kotak® Institutional Equities

INDIA DAILY

July 23, 2007

EQUITY MARKETS

India	20-Jul	1-day	1-mo	3-mo
		Change, %		
Sensex	15,566	0.1	7.6	11.8
Nifty	4,566	0.1	7.4	11.8
Global/Regional indices				
Dow Jones	13,851	(1.1)	3.7	7.2
Nasdaq Composite	#N/A	#N/A	#N/A	#N/A
FTSE	6,585	(0.8)	0.3	1.6
Nikkie	17,936	(1.2)	(1.4)	2.8
Hang Seng	23,292	1.2	5.9	13.3
KOSPI	1,976	(0.4)	11.6	27.9

Value traded - India				
		Moving avg, Rs bn		
	20-Jul		1-mo	3-mo
Cash (NSE+BSE)	179.2		164.0	147.5
Derivatives (NSE)	480.0		417.3	366.1
Deri. open interest	905.1		728.6	587.3

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Updates

Forex/money market

	20-Jul	1-day	1-mo	3-mo
		Change, basis points		
Rs/US$	40.3	0	(54)	(135)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	#N/A	#N/A	#N/A	#N/A

Net investment (US$mn)

	#N/A		MTD	CYTD
FIIs	#N/A		1,759	8,834
MFs	28		111	(274)

Top movers -3mo basis

Best performers	20-Jul	1-day	1-mo	3-mo
		Change, %		
RELIANCE CAPITAL	1,204	2.1	10.4	68.6
BALAJI TELEFILMS L	271	4.2	19.9	67.1
STATE BANK OF INC	1,583	(0.8)	8.8	49.4
THERMAX LIMITED	618	9.2	20.9	48.2
RASHTRIYA CHEMIC	54	20.0	31.8	46.1
Worst performers				
POLARIS SOFTWARI	132	(3.3)	(15.4)	(33.7)
RAYMOND LIMITED	292	(0.7)	(4.7)	(20.3)
CIPLA LTD	205	-	(2.0)	(12.2)
ESCORTS LIMITED	112	(1.8)	0.1	(11.9)
ESSEL PROPACK LT	62	(3.1)	(3.6)	(11.8)

News Roundup

Corporate

- Private Indian carrier Jet Airways, which begins its US operations next month, has ruled out entering into a price war with other airlines and expects to attract passengers by offering top-class services(BS)
- Reliance Communications (RCom) is in advanced negotiations with three top US-based telecom tower companies for divesting a strategic 26 per cent equity stake in Reliance Telecom Infrastructure (RTIL).(BS)

Economic and political news

- Pratibha Patil trounced NDA-backed Bhairon Singh Shekhawat by an unexpectedly higher margin to become the first woman President of India (BS)

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, Rs985	
Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	1,000
52W High -Low (Rs)	1010 - 481
Market Cap (Rs bn)	1,090

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	134.5	181.8	244.6
Net Profit (Rs bn)	31.1	39.4	57.6
EPS (Rs)	34.6	35.7	52.1
EPS gth	*5.6*	*3.1*	*46.1*
P/E (x)	28.5	27.6	18.9
P/B (x)	4.5	2.3	2.1
Div yield (%)	0.8	0.9	1.3

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	71.5	9.0	6.3
MFs	4.4	3.4	0.7
UTI	-	-	(2.7)
LIC	7.8	5.5	2.8

ICICI Bank: ICICI Bank delivers on PAT, disappoints on quality, retain IL

Tabassum Inamdar : tabassum.inamdar@kotak.com, +91-22-6634-1252
Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

- **Delivers PAT growth of 25% yoy, while quality of earnings was disappointing with treasury driving significant proportion of income**
- **On its key subsidiaries, ICICI Prudential Life new business profit dropped 11% yoy, while its general insurance subsidiary reported strong growth of 200% yoy**
- **Retain IL rating with a target price of Rs1,000.**

ICICI Bank reported yoy growth of 25% in net profit to Rs7.75 bn in line with our estimate. However, core performance was disappointing with PBT less treasury income likely remaining flat. The bank reported sharp drop in margin qoq likely reflecting pressure from high cost bulk borrowing. Fee income growth was moderate, NPLs increased sharply qoq and a significant proportion of income was driven by treasury profit. On its key subsidiaries, ICICI Prudential Life new business profit dropped 11% yoy, while its general insurance subsidiary reported strong growth of 200% yoy. We are downgrading our earnings estimates by 5% for FY2008 to reflect the current results. However, we believe that the stable interest rates scenario will likely benefit bulk borrower like ICICI Bank going forward and the worst is likely behind us. We are thus retaining our IL rating on the stock and target price of Rs1,000. ICICI Bank stand alone trades at 12.9X PER and 1.3X PBR FY2009.

NII growth slows due to lower NIMs.

- ICICI Bank reported NII growth of 22% (post investment amortization impact) 11% below our estimates, as NIMs declined to 2.3% from 2.67% in 4QFY07 and 2.5% in 1QFY07.
- The decline in NIM was despite ICICI Bank increasing focus on the higher yielding non-collateralized products. We believe this is likely due to the full impact of higher bulk deposit cost and lower CASA ratio at the bank.
- We expect interest rates to remain stable hereon and margins should thus stabilize and improve gradually both as the cost of bulk deposit reduce and ICICI Bank branch expansions leads to an increase in retail deposits.

Treasury driving bottom-line growth

- ICICI Bank has booked capital gains of Rs1.95bn up 122% yoy. We believe that in addition to the investment income book, a part of the other income is likely driven by sale of investment in its venture capital arm.
- Other income excluding the above treasury income and fees increased 140% yoy to Rs3.3bn.
- In our estimate, ICICI Bank profit post loan loss provision likely remained flat or even declined marginally yoy if we exclude treasury income and income from sale of investment in venture capital company.

Advances growth slows in line with expectation

- ICICI Bank loan growth stood at 35% yoy, with retail book expanding at a slower pace 29%.
- A large part of this growth was driven by international operations, which grew 145% yoy and 33% qoq and now account for 16.4% of total loans (compared to 9% in 1QFY07). This higher component of international deposit too is likely responsible for the fall in the NIM.

Loan quality shows significant slippage

- ICICI Bank gross NPLs increased 85% yoy and 25% qoq.
- Management has been indicating that the higher slippage is due to its exposure to non-collateralized higher yielding loans. However, note that while ICICI Bank loan quality continues to slip, its NIMs have not increased in line with the higher yields associated with this business.
- Net NPLs increased 112% yoy and now stand at 1.3% of its loan portfolio.
- Around 35% of the total gross NPLs were driven by non-collateral retail loans, with an NPL ratio of 10%.
- We estimate the non-retail NPL ratio at around 3.1%, up from 2.6% in 4QFY07.

ICICI Prudential Life NBAP falls, while general insurance company reported strong growth

- ICICI Prudential Life has incurred a loss of Rs2.42bn in 1Q08 as against a loss of Rs520mn in 1QFY07.
- The NBAP reported declined 11% to Rs1.65bn, likely due to: (1) lower growth in premium collection of around 12% yoy and (2) lower NBAP margin at 18.7% in 1QFY08 v/s 23.6% in 1QFY07.
- The change in IRDA regulation had led to a consistent reduction in ICICI Prudential Life NBAP margin in the 2Q to 4Q of FY2007. Management also indicated that they have revisited their assumption on the expense ratios likely leading to a decline in margin.
- Premium collection slowdown was due to the last year's high base as insurance companies had been aggressive in marketing their products pre 1 July, 2006, when new regulation became effective. ICICI Prudential Life premium income growth in 1QFY07 v/s 1QFY06 was 144%.
- For the purpose of our analysis we use a blended margin of 13.25%, reflecting higher tax, higher group premium and pressure on margins. ICICI Lombard, however, reported strong yoy growth in profit of 200% yoy. We believe that this could have been due to investment income booked by the company.

