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Telecom: May 2009 GSM net adds - Bharti maintains net adds pace even as GSM net adds decelerate

Cement: Despatch growth and cement prices remain firm

News Roundup

Corporate

- In the second-largest acquisition in India's iron ore industry, **Sesa Goa**, a subsidiary of London-listed Vedanta Resources, today acquired Goa-based Dempo group's mining and maritime businesses for Rs 1,750 crore in an all-cash deal. (BS)
- Engineering and construction major **Larsen and Toubro** has made a little over Rs1,000 crore profit through sale of its residual stake in **UltraTech Cement**. L&T on Thursday sold 14.3 million UltraTech shares, representing 11.49 per cent stake. (BL)
- The slowdown in global steel consumption may force India's largest steelmaker, the state-run **Steel Authority of India** (SAIL), to cut its Rs78,000-crore expansion plan by 13% to save around Rs10,000 crore. (ET)
- Indian tech majors **Infosys Technologies** and **Wipro** are set to enter the booming domestic back-office service market, multiplying by more than one-third every year, and join a tech revolution happening in rural India. Infosys BPO, the US\$316-mn back-office service arm of Infosys, plans to tie up with service providers with shops in rural areas and small towns for its domestic operations....The US\$395-mn Wipro BPO too will enter the domestic market soon. It already provides technology and other supports to a few rural service providers and may also explore service delivery tieups with them. (ET)

Economic and political

- Despite an early beginning, Indian monsoon may progress slowly during the June-September period, a senior weather official told Reuters on Wednesday. The weather official said Maharashtra, India's biggest producer of sugarcane, kharif pulses and second biggest producer of cotton, soybean, may see a delay in monsoon arrivals. (Mint)
- India has asked China to take strong action against Chinese pharma manufacturers who are exporting fake drugs under "Made in India" label. The development comes after the Nigerian drug regulator detected large consignment of fake drugs with "Made in India" label, but was actually produced in China.
- The Reserve Bank of India (RBI) has set up a working group on reworking the benchmark prime lending rate (BPLR) mechanism to ensure more transparent pricing of loans by banks.

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

EQUITY MARKETS

India	Change, %			
	11-Jun	1-day	1-mo	3-mo
Sensex	15,411	(0.4)	26.8	84.7
Nifty	4,638	(0.4)	26.0	77.2

Global/Regional indices

Dow Jones	8,771	0.4	3.6	22.3
FTSE	4,462	0.6	0.8	20.2
Nikkei	10,076	1.0	8.4	40.0
Hang Seng	19,147	1.9	11.6	59.5
KOSPI	1,422	0.2	1.3	26.0

Value traded - India

	Moving avg, Rs bn			
	11-Jun	1-mo	3-mo	
Cash (NSE+BSE)	313.8	297.9	222.5	
Derivatives (NSE)	634.6	458.1	379	
Deri. open interest	853.7	720	604	

Forex/money market

	Change, basis points			
	11-Jun	1-day	1-mo	3-mo
Rs/US\$	47.6	1	(171)	(428)
10yr govt bond, %	6.8	7	49	30

Commodity market

	Change, %			
	11-Jun	1-day	1-mo	3-mo
Gold (US\$/OZ)	955.8	0.2	3.5	3.1
Silver (US\$/OZ)	15.4	0.1	8.3	18.7
Crude (US\$/BBL)	71.4	(0.1)	23.5	60.1

Net investment (US\$m)

	10-Jun	MTD	CYTD
FIs	152	822	5,097
MFs	199	(353)	(5)

Top movers -3mo basis

Best performers	Change, %			
	11-Jun	1-day	1-mo	3-mo
Welspun-Gujarat St	222	1.7	92.0	345.6
Aban Offshore Limi	1,048	(3.4)	125.6	355.9
Jsw Steel Limited	637	9.3	52.5	284.7
Reliance Capital Lim	1,007	2.8	77.4	254.4
Unitech Limited	86	(2.6)	69.5	245.1

Worst performers

	11-Jun	1-day	1-mo	3-mo
Housing Developme	273	2.0	51.4	326.1
Cipla Ltd	240	0.0	8.9	17.8
Hindustan Petroleu	307	(4.3)	19.3	20.5
Hindustan Unilever	260	(1.7)	15.5	15.2
Bharat Petroleum C	426	(4.9)	18.1	20.0

Energy

Sector coverage view

Neutral

Company	Rating	Price, Rs	
		11-Jun	Target
IOC	REDUCE	554	550
BPCL	SELL	426	475
HPCL	SELL	307	350

Oil at US\$70/bbl—what it really means for everyone

- **Gross under-recovery to be high in the absence of price hikes; significant price hikes required to break even on auto fuels**
- **Deregulation looks difficult at current crude price levels**
- **Significant risks to earnings of downstream R&M oil companies**

We analyze the implications of crude at US\$70/bbl on various parties and conclude that a high crude price does not augur well for anyone. We see several likely consequences of crude prices at their currently high levels—(1) gross under-recovery will be high (~Rs750 bn) for the industry at current levels of retail prices, (2) significant price hikes are required to break even on auto fuels (Rs5.9/liter for gasoline and Rs2.4/liter for diesel), (3) deregulation is likely now on the backburner unless crude prices fall significantly and remain low for a sustained period, (4) significant risk to earnings of downstream companies prevails without a transparent and stable subsidy-sharing scheme. We see the recent surge in crude oil prices as not helpful to any of the affected parties.

Implications of crude at US\$70/bbl

- 1. Gross under-recovery for the industry likely to jump up sharply at current price levels of crude in the absence of a retail price increase.** Exhibit 1 gives our computation of marketing/subsidy losses and gross under-recovery at crude price of US\$70/bbl. Total under-recoveries will be ~Rs750 bn at a crude price of US\$70/bbl and current retail price levels, which seems high to us. We note that retail prices need to increase by Rs5.9/liter for gasoline and Rs2.4/liter for diesel to break even on auto fuels. We believe the government will not be keen to implement such a significant hike in retail prices. We do not expect any increase in retail prices of LPG and kerosene despite high subsidy losses (Rs214/cylinder on LPG and Rs19.7/liter on kerosene) given the social and political compulsions. We have long been advocating periodical revisions in prices to avoid situations requiring significant price hikes.
- 2. Deregulation process put on the back burner.** We see current high levels of crude prices delaying the deregulation process. We do not expect the government to implement any deregulation of prices unless (1) there is a sharp decline in crude prices from current levels and (2) crude prices remain low for a sustained period. We have long maintained that the government would be reluctant to deregulate prices while crude prices are high—we believe the government's resolve would be tested at current crude price levels. Historical experience with respect to deregulation has not been very encouraging. We note that the pricing of petroleum products has been already deregulated from April 1, 2002 as per a government notification in 2001. However, governments have generally maintained control over the pricing of petroleum products due to social and political compulsions and we expect the same to be the case with crude prices above US\$70/bbl.
- 3. Significant risks to earnings of downstream companies prevail.** We see significant risks to earnings of downstream companies prevail without a transparent and stable subsidy-sharing scheme. Exhibit 2 gives the likely sharing of subsidy burden at crude price of US\$70/bbl. We assume that upstream companies will share 33.3% of the subsidy burden and that the government will provide oil bonds in the same proportion as FY2009 (47% of the total under-recoveries). This would result in net-under-recoveries of Rs149 bn on the downstream companies, which is similar to the under-recoveries borne by downstream companies in FY2008.

However, we highlight that the profits of downstream companies in FY2008 were boosted by (1) strong refining margins and (2) high adventitious gains. We do not see this to be the case in FY2010E. On the contrary, we see significant risks to all revenue and profit drivers of downstream oil companies—(1) refining margins due to large global oversupply, (2) uncertainty on marketing margins of auto fuels due to government control on pricing and re-entry of Reliance Industries into auto fuel retailing, (3) continued losses on LPG and kerosene and (4) likely sharp decline in FO/naphtha volumes and margins due to displacement by natural gas.

Calculation of marketing margins/subsidy of key products

	Crude price US\$70/bbl
Rs/US\$	48.0
International price (US\$/ton)	
LPG	538
Gasoline	622
Kerosene	664
Diesel	572
India IPP price (incl. transport) (a)	
LPG (Rs/cylinder)	470
Gasoline (Rs/liter)	24.5
Kerosene (Rs/liter)	27.7
Diesel (Rs/liter)	25.0
India retail price without taxes	
LPG (Rs/cylinder)	256
Gasoline (Rs/liter)	18.6
Kerosene (Rs/liter)	8.0
Diesel (Rs/liter)	22.6
Marketing margin or subsidy	
LPG (Rs/cylinder)	(214.1)
Gasoline (Rs/liter)	(5.9)
Kerosene (Rs/liter)	(19.7)
Diesel (Rs/liter)	(2.4)
Consumption (mn tons)	
LPG	12.5
Gasoline	12.0
Kerosene	9.1
Diesel	56.4
Surplus/deficit (Rs bn)	
LPG	(188)
Gasoline	(96)
Kerosene	(222)
Diesel	(162)
Total	(668)
Actual loss	668
Notional marketing margins on diesel and gasoline	118
Payment from budget on LPG	20
Payment from budget on kerosene	9
Gross under-recovery	757

Note:

(a) Selling prices include transport costs estimated at Rs1.2/l for diesel and Rs1.3/l for gasoline.

