

Contents

Updates

Hindustan Unilever: Value adjustments in key HPC categories is inevitable

Zee Entertainment Enterprises: Content producers versus union workers—trouble brewing in Hindi general entertainment

Vishal Retail: Tough times call for tough measures

Property: 2QFY09 results review; Balance sheet issues gaining prominence

Property: Real Estate Tracker, Signs of recovery

News Roundup

Corporate

- **Larsen & Toubro** and Malaysia-based **Scomi Engineering Bhd** will together build the country's first monorail system in the city. The Rs2,460-crore order for a 19.54-km stretch has been awarded to the consortium by the **Mumbai Metropolitan Region Development Authority**. *(BS)*
- **Bharat Forge Ltd** and **Alstom Ltd** will form two joint venture companies for manufacturing equipment for power sector. One of the two joint ventures will take up manufacturing of core turbines and generators. Alstom will hold a majority stake of 51 per cent in this company, while Bharat Forge will hold 49 per cent. The second joint venture will be engaged in manufacturing the auxiliary units of the power plants. In this company the equity holding structure would be reversed and Bharat Forge will hold majority 51 per cent stake, while Alstom will be the minority partner with 49 per cent holding. *(BS)*
- Andhra Pradesh government has decided to include **Reliance Gas Corporation**, a subsidiary of **Reliance Industries Limited**, as a consortium partner in **Krishna Godavari Gas Network Limited (KGGNL)**, a Special Purpose Vehicle for development of natural gas network in the state. *(ET)*
- The erstwhile pesticides marketing company of the **United Phosphorus** group, **Uniphos Enterprises Ltd** plans to use gains from a share transfer last week to start a real estate business, retire its debt or pay dividends. *(Mint)*
- **Jet Airways** has said that it has forged a frequent-flyer partnership with the **United Airlines** of the US to boost connectivity on the busy India-US sector. Under the arrangement, frequent fliers of both airlines would be able to earn and redeem points on the entire global network of the United Airlines, which operates over 3,200 flights a day to more than 200 US domestic and international destinations from its five hubs in the US. *(Mint)*

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

EQUITY MARKETS

India	Change, %			
	10-Nov	1-day	1-mo	3-mo
Sensex	10,536	5.7	0.1	(30.5)
Nifty	3,148	5.9	(4.0)	(30.5)

Global/Regional indices				
Dow Jones	8,944	2.9	5.8	(23.8)
FTSE	4,520	3.6	15.0	(17.7)
Nikkie	9,081	5.8	9.7	(31.0)
Hang Seng	14,745	3.5	(0.4)	(32.6)
KOSPI	1,152	1.6	(7.2)	(26.5)

Value traded - India				
	Moving avg, Rs bn			
	10-Nov	1-mo	3-mo	
Cash (NSE+BSE)	126.6	145.0	156.9	
Derivatives (NSE)	369.6	597.7	499	
Deri. open interest	517.1	696	718	

Forex/money market

	Change, basis points			
	10-Nov	1-day	1-mo	3-mo
Rs/US\$	47.3	(47)	(113)	516
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	-	(36)	(139)

Commodity market

	Change, %			
	10-Nov	1-day	1-mo	3-mo
Gold (US\$/OZ)	752.0	2.1	(11.5)	(12.2)
Silver (US\$/OZ)	10.4	3.0	2.8	(32.4)
Crude (US\$/BBL)	59.5	4.3	(22.0)	(47.1)

Net investment (US\$m)

	6-Nov	MTD	CYTD
FIs	(103)	147	(12,610)
MFs	(25)	(160)	3,396

Top movers -3mo basis

Best performers	Change, %			
	10-Nov	1-day	1-mo	3-mo
Bank Of Baroda	298	2.1	7.1	4.0
Hindustan Unilever	252	0.7	13.4	3.9
Bharat Petroleum C	320	(3.2)	(5.7)	1.2
Punjab National Bar	502	1.3	9.1	0.5
Financial Techn (Ind	-	-	-	-

Worst performers				
Housing Developme	127	8.4	37.7	(67.2)
Bajaj Finserv Ltd	133	4.1	(31.8)	(74.2)
Suzlon Energy Limit	69	(2.5)	(26.1)	(72.0)
Unitech Limited	57	11.2	(31.8)	(67.9)
Tata Steel Limited	214	13.1	(25.4)	(67.2)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Consumer products**HLL.BO, Rs252**

Rating	REDUCE
Sector coverage view	Cautious
Target Price (Rs)	245
52W High -Low (Rs)	266 - 169
Market Cap (Rs bn)	547.6

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	137.2	162.5	182.2
Net Profit (Rs bn)	17.7	19.8	23.4
EPS (Rs)	8.1	9.1	10.7
EPS <i>gth</i>	15.4	12.1	17.8
P/E (x)	31.0	27.6	23.4
EV/EBITDA (x)	25.1	21.4	18.0
Div yield (%)	4.3	3.4	4.0

Shareholding, June 2008

	% of	Over/(under)
	Pattern Portfolio	weight
Promoters	52.1	-
FIs	13.9	(0.3)
MFs	4.4	0.5
UTI	-	(1.5)
LIC	6.4	1.0

Hindustan Unilever : Value adjustments in key HPC categories inevitable

Manoj Menon : manoj.menon@kotak.com, +91-22-6749-3391

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

- **Price cuts or value adjustments imminent in key HPC categories; just when is the question**
- **Margin expansion in soaps unlikely, likely in detergents and personal products**
- **'Amaze' marketing mix likely to undergo a review**
- **Retain target price of Rs245/share, reiterate REDUCE on relative valuations**

The unabated cost-led price increases as well as grammage reductions over the last two years has likely resulted in consumers opting to cut down their use of detergents (resulting in longer-than-expected consumer purchase cycles). Channel sources indicate that HUL has recently introduced a LUP version of the 'Amaze' brand (to induce trials)—we believe the product will likely undergo a marketing mix review. The pricing for Amaze at 1.4X price premium to competition has likely resulted in consumer resistance. Margin expansion in soaps unlikely whereas it's likely in detergents and personal products. The sharp correction in input prices augurs well for availability of resources for demand activation. Sources suggest that ITC has significantly increased its promotional spends on soaps (in Andhra Pradesh for 'Vivel' brand). We model 18% earnings growth for HUL in CY2009E on the back of 120 bps expansion in EBITDA margins. We see revenue growth slowing down to 12% in CY2009E (from 18% in CY2008E) due to (1) higher base of CY2008 and (2) deceleration in volume growth to low single digits. At the current market price of Rs251/share, the stock trades at 24X CY2009E. Noting limited upside to our DCF-based one-year target price of Rs245/share and on a relative basis (24% upside in Sensex), we reiterate our REDUCE rating on the stock.

Price adjustments (price cuts / price promotions) imminent in soaps and detergents; just when is the question

We believe that consumers have started rationalizing on the quantum of usage as well as opting for cheaper products in select categories. One of the reasons for the lesser-than-expected volume growth in 3QCY08 was the pack-size reductions effected by HUL in mass market detergents since 2006. Lower volume offtake imply that consumers have started rationalizing on the quantum of usage as the per unit prices are effectively higher. The unabated cost-led price increases as well as grammage reductions over the last two years has likely resulted in consumers opting to rationalize on quantum of usage resulting in longer-than-expected consumer purchase cycles.

'Amaze' brain food marketing mix likely to undergo a review

Channel sources indicate that the company has recently introduced a LUP version of the brand (to induce trials) after about 10 months of test launch in three south Indian states. We recall that in January 2008, HUL had launched a health drink under the 'Amaze' brand, a product under the functional food (brain food) platform targeted at children. We believe that the pricing for Amaze at 1.4X price premium to competition (Horlicks retails at about Rs120 for 500 gms) has likely resulted in consumer resistance.

Margin expansion in soaps unlikely..

The price of crude palm oil (key input for soaps) has corrected over 60% from the peak and is at a two-year low. We estimate CPO (and variants) to account for about 16% of HUL's input costs; a 10% correction in price adds 70 bps to EBITDA and 4% to EPS. However, significant margin expansion is unlikely as (1) industry volumes growth in low single digits, the chances of a price cut/price promotion to stimulate demand is high (2) likely increase in advertisement and promotion to block ITC's task of building personal care brands (3) higher margins in soaps can be channeled for cross-subsidizing demand activation in personal products category (4) early indications of consumer downtrading visible as the 15% soaps volume growth of Godrej Consumer in the recent quarter would suggest and (5) some part of cost benefit will likely be negated due to rupee depreciation. Moreover, sources indicate that ITC has increased the promotional spends in soaps category significantly (in Andhra Pradesh for 'Vivel' brand).

..whereas its likely in detergents and personal products

Our recent discussions with mid-sized detergent companies suggest uptrading from the unorganized segment resulting in high growth for branded players. We believe that players like HUL are well positioned to continue good growth in the category (over 15%). Smaller unorganized players have lost out in the last two years due to (1) implementation of VAT (because of the 'registered dealer' requirement under VAT regulations) (2) non-availability of key raw materials and (3) input inflation. However, we highlight that the risk of marginal players re-emerging is real if the correction in input costs sustains. However, the cost efficiency measures already implemented, moving away from pack-sizes will help companies manage margins to their advantage. 'Wheel', for example, and other brands in the low-end, have moved away from 500 gm and 1 kg pack-sizes to retail at various pack-size points of 340 gm, 630 gm etc. (though 500g and 1 kg packs of 'Wheel' detergent have been reintroduced in select geographies). Moreover, we believe that the pricing power in the personal products (PP) category is high and the 40% correction in HDPE prices augurs well for availability of resources (for demand activation).

The history of market shares losses for HUL in all key categories over a 1, 3 and 8 year horizon suggests that there is competition with significant market share ambitions and hence the ability for HUL to retain gains from cost comfort is limited.

HUL management reiterates that focus on market development will continue

In a recent meeting with HUL management, the company reiterated the focus on market development and growing the size of the market by driving increase in number of use-occasions. Growth in modern retail is seen as a key driver for the expansion of nascent categories like soups, cooking aids, ice creams etc. HUL will drive 'masstige' products with attributes of (1) product claims which are justifiable for the price charged and (2) products delivering functional value. According to the company, the paradigms are changing in key categories like skincare where the product is associated more (today) with grooming rather than beauty earlier.

