kotak® Institutional Equities

INDIA DAILY

March 18, 2008

EQUITY MARKETS

		Change, %		
India	**17-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	14,809	(6.0)	(17.9)	(22.4)
Nifty	4,503	(5.1)	(14.7)	(21.6)
Global/Regional indices				
Dow Jones	11,972	0.2	(3.0)	(9.5)
Nasdaq Composite	2,177	(1.6)	(6.2)	(16.1)
FTSE	5,414	(3.9)	(9.0)	(13.8)
Nikkie	11,960	1.5	(12.3)	(21.4)
Hang Seng	21,047	(0.2)	(11.4)	(21.3)
KOSPI	1,584	0.6	(6.6)	(14.9)
Value traded - India				

		Moving avg, Rs bn	
	17-Mar	**1-mo**	**3-mo**
Cash (NSE+BSE)	183.9	189.5	198.9
Derivatives (NSE)	400.6	426.8	734
Deri. open interest	651.8	743	1,126

Contents

Updates

ICICI Bank: Share price has likely hit the bottom, but performance unlikely for now

Cairn India: Cairn India raises US$625 mn in private placement; pipeline issue still unresolved

Tech Mahindra: US$350 mn deal announcement with BT provides added visibility in an uncertain environment; reiterate BUY

ICICI Prudential Life: Retaining margin estimate for now, but reducing volume growth

Real Estate: Stock selection after recent sharp correction

Forex/money market

		Change, basis points		
	17-Mar	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.7	0	95	117
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	(1)	12	(32)

Net investment (US$mn)

	14-Mar	**MTD**	**CYTD**
FIIs	(32)	317	(4,271)
MFs	(93)	(408)	1,954

Top movers -3mo basis

		Change, %		
Best performers	**17-Mar**	**1-day**	**1-mo**	**3-mo**
Asian Paints	1,105	(4.6)	(4.1)	11.3
Sun Pharma	1,252	(3.3)	12.2	10.0
Ranbaxy	438	(5.6)	10.5	6.8
NALCO	428	(7.2)	10.1	3.3
Nestle India	1,415	(1.3)	5.2	2.8
Worst performers				
Reliance Cap	1,140	(14.1)	(45.1)	(53.0)
Moser Baer	139	(6.8)	(18.1)	(52.7)
Neyveli Lignite	118	(7.6)	(25.3)	(51.9)
Arvind Mills	38	(5.5)	(25.8)	(51.5)
Tata Tele	29	(6.6)	(22.4)	(50.6)

News Roundup

Corporate

- The Indian unit of auto maker General Motors is exploring the possibility of assembling low-cost pick-ups and vans here to boost its market share. (Mint)
- India's JSW Group has signed a $2 billion, 10-year deal with Japan's third biggest shipping firm by sales, Kawasaki Kisen Kaisha Ltd (or K Line), for transporting coal that will be used to fire the company's steel and power plants, an arrangement that will ensure that the company is not affected by an increase in freight rates. (Mint)
- Future Capital Holdings, a part of Kishore Biyani-led Future Group, said it has acquired 50.1% stake each in two companies—Centrum Direct and Centrum Wealth Managers—for about Rs1 bn. (BL)

Economic and political

- Market regulator SEBI on Monday said like retail investors, FIIs should also pay the full amount of IPOs upfront, if its idea of reducing the time gap between the last day of subscription and the listing of the scrip is implemented. (ET)
- The Telecom Regulatory Authority of India has decided to impose a fine on mobile operators in case subscribers listed on the National Do Not Call registry continue to get calls from telemarketers. (BL)

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

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

Banking

ICBK.BO, Rs757	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	900
52W High -Low (Rs)	1465 - 743
Market Cap (Rs bn)	837.7

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	134.5	165.1	202.9
Net Profit (Rs bn)	31.1	36.8	38.7
EPS (Rs)	34.6	35.5	35.0
EPS gth	*5.6*	*2.6*	*(1.5)*
P/E (x)	21.9	21.3	21.7
P/B (x)	3.4	1.7	1.7
Div yield (%)	1.1	1.1	1.2

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	70.3	8.9	6.3
MFs	6.0	4.5	1.9
UTI	-	-	(2.7)
LIC	7.4	5.1	2.4

ICICI Bank: Share price has likely hit the bottom, but performance unlikely for now

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

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

- **Global uncertainty and a series of negative news on the company have impacted the stock price of ICICI Bank**
- **We have updated our estimates to factor in these developments and reduce our target price to Rs900**
- **Stock price performance could be impacted despite reasonable valuations**

Global uncertainty and a series of negative news on the company have impacted the stock price of ICICI Bank, which has fallen 48% from its peak. ICICI Bank standalone now trades at 1.2X FY2009 BVPS (adjusted for additional losses). While we find value in the company at the current levels, higher risk associated with its international business will likely continue to drag ICICI Bank's performance till global stability returns. We are revising down our earnings estimates for FY2008, FY2009 and FY2010, by 3%, 23% and 19%, respectively. Our current projections factor in no growth in international business (both fund based and non-fund based), and lower treasury income. We are also reducing our target price on the stock to Rs900 per share (Rs1,200 earlier) to factor in lower earnings, higher risk and lower embedded value from subsidiaries.

We analyze below key risks that could keep pressure on stock price performance:

1. **ICICI Bank may need to take substantial hit on its personal loan (sub-prime domestic) portfolio**. The estimated outstanding loan under this portfolio is Rs15 bn. ICICI Bank has exited this business, but still carries this portfolio on its book, which likely carries substantially losses.
2. **MTM hit on international book**. ICICI Bank exposure to derivative products and bonds in the international market is at US$6.2 bn. This includes exposure to CDO instruments at around US$2.2 bn, US$600 mn of prime residential mortgage securities and US$80 mn in asset backed commercial paper. The risk to this portfolio could largely be interest rate related, though given the financial services meltdown in the international market we would not rule out some credit risk to this portfolio. We believe further widening of credit spreads in the international markets could lead to additional MTM hit on this portfolio for ICICI Bank.
3. **Exposure to Indian corporates under forex derivative products**: A large number of corporates seem to be carrying MTM hit on their forex derivate exposure. Though technically this risk should be borne by corporates, the hit may impact banks as well. Market estimates on MTM hit for the entire system range between US$3-4 bn. ICICI Bank's share in this segment is not known.
4. **Slowdown in international business**: We are currently assuming a flat growth in international business in FY2009, this could carry risk of downside.

Slowdown in insurance premium collection: Our revised numbers assume a 40% increase in premium collection in FY2009 over a 70% growth in FY2008. Nearly 80% of premium collection is in equity related funds, volatile stock markets could impact this growth.

