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News Roundup

Corporate

- Drug major Ranbaxy said it would increase its stake in Hyderabad-based pharma company Senotech Labs to 45%. (BS)
- ArcelorMittal, the world's biggest steelmaker, will bid in an auction for the world's largest untapped coking coal deposit together with Russian diamond monopoly ZAO Alrosa, a regional government official said. (ET)
- Crompton Greaves Ltd (CG) has become the first company in India to indigenously manufacture an 800 kv class power transformer on behalf of NTPC for its Sipat power project stage 1 in Chattisgarh. (ET)

Economic and political

- Telecom operators strapped for spectrum can hope to get additional airwaves soon, with the communications ministry on Wednesday saying that the row with the defence ministry over vacating spectrum will be resolved by November. (BS)
- The Cellular Operators Association of India (COAI) - the lobby for service providers using GSM technology - has suggested that the government, in allocating telecom licences, consider applicants with experience and impose a five-year lock in period under which promoters cannot sell their equity. (BS)

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

EQUITY MARKETS

India	Change, %			
	3-Oct	1-day	1-mo	3-mo
Sensex	17,847	3.0	15.4	19.9
Nifty	5,211	2.8	16.3	19.5
Global/Regional indices				
Dow Jones	13,968	(0.6)	3.9	2.9
Nasdaq Composite	2,729	(0.6)	3.8	3.2
FTSE	6,535	0.5	2.5	(2.1)
Nikkei	17,099	(0.6)	4.1	(5.9)
Hang Seng	27,172	(1.1)	13.8	22.3
KOSPI	2,000	(0.7)	6.3	10.8
Value traded - India				
		Moving avg, Rs bn		
	3-Oct	1-mo	3-mo	
Cash (NSE+BSE)	317.7	194.3	174.0	
Derivatives (NSE)	1,000.6	344.9	339.2	
Deri. open interest	806.6	683.5	670.0	

Forex/money market

	Change, basis points			
	3-Oct	1-day	1-mo	3-mo
Rs/US\$	39.6	-	(133)	(88)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(3)	1	(18)

Net investment (US\$m)

	1-Oct	MTD	CYTD
	FIs	538	538
MFs	(53)	(52)	534

Top movers -3mo basis

Best performers	Change, %			
	3-Oct	1-day	1-mo	3-mo
Reliance Energy	1,450	7.5	76.1	137.2
Reliance Cap	1,814	0.3	48.4	63.4
Neyveli Lignite	106	(1.7)	27.2	59.5
SAIL	210	1.8	27.2	58.7
Tata Power	1,031	13.2	47.2	57.1
Worst performers				
i-Flex	1,885	0.1	(6.3)	(26.3)
Polaris	124	2.6	3.8	(18.7)
Punjab Tractors	238	(3.1)	(0.2)	(16.2)
Cipla	185	(1.9)	3.0	(15.3)
Pfizer	696	(1.9)	1.9	(14.8)

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Property**DLF.BO, Rs893**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	790
52W High -Low (Rs)	904 - 506
Market Cap (Rs bn)	1,522

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	39.2	128.4	167.2
Net Profit (Rs bn)	19.4	62.0	87.0
EPS (Rs)	12.7	36.3	51.0
EPS <i>gth</i>	25.1	186.2	40.4
P/E (x)	70.3	24.6	17.5
EV/EBITDA (x)	57.7	19.5	14.1
Div yield (%)	-	0.6	0.8

DLF Limited: Implied valuation of Bidadi township appears to be extremely high, reduce rating to In-Line

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- **DLF gains 16% or Rs126/share adding Rs216 bn to its market capitalization; implies very high valuation for Bidadi township**
- **We estimate demand for FY2010-19E period—it is large but not unlimited**

DLF has announced that Karnataka government has granted it permission for developing a 9,178 acre integrated township at Bidadi, a suburb of Bangalore. DLF intends to develop this township in a 50:50 JV with Nakheel. This announcement has resulted in DLF's stock price gaining 16% or Rs126/share. This implies NAV accretion on account of Bidadi township at Rs432 bn which is unjustified, in our view. We also rework our NAV estimate based on higher FSI assumptions for the township and our revised NAV estimate works out to be Rs38/share. We increase our target price to Rs790/share to incorporate this township. Our current target price leaves limited upside from current levels and we downgrade our rating to In-Line.