ICICI Bank quarterly results

Rs mn	3Q06	4Q06	1Q07	2Q07	3QFY07	4QFY07	1QFY08	% chg	1QFY08KS	Vs Kotak
Interest income	37,125	41,482	50,386	54,694	58,247	66,616	75,661	50.2		
Interest on advances	26,635	29,887	34,372	37,902	41,655	47,034	54,492	58.5		
Interest on investments	9,628	10,435	13,425	14,848	15,426	16,187	19,140	42.6		
Balance with RBI	862	1,160	2,590	1,945	1,165	3,395	2,029	(21.7)		
Interest expenses	24,169	27,742	35,634	38,924	41,159	47,869	58,519	64.2		
Net interest income	**12,956**	**13,740**	**14,753**	**15,770**	**17,088**	**18,747**	**17,143**	**16.2**	**19,179**	**(10.6)**
NII. aft adjt invt amortiz.	**10,756**	**10,960**	**12,083**	**13,340**	**14,848**	**16,317**	**14,793**	**22.4**	**16,679**	**(11.3)**
Non-interest income	11,032	16,019	12,776	15,701	19,806	20,999	19,503	52.7	15,305	27.4
Commission and fees	8,460	11,050	10,550	11,380	13,451	14,270	14,280	35.4	12,805	11.5
Investment income	1,330	3,359	876	2,870	3,100	4,300	1,950	122.7	500	290.0
Other income (incld income from selldown of venture cap invt)	1,242	1,610	1,350	1,451	3,255	2,429	3,273	142.4	2,000	63.6
Total income	**23,988**	**29,759**	**27,528**	**31,471**	**36,894**	**39,747**	**36,645**	**33.1**	**34,484**	**6.3**
Total income excluding treasury	22,658	26,400	26,653	28,601	33,794	35,447	34,695	30.2	33,984	2.1
Operating expenses	12,043	14,946	15,215	15,352	17,133	19,206	19,053	25.2	19,580	(2.7)
Salary	2,740	3,381	3,568	3,930	4,262	4,408	5,218	46.3	4,638	12.5
Other costs	6,295	7,921	7,739	8,152	9,039	10,569	10,008	29.3	10,447	(4.2)
DMA cost	3,007	3,644	3,908	3,271	3,831	4,229	3,827	(2.1)	4,495	(14.9)
Preprovision profit	11,945	14,813	12,314	16,119	19,761	20,541	17,592	42.9	14,904	18.0
Provisions	3,951	5,973	4,828	7,093	8,910	11,423	7,873	63.1	5,000	57.5
Loan loss provisions	1,751	1,931	2,158	4,663	6,190	4,190	5,523	155.9	2,500	120.9
Additional loan loss	961	1,031	1,688	3,793	4,790		5,003			
Provision on standard assets	2,480	900	470	870	1,400	4,570	220			
Investments amortization	2,200	2,780	2,670	2,430	2,240	2,430	2,350	(12.0)	2,500	(6.0)
Profit before tax	7,994	8,840	7,486	9,025	10,852	9,117	9,720	29.8	9,904	(1.9)
Tax	1,593	2,399	1,671	1,800	1,751	2,716	3,276	96.1	1,981	65.4
Deferred tax		(1,458)	(385)	(324)		(1,850)	(1,307)	239.5		
Profit after tax	**6,401**	**7,899**	**6,200**	**7,550**	**9,101**	**8,251**	**7,751**	**25.0**	**7,923**	**(2.2)**
Effective tax rate(%)	20	11	17	16	16	9	20		20	
PBT-Invt income+NPL provisions	**7,915**	**6,411**	**8,768**	**10,819**	**11,687**	**12,148**	**11,792**	**34.5**	**11,904**	**(0.9)**
Deposit book details (Rs bn)										
Deposits	1,339	1,651	1,830	1,895	1,969	2,305	2,308	26.1		
Savings	190	209	240	271	289	288	321	33.9		
Current	160	165	160	155	181	210	200	25.0		
Share of low cost deposits	26	22.7	21.9	22.5	23.9	21.6	22.6			
Loan book details (Rs bn)										
Advances	1,226	1,462	1,472	1,554	1,728	1,959	1,983			
Retail loans including CV	785	922	987	1,077	1,179	1,277	1,274	29.1		
Commercial vehicles	NA	112	115	120	138	185	170	47.8		
Housing loans	397	454	495	545	597	670	655	32.3		
Auto loans	185	188	192	190	197	192	190	(1.0)		
Two wheelers	20	20	21	16	27	22	26	23.8		
Personal loans	40	58	70	92	108	120	112	60.0		
Credit cards	28	31	35	40	46	54	61	74.3		
Corporate and project finance	488	652	561	561	630	777	709	26.3		
Agri	80	160	114	105	115	NA	141	24.3		
International lending	120	125	132	150	208	244	325	145.5		
Asset quality details										
Gross NPLs (Rs bn)	28	30	33	37	44	49	60	85.0		
Gross NPLs to advances (%)	2.3	2.0	2.2	2.4	2.5	2.5	3.0			
Net NPLs (Rs bn)	10	11	13	15	19	20	27	111.7		
Net NPLs to advances	0.8	0.7	0.9	0.9	1.1	1.0				
Restructured assets (Rs bn)	54	53	55	49	50	49	49			
Total rest. And NPLs (bn)	65	64	68	64	68	69	77			
Gross NPLs in retail	NA	NA	17	NA	25	31	39			
Gross NPLs of non collateral accounts	NA	NA	NA	NA	13	17	21			
Net NPLs in retail	NA	7.1	8.9	10.5	12.6	15.1	19.4			
Yeild ratios (%)										
Yield on advances	NA	8.1	9.3	9.9	10.0	10.5	11.0			
Yield on earnings assets	8.1	8.1	NA	NA	9.0	NA	10.0			
Cost of deposit	4.9	5.2	5.6	6.1	6.3	6.7	7.9			
Cost of total borrowing	5.7	NA	6.0	6.5	6.6	7.0	7.8			
Net interest spread excld sale of loans	**2.2**	**2.4**	**2.5**	**2.5**	**2.6**	**2.7**	**2.3**			

Capital adequacy details (%)								
CAR	14.5	13.4	12.5	14.3	13.4	11.7	11.0	
Tier I	10.5	9.2	8.6	9.4	8.6	7.4	7.1	
Tier Ii	4.0	4.2	3.9	4.9	4.7	4.3	3.9	
Rs bn								
Tier I	180	192	193	219	223	215	209	8.4
Tier II	70	87	87	116	123	124	117	34.8
Total risk weight assets	1,723	2,086	2,248	2,337	2,586	2,900	2,959	31.6

Rs mn	3Q06	4Q06	1Q07	2Q07	3QFY07	4QFY07	1QFY08	% chg
Balance sheet snapshot (Rs bn)								
Assets								
Cash, balances with banks, SLR	590	681	811	845	824	1,045	1,061	30.8
Cash advances	126	170	206	238	248	371	296	44.2
SLR Investments	413	511	605	607	576	674	764	26.3
Advances	1,226	1,462	1,472	1,554	1,728	1,959	1,983	34.7
Other investments	140	205	208	223	219	239	331	58.8
Fixed and other assets	149	166	172	202	187	204	195	13.5
Total assets	**2,124**	**2,514**	**2,663**	**2,824**	**2,958**	**3,447**	**3,569**	**34.1**
Liabilities								
Networth	211	222	228	236	244	243	247	8.4
Equity capital	9	9	9	9	9	9	9	1.2
Reserves and surplus	202	213	219	227	236	234	238	8.7
Preference capital	4	4	4	4	4	4	4	0.0
Deposits	1,339	1,651	1,830	1,895	1,969	2,305	2,308	26.1
Total borrowings	439	487	468	516	588	707	703	50.0
Other liabilities	133	151	133	174	153	188	308	131.9
Total liabilities	**2,124**	**2,514**	**2,663**	**2,824**	**2,958**	**3,447**	**3,569**	**34.1**
International business details								
Assets of intl branches (Rs bn)	252	275	320	NA	403	525	536	67.3
Assets of intl subsidiaries (Rs bn)	86	134	165	NA	245	305	361	118.8
PAT of subsidiaries (Rs mn)								
AMC	NA	NA	NA	NA	NA	NA	280	
ICICI securities	290	NA	240	350	NA	NA	NA	
ICICI Prudential	(490)	(428)	(520)	(1,120)	(950)	NA	(2,420)	365.4
ICICI Lombard	100	239	150	180	160	NA	450	200.0
ICICI Home	NA	NA	NA	NA	NA	NA	NA	
ICICI UK	NA	NA	NA	740	NA	NA	755	

Source: Company, Kotak Institutional Equities estimates.

Technology

SATY.BO, Rs478	
Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	570
52W High -Low (Rs)	525 - 338
Market Cap (Rs bn)	320.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	64.9	81.8	104.6
Net Profit (Rs bn)	14.0	17.0	21.1
EPS (Rs)	21.4	25.3	31.5
EPS gth	*41.7*	*18.0*	*24.5*
P/E (x)	22.3	18.9	15.2
EV/EBITDA (x)	18.4	14.7	11.1
Div yield (%)	1.6	2.1	2.5

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	8.8	-	-
FIIs	66.7	3.4	2.3
MFs	6.0	1.9	0.8
UTI	-	-	(1.1)
LIC	1.5	0.4	(0.7)

Satyam Computer Services: Strong operating performance. Multiple revenue drivers coming into play—upgrading to Outperform

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

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

- **Multiple drivers will likely support accelerated revenue growth**
- **Expect strong revenue growth to drive EPS out-performance**
- **A perfect operational quarter—double digit revenue growth, price increase, reducing attrition**
- **Clarifying computation of utilization rate by Satyam, actual utilization rate may be 5-10% lower than actual reported numbers**
- **Revising estimates, upgrading to Outperform and raising target price to 570**

Satyam's Jun '07 operating performance was ahead of our expectations. The company reported qoq revenue growth of 10% in US$ terms to US$452.3 mn, 1.3% ahead of our estimate. Operating profit growth was 1.8% ahead of our expectation. Net income was impacted by non-operating items like forex losses and declined 3.9% qoq to Rs3.78 bn. We are impressed with a strong and revised dollar denominated revenue growth guidance of 35.5% (from 30% earlier) for FY2008. Satyam has laid a strong platform for growth in the form of strong investments in front end, domain experts, creation of strategic deals group and improvement in incentive structures. All this will reflect in industry leading revenue growth for Satyam in FY2008, in our view. We, now forecast 38% US$ revenue growth for FY2008, highest among the Tier 1 players. At OPM level, while Satyam continues to have fewer levers to manage operating margin, scope for further improvement in pricing will come in handy in our view. We believe that the combination of industry leading revenue growth and margin performance similar to peers with lead to closing out of valuation gap further. Upgrade to Outperform with an end-March 2009 DCF based target price of Rs570 (Rs510 earlier), an upside of 20% from the current levels. Our target price implies a P/E multiple of 18xFY2009 earnings. We have fine tuned our EPS estimates for FY2008, FY2009 and FY2010.