Source: Industry data, Kotak Securities estimates

Gross under-recoveries will be significantly higher assuming crude at US\$70/bbl

Share of various participants of under-recoveries, March fiscal year-ends, 2008-2010E (Rs bn)

	2008	2009	2010E
Dated Brent crude oil price (US\$/bbl)	82	85	70
Subsidy loss	771	1,032	757
Payment by government (oil bonds)	353	713	355
Share of BPCL	86	162	81
Share of HPCL	77	147	73
Share of IOCL	190	404	201
Net under-recovery of oil companies	418	319	402
Share of refining companies	—	—	—
Share of upstream companies	257	329	252
Share of ONGC	220	282	216
Share of GAIL	14	18	14
Share of Oil India	23	29	22
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	161	(10)	149
Pre-tax profits of R&M companies	153	50	

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	479,840	578,774	755,333	965,569	1,102,081	1,353,315	885,105	920,944
EBITDA	38,686	26,231	9,407	35,362	28,472	28,311	30,650	36,848
Other income	4,348	4,015	4,653	7,332	13,954	14,150	13,201	8,256
Interest	(1,447)	(1,748)	(2,474)	(4,774)	(6,725)	(21,664)	(16,109)	(10,325)
Depreciation	(6,754)	(7,130)	(7,680)	(9,041)	(10,982)	(10,756)	(10,154)	(11,897)
Pretax profits	34,833	21,368	3,906	28,879	24,719	10,041	17,588	22,882
Extraordinary items	(420)	810	176	(68)	—	—	—	—
Tax	(12,026)	(7,250)	(140)	(9,286)	(9,059)	(2,682)	(3,699)	(6,016)
Deferred taxation	(805)	(1,230)	(1,025)	(268)	(1,108)	—	(2,280)	(1,762)
Net profits	21,582	13,698	2,916	18,055	15,806	7,359	11,610	15,104
Net profits after minority interests	19,086	11,334	2,916	18,055	15,806	7,359	11,610	15,104
Earnings per share (Rs)	64.6	37.2	7.6	50.1	43.7	20.4	32.1	41.8
Balance sheet (Rs mn)								
Total equity	69,960	82,887	91,394	102,735	116,768	121,166	127,701	136,201
Deferred taxation liability	11,304	12,533	13,558	13,826	14,814	14,814	17,093	18,855
Total borrowings	32,701	46,589	83,736	108,292	150,224	218,186	132,263	94,763
Current liabilities	95,495	104,462	94,070	112,767	145,803	128,566	110,165	115,838
Total liabilities and equity	209,459	246,472	282,758	337,620	427,608	482,732	387,222	365,657
Cash	9,319	6,644	4,921	8,640	9,616	842	6,680	8,108
Current assets	97,729	130,393	128,208	127,698	187,457	176,721	140,779	144,187
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	118,334	127,354	137,855	171,699	170,298
Investments	13,927	10,893	38,774	82,949	103,182	167,314	68,064	43,064
Total assets	209,459	246,472	282,758	337,621	427,608	482,732	387,222	365,657
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	30,727	21,118	9,275	29,920	22,988	3,965	10,842	20,507
Working capital	1,025	(18,393)	1,577	11,451	(25,161)	(19,516)	19,161	3,516
Capital expenditure	(17,001)	(17,120)	(19,945)	(17,908)	(20,665)	(21,257)	(43,998)	(10,497)
Investments	1,278	2,992	(28,146)	(45,481)	(21,684)	(64,132)	99,250	25,000
Other income	1,985	2,445	1,785	4,337	6,434	27,164	11,581	7,005
Free cash flow	18,015	(8,957)	(35,455)	(17,682)	(38,088)	(73,775)	96,836	45,532
Ratios (%)								
Debt/equity	40.2	48.8	91.6	105.4	128.7	180.1	103.6	69.6
Net debt/equity	28.8	41.9	86.2	97.0	120.4	179.4	98.3	63.6
RoAE	28.8	14.4	3.3	16.3	12.7	5.5	8.3	10.1
RoACE	21.2	12.0	4.1	11.0	7.9	7.3	8.4	9.3
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	8.8	9.1	17.2	19.8	20.9	20.0	21.2	22.7
Effective tariff protection (%)	7.2	4.8	2.9	1.6	1.4	2.3	2.3	2.3
Net refining margin (US\$/bbl)	4.2	3.8	2.1	3.1	5.6	5.2	3.2	3.8
Sales volume (mn tons)	20.9	21.5	23.3	24.5	26.7	28.2	29.3	30.5
Marketing margin (Rs/ton)	1,893	1,732	(671)	(1,140)	(3,010)	(5,860)	1,427	1,381
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(20,159)	(26,680)	(25,251)	(14,311)	(8,686)

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	512,001	597,020	708,609	889,959	1,043,130	1,251,379	836,403	884,414
EBITDA	31,858	20,511	8,056	24,036	15,757	32,561	30,654	39,551
Other income	3,794	3,295	3,285	6,845	11,980	5,202	6,989	4,995
Interest	(557)	(816)	(1,587)	(4,230)	(7,925)	(20,828)	(15,234)	(14,904)
Depreciation	(6,054)	(6,584)	(6,902)	(7,040)	(8,508)	(9,813)	(11,172)	(11,709)
Pretax profits	29,042	16,406	2,851	19,611	11,303	7,122	11,238	17,934
Extraordinary items	—	1,471	2,201	3,030	—	—	—	—
Tax	(10,225)	(5,897)	(898)	(6,625)	(1,799)	(2,416)	(1,273)	(3,981)
Deferred taxation	(540)	793	(97)	(365)	(2,025)	(343)	(4,305)	(2,115)
Prior period adjustment	762	—	—	61	3,870	1,387	—	—
Net profits	19,039	12,773	4,056	15,712	11,349	5,750	5,659	11,838
Earnings per share (Rs)	56.2	34.8	6.6	40.0	33.5	17.0	16.7	34.9
Balance sheet (Rs mn)								
Total equity	77,428	84,409	87,357	95,987	105,633	109,301	110,200	112,081
Deferred tax liability	14,541	13,748	13,844	14,209	15,960	16,303	20,608	22,723
Total borrowings	17,008	21,854	66,638	105,175	167,867	222,867	198,367	160,867
Current liabilities	76,551	69,887	79,549	101,195	124,337	81,074	92,361	96,541
Total liabilities and equity	185,528	189,896	247,389	316,566	413,797	429,544	421,536	392,213
Cash	1,971	2,016	426	868	2,940	2,708	1,940	1,236
Current assets	92,331	93,007	109,674	113,779	190,034	153,248	151,125	156,474
Total fixed assets	70,743	77,305	97,013	130,644	152,452	162,765	177,649	183,681
Investments	20,484	17,568	40,276	71,275	68,371	110,823	90,823	50,823
Total assets	185,528	189,896	247,389	316,566	413,796	429,545	421,537	392,213
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,062	15,977	10,126	23,966	(18,679)	9,085	12,010	20,667
Working capital changes	(13,410)	(3,614)	(5,351)	8,936	(6,504)	(11,893)	14,662	(214)
Capital expenditure	(8,895)	(12,849)	(25,298)	(38,510)	(31,638)	(18,507)	(23,918)	(17,741)
Investments	(342)	2,995	(22,884)	(31,704)	(1,851)	(42,452)	20,000	40,000
Other income	1,052	800	941	2,067	4,692	10,618	5,738	4,040
Free cash flow	7,466	3,310	(42,466)	(35,246)	(53,980)	(53,150)	28,491	46,752
Ratios (%)								
Debt/equity	18.5	22.3	65.8	95.4	138.1	177.4	151.6	119.3
Net debt/equity	16.4	20.2	65.4	94.7	135.6	175.3	150.2	118.4
RoAE	22.0	13.4	4.1	14.9	9.8	4.7	4.4	8.9
RoACE	18.9	10.1	2.5	8.8	6.4	5.8	6.9	8.2
Key assumptions								
Crude throughput (mn tons)	13.7	13.9	14.0	16.7	16.8	15.8	18.0	19.3
Effective tariff protection (%)	7.4	5.6	3.1	1.4	1.3	2.3	2.4	2.4
Net refining margin (US\$/bbl)	4.4	4.5	3.9	4.3	6.6	4.0	3.0	3.1
Sales volume (mn tons)	20.1	20.6	20.1	23.4	26.2	25.5	26.9	28.6
Marketing margin (Rs/ton)	1,861	1,688	(463)	(710)	(2,345)	(5,458)	1,451	1,404
Subsidy under-recoveries (Rs mn)	(12,870)	(26,708)	(29,671)	(18,899)	(28,549)	(22,597)	(18,893)	(13,426)