Estimate change for ICICI Bank (old and new estimates)

Key financial estimates, March fiscal year-ends, Rs mn

	Old estimates			New estimates			% change in estimates		
	2008E	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**	**2008E**	**2009E**	**2010E**
Net interest income	81,277	121,116	157,236	81,224	114,307	148,691	(0.1)	(5.6)	(5.4)
Spread	1.8	2.3	2.6	1.8	2.2	2.6			
NIM (%)	2.3	2.8	3.0	2.3	2.7	3.1			
Customer assets (Rs bn)	2,535	3,058	3,642	2,535	2,837	3,369	-	(7.2)	(7.5)
Loan loss provisions	25,944	31,522	38,166	25,944	30,198	35,207	-	(4.2)	(7.8)
Other income	85,178	99,596	113,744	83,856	88,641	101,862	(1.6)	(11.0)	(10.4)
Fee income	56,258	74,954	94,418	56,258	67,353	82,890	-	(10.1)	(12.2)
Treasury income	9,000	5,000	2,000	8,000	2,000	2,000	(11.1)	(60.0)	-
Profit on sale of loans	1,259	1,715	1,857	1,259	1,715	1,857	-	-	-
Operating expenses	84,957	112,022	136,329	84,957	112,022	136,250	-	-	(0.1)
Employee expenses	22,510	32,181	40,833	22,510	32,181	40,833	-	-	-
Investment amortization	8,774	7,019	5,264	8,774	7,019	5,264	-	0.0	0.0
PBT	46,780	70,149	91,220	45,405	53,709	73,833	(2.9)	(23.4)	(19.1)
Tax	8,689	19,642	27,366	8,603	15,038	22,150	(1.0)	(23.4)	(19.1)
Net profit	**38,091**	**50,507**	**63,854**	**36,801**	**38,670**	**51,683**	**(3.4)**	**(23.4)**	**(19.1)**
PBT-treasury+provisions	**63,724**	**96,671**	**127,386**	**63,348**	**81,907**	**107,040**	**(0.6)**	**(15.3)**	**(16.0)**

Source: Kotak Institutional Equities estimates.

SOTP valuation of ICICI Bank

	ICICI Share (%)	Value per share (Rs)	Valuation methodoly adopted
Value of ICICI standalone	**100**	585	Based on residual income model
Subsidiaries			
ICICI Prudential Life	74	180	18X NBAP+EV
General Insurance	74	38	6X FY2007 PBR
Mutual Fund	51	17	6% of FY2009 AUMs of Rs600bn
ICICI Securities Ltd	100	17	PER of 30X FY2007 EPS
ICICI Securities Primary Dealer	100	4	PBR of 1X FY2007 BVPS
ICICI Homes Ltd	100	13	PBR of 2X FY2007 BVPS
ICICI Bank UK	100	20	PBR of 3X FY2007 BVPS
ICICI Bank Canada	100		PBR of 2X FY2007 BVPS
ICICI Bank Euroasia	100	4	PBR of 2X FY2007 BVPS
3i	11.18	2	Market value
Venture capital/MF	100	14	15% of AUM current AUM estimated at US$2.6bn
ICICI One Source	25	4	20% premium over market value
ARCIL	29.7	2	Based on value assigned by IDFC at Rs7.15bn
NSE	5.5	6	Based on value assigned by recent divestment to FT. NSE valued @ Rs130 bn
Value of subsidiaries		**321**	
Value of company		**905**	

Source: Company, Kotak Instititional Equities estimates.

Valuation not too streched despite adjusting for MTM losses on international book and personal loan book

March fiscal year-ends, 2008E-2010E

		2008E	2009E	2010E
Book value per share of standalone bank (Rs)		370	383	416
Less: adjustments				
MTM hit on international book (Rs mn)	11,016			
Personal loan (Indian sub-prime) (Rs mn)	15,000			
Net impact post tax (Rs mn)	16,910			
Net impact post tax per share of standalone bank (Rs)		15.3	15.3	15.3
Book value per share adjusted for these losses (Rs)		355	368	401
PBR of standalone bank (X)		1.3	1.2	1.1

Source: Company, BSE, Kotak Institutional Equities estimates.

Energy

CAIR.BO, Rs214	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	190
52W High -Low (Rs)	269 - 121
Market Cap (Rs bn)	378.1

Financials

December y/e	2006	2007E	2008E
Sales (Rs bn)	18.4	19.1	24.4
Net Profit (Rs bn)	4.1	2.6	4.0
EPS (Rs)	2.3	0.5	2.2
EPS gth	*29.3*	*(82.7)*	*383.9*
P/E (x)	92.5	470.1	99.5
EV/EBITDA (x)	50.0	45.3	31.9
Div yield (%)	-	-	-

Shareholding, December 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	69.0	-	-
FIIs	10.9	0.5	(0.4)
MFs	1.6	0.4	(0.5)
UTI	-	-	(0.9)
LIC	2.2	0.5	(0.4)

Cairn India: Cairn India raises US$625 mn in private placement; pipeline issue still unresolved

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

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

- **Raises US$625 mn through private placement of equity shares at Rs224/share**
- **Rajasthan government objects to shifting of delivery point apprehending loss of revenues; holds up ROU work**
- **Maintain SELL with a revised 12-month DCF-based target price of Rs 190 (Rs195 previously)**

Cairn India has announced capital infusion of US$625 mn through preferential allotment of equity shares to Petronas and Orient Global Tamarind Fund Pte Limited. With this placement, Petronas has increased its stake in Cairn India to 12.7% from 9.9% currently; Orient Global Tamarind Fund will have 2.6% stake in the enlarged equity share capital. The management has stated that the proceeds of private placement will be utilized to fund capital expenditure and other general corporate expenses. We are surprised by this development given (1) available debt financing and (2) likely strong cash flow generation once the company starts production from its Rajasthan field. In another development, the Rajasthan government has raised objections to shifting of delivery point for Rajasthan crude to Salaya in Gujarat apprehending loss of tax revenues. We retain our SELL rating on the stock with a revised 12-month DCF-based target price of Rs 190 (Rs195 previously). Key upside potential stems from confirmation of commercial reserves in the Barmer Hill formation in Rajasthan block and/or Cairn's 12 exploration blocks.

Capital infusion surprising given likely strong cash flow generation. Cairn India has raised US$625 mn through the preferential allotment of equity shares to Petronas and Orient Global Tamarind Fund Pte Limited. Cairn India will issue 113 mn equity shares (6% of post-issue shares) to the investors at a price of Rs224.3 per share with a lock-in period of one year. Post the issue, Petronas will have a 12.7% stake (9.93% currently) and Orient Global Tamarind Fund will have a 2.6% stake in the enlarged equity share capital; Cairn Energy's (parent company) shareholding in the company will come down to 64.86% from 68.99% currently. The management has stated that the proceeds of the private placement will be utilized to fund capital expenditure and other general corporate expenses. We are quite surprised by the equity dilution given (1) available debt financing and (2) strong cash flow generation once the company starts production from its Rajasthan field from CY2009. We estimate Cairn to generate free cash flows of Rs100 bn over CY2008-10E. The placement precludes raising debt to fund its capex plans.

Rajasthan government objects to shifting of delivery point apprehending loss of tax revenues. The Rajasthan government has objected to recent decision of the empowered committee of secretaries to shift the delivery point of Rajasthan crude to Salaya in Gujarat fearing loss of tax (central sales tax) revenues for the state government. The state government is insisting on setting up a well-head refinery in Rajasthan itself (by ONGC/MRPL) to ensure "judicious and reasonable return to the state in terms of revenue and employment". The state government has withheld permission to appoint a Competent Authority for grant of Right of Use (ROU) for laying the pipeline pending clarifications from the Center on several issues including—(1) pricing of Barmer crude, (2) offtake of crude by multiple refineries, and (3) tax implications of shifting the delivery point.

Stock is discounting a lot of positives; significant risks to our fair value exist. Our current fair value of Cairn stock is Rs187 (see Exhibit 1) based on (1) US$65/bbl normalized Dated Brent price from 2013E and US$80/bbl in CY2008-12E, (2) full opex and capex recovery of pipeline and (3) nil royalty and cess. Exhibit 2 shows the sensitivity of valuation of Cairn's Rajasthan asset (Cairn India's main asset; also of Cairn Energy Plc) to (1) the assumed price of crude and (2) quantum of royalty and cess, if any. We discuss the significant risks to our assumptions which might have a negative impact on valuations.