Multiple drivers will likely support accelerated revenue growth. We under-estimated the revenue growth potential of Satyam. Specifically we highlight that investments made by Satyam in front end, domain experts and better focus on large deals is delivering results. We now forecast 38% US$ revenue growth in FY2008 (34% earlier), as against the guidance of 35.5%. The growth drivers of Satyam remain the same though execution has improved further in our view

a) **Strategic deals group**: Satyam indicates that the pipeline of opportunities in the last twelve months has increased by four times. The company has announced several large deals over the past few months. It won two large deals in the Jun '07 quarter—a US$50 mn three year deal with Nestle and US$100 mn multi-year deal with a large retail customer. More important, some of the large deals won by the company have made it to the Top10 list of clients. We note that the strategic deals group is focused on both—large deals and conversion of existing relationships in large deals with committed revenues. This group owes part of the success to increasing maturity of some of the newer offerings including infrastructure management, BPO and engineering services.

b) **New services are gaining traction:** Satyam highlights that it is now participating in standalone large deals in the engineering services space. It indicates that it is witnessing positive momentum in manufacturing (automotive, aerospace, and hi-tech), retail, transportation and logistics verticals. Scale in IMS is improving, as the company executes on IMS work embedded in large deals. BPO though small is gaining traction and growing at 100% per annum. More important, we highlight that Satyam has signed some deals offering integrated services involving one or more of the new service offerings.

c) **Traction in enterprise solutions remains strong.** Pipeline in the package implementation business continues to be strong and has improved over the last three months. Package implementation continues to be a high growth area for the industry; Satyam as a leader is better positioned than peers. Strong relationships with SAP, market share gains, investments in Netweaver platform and increasing participation in end-to-end implementations will likely contribute to strong growth. Package implementation practice has grown 14% qoq and 57% yoy in the Jun 2007 quarter

Operating margin impact—lesser levers but greater scope for pricing improvements. Satyam has built in a 125bps decline in OPM guidance for FY2008 at a rupee dollar rate of 40.5. We forecast 130 bps decline in OPM for FY2008 and 30bps in FY2009. We note that Satyam has relatively fewer operational levers to protect margins (from rupee appreciation and wage increases to be effected in the Sep '07 quarter) and largely restricted to further fresher hiring. However it has greater headroom for pricing given its higher concentration to hot skill areas and opportunity to correct historically lower pricing. Key risk to OPM of Satyam remains from relatively lower onsite compensation which leads to higher pressure in times of onsite resource crunch.

Expect strong revenue growth to drive EPS out-performance. Satyam has revised its FY2008 Re EPS growth guidance downwards by 6% to Rs24.1-24.5 from Rs25.3-25.7 earlier, implying a growth of 14% at the upper end. The revised Re EPS guidance factors in a Re/US$ rate of 40.5 (42.3 earlier), OPM decline of 125 bps and US$ revenue growth of 35.5%. We believe that the outperformance to the guidance will likely be led by higher revenue growth, which we are forecasting at 38%. We note that reduction in EPS guidance has primarily been led by rupee appreciation on top of a forex loss versus the street's and our expectation of a forex gain. Satyam needs a 6% CQGR over the next three quarters to achieve the revenue guidance, conservative in our view. The company needs to achieve EPS growth of 15% in the third and fourth quarter to achieve its EPS guidance of Rs24.5.

A perfect operational quarter—double digit revenue growth, price increase, reducing attrition. Satyam outperformed its 1QFY08 US$ revenue growth guidance by 4.5% reporting 10% qoq revenue growth (US$ terms) to US$452.3 mn, 1.3% ahead of our expectation. Revenue growth was driven by both volumes (up 9.5% qoq) and pricing (up 1.3% onsite and 1.5% offshore). Revenues in Re terms grew 2.9% qoq to Rs18.3 bn. We note that the 10% qoq growth and 4.5% guidance outperformance are the highest for the company in several quarters. There were several other positives in Satyam's 1QFY08 operating results—(a) EBITDA margin decline was arrested at 64bps (our expectation was 70bps) despite the sharp appreciation in the rupee (7%, 230bps negative impact), higher RSU expenses (40 bps) and higher visa costs (100bps). Improvement in realizations, better utilization rates, and offshore shift in revenues helped Satyam mitigate some of the margin pressure. (b) continued momentum in service lines like package implementation, engineering services, and infrastructure management (c) improvement in utilization rates (d) improvement in client mining, with number of US$5mn + accounts increasing to 65 from 57 (e) attrition rates declined to 14.9% from 15.7% (ttm) in the previous quarter—this is the fourth consecutive quarter of decline in attrition rates.

Clarifying computation of utilization rate by Satyam, actual utilization rate may be 5-10% lower than actual reported numbers: Satyam's utilization rates have historically appeared to be extremely high when compared to peers in the industry standards (80% in 1QFY08). **We attribute this to different method of computation of offshore utilization rate by Satyam**. Satyam computes utilization rate as the ratio of billed hours to billable hours. The company assumes an employee to be 100% utilized if the hours put in are 157 in a month, even if the offshore employee puts in more hours during a month. Effectively the denominator used for computation is lower than peers, who assume anywhere from 160-184 hours in a month. **The employee work and effort hours are however not any different compared to peers**. This always skews the numbers. If a consistent denominator of 160-180 hours per month is used for computation, then the utilization rate of Satyam would be 5-10% lower than the reported numbers.

Revising estimates, upgrading to Outperform and raising target price to 570. We are upgrading Satyam to Outperform from In-Line earlier and raising the target price to Rs570 (Rs510 earlier). We have fine-tuned our estimates to factor in higher revenue growth and revised Re/US$ assumption of 40.5 and 40 for FY2008 and FY2009 from 42 earlier. Our revised EPS estimates for FY2008 and FY2009 stand lower by 4.1% and 1.6% at Rs25.3 and Rs31.5 respectively (Rs26.4 and Rs32 earlier). At our target price, the implied FY2008 and FY2009 PE multiples are 22 and 18 respectively, fair in our view noting strong earnings CAGR of 22.7% during FY2007-09.

FY2008 US$ revenue guidance revision higher than our expectations

FY2008 (Revised versus earlier)

	Revised		Earlier (end of 4QFY07)	
	Lower end	**Upper end**	**Lower end**	**Upper end**
Revenues (US$ mn)	1,958.0	1,980.0	1,870.0	1,900.0
Growth yoy (%)	**34.0**	**35.5**	**28.0**	**30.0**
Revenues (Rs bn)	78.5	79.4	77.9	79.2
Growth yoy (%)	21.1	22.5	20.0	22.0
EPS (Rs)	24.1	24.5	25.3	25.7
Growth yoy (%)	12.5	14.0	18.0	22.0
EPADS (US$)	1.17	1.19	1.16	1.18
Growth yoy (%)	28.3	29.7	27.0	29.0
Re/US$ rate	40.5		42.3	

Source: Company, Kotak Institutional Equities

Satyam's revenue growth and guidance outperformance was the highest in several quarters

Guidance and actual revenues, 1QFY06-1QFY08

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08
Satyam									
Revenues (US$ mn)									
Guidance	236	259	280	299	310	339	373	395	434
Actual	246	268	282	301	323	352	376	411	452
Growth qoq (%)									
Guidance	4.9	5.2	4.5	6.0	3.1	5.0	6.1	5.1	5.6
Actual	9.4	8.9	5.2	6.7	7.2	9.1	6.7	9.4	10.0
Outperformance (% pts)	**4.5**	**3.6**	**0.7**	**0.7**	**4.2**	**4.2**	**0.6**	**4.3**	**4.5**

Note:
(a) Consolidated US GAAP guidance and actuals

Source: Company, Kotak Institutional Equities estimates

Satyam needs to grow its revenues at a CQGR of 6.1% over 3Q-4QFY08 to meet FY2008 guidance

	1QFY08 Actual	2QFY08 Guidance (a)	FY2008 Guidance (a)	CQGR (%) (b) To meet guidance
Revenues (US$ mn)	452	479	1,980	**6.1**
Growth qoq (%)	10.0	6.0		
EPS (Rs) (a)	5.67	5.41	24.46	**15.0**