HUL is planning to prototype a new formulation in soaps, about 10-15% of fatty matter to be replaced with starch

Sources indicate that HUL is planning to prototype a new formulation in soaps where 10-15% of fatty matter is to be replaced with starch. The company is setting up facilities at key soap manufacturing locations for the formulation change. Currently, the TFM (total fatty matter) in key soap brands of HUL (Lux, Lifebuoy, Hamam and Breeze and excluding Dove, Pears etc) range between 60% and 80%. We believe that HUL's new technology, if successful, can likely lead to dramatic cost reduction in soap making. Success will depend upon consumer acceptance. We estimate that complete success with this move will likely result in an incremental 5% boost to annual profit growth over the next two years. Our estimates currently exclude any margin expansion due to success with such technology initiatives. We remain cautious about the success of such ventures and highlight an earlier move in 2003 when 'Alphos' technology actually dented the brand equity of 'Breeze' soap.

Development of Foods category will be a slow accretive process

We believe that HUL is developing the foods business on four planks (1) child nutrition (2) adult nutrition (3) cooking aids and soups and (4) vitality-based snacking (salt free / sugar free etc). While we are excited about the niches which HUL is trying to build (for example, category captaincy for 'Knorr' brand in soups/cooking aids and healthfood under the brainfood platform without taking on malted health drinks directly), we highlight that it will be a slow accretive process which will likely bear fruit over 3-5 years.

Retain target price of Rs245/share, reiterate REDUCE

We model 18% earnings growth for HUL in CY09E on the back of 120 bps expansion in EBITDA margins. We see revenue growth slowing down to 12% in CY2009E (from 18% in CY2008E) due to (1) higher base of CY2008 and (2) deceleration in volume growth to low single digits. We note that yet-to-be-anniversaried price increases provide about 8% topline growth for CY2009E. We believe that holding on to the MRP in key categories is difficult from now on and competitive pressures warrant higher trade spends.

At the current market price of Rs251/share, the stock trades at 27X CY2008E and 24X CY2009E. Noting limited upside to our DCF-based one-year target price of Rs245/share and on a relative basis (24% upside in Sensex), we reiterate our REDUCE rating and advice clients to sell into strength. The stock has demonstrated excellent defensive characteristics and has delivered a relative return (*vis-à-vis* Sensex) of 13%, 27% and 52% over the past 1, 6 and 12 months, respectively. We believe that business fundamentals do not support a case for absolute stock performance from now on.

Over the past three and five years, the minimum, maximum and average P/E commanded by HUL stock was 22X, 41X, 28X and 19X, 41X, 27X, respectively. In the past one year, the stock has delivered absolute returns of 34% (30% stock return plus dividend yield) and the current relative premium to Sensex P/E is the highest in a decade at 150%. We believe that given the strong headwinds faced by HUL's business in CY09E, the stock will likely trade closer to the lower-end of trading band. At our target price of Rs245/share, the stock would trade at 23XCY09E.

However, visibility of earnings, good dividend yield (4%) and market leadership position makes HUL an excellent defensive stock to own in volatile times. Key upside risks to our estimates include (1) ability to channelize emerging cost comfort to below-the-line activities and attain higher volume growth, (2) effective price increases through pack-size reduction in HPC without significantly impacting product demand and (3) inability of ITC to gain significant market share in HPC categories.

History of consistent market share losses doesnot provide confidence in sustainable growth

Changes in value market shares (bps)

Timeline	Period	Soaps	Detergents	Toothpaste	Shampoo	Skin	Tea
2000-2008	8-years	(890)	(360)	(580)	(1980)	(330)	(1310)
2005-2008	3-years	(460)	110	(250)	(110)	(450)	(550)
2006-2008	1-year	(470)	360	(80)	(220)	(320)	(20)
Current market share (%)		50.3	37.9	29.6	46.1	52.7	23.3

Source: Company, Kotak Institutional Equities.

Market shares indicates significant deterioration in leadership position

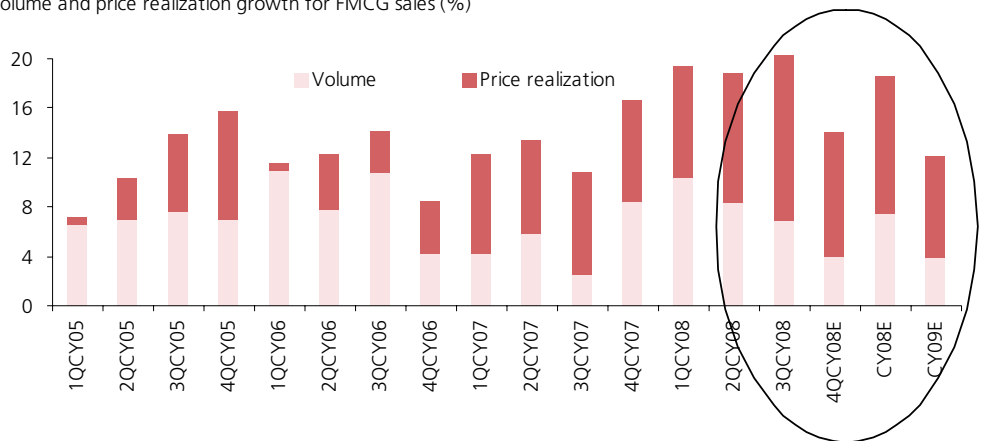
Value market shares for 3QCY08 (%), market share movements (bps)

Category	Market share	Remarks
Detergents	37.9	Price hikes hurting consumption
Personal Wash	50.3	Downtrading
Hair	46.1	Category getting crowded with entry of many new players and existing players getting aggressive
Skincare	52.7	Consumer fatigue in Fair and Lovely?
Toothpaste	29.6	Non-focus category with objective to maintain current position, Pepsodent 'Mahapack' helps maintain shares
Tea	23.3	Promotions led share gains; uptrading from loose tea benefiting HUL as well
Coffee	47.1	Both instant and conventional coffee gain, Bru getting thought leadership in the category

Source: Company data for market share, Kotak Institutional Equities.

Disappointing volume growth - 7% volume growth in 3QCY08 on the back of 2.5% in base

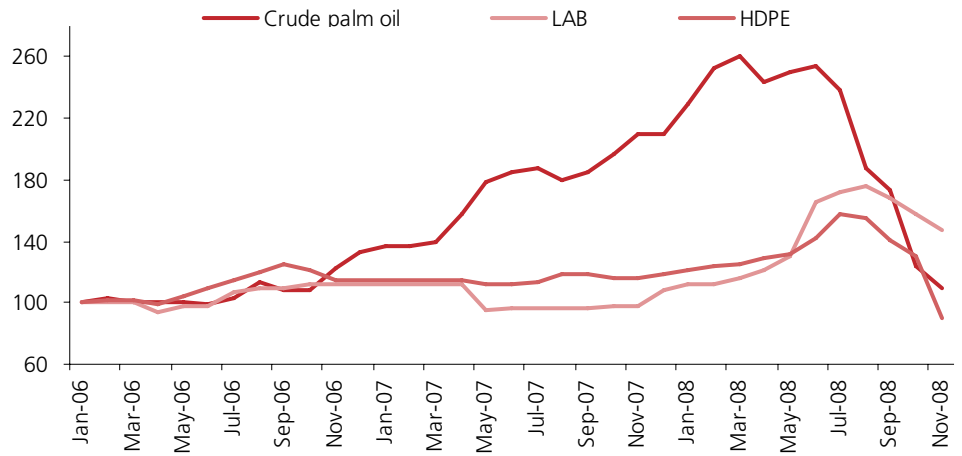
Volume and price realization growth for FMCG sales (%)



Source: Company data, Kotak Institutional Equities estimates.

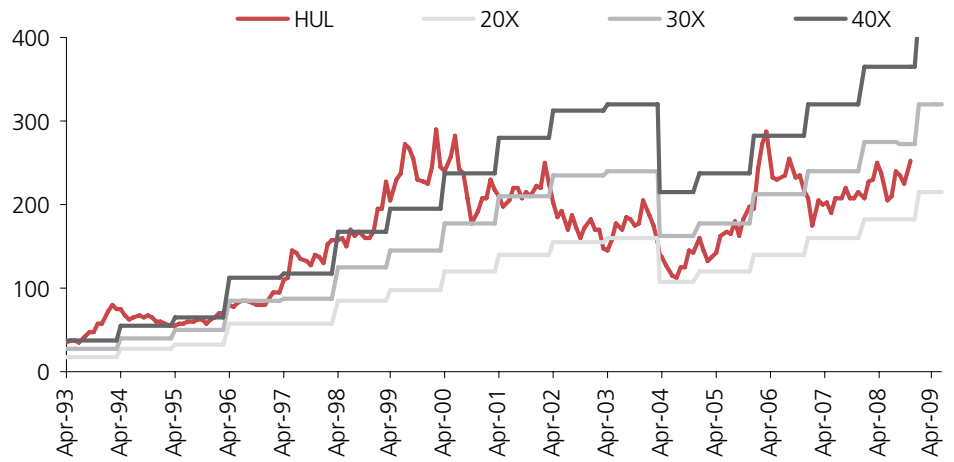
Emerging cost comfort augurs well for detergents' margin expansion in CY09E, price cuts in soaps and higher promotional spends inevitable

Key raw material price trends (January 2006 = Index 100)



Source: Bloomberg, Reliance Industries, Kotak Institutional Equities

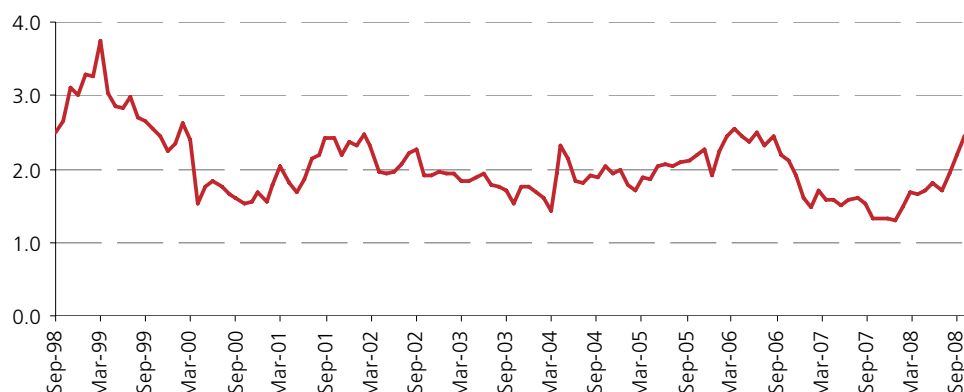
HUL - P/E bands (one year forward)