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	1,173,450	1,379,018	1,729,474	2,149,428	2,444,378	3,053,377	2,231,579	2,311,885
EBITDA	114,303	86,765	82,044	110,451	120,872	68,732	111,686	111,476
Other income	17,565	16,138	21,310	27,451	43,748	37,462	34,304	19,811
Interest	(5,043)	(7,433)	(12,101)	(17,058)	(17,556)	(42,031)	(34,351)	(14,507)
Depreciation	(20,626)	(23,140)	(24,711)	(28,686)	(29,918)	(31,789)	(32,750)	(36,278)
Pretax profits	106,199	72,330	66,542	92,157	117,145	32,375	78,889	80,502
Extraordinary items	3,553	4,283	5,590	24,757	5,374	5,632	4,969	4,952
Tax	(25,966)	(13,658)	(19,975)	(25,834)	(38,293)	(13,832)	(24,319)	(29,030)
Deferred taxation	(5,157)	(2,335)	(1,282)	(8,040)	(473)	1,463	(1,247)	472
Net profits	79,052	59,475	51,125	82,729	83,430	25,638	58,292	56,896
Net profits after minority interests	73,298	52,666	45,362	62,469	74,573	24,984	54,313	53,179
Earnings per share (Rs)	62.8	45.1	38.8	52.4	62.5	21.0	45.6	44.6
Balance sheet (Rs mn)								
Total equity	233,386	271,302	317,977	378,117	450,449	467,185	500,462	532,804
Deferred tax liability	47,934	50,367	50,602	59,859	60,331	58,868	60,115	59,643
Total borrowings	146,147	197,809	292,395	290,215	382,818	641,136	357,685	257,741
Current liabilities	219,522	266,430	286,716	330,791	386,724	474,894	369,821	383,021
Total liabilities and equity	646,988	785,907	947,691	1,058,981	1,280,322	1,642,083	1,288,082	1,233,210
Cash	13,777	13,356	8,080	9,385	8,413	2,178	8,705	10,305
Current assets	278,550	368,158	413,904	437,178	599,256	753,291	576,740	588,797
Total fixed assets	320,647	370,003	383,717	415,014	460,307	480,071	521,093	527,564
Investments	34,013	34,391	141,990	197,403	212,345	406,543	181,543	106,543
Total assets	646,988	785,907	947,691	1,058,981	1,280,322	1,642,083	1,288,082	1,233,209
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	(44,660)	(107,263)	23,374	57,116	66,937
Working capital changes	1,710	(33,421)	(8,136)	2,237	(1,414)	(112,786)	54,563	(846)
Capital expenditure	(47,179)	(73,626)	(49,042)	(50,969)	(79,586)	(45,207)	(53,562)	(22,620)
Investments	(509)	(1,172)	(17,778)	99,768	92,665	(194,083)	225,000	73,956
Other Income	5,826	7,814	10,317	13,582	18,253	92,245	27,657	14,819
Free cash flow	53,560	(28,641)	(74,973)	19,958	(77,346)	(236,456)	310,774	132,245
Ratios (%)								
Debt/equity	52.0	61.5	79.3	66.3	74.9	121.9	63.8	43.5
Net debt/equity	47.1	57.3	77.1	64.1	73.3	121.5	62.3	41.8
RoAE	30.0	18.3	13.7	16.1	16.3	5.0	10.4	9.6
RoACE	20.4	13.7	9.3	11.3	11.2	4.1	7.5	6.9
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	37.7	36.6	38.5	44.0	47.4	49.2	50.2	51.2
Effective tariff protection (%)	7.6	5.7	3.1	1.6	1.4	2.8	2.8	2.8
Net refining margin (US\$/bbl)	5.4	6.2	4.8	4.2	8.1	3.7	4.1	4.1
Sales volume (mn tons)	47.1	48.2	50.4	53.4	57.4	60.7	63.0	65.3
Marketing margin (Rs/ton)	2,092	1,982	26	(633)	(2,203)	(5,253)	1,624	1,610
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(64,486)	(55,535)	(44,387)	(34,809)

Source: Kotak Institutional Equities estimates

Telecom

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		11-Jun	Target
Bharti	ADD	854	775
Rcom	SELL	347	180
MTNL	SELL	116	50
Tata Communi	REDUCE	538	400
Idea Cellular	REDUCE	87	65

May 2009 GSM net adds—Bharti maintains net adds pace even as GSM net adds decelerate

- **Strong GSM net adds pace continues**
- **Potential double counting of subs renders absolute net adds meaningless**
- **Bharti maintains its net adds pace even as GSM net adds decelerate**
- **No major surprises in player-wise net adds**

India's GSM wireless operators (ex-RCOM) reported aggregate subscriber net adds of 8.3 mn for the month of May 2009, down from 9 mn reported in the April 2009. The decline in subs net adds was driven by (1) further normalization of BSNL's subs net adds (BSNL's net adds down 0.6 mn mom) and (2) weak net adds performance of Vodafone-Essar with net adds down 0.24 mn mom—an aberration, in our view. Total subs net adds could be upwards of 11 mn if RCOM, TTSL, and MTS (Shyam-Sistema) maintain their April 2009 net adds pace. Net adds for the listed companies Bharti and Idea are in line with our estimates. Net adds data lends little to our investment thesis in the absence of meaningful market share shifts (which we have not seen thus far); pricing trends continue to matter much more to valuations. We remain cautious on the pricing front and maintain our Cautious view on the sector. Bharti is the preferred relative pick.

Strong GSM net adds pace continues; possible double counting of subs could render the number meaningless. India's GSM operators (ex-RCOM) reported net adds of 8.3 mn for the month of May 2009, down from 9 mn reported in April 2009; however, net adds are still substantially above the FY2009 monthly average of 7.5 mn. Exhibit 1 has a summary of GSM subscriber base and net adds of various operators.

We find the sustained strength in net adds surprising; urban wireless penetration is already in the 85%+ range and thus, we would expect incremental subscriber additions to be driven by the rural market. However, Bharti, the rural coverage leader among GSM players, has seen its net adds share (among GSM operators ex-RCOM) drop by 5.2% pts to 33.5% from 39.1% over the same timeframe (May 2008 to May 2009). We see possible double counting of churning subscribers or increased dual/multi SIM usage as the only possible explanations for this sustained high subs net adds in the urban markets. We believe that new operators cannot expand the urban market and that their potential market is the churning subscriber base.

Two factors complicate the counting of subs: (1) inconsistent subscriber deactivation norms followed by various wireless operators and (2) non-disclosure of gross subs adds on a monthly basis. We highlight the possibility of a sharp drop in industry net adds as gross adds dip and operators deactivate inactive subscribers.

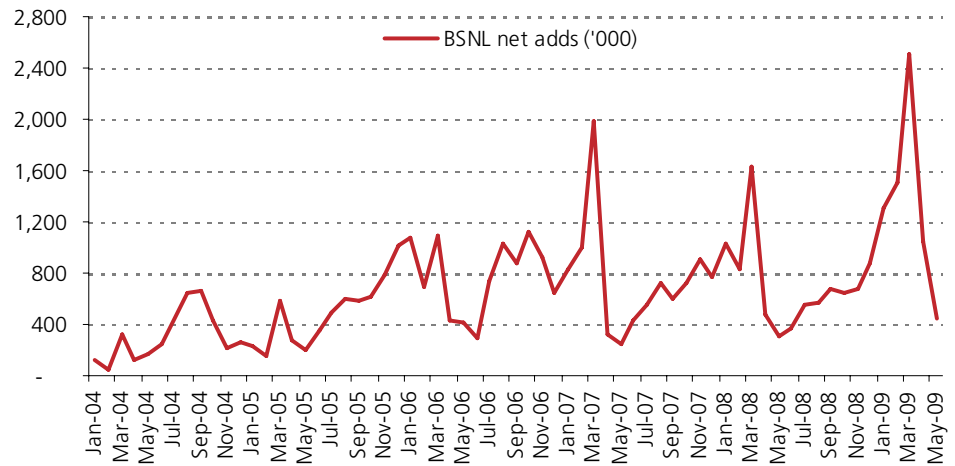
Bharti maintains its net adds pace even as GSM net adds decelerate. Bharti, with 2.81 mn net adds for the month of May 2009 (flat mom), enhanced its GSM net adds market leadership (though its share of net adds is still down yoy, as noted in the previous paragraph).