Note:
(a) Guidance at the upper end
(b) 3Q-4Q CQGR required

Source: Company, Kotak Institutional Equities estimates

Satyam's large deal focus has resulted in some significant deal wins
List of large deals annouced by Satyam in the past 24 months

Deal	Size (US$ mn)	Country
GM	150	North America
Nissan	100	North America
Qantas	54	Australia
Applied Materials	200	North America
Nestle	50	Switzerland
Large retailer	100	

Source: Company reports, Kotak Institutional Equities estimates

Traction in enterprise solutions practice remains strong
Satyam's revenues from package implementation practice

	1QFY06	2QFY06	3QFY06	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08
Revenues (US$ mn)	88.8	100.4	106.2	111.4	121.8	134.3	150.4	166.0	190.6
% of revenues	37.4	39.4	39.4	39.3	40.3	40.4	42.0	42.6	44.2
Growth qoq (%)	13.9	13.1	5.7	4.9	9.3	10.3	12.0	10.4	14.8
Growth yoy (%)	**59.4**	**54.0**	**50.1**	**43.0**	**37.2**	**33.8**	**41.7**	**49.0**	**56.5**

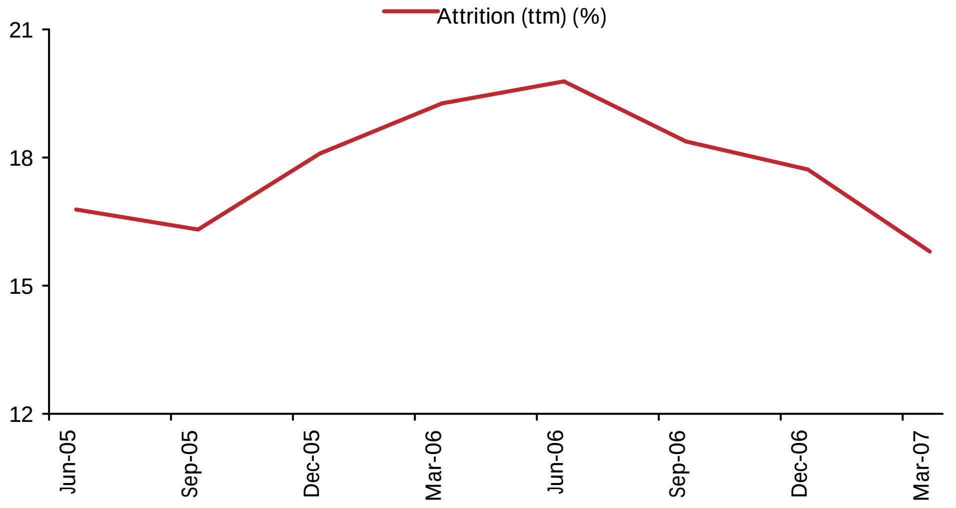
Source: Company, Kotak Institutional Equities

Positive trend in pricing continues both onsite and offshore
Satyam's onsite and offshore realizations (US$/ hr), 1QFY06-1QFY08

Per capita revenue productivity	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Onsite (US$/ hr)	55.8	55.8	55.9	55.9	56.1	56.2	56.4	56.8	57.5
Offshore (US$/ hr)	22.9	23.0	23.0	23.0	23.0	23.1	23.2	23.3	23.7
Growth qoq (%)									
Onsite	0.1	0.1	0.1	0.1	0.3	0.2	0.4	**0.6**	**1.3**
Offshore	0.2	0.2	0.0	0.1	0.2	0.4	0.1	**0.7**	**1.5**
Growth yoy (%)									
Onsite	0.4	0.4	0.5	0.4	0.6	0.7	1.0	**1.5**	**2.6**
Offshore	0.4	0.5	0.5	0.5	0.5	0.8	0.9	**1.5**	**2.8**

Source: Company reports

Satyam's attrition rates have been declining for the past four quarters



Source: Company

Key changes to FY2008-10 estimates

	Revised			Earlier			Change (%)		
Rs mn	**FY2008E**	**FY2009E**	**FY2010E**	**FY2008E**	**FY2009E**	**FY2010E**	**FY2008**	**FY2009**	**FY2010**
STANDALONE									
Revenues	**78,460**	**100,112**	**122,199**	**78,849**	**102,912**	**121,727**	**(0.5)**	**(2.7)**	**0.4**
EBITDA	18,218	22,485	26,143	18,700	23,810	26,748	(2.6)	(5.6)	(2.3)
Depreciation	(1,469)	(1,910)	(2,379)	(1,458)	(1,880)	(2,333)	0.7	1.6	2.0
EBIT	16,749	20,575	23,764	17,242	21,930	24,415	(2.9)	(6.2)	(2.7)
Net Profit	**17,142**	**20,779**	**21,630**	**17,508**	**21,060**	**21,578**	**(2.1)**	**(1.3)**	**0.2**
EPS (Rs/ share)	**25.5**	**31.0**	**32.2**	**26.1**	**31.4**	**32.2**	**(2.1)**	**(1.3)**	**0.2**
Revenue (US$ mn)	**1,936**	**2,502**	**3,054**	**1,877**	**2,448**	**2,967**	**3.1**	**2.2**	**2.9**
Revenue Mix (%)									
Onsite	48	49	49	50	50	50			
Offshore	52	51	51	50	50	50			
Volumes growth (%)	37.3	26.8	21.3	32.7	29.2	20.2			
Re/US$ rate	**40.5**	**40.0**	**40.0**	**42.0**	**42.0**	**41.0**	**(3.5)**	**(4.8)**	**(2.5)**
CONSOLIDATED									
Revenues (US$)	**2,017**	**2,614**	**3,197**	**1,958**	**2,554**	**3,104**	**3.0**	**2.4**	**3.0**
Revenues	**81,758**	**104,603**	**127,943**	**82,227**	**107,351**	**127,371**	**(0.6)**	**(2.6)**	**0.4**
EBITDA	18,310	23,159	27,349	19,123	24,475	27,933	(4.3)	(5.4)	(2.1)
EPS (Rs/ share)	**25.3**	**31.5**	**33.4**	**26.4**	**32.0**	**33.5**	**(4.1)**	**(1.6)**	**(0.3)**
EBITDA margin	**22.4**	**22.1**	**21.4**	**23.3**	**22.8**	**21.9**			

Source: Kotak Institutional Equities Estimates

Satyam Computer Services- Comments on consolidated 1QFY08 results

Rs mn	1QFY07	4QFY07	1QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation	Comments on QoQ performance
Revenues	**14,429**	**17,792**	**18,302**	**2.9**	**26.8**	**18,070**	**1.3**	US$ revenue growth of 10% qoq (4.5% ahead of guidance and 1.3% ahead of our expectations) driven by volume increase of 9.5% and realization improvements of 1.3% onsite and 1.5% offshore. Growth in Re terms at 2.9% on account of appreciation in Re/ $ excha
Personnel Expenses	(8,316)	(10,785)	(11,062)	2.6	33.0	(11,010)	0.5	
Administrative Expenses	(2,563)	(2,904)	(3,137)	8.0	22.4	(3,030)	3.5	
Total Expenses	(10,879)	(13,689)	(14,199)	3.7	30.5	(14,040)	1.1	
EBITDA	**3,550**	**4,102**	**4,103**	0.0	15.6	**4,029**	**1.8**	EBITDA margin decline of 70bps in line with expectations. Driven by appreciation in the rupee and higher visa costs
Depreciation	(362)	(354)	(387)	9.3	7.0	(401)	(3.6)	
EBIT	**3,188**	**3,748**	**3,716**	(0.9)	16.5	**3,628**	**2.4**	
Interest	(26)	(74)	(33)			-		
Other Income	745	704	632	(10.2)	(15.1)	981	(35.5)	Forex losses of Rs50mn as opposed to our expectation of a forex gain of Rs400mn. We find the forex loss in the quarter surprising given the extent of hedging as on Mar 31, 2007
Profit Before Tax	3,908	4,378	4,315	(1.4)	10.4	4,609	(6.4)	
Provision for Tax	(368)	(442)	(532)	20.2	44.6	(598)	(11.1)	
Net Profit	**3,540**	**3,936**	**3,783**	**(3.9)**	6.9	**4,011**	**(5.7)**	
Income from associates	1	-	-			-		
Net Profit- Reported	**3,541**	**3,936**	**3,783**	**(3.9)**	**6.8**	**4,011**	**(5.7)**	Net income 5.7% below our expectations primarily on account of non-operational items like lower than expected other income
EPS (Rs/ share)	5.43	5.96	5.67	(4.9)	4.4	6.0	(5.6)	
Margins (%)								
OPM	24.6	23.1	22.4	(2.8)	(8.9)	22.3		
EBIT	22.1	21.1	20.3	(3.6)	(8.1)	20.1		
Net income	24.5	22.1	20.7	(6.6)	(15.7)	22.2		
As % of revenues								
Staff Cost	57.6	60.6	60.4	(0.3)	4.9	60.9		
Other Expenses	17.8	16.3	17.1	5.0	(3.5)	16.8		
Billing Rates/ hr (US$)								
Onsite	56.1	56.8	57.5	1.3	2.6	57.3		
Offshore	23.0	23.3	23.7	1.5	2.8	23.6		
Revenues from GE (Rs mn)	987	1,044.2	1,035.9	(0.8)	4.9	-		
Total Employees (standalone)	27,634	35,670	38,386	7.6	38.9	-		2,716 employees added during the quarter

