kotak® Institutional Equities

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News Roundup

Corporate

- Leading foreign funds - Citi Venture Capital and AIG - are picking up a 16% stake in Akruti City (formerly Akruti Nirman), one of the leading real estate developers in Mumbai. (ET)
- Reliance Industries' retail subsidiary Reliance Retail has inked a 50:50 joint venture (JV) with Citigroup to enter financial services which would include credit cards, personal loans and institutional loans to its partners and vendors, among other initiatives. (ET)
- Buoyed by the overhwelming response to Tata Motor's Nano, French auto major Renault said it will rival the world's cheapest car with its own version in partnership with Japan's Nissan. (BS)

Economic and political

- The Government has received cumulative investment commitments worth almost Rs40,000 crore under the scheme to promote semiconductor fabs and other micro and nano technology units. (BL)
- The Telecom Regulatory Authority of India has proposed a 74 per cent foreign direct investment limit for new mobile television services and said licence allocations should be done through bids. (BS)
- 2.1 mn children under five die in India every year. (State of the World's Children, Unicef)

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

EQUITY MARKETS

		Change, %		
India	**23-Jan**	**1-day**	**1-mo**	**3-mo**
Sensex	17,594	5.2	(11.4)	(5.0)
Nifty	5,203	6.2	(13.1)	(5.3)
Global/Regional indices				
Dow Jones	12,270	2.5	(9.4)	(10.3)
Nasdaq Composite	2,316	1.1	(14.6)	(16.5)
FTSE	5,609	(2.3)	(13.4)	(13.5)
Nikkie	13,030	1.6	(14.6)	(20.3)
Hang Seng	24,402	1.3	(13.2)	(16.8)
KOSPI	1,655	1.6	(13.8)	(14.4)

Value traded - India

			Moving avg, Rs bn	
	23-Jan		**1-mo**	**3-mo**
Cash (NSE+BSE)	261.7		228.8	78.8
Derivatives (NSE)	360.7		730.7	667.4
Deri. open interest	914.5		1,165	#####

Forex/money market

		Change, basis points		
	23-Jan	**1-day**	**1-mo**	**3-mo**
Rs/US$	39.5	(8)	5	(13)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.4	(11)	(50)	(48)

Net investment (US$mn)

	22-Jan		**MTD**	**CYTD**
FIIs	(559)		14	(1,484)
MFs	298		(340)	547

Top movers -3mo basis

		Change, %		
Best performers	**23-Jan**	**1-day**	**1-mo**	**3-mo**
Rashtriya Chem	106	(5.0)	9.4	102.2
Engineers India	919	5.0	2.4	61.2
NALCO	411	(0.9)	(7.7)	45.5
BoB	413	11.8	(0.7)	38.5
Apollo Tyres	48	11.3	(3.4)	28.5
Worst performers				
i-Flex	1,053	9.2	(30.0)	(33.5)
Titan Inds	1,129	2.3	(25.4)	(31.9)
Arvind Mills	49	16.3	(38.6)	(34.0)
Acc	750	3.8	(25.1)	(30.4)
MTNL	130	8.5	(28.1)	(27.5)

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Strategy

Sector coverage view	N/A

Closing long HPCL, short IOCL

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- **Closing Long HPCL, short IOCL on 10.7% gross return**
- **Trade 1: Long Ranbaxy, short Glenmark**
- **Trade 2: Long Sterlite, short NALCO**
- **Trade 3: Long Hindalco and Sesa Goa, short Tata Steel**

Closing Long HPCL and short IOCL on 10.7% gross return

We had recommended the trade given the valuation misalignment in the two stocks (IOCL stock was trading at fair valuations based on normalized marketing margins while HPCL was at a significant discount). Since then, the IOCL stock has corrected 33.9% compared to the HPCL stock's 23.2% correction giving gross return of 10.7%. We recommend closing the trade in current uncertain and volatile markets even though the trade will likely give further returns. We note that the earnings of both companies face similar risks (upside or downside); however, HPCL has an additional trigger in the form of removal of octroi duty on crude oil in Maharashtra, which would improve its refining margins and earnings.

We continue to recommend long Ranbaxy-short Glenmark, long Sterlite-short NALCO and long Hindalco and Sesa Goa-short Tata Steel.

Alpha-Bet trades

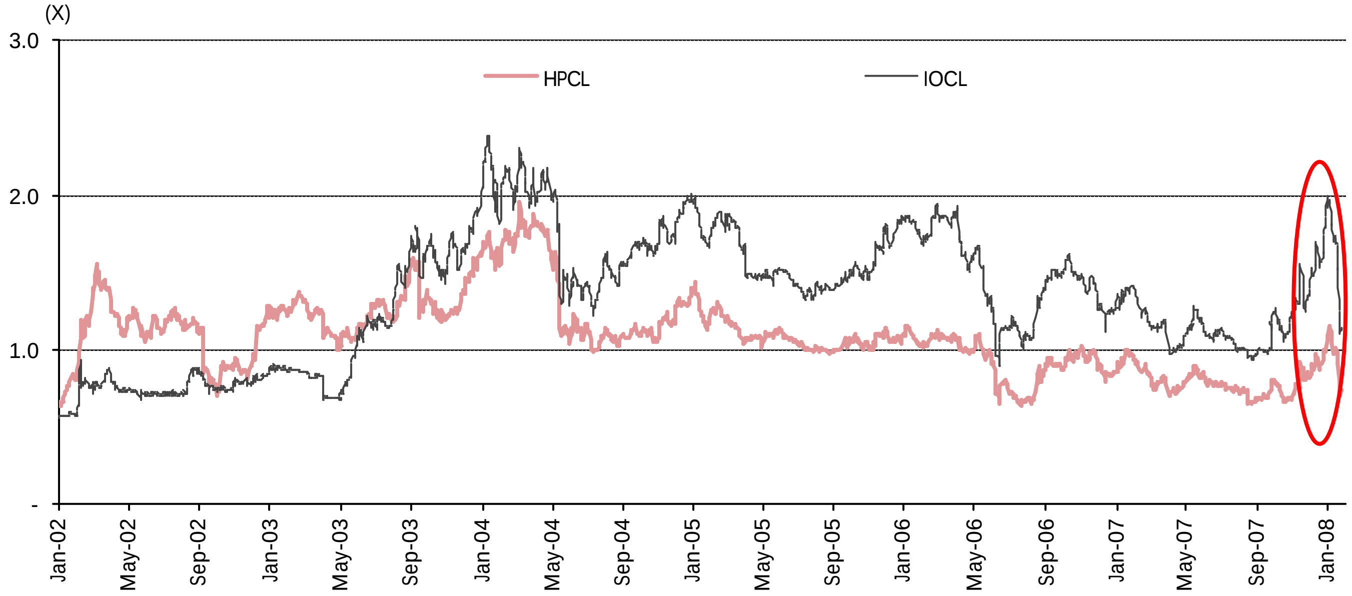
Statistics of trades, current price, initiation price, gross expected/actual return

	Stock	Current price (Rs)	Initiation price (Rs)	Return (%)
Trade 1				
Long	Ranbaxy	350	398	(12.1)
Short	Glenmark	501	538	(6.9)
Current return (%)				**(5.1)**
Trade 2				
Long	Sterlite	804	1,015	(20.8)
Short	NALCO	411	479	(14.1)
Current return (%)				**(6.7)**
Trade 3				
Long	Hindalco Industries	161	218	(26.1)
Long	Sesa Goa	3,022	3,636	(16.9)
Short	Tata Steel	697	858	(18.8)
Current return (%)				**(2.7)**
Closed trades (10 January-23 January 2008)				
Long	HPCL	256	333	(23.2)
Short	IOCL	452	684	(33.9)
Return (%)				**10.7**
Closed trades (14 November-31 December 2007)				
Long	IVRCL	554	511	8.5
Long	Nagarjuna Construction Co.	353	292	20.8
Short	Siemens	1,893	1,881	0.7
Return (%)				**14.0**
Closed trades (14 November-29 November 2007)				
Long	Bharti Airtel	916	860	6.5
Short	Reliance Communications	665	725	(8.2)
Return (%)				**14.7**
Closed trades (14 November-29 November 2007)				
Long	HCL Tech.	313	302	3.9
Short	ZEEL	282	313	(9.9)
Return (%)				**13.8**

Source: Bloomberg, Kotak Institutional Equities estimates.

