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### News Roundup

#### Corporate

- Tata group sets up Tata Capital to offer services in capital market, merchant banking, housing finance, private equity and vehicle and retail finance. Other financial services companies in the groups would continue to remain as separate entities. (BS)
- Bharti Airtel's plans to launch direct-to-home (DTH) broadcast services may be delayed further after the home ministry raised questions regarding the company's FDI component. (FE)

#### Economic and political

- SEBI has ordered 10 entities and 14 brokerages to cease and desist from dealing in the F&O segment of the NSE until further notice. These entities are said to be involved in manipulations in the F&O segment between January & March this year (FE)
- Income Tax department conducted search and seizure operations on the Multi Commodity Exchange (MCX) and the offices of its promoters, branches and associates across the country (BL)
- Government is planning to simplify rules for transfer of traffic rights and use of airport infrastructure in order to facilitate M&A in the airline industry. (ET)
- Information & Broadcasting ministry has put on hold the proposals of at least half a dozen news channels sine it wants the finance ministry to first vet the overall foreign investment – direct and indirect – in these companies (FE)

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

### EQUITY MARKETS

India	Change, %			
	19-Jun	1-day	1-mo	3-mo
Sensex	14,296	1.5	(0.1)	12.5
Nifty	4,214	1.6	(0.0)	14.0
<b>Global/Regional indices</b>				
Dow Jones	13,635	0.2	0.6	11.0
Nasdaq Composite	2,627	0.0	2.7	9.1
FTSE	6,650	(0.8)	0.1	6.9
Nikkie	18,245	0.5	4.9	6.3
Hang Seng	21,708	0.6	3.8	12.7
KOSPI	1,801	(0.4)	11.7	24.7
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	19-Jun	1-mo	3-mo	
Cash (NSE+BSE)	128.2	142.7	128.5	
Derivatives (NSE)	374.2	298.4	243.4	
Deri. open interest	710.4	585.0	578.2	

#### Forex/money market

	Change, basis points			
	19-Jun	1-day	1-mo	3-mo
Rs/US\$	40.7	-	6	(302)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.2	-	(1)	12

#### Net investment (US\$m)

	18-Jun	MTD	CYTD
FIs	(7)	(41)	3,906
MFs	51	(103)	(203)

#### Top movers -3mo basis

Best performers	Change, %			
	19-Jun	1-day	1-mo	3-mo
Balaji Telefilms	233	8.8	15.7	98.9
Reliance Cap	1,077	4.6	18.9	66.6
GESCO	309	1.7	21.2	59.9
Moser Baer	436	2.6	(4.5)	48.8
SBI	1,372	4.1	3.5	44.1
<b>Worst performers</b>				
Bajaj Auto	2,118	1.8	(7.4)	(15.3)
Tata Motors	663	2.8	(10.7)	(13.8)
Polaris	157	0.3	(10.0)	(13.6)
Cipla	207	(0.4)	(0.8)	(9.9)
Wipro	521	(0.3)	(4.2)	(9.1)

Kotak Institutional Equities Research

kotak.research@kotak.com

Mumbai: +91-22-6634-1100

**Shipyards****ABGS.BO, Rs400**

Rating	OP
Sector coverage view	-
Target Price (Rs)	400
52W High -Low (Rs)	445 - 199
Market Cap (Rs bn)	20.4

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	6.7	9.9	13.8
Net Profit (Rs bn)	1.1	1.7	2.3
EPS (Rs)	21.3	32.7	46.1
EPS gth	29.6	53.7	40.7
P/E (x)	18.8	12.2	8.7
EV/EBITDA (x)	11.8	7.6	4.9
Div yield (%)	0.5	0.6	0.8

**Shareholding, March 2007**

	% of Pattern Portfolio	Over/(under) weight
Promoters	56.9	-
FIs	20.5	0.1
MFs	2.9	0.1
UTI	-	-
LIC	-	-