No major surprises in player-wise net adds. Vodafone's net adds dropped marginally to 2.53 mn from 2.77 mn in April 2009—an aberration, in our view. Idea's net adds (including Spice) improved marginally to 1.3 mn from 1.15 mn in the previous month; however, its share of GSM net adds at 15.7% remained below its January 2009 peak of 21.5%. BSNL's net adds dropped substantially (see Exhibit 2), in line with expectations. Aircel maintained its net adds pace at 1.1 mn and continued its impressive performance in new circles (Exhibit 3). MTNL and BPL maintained their net adds pace.

Subscriber details for leading GSM cellular operators (excluding RCOM), ('000)

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Subs ('000)													
Bharti	66,826	69,384	72,078	74,778	77,479	80,200	82,921	85,651	88,383	91,115	93,923	96,735	99,549
Hutchison	47,467	49,195	50,950	52,759	54,625	56,704	58,764	60,933	63,340	65,921	68,769	71,542	74,081
IDEA-Escotel	26,141	27,194	28,248	29,278	30,380	31,583	32,810	34,211	36,064	37,470	38,889	40,003	41,243
BPL	1,331	1,378	1,440	1,517	1,664	1,808	1,882	1,948	2,007	2,073	2,164	2,205	2,257
Modi group	4,498	4,548	4,197	3,563	3,600	3,637	3,706	3,802	3,952	4,049	4,133	4,172	4,235
MTNL	3,350	3,438	3,537	3,639	3,678	3,744	3,821	3,900	4,004	4,085	4,177	4,222	4,260
BSNL	36,997	37,363	37,916	38,490	39,167	39,811	40,488	41,362	42,673	44,181	46,684	47,724	48,177
Aircel	11,492	11,925	12,476	13,127	13,878	14,659	15,375	16,076	16,761	17,477	18,478	19,585	20,686
Total market	198,102	204,425	210,843	217,152	224,471	232,146	239,767	247,882	257,185	266,370	277,218	286,187	294,488
Market share of subs (%)													
Bharti	33.7	33.9	34.2	34.4	34.5	34.5	34.6	34.6	34.4	34.2	33.9	33.8	33.8
Hutchison	24.0	24.1	24.2	24.3	24.3	24.4	24.5	24.6	24.6	24.7	24.8	25.0	25.2
IDEA-Escotel	13.2	13.3	13.4	13.5	13.5	13.6	13.7	13.8	14.0	14.1	14.0	14.0	14.0
BPL	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Modi group	2.3	2.2	2.0	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.4
MTNL	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4
BSNL	18.7	18.3	18.0	17.7	17.4	17.1	16.9	16.7	16.6	16.6	16.8	16.7	16.4
Aircel	5.8	5.8	5.9	6.0	6.2	6.3	6.4	6.5	6.5	6.6	6.7	6.8	7.0
Growth (%)													
Bharti	3.8	3.8	3.9	3.7	3.6	3.5	3.4	3.3	3.2	3.1	3.1	3.0	2.9
Hutchison	3.7	3.6	3.6	3.5	3.5	3.8	3.6	3.7	4.0	4.1	4.3	4.0	3.5
IDEA-Escotel	4.4	4.0	3.9	3.6	3.8	4.0	3.9	4.3	5.4	3.9	3.8	2.9	3.1
BPL	1.3	3.5	4.5	5.4	9.7	8.7	4.1	3.5	3.1	3.3	4.4	1.9	2.4
Modi group	3.1	1.1	(7.7)	(15.1)	1.0	1.0	1.9	2.6	4.0	2.4	2.1	0.9	1.5
MTNL	2.0	2.6	2.9	2.9	1.1	1.8	2.1	2.1	2.7	2.0	2.3	1.1	0.9
BSNL	0.9	1.0	1.5	1.5	1.8	1.6	1.7	2.2	3.2	3.5	5.7	2.2	1.0
Aircel	4.6	3.8	4.6	5.2	5.7	5.6	4.9	4.6	4.3	4.3	5.7	6.0	5.6
Total market	3.3	3.2	3.1	3.0	3.4	3.4	3.3	3.4	3.8	3.6	4.1	3.2	2.9
Net monthly adds ('000)													
Bharti	2,456	2,558	2,694	2,700	2,701	2,721	2,721	2,730	2,732	2,732	2,808	2,812	2,814
Hutchison	1,686	1,728	1,755	1,808	1,866	2,079	2,061	2,169	2,407	2,581	2,848	2,773	2,539
IDEA-Escotel	1,101	1,054	1,054	1,030	1,102	1,203	1,227	1,401	1,853	1,406	1,419	1,113	1,241
BPL	17	47	61	77	147	144	74	65	60	66	91	40	52
Modi group	135	50	(351)	(634)	37	37	69	96	150	96	85	38	63
MTNL	67	87	100	102	38	66	77	79	104	81	92	46	38
BSNL	314	365	553	574	677	644	676	874	1,312	1,508	2,503	1,040	454
Aircel	503	433	551	651	752	781	716	701	686	716	1,001	1,107	1,100
Total market	6,278	6,323	6,418	6,309	7,319	7,675	7,621	8,115	9,303	9,185	10,848	8,969	8,301
Market share of net adds (%)													
Bharti	39.1	40.5	42.0	42.8	36.9	35.4	35.7	33.6	29.4	29.7	25.9	31.4	33.9
Hutchison	26.9	27.3	27.3	28.7	25.5	27.1	27.0	26.7	25.9	28.1	26.3	30.9	30.6
IDEA-Escotel	17.5	16.7	16.4	16.3	15.1	15.7	16.1	17.3	19.9	15.3	13.1	12.4	14.9
BPL	0.3	0.7	1.0	1.2	2.0	1.9	1.0	0.8	0.6	0.7	0.8	0.5	0.6
Modi group	2.1	0.8	(5.5)	(10.1)	0.5	0.5	0.9	1.2	1.6	1.0	0.8	0.4	0.8
MTNL	1.1	1.4	1.6	1.6	0.5	0.9	1.0	1.0	1.1	0.9	0.8	0.5	0.5
BSNL	5.0	5.8	8.6	9.1	9.3	8.4	8.9	10.8	14.1	16.4	23.1	11.6	5.5
Aircel	8.0	6.8	8.6	10.3	10.3	10.2	9.4	8.6	7.4	7.8	9.2	12.3	13.3

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

BSNL's net adds down substantially from the the March peak - a usual phenomenon

Source: COAI, Kotak Institutional Equities

Net add performance of new GSM launches in the past few months - Aircel the most impressive

Company	Circle	Launch month	Monthly net adds ('000)									
			Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Idea			17	83	152	138	204	539	165	316	248	301
	Mumbai	Aug-08	17	83	78	63	84	278	87	61	74	30
	Bihar	Oct-08			74	75	120	260	78	256	139	199
	Orissa	Apr-09									35	65
	Tamil Nadu	May-09										6
Vodafone			35	35	101	147	248	351	482	479	611	495
	Orissa	Aug-08	35	25	35	41	44	51	52	96	101	91
	Assam	Sep-08		7	22	16	21	24	31	40	29	41
	North-east	Sep-08		3	13	14	17	26	34	56	47	36
	M.P.	Oct-08			5	25	55	90	80	101	89	89
	Bihar	Oct-08			26	50	100	152	273	170	277	203
	Himachal pradesh	Dec-08					10	7	12	15	12	7
	J&K	Mar-09								1	55	29
Aircel			50	58	60	57	29	48	47	195	412	424
	Kolkata	May-08	50	58	60	57	29	48	32	41	31	4
	Karnataka	Feb-09							2	51	44	48
	Kerala	Feb-09							13	39	42	40
	Delhi	Mar-09								29	111	99
	Andhra Pradesh	Mar-09								33	53	71
	Uttar Pradesh East	Mar-09								2	39	36
	Uttar Pradesh West	Mar-09								0	31	47
	Mumbai	Apr-09									61	79

Source: COAI

Cement

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		11-Jun	Target
Gujarat Ambuj	REDUCE	99	80
ACC	REDUCE	863	725
Grasim	REDUCE	2,417	2,300
India Cements	ADD	165	155
UltraTech Cem	ADD	732	725
Shree Cement	BUY	1,219	1,150

Despatch growth and cement prices remain firm

- Despatch growth at 10.8% yoy in May 2009, compared to 13% in April
- Shree Cement, Jaiprakash and Grasim benefit from capacity addition
- Cement stocks lag market performance, recommend reducing exposure to ACC and Ambuja

Cement despatch growth decelerated to 10.8% yoy in May 2009 compared to 13.1% yoy growth in April 2009 (and 4.1% yoy in May 2008). Strong cement despatch growth in the first two months of FY2010 came on a low base of 6.7% and 4.5% in April and May 2009, respectively. We note the base effect will be adverse in June with 9.2% yoy growth reported in June 2008. However, cement despatch growth can still be about 10% in June if the industry despatches are similar to despatches in May.

