Economy News

- FDI inflows into India rose by 124% in the period between April and August, and were more than US $14.6 bn (Rs 700.80bn). In August, the FDI inflows stood at US$2.3 bn (Rs 110.40bn) while in July, they were at $2.25 billion (Rs 108.0bn). (BS)
- US Federal Reserve has cut Federal funds rate by 0.5% to 1.5%. This action was taken in light of evidence pointing to a weakening of economic activity and a reduction in inflationary pressures. Bank of England, European Central Bank and central banks of Canada, Sweden, and Switzerland cut key interest rates by 0.5% as well. The joint statement said that the Bank of Japan expressed its strong support of these policy actions. (BS)
- Business confidence and optimism among Indian companies for the last quarter of 2008 is at an all-time low and primarily led by service companies, a survey by Dun & Bradstreet showed. (FE)
- Britain rushed out a package worth up to $875bn dollars on Wednesday to head off a banking collapse as markets went into freefall over fears the worst financial crisis in decades has still not hit a peak. (ET)

Corporate News

- Drug-maker **GlaxoSmithKline** is setting up a new manufacturing line at Nashik as part of its global corporate social responsibility, contributing towards world-wide efforts to tackle Lymphatic Filariasis by 2020. (BL)
- **TCS** has signed an agreement with Citigroup Inc to acquire its captive BPO-Citigroup Global Services for $505 mn in an all-cash transaction. In addition TCS will provide, through CGSL, process outsourcing services to Citi for an aggregate amount of $2.5 billion over 9.5 years. (BS)
- **TATA Sons**, the Tata group's holding company, has sold 1% stake in TCS last week for Rs 7.0bn. Tata Sons would require around Rs 9.1bn subscribing to its 22% entitlement to TML's rights issue. (ET)
- Engineering goods manufacturer **Siemens Ltd** has set up a new, wholly-owned subsidiary company to tap the potential in the Indian rail transportation sector. (BL)
- **Ranbaxy Laboratories** heaved a sigh of relief as the US Department of Justice withdrew a motion against the drugmaker, which was being probed for allegedly bringing adulterated and misbranded medications into the US. (BS)
- Drug-maker **Wockhardt Ltd** has entered into a 10- year in-licensing agreement with the UK's Sinclair Pharma plc to market dermatology and dental products in India. (BL)
- **Oil and Natural Gas Corp** will borrow US$1 bn to fund its proposed Rs 64.0bn aromatic petrochemical complex at Mangalore. The project is scheduled for completion in first half of 2011. (ET)
- **Dr Reddy's Laboratories Ltd** has received approval from the US FDA to sell its anti-convulsant drug primidone, the regulator's website showed. (ET)
- **Reliance Natural Resources Ltd** on Wednesday submitted to the division bench of the Bombay High Court extract of the Ambani family Memorandum of Understanding relating to the sharing of natural gas. (BL)
- **D-Link (India)** has announced to demerge its business into two separate companies - branded active networking products into D-Link (India) and the structured cabling systems, R&D, manufacturing and service operations into Smartlink Network Systems. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	8 Oct 08	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
BSE Sensex	11,328	(3.1)	(24.0)	(18.9)
Nifty	3,514	(2.6)	(21.4)	(15.5)
BSE Banking	5,772	(4.4)	(21.7)	(6.7)
BSE IT	2,701	(4.9)	(33.0)	(36.0)
BSE Capital Goods	8,793	(3.6)	(28.9)	(22.6)
BSE Oil & Gas	7,796	(2.7)	(21.1)	(14.6)
NSE Midcap	4,203	(5.2)	(27.0)	(21.6)
BSE Small-cap	4,699	(5.6)	(32.5)	(30.8)
World Indices				
Dow Jones	8,579	(7.3)	(23.9)	(23.6)
Nasdaq	1,645	(5.5)	(26.2)	(27.1)
FTSE	4,314	(1.2)	(19.6)	(20.2)
Nikkei	9,157	(0.5)	(32.7)	(36.4)
Hangseng	15,943	3.3	(25.7)	(31.9)

Value traded (Rs cr)

	8 Oct 08	% Chg - Day
Cash BSE	5,046	8.3
Cash NSE	12,819	0.1
Derivatives	57,667	(3.5)

Net inflows (Rs cr)

	7 Oct 08	% Chg	MTD	YTD
FII	(548)	(51)	(284)	(40,506)
Mutual Fund	(307)	(11)	(502)	11,978

FII open interest (Rs cr)

	7 Oct 08	% Chg
FII Index Futures	9,992	0.3
FII Index Options	19,263	1.3
FII Stock Futures	13,675	(0.9)
FII Stock Options	845	(2.5)

Advances / Declines (BSE)

8 Oct 08	A	B	S	Total	% total
Advances	25	290	74	389	16
Declines	178	1387	369	1,934	82
Unchanged	-	31	6	37	2

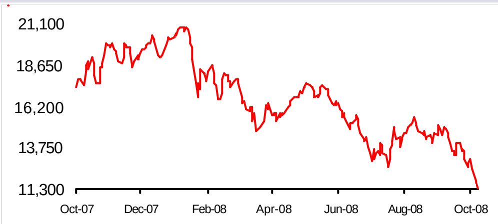
Commodity

	8 Oct 08	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	82.3	(5.0)	(19.8)	(41.9)
Gold (US$/OZ)	913.3	0.6	21.9	(3.2)
Silver (US$/OZ)	12.1	3.1	14.4	(33.2)

Debt / forex market

	8 Oct 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.21	8.21	8.49	9.34
Re/US$	48.00	47.95	44.74	43.25

Sensex



COMPANY UPDATE

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TATA CONSULTANCY SERVICES LTD (TCS)

PRICE: RS.535 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1050 **FY09E P/E: 9X**

Acquisition of Citigroup Global Services Ltd (CGSL). Recommend caution due to evolving macro situation.

- An all-cash deal valued at $505mn, subject to closing adjustments
- Contract to provide process outsourcing services to Citigroup / affiliates of US$2.5bn over 9.5 years.
- Gives lead over competitors as far as BPO for core banking systems is concerned; adds end-to-end service capabilities; 12,000 employees to be absorbed
- Will allow cross selling and will also give platform BPO capabilities in diverse sub-segments
- Valuations at 1.8x CY08 revenues and at likely 9.6x CY08 earnings (assuming net margins at CY07 levels); reasonable in our opinion.
- Valuations similar to those of TCS's. However, CGSL had cash of about $50mn as at CY07 end.
- Acquisition to add less than 5% to TCS's FY09 revenues, lesser to net profits. Thus, not expected to make any significant impact on TCS's FY09 EPS.
- Maintain earnings estimates, as yet. Will make changes post getting further details and post 2QFY09 numbers.
- Recommend a cautious view on the sector due to macro head-winds. Maintain **BUY** with a price target of Rs.1050 but re-iterate preference for Infosys and Satyam.
- A sharp appreciation in rupee beyond our assumed levels and a prolonged recession in major user economies are the key risks to our call.

We recommend BUY on TCS with a price target of Rs.1050

The deal

- TCS has reached an agreement to acquire all of Citigroup's interest in Citigroup Global Services Limited (CGSL). The acquisition is at an all-cash consideration of $505 million. TCS will acquire about 12,000 employees of CGSL
- The total value is about US$2.5 billion over a period of 9.5 years.
- The agreement further cements the relationship between Citi and TCS. TCS is already providing services like application development, infrastructure support, help desk and other process outsourcing services to Citi.
- In addition to this, Citigroup has signed an agreement with TCS to provide, through CGSL, process outsourcing services to Citi and its affiliates.
- The deal is expected to be consummated by 2008 - end.

Our take

- In our opinion, the deal would broaden TCS's portfolio and allow it to provide end-to-end IT and BPO services in the BFS sector.
- CGSL currently services five of Citigroup's 9 product lines - namely Cards, Consumer Finance, Retail Banking, Capital Markets & Banking as well as Global Transaction Services.
- We also opine that, it will allow TCS to further TCS's reach in providing BPO services in the area of core banking services, which it was not providing till date.
- The acquisition will also allow TCS to cross sell services to its own clients. On the other hand, the company will also get a deeper presence in platform-based BPO services through this acquisition.

- The top management of CGSL will be staying on with TCS and should help in a smooth transition. They are being retained by providing a special package which is a part of the deal.

Financials

- CGSL had revenues and profits of about Rs.7.94bn and Rs.1.61bn in CY2007, respectively.
- According to TCS, CGSL will have revenues of about $278mn in CY08. We assume that the profitability will be maintained during the fiscal.
- Thus, the valuations work out to about 1.8x CY08 revenues and about 9.5x EPS. This is similar to the valuations at which TCS is quoting. We opine that, the valuations are fair.
- If we look at TCS's financials, the consolidation is not expected to make any material impact on the same. It may be mildly positive.
- We are keeping TCS's earnings estimates unchanged, as yet. We will make the necessary changes post the 2QFY09 results, due in the next fortnight.
- Based on the existing share capital, we arrive at an EPS of Rs.58.8 for FY09.