Guidance (consolidated)	**2QFY08**			**FY2008**				
	Lower end	**Upper End**		**Lower end**	**Upper End**			
Revenues (Rs mn)	**19,170**	**19,260**		**78,530**	**79,420**			FY2008 revenue growth guidance revised to 34%-35.5% from 28-30% in US$ terms; revised in Re terms to 22.5% from 22% at the upper band
Growth (%)	4.7	5.2		21.1	22.5			2QFY08 revenue growth guidance of 5.5-6% in US$ terms to US$477-479 mn
								Guidance factors in a Re/ US$ rate of 40.5 versus 42.3 earlier
Revenues (US$ mn)	**477.2**	**479.4**		**1,958**	**1,980**			
Growth (%)	5.5	6.0		34.0	35.5			
EPS	*5.36*	*5.41*		*24.14*	*24.46*			**Re EPS guidance revised downwards to 12.5-14% from 18-20% earlier**
Growth (%)	(5.4)	(4.6)		12.5	14.0			

Source: Company, Kotak Institutional Equities

Satyam- Consolidated Indian GAAP Income Statement, Fiscal year ends March (Rs mn)

Rs mn	2006	2007	2008E	2009E	2010E
Overseas	45,967	61,881	80,462	103,372	126,550
Domestic	1,959	2,970	1,297	1,231	1,393
Revenues	**47,926**	**64,851**	**81,758**	**104,603**	**127,943**
Personel Expenses	(28,053)	(38,602)	(50,119)	(64,165)	(79,866)
Administrative Expenses	(8,212)	(10,872)	(13,330)	(17,279)	(20,728)
Total Operating Expenses	(36,265)	(49,474)	(63,448)	(81,445)	(100,594)
Operating Profits	**11,661**	**15,377**	**18,310**	**23,159**	**27,349**
Depreciation	(1,373)	(1,484)	(1,711)	(2,197)	(2,746)
EBIT	**10,289**	**13,893**	**16,600**	**20,961**	**24,603**
Interest	(55)	(159)	(33)	-	-
Other Income	1,168	1,833	2,797	3,213	3,806
Profit Before Tax	**11,401**	**15,566**	**19,363**	**24,174**	**28,409**
Provision for Tax	(1,509)	(1,520)	(2,383)	(3,026)	(5,986)
Net Profit	**9,892**	**14,046**	**16,980**	**21,148**	**22,422**
Share of loss in associate company	(73)	1	-	-	-
Net Income	**9,819**	**14,047**	**16,980**	**21,148**	**22,422**
Extraordinaries	1,598	-	-	-	-
Net Profit- Reported	**11,417**	**14,047**	**16,980**	**21,148**	**22,422**
EPS (Rs/ share)	**15.1**	**21.4**	**25.3**	**31.5**	**33.4**
No of shares outstanding (mn)	648.9	655.0	671.0	671.0	671.0
Margins (%)					
EBITDA Margin	24.3	23.7	22.4	22.1	21.4
EBIT Margin	21.5	21.4	20.3	20.0	19.2
NPM	20.2	21.1	20.1	19.6	17.0
Growth Rates (%)					
Revenues	36.1	35.3	26.1	27.9	22.3
EBITDA	34.3	31.9	19.1	26.5	18.1
EBIT	36.7	35.0	19.5	26.3	17.4
Net Profit	37.2	42.0	20.9	24.5	6.0
As percentage of Sales					
-Overseas Revenue	95.9	95.4	98.4	98.8	98.9
-Domestic Revenue	4.1	4.6	1.6	1.2	1.1
Revenues	100.0	100.0	100.0	100.0	100.0
Personnel Expenses	58.5	59.5	61.3	61.3	62.4
Administrative Expenses & other Expenses	17.1	16.8	16.3	16.5	16.2
EBITDA	24.3	23.7	22.4	22.1	21.4
Depreciation	2.9	2.3	2.1	2.1	2.1
EBIT	21.5	21.4	20.3	20.0	19.2
Net Profit	20.2	21.1	20.1	19.6	17.0
Tax Rate	13.2	9.8	12.3	12.5	21.1

Cement

GACM.BO, Rs136	
Rating	IL
Sector coverage view	Cautious
Target Price (Rs)	130
52W High -Low (Rs)	-2 - 17
Market Cap (Rs bn)	206.1

Financials

December y/e	2007E	2008E	2009E
Sales (Rs bn)	48.5	58.4	65.2
Net Profit (Rs bn)	13.0	14.9	16.3
EPS (Rs)	8.5	9.8	10.7
EPS gth	*72.9*	*14.6*	*9.6*
P/E (x)	15.9	13.9	12.7
EV/EBITDA (x)	11.5	8.1	7.4
Div yield (%)	1.3	1.9	1.1

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	32.6	-	-
FIIs	35.6	1.1	0.4
MFs	2.6	0.5	(0.2)
UTI	-	-	(0.7)
LIC	9.2	1.6	0.9

Gujarat Ambuja Cements: June 2007 quarter: Results marginally lag estimates; extraordinary income boosts profits

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

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **Improved realizations albeit with flat volume growth.**
- **Higher operating costs restrict profitability growth.**
- **Retain In-Line rating with a target price of Rs130/share.**

Ambuja Cements Limited (earlier known as Gujarat Ambuja Cement) reported 11.5% yoy increase in net revenues at Rs14.6 bn (our estimate: Rs14.9 bn), 6% increase in EBITDA at Rs5.4 bn (our estimate: Rs6 bn) and net profits at Rs4 bn (our estimate: Rs4 bn) during 2QCY07. Reported profits of Rs8.7 bn include non-recurring profits earned on the sale of stake in Ambuja Cement India Pvt. Ltd (ACIL) and sale of property in Mumbai. The financials for the quarter ending June 2006 have been restated to reflect the impact of the merger of Ambuja Cement Eastern Limited with the company. We retain our IL rating on the stock with a target price of Rs130/share. We note that there is a risk of pricing in Ambuja Cements' strong markets of North India (due to new capacities getting commissioned) and Western India (if exports to Middle East slow down or are banned by the Government).

Improved realizations albeit with flat volume growth. Ambuja Cement reported 11.5% yoy growth in revenues, which was entirely due to improved realizations as the volumes growth was essentially flat. However, with the commissioning of the Farakka (1 mn tpa grinding capacity) grinding unit during the quarter and an additional 1 mn tpa grinding capacity to be commissioned at Roorkee in the forthcoming quarter, the company is poised to deliver marginal growth in despatches going forward.

Higher operating costs restrict profitability growth. Higher freight and fuel expenses as well as an increase in other operating costs restricted the profitability growth, despite sharp yoy improvement in realizations. Operating profit/tonne of cement increased to Rs1244/tonne from Rs1174/tonne last year during June quarter. We note that operating profit/tonne was higher during the quarter ending March 2007 at Rs1297/tonne.

Extraordinary income boosts reported profit. Ambuja Cements has completed the sale of 953 mn shares of ACIL for a consideration Rs5.35 bn resulting in a profit of Rs2.49 bn (Rs2.18 bn net of tax). The balance stake of 953 mn shares of ACIL will take place in April 2008 for a consideration of Rs5.8 bn. Ambuja Cement also sold off property situated at Kalina, Mumbai resulting in a one-time gain of Rs3.25 bn (Rs2.5 bn net of tax) during the quarter. Other income for the company also includes exchange gains of Rs308 mn for the quarter ended June 2007.

Retain Inline rating with a target price of Rs130/share. We maintain our current earnings estimate of Rs9.8/share for FY2008 and Rs10.7/share for FY2009 implying a P/E of 13X on FY2008E and 12X on FY2009E.