Revision in target prices, valuations pegged at FY2011E earnings. We have revised our target prices for cement companies under coverage and base our valuations on FY2011E earnings. Exhibit 6 summarizes revision in target prices and rating on the cement companies under our coverage. Our target prices have increased by 15-20% on the rollover to FY2011E. Cement stocks have lagged behind the markets over the past three months despite strong quarterly results and absolute performance (+39% mom). We recommend investors reduce positions in large-cap cement stocks such as ACC and Ambuja, as valuations appear rich. Both stocks are trading at a premium to replacement cost and, in our view, do not reflect the risk of correction in cement prices.

Shree Cement, Jaiprakash and Grasim benefit from capacity addition. Disparity in despatch growth continued in the month of May with North (+26% yoy) reporting strong double-digit growth even as South (+4% yoy) languished. Shree Cement, Jaiprakash and Grasim reported strong despatch growth, benefiting from (1) ramp-up of production from new capacities, and (2) healthy demand environment in key markets of Uttar Pradesh (UP) and Madhya Pradesh (MP). Grasim (along with Ultratech) commissioned 4 mn tpa of cement capacity during the month of March (1.6 mn tpa in Grasim and 2.4 mn tpa in Ultratech), which is reflected in improved market share for both the companies. ACC and India Cements reported a low growth of 0.4% and 4%, respectively.

Cement prices improve marginally to Rs247/bag. All India average cement prices during May 2009 increased to Rs247/bag (Rs245/bag in April 2009). The improvement in cement consumption during the past few months was accompanied by a localized shortage of supplies due to the unavailability of railway wagons and lower power availability (in Andhra Pradesh). In our view, a ramp-up of production from new capacities, coupled with the onset of the monsoons, will likely pressure cement prices in the coming months. We currently assume a 3-5% decline in prices during FY2010E in our financial projections. Exhibit 5 gives our estimate of the demand-supply balance indicating a reduction in capacity utilization. As per CMA data, the installed capacity has increased to 221 mn tons.

Exhibit 1: Despatch growth remains in double-digits

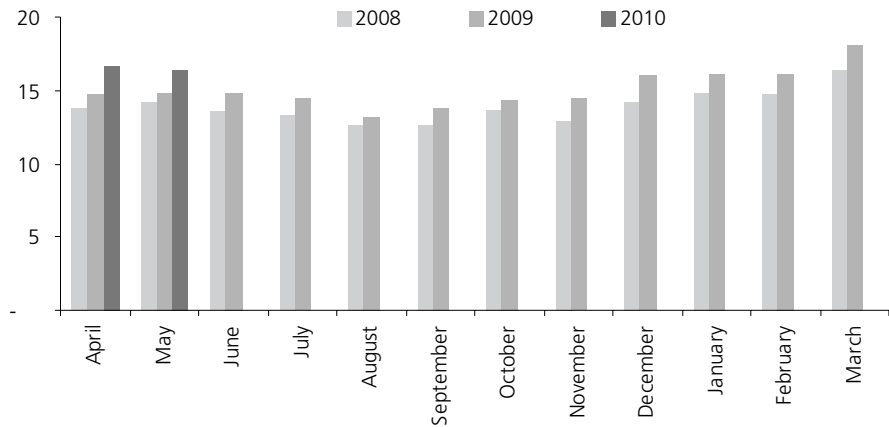
Cement despatch growth rate for major companies

	May-09	Growth (%)	
	(mn tons)	y-o-y	YTD
ACC	1.79	0.4	2.0
Ambuja Cements	1.64	8.2	9.5
Ultratech Cement	1.53	16.4	15.0
Grasim Industries	1.62	22.1	21.8
Shree Cement	0.74	32.2	30.2
India Cements	0.80	4.0	2.7
Madras Cements	0.60	12.7	16.0
Jaiprakash	0.81	25.7	26.8
Industry	16.5	10.8	11.9

Source: CMA, Kotak Institutional Equities

Exhibit 2: Industry volumes have benefited from infra spending and demand from tier-II towns

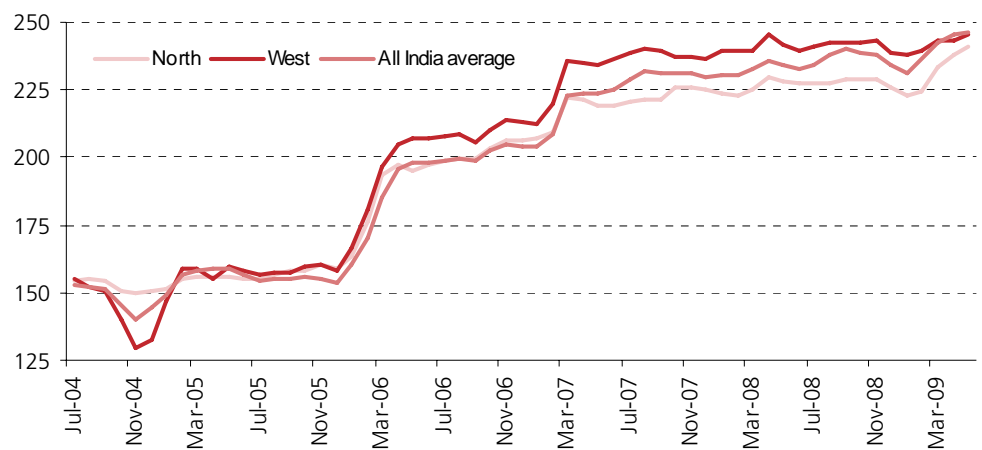
Cement despatches, mn tons



Source: CMA, Kotak Institutional Equities

Exhibit 3: All India average cement prices at Rs247/bag

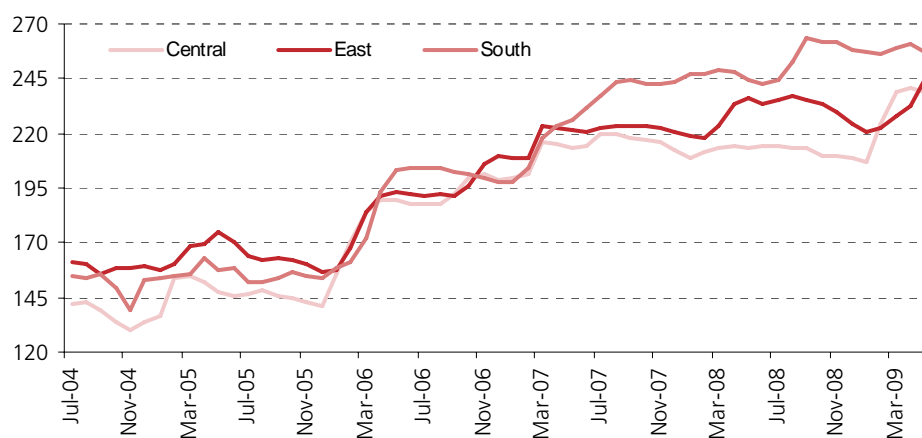
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 4: Cement prices largely stable across regions

Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 5: Incremental supply to exceed incremental consumption during FY2010-11

Cement demand supply balance, March fiscal year-ends, 2007-11E (mn tons)

	FY2007	FY2008	FY2009	FY2010E	FY2011E
Effective capacity (mn tpa)	172	185	206	243	269
Incremental capacity (mn tpa)	6.8	12.6	21.6	36.4	26.6
growth %	4.1	7.3	11.7	17.6	10.9
Cement consumption (mn tons)	148	163	178	190	206
growth %	9.5	10.0	8.8	7.0	8.5
Exports (mn tons)	5.8	3.6	3.2	3.2	3.2
growth %	(2.8)	(37.6)	(11.4)	—	—
Cement depatches (mn tons)	154	167	181	193	210
growth %	9.0	8.2	8.4	6.9	8.4
Capacity utilization (%)	89.6	90.4	87.7	79.7	77.8

Source: CMA, Kotak Institutional Equities estimates

Exhibit 6: Revision in target prices for cement companies

Company	Target price		Rating
	New	Old	
ACC	725	625	REDUCE
Ambuja Cements	80	70	REDUCE
Grasim Industries	2,300	1,900	REDUCE
India Cements	155	130	ADD
Shree Cement	1,150	950	BUY
UltraTech Cement	725	625	ADD

Source: Kotak Institutional Equities estimates

Exhibit 7: Cement comparative valuation

Company	Market cap. (US\$ mn)	CMP (Rs) 11-Jun	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
ACC	3,409	863	725	REDUCE	64	56	55	42	13	15	16	20
Ambuja Cements	3,174	99	80	REDUCE	7.6	7.2	6.8	5.4	13	14	14	18
Grasim Industries	4,659	2,417	2,300	REDUCE	285	238	236	239	8	10	10	10
India Cements	975	165	155	ADD	24	19	20	18	7	9	8	9
Jaiprakash Associates	6,326	214	190	ADD	5	3	7	10	44	71	32	22
Shree Cement	890	1,215	1,150	BUY	90	175	92	86	13	7	13	14
UltraTech Cement	1,928	732	725	ADD	81	71	70	49	9	10	10	15