Gap in price/book ratio has narrowed after sharp correction in stock price of IOCL compared to HPCL

Price/book (price to current year-end book) ratio for HPCL and IOCL



Source: Bloomberg, Company, Kotak Institutional Equities estimates.

Pharmaceuticals

Sector coverage view	Neutral

		Price, Rs	
Company	Rating	23-Jan	Target
Ranbaxy	BUY	350	485
Dr. Reddy's	BUY	615	800
Cipla	REDUCE	182	180
Sun Pharma	BUY	972	1,270
Biocon	BUY	421	665
Nicholas	BUY	286	550
Divi's	BUY	1,470	1,915
Glenmark Pha	ADD	501	530
Dishman	BUY	330	540
Jubilant	BUY	320	460

Indian CMOs and CROs go global

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- **Increasing outsourcing in research and manufacturing, India gaining acceptance**
- **Infrastructure is ready, increasing integration to expand margin**
- **We use SOTP for valuation; assign BUY to NPIL, Dishman, Jubilant, Biocon, Divis**
- **Risks—regulatory compliance, opaqueness of operations and rupee appreciation**

We initiate coverage on Indian CMO (contract manufacturing outsourcing) companies and CRO (contract research outsourcing) companies with an ATTRACTIVE view on the sector. We expect investments made in the past two years to start yielding results from 2008. The CMO business will be scalable but competitive while the CRO business has high entry barriers as well as high margins. We assign a BUY rating to Nicholas Piramal, Dishman, Jubilant, Biocon and Divis Labs

Increasing outsourcing in research and manufacturing, India gaining acceptance

The environment for outsourcing is favorable as innovators look to reduce costs and increase the speed of the research process. Clinical trials are increasingly becoming expensive in the developed world. Low cost, high quality Indian manufacturing has become essential for API and intermediate production.

Infrastructure is ready, increasing integration to expand margins

Indian companies have acquired firms that give them client access, create necessary manufacturing/research facilities and widen portfolio of clients and services reducing concentration risks. Indian companies are present in the highest value adding segments—high potency substances in CMO and discovery research in CRO. We expect this to drive margin expansion despite strong head winds of rupee appreciation in the medium term.

We use SOTP for valuation; assign BUY to NPIL, Dishman, Jubilant, Biocon, Divis

We use an SOTP-based valuation to derive our price targets. We have applied PE multiples to 12-month forward earnings for different business segments as each business has different profitability profiles. We initiate coverage with a BUY rating on NPIL, Dishman, Jubilant, Biocon and Divis. NPIL appears relatively attractive as we include the value of research pipeline in cancer and inflammation segments. We expect companies to gain from acquisitions made in the past and new research contracts.

Risks—regulatory compliance, opaqueness of operations and rupee appreciation

We believe the key risks faced by this sector are (1) continuing regulatory compliance necessary to be in business, (2) increasing competition in India and China, (3) opaqueness in industry operations that makes quarterly earnings volatile, (4) limited operating history and evolving business model with widespread use of M&A for growth, (5) continuing appreciation of the Indian rupee against the US$. We have taken a conservative view of the convertible bonds issued by Dishman and Jubilant, treating them as equity in our EPS forecasts and price targets.

	Market Cap. (US$ mn)	Sales (US$ mn)	Current price (Rs)	Target price (Rs)	Rating	Upside/(downside) (%)
NPIL	1,507	535	285	550	BUY	93
Dishman	598	128	305	540	BUY	77
Biocon	1,043	218	412	665	BUY	61
Jubilant	1,121	400	308	460	BUY	49
Divi's	2,304	161	1,411	1,915	BUY	36

Source: Kotak Institutional Equities estimates.

Metals

HZNC.BO, Rs635	
Rating	ADD
Sector coverage view	Neutral
Target Price (Rs)	1,000
52W High -Low (Rs)	3356 - 400
Market Cap (Rs bn)	268.2

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	85.6	80.6	87.8
Net Profit (Rs bn)	44.4	40.4	39.7
EPS (Rs)	105.1	95.6	93.9
EPS gth	*201.7*	*(9.1)*	*(1.7)*
P/E (x)	6.0	6.6	6.8
EV/EBITDA (x)	4.2	4.3	4
Div yield (%)	0.8	1.2	1.2

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	64.9	-	-
FIIs	2.2	0.1	(0.8)
MFs	0.7	0.2	(0.7)
UTI	-	-	(0.9)
LIC	-	-	(0.9)

Hindustan Zinc: 3QFY08 results—Higher volumes fail to counter lower Zinc prices; reduce to ADD

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- **Hindustan Zinc (HZL) reported about 40% drop in EBITDA and net earnings for 3QFY08, lower than our expectations by 20%**
- **Sales volumes increased 11% yoy, but failed to support earnings following a 36% drop in zinc prices and 12% rupee appreciation**
- **Zinc prices have dropped sharply over past six months despite falling inventory; expect some bounce back in price over next six months**
- **Lower net earnings for FY2008E and 2009E by 3% and 13%, respectively. Reduce target price to Rs1,000 (Rs1,110 earlier) and rating to ADD (BUY earlier).**

Hindustan Zinc, in its 3QFY08 results, reported a PAT of Rs7.9 bn, down 41% yoy and lower than our expectation of Rs9.9 bn. Higher sales volume failed to counter the impact of lower zinc prices and stronger rupee. We reduce our earnings estimate by 13% and 9% for FY2009E and FY2010E, respectively, following lower-than-expected zinc prices. Cut rating to ADD and target price to Rs1,000.

Higher production fails to offsets lower zinc prices, stronger rupee

HZL reported net earnings of Rs7.9 bn (lower than our estimates of Rs9.9 bn), were down 41% on yoy basis and 32% on qoq basis. Refined zinc production improved 12% on yoy basis and 11% on qoq basis following commissioning of HZL's Chanderiya smelter. This, coupled with higher sale of concentrates, could not negate 36%/18% drop in Zinc prices on yoy and qoq basis, respectively. Also, rupee appreciated 12%/ 3% on yoy and qoq basis, respectively, versus the US$.

Brownfield projects on track; expect volumes to increase in 4Q 2008

HZL has commissioned Phase-II 170,000 tpa Chanderiya smelter in the current quarter, three months ahead of schedule (HZL has communicated this before as well). HZ has placed turnkey contracts for its 148.8 MW of wind power plants, which it expects to commission in Mar 2008. This led to marginal growth in volumes in 3QFY08, but will likely lead to more than 20% qoq growth in zinc production in 4QFY08.

Extent of Zinc price fall surprises us; expect a bounce back after a steep fall

Zinc prices have fallen drastically over the past six months without drastic change in fundamentals. Stocks have declined over the past eight quarters and the marginal cost curve has remained stable during that period. We expect LME zinc prices to bounce back following continued strength in demand and constrained mine production. However, we revise our estimate downwards by ~10% for the next two years.

Reduce earnings, target price and rating

We continue to believe that mining assets of HZL offer unique advantage of HZL, and expect net earnings to rise 10% in FY2009E. We reduce our earnings estimate for current fiscal by ~3%, FY2009E estimates by ~13% and 9% for FY2010E. This leads to roughly 10% reduction in our target price (5.5X FY2009E EV/EBITDA) at Rs1,000/share (Rs1,110 earlier). Cut rating to ADD (from BUY earlier).