Quarterly results for Ambuja Cements, December yearends (Rs mn)

	qoq			yoy		
	June 2007	Mar 2007	% chg	June 2007	June 2006	% chg
Sales	**14,644**	**14,338**	***2***	**14,644**	**13,137**	***11.5***
Operating costs						
Raw materials	(1,043)	(1,055)	*(1)*	(1,043)	(827)	*26*
Employee costs	(437)	(502)	*(13)*	(437)	(405)	*8*
Freight costs	(3,054)	(2,777)	*10*	(3,054)	(2,534)	*21*
Power & fuel costs	(2,389)	(2,319)	*3*	(2,389)	(2,243)	*6*
Other costs	(2,267)	(2,055)	*10*	(2,267)	(1,973)	*15*
Total operating costs	(9,191)	(8,708)		(9,191)	(7,982)	
EBITDA	**5,453**	**5,631**	***(3)***	**5,453**	**5,156**	***6***
EBITDA margin (%)	37.2	39.3		37.2	39.2	
Other income	487	257		487	(68)	
Interest	211	(18)		211	(129)	
Depreciation	(583)	(598)		(583)	(564)	
PBT	**5,567**	**5,271**	***6***	**5,567**	**4,395**	***27***
Current tax (expense)/income	(1,595)	(1,759)		(1,595)	(1,219)	
Deferred tax (liability)/asset	63	(13)		63	99	
Net income	**4,036**	**3,500**	***15***	**4,036**	**3,275**	***23***
Extraordinaries	4,742	2,408		4,742	-	
Reported net income	**8,778**	**5,907**		**8,778**	**3,275**	
Despatches, '000 tonnes	**4,384**	**4,340**	***1***	**4,384**	**4,391**	***(0)***
Realization (Rs/tonne)	**3,340**	**3,304**	***1***	**3,340**	**2,992**	***12***
Operating cost (Rs/tonne)	2,096	2,006	*4*	2,096	1,818	*15*
Raw materials	238	243	*(2)*	238	188	*26*
Employee costs	100	116	*(14)*	100	92	*8*
Freight costs	697	640	*9*	697	577	*21*
Power & fuel costs	545	534	*2*	545	511	*7*
Other costs	517	474	*9*	517	449	*15*
Profitability (Rs/tonne)	**1,244**	**1,297**	***(4)***	**1,244**	**1,174**	***6***

Source: Company, Kotak Institutional Equities

Calculation of target prices using our multi-stage valuation process

	Ambuja Cements
Dec 2008 CROGCI/WACC (X)	2.19
Assigned premium of EV/GCI to CROGCI/WACC (%)	(7)
Assigned EV/GCI (X)	2.0
GCI (Rs bn)	84
EV (Rs bn)	172
Net debt (Rs bn)	(29.0)
Mkt cap (Rs bn)	201
No. of shares (fully diluted)	1,506
Value of cement business (Rs)	**130**

Source: Kotak Institutional Equities estimates.

Cement

ULTC.BO, Rs992	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	750
52W High -Low (Rs)	1205 - 599
Market Cap (Rs bn)	123.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	49.1	50.9	55.5
Net Profit (Rs bn)	7.9	8.5	10.1
EPS (Rs)	63.3	68.2	81.3
EPS gth	*262.7*	*7.9*	*19.8*
P/E (x)	15.7	14.6	12.2
EV/EBITDA (x)	9.4	8.6	7.4
Div yield (%)	0.7	0.8	0.8

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	53.0	-	-
FIIs	9.7	0.2	(0.2)
MFs	2.0	0.2	(0.1)
UTI	-	-	(0.3)
LIC	3.5	0.3	(0.0)

UltraTech Cement: 1QFY08: Improved realizations on flat volumes, retain Underperform

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

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, 91-22-66341-125

- **15% growth in realizations helps sustain sales growth.**
- **Capex of Rs33 bn earmarked - to increase capacity by 4.9 mn tpa.**
- **Retain Underperform with a target price of Rs750/share.**

UltraTech reported a 16% increase in sales at Rs13.6 bn (our estimate: Rs13.3 bn), 16% growth in EBITDA at Rs4.3 bn (our estimate: Rs4.0 bn) and 23% increase in net profit at Rs2.5 bn (our estimate: Rs2.4 bn). Higher average realizations (15.4% yoy) contributed to the improvement in sales and profitability. Volumes were flat with the company diverting cement from exports to the more lucrative domestic market, while continuing to operate at high utilization rates. We see unexciting volumes growth in FY2008 and the risk of cement price correction during FY2009 to mark UltraTech's performance. We retain our Underperform rating with a target price of Rs750/share.

15% growth in realizations helps sustain sales growth. Ultratech is operating at near full capacity utilization (including clinker sales), resulting in flat volumes growth. The improved realizations (15.5% yoy) have helped the company to grow net sales by 15.7% yoy. During FY2008, higher blending and diversion of export clinker to domestic market can provide some volumes growth to UltraTech. UltraTech will be able to ramp up volumes growth significantly only after the commissioning of new capacity in Andhra Pradesh by March 2008.

Capex of Rs33 bn earmarked. Ultratech has earmarked a capex plan of Rs33 bn to be spent over the next three years. The company has decided to make use of additional slag available to augment the capacity of the expansion project in Andhra Pradesh to 4.9 mn tpa from the 4 mn tpa planned earlier. UltraTech also plans to set up a 33 MW power plant at Awarpur in Maharshtra. Increased power plant capacities could help improve margins on account of lower power costs. UltraTech also plans to increase grinding capacity at Gujarat by 2 mn tpa.

Retain Underperform with target price of Rs750/share. We retain our underperform rating with a target price of Rs750/share which implies a downside of ~30% from the current market price of Rs992/share.

Quarterly results for UltraTech Cement, March yearends

(Rs mn)

	y-o-y			q-o-q		
	1QFY08	1QFY07	change (%)	1QFY08	4QFY07	change (%)
Net sales	**13,653**	**11,803**	**15.7**	**13,653**	**14,655**	**(6.8)**
Raw materials	(1,308)	(810)		(1,308)	(1,529)	
Employee costs	(314)	(275)		(314)	(288)	
Power costs	(3,028)	(2,856)		(3,028)	(3,150)	
Freight costs	(2,757)	(2,455)		(2,757)	(3,112)	
Purchase of finished goods	(136)	(258)		(136)	(835)	
Other costs	(1,775)	(1,404)		(1,775)	(1,657)	
EBITDA	**4,335**	**3,746**	**15.7**	**4,335**	**4,085**	**6.1**
EBITDA, %	**31.8**	**31.7**		**31.8**	**27.9**	
Other income	269	134		269	195	
Interest	(202)	(226)		(202)	(203)	
Depreciation	(559)	(544)		(559)	(601)	
PBT	3,844	3,110	23.6	3,844	3,476	10.6
Tax	(1,147)	(1,080)		(1,147)	(1,213)	
Deferred tax	(104)	78		(104)	52	
PAT	**2,594**	**2,108**	**23.0**	**2,594**	**2,315**	**12.0**
Extraordinaries	-	-		-	-	
Reported PAT	**2,594**	**2,108**		**2,594**	**2,315**	
Sales, mn tonnes	**4.5**	**4.4**	**0.2**	**4.5**	**5.0**	**(11.5)**
Realization (Rs/tonne)	**3,061**	**2,652**	**15.4**	**3,061**	**2,908**	**5.3**
Cost (Rs/tonne)	2,089	1,811	15.4	2,089	2,097	(0.4)
Raw materials	293	182		293	303	
Employee costs	70	62		70	57	
Power & fuel costs	679	642		679	625	
Freight costs	618	552		618	618	
Purchase of finished goods	31	58		31	166	
Other costs	398	315		398	329	
Profitability (Rs/tonne)	**972.0**	**841.8**	15.5	**972.0**	**810.6**	19.9
Tax rate, %	32.5	32.2		32.5	33.4	

Source: Company data, Kotak Institutional Equities

Quarterly despatch volumes for Ultratech

(mn tonnes)

	Jun-07	Jun-06	Growth (%)
Domestic sales	3.67	3.48	5.5
Exports	0.23	0.35	(34.3)
Clinker	0.53	0.54	(1.9)
Total	**4.43**	**4.37**	**1.4**

Source: Company data.

UltraTech - computation of target price

March 2009 CROGCI/WACC (x)	1.76
Premium of EV/GCI to CROGCI/WACC (%)	(22)
Assigned EV/GCI (x)	1.36
GCI (Rs bn)	81.5
EV (Rs bn)	110.9
Net debt (Rs bn)	15.8
Mkt cap (Rs bn)	95.1
No shr (fully diluted)	124.5
Target price (Rs)	**750**

Source: Kotak Institutional equities estimates

Media

SUTV.BO, Rs1760	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	1,200
52W High -Low (Rs)	462 - 258
Market Cap (Rs bn)	173.4

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	6.8	9.3	12.0
Net Profit (Rs bn)	2.5	3.7	5.2
EPS (Rs)	25.0	37.5	52.7
EPS gth	*18.9*	*50.2*	*40.3*
P/E (x)	70.4	46.9	33.4
EV/EBITDA (x)	39.1	26.2	18.7
Div yield (%)	0.3	0.6	0.9

Shareholding, March 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	90.0	-	-
FIIs	6.5	0.1	(0.3)
MFs	1.7	0.2	(0.2)
UTI	-	-	(0.4)
LIC	-	-	(0.4)

Sun TV: FY2007 annual report does not show any major extraordinary costs; cut earnings estimates further

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

- **Annual report does not reveal any large one-off cost, unlike that 'reported' in 4QFY07 results**
- **Reduced EPS estimates after factoring merger of Gemini TV and Udaya TV with Sun**
- **Revised EPS estimates are about 17%-18% lower versus EPS at time of announcement of merger**

We have revised our FY2008E, FY2009E, FY2010E EPS estimates for Sun Networks to Rs37.5, Rs52.7 and Rs67.3, respectively, from Rs38, Rs58.8 and Rs75.1, respectively, after (1) incorporating detailed financial statements available in Sun's FY2007 annual report and (2) consolidating for Sun's acquisition of Gemini TV and Udaya TV. Nonetheless, we expect Sun's FY2008E, FY2009E and FY2010E net income to grow strongly to Rs3.7 bn, Rs5.2 bn and Rs6.6 bn, respectively from Rs2.5 bn in FY2007 led by (1) higher-than-industry 20% CAGR in ad revenues and (2) robust 38% CAGR in domestic pay-TV revenues. We retain our 12-month DCF-based target price of Rs1,200. Key upside risks stem from continued high liquidity in the Indian market and higher-than-expected advertisement and subscription revenues.