Company	EV/EBITDA (X)				EV/ton of production (US\$)				EV/ton of capacity (US\$)			
	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E
ACC	7.2	7.7	7.8	9.0	158	150	147	139	148	147	143	123
Ambuja Cements	6.3	7.3	7.5	9.2	174	171	164	158	158	155	152	146
Grasim Industries	5.3	6.1	5.5	5.3	NA	NA	NA	NA	NA	NA	NA	NA
India Cements	5.3	5.7	5.1	5.3	137	138	115	104	142	129	98	97
Jaiprakash Associates	19.1	21.4	14.9	14.2	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement	4.8	4.4	4.9	5.3	143	114	111	96	133	105	94	87
UltraTech Cement	5.9	6.0	5.7	7.1	133	126	107	92	134	120	91	87

Source: Company reports, Kotak Institutional Equities estimates

Exhibit 8: Cement companies lag the market despite strong absolute performance

Absolute and relative performance of cement companies under coverage (%)

	Change (%)					Relative change (%)			
	1-mo	3-mo	6-mo	1-year	CYTD	1-mo	3-mo	6-mo	1-year
Ambuja Cements	28.8	45.9	61.2	15.4	41.5	1.6	(21.0)	1.4	14.2
ACC	44.9	59.5	75.0	36.6	79.7	14.3	(13.6)	10.0	35.2
Grasim Industries	36.2	71.7	125.2	9.2	98.1	7.5	(7.0)	41.6	8.0
UltraTech Cement	28.5	61.1	115.3	38.3	89.9	1.4	(12.8)	35.4	36.9
India Cements	50.8	72.0	72.4	2.0	68.4	19.0	(6.9)	8.4	0.9
Shree Cement	51.6	102.2	170.7	82.0	165.0	19.6	9.5	70.2	80.1
Cement	37.1	62.9	93.4	19.6	78.6	8.1	(11.8)	21.6	18.4

Source: Bloomberg, Kotak Institutional Equities

Source: Company, Bloomberg, Kotak Institutional Equities estimates

[illegible]

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Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	11-Jun-09	BUY	O/S shares (mn)	Mkt cap. (US\$ mn)	EPS (Rs)	EPS growth (%)	PER (X)	EV/EBITDA (X)	P/BV (X)	Dividend yield (%)	RoE (%)	Target price Upside (Rs)	ADVT-3mo (US\$ mn)														
Energy	136.1	BUY			2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E														
Bharat Petroleum	426	SELL	2,932	139,587	20—	32.1	41.8	58	NA	21	NA	10.2	4.9	4.5	1.0	1.0	0.9	2—	3.1	4.0	5.2	7.7	9.4	475	11.6	10.4	
Carlin India	256	REDUCE	485,073	10,188	4.3	9.2	31.2	(3,703)	115	238.0	60	28	82	39.3	14.3	5.8	1.4	1.3	—	—	9.8	2.5	5.1	16.5	225	(12.0)	35.4
Castrol India (a)	334	BUY	41,290	867	124	21.3	25.5	26.6	20.8	19.5	43	15.7	13.1	12.6	8.8	7.5	7.2	9.2	8.3	7.8	4.5	5.4	6.0	61.2	66.5	63.7	
GAIL India	286	REDUCE	362,974	7,624	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	12.2	13.9	13.1	6.7	7.9	8.2	2.2	2.0	1.8	2.6	2.3	2.3	18.4	14.5	14.0	
GSP	58	REDUCE	32,614	685	963	1.9	2.5	3.7	4.4	30.5	52.6	30.8	23.6	15.5	10.2	6.5	5.5	2.5	2.2	2.2	0.9	1.2	6.5	8.2	9.8	14.4	
Hindustan Petroleum	307	SELL	103,924	2,183	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	18.1	18.4	8.8	5.9	5.9	NA	0.8	0.8	NA	2—	3.9	8.2	4.4	3.9	7.8	
Indian Oil Corporation	554	REDUCE	653,166	13,719	1,179	18.9	44.3	43.1	(69.1)	133.8	(2.6)	29.2	12.5	12.8	10.5	5.6	5.5	1.4	1.3	1.2	1—	3.3	3.2	4.6	10.2	9.3	
Oil & Natural Gas Corporation	1,121	BUY	2,396,730	50,341	2,139	100.3	95.3	119.2	8.1	(50.2)	25.1	11.2	11.8	9.4	4.3	4.2	3.5	2.1	1.9	1.7	3—	3.6	3.7	18.9	15.9	18.2	
Petronet LNG	76	REDUCE	57,263	1,203	750	6.9	7.3	8.5	—	5.9	16.8	11.0	10.4	8.9	7.8	6.7	6.0	2.5	2.1	1.8	2.3	2.6	2.9	23.9	21.1	20.5	
Reliance Industries	2,303	REDUCE	3,162,362	66,422	1,373	103.4	126.5	169.4	(15)	22.4	33.9	22.3	18.2	13.6	13.1	8.3	6.4	2.7	2.4	2.1	0.6	0.7	0.9	15.1	15.8	18.6	
Reliance Petroleum	144	NR	646,425	13,578	4,300	—	8.3	13.8	n/a	n/a	n/a	10.4	n/a	n/a	n/a	n/a	n/a	4.8	4.0	3.0	—	1.4	1.4	0.6	25.1	33.0	
Energy	8,081,407	Neutral	169,742	8,081,407	169,742	(5.5)	25.2	34.8	17.9	14.3	10.6	8.7	6.6	5.3	2.2	2.0	1.8	1.5	2.0	2.8	12.1	13.8	16.7	—	—		
Industrials	758	REDUCE	160,574	3,373	212	25.8	24.9	29.6	11.3	(3.6)	18.7	29.3	30.4	25.6	17.2	14.1	7.6	6.3	5.2	0.3	0.4	0.4	29.2	22.6	22.1		
ABB	369	REDUCE	26,575	558	72	15.3	20.7	24.3	26.1	35.4	17.5	24.1	17.8	15.2	13.4	10.7	8.9	4.7	3.9	3.2	0.7	0.9	1.1	21.3	23.9	23.2	
BGR Energy Systems	1,336	REDUCE	106,864	2,245	80	101.9	111.1	119.0	(0.8)	9.0	7.1	13.1	12.0	11.2	5.6	5.0	4.4	2.7	2.3	2.0	1.9	1.9	2.2	24.0	20.9	19.2	
Bharat Electronics	2,274	REDUCE	1,113,144	23,380	490	64.1	92.0	106.8	9.8	43.5	16.1	35.5	24.7	21.3	19.4	13.8	11.7	8.6	6.8	5.5	0.7	0.9	1.0	26.4	30.7	28.6	
Bharat Heavy Electricals	297	ADD	108,729	2,284	367	15.3	17.0	20.0	37.3	11.0	17.5	19.3	17.4	14.8	10.8	9.7	8.4	6.1	4.7	3.7	0.7	0.7	0.8	36.5	30.5	27.9	