**ABG Shipyard: 4Q 2007 results: Inline with estimates; roll target-price over to FY2009**

Jigar Mistry : jigar.mistry@kotak.com, +91-22-6749-3571

- **4Q 2007 net earning of Rs330 mn is inline with our estimates for the quarter.**
- **Revenues were flat on yoy basis and earnings grew 6.7%. This was largely owing to delayed deliveries of 4 vessels.**
- **Unexecuted order backlog stands at Rs33 bn, covering for revenues till 1st half of FY2010E. We expect further orders as Dahej shipyards have about 5 more berths to offer.**
- **We raise our target price to Rs460, as we roll target forward to FY2009. At target price, the stock will trade 10X FY2009E earnings, which appears reasonable. Continue to rate the stock as Outperform**

ABG Shipyard (ABG) in its 4th quarter results reported a PAT of Rs330 mn'inline with our expectations on revenues of Rs1.9 bn. The company informed on a call that deliveries for 4 vessels got delayed that led to flattish revenues and net earnings on yoy basis. We raise our target price to reflect FY2009E estimates to Rs460/ share (from Rs400 earlier). At target price, the stock will trade 10X FY2009E earnings; we continue to rate the stock as Outperformer.

**Delayed deliveries led to flattish quarterly performance.** Certain client requests led to delays in delivery of 4 vessels, which the company otherwise expected to book in 4Q of this fiscal. This led to just 0.1% growth in revenues and 7% growth in net earnings. Besides, the company has also been asked to pay 'octroi' to local municipalities—which it has paid under protest, yet booked to expenses. This led to flattish EBITDA margins as well.

**Order-backlog of Rs33 bn, covers revenues till 1<sup>st</sup> half of FY2010E,** based on our estimated revenues. We continue to expect strong order-flows going forward as well, owing to berth-availability at yard in Dahej.

**Roll target price forward to reflect FY2009E estimates.** We roll our target price forward to reflect FY2009E forecasts, and consequently raise it to Rs460/ share (earlier Rs400). At target price, the stock would trade at 10X FY2009E earnings, which appears comfortable. We continue to rate the stock as Outperform.

## ABG shipyard, Interim results, March fiscal-year ends (Rs mn)

	4Q 2007	4Q 2006	Yoy gr (%)	4Q 2007	3Q 2007	QoQ gr (%)	2007	2006	Yoy gr (%)
<b>Revenue</b>	<b>1,931</b>	<b>1,928</b>	<b>0.1</b>	<b>1,931</b>	<b>1,776</b>	<b>8.7</b>	<b>7,044</b>	<b>5,417</b>	<b>30.0</b>
<b>Expenditure</b>	<b>(1,434)</b>	<b>(1,415)</b>		<b>(1,434)</b>	<b>(1,250)</b>		<b>(5,090)</b>	<b>(4,009)</b>	
Stock adjustment	144	(256)		144	40		241	(361)	
Raw materials	(1,265)	(886)		(1,265)	(1,059)		(4,443)	(2,959)	
Staff costs	(36)	(37)		(36)	(37)		(149)	(130)	
Other expenditure	(276)	(235)		(276)	(194)		(740)	(559)	
<b>EBITDA</b>	<b>497</b>	<b>513</b>	<b>(3.2)</b>	<b>497</b>	<b>526</b>	<b>(5.5)</b>	<b>1,953</b>	<b>1,409</b>	<b>38.7</b>
OPM (%)	25.7	26.6		25.7	29.6		27.7	26.0	
Other income	29	22		29	9		54	61	
Depreciation	(17)	(11)		(17)	(15)		(59)	(36)	
EBIT	509	525		509	520		1,948	1,434	
Interest costs	(93)	(43)		(93)	(69)		(267)	(167)	
PBT	416	482		416	450		1,681	1,266	
Taxes	(86)	(173)		(86)	(157)		(518)	(430)	
<b>PAT</b>	<b>330</b>	<b>309</b>	<b>6.7</b>	<b>330</b>	<b>293</b>	<b>12.6</b>	<b>1,163</b>	<b>837</b>	<b>39.0</b>
<b>Calculations (%)</b>									
Raw material to revenue	58.1	59.2		58.1	57.4		59.7	61.3	
Total costs to revenue	74.3	73.4		74.3	70.4		72.3	74.0	
Effective tax rate	20.8	35.8		20.8	34.9		30.8	33.9	