Source: Kotak Institutional Equities

Excellent defensive characteristics demonstrated by the stock in CY2008

Relative P/E of HUL over Sensex (x)



Source : Kotak Institutional Equities

HUL: Profit model, balance sheet, cash model 2005-2009E, December year-ends (Rs mn)

	2005	2006	2007	2008E	2009E
Profit model (Rs mn)					
Net sales	110,605	121,034	137,178	162,548	182,225
EBITDA	14,433	16,621	18,874	21,018	25,656
Other income	3,048	3,545	4,627	5,669	5,705
Interest	(192)	(107)	(255)	(225)	(75)
Depreciation	(1,245)	(1,302)	(1,384)	(1,531)	(1,808)
Extraordinary items	976	3,155	1,581	0	0
Pretax profits	16,045	18,757	21,862	24,931	29,479
Tax	(2,530)	(2,950)	(3,782)	(4,175)	(4,954)
Deferred taxation	(410)	(268)	(389)	(929)	(1,159)
Net profit	13,105	15,539	17,690	19,827	23,366
Earnings per share (Rs)	6.0	7.0	8.0	9.1	10.7
Dividend per share (Rs)	6.0	6.0	9.0	9.0	10.0
Balance sheet (Rs mn)					
Total equity	23,056	27,235	14,392	15,465	16,729
Total borrowings	569	726	885	885	885
Current liabilities	41,183	45,231	51,110	56,928	63,019
Total liabilities and equity	64,809	73,191	66,387	73,278	80,633
Cash	3,550	4,169	2,009	1,120	2,449
Current assets	24,080	27,527	30,765	33,222	36,741
Total fixed assets	14,835	15,110	17,081	20,109	23,775
Investments	20,142	24,139	14,408	17,632	17,632
Deferred tax asset	2,201	2,245	2,124	1,195	36
Total assets	64,809	73,191	66,387	73,278	80,633
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,908	20,209	20,860	22,362	26,415
Working capital	5,858	(471)	3,092	4,563	1,553
Capital expenditure	(904)	(1,576)	(3,355)	(4,558)	(5,474)
Investments	2,452	(4,309)	9,294	(3,224)	0
Free cash flow	23,314	13,852	29,890	19,144	22,493
Key assumptions					
Revenue Growth (%)	11.4	9.4	13.3	18.5	12.1
EBITDA Margin(%)	13.2	13.9	14.0	12.9	14.1
EPS Growth (%)	10.6	18.3	13.8	13.6	17.8

Source: Kotak Institutional Equities estimates.

Consumer sector stocks have outperformed Sensex by 31% over the last one year

Company	Price (Rs)	Mkt Cap (Rs mn)	Absolute Change, %			Relative Change, %			52 Week	
			1-mo	6-mo	1-Year	1-mo	6-mo	1-Year	High	Low
Hindustan Unilever	252	547,632	13	(0)	30	13	27	52	266	169
ITC	172	649,332	5	(21)	2	5	12	32	239	132
Nestle India	1,395	134,510	(9)	(23)	(5)	(9)	10	27	1,880	1,200
Colgate-Palmolive	387	52,622	4	(12)	2	4	18	32	525	316
Godrej Consumer Products	113	29,166	6	(18)	(7)	5	14	26	158	87
GlaxoSmithkline Consumer	551	23,189	1	(21)	(10)	1	11	24	799	489
Asian Paints	957	91,757	(1)	(22)	(7)	(1)	11	26	1,334	826
Jyothy Laboratories	233	3,375	(13)	(59)	NM	(13)	(16)	NM	964	210
Tata Tea	530	32,772	(8)	(41)	(33)	(8)	(3)	8	1,015	470
Consumer Products		1,564,355	6	(15)	8	16	21	31		
Sensex	10,536		0	(37)	(44)					

Note : Closing prices as of 10th November 2008.

Source : Kotak Institutional Equities

Media**ZEE.BO, Rs145**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	205
52W High -Low (Rs)	338 - 91
Market Cap (Rs bn)	63.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	18.4	22.6	25.5
Net Profit (Rs bn)	3.9	4.2	5.2
EPS (Rs)	8.9	9.7	12.0
EPS gth	62.6	9.1	24.0
P/E (x)	16.4	15.0	12.1
EV/EBITDA (x)	12.0	10.0	8.1
Div yield (%)	1.4	1.7	2.2

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	41.5	-
FII's	25.9	0.3
MFI's	11.6	0.8
UTI	-	(0.2)
LIC	9.6	0.3

Zee Entertainment Enterprises : Content producers versus union workers—trouble brewing in Hindi general entertainment

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392

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

- **Content producers balk at 80-100% wage increase demanded by union workers**
- **No new programming for Hindi GE channels; broadcasters refuse to get involved**
- **Impact on Hindi GE broadcasters dependent on length of impasse, settlement**
- **Retain BUY on ZEEL; recommend buying on weakness due to this dispute**

We expect the current stand-off between content producers and the union workers to have a modest impact on the ad revenues of Hindi GE channels as there will be no new programming on Hindi GE channels starting November 10, 2008. The broadcasters have noted that they are not a party to the wage negotiations and will pay producers based on previously contracted pricing. We believe the two sides, producers and workers, stand to lose significantly due to the freeze on new programming initiated by top seven Hindi GE broadcasters as a result of this dispute and thus, some settlement can be expected soon. We will wait for further developments on this issue before reviewing our earnings models of ZEEL. We retain our BUY rating on the stock with 12-month DCF-based target price of Rs205; any weakness in the stock due to the standoff may be a good buying opportunity. Key risks include further decline in ZTV/ZEEL ratings resulting in loss of ad revenues.

Producer-worker dispute to have modest impact on broadcasters. The Federation of Western India Cine Employees (FWICE) has started an agitation against all production houses, which provide content to Hindi general entertainment channels, demanding better wages and working hours for its members. This has adversely impacted the production of new content for Hindi GE channels; the top seven broadcasters (Star, Zee, Sony, Sahara, Colors, 9X and NDTV Imagine) have discontinued new programming on their channels starting November 10, 2008 and will telecast only repeat content till such time as the dispute is amicably resolved. This move will likely impact the ad revenues of ZEEL (see Exhibit 1) since repeat programming will not deliver the same TRP ratings as original content; However, the impact will likely be modest as this move forces producers and workers to come to the negotiation table, given significant loss of business, and quickly settle the dispute.

Workers' demands and its impact on production houses. The two key contentious issues between content producers and union workers are—(1) reduction in number of daily work hours to 8-10 hours from 12-16 hours currently and (2) 80-100% increase in hourly wages to compensate for the steep increase in cost of living (inflation) and reduced work time. Our analysis of the financials of Balaji Telefilms, the leading content provider to Hindi GE channels, reveals significant erosion in EBITDA margins if it completely agrees to the demands of the unions (see Exhibit 2) without any corresponding compensation from the broadcasters. We highlight that the broadcasters have already said that they are not a party to the dispute and will make payments to content providers only on the basis on contracted pricing. The move by broadcasters to discontinue new programming forces the producers and unions to come to the bargaining table.

Retain BUY on ZEEL given attractive valuations; any weakness due to said dispute may provide good entry point. As noted previously, we do not expect the dispute to continue for a very long time given the proactive action by broadcasters. Therefore, any short-term weakness in the stock due to negative news-flow as a result of the said dispute may provide an attractive entry point; we note that ZEEL is trading at 12.1X FY2010E EPS and 8.4X FY2010E EBITDA. However, we also highlight that the broadcasters may have to step-in to share the burden on the content producers in the event of a protracted dispute (more than 4-5 weeks). Exhibit 3 shows that a moderate increase in ZEEL's cost of programming to partially compensate content producers for the wage increase does not have a significant impact on valuation; a 6% increase in cost of programming, which translates into a 20% wage increase for workers, has a 7% impact on ZEEL's valuation.

Ratings update—Diwali and content disruptions impact performance. Exhibits 4 & 5 show the primetime TRP ratings and GRPs of various Hindi GE channels; we note the sharp decline in GRPs for the Hindi GE segment, most notably Star Plus and ZTV, in the most recent week due to (1) festive season and a long weekend and (2) disruptions in procurement of new programming as a result of the producer-worker dispute discussed above. We note that most channels had to telecast repeat programming for at least two days during the last week, which resulted in loss of viewership. Also, we highlight that Colors was an exception since its 7-days-a-week flagship show, *Big Boss*, remained out of the ambit of the programming freeze due to certain technical issues. In order for the situation to be fair to all broadcasters, Colors has agreed to cut the length of the show by one week and the program will now finish on November 22, 2008. Thus, we believe the TRP ratings this week to be an aberration and not indicative of long-term trends.

Impact of producer-worker dispute on financials of ZEEL

Length of delay due to dispute	Base	1 week	2 week	3 week	4 week
Normal ad revenue generated (Rs mn)	100	100	200	300	400
Revised ad revenue generated (Rs mn) (a)	100	50	100	150	200
Total FY2009E ad revenues	11,427	11,377	11,327	11,277	11,227
Total FY2009E revenues	22,552	22,502	22,452	22,402	22,352
Total FY2009E EBITDA	6,256	6,206	6,156	6,106	6,056
ZEEL FY2009E EPS	9.7	9.6	9.5	9.3	9.2
12-month DCF-based value	206	205	205	205	205

Notes:

(a) Assuming 50% decline in TRP ratings and thus, 50% loss in ad revenues.

