kotak® Institutional Equities

INDIA DAILY

July 17, 2007

EQUITY MARKETS

India	16-Jul	1-day	1-mo	3-mo
		Change, %		
Sensex	15,311	0.3	8.1	12.5
Nifty	4,512	0.2	8.2	13.2
Global/Regional indices				
Dow Jones	13,951	0.3	2.3	9.2
Nasdaq Composite	2,697	(0.4)	2.7	7.2
FTSE	6,698	(0.3)	(0.5)	3.1
Nikkie	18,193	(0.3)	1.2	3.2
Hang Seng	22,956	0.0	9.2	10.4
KOSPI	1,950	(0.7)	10.0	27.5

Value traded - India

	16-Jul		1-mo	3-mo
		Moving avg, Rs bn		
Cash (NSE+BSE)	165.6		154.0	143.9
Derivatives (NSE)	388.8		312.0	294.4
Deri. open interest	849.4		690.3	542.6

Contents

Results

Tata Consultancy Services: Good results amid low expectations will provide near-term upside. Maintain IL rating

Power Finance Corporation: Extra-ordinaries and stable spreads support PAT growth, retain U

Petronet LNG: Strong 1QFY08 results on expected lines; longer-term issues exist

Dish TV: 1QFY08 results in line with expectations; ARPU improves but still too low

Updates

MTNL: 'License fee'—tax refund on expected lines; 'Section 80 IA' tax refund looks more difficult

News Roundup

Corporate

- In its biggest acquisition deal so far, Reliance Communications (RCom) announced it had bought US data communications company Yipes Holdings in an all-cash deal for $300 million (Rs 1,200 crore). The company was acquired from venture capital firms Norwest Venture Partners, controlled by Promod Haque, Crosslink Capital and Sprout Group, and private equity firm JP Morgan Partners. (BS)
- The board of state-owned Bharat Sanchar Nigam Ltd (BSNL) is learnt to have halved its 45.5 million line GSM order and decided to renegotiate the price with Ericsson and Nokia — the two equipment manufacturers who had earlier qualified for the order based on their price bids. the order will be limited to second-generation (2G) lines and a separate tender for third-generation (3G) lines, which offer high-speed Internet access, will be floated later. (BS)
- IT major Infosys Technologies is set to acquire Philips Global's finance and accounts BPO for an assured revenue of $200 million spread over five years. (BS)
- Consumer goods giant Hindustan Unilever Ltd (HUL) has declared a lockout at its factory in Doom Dooma, Assam, effective from July 15. The facility, which manufactures personal products, has close to 800 employees and accounts for 30,000 metric tonnes or about 15 per cent of the company's total production of personal products. (BS)
- Hinduja group's flagship company Ashok Leyland and automotive supplier Siemens VDO Automotive AG, Germany, signed an agreement for a joint venture to design, develop and adapt 'infotronics' products and services for the transportation sector. The equity of the JV Company would be held at a ratio of 50:50 between Ashok Leyland and Siemens VDO. (FE)

Economic and political

- The Prime Minister's Economic Advisory Council today said the country's economy would grow 9% in the current financial year, while inflation would be contained within 4%. (BS)

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

Forex/money market

	16-Jul	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.4	-	(32)	(164)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	(1)	(31)	(17)

Net investment (US$mn)

	13-Jul		MTD	CYTD
FIIs	576		1,759	6,363
MFs	72		112	(216)

Top movers -3mo basis

Best performers	16-Jul	1-day	1-mo	3-mo
		Change, %		
RELIANCE CAPITAL	1,178	(1.2)	15.2	68.5
BALAJI TELEFILMS L	269	4.6	20.1	67.7
STATE BANK OF INE	1,614	3.8	21.9	60.0
MOSER BAER INDIA	493	(1.7)	16.2	49.5
ABB LTD INDIA	1,112	(1.1)	22.9	49.2
Worst performers				
POLARIS SOFTWARI	149	(0.9)	(6.3)	(21.3)
WIPRO LTD	501	(2.3)	(5.6)	(12.8)
RAYMOND LIMITED	300	0.2	(3.1)	(12.2)
BAJAJ AUTO LIMITE	2,255	3.7	6.9	(11.5)
UNITED PHOSPHORI	305	(2.8)	(2.6)	(10.2)

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Technology

TCS.BO, Rs1128	
Rating	IL
Sector coverage view	Attractive
Target Price (Rs)	1,300
52W High -Low (Rs)	1399 - 867
Market Cap (Rs bn)	1,104

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	186.3	229.6	291.9
Net Profit (Rs bn)	41.3	50.7	60.5
EPS (Rs)	42.2	51.8	61.9
EPS gth	*43.3*	*22.7*	*19.5*
P/E (x)	26.7	21.8	18.2
EV/EBITDA (x)	21.4	17.6	14.1
Div yield (%)	1.0	1.8	2.2

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	81.6	-	-
FIIs	7.1	1.4	(2.8)
MFs	2.0	2.4	(1.8)
UTI	-	-	(4.2)
LIC	1.7	1.8	(2.4)

Tata Consultancy Services: Good results amid low expectations will provide near-term upside. Maintain IL rating

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Revenue growth is robust 8% in US$ for June 2007 quarter**
- **Aggressive cost optimization leaves little margin levers going forward**
- **Net income performance aided by tax write back and forex gains**
- **Stock may provide near term upside against the backdrop of low expectations**

TCS' 1QFY08 operating performance was consistent with our expectations. Revenue growth of 8% qoq (US$ terms) was impressive (our expectation was 7.2% qoq growth); however, EBIT margin decline of 250bps was 30bps higher than our expectations. Net income increased 1.1% qoq to Rs11.86 bn (vs. our expectation of Rs11.15 bn) and was aided by tax write-back of Rs253 mn and forex gains of Rs1.07 bn. The recent run down in the stock along with low expectations heading into the results may provide some near term upsides to the stock. However, over the longer term, we prefer Infosys for faster growth and more levers to manage margins than TCS. We have revised our FY2008 EPS estimate to Rs51.8 from Rs51.83 earlier and FY2009 EPS estimate to Rs61.9 from Rs62.9 earlier. Note that the entire revision is on account of change in rupee to US$ assumption to 40.5 for FY2008 and 40 for FY2009 from 42 earlier. Maintain our In-Line rating on the stock with a Mar '09 DCF based target price of Rs1,300.

Revenue performance is robust: We were positively surprised by the 8% qoq revenue growth (US$ terms) reported by TCS (our expectation was 7.2%). In Re terms, revenues grew 1.1% to Rs52 bn. Volumes grew 7.6% qoq, per capita blended realization improved 60bps, while rupee appreciation had a negative impact of 6.6% on revenue growth (Re terms). Growth was once again driven by top 5 and top 10 relationships (top 10 clients now average US$115 mn+ on a ttm basis). We believe that TCS will likely achieve US$ terms revenue growth of 35%+ for FY2008 (it needs to grow its revenues at a CQGR of 6.2% from 2Q-4QFY08 to achieve that), impressive in our view, off a high base. We forecast a 36.5% revenue growth for TCS in FY2008.

Aggressive cost optimization leaves little margin levers going forward: TCS' operating margins (EBIT) declined 250bps qoq to 23.1% (30 bps lower than our expectation of 23.4%). Margin pressure on account of rupee appreciation (258 bps impact) and wage revisions (208bps impact) was partially mitigated by pricing improvement of 0.6% and aggressive cost optimization. All costs other than employee costs and equipment & software costs declined qoq in absolute terms. Even direct employee costs as a % of revenues were down 200bps on a yoy basis despite wage revisions. We find management of employee cost remarkable given that the company has added over 5000 employees, effected wage revisions and borne extra visa costs during the quarter. We believe that pricing and variable compensation remain the only meaningful levers with TCS to manage margins in FY2008. TCS has guided for stable OPM in FY2008 (including benefits from forward hedges), tough in our view—we build in a 80bps decline in OPM in FY2008.

Net income performance aided by tax write back and forex gains: TCS reported net income of Rs11.86 bn, 6.4% higher than our expectations. Net income outperformance was aided by forex gains Rs1.07 bn (versus our expectation of Rs800 mn) and tax write back of Rs253 mn. Effective tax rate (adjusted for write back) at 13.1% was 250bps lower than the previous quarter The company had forex hedges of US$2.5 bn as at end June 2007 covering net inflows for a period of 12-months.