Hindustan Zinc, Interim results, March fiscal year-ends (Rs mn)

	3Q 2008	2Q 2008	3Q 2007	% change qoq	% change yoy	2008E	9 months 2008	9 months 2007	Comments on interim results
Quantitative details (tons)									
Mined metal production	135,891	143,000	128,000	(5.0)	6.2	540,350	412,891	384,000	Commissioning of Chanderiya smelter helps increase volumes
Refined zinc production	104,093	94,000	93,000	10.7	11.9	394,665	291,093	254,000	
Zinc concentrate sales	72,115	85,000	38,000	(15.2)	89.8	228,899	207,115	184,000	Higher concentrate sales helps revenue growth on qoq basis
Lead concentrate sales	-	10,000	29,000	nm	na	59,050	15,000	29,000	
Earnings drivers									
Average LME Zinc (US/ton)	2,646	3,221	4,141	(17.9)	(36.1)	3,000	3,182	3,580	Lower LME prices hurt HZ both on sale of refined metal as well as concentrates
Average LME Lead (US/ton)	2,680	3,094	1,587	(13.4)	68.9	1,500	2,653	1,300	Proportion of Lead sales to overall sales is low
Average INR:USD	39.47	40.53	44.97	(2.6)	(12.2)	41.00	40.42	45.61	Stronger rupee hurts revenues and operating margin
Interim results									
Net revenues	**16,580**	**19,840**	**24,800**	**(16.4)**	**(33.1)**	**80,575**	**56,120**	**65,310**	Lower revenues following (a) lower LME Zinc prices, (b) Stronger rupee, and despite strong volumes
Expenditure	**(6,140)**	**(5,650)**	**(5,730)**			(24,037)	**(17,130)**	**(15,240)**	
Stock adjustment	(130)	(40)	50			-	300	990	
Raw materials	(3,250)	(2,840)	(2,680)			(3,616)	(9,010)	(7,610)	
Employee cost	(930)	(630)	(600)			(6,044)	(2,210)	(1,910)	
Other costs	(1,830)	(2,140)	(2,500)			(14,377)	(6,210)	(6,710)	
EBITDA	**10,440**	**14,190**	**19,070**	**(26.4)**	**(45.3)**	**56,538**	**38,990**	**50,070**	Lower operating margin following similar reasons noted in revenue comment above
Other income	1,110	1,440	640			6,491	5,250	1,570	Higher other income for 9M following reversal of liabilities in 1QFY08
Depreciation	(540)	(490)	(370)			(2,125)	(1,480)	(1,110)	
EBIT	11,010	15,140	19,340			60,904	42,760	50,530	
Interest	(60)	(60)	110			(0)	(190)	(260)	
Pre-tax profits - as reported	10,950	15,080	19,450			60,904	42,570	50,270	
Unusual or infrequent items	-	-	-			-	-	-	
Pre-tax profits - as adjusted	**10,950**	**15,080**	**19,450**	**(27.4)**	**(43.7)**	**60,904**	**42,570**	**50,270**	
Taxes	(3,100)	(3,600)	(6,100)			(20,525)	(11,390)	(15,200)	
Current taxes	(3,010)	(3,360)	(5,950)			(19,811)	(10,780)	(14,910)	
Deferred taxes	(90)	(240)	(150)			(714)	(610)	(290)	
Reported profits - as reported	7,850	11,480	13,350			**40,379**	31,180	35,070	
Extra-ordinary items	-	-	-			-	-	-	
Reported profits - as adjusted	**7,850**	**11,480**	**13,350**	**(31.6)**	**(41.2)**	**40,379**	**31,180**	**35,070**	
Ratios									
Costs as % of revenue (%)	37.0	28.5	23.1			29.8	30.5	23.3	
EBITDA margin (%)	63.0	71.5	76.9			70.2	69.5	76.7	
ETR (%)	28.3	23.9	31.4			33.7	26.8	30.2	
EPS (Rs/share)	18.6	27.2	31.6			95.6	45.8	58.8	

Source: Company data, Kotak Institutional Equities estimates

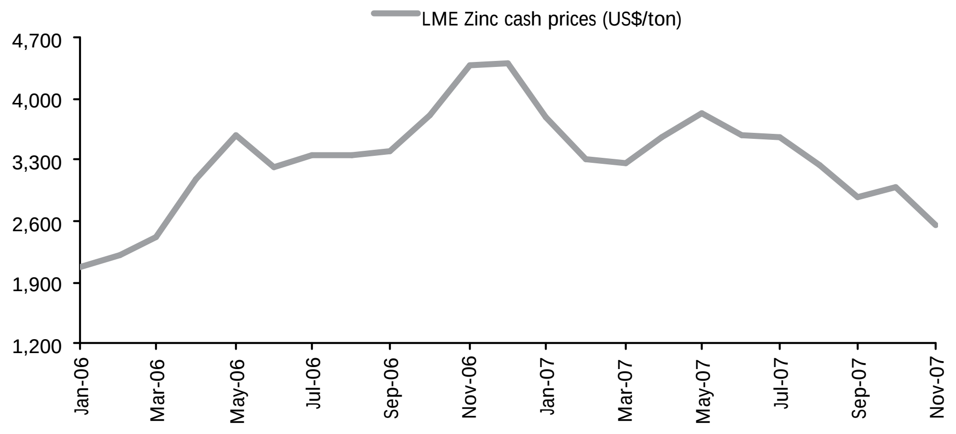
Hindustan Zinc, Change in estimates, March fiscal year ends (Rs mn)

	Revised estimates			Old estimates			% change		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Zinc production (tons)	394,665	602,100	635,550	394,665	568,650	635,550	-	5.9	-
LME Zinc price (US$/ton)	3,000	2,800	2,600	3,324	3,179	2,800	(9.8)	(11.9)	(7.1)
Net revenues	80,575	87,753	92,129	88,385	97,015	98,507	(8.8)	(9.5)	(6.5)
EBITDA	56,538	60,555	62,397	63,851	69,668	68,379	(11.5)	(13.1)	(8.7)
Net profit	40,379	39,690	40,984	41,932	45,797	45,059	(3.7)	(13.3)	(9.0)
EPS (Rs)	95.6	93.9	97.0	99.2	108.4	106.6	(3.7)	(13.3)	(9.0)

Source: Kotak Institutional Equities estimates.

Zinc prices correct drastically over the past six months

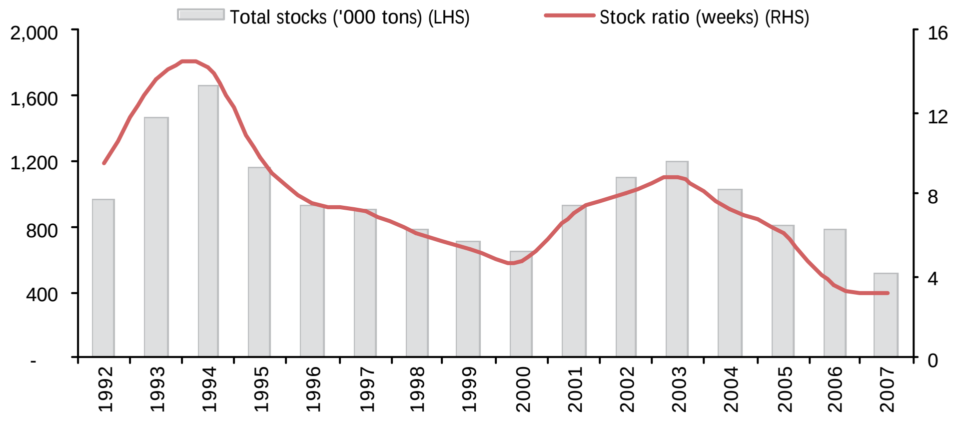
LME cash zinc prices, December fiscal year-ends, 2006-2007 (US$/ton)



Source: LME, Kotak Institutional Equities.

Stock ratio keep falling; suggests stronger consumption

Total stocks ('000 tons) and Stock ratio (weeks of consumption), December fiscal year-ends, 1992-2006



Source: LME, ILZSG, CRU, Kotak Institutional Equities.