Source: Company, Kotak Institutional Equities

**ABG Shipyard, Profit Model, March fiscal year-ends, 2005-2009E, (Rs mn)**

	2005	2006	2007E	2008E	2009E
Net Revenues	3,766	5,417	7,044	9,935	13,804
Other operating income	-	-	-	-	-
<b>Gross operating revenues</b>	<b>3,766</b>	<b>5,417</b>	<b>7,044</b>	<b>9,935</b>	<b>13,804</b>
<b>Operating expenses</b>					
Cost of goods sold	(2,262)	(3,320)	(4,202)	(5,991)	(8,324)
Staff costs	(91)	(122)	(149)	(223)	(310)
SG&A expenses	(492)	(567)	(740)	(1,039)	(1,402)
<b>Total expenditure</b>	<b>(2,845)</b>	<b>(4,009)</b>	<b>(5,114)</b>	<b>(7,253)</b>	<b>(10,036)</b>
<i>(% of revenues)</i>	75.5	74.0	73.0	73.0	72.7
<b>EBITDA</b>	<b>921</b>	<b>1,409</b>	<b>(1,953)</b>	<b>2,683</b>	<b>3,769</b>
<i>EBITDA Margin (%)</i>	24.5	26.0	27.7	27.0	27.3
Net finance cost	(202)	(167)	(267)	(150)	(100)
Other income	2	61	54	30	30
<b>PBDT</b>	<b>720</b>	<b>1,303</b>	<b>1,771</b>	<b>2,563</b>	<b>3,699</b>
Depreciation and amortisation	(31)	(36)	(59)	(40)	(148)
<b>Pretax profits before extra-ordinaries</b>	<b>689</b>	<b>1,267</b>	<b>1,731</b>	<b>2,523</b>	<b>3,551</b>
Exceptional items	-	-	-	-	-
Prior period items	-	-	-	-	-
<b>Profit before tax</b>	<b>689</b>	<b>1,267</b>	<b>1,731</b>	<b>2,523</b>	<b>3,551</b>
Current tax	(67)	(41)	(105)	(86)	(120)
Deferred tax	(175)	(389)	(413)	(770)	(1,084)
Minority / Associate earnings	-	-	-	-	-
Reported PAT	448	837	1,163	1,667	2,346
<b>Adjusted net profit</b>	<b>448</b>	<b>837</b>	<b>1,163</b>	<b>1,667</b>	<b>2,346</b>
Primary EPS (using wtd avg shares)	13.8	20.1	22.8	32.7	46.1
Diluted EPS	13.8	16.4	22.8	32.7	46.1
Year end no of shares (mn)	32.5	50.9	50.9	50.9	50.9
Weighted average no of shares (mn)	32.5	41.7	50.9	50.9	50.9
Fully diluted no of shares (mn)	32.5	50.9	50.9	50.9	50.9
<b>Margins (%)</b>					
EBITDA margin	24.5	26.0	27.0	27.0	27.3
PBT margin	18.3	23.4	24.7	25.4	25.7
Net profit margin (w/o extraordinaries)	11.9	15.4	16.4	16.8	17.0
Effective tax rate (%)	35.0	33.9	33.5	33.9	33.9
<b>Growth (% p.a)</b>					
Revenues	#REF!	43.8	29.3	41.8	38.9
EBITDA	#REF!	53.0	34.2	41.9	40.5
PBT	#REF!	83.8	36.7	45.8	40.7
Net profit (w/o extraordinaries)	#REF!	87.0	37.5	44.9	40.7
Diluted EPS	#REF!	19.3	37.5	44.9	40.7