1. **Crude price.** We would highlight that valuation for Cairn does not vary significantly with higher crude oil prices. At US$65/bbl in perpetuity from CY2013E and US$80/bbl in CY2008-12E, our fair value for the Cairn stock comes to Rs186. However, it rises to only Rs215/share even if we change our normalized crude price assumption (beyond CY2013E) to US$80/bbl and to Rs226/share on US$100/bbl. We continue to maintain a US$5/bbl discount for Cairn's Rajasthan crude given the heavy, waxy nature of Cairn's crude (API is 27° although sulfur content is low), which may preclude consumption by several Indian refineries.

   We note that PSC terms meaningfully limit the upside from higher crude prices. We clarify that Cairn's moderate leverage to crude price is due to the nature of the PSC under which Cairn will operate its Rajasthan block; higher crude prices will increase Cairn's investment multiple (IM) faster and move the share of the government in profit petroleum to a higher bracket faster. Exhibit 4 shows the share of the government in profit petroleum at various levels of IM; the share of the government increases to 50% once IM exceeds 2.5X.

2. **Royalty and cess.** We currently assume Cairn will not bear any royalty and cess on the portion of crude oil (70%) produced by it from the Rajasthan block. However, imposition of cess (Rs927/ton or Rs2,575/ton) may be a large negative for Cairn's earnings and valuation (Exhibit 2).

3. **Recovery of cost of pipeline.** Contrary to media reports, the approval for recovery of the cost of the pipeline to evacuate crude oil from its Rajasthan block RJ-ON-90/1 is still due from the central government. For our modeling purposes, we include the cost of the pipeline (US$500 mn net to Cairn) as part of the upstream capex and assume that Cairn will recover both capex and opex related to the pipeline as part of the overall production sharing contract for the block.

We value Cain India stock at Rs190

EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	6,545	8,042	9,668
CB-OS-2	148	114	80
Ravva	419	400	371
Upside potential (KG-DWN-98/2, RJ-ON-90/1)	100	112	125
Total	**7,212**	**8,668**	**10,245**
Net debt	(1,241)	(322)	(604)
Equity value	**8,453**	**8,990**	**10,848**
Equity shares (mn)	1,878	1,878	1,878
Equity value per share (Rs/share)	**186**	**187**	**219**

Source: Kotak Institutional Equities estimates.

Cairn's Rajasthan field's enterprise value is highly leveraged to crude prices, regulations

Enterprise value sensitivity of Cairn to key variables (US$ bn)

	Sensitvity of current valuation			Sensitvity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$100/bbl)	8.3	226	21	10.1	231	24
Dated Brent price (US$90/bbl)	7.8	215	15	9.6	219	17
Dated Brent price (US$80/bbl)	7.3	203	9	8.9	206	10
Dated Brent price (US$70/bbl)	6.8	192	3	8.3	193	3
Dated Brent price (US$65/bbl)	**6.5**	**186**		**8.0**	**187**	
Dated Brent price (US$60/bbl)	6.3	180	(3)	7.7	180	(3)
Dated Brent price (US$50/bbl)	5.8	169	(9)	7.1	167	(10)
Dated Brent price (US$40/bbl)	5.3	158	(15)	6.5	155	(17)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	**6.5**	**186**		**8.0**	**187**	
Royalty (Rs0/ton), Cess (Rs927/ton)	6.2	178	(5)	7.6	177	(5)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	5.5	162	(13)	6.8	160	(14)
Royalty (Rs481/ton), Cess (Rs927/ton)	4.4	139	(26)	5.5	134	(28)
Royalty (Rs481/ton), Cess (Rs2,575/ton)	3.9	128	(31)	4.9	122	(35)

Source: Kotak Institutional Equities estimates.

Cairn's earnings are highly leveraged to crude prices

Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	78.0	80.0	82.0	78.0	80.0	82.0	78.0	80.0	82.0
Net profits (Rs mn)	31,589	32,762	33,936	88,546	91,033	93,525	60,659	62,713	64,766
Earnings per share (Rs)	16.8	17.4	18.1	47.1	48.5	49.8	32.3	33.4	34.5
% upside/(downside)	**(3.6)**		**3.6**	**(2.7)**		**2.7**	**(3.3)**		**3.3**
Exchange rate									
Rs/US$	37.0	38.0	39.0	37.0	38.0	39.0	37.0	38.0	39.0
Net profits (Rs mn)	31,670	32,762	33,855	88,629	91,033	93,438	60,852	62,713	64,573
Earnings per share (Rs)	16.9	17.4	18.0	47.2	48.5	49.7	32.4	33.4	34.4
% upside/(downside)	**(3.3)**		**3.3**	**(2.6)**		**2.6**	**(3.0)**		**3.0**

Source: Kotak Institutional Equities estimates.

Maximum share of government in profit petroleum is at 50% for Rajasthan block

Details of share of profit petroleum between the government and Cairn for Cairn's key assets

IM	Government share (%)
<1	**20**
>1, <1.5	20
>1.5, <2	30
<2, <2.5	40
>2.5, <3	**50**
>3	**50**

Note:

(a) IM = Investment Multiple.

Source: Company data.

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	19,074	24,423	60,491	151,706	150,897	147,282	115,756
EBITDA	**5,332**	**6,666**	**10,625**	**45,933**	**112,153**	**78,321**	**64,129**	**48,787**
Other income	1,100	1,392	502	472	1,000	1,990	2,994	3,698
Interest	(201)	(25)	(13)	0	—	—	—	—
Depreciation	(497)	(4,465)	(4,878)	(7,019)	(8,725)	(8,220)	(8,338)	(8,314)
Pretax profits	5,734	3,567	6,237	39,386	104,428	72,091	58,786	44,170
Extraordinary items	—	(1,844)	—	—	—	—	—	—
Tax	(1,626)	(854)	(2,115)	(5,652)	(12,337)	(8,844)	(7,326)	(5,444)
Deferred taxation	(22)	(64)	(77)	(972)	(1,057)	(534)	(122)	128
Net profits	**4,087**	**804**	**4,045**	**32,762**	**91,033**	**62,713**	**51,338**	**38,854**
Earnings per share (Rs)	**2.3**	**0.5**	**2.2**	**17.4**	**48.5**	**33.4**	**27.3**	**20.7**
Balance sheet (Rs mn)								
Total equity	292,804	293,609	323,000	355,762	402,845	430,397	452,952	470,022
Deferred tax liability	4,258	4,322	4,399	5,371	6,428	6,962	7,084	6,956
Total borrowings	5,122	4,985	—	—	—	—	—	—
Currrent liabilities	39,716	1,681	1,900	2,019	5,784	10,769	12,369	9,938
Total liabilities and equity	**341,900**	**304,597**	**329,300**	**363,152**	**415,057**	**448,128**	**472,405**	**486,916**
Cash	61,348	18,316	23,545	46,978	94,248	131,954	161,252	183,437
Current assets	6,470	1,829	2,342	5,800	14,547	14,470	14,123	11,100
Total fixed assets	17,609	28,121	46,795	26,987	25,582	23,358	21,031	18,766
Net producing properties	2,354	2,211	2,499	29,267	26,561	24,227	21,880	19,494
Investments	4	4	4	4	4	4	4	4
Goodwill	254,115	254,115	254,115	254,115	254,115	254,115	254,115	254,115
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	**341,900**	**304,597**	**329,300**	**363,152**	**415,057**	**448,128**	**472,405**	**486,916**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,944	1,064	6,134	38,131	97,665	68,027	55,353	41,892
Working capital changes	34,256	(33,394)	(293)	(3,340)	(4,981)	5,062	1,947	592
Capital expenditure	(5,619)	(11,957)	(21,475)	(11,830)	(2,463)	(2,213)	(2,213)	(2,213)
Investments/Goodwill	(252,717)	—	—	—	—	—	—	—
Other income	1,100	1,392	502	472	1,000	1,990	2,994	3,698
Free cash flow	**(220,035)**	**(42,895)**	**(15,132)**	**23,433**	**91,221**	**72,866**	**58,081**	**43,969**
Key assumptions								
Gross production ('000 boe/d)	91.0	84.2	84.8	128.4	248.0	242.3	233.6	225.8
Net production ('000 boe/d)	25.1	23.4	26.7	60.8	147.6	146.3	142.4	139.4
Dated Brent (US$/bbl)	65.3	70.3	80.0	80.0	80.0	80.0	80.0	65.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	2.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Kotak Institutional Equities estimates.