Source: Kotak Institutional Equities estimates

Impact of producer-worker dispute on financials of Balaji Telefilms, 2QFY09

Change in artist fees	Base	+20%	+40%	+60%	+80%	+100%
Total revenues	1,034	1,034	1,034	1,034	1,034	1,034
Total expenditure	803	867	931	995	1,059	1,123
of which, total production cost	581	645	709	773	837	901
of which, artist and technician fees	320	384	448	512	576	640
Total EBITDA	231	167	103	39	(25)	(89)
EBITDA margin (%)	22.3	16.2	10.0	3.8	(2.4)	(8.6)
Increase in artist and technician fees	—	64	128	192	256	320
Increase in total realizations (a)	1,034	1,098	1,162	1,226	1,290	1,354
Increase in pricing of content	—	6.2	12.4	18.5	24.7	30.9

Notes:

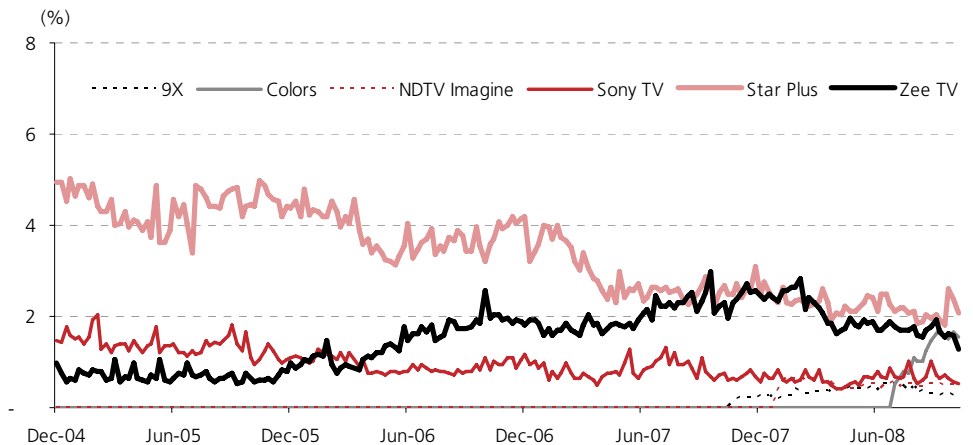
(a) The increase in realizations is to negate the impact of increased artist and technician fees.

Source: Kotak Institutional Equities estimates

Impact of producer-worker dispute on financials of ZEEL

Change in pricing of content	Base	+6.2%	+12.4%	+18.5%
Total FY2010E revenues	25,456	25,456	25,456	25,456
Total FY2010E operating expenditure	17,984	18,277	18,570	18,858
of which, programming costs	8,015	8,308	8,601	8,889
of which, ZTV programming costs	4,723	5,016	5,309	5,597
Total FY2010E EBITDA	7,471	7,179	6,886	6,598
ZEEL FY2010E EPS	12.0	11.3	10.7	10.0
12-month DCF-based value	206	191	176	162

Source: Kotak Institutional Equities estimates

Primetime (7:30-11:30 PM) ratings of Hindi general entertainment channels (%)

Source: TAM Media Research, compiled by Kotak Institutional Equities

GRPs (gross rating points) of Hindi general entertainment channels

Week beginning:	07-Sep-08	14-Sep-08	21-Sep-08	28-Sep-08	05-Oct-08	12-Oct-08	19-Oct-08	26-Oct-08
Hindi GE GRPs post-Colors launch								
1 9X	56	57	59	58	57	54	54	54
2 Colors	198	217	236	250	233	224	215	221
3 NDTV Imagine	74	80	84	78	74	77	73	76
4 Sahara One	66	66	65	69	71	57	60	58
5 Sony TV	98	127	111	105	113	103	86	93
6 Star One	78	85	73	100	83	82	73	81
7 Star Plus	289	287	298	278	271	323	310	271
8 UTV Bindass	17	16	14	12	15	13	11	15
9 Zee TV	212	232	236	220	194	201	198	171
Total	1,088	1,167	1,176	1,169	1,110	1,135	1,080	1,040

Source: TAM Media Research, compiled by Kotak Institutional Equities

Retail**VIRL.BO, Rs82**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	125
52W High -Low (Rs)	1020 - 76
Market Cap (Rs bn)	1.8

Financials

Ma y/e	2008	2009E	2010E
Sales (Rs bn)	10.1	16.9	22.5
Net Profit (Rs bn)	0.4	0.3	0.5
EPS (Rs)	18.1	15.0	23.3
EPS gth	38.3	(17.7)	56.9
P/E (x)	4.5	5.5	3.5
EV/EBITDA (x)	5.3	4.6	3.3
Div yield (%)	-	-	-

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	-	-
FIs	-	-
MFs	-	-
UTI	-	-
LIC	-	-

Vishal Retail : Tough times call for tough measures

Ravi Agrawal : ravi.agrawal@kotak.com, +91-22-66341348

- **Current market turbulence force strategic re-think, growth plans severely curtailed**
- **Focus on improving balance sheet health and reducing inefficiencies**
- **Modelling in virtual stress-case scenario; earnings to grow at 14% CAGR over FY2008-11E**
- **Revise target price to Rs125 and retain ADD rating**

Vishal Retail (VISH) has done a complete strategic review of its short term growth plans due to the current market turbulence. The company has deferred its planned QIP due to adverse equity market conditions and has also decided to focus on de-leveraging its balance sheet. The company has decided to curtail its growth plans and is now planning on the franchisee-based model for incremental growth. We endorse the management's strategy on improving its balance sheet, but also believe that the risks to growth have increased in this transition. We now model virtual stress-case scenarios (with marginal retail space addition) and expect Vishal's earnings to grow at 14% CAGR over FY08-11E (versus around 44% earlier). The stock is trading at 5X FY09E earnings and we retain our ADD rating.

Current market turbulence force strategic re-think

VISH has been forced by current market turbulence to do a complete strategic review of its business plans. The company has shelved its QIP plans in the short-term due to the adverse equity markets. It has also decided to drastically cut down on its new store additions and focus on de-leveraging its balance sheet. Incremental retail addition, in the next 12-15 months, will now come from franchisee-based stores rather than own stores. The company hopes that this will help it to reduce its capex and inventory requirements (which will be borne by the franchisee).

VISH expects to add around 0.2 mn sq. ft of incremental space from around 40-50 franchisee stores during 2HFY09. Most of these stores will be small-format (2,000-4,000 sq. ft size). More dramatic, VISH has decided to completely freeze its own store additions, with strong focus on reducing the high leverage on its balance sheet.

Focus on improving health of balance sheet at cost of growth

VISH's short term strategy is now focused on reducing its overall gross debt. As the company continued to rapidly expand its retail footprint (total retail space has increased to 3 mn sq. ft. currently from around 2.1 mn sq. ft at end FY2008), gross debt has sharply increased to around Rs8.1 bn (mainly working capital loans) at end of 2QFY09 from around Rs5.3 bn at end FY2008). As anticipated, this has led to very high leverage, with current debt-equity ratios of around 2.66 from around 1.9 at end FY2008.

VISH now plans to focus on reducing this leverage. One avenue is to reduce its retail space addition, which will incrementally reduce requirements for inventory and capex. It also has embarked on a process of vendor rationalization and now plans to purchase larger quantities from fewer vendors on credit. It's focus on inventory reduction is already bearing fruit. Excluding seasonal purchases (due to festival season in October), total inventory per sq. ft was Rs2,400 versus around Rs3,000 in the previous quarter. Moreover, it has also decided to reduce its total number of warehouses by 30% (total warehousing space was 1.1 mn sq. ft during 2QFY09).

We endorse management efforts in this direction. As highlighted in our previous notes, we have always believed that the key challenge to management growth plans would be funding for growth. Hence, we had always preferred to be more conservative in our estimates (our original estimates of 7 mn sq. ft of total retail space was 30% lower than management's estimates of 10 mn sq. ft). We believe that a temporary pause to growth is not necessarily a bad strategy for a company of Vishal's balance sheet size, and the resultant period can actually be utilized by Vishal to not only shore up its balance sheet but also to focus more on its private-label strategy and streamline procurement strategies.

Franchisee model has different set of challenges

A key element of Vishal's new strategy is the reliance on franchisees for incremental growth in retail space and sales. Vishal is currently already in talks for around 40-50 stores by end FY2009 with a total retail space addition of 0.2mn sq. ft. Under this model, the franchisee will be responsible for the land (including capex) maintain inventory on his books and be responsible for shrinkages. Vishal will be responsible for the merchandizing, advertising and the IT systems and would have to take into account for dead inventory. For this arrangement, the franchisee would get a percentage of sales as commissions. The commission rates will be based on sales targets. We estimate that Vishal will pay around 20% of sales as commissions.

We believe that the overall growth risks to the company has increased due to this transition and expect this policy to be a more temporary short-term measure than a continual policy in the firm. Historically, franchisees have proven to be extremely difficult to manage. EBITDA margins will be lower with the franchisee model. Moreover, we believe that there could be issues in managing the branding and the coordinating the overall sales effort of the firm.

Change in estimates

Exhibit 1 highlights the key changes in our estimates, incorporating above mentioned changes.

- 1) Retail space addition.** We reduce our total retail space addition to 4.1 mn sq. ft by FY2011E from around 7mn sq. ft earlier. This sharp reduction is based on absolute marginal increase in space addition in own stores (flat in 2HFY09 and 0.5 mn in the next two years) and around 0.6 mn sq. ft of franchisee stores. We recognize that the actual own-store ramp up in FY2011E could be higher, post rationalization of balance sheet but prefer to be conservative in our estimates.
- 2) Sales growth.** We reduce our sales estimates by 25% and 39% in FY2010E and FY2011E, partly as a response to the lower retail space addition. We highlight that we maintain our assumption of flat same-store-sales (SSS) growth in FY2009 and 5% growth p.a subsequently for own stores. We have assumed flat SSS for franchisee stores.
- 3) EBITDA margins to decline 130-170 bps.** EBITDA margins are expected to decline in FY2010-11E as the franchisee model will likely have lower margins than own stores. We expect EBITDA margins of 9-10% in the franchisee model versus around 11-12% in the own store segment.
- 4) Working capital positive and lower capex.** We expect working capital requirements to substantially reduce in FY2010-11E. We now expect working capital to be marginally positive from around Rs6 bn negative previously estimated for FY10/11E. Similarly, we drastically reduce our capex requirements to Rs1.2 bn in FY10/11E from around Rs5 bn earlier.
- 5) Interest costs to reduce due to lower debt levels:** We reduce our interest expense estimates by 27% and 47% in FY2010E and FY2011E respectively, as we now build in total gross debt of Rs6.2 bn and Rs5.6 bn in FY2010E and FY2011E against our earlier estimates of Rs11 bn and Rs15 bn of debt. Debt-equity ratios should likely reduce to 1.8 in FY2010E from around 2.66 currently.