**ABG Shipyard, Balance sheet, March fiscal-year ends, 2005-09E (Rs mn)**

	2005	2006	2007E	2008E	2009E
<b>Equity</b>					
Share capital	325	509	509	509	509
General reserves and surplus	663	3,780	4,808	6,347	8,541
<b>Net worth</b>	<b>988</b>	<b>4,289</b>	<b>5,317</b>	<b>6,857</b>	<b>9,050</b>
Deferred tax liability	278	667	1,122	1,637	2,212
<b>Debt</b>					
Secured	730	997	1,247	347	-
Unsecured	-	-	-	-	-
<b>Total Debt</b>	<b>730</b>	<b>997</b>	<b>1,247</b>	<b>347</b>	<b>-</b>
Current liability and provisions	1,052	3,776	4,342	5,329	6,942
<b>Total capital</b>	<b>3,048</b>	<b>9,729</b>	<b>12,027</b>	<b>14,169</b>	<b>18,204</b>
<b>Assets</b>					
Cash and cash equivalents	487	4,050	367	357	1,963
Inventory	717	2,249	2,977	4,304	6,211
Sundry Debtors	129	58	83	117	163
Loans and Advances	1,271	2,341	3,110	3,740	4,164
Gross block	741	901	901	901	5,801
Less: Accumulated depreciation	(340)	(395)	(435)	(475)	(623)
Net fixed assets	401	506	466	426	5,178
Capital -WIP	43	518	5,018	5,218	518
<b>Net fixed assets (incl. C-WIP)</b>	<b>444</b>	<b>1,024</b>	<b>5,484</b>	<b>5,644</b>	<b>5,696</b>
Investments	-	7	7	7	7
Miscellaneous expenditure	-	-	-	-	-
Intangibles	-	-	-	-	-
<b>Total Assets</b>	<b>3,048</b>	<b>9,729</b>	<b>12,027</b>	<b>14,169</b>	<b>18,204</b>
<b>Leverage and return ratios (%)</b>					
Debt/Equity	57.7	20.1	19.4	4.1	-
Debt/Capitalisation	36.6	16.7	16.2	3.9	-
Net Debt/Equity	19.2	(61.6)	13.7	(0.1)	(17.4)
Net Debt/Capitalisation	16.1	(160.4)	12.0	(0.1)	(21.1)
Net Debt/EBITDA	0.5	0.2	2.6	2.4	1.9
ROE (%)	35.3	26.9	19.8	22.3	23.7
ROCE (%)	29.0	23.8	18.0	21.4	24.0

**ABG Shipyard, Cash flow statement, March fiscal-year ends, 2005-09E (Rs mn)**

	2005	2006	2007E	2008E	2009E
<b>Operating cash flows</b>					
Pre-tax profits and extraordinary items	689	1,266	1,710	2,523	3,550
Depreciation & amortization	31	36	40	40	148
Taxes paid	(50)	(75)	(126)	(340)	(629)
Dividend and other income	-	(5)	-	-	-
Interest expense	202	167	150	150	100
Interest paid	(202)	(167)	(150)	(150)	(100)
Foreign exchange loss/(gain)	-	2	-	-	-
Extraordinaries (incl. prior period items)	0	0	-	-	-
Other non-cash items	-	-	-	-	-
Working capital changes	(851)	4	(955)	(1,005)	(763)
<b>Cash flow from operations</b>	<b>(181)</b>	<b>1,227</b>	<b>669</b>	<b>1,217</b>	<b>2,306</b>
<b>Operating, excl. working capital</b>	<b>671</b>	<b>1,224</b>	<b>1,624</b>	<b>2,222</b>	<b>3,069</b>
<b>Investing</b>					
Capex incl. capital issue expenses	(96)	(616)	(4,500)	(200)	(200)
(Purchase)/sale of assets/businesses	-	-	-	-	-
(Purchase)/sale of investments (incl. inv. in subsidiaries)	0	(7)	-	-	-
Advances to subsidiary	-	-	-	-	-
Interest/dividend received	-	5	-	-	-
<b>Cash flow from investing</b>	<b>(96)</b>	<b>(618)</b>	<b>(4,500)</b>	<b>(200)</b>	<b>(200)</b>
<b>Financing</b>					
Proceeds from issue of share capital	-	2,534	-	-	-
Net proceeds from borrowings	371	420	250	(900)	(347)
Effect of FX changes	-	-	-	-	-
Dividends paid (incl. tax)	-	-	(102)	(127)	(153)
<b>Cash flow from financing</b>	<b>371</b>	<b>2,954</b>	<b>148</b>	<b>(1,027)</b>	<b>(500)</b>
Net change in cash/cash equivalents	95	3,564	(3,683)	(10)	1,606
Beginning cash	392	487	4,050	367	357
<b>Ending cash</b>	<b>487</b>	<b>4,050</b>	<b>367</b>	<b>357</b>	<b>1,963</b>

**Banking****SREI.BO, Rs99**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	110
52W High -Low (Rs)	107 - 34
Market Cap (Rs bn)	10.8