Technology

TEML.BO, Rs623	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	850
52W High -Low (Rs)	1687 - 615
Market Cap (Rs bn)	75.9

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	29.3	37.8	49.8
Net Profit (Rs bn)	6.2	7.7	9.2
EPS (Rs)	47.0	58.2	70.7
EPS gth	*124.4*	*24.0*	*21.3*
P/E (x)	13.3	10.7	8.8
EV/EBITDA (x)	10.2	8.4	6.1
Div yield (%)	0.5	0.6	0.8

Tech Mahindra: US$350 mn deal announcement with BT provides added visibility in an uncertain environment; reiterate BUY

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

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

- **Announces US$350 mn, five-year Application Maintenance deal with BT**
- **30% of the contract revenues incremental; suggests increase in TM's market share within the BT account**
- **Enhances visibility into BT revenues going into FY2009**
- **Attractive valuations with little downside risk to estimates; maintain BUY**

We view Tech Mahindra's US$350 mn, five-year deal win with British Telecom (BT) as a positive for the company on several fronts—(1) enhances revenue visibility from TM's largest account (61% of revenues in Dec '07 qtr) going into FY2009, (2) 30% incremental revenues coming from other vendors (including other offshore ones) implies an increased market share of TM within the BT account; fears of a market share loss within BT has been one of the overhang on TM stock and (3) most importantly, it once again reinforces TM's positioning as a strategic outsourcing/offshoring partner to BT; we note that BT is constantly looking at potential areas of vendor rationalization, and TM stands a good chance to benefit from more such moves in the future, in our view. We maintain our estimates and target price (Rs850) for the company. Valuations at 8.8X FY2009E and 8X FY2010E earnings appear undemanding, especially in the backdrop of added revenue visibility in the current uncertain environment. Reiterate BUY.

Deal announcement improves revenue visibility from BT. TM has announced a US$350 mn, five-year, Application Maintenance (AM) contract with BT. The contract is an extension of some of the existing AM work that TM is doing for BT with an incremental portion (30% of the deal value, as per the management) transitioning to TM from other vendors (both offshore and local niche vendors). We believe the deal addresses some of the investor concerns around (1) revenue visibility from the BT account, and (2) TM's falling market share within the BT account. In addition, the outcome-based structure of the contract, in addition to its five-year tenure, provides TM an opportunity to derive margin accretion from the deal by investing in productivity improvements and sharing the upside with BT. Overall, we see the contract as a reinforcement of TM's strong positioning within the TM account and indicative of its growing ability to take on flexible engagement structures.

Enhance revenue visibility reduces downside risk to earnings: We had recently highlighted some of the revenue growth engines for TM going into FY2009. We believe this deal provides good visibility into BT core revenues for TM, in addition to the BTGS contract and traction in non-BT relationships. We expect strong ramp-up from the BTGS contract in FY2009 (model revenues of US$125 mn from the BTGS contract in FY2009E, up from US$30 mn in FY2008E). Also, we expect robust growth in TM's non-BT relationships (including AT&T) backed by TM's superior client mining skills and its robust pipeline of deals (TM is pursuing seven large SI deals between US$30-70 mn). Overall, we see little risk to our revenue (US$1.28 bn for FY2009E, 35.8% yoy growth) and EPS (Rs70.7 for FY2009E, 21.3% yoy growth) estimates for the company.

Other highlights from the conference call with BT and TM management. We highlight some of the other key takeaways on the deal and on BT's outsourcing strategy in general from the conference call:

1. The Application Management contract is pan-platform, and spans multiple of BT's platforms. We believe this entrenches TM deeper into BT's platforms and positions it well within the overall BT's vendor rationalization program. We note that BT has been looking at rationalizing its vendor base for various platforms in a bid to reduce the number of vendors working on a single platform to one or two.
2. 30% of the incremental work coming TM's way is currently being transitioned from other vendors to TM. TM management indicated that the contract billing could reach a steady state over the next one or two quarters. We highlight that this may mean a revenue loss from the BT account for some of other Indian IT players.
3. Clive Selley, MD, Wholesale Service Design for BT indicated that BT's overall outsourcing spend will continue to remain flat to up over the next year or two.

Attractive valuations; reiterate BUY. We reiterate our BUY rating on TM noting attractive valuations and greater revenue visibility in the current uncertain environment. TM is trading at 8.8X FY2009E and 8X FY2010E fully diluted EPS, undemanding in our view. Maintain our target price of Rs850 on the stock, implying an upside of 36% over current levels.

Insurance

ICICI Prudential Life: Retaining margin estimate for now, but reducing volume growth

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

- **Prudential Life UK, indicates lower margin for Indian operations**
- **Likely assuming lower productivity**
- **We are giving the benefit of doubt to ICICI Prudential Life, retaining margin, but reducing growth**

ICICI Prudential Life:

Prudential Life UK, the joint venture partner at ICICI Prudential Life, has indicated PBT margin of 12% v/s 19-20% post-tax margin declared by ICICI Prudential Life. The key difference seems to be arising from Prudential assuming less productivity gains and taking cost upfront. We are giving ICICI Prudential Life the benefit of higher productivity and retaining our margin estimate at 15%. However, we are reducing our enterprise value for ICICI Prudential Life to Rs320 bn (US$7.8bn) from Rs358 bn or US$8.7 bn to factor in lower premium income growth. If we were to assume the low post-tax margin at 9%, this value would fall to US$5.2 bn. In such a scenario, the contribution of this business to ICICI Bank SOTP will fall to Rs120 per share from Rs180 per share. A large part of ICICI Prudential Life value is driven by future value or structural value (margin X multiple) as its embedded value will likely be low at this stage. A change in scale/productivity assumption could thus impact value of this business.

Prudential estimate of margin lower than ICICI Prudential Life: Prudential Life UK has indicated that its margin on the Indian operation are at 12% pre-tax v/s 19-20% post-tax indicated by ICICI Prudential Life. On a conference call ICICI Prudential Life management indicated that the difference was due to Prudential adjusting higher cost upfront against margin, as against which ICICI Prudential Life is assuming higher scale and productivity benefits. We are not clear why Prudential has decided to be conservative v/s ICICI Prudential Life—till last year they were following similar policy as ICICI Prudential Life.

Most companies in India indicate similar margin as ICICI Pru: Most insurance companies in India have been indicating margins at around 15-20% and would carry similar risk in case scale or productivity levels were to fall short of estimates. Note that ICICI Prudential Life reported operating expense ratio is actually lower than most other players in the industry. We are therefore retaining our margin assumption and giving the company benefit of higher productivity on its business.