Foreign currency hedges of US$2.5 bn, unrealized gain of Rs2.4 bn: TCS has Rs2.4 bn of foreign currency gain which are not mark to market and residing in the other comprehensive income line of the balance sheet. This income is for the next 12-months, amount pertaining to the Sep' 07 quarter stands at Rs250 mn. TCS has increased its forex hedges significantly to US$2.5 bn (from US$1.3 bn at the end of the previous quarter), effectively covering the net cash inflow for the next 12-months. The cover has been taken in the form of forward contracts and options in multiple currencies.

Delivering well on its focus areas—key account management and asset leveraged solutions: TCS' client mining metrics showed substantial improvement with an uptick in every client size bucket. The company now has 6 US$100 mn+ and 18 US$50 mn+ accounts as opposed to 3 and 14 at the end of 4QFY07, respectively. Revenues from asset-leveraged solutions grew 16.8% qoq and 107% yoy and now account for 3.3% of the company's revenues. We believe that consistent focus on driving better account mining (leveraging its full-service capabilities) and more non-linearity in the business is critical to counter supply-side challenges and provide some cushion to margins.

Receivables days remain high, attrition rates increase: Receivables days at 93 in June '07 quarter continue to be on the higher side compared to peers. TCS management indicates that it is proactively working to improve collection cycle. TCS' attrition rate increased to 11.5% (13.9% on a quarterly annualized basis), the tenth consecutive quarter of worsening attrition rate. While TCS' attrition levels are still among the lowest in the industry (and impressive for a company its size), the worsening trend is an indicator of the increasing supply side pressure for the industry.

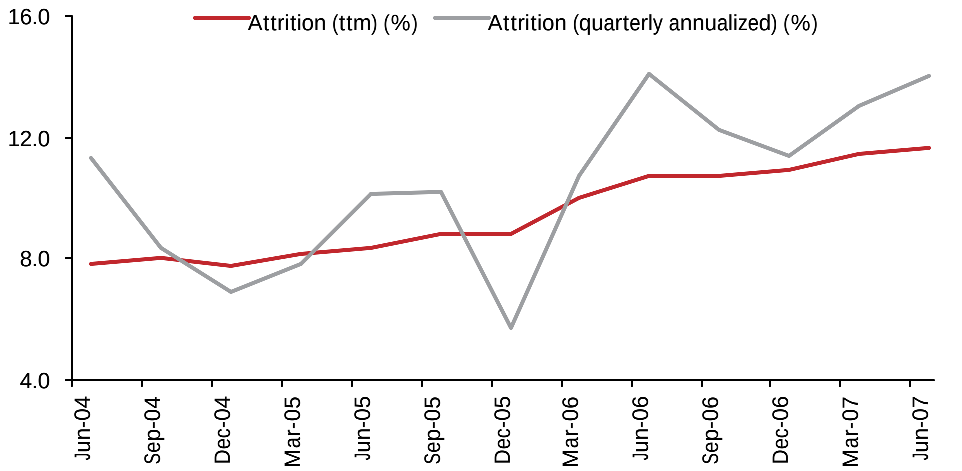
Fine tuning estimates: We revise our FY2008 and FY2009 EPS estimates downwards by 0.1% and 1.7% respectively to Rs51.8 and Rs61.9 from Rs51.83 and Rs62.9 earlier. Change in EPS estimates is driven by—(a) change in our Re/US$ exchange rate assumptions to 40.5 and 40 from 42 for FY2008 and FY2009 earlier (b) change in revenue growth assumptions—we model a 37% and 29% US$-terms revenue growth in FY2008 and FY2009 respectively, up from 34% and 26% earlier. We maintain our In-Line rating on the stock with a Mar '09 DCF based target price of Rs1,300/ share.

TCS' employee cost control has been impressive given wage hikes and increase in visa costs

	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Employee costs (Rs mn)									
COR	11,655	13,080	14,885	16,356	19,026	20,042	21,682	21,907	22,852
SG&A	2,954	3,263	3,311	3,484	4,115	4,557	4,859	5,328	6,109
Total	14,609	16,343	18,196	19,840	23,141	24,599	26,541	27,235	28,961
As % of revenues (%)									
COR	40.0	41.4	43.1	43.9	**45.9**	44.7	44.6	42.6	**43.9**
SG&A	10.1	10.3	9.6	9.4	**9.9**	10.2	10.0	10.4	**11.7**
Total	50.2	51.8	52.7	53.3	**55.8**	54.9	54.6	52.9	**55.7**

Source: Company, Kotak Institutional Equities

TCS' attrition rate has been worsening for the past few quarters



Source: Company, Kotak Institutional Equities estimates

Key changes in FY2008-10 estimates

	New			Old			Change (%)		
Rs mn	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues	**229,635**	**291,925**	**367,528**	**233,171**	**294,402**	**350,852**	**(1.5)**	**(0.8)**	**4.8**
EBITDA	60,757	74,377	90,314	62,174	76,391	88,785	(2.3)	(2.6)	1.7
Depreciation	(5,391)	(6,263)	(7,423)	(5,048)	(6,033)	(7,293)	6.8	3.8	1.8
EBIT	55,366	68,114	82,891	57,126	70,358	81,492	(3.1)	(3.2)	1.7
Net Profit	**50,675**	**60,538**	**68,739**	**50,740**	**61,554**	**66,741**	**(0.1)**	**(1.7)**	**3.0**
EPS (Rs/ share)	**51.8**	**61.9**	**70.2**	**51.8**	**62.9**	**68.2**	**(0.1)**	**(1.7)**	**3.0**
Revenues (US$ mn)	**5,665**	**7,296**	**9,186**	**5,558**	**7,004**	**8,552**	**1.9**	**4.2**	**7.4**
Re/$ rate	**40.5**	**40.0**	**40.0**	**42.0**	**42.0**	**41.0**	**(3.4)**	**(4.8)**	**(2.5)**
EBIT margin	**24.1**	**23.3**	**22.6**	**24.5**	**23.9**	**23.2**			

Source: Kotak Institutional Equities estimates.

Comments: TCS Interim Results (consolidated, US GAAP)

Rs mn	1QFY07	4QFY07	1QFY08	% chg. qoq	% chg. yoy	Deviation from Kotak estimates 1QFY08	Deviation from Kotak estimates % chg.	Comments
Revenues	**41,443**	**51,464**	**52,028**	**1.1**	**25.5**	**51,456**	**1.1**	Revenues grew 8% in US$ terms, higher than our expectations of 7.2%. Driven by 7.6% volume growth in international business, which grew 8.5% in US$ terms. Domestic business declined 3.5% qoq to Rs46.63 bn.
Cost of revenues	(24,000)	(28,144)	(29,077)	3.3	21.2	(29,460)	(1.3)	
Gross profit	**17,443**	**23,320**	**22,951**	**(1.6)**	**31.6**	**21,995**	**4.3**	
SG&A expenses	(8,179)	(10,147)	(10,952)	7.9	33.9	(9,950)	10.1	
EBIT	**9,265**	**13,173**	**11,999**	**(8.9)**	**29.5**	**12,045**	**(0.4)**	EBIT margin declined 250bps qoq to 23.1% driven by (a) rupee appreciation of 6.4% (b) wage revisions (c) higher visa costs and (d) increase in SG&A expenses (130bps). Margin performance impressive in the wake of multiple headwinds
Other Income	668	898	1,516	68.9	127	1,338	13.3	Other income includes forex gains of Rs1.07 bn as against forex gains of Rs578 mn in the previous quarter (our expectation was Rs800 mn)
Profit Before Tax	9,932	14,070	13,516	(3.9)	36.1	13,383	1.0	
Provision for Tax	(1,238)	(2,188)	(1,776)	(18.8)	43.5	(2,121)	(16.3)	Adjusted for tax write back of Rs253 mn. Adjusted tax rate of 13.1% lower than our estimated 15.8% (15.5% in the previous quarter)
Net income before minority	**8,695**	**11,882**	**11,740**	**(1.2)**	**35.0**	**11,262**	**4.2**	
Income from affiliates	16	4	2	(32.8)		1	140	
Minority Interest	(85)	(158)	(140)	(11.5)	65.6	(117)	19.2	
Net income	**8,626**	**11,728**	**11,602**	**(1.1)**	**34.5**	**11,146**	**4.1**	Net income growth marginally ahead of our expectations on account of higher other income and lower than expected taxes
Extraordinary items	-	-	253			-		Tax write back of Rs253 mn.
Net income	**8,626**	**11,728**	**11,855**	**1.1**	**37.4**	**11,146**	**6.4**	
EPS (Rs/ share)	8.8	12.0	11.9	(1.1)	34.5	11.4	4.1	
No of shares outstanding (mn)	978.6	978.6	978.6	-	-	978.6	-	
As % of revenues								
Gross Profit Margin (%)	42.1	45.3	44.1			42.7		
Operating Margin (EBIT)	22.4	25.6	23.1			23.4		
EBITDA (%)	24.4	28.4	25.5			25.8		EBITDA margin performance (increase of 110bps yoy) impressive, though qoq decline higher than our expectations
SG&A Expenses (%)	19.7	19.7	21.0			19.3		
Tax Rate	12.5	15.6	13.1			15.8		
Revenue Mix (%)								
Onsite	58.7	54.1	54.8					
Offshore	41.3	45.9	45.2					
Revenues (Rs mn)								
Onsite	21,754	25,228	25,956	2.9	19.3			
Offshore	15,305	21,404	21,409	0.0	39.9			
International Revenues	**37,059**	**46,632**	**47,365**	**1.6**	**27.8**			
Domestic Revenues	4,384	4,832	4,663	(3.5)	6.4			