Hindustan Zinc, Summary financials, March fiscal year-ends, 2007-10E (Rs mn)

Income statement	2007	2008E	2009E	2010E
Net revenues	**85,602**	**80,575**	**87,753**	**92,129**
Expenditure	**(21,533)**	**(24,037)**	**(27,197)**	**(29,731)**
Raw materials	(2,718)	(3,616)	(3,978)	(4,375)
Employee expenses	(5,259)	(6,044)	(6,805)	(7,485)
Other expenditure	(13,556)	(14,377)	(16,415)	(17,871)
EBITDA	**64,069**	**56,538**	**60,555**	**62,397**
Non-operating income	2,313	6,491	1,984	2,444
Depreciation	(1,561)	(2,125)	(2,675)	(3,025)
EBIT	64,821	60,904	59,865	61,817
Interest expenses	(284)	(0)	(0)	(0)
Adjusted pre-tax profits	64,537	60,904	59,864	61,816
Unusual or infrequent items	-	-	-	-
Reported pre-tax profits	**64,537**	**60,904**	**59,864**	**61,816**
Current taxes	(19,524)	(19,811)	(19,317)	(19,804)
Deferred taxes	(595)	(714)	(857)	(1,028)
Reported net income	**44,418**	**40,379**	**39,690**	**40,984**
Adjusted net income	**44,418**	**40,379**	**39,690**	**40,984**
EPS (Rs), based on wtd avg shares	**105.1**	**95.6**	**93.9**	**97.0**
EPS (Rs), based on fully diluted shares	**105.1**	**95.6**	**93.9**	**97.0**
Year-end shares outstanding (mn)	422.5	422.5	422.5	422.5
Weighted average shares outstanding (mn)	422.5	422.5	422.5	422.5
Fully diluted shares outstanding (mn)	422.5	422.5	422.5	422.5

Balance sheet	2007	2008E	2009E	2010E
Equity capital	4,225	4,225	4,225	4,225
Reserves and surplus	72,045	109,256	145,777	182,536
Deferred tax liability	3,006	3,720	4,577	5,605
Total Equity	**79,277**	**117,201**	**154,579**	**192,367**
Secured loans	-	-	-	-
Unsecured loans	4	4	4	4
Total borrowings	**4**	**4**	**4**	**4**
Current liabilities	8,268	8,155	7,630	7,966
Total capital	**87,548**	**125,360**	**162,213**	**200,337**
Cash	1,197	24,330	54,796	84,439
Inventory	4,993	4,636	6,010	6,310
Debtors	5,566	7,726	8,415	12,620
Other current assets	3,054	3,054	3,054	3,054
Total current assets	**14,810**	**39,746**	**72,274**	**106,423**
Gross block	34,998	49,998	56,998	63,998
Less: Depreciation	(12,642)	(14,767)	(17,442)	(20,467)
Net block	22,356	35,231	39,556	43,531
Add: Capital work-in-process	6,350	6,350	6,350	6,350
Total fixed assets	**28,706**	**41,581**	**45,906**	**49,881**
Investments	44,033	44,033	44,033	44,033
Miscellaneous expenditure	-	-	-	-
Total assets	**87,548**	**125,360**	**162,213**	**200,337**

Cash flow statement	2007	2008E	2009E	2010E
Cash flow from operating activities				
PBT	64,537	60,904	59,864	61,816
Add: Depreciation	1,569	2,125	2,675	3,025
Add: Non cash expenses	(1,020)	-	-	-
Less: net interest	(418)	-	-	-
Less: Taxes paid	(19,582)	(19,811)	(19,317)	(19,804)
Add: Working capital changes	960	(1,916)	(2,588)	(4,169)
Total operating cash flow	**46,046**	**41,302**	**40,634**	**40,868**
Operating Cash flow w/o working capital	45,086	43,218	43,222	45,037
Cash flow from investing activities				
Capital expenditure	(11,103)	(15,000)	(7,000)	(7,000)
Investments	(26,894)	-	-	-
Interest and dividend received	697	-	-	-
Misc expenditure not written off	-	-	-	-
Total investing cash flow	**(37,299)**	**(15,000)**	**(7,000)**	**(7,000)**
Cash flow from financing activities				
Share issuances	-	-	-	-
Loans	(5,576)	-	-	-
Less: Dividends paid (including dividend tax)	(2,405)	(3,169)	(3,169)	(4,225)
Other long term liabilities	-	-	-	-
Interest and finance charges paid	(309)	-	-	-
Total financing cash flow	**(8,290)**	**(3,169)**	**(3,169)**	**(4,225)**
Net change in cash	**457**	**23,133**	**30,465**	**29,643**
Opening cash	740	1,197	24,330	54,796
Closing cash	**1,197**	**24,330**	**54,796**	**84,439**

Ratios (%)	2007	2008E	2009E	2010E
Effective tax rate	30.3	32.5	32.3	32.0
EBITDA margins	74.8	70.2	69.0	67.7
EBIT margins	75.7	75.6	68.2	67.1
Net debt/equity	(1.5)	(20.8)	(35.4)	(43.9)
Net debt/capitalization	(1.5)	(26.2)	(54.9)	(78.2)
ROACE	73.4	41.1	29.2	23.6
ROAE	76.6	41.1	29.2	23.6

Key assumptions	2007	2008E	2009E	2010E
Mine production (tonnes)	5,139,915	5,499,709	6,324,665	7,273,365
Zinc ingot production (tonnes)	348,567	394,665	602,100	635,550
Lead ingot production (tonnes)	50,187	60,450	69,750	79,050
LME Zinc prices (US$/tonne)	3,580	3,000	2,800	2,600

Valuations (X)	2007	2008E	2009E	2010E
Price to Diluted earnings	8.0	8.8	9.0	8.7
EV/EBITDA	4.9	5.1	4.3	3.7
EV/Sales	3.7	3.6	3.0	2.5
M.cap/Sales	4.2	4.4	4.1	3.9
Price to book	4.5	3.0	2.3	1.8

Per share numbers (Rs)	2007	2008E	2009E	2010E
Reported Earnings	105.1	95.6	93.9	97.0
Diluted Earnings	105.1	95.6	93.9	97.0
Cash earnings	108.8	100.6	100.3	104.2
Free cash	82.7	62.3	79.6	80.2
Book	187.6	277.4	365.9	455.3

Source: Company data, Kotak Institutional Equities estimates

Media

SUTV.BO, Rs352	
Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	320
52W High -Low (Rs)	462 - 260
Market Cap (Rs bn)	138.6

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	6.8	8.8	11.5
Net Profit (Rs bn)	2.5	3.6	4.9
EPS (Rs)	6.3	9.3	12.5
EPS gth	*20.8*	*45.9*	*34.7*
P/E (x)	55.5	38.0	28.2
EV/EBITDA (x)	31.0	20.9	15.5
Div yield (%)	0.4	0.7	1.1

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	80.0	-	-
FIIs	4.8	0.1	(0.3)
MFs	0.6	0.1	(0.3)
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Sun TV Network: 3QFY08 results in line with expectations; specific line items surprise

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- **In-line 3QFY08 results; revenues and operating expenses both marginally lower versus expectations**
- **Fine-tuned estimates; we expect strong earnings growth but valuations are rich**
- **Key to future performance and stock performance would be impact of emerging competition**

Sun TV Network reported 3QFY08 net income at Rs1.02 bn (+28% qoq), in line with our Rs1.01 bn estimate. The company reported 3QFY08 revenues at Rs2.18 bn (+12% qoq), marginally below our Rs2.23 bn estimate. We note that yoy comparisons are not valid as 3QFY08 figures include contribution from Gemini and Udaya, which were merged with Sun TV in 4QFY07. We have fine-tuned our earnings model and our FY2008E, FY2009E and FY2010E EPS earnings estimates are largely unchanged at Rs9.3 (Rs9.3 previously), Rs12.5 (Rs12.5) and Rs15.7 (Rs15.5), respectively. Our 12-month DCF-based target price is Rs320 versus Rs315 previously; the higher DCF valuation reflects minor modifications. The key to future stock performance would be the ability of Sun's very capable management to ward off new competition and maintain the high market share and profitability of Sun's channels.

3QFY08 result analysis

Ad revenues increased qoq reflecting festive season. Sun's ad revenues increased 17% qoq to Rs1.22 bn marginally below our Rs1.25 bn estimate; yoy comparison is not valid for reasons highlighted above. The qoq increase reflects a number of festivals in 3Q although the impact is more muted for Southern regional channels as opposed to the national (Hindi) channels. As highlighted in our January 8 note, Sun had revised the rates of its channels between 3-30% from February 1, 2008; this should boost revenues in 4QFY08.