Valuations of Bidadi township as implied by increase in DLF's market capitalization

Based on announcement of this township, share price of DLF has increased by Rs126. This results in market cap addition because of this township of Rs216 bn for 50% of this project implying total township valuation of Rs432 bn. We note that valuation of Rs432 bn implies a land valuation of Rs47 mn/acre (land prices in the vicinity of township will be in the range of Rs5-10 mn/acre). This valuation also implies selling price of residential property at Rs5,000/sq. ft and commercial property at Rs8,400/sq. ft. (Exhibit 1). We note that current selling prices of apartments on outskirts of Bangalore are Rs2,500-3,000/sq. ft and even sales of these projects are sluggish currently.

Demand is large but not unlimited—Bangalore is growing across multiple directions

We estimate demand absorption for Bangalore to account for population growth as well as increase in household incomes. We estimate no. of households with Monthly Household Income (MHI) > Rs30,000/ month to increase by 0.65 mn in FY2019E. This will likely result in these households comprising 31% of total households compared to current level of 5%. Based on this analysis, we estimate total demand of 1,015 mn sq. ft over the FY2010-19E period while Bidadi township alone will have development potential of 157 mn sq. ft. Thus, full occupancy of Bidadi township will likely absorb 15% of incremental demand of Bangalore over FY2010-19E. This will need to be closely monitored since Bangalore is growing across multiple directions (Exhibit 3). Furthermore, Karnataka government has expressed its intention to award four more townships.

Even for commercial segment, taking a CAGR growth of 20% for FY2010-19E period, we estimate likely commercial demand of 500 mn sq. ft. Thus Bidadi township will have to absorb 20% of incremental demand for commercial space in FY2010-19E period.

We estimate NAV accretion for DLF at Rs38/share

We assume an FSI of 2.4 for residential and 1.5 for industrial/retail development. This results in developable area of 157 mn sq. ft for residential and 98 mn sq. ft for industrial/retail development. Since this is a large project we estimate development timeframe of ten years for this project. Our NAV for DLF's share of this project comes out to be Rs66 bn or Rs38/share (Exhibit 2).

Bidadi township is amongst largest planned townships in India

Bidadi township will be spread over 9,178 acres and is planned to come up as a knowledge city. The project has been awarded to DLF, following a global tender issued by the Bangalore Metropolitan Regional Development Authority (BMRDA). This township when fully occupied is expected to have a population of more than 0.7 mn. Key details of the project are as below:

Location: The township is going to be located at a distance of 35-km from Bangalore along Bangalore-Mysore highway.

Development plan: Developable area for this mixed-use township is going to be approximately 6,000 acres with balance being open areas and green spaces. Land use plan for the township is residential (25%), retail (5%), industrial (20%), Utilities (10%), parks (15%) and transport facilities (25%).

Connectivity. Nearest railway station is going to be Bidadi. BMRDA is also considering a dedicated metro rail project to connect the township with Bangalore.

Land acquisition. Government is going to aid DLF in acquiring land from private parties. Certain portion of the land has been acquired that will be transferred to the JV. The JV is required to deposit Rs5.8 mn/acre as development charges with Bangalore Development Authority.

Bidadi township win highlights DLF's ability to execute large-scale townships.

DLF has formed a large number of JVs for forward as well as backward integration that will assist in development of townships. In order to have better control on execution, DLF has formed JVs with Laing O'Rourke (construction), Feedback Ventures (project management) and WSP Group plc (for architectural and engineering designs). DLF has formed JVs with Fortis (Healthcare) and Hilton (Hotels) and is in the process of tying up with educational institutions. We note that DLF's JV with Nakheel group has also started land acquisition for large 20,000-acre townships at Gurgaon and Goa.

We reduce our rating to In-Line

We rework our NAV estimate based on higher FSI assumptions for the township and our revised NAV estimate works out to be Rs38/share. We increase our target price to Rs790/share to incorporate this township. Our current target price leaves limited upside from current levels and we downgrade our rating to In-Line. Our DLF NAV estimate is Rs646/share and our target price of Rs790 is based on a 15% premium to NAV and incorporating this township. We assign a 15% premium on NAV on account of several factors (i) NAV accretion possible on account of large ticket projects, (ii) yield compression on its commercial assets, (iii) value accretion from joint ventures.