Source: Company, Kotak Institutional Equities

TCS: Consolidated Income Statement (US GAAP), Rs mn

Rs mn	2006	2007	2008E	2009E	2010E
Revenues	**132,455**	**186,332**	**229,635**	**291,925**	**367,528**
Cost of revenues	(71,720)	(104,126)	(126,727)	(163,170)	(207,459)
Gross profit	**60,735**	**82,206**	**102,908**	**128,755**	**160,069**
Selling, marketing, general & administrative expenses	(26,422)	(35,329)	(47,542)	(60,641)	(77,178)
Research and development	(419)	(433)			
EBIT (before amortization)	**33,894**	**46,444**	**55,366**	**68,114**	**82,891**
Other Income, net	190	1,944	3,972	3,508	4,694
Income bf taxes and minority interest	**34,084**	**48,389**	**59,338**	**71,622**	**87,585**
Income Taxes	(4,989)	(6,701)	(8,137)	(10,533)	(18,296)
Income before share of equity in affiliates	**29,095**	**41,688**	**51,201**	**61,089**	**69,290**
Equity in earnings of affiliate	16	44	5	4	4
Minority Interest	(279)	(417)	(531)	(555)	(555)
Income from continuing operations	**28,831**	**41,315**	**50,675**	**60,538**	**68,739**
Extraordinary items	-	-	-	-	-
Net Profit- Reported	**28,831**	**41,315**	**50,675**	**60,538**	**68,739**
EPS (Rs/ share)	**29.5**	**42.2**	**51.8**	**61.9**	**70.2**
Margins (%)					
Gross Profit margin	45.9	44.1	44.8	44.1	43.6
EBITDA Margin	27.7	27.2	26.5	25.5	24.6
EBIT Margin	25.6	24.9	24.1	23.3	22.6
NPM	21.8	22.2	22.1	20.7	18.7
Growth Rates (%)					
Revenues	36.2	40.7	23.2	27.1	25.9
Gross Profit	34.8	35.4	25.2	25.1	24.3
EBIT	25.9	37.0	19.2	23.0	21.7
Income bf taxes	23.1	42.0	22.6	20.7	22.3
Income before affiliates earnings	23.2	43.3	22.8	19.3	13.4
Income from continuing operations	22.4	43.3	22.7	19.5	13.5
As percentage of Sales					
Revenues	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Cost of revenues	54.1	55.9	55.2	55.9	56.4
Gross Profit	45.9	44.1	44.8	44.1	43.6
SG&A expenses	19.9	19.0	20.7	20.8	21.0
R&D expenses	0.3	0.2	-	-	-
EBIT (before amortization & exchange gains)	25.6	24.9	24.1	23.3	22.6
Other income	0.1	1.0	1.7	1.2	1.3
Earnings before share of equity in affiliates	22.0	22.4	22.3	20.9	18.9
Tax Rate	14.6	13.8	13.7	14.7	20.9
Income from continuing operations	21.8	22.2	22.1	20.7	18.7

Source: Company, Kotak Institutional Equities estimates.

Banking

PWFC.BO, Rs196	
Rating	U
Sector coverage view	Neutral
Target Price (Rs)	125
52W High -Low (Rs)	200 - 85
Market Cap (Rs bn)	224.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	15.5	18.7	21.9
Net Profit (Rs bn)	11.5	12.9	14.7
EPS (Rs)	11.1	11.2	12.8
EPS gth	*9.5*	*1.2*	*14.3*
P/E (x)	17.7	17.5	15.3
P/B (x)	2.3	2.2	2.0
Div yield (%)	0.7	1.8	2.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	89.8	-	-
FIIs	3.9	0.1	0.1
MFs	2.3	0.3	0.3
UTI	-	-	-
LIC	-	-	-

Power Finance Corporation: Extra-ordinaries and stable spreads support PAT growth, retain U.

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

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

- **PFC reported PAT for 1Q08 of Rs3.1 bn (up 103% yoy); operational profit growth lower at 41% yoy, 9% above estimates,**
- **Stable spreads, higher fees, forex gains and lower tax liability supported profits,**
- **We revise estimates to factor stable spreads, raise target price to Rs125 (from Rs105), retain Underperform.**

Power Finance Corporation (PFC) reported a 103% yoy growth in PAT to Rs3.1 bn. Gains on the forex account, higher tax liability in 1Q07 largely supported such an extraordinary growth. Operational profit was up 41% yoy (9% above estimates) mainly on account of better spreads and higher fees. Disbursements growth was however, low at 13%. We are revising our estimates by 10% for FY2008 and 14% for FY2009 to factor stable spreads and lower loan loss provisions. We revise our target price to Rs125 from Rs105 assuming a terminal RoE of 14% (13% earlier), which is based on our increased confidence that company's non-interest revenues would increase overtime. Key risk to our earnings estimates: mismatches in the ALM and un-hedged forex exposures. We believe that some of the earnings of this quarter are extraordinary and not sustainable. Hence, assigning a multiple for these earnings is not prudent and we advice investors to book profits at these levels.

Stable spreads support profits. PFC has reported stable spread of 1.9% in 1Q08 and 4Q07. Going forward, we expect PFC's spreads to be stable in the near term due to the following reasons: (1) PFC's ALM position seems comfortable in the near term; (2) Variable rate loans (with three-year reset) from FY2005 will be re-priced about 2-3% higher in FY2008; (3) About 61% of PFC's assets are floating as compared to 16% of its liabilities. This will help the company in a rising interest rate scenario. However, in the event of falling interest rates, reset of floating rates loans would be faster than floating rate borrowings, thus affecting PFC's profits.

Un-hedged forex borrowings remain a risk. PFC follows a policy of valuing its forex assets and liabilities on the quarter-end and booking gains/ losses, as the case may be. PFC has about US$500 mn of forex loans of which US$125 mn are un-hedgded. The company booked a forex gain of Rs409 mn in 1Q08 as against a loss of Rs305 mn in 1Q07.

PFC now proposes to raise forex loans/ debt aggregating to US$1 bn in FY2008. It has already received regulatory approval for US$500 mn. The management has indicated that these borrowings may not be fully hedged. Hence, PFC's earnings will likely be exposed to forex volatility.

Non-interest revenues gaining traction. PFC proposes to set up 'India Power Fund' with an initial corpus of about Rs10 bn. The fund would participate in equity of power projects. The removal of tax exemptions for venture funds in the recent union budget has delayed the launch of this fund. The management is now working on the modalities of setting up a fund management company for the same.

PFC is the appraiser for 'Power lenders club'- a consortium of 10 PSU banks, LIC, HUDCO engaged in funding power projects. PFC will earn fees of 1-1.5% of the amount syndicated by the club.