The key to Sun's advertisement revenues would be its ability to defend the very high market shares of its channels against new competition in its larger Tamil and Telugu markets. Exhibits 5-8 show the performance of Sun Network channels in the four South Indian language markets. We note that Sun TV has managed to hold off competition from new entrant Kalaignar TV in the Tamil market. However, its ratings continue to slip in the Telugu segment with competing channels (Eanadu TV, Maa Telugu, Zee Telugu) having closed the gap with Sun's Gemini TV substantially over the past few months.

Subscription revenues improved smartly qoq. Sun's subscription revenues (domestic and international) increased 7.6% qoq to Rs648 mn compared with Rs602 mn in 2QFY08. The company has not disclosed the breakup between domestic and international subscription revenues this time. However, we think Sun's domestic subscription revenues may have picked up after issues in 2QFY08 relating to (1) disruption of broadcast of Sun's channels, and (2) perhaps lower payment by cable operators due to disputes with Sun group's DTH service. We see the pick up in domestic pay-TV revenues as a positive.

SG&A expenses declined sharply qoq. Sun's 3QFY08 SG&A expenses declined to Rs87.8 mn versus Rs219 mn in 2QFY08 and Rs138 mn in 1QFY08. We note that Sun's 3QFY07 SG&A expenses were Rs66 mn, which excluded the SG&A expenses of merged entities, Gemini TV and Udaya TV. Sun TV attributed the higher expenses in 2QFY08 to one-off items relating to the merged entities.

Key changes to and assumptions behind our earnings model

1. **TV ad revenues to grow at 22% CAGR between FY2007-10E.** We model TV ad revenues to grow at 22% CAGR in FY2007-10E with FY2008E, FY2009E and FY2010E TV ad revenues at Rs4.6 bn, Rs5.5 bn and Rs6.3 bn. Our ad revenues estimates are largely unchanged.
2. **Reduced radio ad revenues to reflect delay in start of new stations.** We have reduced FY2008E and FY2009E radio revenues to Rs0.33 bn and Rs0.96 bn compared to Rs0.6 bn and Rs1.38 bn noting delay in start of new channels. Sun has 20 channels in operation now. We continue to model radio revenues of Rs1.86 bn in FY2010E.
3. **Model domestic pay-TV subscription revenues to grow at 31% CAGR between FY2007-10E.** We model FY2008E, FY2009E and FY2010E revenues at Rs2.2 bn, Rs3.1 bn and Rs3.7 bn, respectively. We expect the strong growth to be driven by (1) higher number of paying subs due to increased penetration of a CAS on cable systems and DTH, (2) higher number of declared subscribers in analog cable systems, (3) increase in subscription rates, (4) start of new pay-TV channels and (5) conversion of extant FTA Malayalam channels to pay mode (assumed from April 2008).

Sun TV Network consolidated interim results (Rs mn)

			qoq			yoy			yoy	
	2008E	3Q 2008	2Q 2008	% chg.	3Q 2008	3Q 2007	% chg.	9M 2008	9M 2007	% chg.
Net sales	**8,796**	**2,178**	**1,945**	***12.0***	**2,178**	**1,140**	***91.0***	**6,145**	**2,979**	***106.3***
Advertising income (incl radio)	4,885	1,224	1,043	*17*	1,224	706	*73*	3,369	1,904	*77*
Broadcast fee	1,250	305	300	*2*	305	183	*67*	912	489	*87*
Program licensing income/International revenues	347	—	85		—	82		173	200	*(13)*
Income from pay channels	2,244	648	514	*26*	648	165	*293*	1,684	383	*340*
Others	70	—	3		—	4		6	13	*(55)*
Total expenditure	**(3,070)**	**(468)**	**(546)**	***(14.4)***	**(468)**	**(257)**	***82.2***	**(1,508)**	**(688)**	***119.3***
Transmission and programming cost	(1,624)	(144)	(152)	*(5)*	(144)	(64)	*123*	(427)	(170)	*151*
Staff cost	(874)	(236)	(175)	*35*	(236)	(126)	*87*	(636)	(327)	*95*
Administrative & other costs	(572)	(88)	(219)	*(60)*	(88)	(66)	*33*	(445)	(191)	*133*
EBITDA	**5,726**	**1,710**	**1,398**	***22.3***	**1,710**	**884**	***93.5***	**4,637**	**2,291**	***102.4***
EBITDA margin (%)	**65.1**	**78.5**	**71.9**		**78.5**	**77.5**		75	**76.9**	
Other income	624	143	143	*(0)*	143	110	*30*	435	321	*36*
Interest	(35)	(25)	(15)	*70*	(25)	(2)	*1,567*	(45)	(15)	*205*
Depreciation and amortisation	(759)	(262)	(248)	*6*	(262)	(90)	*192*	(753)	(327)	*130*
Pretax profits	**5,556**	**1,566**	**1,279**	***22.4***	**1,566**	**902**	***73.5***	**4,274**	**2,270**	***88.3***
Extraordinaries	—	—	—		—	—		—	—	
Current tax	(1,912)	(519)	(440)	*18*	(519)	(306)	*70*	(1,444)	(769)	*88*
Fringe benefit tax	—	(9)	(9)	*1*	(9)	(1)		(26)	(4)	
Deferred tax	(18)	(14)	(27)	*(48)*	(14)	2		(48)	3	
Net income	**3,644**	**1,023**	**802**	***27.6***	**1,023**	**598**	***71.2***	**2,756**	**1,500**	***83.8***
Tax rate (%)	34.4	34.6	37.3		34.6	33.8		35.5	33.9	

Note:
(a) 3QFY08, 2QFY08 and 9MFY08 data is for merged entity; yoy comparisons are not valid.
(b) Sun TV shows film amoritzation in depreciation and amortization; we show it under transmission and programming costs.
(c) Three radio channels are in Sun TV parent company and quarterly results include the three channels.
(d) FY2008E data is consolidated for radio subsidiaries.

Source: Company, Kotak Insitutional 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	1,869	2,238	2,565	2,941	3,306	3,717
K TV	100	123	141	162	186	210	231	254	279
Sun News	28	39	47	55	63	71	80	88	97
Sun Music	2	94	122	163	188	211	237	261	287
Sun Kids	—	—	—	101	139	166	198	230	266
Sun Documentary	—	—	—	64	164	196	233	271	313
Sun Sports	—	—	9	51	58	65	73	81	89
Surya TV	226	386	476	574	633	730	842	959	1,092
Kiran TV	3	28	40	59	84	94	106	116	128
Gemini TV	—	—	467	613	721	829	954	1,085	1,233
Teja TV	—	—	44	51	58	65	72	79	87
Gemini News	—	—	35	41	47	53	59	65	72
Gemini Music	—	—	75	100	115	129	146	160	176
Udaya TV	—	—	428	535	629	724	832	946	1,076
Udaya Movies	—	—	43	49	56	63	70	77	84
Udaya Varthegulu (News)	—	—	25	29	34	38	42	47	51
Udaya TV 2	—	—	30	40	46	52	58	64	70
Total TV ad revenues	**1,397**	**1,755**	**3,472**	**4,555**	**5,458**	**6,262**	**7,174**	**8,088**	**9,119**
Radio	144	158	135	331	961	1,862	2,304	2,816	3,027
Total advertisement revenues	**1,542**	**1,913**	**3,608**	**4,885**	**6,419**	**8,124**	**9,478**	**10,905**	**12,146**
Broadcast revenues (or slot sales)									
Sun TV	455	531	607	698	821	903	993	1,092	1,202
Surya TV	38	60	60	69	74	81	89	98	108
Gemini TV	—	—	332	381	438	482	530	584	642
Udaya TV	—	—	86	101	116	128	141	155	171
Total broadcast revenues	**493**	**591**	**1,085**	**1,250**	**1,449**	**1,594**	**1,754**	**1,929**	**2,122**
Total ad and broadcast revenues	**2,034**	**2,504**	**4,692**	**6,135**	**7,868**	**9,718**	**11,232**	**12,834**	**14,268**
Pay-TV revenues									
Sun TV	398	447	667	1,080	1,712	2,054	2,377	2,671	2,955
Surya TV	—	—	—	—	111	147	182	213	241
Gemini TV	—	—	693	802	907	1,047	1,171	1,293	1,410
Udaya TV	—	—	310	363	417	490	556	622	685
Total pay-TV revenues	**398**	**447**	**1,669**	**2,244**	**3,147**	**3,738**	**4,287**	**4,800**	**5,291**
International revenues	88	183	339	347	354	360	372	382	388
Others	10	18	42	70	100	130	154	178	203
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
Total revenues	**2,886**	**3,152**	**6,742**	**8,796**	**11,469**	**13,946**	**16,044**	**18,194**	**20,151**
Growth (%)	**7**	**9**	**114**	**30**	**30**	**22**	**15**	**13**	**11**