Increase in stock price implies extremely high selling prices for residential as well as commercial real estate

NAV accretion based on different assumption of selling prices (Rs/share)

		Residential (Rs/sq. ft)						
		2,500	2,700	3,000	3,500	4,000	4,500	5,000
3,600		28	32	37	46	55	63	72
4,200		35	38	44	53	61	70	79
4,800		42	45	51	60	68	77	86
5,400		49	52	58	66	75	84	93
Commercial (Rs/sq. ft)	6,000	56	59	65	73	82	91	100
	6,600	63	66	72	80	89	98	107
	7,200	70	73	78	87	96	105	114
	7,800	77	80	85	94	103	112	121
	8,400	83	87	92	101	110	119	128
	9,000	90	94	99	108	117	126	135

Source: Kotak Institutional Equities

We estimate Bidadi's township to result in NAV accretion of Rs66 bn for DLF

	FSI	Total development	
		acres	mn sq. ft
Residential	2.4	1,500	157
Industrial, Retail	1.5	1,500	98

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Residential										
Volume (mn sq. ft)	3.0	4.0	6.0	7.8	10.1	13.2	17.1	22.3	29.0	37.6
Selling price/sq. ft	2,700	2,835	2,977	3,126	3,282	3,446	3,618	3,799	3,989	4,189
Construction cost/sq. ft	1,200	1,260	1,323	1,389	1,459	1,532	1,608	1,689	1,773	1,862
Sales (Rs bn)	8	11	18	24	33	45	62	85	116	158
Cost (Rs bn)	4	5	8	11	15	20	28	38	51	70
Taxes (Rs bn)	1.1	1.6	2.5	3.4	4.6	6.3	8.6	11.8	16.0	21.9
Industrial/Retail										
Volume (mn sq. ft)	2	3.0	3.9	5.1	6.6	8.6	11.1	14.5	18.8	24.5
Selling price/sq. ft	4,200	4,410	4,631	4,862	5,105	5,360	5,628	5,910	6,205	6,516
Construction cost/sq. ft	2,000	2,100	2,205	2,315	2,431	2,553	2,680	2,814	2,955	3,103
Sales (Rs bn)	8	13	18	25	34	46	63	86	117	159
Cost (Rs bn)	4	6	9	12	16	22	30	41	56	76
Taxes (Rs bn)	1.1	1.7	2.4	3.2	4.4	6.0	8.2	11.2	15.3	20.9
NAV (Rs bn)	182									
Land Payments (Rs bn)	50									
NAV (Rs bn)	132									
DLF's share (Rs bn)	66									
NAV/share	38									

Source: Kotak Institutional Equities

Demand for residential space in Bangalore is large, not unlimited

City	Residential units		Annual growth %	2006 2007 2008E 2009E 2010E 2011E 2012E 2013E 2014E 2015E 2016E 2017E 2018E 2019E															
	1991	2001																	
Bangalore	831,006	1,233,512	4.0%	No. of households (mn)	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.1	2.2	2.3	2.4	2.5	
				Growth (%)	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%	4.03%
				HH with > Rs 30,000/month (%)	2.8%	4.8%	6.8%	8.8%	10.8%	12.8%	14.8%	16.8%	18.9%	21.1%	23.4%	25.8%	28.3%	30.9%	
				HH with > Rs 30,000/month (mn)	0.04	0.07	0.11	0.15	0.19	0.23	0.28	0.33	0.39	0.45	0.52	0.60	0.68	0.78	
				Avg sq. ft/HH for > Rs 30000/month	1,200	1,224	1,248	1,273	1,299	1,325	1,351	1,378	1,406	1,434	1,463	1,492	1,522	1,552	
				Demand (in mn sq. ft)			41.3	46.2	51.5	57.3	63.5	70.4	78.9	88.9	101.1	114.7	129.8	146.4	164.9
				Growth in demand (%)				11.8%	11.5%	11.2%	11.0%	10.8%	12.1%	12.6%	13.8%	13.4%	13.1%	12.9%	12.6%