PFC has indicated that it will earn fees of Rs50 mn each from two Ultra Mega Power Projects (UMPPs) allotted in FY2007. Going forward, PFC will earn a higher fee of Rs150 mn per UMPP. PFC has bagged assignments from various state entities for selection of developers. This will that likely earn fees of Rs490 mn over the next 4-5 quarters. We estimate fee income of Rs1 bn per year for FY2008-10.

Tax liability was higher in 1Q07. PFC's tax rate in 1Q07 was higher at 41% on account of prior period income tax demand. Consequently, reported PAT was subdued in that period. The 1Q08 effective tax rate was 32% in line with long-term trends.

Deferred tax liability may be partially reversed 'above the line'. Under section 36 (I) (viii) of India's IT Act, finance companies providing loans for tenures exceeding five years can claim tax benefits. Companies can claim exemption on 40% of income (20% from FY2008) from such long-term funding activity provided a similar amount is transferred to a special reserve account. PFC followed this policy till FY2004, which is in line with the policy followed financial institutions like IDFC, HDFC and LICHF.

In FY2005, PFC's auditor objected to this exemption claim, upon which PFC resorted to the counsel of the Institute of Chartered Accountants of India (ICAI). ICAI had advised PFC to create a deferred tax liability (DTL) for this exemption. As such, PFC transferred Rs2 bn from its reserves to DTL in FY2005. Further, between FY2005-07, PFC has transferred Rs3.6 bn from its profits to DTL.

We believe the creation of DTL is not accurate as the tax exemption under section 36 (I) (viii) is a permanent tax benefit. We have added back the DTL to PFC's networth in our valuation exercise.

In the eventuality of ICAI issuing guidelines to allow PFC to reverse the DTL provisions made in the earlier periods, we estimate that reported PAT of the company to exceed our current estimates by about Rs5 bn. We have already adjusted our book value to account for this eventuality and our target price would remain unaffected.

PFC (Old and new estimates Rsmn)
March fiscal year-ends, 2008E&2009E

	Old estimates		New estimates		% change	
	2008E	**2009E**	**2008E**	**2009E**	**2008E**	**2009E**
Net interest income	16,463	18,431	17,748	20,936	7.8	13.6
Other income	1,000	1,000	1,000	1,000	0.0	0.0
Total income	17,463	19,431	18,748	21,936	7.4	12.9
Loan loss provisions	615	749	246	749	(60.0)	0.0
Operating expenses	649	781	649	781	0.0	0.0
PBT	**16,199**	**17,902**	**17,853**	**20,407**	10.2	14.0
Tax	5,669	6,266	6,249	7,142	10.2	14.0
PAT	10,529	11,636	**11,605**	**13,264**	10.2	14.0
PAT(incl def tax)	**11,663**	**12,889**	**12,854**	**14,693**	**10.2**	**14.0**
NIMs (%)	3.3	3.1	3.6	3.5		
Spreads (%)	1.4	1.3	1.7	1.7		
Loan book (Rs mn)	543,584	654,033	543,584	654,033		

Source: Kotak institutional equities estimates.

Power Finance Corporation (Rs mn)

	1Q07	1Q08	YoY(%)	1Q08E	Actual vs KS(%)
Profit and Loss					
Interest on loans	8,219	11,170	36	11,621	(4)
Adjusted interest on loans(for rebate on timely repayment)	8,219	11,170	36	11,421	(2)
Other interest income	55		(100)	25	(100)
Total interest income	8,274	11,170	35	11,446	(2)
Total interest expenses	5,204	7,023	35		
Net interest income	3,070	4,147	35	3,894	6
Loan loss provisions	65	41	(37)	-	
Net income (after loan loss provisions)	3,005	4,106	37	3,894	5
Other operating income		-		100	(100)
Total operating income	3,070	4,147	35	3,994	4
Other income	(305)	546	(279)	-	
Forex gains	(305)	409	(234)	-	
Total Net Income	2,765	4,693	70	3,994	17
Total income (after provisioning)	2,700	4,652	72	3,994	16
Operating expenses	112	105	(6)	152	(31)
Depreciation		11		10	17
PBT	2,588	4,536	75	3,833	18
Tax	1,068	1,450	36	1,265	15
Current tax	789	1,134	44	996	14
Deferred tax	279	316	13	268	18
PAT (reported)	1,520	3,086	103	2,568	20
PAT (included deferred tax)	1,799	3,402	89	2,836	20
PBT + provisions-interest on rest prem- forex gains	2,958	4,168	41	3,833	9
Tax rate (overall)	41	32		31	

Other details	1Q07	1Q08	YoY(%)
Sanctions (Rs bn)	173	133	(23)
Disbursements (Rs bn)	29	32	13
Loan assets (Rs bn)	367	452	23
Yield on Assets (%)	9.01	9.88	
Cost of funds (%)	7.30	7.95	
Spreads (%)	1.71	1.93	
Net interest margins (%)	3.31	3.67	
Operating cost to average assets(%)	0.03	0.02	
Gross NPLs(%)	0.25	0.06	
Capital adequacy ratio (%)	18.25	18.59	

Source: Company, Kotak Institutional equities estimates.

Energy

PLNG.BO, Rs62	
Rating	U
Sector coverage view	Attractive
Target Price (Rs)	53
52W High -Low (Rs)	65 - 41
Market Cap (Rs bn)	46.2

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	55.1	68.1	71.9
Net Profit (Rs bn)	3.1	4.2	3.9
EPS (Rs)	4.2	5.7	5.2
EPS gth	*62.5*	*36.6*	*(8.3)*
P/E (x)	14.8	10.9	11.8
EV/EBITDA (x)	8.3	8.0	8.7
Div yield (%)	2.0	2.4	1.6

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.0	-	-
FIIs	14.4	0.1	(0.0)
MFs	0.2	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Petronet LNG: Strong 1QFY08 results on expected lines; longer-term issues exist

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

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

Amit Kumar : amit.ckumar@kotak.com, +91-22-6634-1392

- **Strong 1QFY08 results led by increase in volumes (additional spot LNG cargoes)**
- **Critical issue is long-term competitiveness of business model—LNG versus domestic gas**
- **Continue to recommend switching at right times to other gas plays (GAIL, GSPL)**

PLNG reported 1QFY08 net income at Rs1.08 bn, marginally ahead of our Rs1.03 bn estimate. Sales volume increased sharply to 78.6 tn BTU compared to 73.4 tn BTU in 4QFY07 and 66.4 tn BTU in 1QFY07 led by higher spot LNG volumes and recovery in contract volumes after a blip in 4QFY07. We note that PLNG operated its re-gasification plant at 130% of its reported capacity (shouldn't the government and regulator be asking how this is possible) in 1QFY08 and at its theoretical maximum. We have fine-tuned FY2008E EPS to Rs5.7 from Rs5.5 previously but our FY2009E and FY2010E estimates are largely unchanged at Rs5.2 and Rs3.6, respectively. Our revised 12-month DCF-based target price is Rs53 versus Rs50 previously. Key risks to stock view are higher-than-expected re-gasification tariffs and delay (regulatory or otherwise) in supply of domestic gas. We continue to recommend investors switch out of PLNG to other gas plays (GAIL, GSPL).

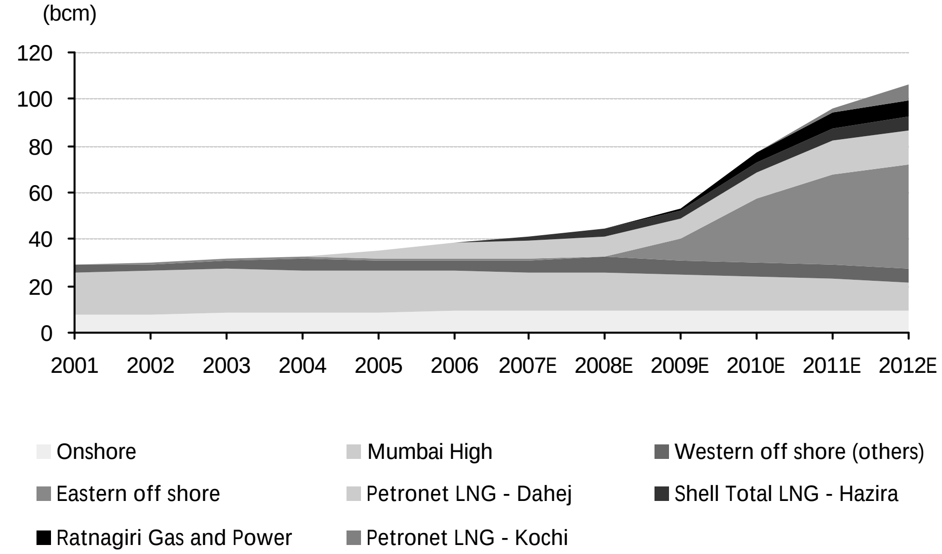
Everything is great now but what about the future? We expect an imminent steep increase in domestic gas supply from FY2010E to create issues about acceptance of high-priced LNG in the domestic market. Although this may seem inconceivable currently, we expect the supply of gas (domestic plus imported) to exceed demand in the Indian market unless large demand emerges from the power sector backed by competitively-priced natural gas. We note that most new thermal power plants are being built on domestic or imported coal.