Crompton Greaves	1,629	ADD	972,024	20,416	597	52.6	57.5	68.2	38.6	9.4	18.5	31.0	28.3	23.9	18.5	16.2	13.9	6.1	5.0	4.2	0.6	0.7	0.7	22.5	19.4	19.1	
Larsen & Toubro	305	BUY	21,494	451	71	35.9	33.0	39.6	22.2	(8.1)	20.3	8.5	9.2	7.7	5.8	6.0	4.6	1.6	1.4	1.2	1.8	1.6	2.3	20.3	16.0	16.8	
Maharashtra Seamless	509	REDUCE	171,480	3,602	337	14.2	19.8	21.1	(22.2)	38.7	6.4	35.9	25.7	24.1	17.1	14.8	14.1	7.6	6.4	5.3	0.6	1.3	0.8	23.3	27.1	24.2	
Siemens	121	ADD	190,290	3,997	1,571	7.0	7.1	11.4	6.0	2.1	59.7	17.4	17.0	10.7	11.2	10.0	8.0	1.9	1.6	1.4	0.4	0.4	0.8	11.3	10.1	13.9	
Suzlon Energy	46	ADD	10,945	230	240	1.9	2.1	2.5	20.4	11.1	18.8	24.5	22.1	18.6	12.5	10.5	9.2	4.4	3.8	3.3	0.9	0.9	1.3	20.0	19.0	19.5	
Industrials	2,871,174	Cautious	60,306	2,871,174	60,306	15.5	20.1	20.0	28.4	23.6	19.7	15.9	13.3	11.3	5.6	4.6	3.9	0.7	0.8	0.9	0.7	0.8	0.9	19.8	19.6	19.6	
Infrastructure	147	ADD	48,790	1,025	332	5.6	10.4	10.8	63.5	85.5	3.9	26.2	14.1	13.6	14.1	7.8	7.0	2.6	2.2	1.8	—	—	—	10.6	16.8	14.5	
IRB Infrastructure	44	REDUCE	41,593	874	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(6.0)	(10.8)	(13.9)	(25.9)	(159.2)	50.3	(6.4)	(20.5)	(8.3)	—	—	—	86.1	91.1	NA	
DisHTV	104	ADD	24,257	509	234	0.8	4.2	6.3	(80.4)	399.4	49.2	121.9	24.4	16.4	25.1	10.4	8.2	4.9	2.7	2.4	0.4	0.8	2.4	2.3	11.3	15.6	
HT Media	78	BUY	23,371	491	301	2.9	4.2	5.5	(21.1)	47.2	29.6	27.1	18.4	14.2	15.2	10.2	8.1	4.2	3.9	3.6	2.6	3.3	3.9	15.8	22.1	26.5	
Jagran Prakashan	256	REDUCE	100,766	2,116	394	9.3	11.1	12.8	11.8	19.2	15.8	27.6	23.1	20.0	17.2	15.3	13.4	5.9	5.4	5.1	1.6	2.3	3.1	23.5	25.1	26.7	
Sun TV Network	188	REDUCE	81,337	1,708	434	8.1	9.3	11.2	(9.0)	15.5	20.0	23.2	20.1	16.8	16.1	13.9	11.5	2.4	2.3	2.1	1.2	1.5	1.7	11.6	12.2	13.7	
Zee Entertainment Enterprises	46	ADD	10,945	230	240	1.9	2.1	2.5	20.4	11.1	18.8	24.5	22.1	18.6	12.5	10.5	9.2	4.4	3.8	3.3	0.9	0.9	1.3	20.0	19.0	19.5	
Zee News	46	ADD	10,945	230	240	1.9	2.1	2.5	20.4	11.1	18.8	24.5	22.1	18.6	12.5	10.5	9.2	4.4	3.8	3.3	0.9	0.9	1.3	20.0	19.0	19.5	
Media	282,269	Neutral	5,929	282,269	5,929	(48.7)	145.4	55.5	140.0	57.1	36.7	23.3	16.0	12.8	4.7	4.0	3.9	1.2	1.6	2.2	1.2	1.6	2.2	3.3	7.1	10.6	
Metals	101	BUY	177,715	3,733	1,753	9.0	3.5	11.4	(33.9)	(61.4)	277.6	11.3	29.2	8.9	6.4	8.6	6.7	0.5	0.5	0.5	—	—	—	10.3	5.2	6.7	
Hindalco Industries	359	SELL	231,533	4,863	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	18.2	26.2	17.6	9.4	10.0	6.9	2.2	2.1	1.9	1.0	0.6	0.6	12.7	8.1	11.1	
National Aluminium Co.	2,394	ADD	368,630	7,743	154	198.0	172.4	196.2	139.3	(12.9)	13.8	12.1	13.9	12.2	8.2	8.4	7.1	5.1	3.7	2.8	—	0.3	0.3	53.1	31.0	26.4	
Jindal Steel and Power	637	SELL	119,141	2,502	187	13.1	24.1	53.5	(84.7)	83.3	121.8	48.4	26.4	11.9	9.6	9.6	7.4	1.2	1.0	0.9	0.2	0.8	0.8	11.0	4.3	8.3	
JSW Steel	618	BUY	261,251	5,487	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.6	9.8	7.6	5.7	5.1	3.2	1.7	1.5	1.2	0.6	0.8	0.8	20.1	16.5	17.9	
Hindustan Zinc	192	BUY	151,268	3,177	787	24.8	25.5	34.2	30.8	3.0	34.0	7.8	7.5	5.6	4.8	4.3	2.5	3.3	2.4	1.7	1.8	1.8	1.8	52.8	37.1	36.0	
Sesa Goa	703	ADD	498,000	10,460	787	49.2	41.0	50.5	(23.6)	(16.7)	23.4	14.3	17.2	13.9	8.7	9.5	7.1	1.9	1.7	1.6	—	—	—	14.3	10.7	11.8	
Sterile Industries	453	BUY	371,951	7,812	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.7	8.1	5.2	4.0	5.5	4.2	0.8	0.8	0.7	2.8	2.9	2.9	36.8	15.7	21.3	
Tata Steel	453	BUY	371,951	7,812	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.7	8.1	5.2	4.0	5.5	4.2	0.8	0.8	0.7	2.8	2.9	2.9	36.8	15.7	21.3	
Metals	2,179,489	Attractive	45,778	2,179,489	45,778	7.7	(33.8)	44.4	8.6	13.0	9.0	6.0	7.2	5.4	1.4	1.4	1.1	0.8	0.9	0.9	0.9	0.9	0.9	16.4	9.8	12.5	
Pharmaceutical	220	BUY	44,070	926	200	4.7	13.6	19.4	(80.0)	192.2	42.8	47.3	16.2	11.3	19.3	9.7	7.0	2.9	2.5	2.2	0.0	0.0	0.1	6.2	16.9	20.9	
Biocon	240	ADD	186,589	3,919	777	9.9	13.9	15.5	9.5	40.6	11.9	24.3	17.3	15.4	17.4	12.5	11.0	4.3	3.7	3.1	1.0	1.2	1.5	19.1	23.0	21.8	
Cipla	189	BUY	15,343	322	81	18.0	21.2	27.3	22.1	17.9	28.7	10.5	8.9	6.9	8.7	6.9	5.4	2.2	1.8	1.4	0.1	0.0	0.0	22.8	21.9	22.9	
Dabur Pharma & Chemicals	1,209	BUY	78,009	1,638	65	63.8	74.6	86.5	19.9	16.9	16.0	18.9	16.2	14.0	15.2	12.4	10.0	6.4	4.7	3.6	0.1	0.1	0.1	39.8	33.5	29.3	
Dr. Reddy's Laboratories	741	BUY	125,378	2,633	1,269	26.6	16.0	18.2	22.5	(38.2)	13.9	23.6	14.2	12.5	10.1	9.4	8.1	6.8	2.7	2.3	1.9	0.0	0.0	0.0	22.0	19.8	20.2
Glenmark Pharmaceuticals	227	BUY	60,																								