Valuations expensive at 33X FY2009E and 26X FY2010E EPS. We note that Sun stock trades at 26X FY2010E EPS after our strong expected growth in EPS between FY2007 and FY2010E (39% CAGR). There are two factors, which can support such expensive valuations.

1. **No disappointment in earnings up to FY2010E.** We assume Sun will be able to maintain its high market shares in all its markets through our forecast period (up to FY2017E) or up to FY2010E at least. We note that Sun's high profitability and dominant market shares in its key markets are susceptible to increased competition from new and extant channels and consequent pressure on ad revenues, programming costs and employee costs.
2. **High growth in earnings beyond FY2010E also.** It remains to be seen whether Sun will be able to deliver 20% plus growth in earnings for an extended period of time after FY2010E, which can justify its 26X FY2010E EPS valuation.

Clarifications on FY2007 results—no major merger-related costs as per FY2007 annual report. Our study of Sun's FY2007 annual report does not reveal any major merger-related extraordinary charges, which could explain the company's weaker-than-expected FY2007 net income. A section of the street had highlighted Rs500 mn of extraordinary costs in 4QFY07/FY2007 annual results. However, we could see about Rs103 mn of one-costs, which we can attribute to the merger. (1) Additional depreciation of Rs63.2 mn (post tax Rs41.7 mn) due to alignment of depreciation rates for assets of Gemini TV and Udaya to Sun's rates. (2) Goodwill amortization of Rs39.3 mn arising from goodwill creation of Rs196.3 mn from the amalgamation of Gemini TV and Udaya TV. Although the company has followed pooling of interests method for amalgamation, there is a minor deviation in the way it has treated excess consideration over book value (Rs196 mn) versus the prescribed accounting standard (AS-14). As per AS-14, the excess consideration over book value is adjusted in the reserves of the transferee companies and there is no creation of goodwill.

Other clarifications—sharp increase in remuneration of directors, increase in bad debts. Remuneration of directors accounted for 67% of FY2007 employee costs or Rs465 mn out of Rs698 mn employee costs. In FY2007, remuneration of directors was Rs214 mn out of employee costs of Rs300 mn. Sun's bad debts increased to Rs207 mn in FY2007 versus Rs9 mn of Sun TV prior to the merger of Gemini TV and Udaya TV in FY2006. We note that Sun's earnings have scope for expansion (other than due to normal growth in its various segments) from lower remuneration to directions (the market capitalization impact will be much larger; remuneration to directors is about 12% of Sun's FY2007 annual report) and lower bad debts).

Key assumptions behind our earnings model

1. **TV ad revenues to grow at 20% CAGR between FY2007 and FY2010E.** We model FY2008E, FY2009E and FY2010E revenues to grow to Rs4.4 bn, Rs5.2 bn and Rs6 bn from Rs3.5 bn in FY2007.Our strong expected growth reflects (1) strong growth in industry revenues, (2) start of new channels and (3) continued high ratings and market share of Sun's channels. We see the greatest risk to our assumptions from the third assumption.

2. **Domestic pay-TV subscription to grow at 38% CAGR between FY2007 and FY2010E.** We model FY2008E, FY2009E and FY2010E revenues to grow to Rs2.55 bn, Rs3.62 bn and Rs4.45 bn, respectively from Rs1.67 bn in FY2007. The growth reflects (1) higher number of paying subs due to spread of a CAS on cable systems and DTH, (2) higher number of declared subscribers in cable systems, (3) increase in subscription rates and (4) start of new pay-TV channels and conversion of extant FTA Malayalam channels to pay mode.

Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and Sun TV Network for 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	3,219	6,780	9,253	11,994	14,254	16,540	18,842
EBITDA	**2,035**	**3,874**	**5,600**	**7,891**	**9,730**	**11,551**	**13,346**
Other income	172	411	782	890	1,165	1,507	1,918
Interest (expense)/income	(65)	(64)	(35)	—	—	—	—
Depreciation	(147)	(294)	(525)	(630)	(515)	(436)	(381)
Amortization	—	(56)	(235)	(235)	(235)	(235)	(195)
Pretax profits	**1,995**	**3,871**	**5,588**	**7,917**	**10,145**	**12,388**	**14,689**
Tax-cash	(709)	(1,509)	(1,891)	(2,752)	(3,497)	(4,247)	(5,020)
Tax-deferred	16	108	(18)	51	38	27	17
Minority interest	—	(9)	18	(28)	(53)	(75)	(100)
Net profits after minority interests	**1,302**	**2,461**	**3,697**	**5,188**	**6,634**	**8,093**	**9,586**
Earnings per share (Rs)	**21.0**	**25.0**	**37.5**	**52.7**	**67.3**	**82.1**	**97.3**
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,479	17,938	22,152	27,292	33,380
Deferred Tax	32	(56)	(38)	(88)	(127)	(153)	(170)
Total borrowings	2,333	867	—	—	—	—	—
Currrent liabilities	741	1,693	1,716	1,794	1,875	1,964	2,060
Total capital	**6,209**	**14,478**	**16,180**	**19,694**	**24,004**	**29,280**	**35,548**
Cash	732	6,494	6,183	9,202	13,057	17,750	23,335
Current assets	2,440	3,221	5,159	6,353	7,369	8,408	9,467
Total fixed assets	2,830	3,543	2,910	2,405	2,040	1,779	1,599
Intangible assets	206	1,220	1,927	1,732	1,537	1,342	1,146
Total assets	**6,209**	**14,478**	**16,180**	**19,694**	**24,004**	**29,280**	**35,548**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,796	6,373	7,590	8,796	9,968
Working capital	(251)	(1,992)	(1,915)	(1,117)	(934)	(951)	(962)
Capital expenditure	(2,091)	(433)	(793)	(125)	(150)	(175)	(200)
Investments	(326)	(849)	(1,121)	(1,233)	(1,357)	(1,492)	(1,642)
Other income	80	402	782	890	1,165	1,507	1,918
Free cash flow	**(619)**	**814**	**2,087**	**5,131**	**6,506**	**7,670**	**8,805**
Ratios (%)							
Debt/equity	76.0	7.3	—	—	—	—	—
Net debt/equity	52.1	(47.2)	(42.7)	(51.3)	(58.9)	(65.0)	(69.9)
RoAE	36.1	32.9	28.1	32.1	33.3	32.9	31.8
RoACE	**26.6**	**26.8**	**28.5**	**32.9**	**34.1**	**33.7**	**32.5**

Source: Kotak Institutional Equities estimates.

We model Sun's revenues to grow strongly led by growth in pay-TV and FM radio revenues