Exhibits 1 and 2 give our estimated supply and demand of gas in India. We model total gas supply to increase to 106 bcm (domestic supply at 72 bcm) versus our projected consumption of 93 bcm in FY2012E. However, we expect supply to exceed demand without a steep increase in demand for gas from the power sector. This would depend on the relative prices of gas and coal as we expect the power sector to be the primary demand driver for gas in India (39 bcm out of our projected 62 bcm increase in consumption between FY2006 and FY2012). We note that abundant reserves of coal and the ongoing deregulation of the coal sector will further enhance the attractiveness of coal as the fuel of choice for power sector in India.

Details of 1QFY08 results. PLNG sold 78.6 tn BTU of LNG in 1QFY08 (+7.1% qoq and +18.5% yoy). The additional volumes reflect more spot cargoes. We expect sales volumes to increase 13% in FY2008 (we model 323 tn BTU of LNG or 6.3 mn tonnes) due to higher imports to feed Ratnagiri Gas and Power's power plant. PLNG signed a term agreement with RasGas in early July for an additional 1.25 mtpa of LNG, which is over and above its extant contract for 5 mtpa of LNG. We note that the additional LNG from RasGas will displace spot LNG cargoes from other sources and would caution that the additional LNG from RasGas should not be construed as resulting in higher volumes for PLNG.

We project a steep increase in domestic supply from FY2009

Supply of natural gas in India, March fiscal year-ends, 2001-2012E (bcm)

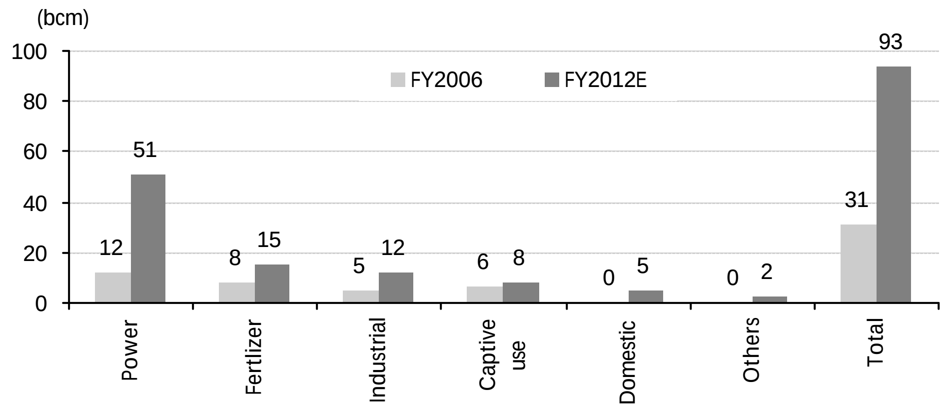


Note: Eastern offshore includes potential gas from Reliance's field in KG basin.

Source: Kotak Institutional Equities estimates.

Current supply-constrained demand set to increase sharply

Segment wise demand for natural gas, current versus potential (bcm)



Source: Ministry of petroleum and natural gas, Kotak Institutional Equities estimates.

Interim results of Petronet LNG, March fiscal year-ends (Rs mn)

		qoq			yoy		
	2008E	1Q 2008	4Q 2007	*Chg. (%)*	1Q 2008	1Q 2007	*Chg. (%)*
Net sales	**68,108**	**15,510**	**15,388**	***1***	**15,510**	**10,191**	***52***
Total expenditure	(59,839)	(13,461)	(13,397)	*0*	(13,461)	(8,882)	*52*
Raw material	(716)	(13,154)	(13,198)	*(0)*	(13,154)	(8,539)	*54*
Staff cost	(526)	(57)	(29)	*94*	(57)	(37)	*54*
Other expenditure	(61,081)	(250)	(170)	*47*	(250)	(306)	*(18)*
EBITDA	**7,027**	**2,049**	**1,991**	***3***	**2,049**	**1,309**	***57***
Other income	439	116	148	*(22)*	116	53	*119*
Depreciation	(1,090)	(254)	(252)	*1*	(254)	(254)	*(0)*
Interest	(1,062)	(257)	(259)	*(1)*	(257)	(266)	*(4)*
Profit before tax	**5,313**	**1,654**	**1,629**	***2***	**1,654**	**841**	***97***
Extraordinary/prior period items	—	—	—		—	0	
Current tax	(602)	(413)	—		(413)	0	
Deferred tax liabilities/assets	(467)	(160)	(567)	*(72)*	(160)	(279)	*(146)*
Fringe benefit tax	—	(2)	(2)		(2)	(1)	
Profit after tax	**4,245**	**1,080**	**1,060**	***2***	**1,080**	**561**	***93***
Adj Profit after tax	**4,245**	**1,080**	**1,060**	***2***	**1,080**	**561**	***93***
Tax rate	20.1	34.7	34.9		34.7	33.2	
Sales quantity (tn BTU)		79	73	*7*	79	66	*18*

Source: Company, Kotak Institutional Equities estimates.

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)							
Net sales	19,453	38,197	55,090	68,108	71,894	104,442	144,403
EBITDA	**1,505**	**4,707**	**6,481**	**7,027**	**7,695**	**7,875**	**10,928**
Other income	133	194	366	439	353	269	277
Interest	(1,094)	(1,116)	(1,070)	(1,090)	(1,019)	(1,780)	(1,957)
Depreciation	(968)	(1,010)	(1,020)	(1,062)	(1,384)	(2,022)	(2,511)
Extraordinary items	—	175	—	—	—	—	—
Pretax profits	(424)	2,950	4,756	5,313	5,645	4,342	6,737
Tax	—	(256)	(6)	(602)	(1,052)	—	(763)
Deferred taxation	140	(745)	(1,617)	(467)	(688)	(1,645)	(1,439)
Net profits	**(284)**	**1,949**	**3,133**	**4,245**	**3,905**	**2,697**	**4,534**
Earnings per share (Rs)	**(0.4)**	**2.4**	**4.2**	**5.7**	**5.2**	**3.6**	**6.0**
Balance sheet (Rs mn)							
Total equity	8,770	10,719	12,755	15,684	18,711	20,530	23,748
Deferred taxation liability	(140)	605	2,472	2,939	3,627	5,272	6,711
Total borrowings	12,599	12,599	13,832	16,432	24,432	28,932	28,932
Currrent liabilities	3,585	1,725	5,877	6,682	6,945	9,201	11,970
Total liabilities and equity	**24,814**	**25,648**	**34,936**	**41,737**	**53,715**	**63,935**	**71,362**
Cash	2,980	2,506	3,405	3,422	940	1,045	1,150
Current assets	2,753	2,946	7,478	6,086	6,161	8,744	10,837
Total fixed assets	18,903	18,627	21,273	29,449	43,833	51,365	56,595
Investments	179	1,569	2,780	2,780	2,780	2,780	2,780
Total assets	**24,814**	**25,648**	**34,936**	**41,737**	**53,715**	**63,935**	**71,362**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	437	3,524	4,927	5,097	4,855	5,540	7,633
Working capital	628	(2,057)	(710)	2,198	187	(327)	677
Capital expenditure	(18,969)	(335)	(36)	(9,000)	(15,000)	(9,000)	(7,166)
Investments	(179)	(1,390)	(1,211)	—	—	—	—
Free cash flow	**(18,083)**	**(258)**	**2,970**	**(1,705)**	**(9,958)**	**(3,787)**	**1,144**
Other income	128	184	326	439	353	269	277
Ratios (%)							
Debt/equity	146	111	91	88	109	112	95
Net debt/equity	111	89	68	70	105	108	91
RoAE	(3.2)	19.5	23.6	25.1	19.1	11.2	16.1
RoACE	**2.1**	**11.9**	**14.5**	**16.0**	**11.3**	**7.5**	**10.3**
Adjusted CROCI	**8.9**	**21.3**	**25.1**	**30.1**	**17.2**	**19.7**	**15.0**
Key assumptions							
Sales volume (mn tonnes)	2.5	4.8	5.6	6.3	6.6	8.8	11.8
LNG purchase price (FOB) (US$/mn BTU)	2.5	2.5	3.3	3.8	3.8	4.4	4.6
Re-gasification charges (US$/mn BTU)	0.53	0.57	0.58	0.66	0.68	0.56	0.58
Sales price (US$/mn BTU)	3.5	3.5	4.4	5.0	5.1	5.6	5.7
Rupee/US dollar exchange rate	45.0	44.3	45.3	42.0	42.0	42.0	42.0