* Source: Census 1991, 2001 and NSR 2002, 2005, 2006

We estimate NAV for DLF at Rs646/share

	March '09 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Valuation of land reserves	767	946	1,084	1,505
Residential projects	268	357	427	652
Commercial projects	266	306	335	416
Retail projects	233	284	322	437
Add: 22 Hotel sites	25	25	25	25
Add: Construction JV	20	20	20	20
Add: Other properties (plots in Gurgaon - 7.2 mn sq. ft, hotel site in Gurgaon)	22	22	22	22
Add: Investments as on March 31, 2008	20	20	20	20
Less: Net debt as on March 31, 2008	(28)	(28)	(28)	(28)
Less: Land cost to be paid as on March 31, 2008	(30)	(30)	(30)	(30)
NAV	795	975	1,112	1,533
Total no. of shares including ESOPs of 17 mn shares (mn)				1,722
NAV/share (Rs)				646

Source: Kotak Institutional Equities

Banking**ICBK.BO, Rs1088**

Rating	OP
Sector coverage view	Attractive
Target Price (Rs)	1,200
52W High -Low (Rs)	1125 - 673
Market Cap (Rs bn)	1,128

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	134.5	178.2	252.6
Net Profit (Rs bn)	31.1	38.1	62.8
EPS (Rs)	34.6	36.8	56.8
EPS <i>gth</i>	5.6	6.3	54.3
P/E (x)	31.4	29.6	19.2
P/B (x)	4.6	2.4	2.2
Div yield (%)	0.8	0.8	1.4

Shareholding, June 2007

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	70.8	8.9	6.1
MFs	5.0	3.7	0.9
UTI	-	-	(2.7)
LIC	7.6	5.1	2.3

ICICI Bank: Remain bullish, upgrading target price

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- **Revising our earnings estimates upwards for FY2009 and FY2010 as probability of deposit rate cut increases.**
- **News flow relating to premium collection is likely to be positive.**
- **Upgrading our target price to Rs1,200 and retain our OP rating on the stock.**

We are upgrading our target price on ICICI Bank to Rs1,200 from Rs1,000 and retain our Outperform rating on the stock. Reasons for upgrade (1) likely higher earnings in FY2009 compared to earlier estimates on the back of anticipated deposit rate cut and lower bulk borrowing costs, (2) stable interest rates and buoyant economy lower concerns on NPLs. We believe news-flow relating to higher premium collection in the insurance business too could boost stock price performance.

Increasing earnings estimates on the back of possible cut in deposit rates: We have recently published a note on the banking sector, highlighting the possibility of banks cutting deposit rates. We believe ICICI Bank will likely benefit the most given the high proportion of its bulk deposits and lower CASA ratio. Accordingly we are increasing our earnings estimates by 11% for FY2009 and 5% for FY2010. Our FY2008 earnings estimates will likely be lower by 3% from our previous estimate due to the lag effect of deposit repricing.

Concerns on NPLs likely abating. Investor concerns relating to NPLs had increased post ICICI Bank 1QFY08 results. We believe ICICI Bank NPLs will likely increase in absolute terms (as portfolio matures) and also in percentage terms (as loan growth slows down) in 2QFY08. However, the extent of increase will likely be contained compared to the 1QFY08 levels.

1. Housing loans delinquency may remain high, though write-off should be low:

- We believe that ICICI Bank delinquencies on housing loans had increased in 1QFY08, likely due to the increase in installment payments. The full impact of this was reflected in 1QFY08. We are likely to see the housing loan NPLs stabilize at the 1QFY08 levels.
- While the gross NPL ratio under this category for the bank is likely around 1%, we believe that the eventual write-off will be lower at 0.5%. Higher property prices and higher equity component will dissuade borrowers from will-full defaults.
- ICICI Bank has been cautious on incremental disbursements at the peak of the housing market. ICICI Bank's housing loan disbursements declined 29% yoy in 1QFY08 and 12% yoy in 4QFY07.

2. Increasing focus on personal loans will likely reflect in higher NPLs in this segment. In recent quarters, ICICI Bank has increased thrust on the un-collateralized personal loan segment to improve its profitability. The gross NPL ratio in this segment ranges between 7-10% and the write-off's will according be high at around 7%. We believe NPLs in this segment will continue to rise.