Company valued at higher level by Prudential and ICICI Bank: ICICI Prudential Life received fresh capital infusion of US$100mn from both the partners in February 2008—at a valuation of US$14bn. We believe market is unlikely to value the company at these levels, given risk to valuations from lower volume growth. Nearly 80% of premium collection in insurance companies is towards equity funds. Given the recent equity market turmoil, the growth in premium collection could be impacted in FY2009. We are revising down our premium income estimate to 40% from 60% for FY2009.

Contribution to SOTP will reduce in case of margin decline (Rs per share)

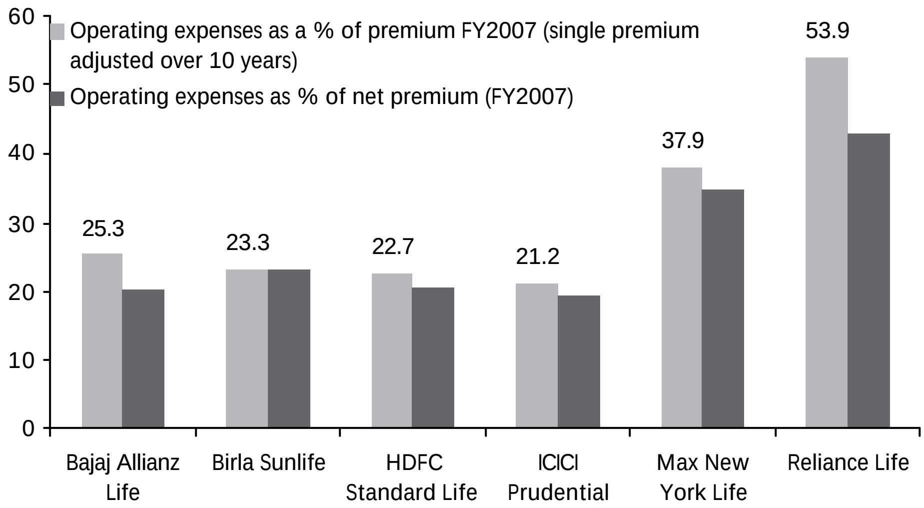
Value of insurance business (Rs per share)

Multiple	Margin (%)					
(X)	8.8	11.8	14.7	15.7	16.7	17.7
14	100	124	147	155	163	171
16	110	137	164	173	182	191
17	115	144	172	182	191	201
18	**120**	150	**180**	190	200	211
20	130	164	197	208	219	231

Source: Kotak Institutional Equities

ICICI Prudential Life operating expense ratio lower than most other private players

Operating expense to total income (%)



Source: Companies

Real Estate

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**17-Mar**	**Target**
MLife	BUY	399	890
Sobha	ADD	603	710
DLF	BUY	603	905
Unitech	REDUCE	263	250
HDIL	BUY	539	925
Puravankara	BUY	244	375
IVR Prime	BUY	185	470

Stock selection after recent sharp correction

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

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

- **Decrease residential selling prices for FY2009-10E as demand is emerging only at lower price points**
- **Commercial: Execution is the key—DLF already has large commercial property under construction**
- **Cut target prices and earning estimates**
- **Is accumulating large land banks the correct strategy? We would prefer companies with healthy balance sheet**
- **Low trading histories make it difficult to estimate bottom of these stocks**

We revisit our pricing assumptions for FY2009-10E for residential real estate as demand continues to be sluggish at current rates. For commercial/retail real estate, in order to be on the conservative side we now assume stable leasing rates for FY2009-10E. As a result our NAV estimates for our coverage companies are cut by 14%-32%. Our target prices are revised to Rs905 for DLF (Rs1,220 earlier), Rs250 for Unitech (Rs365), Rs925 for HDIL (Rs1,200), Rs375 for Puravankara (Rs475), Rs710 for Sobha (Rs920), and Rs470 for IVR Prime (Rs600). As stocks prices have witnessed sharp correction in the recent past, we do a stress testing of our NAV estimates assuming 20% reduction in prices and WACC of 18%. Even at these stress conditions we observe upside in DLF, HDIL and IVR Prime. As a result of adjusted estimates, we reduce our rating on Sobha to REDUCE (ADD earlier). We also highlight emerging financing risks as capital raising becomes more difficult and currently would prefer companies with low balance sheet leverage. Key downside risk for this sector is extremely aggressive consensus estimates.

Decrease residential selling prices for FY2009-10E as demand is emerging only at lower price points

In our report dated Sep 28, 2007, we had highlighted that for residential companies street expectations of high volume growth along with high prices is unlikely to pan out. We had estimated that residential property prices would need to correct by 10% in FY2008 for volumes to pick up. Instead, we have observed that most companies have maintained their selling prices, which has resulted in low sale volumes. Decline in home loan disbursements (Exhibit 2) and low number of new launches clearly indicate that slowdown has continued in the residential sector for the past 12 months.

We believe for volumes to increase, companies will have to reduce prices as sharp increases in prices in the recent past have resulted in housing becoming unaffordable. We now factor in 10% correction in residential property prices in FY2009E, stable property prices in FY2010 and 5% growth thereafter. We expect only a moderate decline in prices as even a 10% correction in price along with rising incomes will likely result in sharp increase in affordability and subsequently demand. Exhibit 3 highlights affordability index that takes into account interest costs, incomes and property prices. Based on our revised estimates affordability is likely to increase by 15% in FY2009E and further by 7% in FY2010E.

We highlight that reduction in residential real estate prices have triggered large demand as observed in Chennai (launches by DLF and Puravankara have seen good demand) and New Gurgaon (DLF sold 2,500 apartments)

Commercial: Execution is the key—DLF already has large commercial property under construction

In the near term, we believe demand for commercial project is going to be function of—(1) its location, (2) SEZ status, and (3) completion schedule. We believe that near term companies supplying SEZ commercial space are going to benefit as IT/ITES companies would prefer them to IT Parks. Exhibit 4 highlights that demand for commercial space will likely remain strong and is a function of number of IT/ITES professionals being hired. We estimate commercial demand of 127 mn sq. ft in FY2009-10E period.

However, to be on the conservative side we now assume stable prices in FY2009E and FY2010E. We highlight that DLF is best positioned to capture large market share in commercial space as it already has 39 mn sq. ft of commercial space under construction.

Cut target prices and earning estimates

We adjust our NAV and financial estimates to factor in our new selling price assumptions. Exhibit 5 summarizes changes in our target prices and EPS estimates for FY2009E and FY2010E. Our target prices are revised to Rs905 for DLF (Rs1,220 earlier), Rs250 for Unitech (Rs365), Rs925 for HDIL (Rs1,200), Rs375 for Puravankara (Rs475), Rs710 for Sobha (Rs920), and Rs470 for IVR Prime (Rs600). The variation in percentages changes in NAV for different companies is on account of—(1) difference in vertical mix (commercial/retail/residential), (2) different margins—lower the margins, steeper is the fall in NAV on account of decrease in selling prices. Besides factoring in lower pricing assumptions, we increase our cap rate for sale of commercial property to DLF Offices Trust by DLF to 8% (7% earlier) and decrease terminal value assumptions for DLF and Unitech.

Even after factoring in revised estimates we observe large upside in DLF, HDIL and IVR Prime and retain BUY rating. We revise our rating on Sobha to REDUCE (ADD earlier). The biggest emerging risk to this sector is extremely high expectations of consensus. Exhibit 6 summarizes difference in our financial estimates as compared to consensus. We highlight that in some companies like Unitech, Sobha and Puravankara our estimates are significantly below consensus. We believe many market participants are still not factoring in execution and demand challenges.