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for PLL is Rs53

Calculation of equity value of PLL using discounted cash flow analysis (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	7,027	7,695	7,875	10,928	15,643	15,412	15,223	15,123	15,017	14,903
Adjusted tax expense	(726)	(1,242)	—	(985)	(1,402)	(2,605)	(3,263)	(3,715)	(4,064)	(4,213)
Change in working capital	2,198	187	(327)	677	1,548	14	(113)	(196)	(238)	(292)
Operating cash flow	**8,500**	**6,640**	**7,548**	**10,620**	**15,788**	**12,820**	**11,847**	**11,213**	**10,714**	**10,398**
Capital expenditure	(9,000)	(15,000)	(9,000)	(7,166)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)
Free cash flow	**(500)**	**(8,360)**	**(1,452)**	**3,454**	**14,788**	**11,820**	**10,847**	**10,213**	**9,714**	**7,898**
Discounted cash flow-now	(460)	(6,835)	(1,055)	2,231	8,489	6,032	4,920	4,117	3,480	2,515
Discounted cash flow-1 year forward		(7,690)	(1,187)	2,510	9,554	6,786	5,535	4,632	3,916	2,830
Discounted cash flow-2 year forward			(1,336)	2,824	10,748	7,636	6,227	5,211	4,406	3,184

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5%	12.5%	12.5%
Total PV of free cash flow	23,434	29,401	44,245
Terminal value assumption			
Growth in perpetuity	0.0%	0.0%	0.0%
FCF in 2018E	7,898	7,898	7,898
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.2	4.2	4.2
Terminal value	63,183	63,183	63,183
PV of terminal value	20,121	20,121	20,121
Total company value	**43,555**	**49,522**	**64,366**
Net debt	7,647	10,230	20,712
Equity value	35,908	39,292	43,654
Shares outstanding (mn)	750	750	750
Estimated share price using DCF	**47.9**	**52.4**	**58.2**

Sensitivity of 12-month DCF to WACC and perpetual growth

WACC (%)	Perpetual growth (%)				
	-1.0%	**-0.5%**	**0.0%**	**0.5%**	**1.0%**
11.5%	56.5	58.1	59.9	61.9	64.0
12.0%	52.9	54.4	56.0	57.7	59.7
12.5%	49.6	51.0	**52.4**	53.9	55.6
13.0%	46.6	47.8	49.1	50.4	52.0
13.5%	43.7	44.8	46.0	47.2	48.6

Fiscal Year end (March 31, XXXX)	March-08	March-09	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17
Today	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07	16-Jul-07
Days left	259	624	989	1,354	1,720	2,085	2,450	2,815	3,181	3,546
Years left	0.71	1.71	2.71	3.71	4.71	5.71	6.71	7.71	8.72	9.72
Discount factor at WACC	**0.92**	**0.82**	**0.73**	**0.65**	**0.57**	**0.51**	**0.45**	**0.40**	**0.36**	**0.32**

Source: Kotak Institutional Equities estimates.

Media

DSTV.BO, Rs99	
Rating	OP
Sector coverage view	Cautious
Target Price (Rs)	115
52W High -Low (Rs)	143 - 95
Market Cap (Rs bn)	42.5

Financials

March y/e	**2007E**	**2008E**	**2009E**
Sales (Rs bn)	1.9	5.4	10.5
Net Profit (Rs bn)	(2.5)	(3.1)	(1.8)
EPS (Rs)	(5.9)	(7.3)	(4.2)
EPS gth	-	-	-
P/E (x)	(16.9)	(13.6)	(23.4)
EV/EBITDA (x)	(23.6)	(39.4)	55.1
Div yield (%)	-	-	-

Dish TV: 1QFY08 results in line with expectations; ARPU improves but still too low

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286
Amit Kumar : amit.ckumar@kotak.com, +91-22-6634-1392

- **In-line 1QFY08 net loss at Rs0.9 bn, lower than Rs1 bn in 4QFY07**
- **ARPU improves to Rs140 but still very low due to several months of free service for new subs**
- **Cut revenues for FY2008-10E and tweaked 12-month target price to Rs115 (Rs120 previously)**

Dish TV reported 1QFY08 net loss of Rs898 mn, in line with our Rs895 mn estimate and lower versus Rs1 bn net loss in 4QFY07. However, revenues at Rs893 mn (+35% qoq) exceeded our Rs868 mn estimate modestly. Dish's subscriber base increased to 2.1 mn subscribers at end-1QFY08 from 1.9 mn subscribers at end-FY2007. We compute 1QFY08 ARPU at Rs140, a steep increase from Rs116 in 4QFY07. Nonetheless, we would like to see more traction in ARPUs given likely pressure on (1) ARPUs and (2) costs (higher subsidy on CPE) when new operators start operations over the next few months. Our 12-month DCF-based target price is now Rs115 versus Rs120 previously. We think that market volatility may provide better entry points into the stock. Key downside risks to our earnings and TP stem from lower-than-expected ARPUs.

Reduced FY2008-10E revenues on back of lower ARPUs. We model FY2008E revenues at Rs5.4 bn (Rs6.4 bn previously) with ARPU at Rs192 (Rs219 previously). Dish is giving more months of free service, which will bring down its overall ARPUs; its latest plan offers six months of free service although the purchase cost is higher at Rs3,990 (excluding taxes) versus other available packages (typically Rs3,150). Our FY2008E net loss is now Rs3.1 bn versus Rs2.3 bn previously, which primarily reflects lower revenues but largely unchanged costs.

Similarly, for FY2009E and FY2010E, we model net loss at Rs1.81 bn and Rs0.58 bn, respectively versus Rs1.37 bn and Rs0.13 bn, respectively, previously. The higher net loss reflects lower revenues—Rs10.5 bn (-7.5%) for FY2009E and Rs15.7 bn for FY2010E (-5%) on the back of lower ARPUs.

1QFY08 net adds a tad disappointing but may pick on aggressive pricing. Dish added 0.18 mn subscribers in 1QFY08, which we find moderately disappointing. Noting the 60,000 monthly net additions in 1QFY08, we have reduced our end-FY2008 subscriber estimate to 2.8 mn from 3 mn previously. Dish TV would need to add about 78,000 subs/month to reach our end-FY2008 estimate of 2.8 mn subs. We expect subscriber additions to pick up over the next few months led by more aggressive pricing and promotion.

ARPU remains the key to revenues, profitability and valuation. We have cut Dish's FY2008E ARPU to Rs192 from Rs219 previously and modestly revised down FY2009E and FY2010E ARPU by Rs5 each. We would watch for further developments on pricing given entry of new entrants over the next few months (Sun Direct, Reliance ADAE, Bharti Airtel and possibly Videocon group, which has also applied for a DTH license). As highlighted previously, Dish's valuation is highly sensitive to ARPU assumptions (see Exhibit 5). The number of players eyeing the industry is becoming a bit disconcerting, especially in light of large losses being already incurred by the incumbents, Dish TV and Tata-Sky.