Our new P/E based target price is Rs125 and we retain ADD rating

We set a new revised target price of Rs125 (Rs485 earlier) based on 6X FY2010E EPS. We highlight that the relative valuations are 60% lower than Pantaloon's, reflecting a very conservative scenario for Vishal's operations. While some conservatism maybe in order and we expect the street to wait for actual positive impact of balance sheet restructuring to flow in, we also highlight that the current earnings profile have extremely high visibility given that the expectation of retail space addition is virtually nil. Hence we believe the expected earnings actually represent a virtual stress-case scenario. The key risk here would be SSS growth, which at flat for FY09 (versus 7% achieved in 1HFY09) and 5% each for FY10E and FY11E, respectively, seems reasonable.

At current price, the stock is trading at 6X FY2009E earnings. We retain our ADD rating.

Key changes in estimates for 2009/11E, March fiscal year-ends, (Rs mn)

	New			Old			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Total retail space (mn sq. ft)	3.2	3.6	4.1	3.7	5.1	7.0	(14)	(29)	(41)
- Own	3.0	3.2	3.5	3.7	5.1	7.0	(19)	(37)	(50)
- Franchisee	0.2	0.4	0.6	—	—	—			
Gross sales	16,910	21,838	25,413	18,778	29,295	41,509	(10)	(25)	(39)
- Own stores	16,340	20,128	22,563	18,778	29,295	41,509	(13)	(31)	(46)
- Franchisee stores	570	1,710	2,850	—	—	—			
COS	(7,577)	(9,624)	(11,003)	(11,319)	(17,924)	(25,782)	(33)	(46)	(57)
Gross profit margin (%)	39.1	37.3	35.7	39.7	38.8	37.9			
EBITDA	1,897	2,326	2,606	2,253	3,523	5,030	(16)	(34)	(48)
EBITDA margin	11.2	10.7	10.3	12.0	12.0	12.1			
Depreciation & amortization	(461)	(594)	(678)	(524)	(833)	(1,183)	(12)	(29)	(43)
Interest and fin costs	(1,011)	(1,113)	(1,101)	(1,049)	(1,532)	(2,084)	(4)	(27)	(47)
PBT	505	699	906	731	1,208	1,813	(31)	(42)	(50)
PAT	334	462	599	483	798	1,198	(31)	(42)	(50)

Source: Kotak Institutional Equities estimates

Vishal Retail: Franchisee model assumptions

Key franchisee estimates for 2009/11, March fiscal year-ends, (Rs mn)

	2009E	2010E	2011E	yoy change (%)	
				2010E	2011E
Gross sales	570	1,710	2,850	200	67
COS	(454)	(1,384)	(2,321)	205	68
Gross Profit	116	326	529	182	62
EBITDA	53	142	230	169	62
EBITDA margin	9.3	8.3	8.1		

Note:

(1) yoy comparisons for FY2010E are against a 6 month base in FY2009

Source: Kotak Institutional Equities estimates

Vishal Retail: Abridged Profit model, balance sheet, cash model, March fiscal year-ends, 2005-11E, (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Profit Model (Rs mn)							
Total income (inc. other op. income)	1,463	2,886	6,026	10,076	16,910	21,838	25,413
EBITDA	89	266	680	1,242	1,897	2,326	2,606
<i>EBITDA margin (%)</i>	6.1	9.2	11.3	12.3	11.2	10.7	10.3
Depreciation	(29)	(54)	(153)	(276)	(461)	(594)	(678)
Other Income (inc. extraordinaries)	1	3	15	54	80	80	80
EBIT	62	215	542	1,021	1,516	1,812	2,008
Net finance cost	(12)	(31)	(157)	(390)	(1,011)	(1,113)	(1,101)
Profit before tax	50	184	385	631	505	699	906
Tax	(20)	(62)	(143)	(225)	(171)	(237)	(307)
Reported net profit	30	122	242	405	334	462	599
Reported EPS (Rs)	2.0	7.4	13.2	18.1	14.9	20.6	26.8
Balance Sheet (Rs mn)							
Total Equity	303	727	1,268	2,712	3,045	3,507	4,106
Deferred tax liability	11	13	18	22	22	22	22
Total borrowings	223	550	2,432	5,328	7,328	6,228	5,628
Current liabilities & provisions	107	302	672	1,566	3,240	3,905	4,417
Total Liabilities and equity	644	1,592	4,390	9,628	13,635	13,662	14,173
Cash	22	83	152	550	464	98	27
Current assets excl. cash	435	1,109	3,156	6,783	9,997	10,423	11,043
Total net fixed assets	186	400	1,082	2,294	3,173	3,139	3,101
Investments	—	—	—	1	1	1	1
Miscellaneous expenditure	—	—	—	—	—	—	—
Total assets	644	1,592	4,390	9,628	13,635	13,662	14,173
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	64	177	400	685	795	1,056	1,277
Working capital	(240)	(479)	(1,677)	(2,733)	(1,541)	239	(108)
Capital expenditure	(117)	(266)	(834)	(1,488)	(1,340)	(560)	(640)
Free cash flow	(293)	(568)	(2,110)	(3,536)	(2,086)	735	529

Source: Company, Kotak Institutional Equities estimates

Property

Sector coverage view

Neutral

Company	Rating	Price, Rs	
		10-Nov	Target
MLife	BUY	188	500
Sobha	REDUCE	112	250
DLF	BUY	299	440
Unitech	REDUCE	57	100
HDIL	BUY	127	380
Puravankara P	ADD	58	120
Phoenix Mills	BUY	65	280
Indiabulls Real I	BUY	154	275
IVR Prime	BUY	49	170

2QFY09 results review; Balance sheet issues gaining prominence

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Consensus estimates revised downgrades sharply to adjust for low new launches**
- **Balance sheet tracker—Low level of operating cash flows, balance sheet leverage remains a concern**
- **Observe select new launches—DLF, IBREL launch a few projects**
- **Re-iterate BUY on DLF, IBREL and PHNX**

Real estate companies under coverage universe for 2QFY09 showed 8.3% increase yoy in revenues and 3.4% decline yoy in PAT on an aggregate basis. EBITDA margins came down by 350bps yoy driven mainly by DLF. We believe operating cashflow, balance sheet leverage and number of new launches are the key quarterly parameters to track for real estate companies. DLF and HDIL started generating operating cashflow from 2QFY09, albeit in a small manner. We observe few project launches (mainly by DLF and IBREL) and would anticipate more activity on this front in 2HFY09. Balance sheet quality will likely remain of paramount importance in the current tight liquidity environment and would prefer companies which, (1) generate operating cash flows, (2) show progress on projects, and (3) have low leverage. We would reiterate our BUY rating on DLF, IBREL and PHNX.

Reiterate BUY on DLF, IBREL and PHNX

Exhibit 2 summarizes performance on nine companies in our coverage universe on various parameters like—(1) operating cash flow, (2) increase in debt, (3) new launches/project progress, (4) balance sheet comfort and (5) consensus EPS downgrades for FY2009E EPS. Based on these parameters, DLF had the best quarterly performance with positive operating cashflows, new launches and least consensus downgrades. IBREL stands out on balance sheet strength and management reaffirmed cash position of the company. We saw largest increase in debt levels (as proportion to total debt) in Unitech, Puravankara and Sobha. DLF, PHNX, HDIL and IBREL showed progress in terms of new launches or construction of key projects. Based on comparative quarterly performance we re-iterate BUY on DLF, IBREL and PHNX. Exhibit 3 gives comparative valuation for real estate companies.

Importance of quarterly results—indicates direction of NAV movement

We highlight that the quarterly results of real estate companies have been difficult to forecast and compare on account of various factors (1) revenue mix between commercial, vertical and residential, (2) uneven launch schedules, (3) different accounting policies, (4) land/FSI sales, and (5) geographical mix of revenues. As a result, EBITDA margins of various companies have been very volatile. Therefore, it is important to observe trend of past few quarters vis-à-vis consensus expectations while reaching various conclusions. We note that continuous underperformance will indicate slower-than-expected monetization of land bank and hence this will result in NAV downgrades. For 2QFY09, we observe largest earnings downgrades in Unitech, Puravankara and Sobha Developers.

Exhibit 4 highlights the sharp downgrades in consensus estimates post 2QFY09 results. We observe sharper downgrades in FY2010E estimates as street adjusts their estimates for slower new launches going forward. DLF has seen the least revision in estimates and the consensus estimates an EPS of Rs48/share for FY2009E (versus our estimate of Rs44/share) and Rs53/share for FY2010E (versus our estimate of Rs47/share). We note that we are below consensus estimates for most companies. Most companies in our coverage companies have already achieved almost 50% of our FY2009E PAT, indicating limited downside risks to our estimates (Exhibit 5).

We observe selective new launches; pricing to be the key going forward

We list the project launches by companies.

DLF—During 2QFY09, DLF launched residential project in Kochi and New Gurgaon. DLF has pre-launched three projects in 2QFY09 and will formally launch these in 3QFY09—Hyderabad (Kompally), Gurgaon (Regal Towers) and Bangalore (Bannerghatta road). Furthermore in 3QFY09, DLF will launch new projects in Delhi (SBM), Kasauli, Indore, Goa and Hyderabad. We like DLF's pricing strategy as DLF is launching projects after assessing the affordability of each market and would attribute successful launches to their strategy. DLF will likely be the largest beneficiary when interest rates decline on account of affordable prices and large geographical spread of projects.

Unitech—Launched Nirvana County in Kolkata.

Indiabulls Real Estate—Has soft launched apartments at Rs2,800/sq. ft in OMR, Chennai and plotted development at the rate of Rs8,000/sq. yard in Sonepat. Management indicated that they have leased 1.2 mn sq. ft at One Indiabulls Center, Mumbai at rates of Rs275/sq. ft/month.

HDIL—Construction work on Phase-I of airport slum rehabilitation is moving at a fast pace. HDIL sold 1.5 mn sq. ft of TDRs accruing from airport SRA project in 2QFY09. However, we note that progress on other projects of HDIL was slower-than-expected.

Sobha—Sobha had two new launches in 2QFY09—(1) 40 premium villas in the second phase of Sobha City in Thrissur, Kerala and (2) Sobha Scarlet in Mysore to be developed over 14.2 acres. We note that there were no new launches in Bangalore.

Puravankara—no new launches this quarter.

IVR Prime—no new launches this quarter.

Key balance sheet items—Leverage and receivables

Exhibit 6 shows the balance sheet of real estate companies in 2QFY09. We believe financing will likely remain a constraint for this sector and we would prefer companies with—(1) healthy balance sheet and (2) positive operating cash flows. We discuss company specific developments below.