Is accumulating large land banks the correct strategy? We would prefer companies with healthy balance sheet

We observe that various companies have been accumulating large land banks over the past six months and in many cases these land acquisitions have been debt financed. As a result of these land acquisitions financial leverage ratios of a few companies have deteriorated over the past six months. In a scenario where financial markets remain volatile and residential markets remain under strain, we would prefer companies with low balance sheet leverage ratios. Exhibit 7 highlight that D/E ratios are high for Sobha Developers, Unitech, Omaxe and Parsvnath Developers.

Low trading histories make it difficult to estimate bottom of these stocks

Most of the currently traded real estate companies have got listed over the past 15 months and hence have limited trading histories. As a result, there are no historical P/E or P/NAV bands available for these stocks, thus making this sector very volatile. Further, some market participants have created a debate as to the correct methodology of valuing these stocks. We believe that P/E based approach is surely not appropriate for valuing these stocks for the following reasons:

1) **Historical land banks.** Several real estate companies have historical land banks in very premium locations wherein they can earn supernormal profit margins. Thus, following a P/E-based approach could result in overvaluation of these companies.

2) **Lumpy earnings.** This is particularly relevant for companies executing fewer projects. The accounting of profits from a large project in a particular year can result in overvaluation in that year and undervaluation in subsequent years. Also, in commercial and retail businesses, profits can vary significantly, based on leasing or selling of these properties.

3) **Non-uniform accounting policies.** Currently, real estate companies follow three set of accounting policies—(1) percentage completion based on project cost basis, (2) percentage completion based on construction cost basis and (3) project cost basis. Furthermore, a few companies take a threshold before they start to book revenues while others start booking revenues as soon as they start construction. Taking a P/E based approach will over value companies under category (1) while undervaluing companies under category (3).

Hence any bottom in these stocks is going to be defined by movements in their NAVs. We observe that NAVs are most sensitive to current selling price assumptions and WACC. We believe a reduction of 20% is unlikely as end-user latent demand remains strong and this reduction will result in 30%+ increase in affordability. We have also observed that many private equity players are targeting IRRs of 18-20% on their investments. Hence, to estimate NAV bottom we assume a FY2009E selling price reduction of 20% across residential, commercial and retail projects and a WACC of 18% (Exhibit 8). Currently, in our stress case, we are not building in delay to various projects. We believe at these NAV bottoms, investor demand will likely emerge from private equity investors as they are currently looking to invest at reasonable valuations. We believe that after the recent sharp correction, a few companies in the listed universe are available at a discount to opportunities available in unlisted space. Exhibit 9 highlights that WACC implied by current stock prices of IVR Prime, HDIL and Puravankara is more than 18%.

Should there be premium to NAV/terminal value? Yes, real estate companies should get terminal value as is the case with most sectors but only when a company has shown a track record of execution and continuous land bank replenishment. Valuing a company only based on its NAV will not give due credit to a company's franchise value or its ability to create value for its shareholders as a going concern. We believe the terminal value of a company should be linked to its investment ability as real estate companies need to buy more land in order to earn profits in future years.

We highlight that opportunities are going to be significant as indicated by recent large project wins—(1) SBM land acquisition in Delhi (DLF, Rs18 bn), (2) lands won by Puravankara, Unitech and BPTP at HUDA auctions in Hyderabad, (3) NOIDA land auction (BPTP, Rs50 bn) and (4) Mumbai railway station complex (L&T, Rs18 bn). We expect opportunities for deals to increase in the near term as municipal corporations of various cities auction land to fund infrastructure projects.

We currently give terminal value to two companies (DLF, Unitech) based on FY2011E P/B discounted back to FY2009. We reduce terminal value multiples on account of financial structuring becoming more difficult and increasing competition. We reduce our terminal value for DLF to 1X (1.5X earlier) and Unitech to 0.5X (1X) earlier.

We reduce selling prices for FY2009-10E period

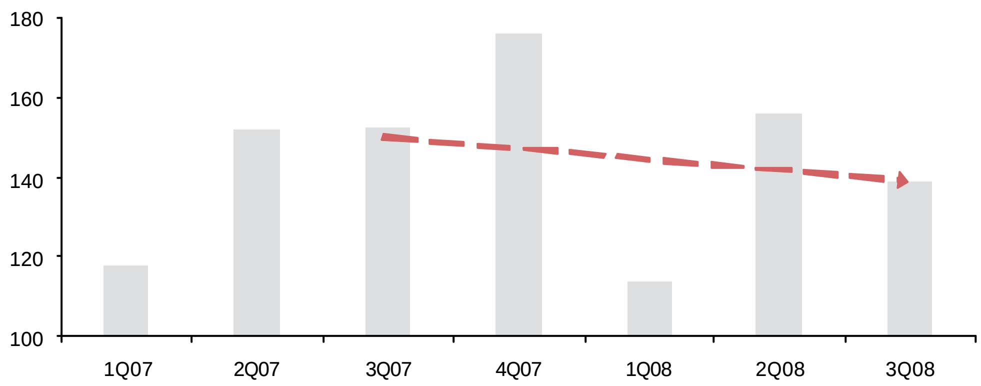
Old, new selling price assumptions (in %)

	New assumptions (%)			Old assumptions (%)		
	FY2009E	FY2010E	FY2011E	FY2009E	FY2010E	FY2011E
Residential	(10)	—	5	5	5	5
Commercial	—	—	5	5	5	5
Retail	—	—	5	5	5	5

Source: Kotak Institutional Equities estimates.

Disbursements in 3QFY2008 have declined by 8% yoy

Quarterly disbursements for housing and commercial construction by HDFC, ICICI Bank and LICHF (Rs bn)



Source: Company data, Kotak Institutional Equities.

Lower interest rates, rising incomes to make housing affordable by 15% in FY2009E

Measurement of affordabilitiy of housing in India, March fiscal year-ends, 1999-2010E

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
Housing loan interest rates (%)	**14.5**	**13.9**	**12.8**	**12.1**	**10.4**	**8.9**	**8.0**	**8.5**	**9.5**	**10.5**	**10.0**	**10.0**
EMI per Rs100,000 on 15 yr loan (Rs)	1,366	1,325	1,252	1,207	1,099	1,008	956	985	1,044	1,100	1,100	1,075
Avg monthly household income (MHI) (for households with monthly income > Rs4,000)		8,923	9,145	9,375	10,881	11,714	11,659	12,991	14,126	15,103	15,951	16,693
Affordability assuming constant housing prices (EMI as % of MHI)		14.8	13.7	12.9	10.1	8.6	8.2	7.6	7.4	7.3	6.9	6.4
Capital price in Bandra (W), Mumbai		7,992	8,791	8,000	8,500	8,500	10,000	13,000	16,000	20,000	18,000	18,000
Affordability Index (assuming FY2000 as 100)		**100**	**101**	**86**	**76**	**65**	**73**	**88**	**106**	**130**	**111**	**103**

Source: RBI, Industry, Kotak Institutional Equities estimates.