3. Agriculture NPLs likely at peak. ICICI Bank has been increasing its focus on the agriculture segment both to meet regulatory requirements and to capitalize on the growing opportunities in rural India. The key challenges: fragmented market, lack of standard procedures for measuring income and lack of experience in serving this segment. The bank has thus seen an increase in NPLs both due to recovery issues and frauds over the last 2Q. ICICI Bank's gross NPL ratio in this segment now stands at close to 5% and we believe this reflects peak NPL ratio. We expect the incremental NPL ratio to remain within manageable limits.

RBI may eventually allow ICICI Bank to form a holding company. We expect the Reserve Bank of India to allow banks to float a holding company for their investments in non-banking entities such as life and general insurance, asset management among others. ICICI Bank has proposed a similar holding company (ICICI Financial Services Ltd). The RBI has floated a discussion paper in which it had raised certain objections to the creation of the holding companies by banks; which it will review post feedback from industry. Given the capital needs of the non-bank businesses, we expect RBI to allow bank to form subsidiary.

Lower deposit and borrowing costs likely to be positive for ICICI Bank's earnings

ICICI Bank (Old and new estimates Rsmn)

	Old estimates			New estimates			% change in estimates		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Net interest income	98,202	142,314	182,857	95,549	151,451	186,460	(2.7)	6.4	2.0
Spread	2.17	2.35	2.41	2.17	2.87	3.05			
NIM (%)	2.63	2.90	2.87	2.64	3.41	3.53			
Loan loss provisions	30,168	40,906	52,228	28,898	38,933	47,589	(4.2)	(4.8)	(8.9)
Other income	82,690	101,182	118,616	82,690	101,182	118,616	—	—	—
Fee income	58,770	78,540	99,290	58,770	78,540	99,290	—	—	—
Treasury income	6,000	4,000	2,000	6,000	4,000	2,000	—	—	—
Profit on sale of loans	1,259	1,715	1,857	1,259	1,715	1,857	—	—	—
Operating expenses	92,579	118,039	147,787	91,993	117,210	146,560	(0.6)	(0.7)	(0.8)
Employee expenses	23,172	31,917	43,196	23,172	31,917	43,196	—	—	—
PBT	49,656	77,760	96,365	48,858	89,699	105,834	(1.6)	15.4	9.8
Tax	10,914	20,995	26,019	10,715	26,910	31,750	(1.8)	28.2	22.0
Net profit	38,742	56,765	70,346	38,144	62,789	74,083	(1.5)	10.6	5.3
PBT-treasury+provisions	73,824	114,666	146,593	71,756	124,632	151,422	(2.8)	8.7	3.3

Source: Kotak Institutional Equities estimates.

Strategy

Sector coverage view

N/A

Closing long RCOM, short Idea

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- **Closing long RCOM, short Idea trade with gross positive return of 14.5%**
- **RCOM stock appreciated by 13.3%, Idea stock declined by 1.2%**
- **Trade 1: Long Suzlon, short GMRI/MTNL: Playing on news flow (-0.2% since trade inception)**

We are closing our long RCOM and short Idea Cellular trade with a gross positive return of 14.5% since we initiated the trade (July 18). We continue to recommend long Suzlon Energy and short basket of GMR Infrastructure and MTNL.

Closing long RCOM, short Idea trade on 14.5% gross return

We had recommended the trade owing to the valuation gap arising from (1) likely reduction in Idea's valuation premium to RCOM (2) revised spectrum allocation policy, if implemented, benefiting RCOM more than Idea and (3) likely listing of FLAG Telecom unlocking value for RCOM. Since the inception of the trade, RCOM's stock has appreciated by 13.3% whereas Idea Cellular stock has declined by 1.2%, resulting in a gross return of 14.5%.

Trade 1: Long Suzlon, short GMRI/MTNL: Playing on news flow (-0.2% since trade inception)

We continue to recommend buying Suzlon Energy given short-term positive triggers such as (1) increased visibility on order flows, (2) partial resolution of execution problems, which may lead to improved 2QFY08 margins and (3) possible value unlocking in Hansen,

Suzlon's gearbox subsidiary. On the other hand, we believe that the stock prices of GMRI and MTNL largely factor in past and potential positive developments and both companies might face execution issues.