DLF. DLF receivables have shown a sharp upward trend over the past four quarters. DLF's DAL debtors rose by Rs14.7 bn to Rs48 bn and non-DAL debtors increased by Rs8 bn. During 1HFY09, DAL debtors have increased by Rs30 bn while non-DAL debtors have declined by Rs10 bn. Therefore, DLF received customer inflows of Rs57 bn in 1HFY09. We think DAL financing will be difficult in the current macro environment and would closely monitor developments in this regard. DLF also generated operating cash flows of Rs7.5 bn 2QFY09 as it has slowed down on fresh land acquisitions and is concentrating on monetizing assets more rapidly. This has resulted in debt levels of DLF remaining stable at Rs146 bn at end-2QFY09 and cash balances of Rs12 bn.

Unitech. We would like to highlight that Unitech has a leveraged balance sheet with a D/E of 2.4X as of September 2008 (Debt: Rs100 bn, cash: Rs17 bn and net worth: Rs41 bn) and absolute debt levels have been rising for the past few quarters. We view recent steps taken by the management like raising funds for Mumbai project and sale of strategic stake to Telenor as positive. We expect Unitech to benefit from the Telenor deal as Unitech would receive Rs7.8 bn from Unitech Wireless, which could be used to retire debt.

Indiabulls Real Estate. The management reaffirmed that IBREL has a cash balance of Rs36.4 bn (Rs134/share) as of September 2008 post reversal of ICDs given to IBFSL (Indiabulls Financial Services) and repayment of OCDs issued to FIM.

HDIL. HDIL generated small operating cashflow of Rs186 mn in 2QFY09 as the airport slum rehabilitation project started contributing to revenues. We view this development as positive as HDIL has been investing heavily in land acquisition and this had resulted in D/E rising sharply to 1.0X in 1QFY09. We would watch operating cashflow and leverage ratios closely. At end-2QFY09, HDIL has debt of Rs39 bn, cash balances of Rs4 bn and D/E ratio of 0.9X.

Sobha. Sobha announced a rights issue of Rs3.5 bn which we believe is a positive development considering the highly levered balance sheet of Sobha (D/E of 1.9X as of Sep '08). However we would like to highlight that ROCE of Sobha has been on a declining trend for the past two years with ROCE dipping significantly to 13.3% in FY2008. We note that rights issue is unlikely to change capital efficiency of Sobha.

Puravankara. We highlight that PVKP's debt has increased to Rs8bn and hence D/E has increased to 0.6X from 0.5X in 1QFY09.

Phoenix Mills. PHNX saw qoq growth of 13% in operational income indicating rental re-pricing since no new facility became operational during the quarter. PHNX has received commitment from MPC synergy to invest Rs13 bn primarily into hotel projects and retail projects of its associates (EWDPL).

2QFY09 performance for companies under our coverage universe

(in Rs mn)	2QFY09A	1QFY09	2QFY08	2QFY09E	Change (%)	
					qoq	yoy
DLF						
Revenues	37,444	38,106	32,499	38,553	(1.7)	15.2
EBITDA	22,170	23,445	22,637	22,756	(5.4)	(2.1)
PAT	19,354	18,640	20,186	18,099	3.8	(4.1)
Unitech						
Revenues	9,831	10,317	10,135	12,119	(4.7)	(3.0)
EBITDA	6,092	6,084	5,069	7,135	0.1	20.2
PAT	3,589	4,233	4,100	5,036	(15.2)	(12.4)
HDIL						
Revenues	4,776	5,701	4,649	5,534	(16.2)	2.7
EBITDA	2,705	4,655	2,562	3,265	(41.9)	5.6
PAT	2,657	3,179	2,294	2,673	(16.4)	15.8
Puravankara						
Revenues	1,394	1,576	1,410	1,681	(11.6)	(1.2)
EBITDA	471	589	578	570	(20.1)	(18.6)
PAT	505	619	602	633	(18.5)	(16.2)
Sobha						
Revenues	3,002	3,481	3,309	3,785	(13.8)	(9.3)
EBITDA	936	1,029	880	1,105	(9.0)	6.4
PAT	490	505	562	571	(3.0)	(12.8)
IVR Prime						
Revenues	372	287	456	306	29.4	(18.5)
EBITDA	102	62	188	71	62.9	(45.9)
PAT	69	54	159	58	27.1	(56.6)
Phoenix Mills						
Revenues	234	207	168	217	13.1	39.8
EBITDA	180	156	122	166	15.6	47.2
PAT	387	110	77	164	250.5	399.6
Mahindra Lifespaces						
Revenues	303	482	348	501	(37.1)	(13.0)
EBITDA	35	70	55	89	(49.6)	(36.1)
PAT	108	98	121	106	10.3	(11.2)
Total						
Revenues	57,355	60,157	52,974	62,695	(4.7)	8.3
EBITDA	32,692	36,090	32,091	35,157	(9.4)	1.9
PAT	27,157	27,438	28,101	27,341	(1.0)	(3.4)
EBITDA (%)	57	60	61	56		
PAT (%)	47	46	53	44		

Source: Kotak Institutional Equities.

Comparison across the key parameters

	Operating cash flow	Increase in debt	New launches/Project progress	Balance sheet comfort	FY2009E EPS Consensus downgrades (%)
DLF	✓	✓	✓✓	✓	(5.4)
Unitech	—	✓	—	—	(16.4)
HDIL	✓	—	✓	—	(10.3)
Indiabulls Real Estate	—	—	✓	✓✓	(61.2)
Puravankara	—	✓✓	—	—	(20.6)
Sobha	—	✓	—	—	(18.9)
Mahindra Gesco	—	—	—	✓✓	(32.2)
Phoenix Mills	✓	—	✓	✓✓	0.3
IVR Prime	—	—	—	✓	(81.3)

Source: Company, Kotak Institutional Equities.

Coverage valuation summary for real estate sector

Company name	Land bank (mn sq. ft)	Rating	Target price (Rs)	Market cap. (US\$ mn)	EV (US\$ mn)	Price (local curr.)	P/B (X)			P/E (X)			EV/EBITDA (X)			EBITDA margin (%)	NAV (Rs/ share)	NAV (Rs bn)	Premium/ Discount
							2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E				
DLF	748	BUY	440	11,144	13,561	299	2.5	2.0	1.6	6.4	6.1	5.5	6.3	5.7	4.9	68.5	546	941	(45.3)
Unitech	650	REDUCE	100	2,040	3,294	57	2.5	1.9	1.6	5.5	4.7	3.8	6.6	4.9	4.0	53.8	117	190	(51.5)
Indiabulls Real Estate	225	BUY	275	931	646	154	0.7	0.6	0.6	10.6	22.8	20.5	(1,473)	124.8	17.4	(1.4)	325	89	(52.7)
HDIL	125	BUY	380	576	1,190	127	0.9	0.7	0.6	1.8	1.7	1.6	3.2	2.7	2.4	71.1	551	152	(77.0)
Phoenix Mills	34	BUY	280	208	178	65	0.6	0.6	0.6	24.5	14.6	5.6	19.2	8.1	3.2	54.7	390	57	(83.5)
Puravankara Projects	125	ADD	120	266	408	58	1.0	0.9	0.8	5.0	4.1	3.4	7.6	5.7	3.9	42.7	174	37	(66.9)
Sobha Developers	138	REDUCE	250	182	572	112	0.8	0.7	0.6	3.5	3.7	3.4	7.0	6.1	5.2	25.9	502	37	(77.6)
Mahindra Lifespaces	67	BUY	500	176	121	188	0.9	0.9	0.8	11.7	14.3	10.3	14.4	8.6	5.7	22.1	898	9	(79.1)
IVR Prime	75	BUY	170	63	30	49	0.3	0.3	0.3	1.6	3.2	2.9	0.6	1.0	0.7	39.0	345	23	(85.7)

Source: Kotak Institutional Equities estimates.

Consensus estimates have gone down over the last month

Company	2009E			2010E		
	1-Oct-08	7-Nov-08	Change in 2009E (%)	1-Oct-08	7-Nov-08	Change in 2010E (%)
Coverage companies						
DLF Limited	51.2	48.4	(5.4)	60.3	53.3	(11.7)
Unitech	13.4	11.2	(16.4)	16.7	12.6	(24.6)
HDIL	56.8	50.9	(10.3)	73.1	63.4	(13.3)
Sobha Developers	36.7	29.8	(18.9)	42.0	31.0	(26.2)
Mahindra Lifespace Developers	29.7	20.1	(32.2)	53.9	39.6	(26.6)
Puravankara	14.2	11.3	(20.6)	19.1	11.9	(37.7)
Phoenix Mills	8.9	8.9	0.3	17.4	13.5	(22.4)
Indiabulls Real estate	13.4	5.2	(61.2)	25.6	14.3	(44.1)

Source: Bloomberg, Kotak Institutional Equities.

Comparison of Kotak Institutional Equities Estimates with consensus

Company	Consensus EPS			Kotak estimates		Kotak vs consensus (difference %)		% PAT achieved in 2QFY09
	2008	2009E	2010E	2009E	2010E	2009E	2010E	
Coverage companies								
DLF Limited	42.6	48.4	53.3	44.2	46.9	(8.7)	(11.9)	50
Unitech	10.9	11.2	12.6	10.3	10.0	(8.3)	(20.5)	47
HDIL	53.4	50.9	63.4	44.8	42.1	(12.0)	(33.6)	47
Purvankara	10.7	11.3	11.9	10.1	10.8	(11.0)	(9.2)	52
Phoenix Mills	6.6	8.9	13.5	5.5	12.0	(38.5)	(10.8)	63
Sobha Developers	32.6	29.8	31.0	30.8	33.4	3.3	7.9	44
Mahindra Lifespace Developers	9.5	20.1	39.6	12.4	16.4	(38.1)	(58.7)	38
IVR Prime	4.6	2.9	9.7	2.9	9.7	0.0	0.0	67
Indiabulls Real estate	14.1	13.4	25.6	6.7	7.5	(49.6)	(70.6)	11

Source: Kotak Institutional Equities estimates.