Derivation of revenues of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Advertisement revenues									
Sun TV	1,038	1,085	1,491	1,779	2,040	2,339	2,680	3,013	3,388
K TV	100	123	141	159	178	201	221	243	267
Sun News	28	39	47	55	62	70	78	86	95
Sun Music	2	94	122	163	183	206	232	255	281
Sun Kids	—	—	—	151	209	249	297	345	399
Sun Documentary	—	—	—	64	164	196	233	271	313
Sun Sports	—	—	9	58	65	73	82	91	100
Surya TV	226	386	476	550	634	732	844	961	1,094
Kiran TV	3	28	40	58	80	90	101	111	123
Gemini TV	—	—	467	570	657	755	869	988	1,123
Teja TV	—	—	44	50	56	63	69	76	83
Gemini News	—	—	35	41	46	52	58	64	70
Gemini Music	—	—	75	100	113	127	142	157	172
Udaya TV	—	—	428	523	602	693	796	906	1,030
Udaya Movies	—	—	43	48	54	61	67	73	81
Udaya Varthegulu (News)	—	—	25	29	33	37	42	46	50
Udaya TV 2	—	—	30	40	45	51	57	63	69
Total TV ad revenues	**1,397**	**1,755**	**3,472**	**4,437**	**5,220**	**5,993**	**6,869**	**7,748**	**8,739**
Radio	144	158	168	658	1,375	1,862	2,304	2,816	3,027
Total advertisement revenues	**1,542**	**1,913**	**3,640**	**5,095**	**6,595**	**7,855**	**9,173**	**10,564**	**11,766**
Broadcast revenues (or slot sales)									
Sun TV	455	531	607	668	735	808	889	978	1,076
Surya TV	38	60	60	66	72	79	87	96	106
Gemini TV	—	—	332	365	401	441	485	534	587
Udaya TV	—	—	86	95	104	115	126	139	153
Total broadcast revenues	**493**	**591**	**1,085**	**1,193**	**1,313**	**1,444**	**1,588**	**1,747**	**1,922**
Total ad and broadcast revenues	**2,034**	**2,504**	**4,725**	**6,288**	**7,908**	**9,298**	**10,761**	**12,311**	**13,688**
Pay-TV revenues									
Sun TV	398	447	659	1,335	2,016	2,473	2,874	3,196	3,509
Surya TV	—	—	—	—	162	208	249	284	319
Gemini TV	—	—	643	767	911	1,113	1,328	1,555	1,735
Udaya TV	—	—	373	447	535	656	785	920	1,029
Total pay-TV revenues	**398**	**447**	**1,675**	**2,549**	**3,624**	**4,449**	**5,235**	**5,956**	**6,592**
International revenues	88	183	339	346	362	377	390	397	400
Others	10	18	42	70	100	130	154	178	203
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
Total revenues	**2,886**	**3,152**	**6,781**	**9,253**	**11,994**	**14,254**	**16,540**	**18,842**	**20,883**
Growth (%)	**7**	**9**	**115**	**36**	**30**	**19**	**16**	**14**	**11**

Source: Company, Kotak Institutional Equities estimates.

Consolidated profit model of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Net sales	**2,903**	**3,219**	**6,780**	**9,253**	**11,994**	**14,254**	**16,540**	**18,842**	**20,883**
Broadcasting costs	(75)	(71)	(95)	(97)	(97)	(97)	(97)	(97)	(97)
Production costs	(1,009)	(683)	(1,608)	(2,230)	(2,510)	(2,805)	(3,122)	(3,468)	(3,812)
Employee costs	(419)	(300)	(698)	(851)	(930)	(996)	(1,069)	(1,149)	(1,237)
SG&A costs	(95)	(131)	(506)	(475)	(566)	(626)	(701)	(781)	(847)
EBITDA	**1,306**	**2,035**	**3,874**	**5,600**	**7,891**	**9,730**	**11,551**	**13,346**	**14,890**
Other income	107	172	411	782	890	1,165	1,507	1,918	2,401
Interest (expense)/income	(35)	(65)	(64)	(35)	—	—	—	—	—
Depreciation	(153)	(147)	(294)	(525)	(630)	(515)	(436)	(381)	(344)
Amortization	—	—	(56)	(235)	(235)	(235)	(235)	(195)	(195)
Pretax profits	**1,224**	**1,995**	**3,871**	**5,588**	**7,917**	**10,145**	**12,388**	**14,689**	**16,752**
Extraordinary inc/(chrg)	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—
Tax-cash	(454)	(709)	(1,509)	(1,891)	(2,752)	(3,497)	(4,247)	(5,020)	(5,715)
Tax-deferred	(3)	16	108	(18)	51	38	27	17	11
Minority interest	—	—	(9)	18	(28)	(53)	(75)	(100)	(108)
Net income	**768**	**1,302**	**2,461**	**3,697**	**5,188**	**6,634**	**8,093**	**9,586**	**10,940**
Shares outstanding year-end (mn)	62.0	62.0	98.5	98.5	98.5	98.5	98.5	98.5	98.5
Shares primary (mn)	62.0	62.0	98.5	98.5	98.5	98.5	98.5	98.5	98.5
Shares fully diluted (mn)	62.0	62.0	98.5	98.5	98.5	98.5	98.5	98.5	98.5
EPS primary (Rs)	**12.4**	**21.0**	**25.0**	**37.5**	**52.7**	**67.3**	**82.1**	**97.3**	**111.0**
EPS fully diluted (Rs)	**12.4**	**21.0**	**25.0**	**37.5**	**52.7**	**67.3**	**82.1**	**97.3**	**111.0**
Cash flow per share (Rs)	**20.0**	**27.8**	**32.9**	**48.7**	**64.7**	**77.0**	**89.3**	**101.2**	**111.5**
Growth (%)									
Net income	(1)	70	89	50	40	28	22	18	14
EPS	(28)	70	19	50	40	28	22	18	14
Gross cash flow	8	39	88	48	33	19	16	13	10
Tax rate-cash (%)	**37**	**36**	**39**	**34**	**35**	**34**	**34**	**34**	**34**
Tax rate-effective (%)	**37**	**35**	**36**	**34**	**34**	**34**	**34**	**34**	**34**
Dividend per share (Rs)	—	32	6	10	15	21	26	30	35
Dividend pay-out ratio (%)	—	152	24	27	28	31	31	31	31

Source: Company, Kotak Institutional Equities estimates.

Our DCF-based target price for Sun TV Network is Rs1,200

DCF analysis of SunTV Network (Rs mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**5,600**	**7,891**	**9,730**	**11,551**	**13,346**	**14,890**	**16,421**	**18,058**	**19,843**	**22,096**	**21,786**	—
Tax expense	(1,903)	(2,752)	(3,497)	(4,247)	(5,020)	(5,715)	(6,426)	(7,194)	(8,034)	(9,079)	(9,315)	—
Changes in working capital	(1,915)	(1,117)	(934)	(951)	(962)	(875)	(895)	(965)	(1,055)	(1,211)	(208)	—
Cash flow from operations	**1,782**	**4,022**	**5,299**	**6,353**	**7,364**	**8,300**	**9,100**	**9,899**	**10,753**	**11,807**	**12,263**	—
Capital expenditure	(793)	(125)	(150)	(175)	(200)	(225)	(250)	(275)	(300)	(300)	(300)	—
Cash flow to minority shareholders	18	(28)	(53)	(75)	(100)	(108)	(116)	(124)	(134)	(169)	(20)	—
Free cash flow	**1,007**	**3,870**	**5,096**	**6,103**	**7,064**	**7,967**	**8,734**	**9,499**	**10,319**	**11,338**	**11,942**	**12,719**
PV of free cash flow	**928**	**3,170**	**3,711**	**3,951**	**4,063**	**4,073**	**3,969**	**3,837**	**3,704**	**3,618**	**3,387**	—
Discounted cash flow-1 year forward		3,566	4,175	4,444	4,572	4,583	4,465	4,317	4,169	4,070	3,810	—
Discounted cash flow-2 year forward			4,697	5,000	5,144	5,157	5,024	4,857	4,690	4,580	4,287	4,058

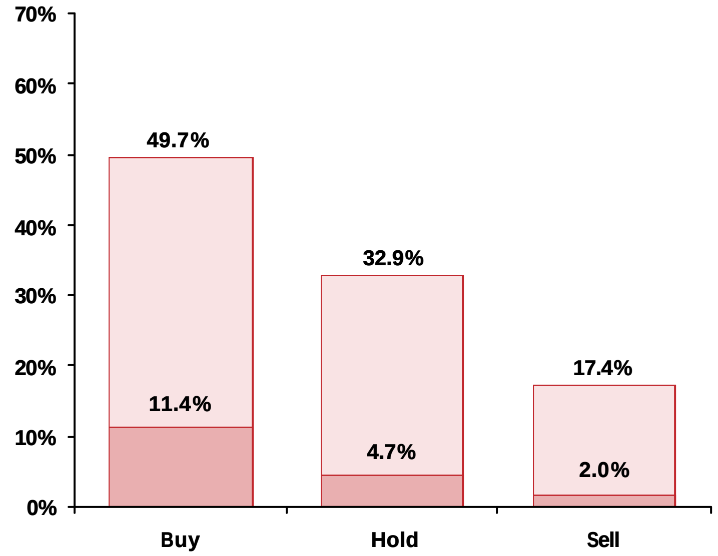
	Now	+ 1-year	+ 2-years	
Total PV of free cash flow (a)	35,025	42,172	47,492	
FCF in terminal year	11,338	11,942	12,719	
Adjusted FCF in terminal year	9,495	11,739	12,719	Adjusting for FM radio business, which will end in FY2016/FY2017
Terminal value in terminal year	158,249	195,644	211,975	
PV of terminal value (b)	56,805	70,228	76,090	
Total company value (a) + (b)	**91,829**	**112,400**	**123,582**	
Value per share of Sun TV (Rs)	932	1,141	1,254	
Net debt/(cash)	(5,627)	(6,183)	(9,202)	
Value to equity holders	**97,456**	**118,583**	**132,785**	
Value to equity holders (Rs/Sun TV share)	**989**	**1,204**	**1,348**	

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, Kawaljeet Saluja, Aman Batra, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

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

Ratings and other definitions/identifiers

Current rating system

Definitions of ratings

OP = Outperform. We expect this stock to outperform the BSE Sensex over the next 12 months.
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Our target price are also on 12-month horizon basis.

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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

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