Source: Company, Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and SunTV 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	8,796	11,469	13,946	16,044	18,194
EBITDA	**2,035**	**3,874**	**5,726**	**7,719**	**9,521**	**11,152**	**12,793**
Other income	172	411	624	687	759	792	835
Interest (expense)/income	(65)	(64)	(35)	(17)	—	—	—
Depreciation	(147)	(294)	(525)	(638)	(535)	(461)	(411)
Amortization	—	(56)	(235)	(235)	(235)	(235)	(195)
Pretax profits	**1,995**	**3,871**	**5,556**	**7,517**	**9,511**	**11,249**	**13,022**
Tax-cash	(709)	(1,509)	(1,912)	(2,646)	(3,313)	(3,893)	(4,487)
Tax-deferred	16	108	(18)	49	39	27	18
Minority interest	—	(9)	21	(7)	(53)	(73)	(98)
Net profits after minority interests	**1,302**	**2,461**	**3,647**	**4,913**	**6,183**	**7,310**	**8,456**
Earnings per share (Rs)	**5.3**	**6.3**	**9.3**	**12.5**	**15.7**	**18.6**	**21.5**
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,428	17,613	18,370	19,266	20,302
Deferred Tax	32	(56)	(38)	(87)	(125)	(153)	(171)
Total borrowings	2,333	867	401	—	—	—	—
Currrent liabilities	741	1,693	1,520	1,661	1,785	1,861	1,945
Total capital	**6,209**	**14,478**	**16,332**	**19,214**	**20,109**	**21,128**	**22,328**
Cash	732	6,494	6,615	8,072	8,406	8,904	9,474
Current assets	2,440	3,221	4,879	6,037	7,128	8,080	9,066
Total fixed assets	2,830	3,543	2,910	2,472	2,138	1,902	1,740
Intangible assets	206	1,220	1,927	1,732	1,537	1,342	1,146
Total assets	**6,209**	**14,478**	**16,332**	**18,314**	**19,209**	**20,228**	**21,428**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,505	5,959	7,392	8,563	9,740
Working capital	(251)	(1,992)	(1,831)	(1,017)	(967)	(876)	(901)
Capital expenditure	(2,091)	(433)	(793)	(1,100)	(200)	(225)	(250)
Investments	(326)	(849)	(727)	(903)	(1,185)	(1,303)	(1,433)
Other income	80	402	624	687	759	792	835
Free cash flow	**(619)**	**814**	**1,881**	**3,842**	**6,225**	**7,462**	**8,589**
Ratios (%)							
Debt/equity	76.0	7.3	2.8	—	—	—	—
Net debt/equity	52.1	(47.2)	(43.1)	(45.8)	(45.8)	(46.2)	(46.7)
RoAE	36.1	32.9	27.8	30.8	34.6	39.1	43.1
RoACE	**26.6**	**26.8**	**27.8**	**31.2**	**35.5**	**40.2**	**44.2**

Source: Kotak Institutional Equities estimates.

Our DCF-based target price for Sun TV is Rs320

DCF analysis of SunTV Network (Rs mn)

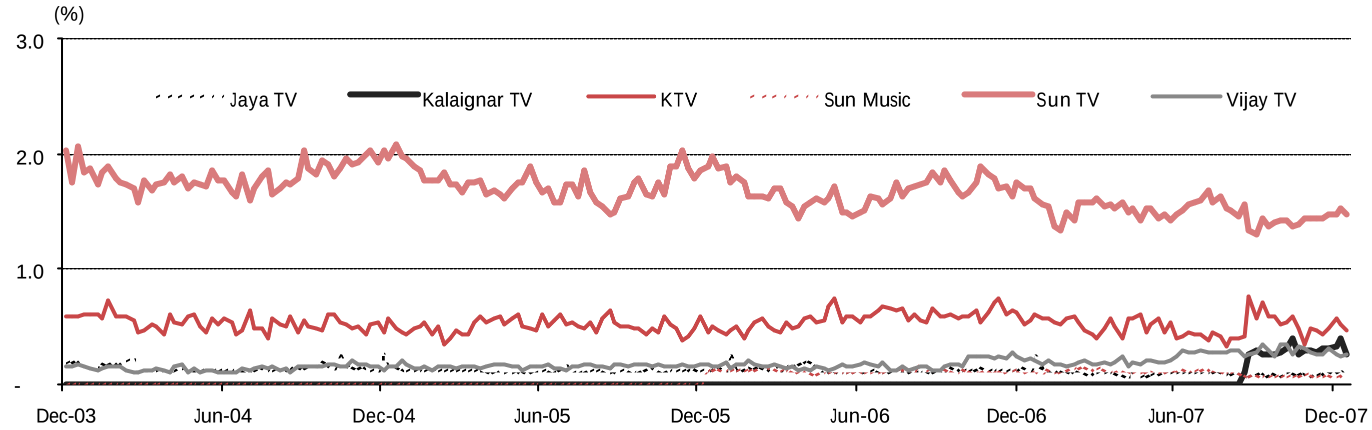
	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBITDA	**5,726**	**7,719**	**9,521**	**11,152**	**12,793**	**14,256**	**15,781**	**17,417**	**19,203**	**21,330**	**21,036**	—
Tax expense	(1,709)	(2,410)	(3,049)	(3,619)	(4,199)	(4,701)	(5,222)	(5,779)	(6,385)	(7,123)	(7,070)	—
Changes in working capital	(1,831)	(1,017)	(967)	(876)	(901)	(840)	(888)	(960)	(1,050)	(1,191)	(172)	—
Cash flow from operations	**2,186**	**4,292**	**5,505**	**6,658**	**7,693**	**8,714**	**9,670**	**10,678**	**11,767**	**13,016**	**13,795**	—
Capital expenditure	(793)	(1,100)	(200)	(225)	(250)	(275)	(300)	(325)	(350)	(375)	(400)	—
Cash flow to minority shareholders	21	(7)	(53)	(73)	(98)	(104)	(112)	(120)	(128)	(155)	(12)	—
Free cash flow	**1,414**	**3,185**	**5,252**	**6,359**	**7,346**	**8,335**	**9,259**	**10,233**	**11,290**	**12,486**	**13,383**	**14,119**
PV of free cash flow	**1,386**	**2,776**	**4,069**	**4,379**	**4,495**	**4,534**	**4,477**	**4,398**	**4,311**	**4,239**	**4,038**	—
Discounted cash flow-1 year forward		3,123	4,577	4,927	5,058	5,100	5,036	4,948	4,852	4,768	4,543	—
Discounted cash flow-2 year forward			5,149	5,543	5,691	5,740	5,666	5,566	5,458	5,366	5,111	4,793

	Now	+ 1-year	+ 2-years	
Total PV of free cash flow (a)	39,064	46,933	54,083	
FCF in terminal year	12,486	13,383	14,119	
Adjusted FCF in terminal year	10,778	13,263	14,119	Adjusting for FM radio business, which will end in FY2016/FY2017
Terminal value in terminal year	153,971	189,468	201,699	
PV of terminal value (b)	58,802	72,358	77,029	
Total company value (a) + (b)	**97,865**	**119,291**	**131,112**	
Value per share of Sun TV (Rs)	248	303	333	
Net debt/(cash)	(5,627)	(6,214)	(8,072)	
Value to equity holders	**103,492**	**125,505**	**139,184**	
Value to equity holders (Rs/Sun TV share)	**263**	**318**	**353**	

Source: Kotak Institutional Equities estimates.