Growth in IT/ITES to drive commercial space demand

Estimation of commercial area required, FY2008-10E, March fiscal year-ends

	2000	2001	2002	2003	2004	2005	2006	2007	2008E	2009E	2010E
IT employees (in '000)											
IT, Engineering and R&D, Software product exports	110	162	170	205	296	390	513	707	919	1,195	1,494
IT enabled services Exports	42	70	106	180	216	316	415	545	709	921	1,197
Domestic sector	132	198	246	285	318	352	365	378	416	457	503
Total	**284**	**430**	**522**	**670**	**830**	**1,058**	**1,293**	**1,630**	**2,043**	**2,573**	**3,194**
Addition space required (mn sq. ft)											
Total space required in India (assuming 100 sq. ft/ employee)								34	41	53	62
IT space required (assuming 33% Built to Suit)								22	27	35	41
Other commercial space								15	18	23	27
Total commercial space required								**37**	**45**	**58**	**68**

Source: NASSCOM, Kotak Institutional Equities estimates.

We reduce our EPS estimates to account for selling price changes

Changes in our EPS estimates for FY2009E, FY2010E and FY2011E (Rs)

		New NAV	Old NAV	NAV change	New EPS estimates			Old EPS estimates			% change in EPS		
	Rating	(Rs/share)	(Rs/share)	(%)	FY2009E	FY2010E	FY2011E	FY2009E	FY2010E	FY2011E	FY2009E	FY2010E	FY2011E
DLF	BUY	905	1,221	(25.9)	59.3	63.1	76.6	69.4	77.2	90.3	(14.6)	(18.3)	(15.2)
Unitech	REDUCE	251	369	(32.0)	14.8	18.6	28.9	15.1	20.9	36.1	(2.3)	(10.9)	(19.9)
HDIL	BUY	922	1,143	(19.3)	69.6	100.0	109.1	73.9	117.1	143.8	(5.7)	(14.6)	(24.1)
Sobha	REDUCE	714	833	(14.3)	39.5	53.0	68.6	40.6	59.9	88.9	(2.7)	(11.5)	(22.9)
Purvankara	BUY	374	475	(21.3)	17.9	24.1	26.3	18.8	30.3	35.4	(5.2)	(20.4)	(25.6)
IVR Prime	BUY	474	610	(22.3)	20.7	47.8	62.4	25.1	60.4	83.3	(17.6)	(20.9)	(25.0)

Source: Kotak Institutional Equities estimates.

We believe consensus is still not building in large execution and demand challenges

We highlight the key differences between our estimates and the consensus estimates

	Our EPS estimates			Consensus EPS estimates			% difference		
	FY2009E	FY2010E	FY2011E	FY2009E	FY2010E	FY2011E	FY2009E	FY2010E	FY2011E
DLF	59.3	63.1	76.6	58.7	75.7	94.5	0.9	(16.6)	(19.0)
Unitech	14.8	18.6	28.9	18.6	31.0	56.6	(20.6)	(39.9)	(48.9)
HDIL	69.6	100.0	109.1	78.9	114.0	187.9	(11.8)	(12.2)	(41.9)
Sobha	39.5	53.0	68.6	47.4	78.4	98.1	(16.6)	(32.4)	(30.1)
Purvankara	17.9	24.1	26.3	22.9	35.9	49.0	(22.0)	(32.7)	(46.2)

Source: Bloomberg, Kotak Institutional Equities estimates.

Healthy balance sheet to be a key differentiator

D/E based on debt (in Rs bn) and equity (in Rs bn) as of Mar 2007 and Dec 2007

	As of Dec 31, 2007					As of Mar 31, 2007				
	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	7.8	92.4	84.6	176.8	0.5	4.2	99.3	95.2	35.5	2.8
Unitech	25.0	70.0	45.0	32.9	2.1	10.2	39.8	29.6	19.9	2.0
HDIL	8.5	16.9	8.4	30.0	0.6	0.0	3.8	3.7	7.3	0.5
Sobha	2.5	15.0	12.5	9.7	1.5	0.2	5.8	5.6	8.2	0.7
Purvankara	1.3	4.4	3.1	11.9	0.4	0.4	6.8	6.4	2.2	3.0
Parsvnath	5.3	18.1	12.9	18.1	1.0	5.5	11.7	6.2	14.9	0.8

Source: Company, Kotak Institutional Equities.

We believe our stress case scenario should likely be the bottom for the real estate stock prices

Our stress case assumes a reduction of 20% in FY2009E prices and a WACC of 18% (a)

DLF

Fair price(Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	775	756	737	718
14	754	736	717	699
15	735	717	699	681
16	716	699	682	664
17	698	682	665	648
18	682	665	649	**633**
19	666	650	634	618

Sobha

Fair price (Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	576	517	458	399
14	545	488	431	373
15	517	461	405	349
16	489	435	381	327
17	464	411	358	305
18	439	388	337	**286**
19	417	367	317	267

Unitech

Fair price (Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	231	214	197	180
14	221	205	189	172
15	212	196	181	165
16	204	189	174	159
17	196	182	167	153
18	188	175	161	**148**
19	182	169	156	143

Purvankara

Fair price (Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	307	283	260	236
14	293	271	248	225
15	281	259	237	215
16	268	247	226	205
17	257	237	216	196
18	246	227	207	**187**
19	236	217	198	179

HDIL

Fair price (Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	781	755	729	703
14	757	732	707	682
15	734	710	686	661
16	713	689	665	642
17	692	669	646	623
18	672	650	627	**605**
19	653	632	610	588

IVR Prime

Fair price (Rs/share) — Reduction in FY2009E selling prices (%)

WACC (%)	5	10	15	20
13	386	344	302	259
14	368	327	286	245
15	351	311	272	232
16	335	296	258	220
17	319	282	245	208
18	304	268	232	**196**
19	291	256	221	186

Note:

(a) We have assumed commercial prices falling by 20% in each case.

Source: Kotak Institutional Equities estimates.

With stock prices crashing, the implied WACCs have shot up significantly

Current prices (Rs) result in high impled WACCs (%) for a few stocks

	Current price (Rs)	Target price (Rs)	WACC (%) Assumed	Implied	Rating
DLF	603	905	13	31.0	BUY
Unitech	263	250	13	11.9	REDUCE
HDIL	539	925	13	33.0	BUY
Sobha	603	710	13	16.2	REDUCE
Purvankara	244	375	13	23.9	BUY
IVR Prime	185	470	13	36.0	BUY

Source: Kotak Institutional Equities estimates.

DLF and HDIL have front loaded NAVs

Year wise breakup of NAVs for the coverage stocks

	Before FY2015E	% of NAV in each year						
	(% NAV)	FY2009E	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E
DLF	87.3	12.0	8.5	24.7	19.6	10.5	7.4	4.5
Unitech	71.8	3.0	3.2	14.7	12.2	20.7	7.7	10.4
HDIL	92.0	15.8	16.5	18.1	18.9	12.1	5.0	5.7
Sobha	76.8	(2.6)	(4.2)	9.7	8.5	13.6	35.5	16.2
Purvankara	85.3	(2.1)	5.2	18.9	18.2	8.3	15.7	21.1
IVR Prime	84.8	(13.7)	9.5	5.0	27.4	17.1	24.7	14.7

Source: Kotak Institutional Equities estimates.

Our estimate for DLF's NAV is Rs683/ share

NAV sensitivity to growth rate in selling prices

		March '09 based NAV			
		Growth rate in selling prices			
	Valuation Methodology	0%	3%	5%	10%
Valuation of land reserves		**880**	**973**	**1,040**	**1,234**
Residential		267	306	336	421
Retail		272	304	327	392
Commercial		341	363	378	421
Add: 22 Hotel sites	2X land acquisition cost	50	50	50	50
Add: Construction JV	15X FY2009E P/E	29	29	29	29
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	Current market value	22	22	22	22
Add: Present value of project management fees		8	8	8	8
Add: Investments as on March 31, 2008		20	20	20	20
Add: Bidadi township		58	58	58	58
Less: Net debt as on March 31, 2008		(22)	(22)	(22)	(22)
Less: Land cost to be paid as on March 31, 2008		(30)	(30)	(30)	(30)
NAV (Rs bn)		**1,016**	**1,108**	**1,176**	**1,370**
NAV/share (Rs)		**590**	**643**	**683**	**795**
Terminal value (Rs bn)	1X FY2011E P/B discounted to March 2009	**380**	**380**	**380**	**380**
Total no. of shares including ESOPs of 17 mn shares (mn)					1,722
Valuation/share (Rs)					**903**

Source: Kotak Institutional Equities estimates.