Tracking the balance sheet movement

(in Rs mn)	2QFY09	1QFY09	4QFY08	Change (%) qoq	Comments
DLF					
Inventory	101,671	102,832	94,544	(1.1)	
Sundry Debtors	97,535	76,052	76,106	28.2	
DAL receivables	48,043	33,820	19,360	42.1	DLF booked revenues of Rs14.8 bn on account of sale to DLF Assets Limited (DAL) while not receiving any further cash payments.
Non-DAL receivables	49,456	42,232	56,746	17.1	
Loans and Advances	101,759	97,893	73,686	3.9	For outstanding land payments and to joint venture partners. We expect it to decline in future quarters.
Customer Advances	16,000	17,350	26,000	(7.8)	
Cash	13,326	10,015	21,422	33.1	
Debt	146,731	142,209	122,771	3.2	Debt for Hotels business (Rs15 bn) and Power business (Rs15 bn)
Unitech					
Inventory	140,000	140,000	135,650	0.0	
Sundry Debtors	14,000	8,000	7,400	75.0	
Loans and Advances			29,290		
Customer Advances	67,300	68,000	71,120	(1.0)	
Cash	16,300	14,800	14,000	10.1	
Debt	100,000	88,000	85,000	13.6	At an average interest rate of 13%, interest payments for FY09 would work out to Rs3 bn/quarter.
HDIL					
Inventory	55,834	54,448	51,028	2.5	Includes investment made into Phase I of the airport SRA project (Payment of Rs19 bn for 53 acres in Kurla)
Sundry Debtors	1,686	572	558	194.8	
Loans and Advances	25,498	23,738	16,343	7.4	To subsidiaries like SEZ, Ravijot for land and also for phase II of airport SRA
Customer Advances	3,500	1,500	1,489	133.3	
Cash	4,016	3,484	3,494	15.3	
Debt	39,478	38,162	31,127	3.4	Debt did not increase this quarter
Purvankara					
Inventory	194	169	171	14.8	
Properties under development	4,800	4,354	3,958	10.2	This includes the Rs4 bn paid for the Hyderabad land.
Properties held for sale	865	865	910	0.0	High margins can be unlocked through sale of these projects.
Sundry Debtors	1,028	863	824	19.1	
Loans and Advances	2,974	3,060	2,878	(2.8)	These advances are for land apart from the 125 mn sq. ft of land bank
Properties held for development	13,630	13,016	12,919	4.7	
Customer Advances	2,670	2,838	3,149	(5.9)	
Cash	374	396	350	(5.6)	
Debt	8,050	6,524	6,524	23.4	Debt for PVKP increased to 0.6X from 0.5X
Sobha					
Inventory	8,650	8,420	7,879	2.7	
Sundry Debtors (net of advances)	3,200	4,051	4,384	(21.0)	
Loans and Advances	19,680	19,791	17,282	(0.6)	
Net Debt	19,150	17,333	17,505	10.5	Sobha announced a rights issue of Rs3.5 bn which we believe is a positive development considering the highly levered balance sheet of Sobha.

Source: Company, Kotak Institutional Equities.

DLF balance sheet leverage is amongst the lowest for the sector

D/E based on debt (in Rs bn) and equity (in Rs bn) as of June 2008 and Mar 2008

	As of Sept 30, 2008					As of Mar 31, 2008				
	Cash (bn)	Debt (bn)	Net debt (bn)	Equity (bn)	D/E (X)	Cash (bn)	Debt (bn)	Net debt (bn)	Equity (bn)	D/E (X)
DLF	13.3	146.7	133.4	241.1	0.6	19.4	122.6	103.2	205.8	0.6
Unitech	16.3	100.0	83.7	41.1	2.4	14.0	85.0	71.0	33.2	2.6
HDIL	4.0	39.5	35.5	42.1	0.9	3.5	31.1	27.6	36.4	0.9
Sobha	0.2	19.5	19.4	10.9	1.8	0.8	17.6	16.8	9.9	1.8
Purvankara	0.4	8.1	7.7	13.3	0.6	0.3	6.5	6.2	12.1	0.5

Source: Kotak Institutional Equities.

Property

Sector coverage view

Neutral

Company	Rating	Price, Rs	
		10-Nov	Target
MLife	BUY	188	500
Sobha	REDUCE	112	250
DLF	BUY	299	440
Unitech	REDUCE	57	100
HDIL	BUY	127	380
Puravankara P	ADD	58	120
Phoenix Mills	BUY	65	280
Indiabulls Real I	BUY	154	275
IVR Prime	BUY	49	170

Real Estate Tracker: Signs of recovery

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

Signs of recovery. BSE Real Estate index gained 18% in the past 1 week post RBI cut rates to ease liquidity concerns, after declining 34% in the previous 3 weeks. We observe large downgrades in consensus earning estimates post 2QFY09 results with least cuts in DLF. Private equity investments have declined considerably over the last few months. We see initial signs of correction in prices at the Mumbai property exhibition; however we think there is more to follow.

Highlights for the month ended Friday, November 7, 2008

- Top gainers/losers for the month: IBREL (20.2%), DLF (-7.4%), Unitech (-47.1 %), Puravankara (-59.1%)
- Unitech divested a 60% stake in its telecom venture for Rs61 bn to Telenor, a Norwegian telecom operator.
- Jaiprakash Associates (JAL) is planning to raise Rs20 bn through a rights issue to fund the Ganga expressway and a Formula One facility.
- Omaxe's long-term rating was reduced to grade A- and the outlook was cut to negative from stable by Fitch, citing the company's high debt level and liquidity concerns.

Key investments

- Orient Global invested Rs1.2 bn to buy stakes in HDIL and IBREL via the open market.

Key land deals/tenders

- No bidders for two plots in Wadala—7,029 sq. m and 4,034 sq. m at base prices of Rs2.4 bn and Rs1.35 bn, respectively.
- DLF Ltd was the sole bidder for an office plot in Mumbai offered by the state-run Indian Railways. RLDA has offered to lease a 45,300 sq. m plot for 80 years at a reserve price of Rs39.6 bn.

Key project announcements

- Indiabulls Real Estate—launched 'Indiabulls Green' in Sholinganallur at Rs2,700/sq. ft
- Tata Housing—announced the launch of Xylem, the country's first green IT park in Bangalore.
- Sahara Prime City—launched 'Sahara City Homes' project in Coimbatore.
- Ansal Housing—launched a residential project, Ansal town, in Alwar in Rajasthan

Market performance of Real Estate Companies

	Market cap. (US\$ mn)	Shares (in mn)	Last price (local curr.)	Change %						
				1 day	1 week	1 month	3 months	6 months	1 year	YTD
Indian listed companies										
DLF	10,033	1,705	281	3.1	27.5	(7.4)	(49.6)	(56.9)	(69.8)	(73.9)
Unitech	1,729	1,621	51	2.5	5.1	(47.1)	(71.6)	(83.3)	(86.6)	(89.6)
Akruti City	913	67	653	0.1	(4.6)	(12.7)	(12.5)	(39.7)	(35.9)	(45.5)
Indiabulls Real estate	850	258	157	1.9	31.7	20.2	(51.1)	(71.0)	(75.3)	(78.8)
Lanco infratech	786	222	169	7.2	47.4	(3.6)	(49.4)	(68.3)	(61.7)	(80.0)
BF Utilities	684	38	865	5.0	27.6	(32.5)	(65.9)	(62.8)	(60.4)	(61.3)
HDIL	677	275	117	(0.2)	(18.8)	(7.7)	(68.8)	(80.4)	(78.3)	(86.0)
Jai Corp	589	178	157	(3.6)	10.0	(21.4)	(59.9)	(77.7)	(84.8)	(86.9)
Anant Raj Industries	344	295	56	3.1	21.1	(46.8)	(63.7)	(78.1)	(84.1)	(84.1)
Purvankara	251	213	56	2.5	17.3	(59.1)	(73.0)	(80.6)	(86.4)	(87.7)
Omaxe	234	174	64	3.1	11.5	(24.3)	(53.7)	(72.1)	(78.4)	(88.8)
Parsvnath	183	185	47	0.5	17.7	(39.0)	(63.2)	(79.1)	(85.2)	(89.5)
Phoenix	178	145	59	10.0	16.7	(57.1)	(71.5)	(84.7)	(84.9)	(87.7)
Sobha	162	73	106	1.2	(5.4)	(15.2)	(62.4)	(82.0)	(88.0)	(88.4)
Mahindra Lifespace	161	41	188	3.1	0.7	(33.0)	(61.5)	(70.7)	(67.3)	(77.8)
Brigade Enterprises	117	112	50	5.2	37.8	(36.4)	(62.9)	(74.6)	-	(87.0)
Ansal Properties	114	115	47	1.6	7.9	(37.0)	(55.0)	(72.8)	(80.6)	(89.0)
Ajmera Realty	89	118	36	(2.5)	(9.4)	(29.2)	(64.7)	(81.2)	(89.6)	(91.3)
IVR Prime	60	64	45	3.5	21.9	(45.0)	(76.0)	(80.4)	(88.8)	(90.1)
Orbit	57	36	74	3.6	39.5	(41.2)	(74.1)	(85.8)	(88.3)	(92.2)
Kolte Patil Developers	47	75	30	2.4	0.3	(21.7)	(64.5)	(75.3)	-	(88.4)
Ganesh Housing	47	33	68	2.4	17.9	(45.0)	(69.3)	(81.0)	(88.2)	(90.2)
BSEL Infrastructure	34	83	20	3.4	18.7	(12.2)	(46.2)	(61.5)	(69.8)	(78.9)
DS Kulkarni	16	26	29	(8.8)	(15.9)	(41.4)	(69.0)	(83.2)	(88.2)	(92.2)
Ansal Housing	16	17	45	4.9	18.0	(35.3)	(61.2)	(70.1)	(73.9)	(87.7)
Foreign-listed companies										
Ascendas India REIT	278	756	0.55	3.8	14.6	10.0	(31.7)	(56.3)	(67.6)	(57.0)
Indiabulls Properties Investment Trust	276	2,357	0.18	(2.8)	25.0	(60.2)	(72.4)	-	-	-
Hirco Plc	143	77	118.5	1.3	28.8	1.3	(60.4)	(69.3)	(68.8)	(68.7)
Ishaan	103	207	32	0.0	(3.1)	(50.2)	(61.4)	(66.3)	(69.7)	(70.4)
Unitech Corporate Park	53	360	9	(5.2)	(11.9)	(60.2)	(79.4)	(88.6)	(91.4)	(91.9)

Top quartile performers (75% to 100%)

Bottom quartile performers (0% to 25%)

Source: Bloomberg, Kotak Institutional Equities.