Sun TV leads the lucrative Tamil market; Kalaignar TV has made an impressive entry

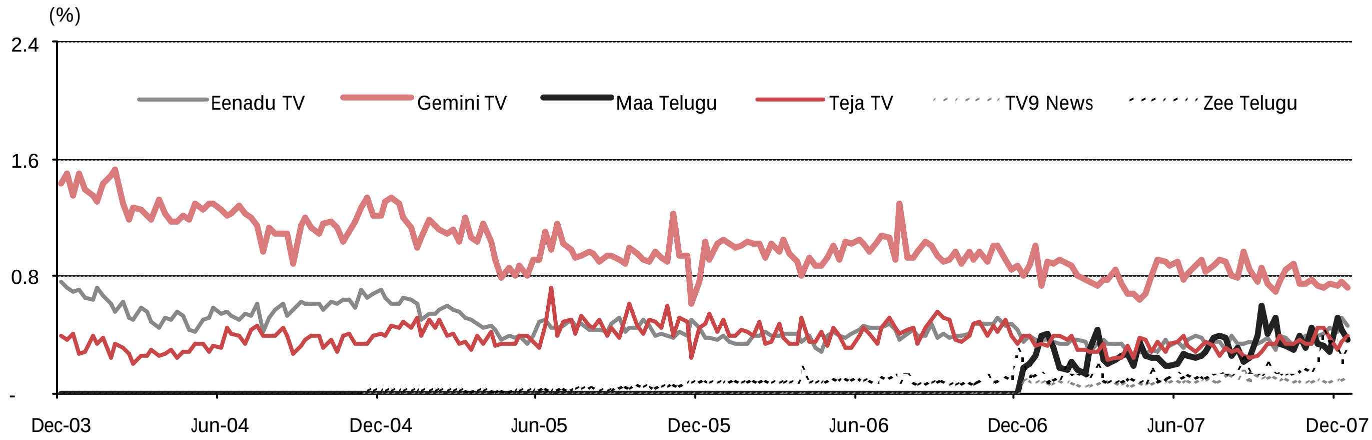
Prime-time (7:30-11:30 PM) ratings of major Tamil channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Sun's Gemini TV has seen its ratings decline over the past few months

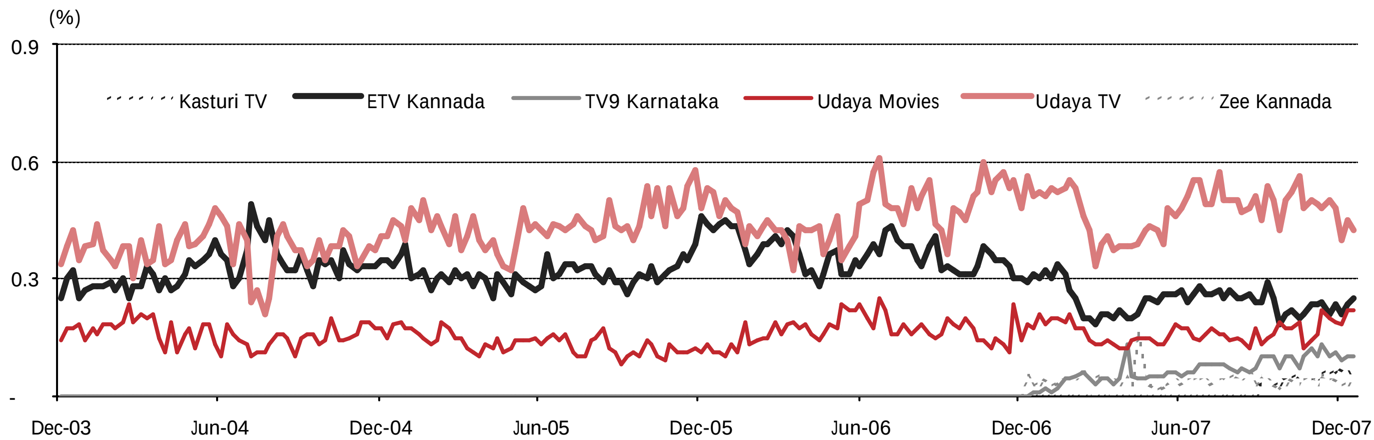
Prime-time (7:30-11:30 PM) ratings of major Telugu channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Sun's Udaya TV ratings have have been volatile in the past few months

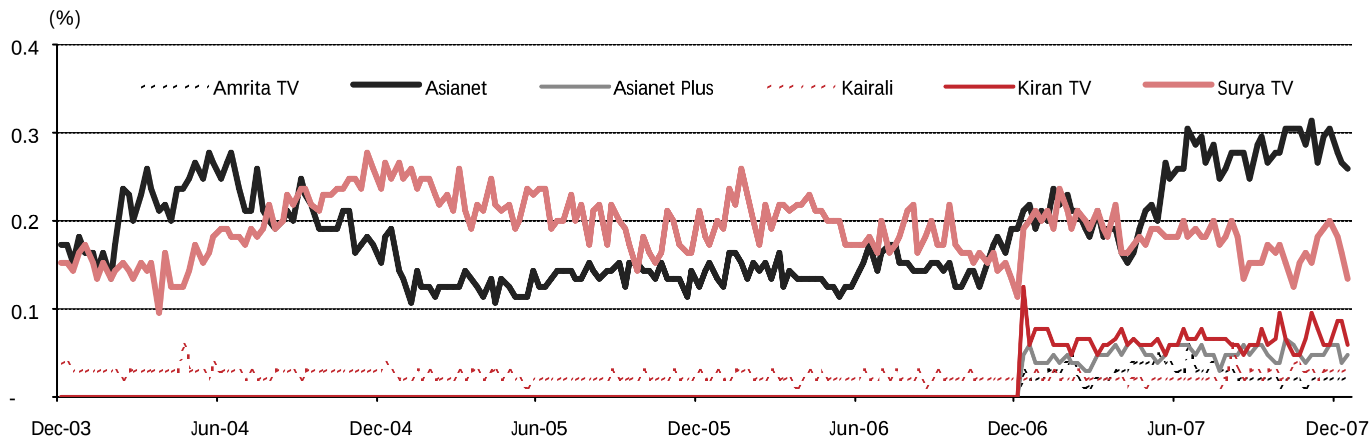
Prime-time (7:30-11:30 PM) ratings of major Kannada channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Asianet leads the Malayalam market, ahead of Sun's Surya and Kiran TV channels

Prime-time (7:30-11:30 PM) ratings of major Malayalam channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities.

Banking

UNBK.BO, Rs200	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	250
52W High -Low (Rs)	235 - 84
Market Cap (Rs bn)	101.0

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	36.3	43.4	48.5
Net Profit (Rs bn)	8.5	11.5	13.2
EPS (Rs)	16.7	22.7	26.2
EPS gth	*14.8*	*35.9*	*15.1*
P/E (x)	12.0	8.8	7.6
P/B (x)	1.9	1.7	1.4
Div yield (%)	1.7	2.3	2.6

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.4	-	-
FIIs	19.6	0.2	(0.0)
MFs	8.7	0.5	0.3
UTI	-	-	(0.2)
LIC	1.9	0.1	(0.1)

Union Bank of India: Union Bank delivers strong operating performance, reiterate Buy, remains amongst our top picks

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- **Strong operational performance drives PAT Rs3.7 bn a growth of 43% yoy**
- **Additional provisions made by the company are another positive**
- **Reiterate our BUY rating on the stock with a price target of Rs250**

We are quite enthused by the strong operational performance of Union Bank of India in the current quarter. Its PAT increased by 43% yoy to Rs3.65 bn and was 24% ahead of our estimates. NII adjusted for investment amortization increased by 16% yoy and non-interest income (ex-treasury) grew by 30% yoy. The other positive in the current quarter was the additional provisions made by the company—Rs250 mn towards meeting the transitional liability under the revised AS-15 guidelines, Rs200 mn of provisions towards meeting wage arrears and higher NPL provisions to improve its provisioning cover. We have tweaked our estimates for the next two years. Reiterate our BUY rating on the stock with a price target of Rs250.