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	1.5	2.1	2.4
Net Profit (Rs bn)	0.6	0.8	1.0
EPS (Rs)	5.6	7.7	8.7
EPS gth	25.8	37.5	13.5
P/E (x)	17.7	12.9	11.4
P/B (x)	2.6	2.2	1.9
Div yield (%)	1.8	1.8	1.8

**Shareholding, March 2007**

	Pattern	% of Portfolio	Over/(under) weight
Promoters	20.1	-	-
FIs	43.1	0.0	0.0
MFs	1.3	0.0	0.0
UTI	-	-	-
LIC	-	-	-

**SREI Infrastructure Finance: PBT inline, tax write-back increased PAT, revise rating to IL**

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

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

- Srei reported PBT of Rs218 mn as against our estimate of Rs194 mn,
- Tax write back increased PAT, Nil inline,
- We revise our SOTP based target price to Rs110 (Rs73 earlier) to capture value of the proposed JV. Revise rating to IL from OP.

Srei reported a PAT of Rs315 mn (up 98% yoy) in 4QFY07 as against our estimate of Rs132 mn. Higher PAT was supported by tax write back as PBT was marginally above our estimate. While Nil was in line with our estimate, operating expenses were considerably higher. We will revise our estimates after working out detailed financials for Srei (post sale of assets) and the proposed JV. The stock is trading at 11.2X PER and 1.9X APBR FY2009.

**Growth on track, operating expenses high.** Disbursements were up 60% in 4Q and spreads were somewhat higher in 4Q as compared to 3Q. Operating expenses were up 91% yoy, (42% above our estimates) but no specific reason can be assigned to the same.

**Higher deferred tax liability provisions caused tax write back.** Srei provides for deferred tax liability mainly on account of its operating lease business. According to the management, the surplus of IT provision over actual liability for the previous years was added to the deferred tax provisions of the company. As such, the outstanding deferred tax liability provisions were deemed sufficient and Srei was not required to make any further deferred tax provisions in FY2007. The company had made deferred tax liability provisions in the previous quarters and these were reversed in 4Q.

**FBT is a contingent liability.** We note that Srei has challenged the validity of Fringe benefit tax (FBT) in the Kolkatta High Court and has not made any provisions for the same. We believe that Srei will have to eventually provide for FBT like other companies under coverage. We are however unable to assess the impact of FBT on Srei's financials as the company has not disclosed the contingent liability on account of FBT.

**SOTP: Srei Infrastructure Finance**

SOTP	Stake (%)	Value of the firm (Rs mn)	Value per share (Rs)	Comments
Parent company	100%	4,497	41	Multiple of 1X for the project finance business,
JV with BNP	50%	13,200	61	Multiple of 1.65X for the construction equipment finance business,
Quipo	15%	4,355	6	Valuation of Quipo based on latest deal with IDFC and GIC,
<b>Total</b>			<b>108</b>	

Source: Kotak Institutional Equities estimates.

