3)		3.9	(4.2)		4.2

Source: Kotak Institutional Equities estimates.

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Source: Kotak Institutional Equities.

As of March 31, 2007

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**Corporate Office
Kotak Securities Ltd.**

Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd.

6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc.

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

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Kotak Securities Ltd.

Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400 021, India.

Tel: +91-22-6634-1100 Fax: +91-22-2288-6453