Financial performance

(Rs mn)	FY07	FY08	YoY (%)	FY09E	YoY (%)
Turnover	**186,333**	**228,614**	**22.7**	**273,258**	**19.5**
Expenditure	135,703	169,217		203,251	
EBIDTA	**50,630**	**59,397**	**17.3**	**70,008**	**17.9**
Depreciation	4,184	5,746		5,267	
EBIT	**46,446**	**53,651**		**64,741**	
Other Income	1,943	4,450		2,632	
PBT	**48,389**	**58,101**	**20.1**	**67,373**	**16.0**
Tax	6,700	7,494		9,352	
PAT	**41,688**	**50,607**	**21.4**	**58,020**	**14.6**
Minority interest	417	424		477	
Share of profit	44	8		25	
Adjusted PAT	41,315	50,191	21.5	57,569	14.7
Shares (mns)	979	979		979	
EPS (Rs)	**42.2**	**51.3**		**58.8**	
EBIDTA (%)	27.2	26.0		25.6	
Net Profit (%)	22.4	22.1		21.2	

Source : Company, Kotak Securities - Private Client Research

Valuations and recommendation

- We have valued TCS based on the PE method and its relative valuation to Infosys.
- We have accorded a discount to Infosys' valuation because of the differences in growth rates, margins and the different accounting policies.
- The price target is maintained at Rs.1050.
- We have turned cautious on the medium term prospects of the sector in the backdrop of the deteriorating fiscal situation in developed economies. We also expect client specific issues to impact companies going ahead.
- Thus, we recommend a cautious stance on the sector and on TCS. While we maintain a **BUY** on TCS, we continue to prefer Infosys and Satyam over the same.

COMPANY UPDATE

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UTV LTD

PRICE: RS.690 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.646 **FY10E P/E: 20X**

The UTV stock while sharply out performing the broader markets on a relative basis CYTD, has had limited absolute gains since our previous rating change (to ACCUMULATE). Our rating downgrade was on account of a perceived lack of near term catalysts and our concerns on sustenance of its premium valuations in an increasingly risk averse market.

We have now incorporated our estimates for UTV's nascent broadcasting (BCS) business which we reiterate will be a drag on consolidated earnings and cash-flow over FY09-10E. We remain circumspect about prospects of the broadcasting segment given a challenging macro, high competitive intensity and high initial capital investments.

Our changed EPS estimates for FY09E reflect the impact of BCS consolidation and its initial losses; standalone business estimates remain largely unchanged. We also adjust our valuation matrix for lower multiples in motion pictures and TV content maintaining our consistent differential with benchmark peers. Noting our continued opinion of unfavorable risk reward at current valuations and our revised price target of Rs.646, we now rate the stock a REDUCE.

While remaining optimistic on the longer term potential of UTV's aggressive multimedia model, we await more reasonable valuations and effective execution in BCS to turn more positive.

- We opine the current valuations (20x consolidated FY10E EPS) price in most positives for the UTV stock- strong estimated growth, an aggressive multi media model and its premier studio positioning.
- While optimistic on the potential UTV's multi faceted business model holds, we prefer to await more reasonable valuations and effective execution in its BCS segment to turn positive on the UTV stock in the medium term.
- We have consistently believed that new BCS ventures are likely to face tough times given challenges thrown up by the competitive intensity, high initial cost structures and more recently a challenging macro that looks set to moderate ad revenue growth over the medium term, in our opinion.
- The above in addition to the stock's premium valuations led to our previous rating change on the UTV stock.
- We now incorporate BCS financials and lower multiples for motion pictures and TV content to arrive at a price target of Rs.646 and a REDUCE rating. EPS changes only reflect BCS consolidation/losses; standalone estimates are broadly unchanged.
- Change in multiples reflects a consistent premium/discount we have accorded to UTV's businesses in comparison to benchmarked peers.
- We believe the incipient open offer entailed by the Disney stake purchase may offer support only in the near term and await more reasonable valuations to turn more positive on the stock.
- Better than estimated performance of motion pictures business and value accretive acquisitions pose upside risks.

Summary table - Consolidated

(Rs mn)	FY08	FY09E	FY10E
Sales	4,342	7,186	10,856
Growth (%)	148.2	65.5	51.1
EBITDA	647	705	1,507
EBITDA margin (%)	14.9	9.8	13.9
Net profit*	577	803	1,367
Net cash	1,982	(9,847)	(9,352)
EPS (Rs)*	14.5	20.2	34.4
Growth (%)	-28.2	39.3	70.2
CEPS	15.5	21.7	36.4
DPS (Rs)	0.9	1.0	1.0
ROE (%)	18.1	7.1	7.3
ROCE (%)	12.3	7.4	8.6
EV/Sales (x)	6.7	2.4	1.6
EV/EBITDA (x)	44.8	24.3	11.7
P/E (x)	46.8	33.6	19.8
P/Cash Earnings	43.9	31.3	18.7
P/BV (x)	5.9	1.5	1.4

Source: Company, Kotak Securities - Private Client Research

** Stripped of extra-ordinaries in FY08*

Fully diluted equity of 39.7mn shares

Projected Financials-include estimates for BCS and new media; motion picture, TV content are modestly tweaked

- We have now included estimates for broadcasting and new media in our projected financials. We expect revenues of Rs.750mn from BCS and Rs.250mn from new media. At the EBIT level we expect combined losses from both the new initiatives to be cRs.500mn in FY09E.
- On a consolidated basis we expect a 58% & 52% CAGR in consolidated revenues and EBITDA over FY08-10E.
- We estimate consolidated margins to dip in FY09E to 9.8% on account of losses from BCS before rising again to 13.9% on hopeful stabilization of its BCS initiatives.
- We are thus estimating a consolidated EPS of Rs.20.2 in FY09E and Rs.34.4 in FY10E, which we believe adequately reflect the strong growth expected.
- On the balance sheet, we expect return ratios to decline FY09E onwards on the back of significant BCS losses, capital raised (Disney and promoter infusions) and the capital intensive nature of movies and BCS.

Valuations- price in most of the positives, in our opinion

- In our financials we have projected strong earnings growth for the company driven by ramp up in movies, content and the gaming businesses.
- At the current price levels, the stock is trading at 20x our consolidated FY10E and 34x FY09E earnings respectively. On a standalone basis (excl BCS losses) the stock still trades at a rich 25x FY09 earnings.
- We believe these valuations factor in most of the positives and UTV's strong growth profile. We prefer to await better risk reward to turn more positive on the stock in the medium term.
- Our SoTP price target stands at Rs.646 (Rs.873) adjusted for our revised valuation matrix. Our target price of Rs.646, offers a c10% down side from current levels. Noting this, we recommend a REDUCE on the stock.
- We attribute a modest premium to global valuations while valuing Ignition (part of Interactive segment) as we believe that current earnings do not possibly reflect the potential earnings upside from the game 'Wardevil' which will be launched in Q4FY09.
- While we see longer term upsides given the potential in UTV's gaming business (IP owned 'Wardevil' to release in Q4FY09); execution, in our opinion, needs to be efficient to capitalize on the opportunity space.

Concerns - broadcasting losses, continued execution

- We have been cautious on UTV's broadcasting foray and believe it will pare overall profits in the medium term. At this point, we have not factored in BCS losses in our earnings model for UTV and continue to value it on a SoTP basis.
- We have consistently outlined that losses in broadcasting can be significant, more so in the near term. Rough calculations, though, suggest this venture will burn cRs.400-450mn in Year 1 (i.e. FY09E, in proportion to UTV 's stake of 75% in the BCS arm).
- UTV has launched four channels in the recent past that have got off to a sober start in terms of popularity ratings. It has also ramped up management bandwidth significantly for its BCS venture by adding personnel from the industry.
- We note that efficient execution of its new initiatives and capturing the opportunity space would remain the key to sustaining its premium valuations.

Areas that require greater clarity

- Greater details on UTV's possibly high valuation potential gaming business, deployment of cash and more clarity on movie slate for FY09-10E.
- Upside triggers to our earnings could be any tie-ups with media majors/Walt Disney for animation motion picture co-production, gaming, TV content etc. Disney in related statements has outlined these as areas of growth it sees in emerging markets. Inorganic opportunities, given the cash in the balance sheet, post recent infusion, may also likely support the stock price, if and when they materialize.