## Srei Infrastructure Finance - Quarterly financials

(in Rs mn)	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	YoY(%)	4Q07E	Actual vs KS(%)
Interest income	386	447	666	769	856	954	935	1,234	60	1,317	(6)
Depreciation on leased assets	3	7	40	28	61	63	71	115	309	82	41
Interest income (net of lease depreciation)	383	440	626	741	795	891	864	1,120	51	1,236	(9)
Interest expenses	185	191	329	371	482	523	532	610	65	786	(22)
<b>Net interest income</b>	<b>198</b>	<b>248</b>	<b>297</b>	<b>370</b>	<b>313</b>	<b>368</b>	<b>332</b>	<b>510</b>	<b>38</b>	<b>450</b>	<b>13</b>
<b>Provisions and write/off</b>	-	-	-	52	-	-	-	103	99	115	(11)
<b>Net interest income (after prov.)</b>	198	248	297	319	313	368	332	407	28	335	21
Other income	1	0.8	0.8	2.4	1	3	4	13	429	2	568
<b>Total income pre loan loss provision</b>	199	249	298	373	314	371	337	522	40	452	16
<b>Operating expenses</b>	<b>80</b>	<b>86</b>	<b>113</b>	<b>106</b>	<b>105</b>	<b>141</b>	<b>137</b>	<b>202</b>	<b>91</b>	<b>143</b>	<b>42</b>
Employee expenses	29	30	41	47	40	62	49	72	53	52	39
Admin and other expenses	49	48	66	66	60	74	82	122	84	84	46
Depreciation	2	8	6	0	5	5	6	7	-	8	(5)
<b>Pretax income</b>	<b>119</b>	<b>164</b>	<b>185</b>	<b>215</b>	<b>209</b>	<b>230</b>	<b>200</b>	<b>218</b>	<b>1</b>	<b>194</b>	<b>12</b>
Tax provisions	9	78	55	56	60	82	21	(97)	(274)	62	(256)
<b>Net Profit</b>	<b>109</b>	<b>86</b>	<b>130</b>	<b>159</b>	<b>150</b>	<b>148</b>	<b>179</b>	<b>315</b>	<b>98</b>	<b>132</b>	<b>139</b>
PBT before extraordinary items											
Tax rate(%)	7.7	47.5	29.8	26.0	28.6	35.7	10.4	(44.7)		32.1	
<b>Other operational details</b>											
Disbursements (Rs mn)			6,684	6,573	10,370	10,972	11,197	10,505	60	6,877	53
Asset finance (Rs mn)			5,784	6,493	10,070	8,706	8,846				
Project finance (Rs mn)			870	20	290	2,256	2,161				
Renewable energy equip. finance (Rs mn)			30	60	10	10	190				
Total Assets under management (Rs mn)					37,575	42,535	47,904	50,800			
Securitised loans (Rs mn)					9,974	9,792	10,294				
Assets on books (Rs mn)					27,601	32,743	37,610				
Loans securitised during the year (Rs mn)					402	1,508	2,300	6,490			
Gross NPLS (%)					1.1		1.13	0.82			
NPL ratio (%)					0.1		0.70	-			

Source: Company, Kotak Institutional Equities estimates.



**Banking****HDFC.BO, Rs1776**

Rating	IL
Sector coverage view	Neutral
Target Price (Rs)	1,550
52W High -Low (Rs)	1916 - 998
Market Cap (Rs bn)	509

**Financials**

March y/e	2007E	2008E	2009E
Sales (Rs bn)	22.1	27.7	33.2
Net Profit (Rs bn)	15.7	19.0	22.8
EPS (Rs)	62.1	66.1	79.6
EPS <i>gth</i>	23.6	6.5	20.4
P/E (x)	28.6	26.9	22.3
P/B (x)	9.2	4.2	3.8
Div yield (%)	1.1	1.3	1.6

**Shareholding, March 2007**

	% of Pattern	Portfolio	Over/(under) weight
Promoters	-	-	-
FIs	68.9	4.4	3.1
MFs	1.2	0.5	(0.9)
UTI	-	-	(1.4)
LIC	1.2	0.4	(0.9)

**HDFC: Intelenet stake sale will not materially affect target price, retain IL.**

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

Nischint Chawathe : nischint.chawathe@kotak.com, +91-22-6749-3588

- **HDFC and Barclays to sell their stakes in Intelenet to Blackstone,**
- **According to newspaper reports, Blackstone will pay US\$200 mn for 80% stake,**
- **The deal will marginally affect our SOTP based valuation, retain IL.**

HDFC and Barclays Bank have decided to sell their stake in Intelenet to SKR BPO services (promoted by Blackstone and management of Intelenet). While the company has not yet disclosed the valuation, according to newspaper reports, Blackstone will pay US\$200 mn for 80% stake in Intelenet thus valuing it at 3.5X FY2007 revenue as against 4X FY2007 revenue considered in our SOTP. At this price, HDFC's 51% stake will be valued at Rs5.22 bn (Rs18 per share of HDFC) against Rs5.84 bn (Rs21 per share of HDFC) factored in our SOTP.