Dish TV consolidated interim results, March fiscal year-ends (Rs mn)

		qoq			yoy			yoy		
	2008E	1Q 2008	4Q 2007	% chg.	1Q 2008	1Q 2007	% chg.	2007	2006	% chg.
Net sales	**5,428**	**893**	**659**	***35***	**893**	—	—	**1,909**	**315**	***507***
DTH services	5,428	841	634	*33*	841	—	—	1,798	208	*764*
Trading	—	25	2	*1,148*	25	—	—	7	57	*(88)*
Teleport services	—	27	23	*16*	27	—	—	105	49	*113*
Total expenditure	**(6,645)**	**(1,381)**	**(1,301)**	***6***	**(1,381)**	—	—	**(3,761)**	**(1,144)**	***229***
Subscriber-related costs	(4,329)	(987)	(930)	*6*	(987)	—	—	(2,581)	(552)	*368*
Staff cost	(302)	(70)	(52)	*35*	(70)	—	—	(149)	(21)	*592*
Administrative & other costs	(2,014)	(324)	(319)	*2*	(324)	—	—	(1,031)	(571)	*81*
EBITDA	**(1,217)**	**(488)**	**(642)**	***(24)***	**(488)**	—	—	**(1,852)**	**(830)**	***123***
EBITDA margin (%)	**(22.4)**	**(54.6)**	**(97.4)**	—	**(54.6)**	—	—	**(97.0)**	**(263.7)**	—
Other income	40	1	8	—	1	—	—	34	—	—
Interest	(307)	(81)	(75)	*8*	(81)	—	—	(118)	(17)	*604*
Depreciation and amortisation	(1,537)	(328)	(292)	*13*	(328)	—	—	(575)	(28)	*1,929*
Pretax profits	**(3,022)**	**(897)**	**(1,001)**	***(10)***	**(897)**	—	—	**(2,511)**	**(875)**	***187***
Extraordinaries	—	—	(2)	*(100)*	—	—	—	(5)	(1,203)	*(100)*
Current tax	—	(1)	(1)	*(12)*	(1)	—	—	(3)	(0)	*661*
Deferred tax	(93)	—	—	—	—	—	—	—	—	—
Net income	**(3,115)**	**(898)**	**(1,004)**	***(11)***	**(898)**	—	—	**(2,519)**	**(2,078)**	***21***
Tax rate (%)	(3.1)	(0.1)	(0.1)	—	(0.1)	—	—	(0.1)	(0.0)	—

Source: Company, Kotak Insitutional Equities estimates.

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

	2006	2007E	2008E	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	5,428	10,537	15,672	21,369	27,118
EBITDA	**(830)**	**(1,852)**	**(1,217)**	**915**	**2,761**	**4,769**	**6,787**
Other income	—	34	40	38	37	40	37
Interest (expense)/income	(17)	(118)	(307)	(510)	(660)	(667)	(375)
Depreciation	(28)	(565)	(1,527)	(2,262)	(2,858)	(3,396)	(2,999)
Amortization	0	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(3,022)**	**(1,828)**	**(730)**	**736**	**3,441**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	—	—	—	(83)	(390)
Deferred taxation	—	—	(93)	14	150	276	124
Net income	**(2,078)**	**(2,519)**	**(3,115)**	**(1,813)**	**(579)**	**928**	**3,175**
Earnings per share (Rs)	**—**	**(5.9)**	**(7.3)**	**(4.2)**	**(1.4)**	**2.2**	**7.4**
Balance sheet							
Total equity	1,915	(604)	(3,719)	(5,532)	(6,111)	(5,308)	(2,884)
Deferred taxation liability	—	—	93	79	(71)	(347)	(471)
Total borrowings	84	2,241	6,741	8,991	9,741	8,491	3,241
Current liabilities	1,820	8,577	8,209	8,189	9,250	10,219	13,466
Total liabilities and equity	**3,819**	**10,215**	**11,324**	**11,727**	**12,808**	**13,055**	**13,351**
Cash	59	113	234	56	199	130	130
Other current assets	1,528	2,413	1,606	1,623	2,153	2,756	3,355
Total fixed assets	1,067	6,209	8,013	8,587	9,006	8,728	8,435
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	965	965	965	965	965	965
Total assets	**3,819**	**10,215**	**11,324**	**11,727**	**12,808**	**13,055**	**13,351**
Free cash flow							
Operating cash flow, excl. working capital	—	(1,978)	(1,525)	406	2,101	4,019	6,023
Working capital changes	—	5,873	438	(36)	531	366	2,648
Capital expenditure	—	(5,706)	(3,332)	(2,836)	(3,277)	(3,118)	(2,706)
Investments	—	(327)	—	—	—	—	—
Other income	—	34	40	38	37	40	37
Free cash flow	**—**	**(1,811)**	**(4,418)**	**(2,466)**	**(645)**	**1,267**	**5,964**
Ratios (%)							
Debt/equity	4.4	(371.3)	(181.3)	(162.5)	(159.4)	(160.0)	(112.4)
Net debt/equity	1.3	(352.6)	(175.0)	(161.5)	(156.1)	(157.5)	(107.9)
ROAE (%)	(217.0)	(384.0)	147.3	39.9	10.0	(15.7)	(70.5)
ROACE (%)	**(89.6)**	**(323.2)**	**(2,215.8)**	**(59.4)**	**(1.8)**	**46.3**	**88.3**

Source: Kotak Institutional Equities estimates.

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

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

	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs bn)	1.9	5.4	10.5	15.7	21.4	27.1	32.8	38.4	43.7	49.3	54.6
EBITDA (Rs bn)	(1.9)	(1.2)	0.9	2.8	4.8	6.8	8.6	10.3	11.8	13.3	14.7
EBITDA margin (%)	**(97.0)**	**(22.4)**	**8.7**	**17.6**	**22.3**	**25.0**	**26.4**	**26.8**	**27.0**	**27.0**	**26.9**
Year-end # of paying subscribers (mn)	**1.9**	**2.8**	**3.9**	**5.0**	**6.0**	**6.9**	**7.7**	**8.4**	**9.0**	**9.6**	**10.0**
Increase/(decrease) in number of subs	1.0	0.9	1.1	1.1	1.0	0.9	0.8	0.7	0.6	0.6	0.4
Average # of paying subscribers (mn)	1.4	2.4	3.4	4.5	5.5	6.5	7.3	8.1	8.7	9.3	9.8
Subscription fees per month (Rs/sub/month)	95	168	234	265	296	321	347	371	394	418	444
ARPU (Rs/sub/month)	**114**	**192**	**262**	**293**	**324**	**350**	**374**	**397**	**419**	**442**	**464**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for Dish TV is Rs115

Discounted cash flow analysis of Dish TV (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	**(1,217)**	**915**	**2,761**	**4,769**	**6,787**	**8,647**	**10,274**	**11,806**	**13,297**	**14,692**
Tax expense	—	—	—	(159)	(432)	(668)	(2,452)	(2,973)	(3,519)	(4,251)
Working capital changes	452	88	1,162	616	1,831	1,151	1,104	857	400	110
Cash flow from operations	**(766)**	**1,004**	**3,923**	**5,227**	**8,186**	**9,130**	**8,926**	**9,690**	**10,178**	**10,551**
Capital expenditure	(3,332)	(2,836)	(3,277)	(3,118)	(2,706)	(4,854)	(4,141)	(4,186)	(3,805)	(3,447)
Free cash flow to the firm	**(4,098)**	**(1,832)**	**646**	**2,109**	**5,480**	**4,276**	**4,785**	**5,503**	**6,373**	**7,103**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**12,958**	**21,079**	**28,007**
FCF one-year forward	7,529	7,981	8,460
Terminal value	115,836	122,787	130,154
PV of terminal value (b)	**32,790**	**34,757**	**36,843**
Total PV (a) + (b)	**45,748**	**55,837**	**64,850**
Net debt	2,128	6,506	8,934
Equity value	43,620	49,330	55,915
Equity value (US$ mn)	**964**	**1,175**	**1,331**
Shares outstanding (mn)	428	428	428
Equity value/per share (Rs)	**102**	**115**	**131**

Discount rate (%)	12.5
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	15.4
Exit EBITDA multiple (X)	7.9

Source: Kotak Institutional Equities estimates.

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

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

	DCF value (Rs/share)	Change from base case (%)
Change in # of paying subscribers (%)		
20%	139	21
10%	127	11
Base case	**115**	
-10%	**103**	(10)
-20%	**91**	(21)
Change in monthly subscription fees (%)		
20%	226	97
10%	171	49
Base case	**115**	
-10%	**59**	(49)

Source: Kotak Institutional Equities estimates.