SoTP Valuation

	FY09E EBIT (Rs mn)	EV/EBIT (x)	EV of segment	Assumption	Variables to monitor
Motion Pictures	964.20	12	11570.4	EV/EBIT multiple based on accorded premium to peer group, noting UTV's strong growth profile. Adjusted from 15x earlier to factor in a consistent 40% premium to global comparables.	1. Perfromance and execution of big ticket projects domestically and internationally 2. Inherent volatility of business 3. Valuation of holding company to be influenced by stability of AIM valuations.
Television Content	126.9	7	888.3	Peer group multiple, adjusted to factor in a consistent discount to a larger player like BTL	Scalability of business
Interactive	141.7	9	1275.3	Modest premium to peers to reflect upsides from IP exploitation of high end game War Devil, expected to kick in towards FY10E.	1. Integration & stabilization of acquisitions 2. Response to 'Wardevil', execution in the gaming business 3. Likely need for capital; scope for dilution
New Media		2.0	532.2	Valued at 2x EV/Sales, in line with peers	
Broadcasting		2.0	1500.0	Valued at 2x EV/Sales, discount to other broadcasting companies.	1. Cautious on ambitious broadcasting plans; we note with circumspectionthe clutch of new channel announcements by corporates. We opine limited scope for value creation exists in possibly overheated space. 2. Broadcasting losses to impact bottomline and pare profits from other businesses.
Total EV, Rs.mn			15766.2		
Net debt, Rs.mn			-9846.8		
Net EV, Rs.mn			25613.0		
Fully diluted shares, mn			39.7		
EV/Share, Rs.			645.2		

Source: Kotak Securities - Private Client Research

UTV revenues, segment wise FY08-10E

(Rs mn)	FY08	FY09E	FY10E
Motion Picture, Rs.mn	2456.8	3781.6	5483.3
Television, Rs.mn	1006.4	1143.7	1372.5
Interactive, Rs.mn	955.8	1245.6	2000.0
Broadcasting (BCS), Rs.mn	0.0	750.0	1500.0
New Media, Rs.mn	0.0	266.1	500.0
Total, Rs.mn	4374.8	7185.5	10855.8

Source: Company, Kotak Securities - Private Client Research

Possible usage of capital raised

UTV's investment into BCS arm	Rs.2400mn
Retirement of debt	Rs.3000mn of debt currently on books.
Towards investments in movies.	Rs.2000mn
Towards investments in Interactive, mainly gaming.	Rs.1300mn
Towards investments in TV content	Rs.500mn

Source: Company, Kotak Securities - Private Client Research

We maintain our cautious stance and now recommend a REDUCE on UTV with a price target of Rs.645

Results Preview

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Quarterly Results Preview: Construction

Construction sector performance in the current quarter may get impacted by the monsoon season in terms of execution. However order inflow remained fairly robust across most of the construction companies. Operating margins of the companies are expected to remain a mixed bag depending upon the contracts executed in the current quarter. Fall in the commodity prices is expected to augur well for the fixed price contracts in the order books of the companies. Annual reports of most of the construction companies indicate increase in the working capital requirements correspondingly being funded by higher borrowings. This is expected to result in higher interest outgo for the companies going forward.

Though construction stocks have been underperformers in the last quarter, we believe that most of the concerns pertaining to working capital as well as operating margins have already been factored into the stock prices. We continue to maintain our positive bias for the sector due to robust order books, future revenue visibility as well as attractive valuations.

Key developments during Q2FY09

Order inflows momentum intact but execution may be impacted by monsoons

Order inflows have maintained a healthy trend in the current quarter also. Along with that, company managements are quite confident of the future order inflows coupled with timely execution of contracts. Current order books of most of the construction companies provide revenue visibility for next 2-4 years.

Current quarter revenues of the construction companies are expected to be impacted by monsoons. However, slow pace of implementation in the current quarter is expected to be overcome by robust growth in the coming quarters with the onset of construction activity post Diwali.

Order inflows for Q2FY09

	(Rs bn)
Punj Lloyd	54.7
NCC	13.3
IVRCL	22.5
Patel engineering	7.0
Simplex Infrastructure	12.2
BGR Energy Systems	80.4
Unity Infraprojects	2.3
Madhucon Projects	9.9
Era Infra	9.1

Source: BSE

Operating margins to remain a mixed bag

Operating margins of the companies are expected to be a mixed bag depending upon the contracts executed in the current quarter. However we believe that with lower proportion of fixed price contracts as well as diverse portfolios, decline in the operating margins on a full year basis is only expected to be only 50 basis points as compared to last year. We have also observed decline in the commodity prices from the peak levels. This should augur well for the construction companies going forward. Along with that, companies are building sufficient cushion while bidding for the new projects to hedge themselves against increase in the commodity prices. We also expect Simplex Infra and Punj Lloyd to report an improvement in the operating margins on a full year basis due to change in the order book mix towards higher margin projects.

Working capital requirements increased significantly

Annual reports of most of the construction companies indicated increase in working capital requirements for the companies. This is correspondingly being funded by higher borrowings for the companies. Increase in the working capital was mainly on account of increase in inventories for IVRCL, Patel engineering while significant increase in loans and advances was witnessed in Nagarjuna constructions, Unity Infra and Madhucon Projects. Thus higher borrowings coupled with higher interest rates are expected to impact the profitability of the companies negatively to some extent going forward.

Net profits growth to be impacted by lower execution and higher interest cost in the current quarter

Net profit growth of the companies is expected to be impacted by monsoons as well as higher interest outgo as compared to last year. For IVRCL, Patel Engineering and Madhucon Projects, net profit growth is not comparable with last year due to lower tax provisioning done by these companies in Q2FY08 as against full tax rate assumed by us in our estimates for Q2FY09. For companies like Era Infra, net profits may also be impacted due to decline in the other income on its outstanding FCCB on account of translation losses.

Decline expected in the embedded valuations

Significant decline in the embedded valuations for infrastructure sector is expected in the current scenario of high interest rates. Real estate and road BOT ventures of the companies are expected to witness a decline in their target valuations on account of tighter liquidity conditions as well as higher interest rates. Negative impact of prevailing conditions in real estate is expected to be felt for IVRCL, NCC, Patel Engineering and Unity Infra.

Results preview

	Revenues (Rs mn)			OPM (%)			Net profits (Rs mn)		
	Q2FY09E	Q2FY08	YoY (%)	Q2FY09E	Q2FY08	YoY(bps)	Q2FY09E	Q2FY08	YoY (%)
Punj Lloyd	29,903	18,942	58.0	9.0	8.8	20	1,321	894	48.0
NCC	8,891	6,772	31.0	9.5	12.5	(303)	316	337	-6.0
IVRCL	9,351	6,884	36.0	9.0	8.0	97	333	352	-5.0
Patel engineering	3,023	2,358	28.0	15.5	17.8	(230)	169	324	-48.0
Simplex Infrastructure	9,709	5,711	70.0	10.5	10.0	50	330	191	73.0
BGR Energy Systems*	4,500	-	-	10.0	-	-	251	-	
Unity Infraprojects	2,260	1,529	48.0	12.5	13.4	(90)	145	108	34.0
Madhucon Projects	2,495	1,587	57.0	12.5	19.9	(740)	127	135	-6.0
Era Infra	4,105	2,564	60.0	18.0	19.0	(100)	200	247	-19.0

Source: Kotak Securities - Private Client Research

**Q2FY08 numbers not available, Company got listed in Jan 08*

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: LOGISTICS (JULY-SEPTEMBER 2008)

- **We expect logistics companies under our active coverage to report strong growth in revenues in Q2FY09 due to capacity expansions and foray into newer verticals.**
- **We continue to maintain our positive stance on the Logistics sector for medium to long term perspective as the stocks have become more attractive after recent sharp correction in their stock prices.**
- **Our top picks in the logistics sector are Mundra Port and Gateway Distriparks.**

Companies

BUY - Target Price Rs.1000

- **Allcargo Global Logistics.** We expect the company to report strong growth in revenues and profitability due to growing operations of Eculine and ramping up of operations at JNPT, Chennai and Mundra CFS. Also the crane hiring business of Transindia Freight services Ltd. would bring in increased profitability for the company.

BUY - Target Price Rs.1100

- **Concor**. We expect the company to report strong growth in revenues due to increase in haulage charges and overall volume increase. The profitability is also expected to be better as the company has passed on certain cost increases to its customers.

BUY - Target Price Rs.135

- **Gateway Distriparks.** We expect GDL to report strong revenue growth due to a rise in the number of container trains from its Garhi inland container depot for domestic and EXIM traffic and ramping up of operations at Punjab Conware CFS at JNPT. However, consolidated EBIDTA margin is expected to be lower due to higher contribution from the container train running operations that typically have lower operating margins than CFS business.

BUY - Target Price Rs.120

- **Gati.** We expect Gati to report strong growth in revenues due to higher contribution from the air freight business. However the operating margins are likely to be subdued due to initial expenses of running the air freighters. GATI is expected to report losses at the PAT level due to mark to market provision for FCCB due to depreciation of rupee.

BUY - Target Price Rs.716

- **Mundra Port & SEZ.** We expect the company to report strong growth in revenues and profitability due to growing cargo volume at the port. Also we expect higher sale of SEZ land which would result in higher growth in bottom line then the top line.

BUY - Target Price Rs.400

- **Redington.** On a consolidated basis, we expect the company to report strong growth in revenues and profitability due to higher contribution from the higher value added and non-IT verticals like mobile phones, gaming and consumer durable products.

BUY - Target Price Rs.125

- **TCI.** We expect TCI to report steady growth in revenues and profitability due to higher contribution from the value-added logistics services like cold chain, express distribution and supply chain.

Overall outlook

Overall, we continue to remain positive on the entire logistics sector. We feel that logistics is expected to be one of the fastest growing sectors, going forward.