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

11-Jun-09 44.0	Company	shares (mn)	Mkt cap.		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			price (Rs)	Upside (%)	3mo (US\$ mn)	
			(Rs mn)	(US\$ mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E				
1,208	REDUCE	53,616	1,126	44	45.9	50.1	56.9	30.8	9.2	13.7	26.3	24.1	21.2	16.9	14.7	12.7	9.3	7.2	5.7	0.8	0.9	1.0	38.9	33.6	29.9	850	(29.6)	3.5	
	Neutral	53,616	1,126					30.8	9.2	13.7	26.3	24.1	21.2	16.9	14.7	12.7	9.3	7.2	5.7	0.8	0.9	1.0	35.3	29.7	26.8				
197	REDUCE	136,672	2,871	695	16.2	13.1	17.0	6.0	(19.0)	29.5	12.1	15.0	11.6	6.8	6.7	6.4	2.2	2.1	2.0	6.1	6.1	6.1	18.6	14.4	17.7	135	(31.4)	6.3	
1,751	BUY	1,005,045	21,110	574	102.4	99.3	111.9	29.6	(3.1)	12.7	17.1	17.6	15.6	12.4	12.6	10.4	5.5	4.5	3.7	1.3	1.4	1.6	36.7	28.1	26.1	1,800	2.8	65.4	
354	REDUCE	73,816	1,550	208	14.2	38.8	30.3	15.7	173.5	(21.9)	25.0	9.1	11.7	19.0	6.5	6.4	5.1	3.5	2.8	1.1	1.3	1.4	22.8	45.3	26.4	240	(32.2)	2.9	
452	BUY	18,619	391	41	13.2	44.0	50.7	(50.5)	23.5	15.1	34.2	10.3	8.9	5.9	5.0	3.4	2.5	2.0	0.4	—	—	—	5.5	20.4	18.4	400	(11.6)	4.8	
250	REDUCE	32,079	674	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	9.3	10.6	9.6	3.6	3.0	2.8	1.3	1.0	0.9	0.7	1.9	2.1	16.2	10.0	10.3	150	(39.9)	2.1	
108	SELL	10,645	224	99	13.1	13.3	12.1	76.0	1.7	(8.9)	8.2	8.1	8.9	3.1	3.7	3.8	1.4	1.2	1.1	2.5	1.9	1.9	18.1	15.9	12.9	50	(53.6)	3.9	
775	REDUCE	758,521	15,932	979	52.9	50.7	54.8	3.1	(4.1)	8.1	14.7	15.3	14.1	10.2	10.7	9.2	4.8	4.0	3.5	1.8	2.0	2.8	36.9	28.7	26.4	650	(16.1)	32.1	
424	ADD	619,596	13,014	1,462	25.7	26.4	29.2	15.8	2.6	10.3	16.5	16.0	14.5	12.1	11.1	9.3	4.1	3.4	2.9	0.9	1.7	2.0	26.9	23.3	21.6	400	(5.6)	15.0	
	Cautious	2,761,960	58,012					15.8	(1.9)	9.2	16.5	15.8	14.4	10.7	10.5	9.1	4.4	3.6	3.1	1.6	1.8	2.2	28.2	23.0	21.6				
854	ADD	1,622,078	34,070	1,899	44.6	52.2	59.8	26.4	17.0	14.6	19.1	16.4	14.3	11.2	9.5	8.2	5.2	3.9	3.0	0.5	0.7	0.9	31.4	27.0	23.8	775	(9.3)	102.9	
87	REDUCE	270,035	5,672	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	30.0	30.0	27.0	10.9	9.7	8.1	2.0	1.9	1.7	—	—	—	10.4	6.4	6.8	65	(25.3)	18.7	
116	SELL	73,080	1,535	630	4.0	4.1	4.6	(44.3)	2.6	11.8	29.1	28.4	25.4	18.0	13.3	9.1	0.6	0.6	0.6	5.2	5.2	5.2	1.6	1.6	1.9	50	(56.9)	3.8	
347	SELL	716,628	15,052	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	12.5	17.1	16.4	10.3	9.7	7.6	2.1	1.8	1.6	0.2	—	—	—	18.6	11.7	10.9	180	(48.2)	78.6
538	REDUCE	153,230	3,218	285	13.6	14.0	15.2	24.0	3.2	8.2	39.6	38.4	35.5	16.8	15.3	14.2	2.2	2.2	2.1	0.9	1.2	1.4	5.4	5.2	5.5	400	(25.6)	7.1	
	Cautious	2,835,052	59,547					11.5	(0.5)	11.3	17.6	17.7	15.9	11.1	9.8	8.2	2.9	2.5	2.2	0.5	0.6	0.7	16.3	14.0	13.6				
994	ADD	129,213	2,714	130	64.4	71.4	83.3	11.6	10.8	16.6	15.4	13.9	11.9	11.1	9.3	7.8	3.4	2.9	2.5	1.4	1.6	1.9	24.0	22.5	20.2	850	(14.5)	1.2	
	Cautious	129,213	2,714					11.6	10.8	16.6	15.4	13.9	11.9	11.1	9.3	7.8	3.4	2.9	2.5	1.4	1.6	1.9	22.1	20.8	20.5				
325	ADD	40,654	854	125	31.2	38.0	42.1	12.3	21.8	10.8	10.4	8.6	7.7	5.6	6.4	6.8	1.1	1.0	0.9	1.4	1.7	1.9	11.4	12.2	11.9	345	6.0	1.7	
417	ADD	92,621	1,945	222	14.5	18.1	33.8	(2.5)	25.1	86.9	28.8	23.0	12.3	24.2	18.4	8.6	4.3	3.5	2.7	—	—	—	16.1	16.9	25.0	360	(13.6)	19.3	
226	SELL	1,861,001	39,088	8,245	9.4	10.8	12.2	1.1	14.7	12.6	23.9	20.9	18.5	18.1	15.3	14.4	3.1	2.9	2.7	1.6	1.8	2.0	13.7	14.5	15.0	180	(20.2)	39.2	
1,193	BUY	270,110	5,673	226	64.1	58.8	62.9	70.5	(8.2)	6.9	18.6	20.3	19.0	20.0	20.4	15.8	1.6	1.5	1.4	0.6	0.7	0.8	6.3	7.0	9.0	970	(18.7)	118.3	
193	REDUCE	462,573	9,716	2,397	1.0	2.5	3.1	—	140.3	25.3	189.2	78.7	62.8	—	—	—	—	3.4	3.2	3.1	—	—	—	1.8	4.2	5.0	120	(37.8)	30.8
1,198	ADD	266,570	5,599	223	56.2	76.6	86.5	76.6	36.2	12.9	21.3	15.6	13.8	11.5	11.9	11.1	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(8.1)	14.4	
	Attractive	2,993,530	62,876					14.0	17.4	14.8	26.2	22.3	19.4	18.7	17.7	15.6	2.8	2.6	2.4	1.1	1.3	1.4	10.8	11.7	12.3				
1,048	SELL	39,692	834	38	87.8	148.2	277.7	21	68.8	87.4	11.9	7.1	3.8	9.3	7.4	5.8	2.9	2.1	1.4	0.4	0.5	0.5	33.7	36.9	41.2	300	(71.4)	64.4	
294	REDUCE	17,814	374	61	(1.0)	10.3	14.7	(104)	NA	43.0	NA	28.7	20.0	11.1	9.6	8.6	2.5	2.4	2.2	1.1	1.4	1.7	(0.9)	8.5	11.4	120	(59.2)	2.5	
214	ADD	300,832	6,319	1,403	3.0	6.8	9.9	(39)	126.3	45.5	71.4	31.6	21.7	23.8	15.9	14.8	5.4	4.8	4.0	0.0	0.0	0.0	8.0	16.1	20.0	190	(11.4)	91.5	
412	BUY	22,624	475	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	6.4	8.6	9.9	4.2	4.3	4.1	0.7	0.6	0.6	1.2	1.0	1.0	10.8	7.4	6.2	300	(27.2)	3.5	
132	BUY	5,746	121	44	22.0	36.8	30.0	4	67.4	(18.5)	6.0	3.6	4.4	5.9	4.9	4.2	0.7	0.6	0.5	7.0	6.8	6.8	10.2	13.4	11.1	160	21.4	0.9	
242	BUY	32,984	693	136	23.8	24.8	27.3	22	4.1	10.2	10.1	9.8	8.8	7.2	6.6	5.5	1.7	1.4	1.2	0.5	0.5	0.5	16.6	14.8	14.1	175	(27.6)	4.5	
261	ADD	61,450	1,291	235	27.6	23.1	27.2	(30)	(16.4)	17.9	9.5	11.3	9.6	5.9	4.9	4.2	1.3	1.2	1.1	3.5	3.4	3.4	17.9	12.9	13.7	200	(23.5)	4.7	
222	REDUCE	41,936	881	189	17.3	23.4	17.3	(16)	35.0	(25.7)	12.8	9.5	12.8	7.8	5.6	6.6	2.3	1.8	1.6	0.9	0.7	0.7	17.6	20.8	12.9	125	(43.7)	19.4	
169	BUY	77,916	1,637	462	10.7	13.5	18.0	28	25.7	33.9	15.8	12.5	9.4	10.4	7.6	5.9	2.6	2.2	1.8	0.7	0.9	1.2	18.1	18.2	20.5	140	(17.0)	5.0	
	Others	600,994	12,623					(12.1)	32.1	28.1	20.0	15.1	11.8	10.9	8.8	8.2	2.6	2.3	1.9	0.7	0.7	0.7	12.9	14.9	15.6				
	KS universe (b)	34,199,260	718,321					3.8	3.8	21.8	17	16.1	13.2	10.7	9.5	8.0	2.6	2.3	2.1	1.3	1.5	1.8	15.6	14.4	15.3				
	KS universe (b) ex-Energy	26,117,854	548,579					6.7	(2.3)	17.1	16.3	16.7	14.3	11.8	11.2	9.6	2.8	2.5	2.2	1.2	1.3	1.5	17.0	14.7	15.3				
	KS universe (d) ex-Energy & ex-Commodities	23,223,135	487,779					7.2	4.3	15.0	18.2	17.4	15.1	14.2	12.5	10.9	3.1	2.7	2.4	1.2	1.4	1.6	17.0	15.6	15.9				

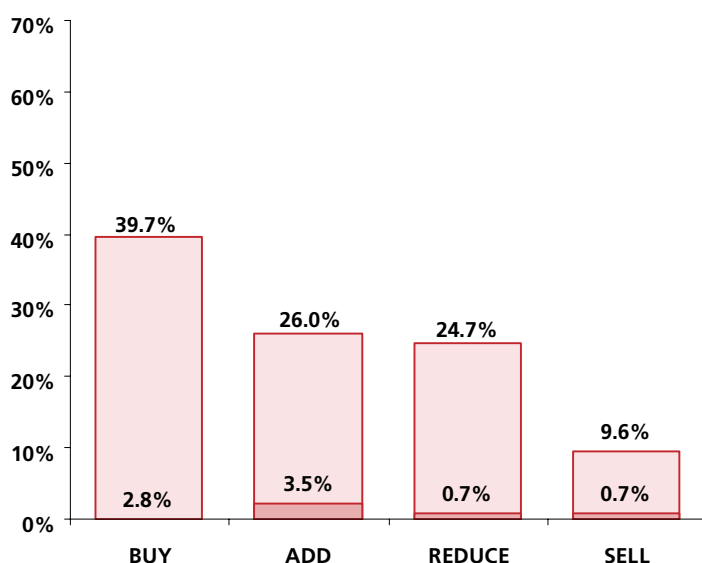
Note:

- (1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA For KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

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- 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.

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Source: Kotak Institutional Equities

As of March 31, 2009

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.

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SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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