## Insurance

**Bajaj Allianz—maintaining growth momentum**

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

**Maintaining growth momentum through expansion of network and agency force****Reduction in policies surrendered, though still fairly high compared to competition**

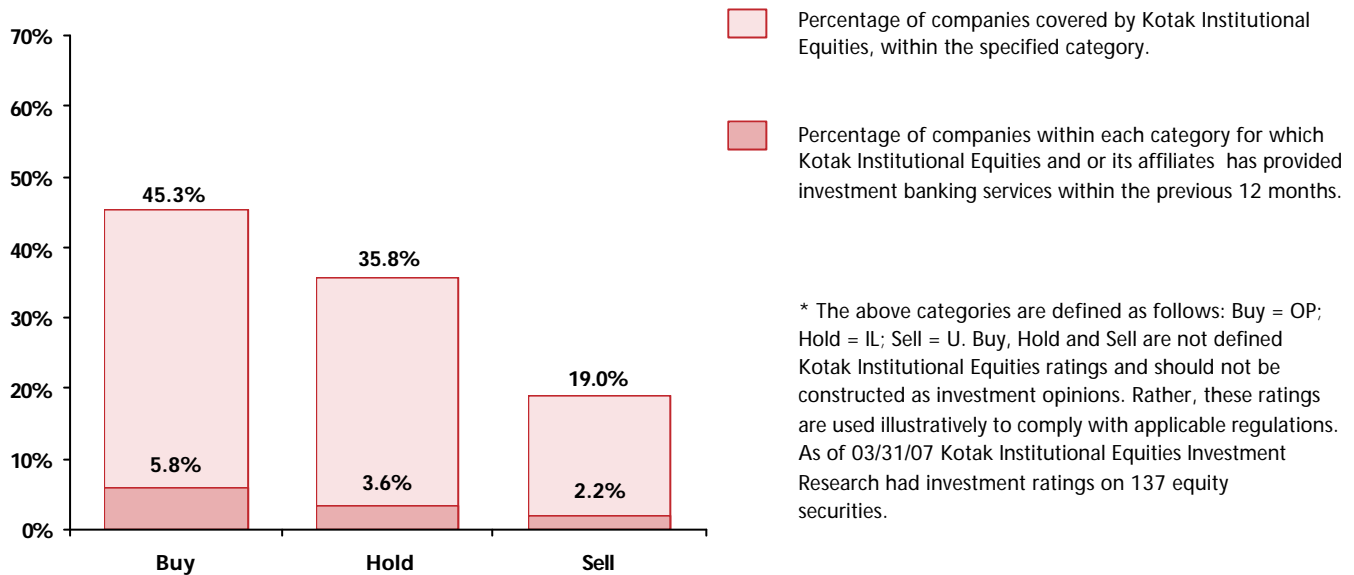
We returned back fairly positive from our recent meeting with Bajaj Allianz Life Insurance management. We maintain our premium income growth estimate of 65% for FY2008 and 50% for FY2009. We have valued Bajaj Allianz at Rs146 bn (for 100% of the company) using the appraisal value method. We currently penalize the company for high surrenders assuming lower margins (8.8% v/s ICICI Prudential Life 13.25%). The company will likely start declaring its NBAP shortly. Any surprise on the upside/downside will likely impact our fair value estimate for the entity. Key highlights from our meetings:

- Bajaj Allianz is the second largest private sector life insurance company in India with close to 870 branches and over 210,000 agents. In FY2007 annualized premium income grew by 136%, and we expect growth to remain over 60% in FY2008 driven by (a) branch expansion- another 200 to be set up in FY2008, and (2) expansion of agency force -130,000 to be added in FY2008. Bajaj Allianz has also introduced new products and new verticals to focus on health, children plan and pension plan.
- Unlike most large players in the market where the share of banking distribution is significant, Bajaj Allianz has shifted focus to agency force. Close to 70% of its policy sales is drive by agents, 20% is driven by corporate/alternate channels and 10% by banking channel.
- Bajaj Allianz lapse ratio remained high and was around 37% in FY2007. Additionally surrenders during FY2007 at Rs6bn were same as FY2006, but in percentage term dropped to 19% from 63% in FY2006 (surrenders in FY2007 divided by FY2006 total premium income collection).
- Like is the case with most insurance companies in India, 95% of incremental sales is ULIP products, with close to 80% of inflows into equity funds. Bajaj Allianz closed the year with an AUMs of Rs67.5bn, of which 50% was in equities.

"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: Jigar Mistry, Nischint Chawathe, Tabassum Inamdar."

### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of March 31, 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).

##### Other ratings/identifiers

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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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**Kotak Securities Ltd.**

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

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