Top Pick

Our top picks in the logistics sector are

- Mundra port
- Gateway Distriparks

Q2FY09 estimates: Logistics

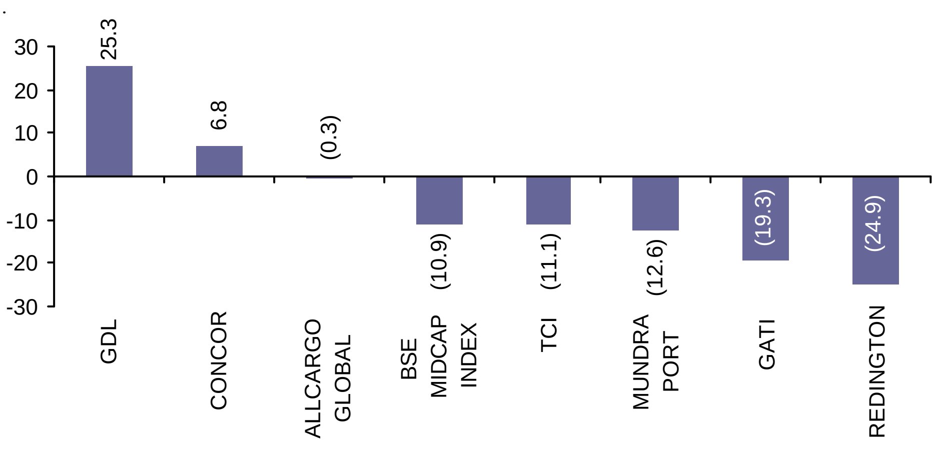
	Revenues (Rs mn)			EBIDTA (%)			PAT (Rs mn)			EPS (Rs)		
	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)
CONCOR	9,150	8,188	11.8	28.5	25.9	10.0	2,150	1,741	23.5	16.5	13.4	23.5
Gateway Distriparks	1,075	640	67.9	34.1	39.9	(14.5)	220	189	16.5	1.9	1.6	16.5
Mundra Port & SEZ	2,750	1,604	71.5	68.1	64.9	5.0	1,250	504	148.0	3.1	1.3	148.0
Redington	30,500	26,584	14.7	2.2	2.2	0.5	375	318	17.9	4.8	4.1	17.9
TCI*	3,375	2,970	13.6	6.5	6.3	3.2	65	48	35.1	0.9	0.7	35.1
June end	Q1 FY09	Q1 FY08	YoY (%)	Q1 FY09	Q1 FY08	YoY (%)	Q1 FY09	Q1 FY08	YoY (%)	Q1 FY09	Q1 FY08	YoY (%)
GATI*	1,475	1,171	26.0	7.9	11.7	(32.5)	(10)	65	(115.3)	(0.1)	0.7	(115.3)
December end	Q3 CY08	Q3 CY07	YoY (%)	Q3 CY08	Q3 CY07	YoY (%)	Q3 CY08	Q3 CY07	YoY (%)	Q3 CY08	Q3 CY07	YoY (%)
Allcargo Global	5,025	4,039	24.4	9.9	7.0	41.4	250	172	45.4	12.3	8.5	45.4

*Source: Companies, Kotak Securities - Private Client Research; * FV Rs. 2*

	Reco	CMP (Rs)	Target (Rs)	Upside (%)	Diluted Shares (mn)	Mkt Cap (Rs bn)	EPS (Rs)		PE (x)	
							FY08	FY09E	FY08	FY09E
Allcargo Global Logistics	BUY	766	1,000	30.5	20.3	15.5	35.4	52.6	21.6	14.6
CONCOR	BUY	790	1,100	39.2	130.0	102.7	57.9	70.1	13.6	11.3
Gateway Distriparks	BUY	75	135	80.0	115.5	8.7	2.3	4.8	32.6	15.6
GATI	BUY	41	120	192.7	93.3	3.8	6.4	7.9	6.4	5.2
Mundra Port & SEZ	BUY	397	716	80.4	400.7	159.1	5.3	9.9	74.9	40.1
Redington	BUY	200	400	100.0	77.9	15.6	17.5	22.1	11.4	9.0
TCI	BUY	51	125	145.1	72.5	3.7	4.5	6.1	11.3	8.4

Source: Companies, Kotak Securities - Private Client Research

Price performance over Q2FY09



Source: Kotak Securities - Private Client Research

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: MIDCAPS (JULY-SEPTEMBER 2008)

- **We expect the midcap companies under our coverage to report strong growth in revenues and profitability in Q2FY09 due to expansion in capacities and growing demand scenario for their products.**
- **We feel that post the recent sharp correction in their stock prices, due to overall weakness in the markets, the companies under our midcap segment are available at very attractive valuations.**
- **We continue to remain positive on the midcap companies under our coverage with medium to long term perspective.**
- **Our top picks in the midcap segment are Sunil Hitech Engineers, Nitin Fire Protection, and Riddhi Siddhi Gluco Biols.**

Companies

BUY - Target Price Rs.1870

- **AIA Engineering (AIA)**. We expect AIA to report strong growth in revenues and profitability due to ramping up of the production from the new 50000 TPA plant for hi-chrome mill internals that commenced operation in May 2008. Indian rupee depreciation would help to increase profitability as around 50% of the revenues are of exports.

BUY - Target Price Rs.360

- **Everest Kanto Cylinders (EKC)**. We expect EKC to strong growth in revenues and profitability as its plants in India and Dubai are operating at near peak capacities. The profitability is also expected to be robust due to Indian rupee depreciation which would lead to higher profits out of the Dubai units.

BUY - Target Price Rs.70

- **Gujarat Ambuja Exports (GAEL).** We expect GAEL to report steady growth in revenues due to firm prices of de-oiled cakes and edible oils. Also there would be contribution form the recently commissioned 500TPD maize crushing plant at Uttarakhand in March 2008. However the company is expected to report mark to market forex loss of Rs. mn. It would also report incentive income on account of exports of soybean de-oiled cakes.

BUY - Target Price Rs.60

- **Gujarat State Petronet (GSPL)**. We expect GSPL to report steady growth in revenues and profitability due to significant pipeline expansion leading to increased transportation of gas.

BUY - Target Price Rs.150

- **Indraprastha Gas (IGL)**. We expect IGL to report steady growth in revenues and profitability due to increasing business from the private, transport and commercial vehicles in Delhi.

BUY - Target Price Rs.150

- **JBF Industries (JBF).** We expect robust growth in the revenues of JBF due to successful ramping up of operations of the expanded chips, POY and FDY plant. Also, the RAK plant has stabilized in Q2FY09 which would lead to robust YoY growth in terms of revenues.

BUY - Target Price Rs.500

- **Nitin Fire Protection Industries (NFPIL)**. We expect NFPIL to report robust growth in revenues and profitability due to increased contribution from the fire protection and cylinder trading business of the company. Also there would be substantial contribution from the CNG cylinders manufacturing plant at Vishakhapatnam that commenced commercial production in April 2008.

BUY - Target Price Rs.950

- **Numeric Power Systems (NPSL).** We expect steady growth in the revenues and profitability of NPSL due to better demand for the products of the company. Also, we expect increased contribution from the high margin services business of the company.

BUY - Target Price Rs.90

- **Petronet LNG (PLNG).** We expect PLNG to report flattish numbers as it is already operating at more than 100% capacity utilization levels. The next leg of growth would come once capacity expands from 5 MMTPA to 10 MMTPA by February 2008.

BUY - Target Price Rs.350

- **Riddhi Siddhi Gluco Biols (RSGB).** We expect RSGB to report robust growth in revenues and profitability due to stabilization of the Gokak plant post fire and commencement of operations at its new 500 TPD maize crushing plant at Uttarakhand in May 2008.

BUY - Target Price Rs.335

- **Sunil Hi-tech Engineers (SHEL).** We expect robust growth in the revenues and profitability of SHEL on the back of part execution of its strong order book of Rs.13.7 bn. However operating margins are expected to be under pressure due to increased component of with material contract which typically have lower operating margins then its traditional work.

Overall outlook

Overall, we continue to remain positive on the midcaps under our coverage. This is primarily due to steady growth in demand, capacity expansions and scalable business models.