Alpha-Bet trades

Statistics of trades, current price, initiation price, gross current/actual return (%)

	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
Trade 1				
Buy	Suzlon	1,555	1,372	13.3
Sell	GMR Infrastructure	181	153	18.1
	MTNL	158	145	8.9
Current return (%)				(0.2)
Closed trades				
18 July-3 October 2007				
Buy	RCOM	643	567	13.3
Sell	Idea Cellular	128	130	(1.2)
Return (%)				14.5
14 September-24 September 2007				
Buy	ICICI Bank	996	907	9.8
Sell	Infosys Technologies	1,763	1,830	(3.7)
Return (%)				13.4
14 September-21 September 2007				
Buy	JSPL	5,371	4,619	16.3
Sell	Tata Steel	741	704	5.3
Return (%)				11.0
18 July-14 September 2007				
Buy	HPCL	251	259	(3.1)
Sell	Cairn (50%)	161	158	1.9
	GAIL (50%)	312	331	(5.6)
Return (%)				(1.3)
27 July-22 August 2007				
Buy	Ambuja Cements	133	129	3.1
Sell	ACC	963	1,023	(5.9)
Return (%)				9.0
18 July-27 July 2007				
Buy	Bajaj Auto	2,321	2,282	1.7
Sell	Aditya Birla Nuvo	1,386	1,576	(12.1)
Return (%)				13.8

Note:

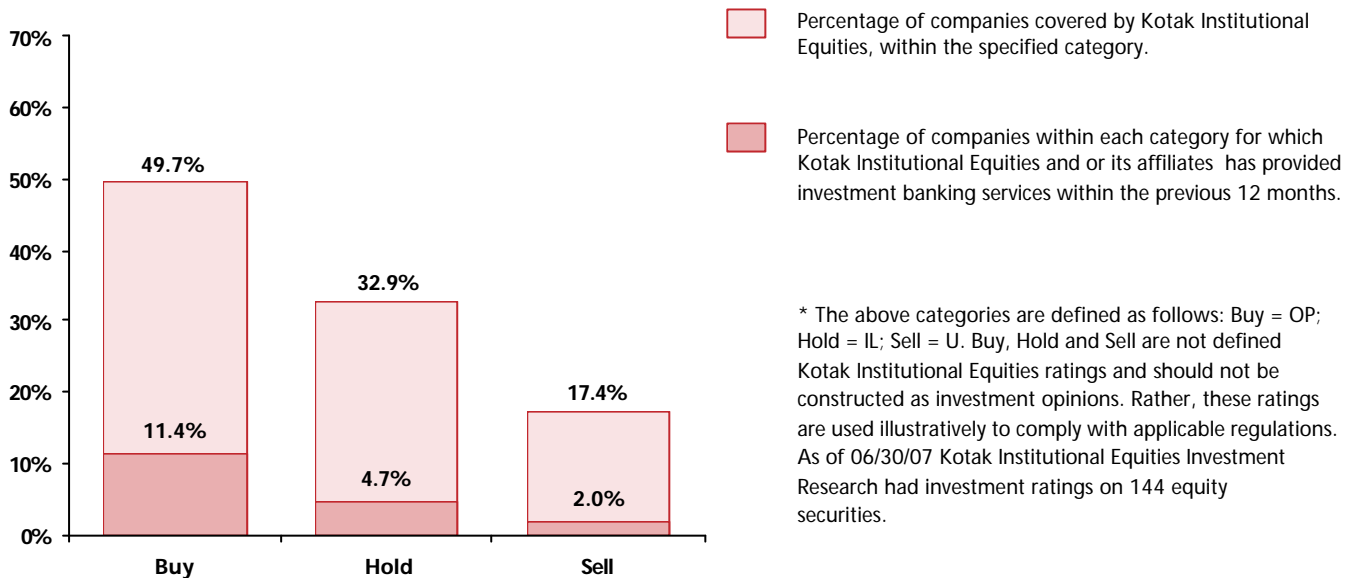
- (a) Price of HPCL is including dividend of Rs12.0 per share.
- (b) Price of Gail is including dividend of Rs2.0 per share.
- (c) Price of Ambuja Cement is including dividend of Rs2.5 per share.
- (d) Price of ACC is including dividend of Rs10.0 per share.

Source: Bloomberg, 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: Puneet Jain, Tabassum Inamdar, Sanjeev Prasad."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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.

IL = In-Line. We expect this stock to perform in line with the BSE Sensex over the next 12 months.

U = Underperform. We expect this stock to underperform the BSE Sensex over the next 12 months.

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

Other definitions

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

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