Telecom

MTNL.BO, Rs168	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	135
52W High -Low (Rs)	176 - 124
Market Cap (Rs bn)	105.8

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	49.2	53.5	57.1
Net Profit (Rs bn)	3.9	5.9	6.3
EPS (Rs)	7.2	9.4	10.0
EPS gth	*8.1*	*31.4*	*6.5*
P/E (x)	23.5	17.9	16.8
EV/EBITDA (x)	9.2	7.0	6.7
Div yield (%)	3.6	4.5	4.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	14.5	0.2	(0.1)
MFs	4.8	0.4	0.1
UTI	-	-	(0.3)
LIC	15.7	1.3	1.0

MTNL: 'License fee'—tax refund on expected lines; 'Section 80 IA' tax refund looks more difficult

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

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243

Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Tax refund of Rs14.6 bn pertaining to license fee case**
- **Not much impact on cash balance; tax refund to be off-set by outstanding large pension liabilities (Rs11 bn net amount)**
- **We are skeptical about large refund in Section 80 IA (infrastructure) case**

We believe that the tax refund of Rs14.6 bn (Rs23/share) pertaining to a long-pending license fee case may be largely nullified by MTNL's outstanding pension liabilities (see Exhibit 1). Our analysis of MTNL's cash position (likely inflows and outflows other than those from operations) shows that MTNL's net cash balance would increase to Rs46/ share against Rs33/share at end-FY2006. We do not attach much significance to MTNL's statement that that it may receive a further Rs20 bn of refund on account of another (Section 80 IA) pending case. We retain our 12-month DCF-based target price of Rs135; Rs120 from core business and Rs15 from potential value of real estate business.

License fee case: tax refund may be offset by large pension liabilities. MTNL has received a refund of Rs14.6 bn from the income tax department for the license fee case, which is as per expectations. The income tax department has finally conceded that license fee is an expense and thus, allowed it as a deduction for computation of tax profit. From the standpoint of MTNL's P&L, we would clarify that it has recognized Rs5.1 bn of interest income between FY2005 and FY2007 and has largely exhausted the interest portion of the refund. We do not know how the company will treat the balance amount of Rs9.5 bn; presumably it will book the amount as a one-off in 2QFY08. We will incorporate the same at the time of 1QFY08 results (due over the next two weeks).

From the standpoint of MTNL's balance sheet, we note that MTNL has outstanding pension liabilities of Rs40.4 bn (end-FY2006). It would recover Rs29.4 bn of the aforementioned amount from the DOT, which still leaves a net pension liability of Rs10.9 bn or Rs17/share. Thus, we do not see the impact of the refund from the 'license fee' tax case on MTNL's cash balance and valuations as material enough to review our investment view.

Section 80 IA case: wireless and broadband are new businesses, not fixed-line. We are skeptical that MTNL can claim Section 80 IA benefits for investments made in its fixed-line network for expansion and maintenance. MTNL has claimed Rs14.2 bn of income tax benefits under Section 80 IA for the period FY2000-2006 but has paid the tax amount to the government. Thus, if MTNL were to win the case against the Indian income tax department, it would get a refund of Rs14.2 bn of tax paid plus interest on the tax paid. We assume MTNL is referring to the above in its statement to the stock exchanges—"estimated amount of Rs20 bn is yet to be refunded by the IT Department on account of license fee and 80 IA". We assume the mention of license fee is an oversight.

We believe a large portion of the Rs14.2 bn tax exemption pertains to MTNL's fixed-line business and is thus, unlikely to qualify for Section 80 IA tax exemptions, which are available to new businesses. We note that MTNL's total revenues from the wireless and broadband segments for FY2000-2006 were Rs15.6 bn (versus Rs373 bn of the fixed-line segment). This certainly would not result in tax exemption of Rs14.2 bn, in our view. MTNL started the wireless business in May 2001 and the broadband business in early 2005 while the exemptions sought pertain to as early as FY2000.

MTNL has recognized Rs1.16 bn of income in 3QFY07 and 4QFY07 from reversal of tax provisions made in previous years. We have assumed MTNL will receive Rs3 bn each of interest income in FY2008 and FY2009; this may be generous in the context of the size of the new businesses relative to the fixed-line business as discussed above.

MTNL's outstanding retirement liabilities nullify the upside from the expected tax refund

Estimation of per share equity value based on net potential cash

	Rs mn	Per share
Cash on books (end-FY2006)	**20,584**	**33**
Tax refund (license fee case) (a)	14,617	23
Tax refund (infrastructure case) (b)	2,000	3
Retirement liabilities	(40,384)	(64)
1. Pension	(26,535)	(42)
2. Gratuity	(5,332)	(8)
3. General Provident Fund (GPF)	(8,517)	(14)
Amount recoverable from employees	2,221	4
Amount recoverable from DOT (c)	29,444	47
License fee payable to DOT (d)	(196)	(0)
Refund of excess interconnect charges (e)	867	1
Total net potential cash	**29,152**	**46**

Notes:

(a) No further interest payment from the tax authorities assumed.

(b) We have assumed total amount at Rs2 bn; Rs1.16 bn booked in 2HFY07.

(c) Amount recoverable from the DOT on account of retirement liabilities.

(d) Underpayment of license fee to DOT for the period August 1999-March 2001.

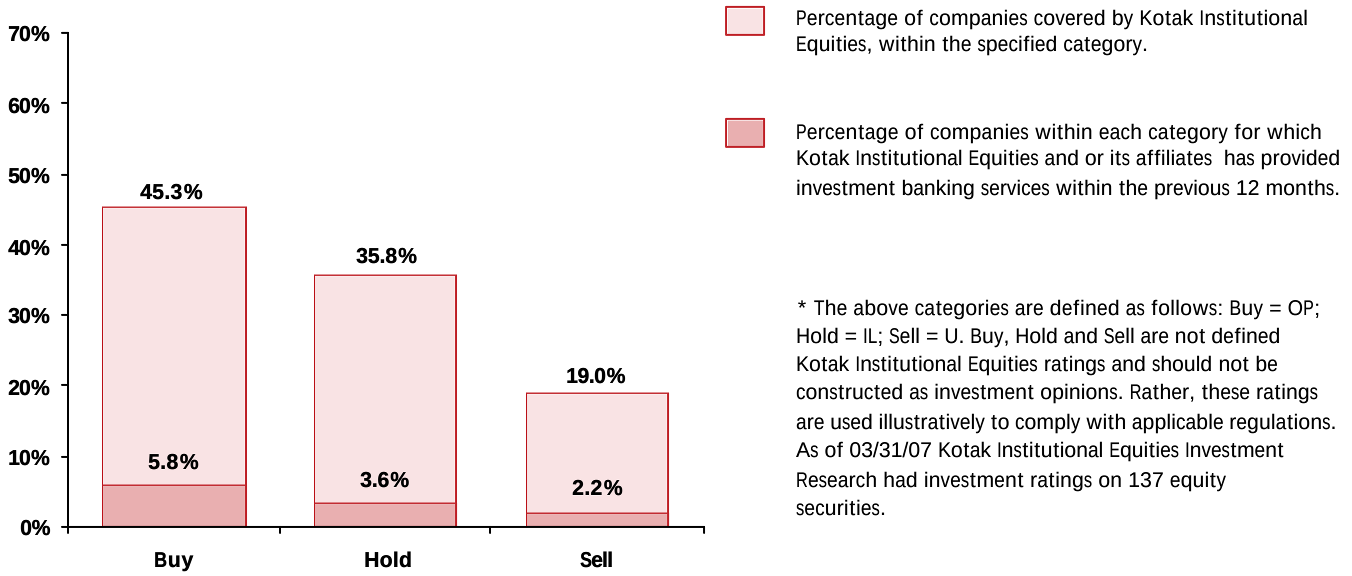
(e) Recoverable from BSNL.

Source: MTNL, Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Kawaljeet Saluja, Nischint Chawathe, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 03/31/07 Kotak Institutional Equities Investment Research had investment ratings on 137 equity securities.

Source: Kotak Institutional Equities. As of March 31, 2007

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.
U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
NC = Not Covered. Kotak Securities does not cover this company.
RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.