Top picks

Our top picks in the midcaps segment are

- Sunil Hitech Engineers
- Nitin Fire Protection
- Riddhi Siddhi Gluco Biols

Q2FY09 estimates: Midcaps

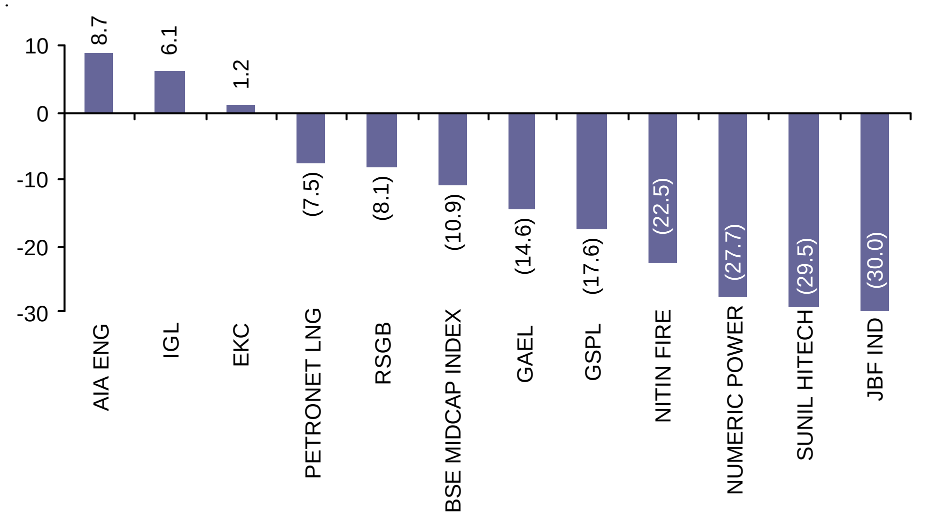
	Revenues (Rs mn)			EBIDTA (%)			PAT (Rs mn)			EPS (Rs)		
	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)	Q2 FY09	Q2 FY08	YoY (%)
AIA Engineering	2,150	1,616	33.0	24.9	22.4	11.2	420	273	54.1	22.3	14.5	54.1
Everest Kanto Cylinder*	2,010	1,277	57.4	29.1	31.0	(6.1)	360	284	26.8	3.4	2.7	26.8
Gujarat Ambuja Export*	4,510	3,749	20.3	10.0	10.2	(2.0)	210	186	13.0	1.5	1.3	13.0
GSPL	1,225	954	28.5	89.1	84.9	4.9	320	163	96.6	0.6	0.3	96.6
Indraprastha Gas	1,990	1,741	14.3	39.1	43.1	(9.3)	450	429	5.0	3.2	3.1	5.0
JBF Industries	11,500	5,317	116.3	10.9	14.0	(22.1)	410	409	0.3	5.4	5.4	0.3
Nitin Fire Protection	720	347	107.7	21.5	19.8	8.6	140	59	136.4	11.1	4.7	136.4
Numeric Power	1,090	1,017	7.2	13.1	13.4	(2.2)	110	106	3.6	21.8	21.0	3.6
Petronet LNG	16,750	16,705	0.3	11.9	12.8	(7.2)	1110	1155	(3.9)	1.5	1.5	(3.9)
Riddhi Siddhi Gluco	1,210	600	101.6	17.2	16.9	1.8	85	41	109.4	7.7	3.7	109.4
Sunil Hitech	1,310	695	88.6	14.1	16.3	(13.5)	75	52	43.1	4.7	3.3	43.1

*Source: Companies, Kotak Securities - Private Client Research; * FV Rs. 2*

	Reco	CMP (Rs)	Target (Rs)	Upside (%)	Diluted Shares (mn)	Mkt Cap (Rs bn)	EPS (Rs) FY08	EPS (Rs) FY09E	PE (x) FY08	PE (x) FY09E
AIA Engineering	BUY	1098	1870	70.3	18.8	20.6	70.9	98.1	15.5	11.2
Everest Kanto Cylinder*	BUY	226	360	59.3	105.7	23.9	9.9	14.0	22.8	16.1
Gujarat Ambuja Export*	BUY	28	70	150.0	139.3	3.9	5.6	7.0	5.0	4.0
GSPL	BUY	39	60	53.8	561.0	21.9	1.8	2.8	21.7	13.9
Indraprastha Gas	BUY	109	150	37.6	140.0	15.3	12.5	13.6	8.7	8.0
JBF Industries	BUY	55	150	172.7	75.6	4.2	16.1	23.5	3.4	2.3
Nitin Fire Protection	BUY	193	500	159.1	12.6	2.4	15.4	36.9	12.5	5.2
Numeric Power	BUY	377	950	152.0	5.1	1.9	83.9	98.1	4.5	3.8
Petronet LNG	BUY	41	90	119.5	750.0	30.8	6.3	6.7	6.5	6.1
Riddhi Siddhi Gluco	BUY	190	350	84.2	11.1	2.1	17.9	43.1	10.6	4.4
Sunil Hitech	BUY	94	335	256.4	16.3	1.5	17.1	21.8	5.5	4.3

Source: Companies, Kotak Securities - Private Client Research

Price performance over Q2FY09



Source: Kotak Securities - Private Client Research

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: MEDIA

The current turmoil in global financial markets is expected to add to a strained macro-environment and likely reflect in lower than recent growth rates, for the domestic economy and corporate profits.

We retain our view that a slowing economy will throw up medium term challenges for domestic M&E stocks given the high co-relation between economic growth trends and advertising revenue growth. Indian M&E businesses are skewed towards advertising revenues, despite the recent traction in the subscription revenues, especially for TV broadcasters.

We stick to our neutral outlook on the sector and reiterate our preference for market leaders and strong franchises in a market that will test the resilience of business models given the expected slowing in ad revenues, market fragmentation, segmental competition and elevated cost structures. We see segmental consolidation, lower valuations and tougher times for marginal/newer players as likely fall-outs of these medium term challenges.

Leading regional franchises like Zee News, JPL are select bets in the run-up to the ensuing quarterly results. We expect ZEEL to also report strong numbers in the near term; high competitive intensity for its flagship Hindi GEC and a challenging macro however inhibit a rating upgrade.

Sharp slowdown in ad spends in the backdrop of a slowing economy and corporate profits, sustained elevated RM prices and excessive competition remain key risks for the sector.

For the Q2 of FY09 we expect revenue growth to remain healthy and are looking at a c27% YoY growth across our coverage universe. Within segments, we expect revenue growth from TV broadcasting (ZEEL, ZNL) and movie production (UTV) to outpace the coverage universe. Still-intact ad spend trends for TV broadcasting, positioning of the respective bouquets and strong traction in the pay revenue stream are expected to support revenue growth for ZEEL and ZNL.

Print stocks (HT, JPL and DCHL) are expected to lag the average coverage growth and report revenue growth of between 14-22% YoY. These YoY growth rates will however be better than those reported in Q1FY09. The key risks for print stocks remain elevated NP prices and a depreciated INR for print companies in addition to a slowdown in ad spend trends. JPL is our only pick in print given our optimism on regional ad spend trends in the longer term versus a saturated print market in the metros.

Radio (ENIL) will likely post 16-17% YoY growth in radio revenues; growth while better than the seasonally lean Q1 will be lower than what the private FM industry is growing at (>35%). This, in our opinion reflects the impact of competition on the market leader - ENIL. Recent rate hikes (15-20%) announced by ENIL while being positive will need to be watched for actual client acceptance given the cloudy macro at this point. Competitive positioning of ENIL and a coordinated rate hike by the leading players though are positives. ENIL's OoH business remains in investment mode and hampered by the delays in the DIAL property. We expect this to remain a drag on consolidated financials and a headwind for the stock.

Content players like BTL are expected to see tepid growth given the transition stage, post the disengagement with Star. While the longer term preference for content in the broadcasting value chain remain intact we reiterate FY09 to be a challenging year for BTL as it copes with lower realizations in an effort to grow non-Star programming volumes. Cash on books (Rs.35 per share), reasonable dividend yield and cheap valuations (<10x FY09EPS) are levers to provide downside support.

Strong multiplex player (PVR) is expected to see better revenue growth of c18-20% aided by a better release pipeline and better occupancies. Within multiplexes though we believe the key risk will be handover of properties from real estate developers. PVR has strong brand salience/positioning, selective and well funded expansion plans counter the medium term macro headwinds.

Margins- pain for print, TV broadcasting to improve... Investments in new businesses, competition and elevated input prices to impact

For our coverage universe we expect average EBITDA margins at 26.6% down nearly 360bps YoY. The prime contributor for this being the expected margin contraction for print stocks and BTL. The reasons being elevated NP prices, investments towards new businesses and segmental competition- issues we have dealt in detail with in earlier notes.

As a result, the coverage universe is expected to report 12-13% YoY EBITDA growth, lower than the c25% revenue growth. The outliers for this data however are UTV's financials that are not comparable given its acquisitions and also the change in its accounting policy in the movies segment.

Profit growth is expected to be strongest on a YoY basis for ZEEL, ZNL and JPL. We expect the TV broadcasters in our coverage to benefit from healthy ad revenue growth and grow profitability as the pay revenue stream for their strongly positioned bouquets also gains traction.

Recommendation- stick to market leaders, strong franchises and healthy balance sheets. Marginal players likely to see maximum damage across segments in a challenging macro, in our view.

Our preference for investments in the media sector has consistently been to back market leaders in their respective segments. We stick to that thesis-Zee News (TV broadcasting) and JPL (print) are our select bets at this point; we expect ZEEL also to deliver good numbers for the quarter.

For ZEEL we believe increased competitive intensity for its flagship Hindi GEC, its ability to defend its positioning and the evolving macro are medium term variables to monitor closely. The same inhibit a rating upgrade from our end for ZEEL (ACCUMULATE: PT Rs.252). ZNL (BUY, PT Rs.59) we believe operates in a strong niche-regional news and GEC; it enjoys strong positioning for its bouquet, a healthy balance sheet and has displayed reasonable amount of financial discipline. These, in addition to the strong near term growth and reasonable stock valuations make us positive on the ZNL stock.

We also remain circumspect about the broadcasting space (more specifically new GEC entrants like 9X, NDTV, Network 18) given the expected channel influx and resultant over competition, cash burn due to new launches and the tepid pick up in subscription revenues for the new players.

Slippages in economic growth momentum, segmental over-competition and sustained elevated NP prices will remain the key industry risks in our opinion.

Things to look for...