Consensus estimates have gone down over the last month

Company	2009E			Change in 2009E (%)		2010E			Change in 2010E (%)	
	7-Dec-07	1-Oct-08	7-Nov-08	(A)	(B)	16-Apr-08	1-Oct-08	7-Nov-08	(C)	(B)
Coverage companies										
DLF Limited	53.3	51.2	48.4	(9.2)	(5.4)	72.7	60.3	53.3	(26.7)	(11.7)
Unitech	20.3	13.4	11.2	(44.8)	(16.4)	26.0	16.7	12.6	(51.5)	(24.6)
HDIL	60.0	56.8	50.9	(15.2)	(10.3)	87.0	73.1	63.4	(27.2)	(13.3)
Sobha Developers	46.9	36.7	29.8	(36.5)	(18.9)	77.0	42.0	31.0	(59.7)	(26.2)
Mahindra Lifespace Developers	32.0	29.7	20.1	(37.2)	(32.2)	50.6	53.9	39.6	(21.7)	(26.6)
IVR Prime	NA	15.5	2.9		(81.3)	47.8	17.1	9.7	(79.7)	(43.3)
Purvankara	23.0	14.2	11.3	(50.9)	(20.6)	31.4	19.1	11.9	(62.1)	(37.7)
Phoenix Mills		8.9	8.9		0.3		17.4	13.5		(22.4)
Indiabulls Real estate		13.4	5.2		(61.2)		25.6	14.3		(44.1)
Non-coverage companies										
Akruti City	98.4	80.8	74.2	(24.6)	(8.1)	245.0	143.0	141.7	(42.2)	(0.9)
Anant Raj Industries	19.7	20.2	18.8	(4.6)	(6.8)	42.0	32.5	28.3	(32.6)	(12.8)
Parsvnath Developers	48.8	30.0	24.6	(49.6)	(18.1)	69.7	41.4	32.8	(52.9)	(20.7)
Omaxe	36.6	40.3	39.5	7.9	(2.1)	69.5	52.0	57.4	(17.4)	10.4
Orbit Corp	91.0	82.1	39.7	(56.4)	(51.6)	148.8	83.5	55.0	(63.0)	(34.1)
DS Kulkarni	25.0	52.8	37.7	50.8	(28.6)	97.9	76.1	76.1	(22.3)	0.0

Note:

(A) change (%) is measured from the base date of Dec 7, 2007.

(B) change (%) is measured from November 7, 2008.

(C) change (%) is measured from the base date of April 16, 2008.

Source: Bloomberg, Kotak Institutional Equities.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

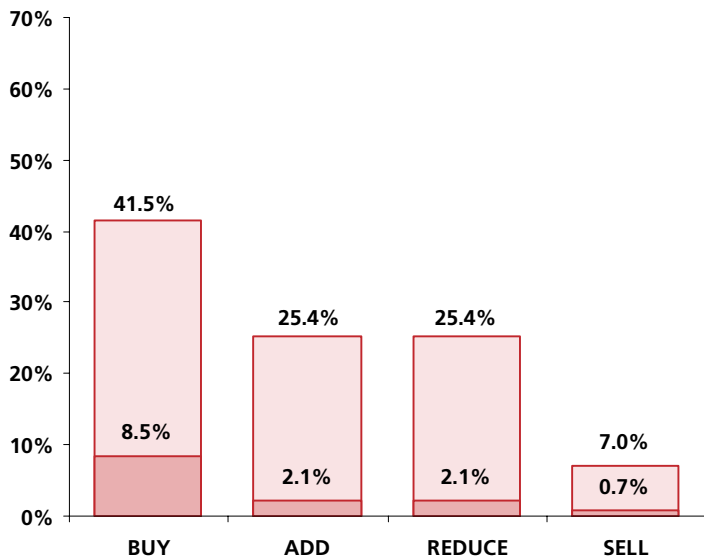
Company	Price (Rs)	Rating	Mkt cap. (Rs mn)	O/S shares (mn)	EPS (Rs)	EPS growth (%)	PER (X)	EV/EBITDA (X)	Price/BV (X)	Dividend yield (%)	RoE (%)	Target price (Rs)	Upside (%)	ADVR-3mo (US\$ mn)	
			2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	
Property	Cautious		719,163	15,174											
Retail															
Pantaloon Retail	267	BUY	45,833	967	172	80	12.1	18.4	95.1	50.4	52.2	33.2	22.1	14.5	
Titan Industries	937	BUY	41,577	877	44	35.1	49.8	56.6	55.2	42.1	13.6	26.7	18.8	16.6	
Vishal Retail	82	BUY	1,841	39	22	18.1	15.0	23.3	37.2	(17.2)	55.3	4.5	5.5	3.5	
Retail			89,252	1,883					318	436	339	27.7	19.3	14.4	
Technology															
HCL Technologies	170	REDUCE	118,115	2,492	695	15.3	20.6	21.7	(19.0)	35.0	4.1	11.1	8.2	7.8	
Hexaware Technologies	21	SELL	2,985	63	142	7.7	2.9	3.8	(13.7)	62.4	32.1	2.7	7.3	5.5	
Infosys Technologies	1,339	BUY	768,299	16,211	574	79.1	100.8	108.8	18.0	27.5	7.9	16.9	13.3	12.3	
Mphasis/BFL	170	REDUCE	35,381	747	208	12.2	22.3	23.4	67.6	81.7	5.0	13.9	6.7	7.3	
Mindtree	257	BUY	6,692	141	26	26.7	30.7	39.6	12.3	14.7	29.0	19.6	8.4	6.5	
Patni Computer Systems	139	SELL	17,839	376	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.2	5.3	4.5	
Polaris Software Lab	49	SELL	4,772	101	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	6.5	3.8	4.2	
Satyam Computer Services	297	BUY	202,286	4,268	682	25.2	33.7	35.5	17.5	33.3	5.3	11.7	8.8	8.4	
TCS	546	REDUCE	534,761	11,283	979	51.3	56.4	63.0	21.5	10.0	11.6	10.7	9.7	8.7	
Tech Mahindra	335	BUY	41,721	880	125	59.1	76.4	85.0	25.7	29.4	11.2	5.7	4.4	3.9	
Wipro	269	ADD	390,558	8,241	1,450	22.2	26.0	28.7	12.6	17.0	10.4	12.1	10.4	9.4	
Technology			2,123,409	44,804					16.1	21.4	9.2	12.3	10.1	9.3	
Telecom															
Bharti Airtel Ltd	712	BUY	1,350,641	28,499	1,898	35.3	45.3	55.1	65.0	28.3	21.7	20.2	15.7	12.9	
IDEA	52	REDUCE	168,614	3,558	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	13.2	16.0	15.1	
MTNL	75	REDUCE	47,093	994	630	7.1	5.1	5.5	(11.0)	(28.4)	7.6	10.5	14.6	13.6	
Reliance Communications	235	SELL	485,561	10,245	2,064	26.1	26.3	33.1	84.3	0.5	25.8	9.0	9.0	7.1	
Tata Communications	485	REDUCE	138,197	2,916	285	10.9	13.6	14.0	(65.3)	24.0	3.2	44.3	35.7	34.6	
Telecom			1,990,104	46,211					65.7	16.3	21.0	15.2	13.0	10.8	
Transportation															
Container Corporation	679	REDUCE	88,295	1,863	130	57.7	69.4	74.2	7.8	20.3	6.8	11.8	9.8	9.2	
Transportation			88,295	1,863					7.8	20.3	6.8	11.8	9.8	9.2	
Utilities															
CEFC	226	BUY	28,179	595	125	27.8	28.2	31.1	(23.3)	1.4	10.4	8.1	8.0	7.2	
Lanco Infratech	183	BUY	40,581	856	222	14.8	17.5	26.0	75.2	18.2	48.3	12.3	10.4	7.0	
NTPC	163	REDUCE	1,342,774	28,333	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	17.5	18.0	16.7	
Reliance Infrastructure	123	REDUCE	283,608	6,195	2,397	0.4	2.1	2.6	—	443.9	25.2	32.1	59.2	47.3	
Tata Power	808	BUY	188,136	3,970	233	29.7	38.1	39.9	11.6	28.5	4.6	27.2	21.2	20.2	
Utilities			2,037,181	42,985					12.1	7.9	9.7	20.3	18.9	17.2	
Others															
Aban Offshore	1,005	BUY	38,862	820	39	72.3	211.1	456.6	(1,066)	192.1	116.3	13.9	4.8	2.2	
Educomp Solutions	2,727	BUY	51,866	1,094	19	35.2	63.9	108.1	114	81.7	69.2	77.6	42.7	23.2	
Havells India	174	BUY	10,512	222	61	26.6	19.7	34.5	40	(25.9)	75.1	6.5	8.8	5.0	
Jaiprakash Associates	97	BUY	114,876	2,424	1,188	4.9	7.3	11.0	7	49.5	50.9	19.7	13.2	8.8	
Jindal Saw	404	BUY	24,747	522	61	66.6	86.9	82.9	(43)	30.6	(4.7)	6.1	4.6	4.9	
PSL	99	BUY	4,332	91	44	21.1	43.6	58.3	4	106.9	33.7	4.7	2.3	1.7	
Sintex	220	BUY	35,678	753	163	19.5	23.4	31.2	58	19.6	33.5	11.2	9.4	7.0	
Welspun Gujarat Stahl Rohren	128	BUY	24,248	512	189	20.6	25.9	36.6	94	25.9	41.6	6.2	5.0	3.5	
Others			305,120	6,438					28.6	81.0	51.6	15.5	8.6	5.1	
KS universe (b)			23,054,825	486,457					25.6	9.9	17.3	11.7	10.7	9.1	
KS universe (c) ex-Energy			17,878,035	377,227					30.8	7.6	8.5	11.9	11.1	10.2	
KS universe (d) ex-Energy & ex-Commodities			16,486,456	347,864					35.8	11.8	13.6	13.8	12.4	10.9	

Note: (a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
 (b) EV/Sales & EV/EBITDA for KS universe, excludes Banking Sector.
 (c) Rupee-US Dollar exchange rate (RSUS\$)= 47.39

" 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: Manoj Menon, Amit Kumar, Ravi Agrawal, Puneet Jain. "

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and/or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/09/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

- BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
- ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
- REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
- SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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

Copyright 2008 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

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 advice 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. (KMIInc). However KMIInc 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.

Kotak Securities Ltd.

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

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