Unitech's March' 09 based NAV is Rs224/ share

NAV sensitivity to growth rate in selling prices

	March '09 based NAV			
	Growth rate in selling prices per annum			
	0%	3%	5%	10%
Valuation of land reserves	**284**	**338**	**378**	**492**
Residential projects	152	188	215	295
Commercial projects	66	73	78	91
Retail projects	67	77	85	106
Add: Hotel business	15	15	15	15
Add: Construction business	10	10	10	10
Add: Investments as on March 31, 2008	15	15	15	15
Add: Consultancy fees received from Unitech Corporate Parks, JVs	10	10	10	10
Less: Net debt as on March 31, 2008	(34)	(34)	(34)	(34)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
NAV	**270**	**324**	**364**	**478**
NAV/share (Rs)	**166**	**200**	**224**	**294**
Terminal value based on 0.5X FY2011E P/B discounted back to FY2009	**44**	**44**	**44**	**44**
Total no. of shares (mn)				1,624
Valuation/share (Rs)				**251**

Source: Kotak Instutuional Equities estimates.

Our estimate for HDIL's NAV is Rs922/ share

NAV sensitivity to growth rate in selling prices

	March '09 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation (Rs bn)	**106.7**	**117.3**	**124.9**	**145.2**
Residential projects	31.6	37.4	41.6	53.4
Commercial/retail projects	41.7	44.9	47.1	52.8
Slum rehabilitation projects	33.3	35.0	36.2	39.1
Add: BKC rental property	1.5	1.5	1.5	1.5
Add: Investment in subsidiaries	2.0	2.0	2.0	2.0
Add: Net cash	10.8	10.8	10.8	10.8
Add: Mumbai slum rehabilitation project	58.6	58.6	58.6	58.6
NAV (Rs bn)	**180**	**190**	**198**	**218**
Total no of shares				214.5
Price/share				**922**

Source: Kotak Institutional Equities estimates.

We estimate March 2009 based NAV for Sobha at Rs714/share

NAV sensitivity to growth rate in selling prices

	March '09 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation of land reserves	**39**	**50**	**58**	**80**
Residential projects	31	35	38	45
Commercial projects	3	8	12	22
Retail projects	5	7	9	13
Less: Land cost to be paid	(8)	(8)	(8)	(8)
Less: Net debt	(13)	(13)	(13)	(13)
Add: Contractual business	6	6	6	6
Add: Balance 60 mn sq. ft (at cost)	9	9	9	9
NAV	**34**	**44**	**52**	**74**
Total no. of shares (mn)				73
NAV/share				**714**

Source: Kotak Institutional Equities estimates.

We estimate March 2009 based NAV for Purvankara at Rs374/share

NAV sensitivity to growth rate in selling prices

	March '09 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation (Rs bn)	**68.9**	**79.5**	**87.0**	**107.3**
Residential	37.7	43.2	47.2	58.0
Retail	2.8	2.9	3.0	3.3
Commercial	28.4	33.3	36.8	46.1
Less: Net debt	(6.7)	(6.7)	(6.7)	(6.7)
NAV	**62.2**	**72.8**	**80.3**	**100.6**
NAV/share	290	339	**374**	469
Total no of shares				214.5

Source: Kotak Institutional Equities estimates.

We estimate March '09 based NAV for IVR at Rs474/share

NAV sensitivity for different growth rate in selling prices

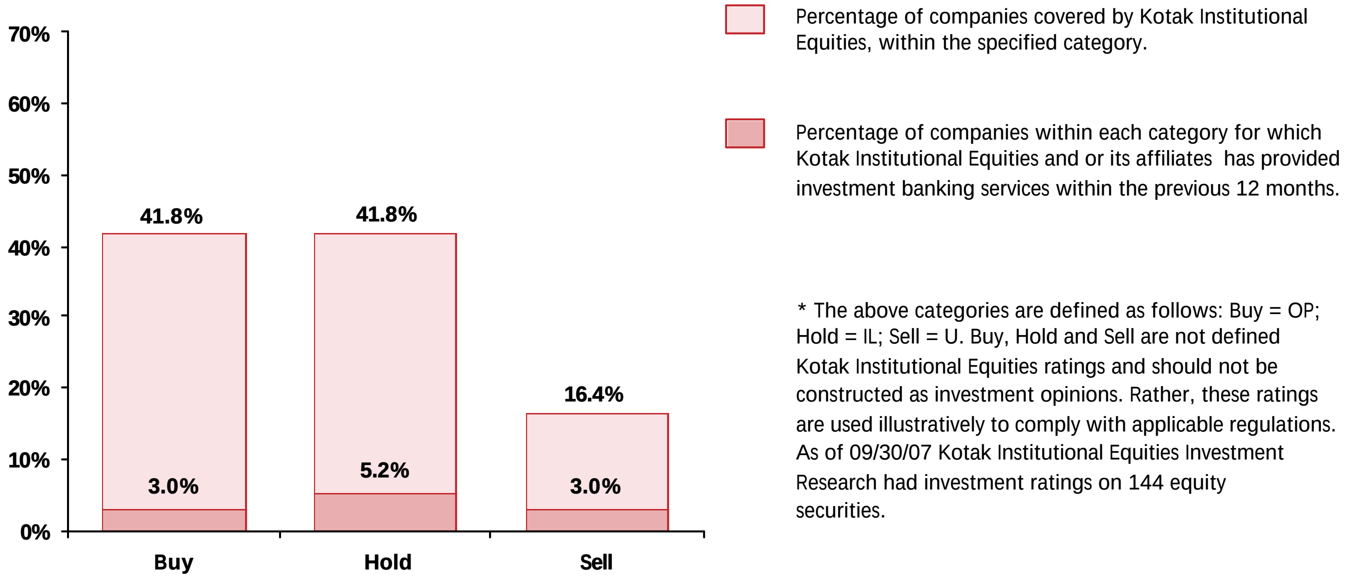
	March '09 based NAV Growth rate in selling prices			
	0%	3%	5%	10%
Valuation (Rs bn)	**24.1**	**28.7**	**31.9**	**40.6**
Residential projects	14.3	16.2	17.6	21.3
Commercial projects	6.3	8.2	9.5	13.0
Retail projects	3.5	4.3	4.8	6.3
Less: Land payments outstanding	(1.6)	(1.6)	(1.6)	(1.6)
Less: land payments outstanding for NOIDA	(4.0)	(4.0)	(4.0)	(4.0)
Add: Net Cash	4.1	4.1	4.1	4.1
NAV (Rs bn)	**22.6**	**27.2**	**30.4**	**39.1**
Total no of shares				64.2
Price/share (Rs/share)				474

Source: 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: Tabassum Inamdar, Sanjeev Prasad, Kawaljeet Saluja, Puneet Jain."

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 09/30/07 Kotak Institutional Equities Investment Research had investment ratings on 144 equity securities.

Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

New rating system

Definitions of ratings

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

Old rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

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