We will look for management comments on the pricing power of media companies (impact of competition) and their expectations on the outlook for advertising revenues in the print, radio and broadcasting segments. This will be vital given the high co-relation that exists between industry growth rates and the overall economic growth momentum, in our opinion.

We will keenly await details and industry outlook on newsprint pricing for print companies; which have been on an uptrend in CY08. The increase in NP prices has been given the closure/consolidation of capacities in North America and also the boom in Indian print media publications that has led to higher domestic demand. We had built for this in our forecasts much ahead of street consensus doing so and now concur with industry on a possible softening only in CY09.

Management comments on the evolving CAS scenario and their outlook on the traction in the subscription revenue stream will also be of interest to us.

Execution schedules of multiplex players will be watched as players have experienced delays in bringing new screens on line due to mall availability and/or regulatory reasons.

Q2FY09 expectations

	Revenue (Rs mn)					EBITDA (%)			PAT (Rs mn)				
	Q2FY09E	Q2FY08	YoY (%)	Q1FY09	QoQ (%)	Q2FY09E	Q2FY08	Q1FY09	Q2FY09E	Q2FY08	YoY (%)	Q1FY09	QoQ (%)
Balaji Telefilms	860	780	10.3	916	(6.1)	32.5	42.4	34.7	210	263	(20.1)	223	(5.7)
Deccan Chronicle	2,310	1,878	23.0	1,935	19.4	48.0	62.7	48.7	680	826	(17.7)	610	11.5
ENIL*	620	532	16.7	571	8.6	22.0	15.4	18.0	20	6	214.6	1	2,953.4
HT Media*	3,200	2,810	13.9	3,247	(1.4)	16.5	17.3	20.4	280	319	(12.3)	377	(25.8)
Jagran Prakashan	2,140	1,772	20.8	2,065	3.6	20.4	22.0	24.1	255	220	15.8	317	(19.5)
PVR	740	619	19.5	602	22.9	17.0	20.6	16.1	65	63	3.8	39	67.7
UTV Software*	1,400	713	96.4	1,358	3.1	15.0	24.7	12.2	200	130	54.4	199	0.7
ZEEL	5,250	3,986	31.7	5,420	(3.1)	31.2	33.1	26.6	1,150	925	24.3	1,034	11.3
Zee News	1,080	776	39.2	1,096	(1.5)	14.5	13.4	16.0	88	56	56.0	95.5	-7.9

*Source: Company, Kotak Securities - Private Client Research; * Standalone financials*

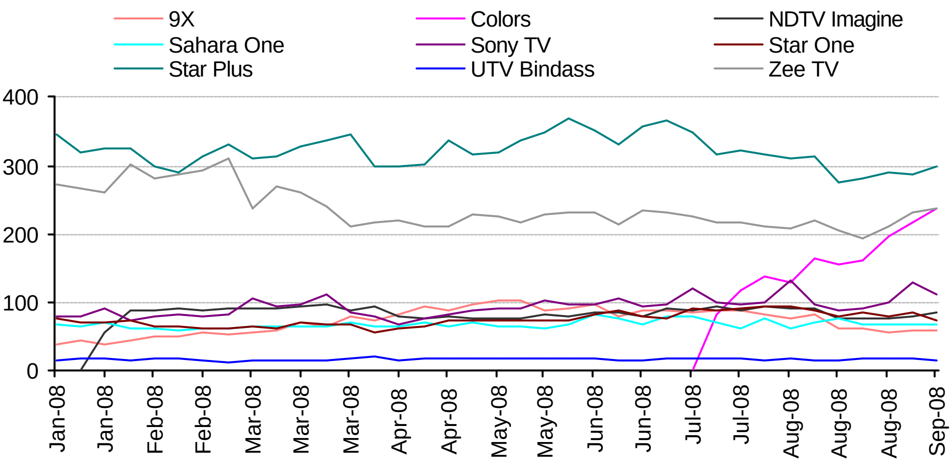
Valuations, coverage universe, media

Company	EPS (Rs)			P/E (x)			P/BV	P/BV	RoCE	RoCE	EPS CAGR	Current
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY08-10E	Price
Balaji Telefilms	13.9	15.7	17.7	9.0	8.0	7.1	1.8	1.5	36.2	34.3	12.8%	125
DCHL	11.0	11.6	-	6.2	5.9	-	1.3	-	24.0	-	29.5%	68
ENIL	-	8.4	16.3	-	24.9	12.9	2.1	1.8	7.7	13.5	-	210
HT Media	6.2	6.7	7.8	15.6	14.3	12.3	2.1	1.8	21.1	22.3	12.7%	96
Jagran Prakashan	3.1	3.8	4.6	21.0	17.4	14.3	3.3	2.8	26.7	29.1	21.0%	66
PVR	8.9	11.5	14.9	12.8	9.9	7.7	1.2	1.0	14.2	16.7	29.1%	114
UTV	14.5	20.2	34.4	47.5	34.1	20.0	1.5	1.4	7.4	8.6	54.0%	690
ZEEL	8.8	10.4	12.8	20.0	17.0	13.9	2.4	2.1	22.3	23.8	20.2%	177
Zee News	1.5	2.2	3.2	22.8	15.8	10.8	3.4	2.7	23.6	28.2	44.9%	35.2

Source: Kotak Securities - Private Client Research

Competitive intensity rises in Hindi, GEC, Colors is now joint No.2

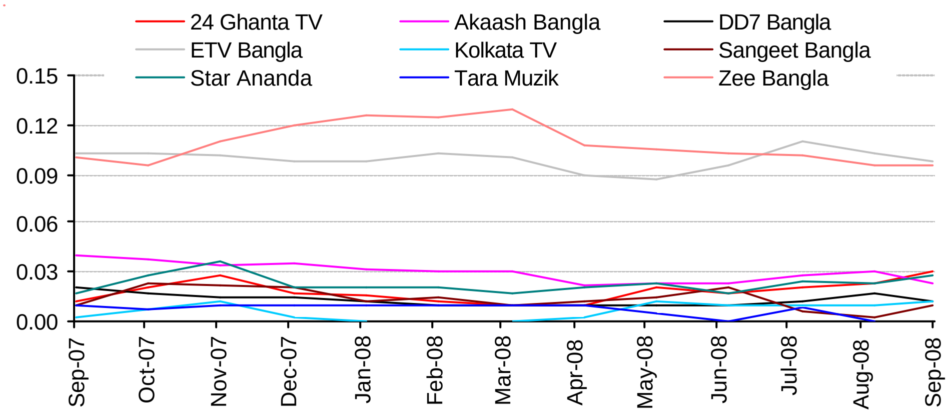
Zee TV has company, Colors makes it to No.2 in Hindi GEC, GRPs



Source: TAM data

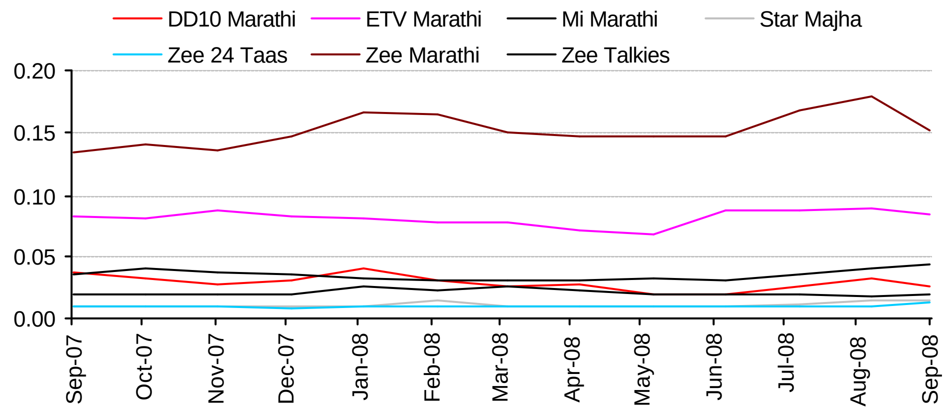
ZNL's Bangla and Marathi remain market leaders

ZNL's flagship regional offerings- Bangla, Marathi remain market leaders



Source: Company

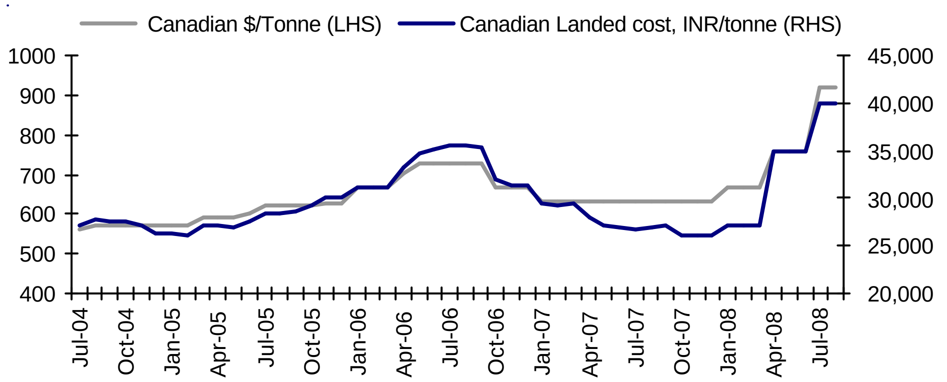
ZNL's flagship regional offerings- Bangla, Marathi remain market leaders



Source: Company

Newsprint prices (c35-40% of revenues) have remained firm, and are a headwind for print stocks

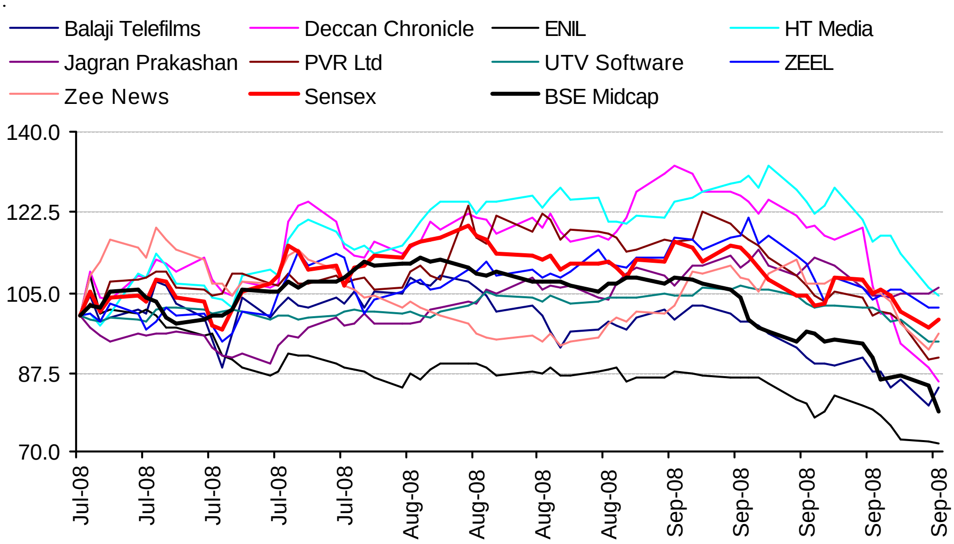
Elevated NP prices remain key headwind for print stocks



Source: CRIS INFAC

Most stocks have outperformed BSE - Mid cap, on a relative basis while losing value in absolute terms amidst weak broader markets during Q2FY09

Relative performance of media stocks v/s the BSE Midcap & Sensex indices, Q2FY09



Source: Bloomberg

RESULTS PREVIEW

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QUARTERLY RESULTS PREVIEW: NBFCs

Non-Banking financial services companies reported a healthy growth during Q1FY09 results. Housing finance companies continued to witness strong growth in mortgaged loan and profitability. However, certain infrastructure financing companies indicated a relatively slower business growth on the back of unfavorable macro-economic environment and higher interest rate.

We expect the business growth to remain buoyant during the current financials year and alike for the Q2FY09. However, the increase in cost of funds has raised a question on the feasibility of new infrastructure projects this may lead to delay in financial closure of key projects.

Top Picks: HDFC, LIC Housing, IDFC.

We are of the view that these concerns are largely factored in the stock prices. Despite the short term hiccups and global liquidity issues, we continue to believe that the long-term outlook for financial service companies remains positive. This is attributable to the huge investment requirement of the US$500bn during the eleventh five year plan towards infrastructure development over 2007-2012

Housing Finance Companies

HDFC

- We expect a strong growth trend to continue in HDFCs mortgage loan book. We expect a ~26% growth in HDFCs loan book during Q1FY09.
- Net margins are expected to remain stable, as HDFC has revised its lending rate by 125bps.Since ~90% of its loan book is on floating rate, it had successfully passed on the increase in cost of funds to its borrowers.
- Asset quality will continue to remain healthy.
- The other income component which included the realizations from sale of stake in Intelenet during Q2FY08 amounting to Rs 3132.5mn (net of taxes @ 23%) has been adjusted in our workings.
- We expect a 28% growth in Net profit to Rs 5.18bn as compared to Rs 4.04bn in Q2FY08. EPS for the period is estimated at Rs. 18.2 (Rs. 14.9- excluding ex-traordinary income)

LIC Housing Finance

- Mortgaged loan growth to remain buoyant, we expect a ~25% growth.
- Net Interest Margin (NIMs) are expect to remain stable; we expect the net spread at 1.7%.
- We expect Asset quality to improve further, this largely on the back of improved recoveries.
- Net Interest Income (NII) is expected to grow by 14% yoy to Rs 2.0bn. Net profit of the HFC is expected to grow by 4% yoy to Rs1.2bn. We expect an EPS of Rs 14.2 (Rs.13.7) for LICHF.

Infrastructure Financing Companies

IDFC

- IDFC would continue to demonstrated moderation in its business growth as hinted during the Q1FY09 results. We expect a ~35% growth in its infrastructure financing loan book.
- Interest margins in the core infrastructure financing business are like to remain firm, following its shift to improving spreads than higher business growth.
- In the wake of unfavorable capital market conditions, IDFC's non-fund based income is expected to demonstrate de-growth during Q2FY09.
- We expect a Net profit growth of ~15% yoy (consolidated basis) for Q2FY09 to Rs 2.27bn. We expect an EPS of Rs.1.74 (consolidated) as compared to Rs.1.73 in Q2FY08.

SREI

- Buoyancy in disbursements is likely to continue, we expect a 35% yoy growth in disbursements (on consolidated basis).
- The tax payout ratio would be 33%.
- MTM provision on forex borrowing outstanding to the tune of US $50mn would impact company's profitability.
- We expect a 13% yoy degrowth in SREI's net profit to Rs 261mn (Rs. 345mn). We expect and EPS of Rs 2.5 (Rs.2.97).

PFC

- Strong disbursement growth to continue given the robust sanction book. We expect a ~23% growth in PFC's overall loan book.
- Net margins of the NBFC are expected to remain firm during Q2FY09 at ~3.8%. Core interest income (NII) is expected to grow by 22% to Rs. 5.44bn.
- Higher MTM translation loss is expected to hit the bottomline. We expect a muted growth in profitability for PFC. We expect a net profit of Rs 3.03bn, up by 7.3% yoy. EPS for Q2FY09 is estimated at Rs.2.6 (Rs. 2.5).

Top Picks: HDFC, LIC Housing, IDFC.

Results preview

	Target	NII					PAT					EPS (Rs)	
(Rs mn)	price	Q2FY08	Q1FY09	Q2FY09E	QoQ (%)	YoY (%)	Q2FY08	Q1FY09	Q2FY09E	QoQ (%)	YoY (%)	Q2FY08	Q2FY09E
HDFC *	2861	6687	7501	8029	7	20	4044	4680	5178	11	28	14.9	18.2
LICHF	377	1768	1789	2008	12	14	1164	1046	1206	15	4	13.7	14.2
IDFC#	103	3245	3820	3926	3	21	1977	2186	2273	4	15	1.7	1.7
PFC	185	4470	5139	5443	6	22	2820	2967	3027	2	7	2.6	2.5
SREI Infra (cons)	140	623	1010	899	-11	44	345.6	288.8	261	-10	-24	3.0	2.5

Source: Companies, Kotak Securities - Private Client Research

* Adjusted for extraordinary gains on stake of stake in Intelenet for Rs 3.13bn

Potential Equity dilution not factored in our earning estimates

RESULTS PREVIEW

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Q2FY09 RESULTS PREVIEW: BANKING SECTOR

Outlook: Positive

- **Banking sector under our coverage universe is expected to register NII growth of 21.1% YoY (private sector banks 32.5% and PSB 14.6%)**
- **Pre-provisioning profit growth of 18.1% YoY for banking stocks under our coverage universe (private sector banks 29% and PSB 11.9%).**
- **Net income growth of 10.5% YoY for companies under our coverage with 21% YoY growth for private sector banks as against 4.6% YoY growth for public sector banks.**
- **Top Picks: Axis Bank, BOB, Indian Bank, PNB, Union Bank**

Healthy earnings growth

Top Picks: Axis Bank, BOB, Indian Bank, PNB, Union Bank

Banking sector under our coverage universe is expected to register NII growth of 21.1% on back of around 25% YoY expected credit growth. Private sector banks under our coverage are expected to display robust NII growth of 32.5% YoY driven by both strong credit growth and margin improvement. Public sector banks under our coverage are expected to witness NII growth of 14.6%.

We expect net income growth of 10.5% YoY for the sector as a whole (companies under our coverage) largely driven by 21% YoY growth in net income for private sector banks as against 4.6% YoY growth for public sector banks under our coverage universe.

Strong business growth

Business growth continues to be strong for the banking sector as a whole. Credit offtake has been robust on back of strong demand from Oil marketing companies (OMC) and fertilizer companies for their working capital requirements. Bank credit grew at around 25.6% YoY & 6.1% YTD (reported for fortnight ending on 12 September, 2008) as compared to 22.1% YoY in FY08. Similarly, deposit grew at 22.5% YoY & 6.7% YTD (reported for fortnight ending on 12 September, 2008) on back of strong growth in time deposits.

Trend in business growth

(Rs Bn)	12-Sep-08	28-Mar-08	YTD (%)	14-Sep-07	YOY (%)
Aggregate Deposits	**34,054**	**31,921**	**6.7**	**27,789**	**22.5**
Demand Deposits	4,684	5,167	-9.4	3,959	18.3
Time Deposits	29,370	26,754	9.8	23,830	23.2
Bank Credit	**24,912**	**23,485**	**6.1**	**19,838**	**25.6**
Non-food credit	24,461	23,041	6.2	19,457	25.7
Incremental C/D ratio (YOY %)	81.0	70.0		74.2	
C/D Ratio (%)	73.2	73.6		71.4	

Source: RBI

The C/D ratio is expected to be stable around 73% during Q2FY09. It stood at 73.2% for the fortnight ending on 12 September, 2008 as against 71.4% for the fortnight ending on 14 September, 2007.

Breakup of deposits

(Rs Bn)	12-Sep-08	Share (%)	28-Mar-08	Share (%)	31-Mar-07	Share (%)
Demand Deposits	4,684	13.75	5,167	16.19	4,231	16.31
Time Deposits	29,370	86.25	26,754	83.81	21,711	83.69
Total Deposits	34,054		31,921		25,943	

Source: Company

Improvement in margins sequentially

Most of Indian banks are likely to witness improvement in their yield on advances in the Q2FY09 due to hike in their PLRs by 75-150 bps. Although banks have also increased their deposit rates, margins are likely to improve sequentially or remain stable depending on the extent of hike in deposit rate as well the quality of liability franchise. Improvement in yield on advances is likely to be higher than the rise in cost of deposits as loans are reprised faster than the deposits.

However, we believe that re-pricing of deposits come with a lag leading to contraction in the margins of the banks in 2HFY09.

Write-back of MTM provisions to be limited

The yield on 10-year government bonds closed slightly lower at 8.65% (FIMMDA) compared to 8.69% at the end of Q1FY09. This would result into limited write-back of provisions done in the Q1FY09. However, rise in spread on corporate bonds during Q2FY09 is likely to increase provisions on corporate bond portfolio.

Asset quality to deteriorate

Lending rates in the last two years have gone up 400-600 bps, which along with economic slowdown translating into some kind of pressure on the corporate profitability might lead to deterioration in asset quality. In our view, after retail segment, SME credit portfolio could be the next to come under scanner for asset quality check. Higher NPLs would therefore require higher provisioning requirement, thereby depressing the overall profitability.

We will keep a close watch on asset quality trends in the coming quarters as with hardening of interest rate in the recent times along with economic slowdown might reverse the asset quality cycle. Higher delinquencies and resultant increase in NPA provisioning can act as a negative surprise for Q2FY09 earnings.

Pre-provisioning profit to be healthy

Moderate growth in operating expenses along with healthy growth in net revenue (Net Interest Income plus other income) would translate into pre-provision profit growth of 18.1% YoY for banking stocks under our coverage universe. Private sector banks under our coverage are likely to show better results as compared to public sector banks under our coverage (Private: 29%, PSB: 11.9%).

Results preview

Banks	Net Interest Income (mn)			Pre-Provisioning Profit (mn)			Net Income (mn)		
	Q2FY09	Q2FY08	YoY (%)	Q2FY09	Q2FY08	YoY (%)	Q2FY09	Q2FY08	YoY (%)
Allahabad Bank	5,063.0	4,418.4	14.6	3,246.2	2,995.6	8.4	2,029.0	2,397.9	-15.4
Andhra Bank	3,438.3	3,447.3	-0.3	1,932.9	2,321.9	-16.8	1,245.0	1,512.1	-17.7
Axis Bank	8,256.4	5,886.7	40.3	6,857.0	4,628.6	48.1	3,325.1	2,278.2	46.0
BOB	10,997.9	9,814.4	12.1	7,491.2	6,372.4	17.6	4,094.2	3,271.9	25.1
HDFC Bank	17,580.5	11,626.8	51.2	11,352.6	8,266.8	37.3	5,065.4	3,684.8	37.5
ICICI Bank	21,183.4	17,860.0	18.6	19,950.8	18,871.4	5.7	9,715.4	10,026.0	-3.1
Indian Bank	5,486.3	4,657.0	17.8	4,136.5	3,434.4	20.4	2,614.3	2,476.0	5.6
IOB	7,128.3	6,321.5	12.8	4,812.1	4,580.3	5.1	3,081.2	3,197.0	-3.6
J&K Bank	2,340.7	1,951.2	20.0	1,871.1	1,498.0	24.9	1,116.9	1,078.0	3.6
PNB	15,336.9	12,914.5	18.8	10,723.2	8,549.8	25.4	6,162.8	5,384.8	14.4
Union Bank	8,031.8	6,358.1	26.3	6,495.7	5,283.3	22.9	3,408.7	2,757.8	23.6
Total	104,844	85,256	21.1	78,869	66,803	18.1	41,858	38,065	10.5
PSB	55,483	47,931	14.6	38,838	33,538	11.9	22,635	20,998	4.6
Private	49,361	37,325	32.5	40,032	33,265	29.0	19,223	17,067	21.0

Source: Company, Kotak Securities - Private Client Research

We maintain our long-term positive stance on the banking sector, as we believe that we are almost at the peak of interest rate cycle along with its healthy business growth. The headline inflation (WPI) is expected to come below double-digit levels only by January 2008 and around 6% levels by June 2009. So, we can expect start of southward movement of interest rate by the end of FY09. Apart from this, around 20% of credit growth (according to our expectations) during FY09 on a high base would be very healthy for the banking sector, in our view. Moreover, banks that would focus more on quality rather than quantity of assets and have a strong resource base are expected to outperform their peers.

Top Picks: Axis Bank, BOB, Indian Bank, PNB, Union Bank

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
8-Oct	20 Microns	Taib Sec Mauritius Ltd	S	100,000	27.71
8-Oct	Action Fin	Rita Goradia	S	96,000	11.02
8-Oct	Asian Oilfie	Consolidated Securities Ltd	B	75,000	56.69
8-Oct	Bajaj Auto F	JPMSL Ac Copthall Mauritius Inv	B	1,179,673	97.00
8-Oct	Brushman Ind	Nendej Tieup Private Limited	B	350,000	88.20
8-Oct	Brushman Ind	Aristro Financial Services Ltd	B	350,000	88.20
8-Oct	Brushman Ind	Prachi Agencies Pvt Ltd	S	700,000	88.20
8-Oct	G.S. Auto	Spjstock	S	39,376	70.73
8-Oct	Goldston Tec	Masumi Overseas Pvt Ltd	B	100,000	108.21
8-Oct	Goldston Tec	Gopal Prakash Kane	S	100,000	105.97
8-Oct	Hindus Dor O	Mavi Investment Fund Ltd	B	530,000	60.00
8-Oct	Jaiprak Asso	JPMSL Ac Copthall Mauritius Inv	B	16,400,000	94.25
8-Oct	Malu Paper	Kotak Mahindra Investments Ltd	S	128,470	12.82
8-Oct	Pfl Infotech	Nilesh Chandrakant Shah	B	50,000	10.84
8-Oct	Pritishn Com	Artinvest India Pvt. Ltd.	B	102,513	21.96
8-Oct	Pritishn Com	Associated Capsules Pvt Ltd	S	99,800	22.00
8-Oct	Shyam Soft I	Rajesh K Goda	S	60,000	4.70
8-Oct	Silver Anima	JP Morgan Chase Bank Na	S	75,416	10.14
8-Oct	Soma Tex Ind	Alka India Limited	B	403,005	30.00
8-Oct	Tel Eighteen	Copthall Mauritius Investment Ltd	B	1,122,502	150.00
8-Oct	Tel Eighteen	Merrill Lynch Cap Mkts Espana S.A. S.V.	S	1,122,502	150.00
8-Oct	Unitd Spr	JPMSL Ac Copthall Mauritius Inv	B	1,352,914	1,077.00
8-Oct	Unitd Spr	Deutsche Securities Mauritius	S	1,361,414	1,076.29
8-Oct	Visesh Infot	Aristro Financial Services Ltd	B	400,000	8.40
8-Oct	Visesh Infot	Ivory Consultants Pvt Ltd.	S	395,074	8.40

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
National Aluminium	378	4.6	1.8	0.6
DLF	309	1.9	1.6	6.8
Tata power	808	5.3	1.5	1.2
Losers				
SBI	1,318	(6.3)	(9.1)	3.7
ONGC	964	(2.4)	(8.3)	2.9
Reliance Ind	1,649	(1.6)	(6.2)	7.7

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
10-Oct	Infosys Technologies, Mastek, Motilal Oswal Financial Services earnings expected
13-Oct	Axis Bank, BASF India earnings expected
14-Oct	NDTV, Jubilant Organosys earning expected
15-Oct	L&T, CMC Ltd, HCL Tech, Concor earnings expected
16-Oct	HDFC Bank, Mphasis, GTL, NIIT Technologies earnings expected
17-Oct	HDFC, Satyam, India Infoline earnings expected
18-Oct	Chambal Fertilizer, Ultratech Cement, Indian Bank earnings expected
20-Oct	Titan, Canara Bank, Shree Cements, Petronet LNG, Idea Cellular earnings expected

Source: Bloomberg

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