NII growth was healthy. There was an improvement in the fund based contribution of Union Bank of India with the NII (adj. for amortization) increasing to Rs6.4 bn—a growth of 16% yoy and 7% ahead of estimates. There was sharp improvement in incremental credit deposit ratio to 128% at the bank in 3QFY08 from 63% in 2QFY08 and was likely a key driver of NII growth at the bank. The company has indicated that there could be a pick-up in business growth to around 25%yoy going forward and will be above the 15% yoy witnessed over the previous four quarters. While Union Bank NIM declined yoy by 20 bps, it was up qoq by a similar number.

Non-interest income contribution remained robust. Non-interest income of Union Bank increased 87% yoy to Rs3.8 bn in 3QFY08—driven both by higher treasury gains and other stable revenue sources. This income was supported by treasury profits of Rs1.6 bn (Rs470 mn in 3QFY07), Rs990 mn (Rs890 mn in 3QFY07) of core fees and exchange income of Rs690 mn (470 mn in 3QFY07). The management has indicated that it is experiencing good traction in the government business and has earned Rs350 mn (75% yoy growth) of revenues from this stream in the current fiscal.

Excess provisions strengthen the financials. Union Bank of India has provided Rs250 mn in the current quarter for meeting its transitional liability under the revised AS-15 guidelines. The company had provided Rs500 mn for this liability in 1HFY08. In its communiqué to the stock exchanges, the company has indicated that it has a transitional liability of Rs3.5 bn for complying with the revised AS-15 guidelines. We note that if the company maintains the current run rate of provisioning, the company is likely to provide for this liability in 3.5 years, which is ahead of the 5-year period that most public banks are now taking to meet their pension liabilities under the revised accounting norms.

Union Bank of India has also made Rs200 mn of ad-hoc provisions in 3QFY08 to meet its obligations that would arise on account of the wage hike negotiations that are currently underway. Management has indicated that it would maintain this run rate of provisioning going ahead.

Union Bank of India also made NPL provisions of Rs1.5 bn in the current quarter, which was an increase of 190% yoy. Consequently, enabling the bank to improve its provision cover ratio to 84%.

Other key developments in the current quarter.

The decline in both the gross and net NPLs continued in the current quarter with the gross NPLs and net NPLs declining to Rs15.6 bn (from Rs19.1 bn as of December 2006) and Rs2.6 bn (Rs6.4 bn as of December 2006). The gross and net NPL ratio now stands reduced to 2.1% (down from 3.3% a year ago) and 0.4% (down from 1.1% as on 3QFY07).

Union Bank has revalued some of its properties, which resulted in creation of Rs12.9 bn of revaluation reserves (25% of FY2007 net worth). This would allow the company to augment is Tier II capital by Rs5.8 bn and leverage better its common equity.

As part of its capital augmentation plans, Union Bank of India issued Rs2 bn of innovative perpetual bonds in 3QFY08 to enhance its Tier I ratio. A further infusion of Rs4 bn was also made towards improving its Tier II ratio.

Union Bank of India Quarterly results, Rs mn

	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3QFY08KS	Actual Vs KS
Interest income	18,492	20,949	21,112	22,548	24,586	33.0		
Loans	12,939	14,305	15,352	16,261	17,562	35.7		
Investments	5,272	5,386	5,555	5,852	6,718	27.4		
Balances with RBI	195	668	192	172	140	(27.9)		
Others	87	591	13	263	166	90.3		
Interest expense	11,633	12,586	13,399	15,820	16,705	43.6		
Net interest income	**6,859**	**8,364**	**7,713**	**6,728**	**7,881**	**14.9**	**7,407**	**6.4**
NII adj. For invst depreciation	**6,469**	**7,984**	**7,343**	**6,358**	**7,521**	**16.3**	**7,037**	**6.9**
Non-int.income	2,052	2,800	2,153	3,078	3,835	86.8	2,313	65.8
core fees	890	860	820	890	990	11.2	713	38.9
exchange income	470	670	550	610	690	46.8	500	38.0
sale of invts.	300	200	330	810	1,560	420.0	600	160.0
Non-int income excl treasury	1,752	2,600	1,823	2,268	2,275	29.8	1,713	32.8
Total income	8,911	11,164	9,866	9,806	11,715	31.5	9,720	20.5
Op. expenses	3,860	3,259	4,241	4,153	4,997	29.4	4,150	20.4
Employee cost	2,440	1,488	2,543	2,546	2,794	14.5	2,600	7.5
Other cost	1,421	1,771	1,699	1,607	2,203	55.1	1,550	42.1
Operating profit	5,051	7,905	5,625	5,653	6,719	33.0	5,570	20.6
Provisions and cont.	1,426	3,540	1,924	1,346	1,468	3.0	1,370	7.2
Investment amortization	390	380	370	370	360	(7.7)	370	(2.7)
Investment Depreciation	290	780	270	40	(640)	(320.7)		
NPLs	520	2,500	1,280	1,290	1,520	192.3	1,000	52.0
Other provisions	220	(120)	4	(354)	239	8.6		
PBT	3,625	4,365	3,701	4,308	5,250	44.8	4,200	25.0
Tax	1,067	2,144	1,450	1,550	1,600	50.0	1,260	27.0
Net profit	**2,558**	**2,221**	**2,251**	**2,758**	**3,650**	**42.7**	**2,940**	**24.2**
Tax rate (%)	29.4	49.1	39.2	36.0	30.5		30.0	
Key balance sheet items (Rs bn)								
Total Deposit	773	852	870	948	992	28.4		
Savings deposits	200	208	NA	217	227	13.9		
Current deposits	70	86	NA	91	101	44.0		
Term deposits	503	558	581	640	664	31.9		
CASA (%)	34.9	34.5	33.3	32.5	33.1	(5.2)		
Gross advances	583	637	637	686	743	27.4		
Total retail loans	116	135	NA	145	151	30.9		
Investments	271	282	298	316	331	22.4		
AFS	60	65	82	106	98	62.4		
Duration (years)	2.7	2.1	2.8	4.3	2.4			
HTM	200	217	217	209	233	16.4		
Duration (years)	-	4.2	4.2	4.1	4.6			
Yield management measures (%)								
Cost of funds	5.07	5.23	5.41	6.02	5.99			
Cost of deposits	5.15	NA	5.72	6.41	6.32			
Yield on advances	8.72	NA	10.03	10.26	10.33			
Yield on investments	7.66	NA	7.57	7.28	7.91			
Yield of funds	8.06	8.75	8.52	8.58	9.82			
NIM	2.99	3.52	3.11	2.56	2.83			
Capital adequacy details (%)								
CAR	13.2	12.8	12.7	11.6	13.0			
Tier I	8.1	7.8	8.0	7.4	7.8			
Tier II	5.2	5.0	4.7	4.2	5.3			
Asset quality details								
Gross NPLs (Rs bn)	19.1	18.7	17.7	16.6	15.6	(18.1)		
Gross NPLs (%)	3.3	2.9	2.8	2.4	2.1			
Net NPLs (Rs bn)	6.4	6.0	4.9	4.4	2.6	(60.0)		
Net NPLs (%)	1.1	1.0	0.8	0.7	0.4			

Source: Company.

Banking

CRBK.BO, Rs370	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	470
52W High -Low (Rs)	490 - 212
Market Cap (Rs bn)	53.1

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	20.2	21.9	24.1
Net Profit (Rs bn)	5.4	6.7	7.1
EPS (Rs)	37.4	46.9	49.3
EPS gth	*20.6*	*25.4*	*5.1*
P/E (x)	9.9	7.9	7.5
P/B (x)	1.4	1.3	1.1
Div yield (%)	2.4	2.5	2.7

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.2	-	-
FIIs	10.0	0.1	(0.1)
MFs	2.5	0.1	(0.0)
UTI	-	-	(0.1)
LIC	26.3	1.0	0.8

Corporation Bank: Profit higher than estimate, quality suffers, valuation remain attractive, retain Buy

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- **Corporation Bank's reported PAT of Rs1.9 bn, which was up 30% yoy and was 17% ahead of our estimates**
- **Lower-than-expected provisions and expenses were the key drivers of PAT**
- **Retain BUY rating with a target price of Rs470**

Corporation Bank's reported PAT of Rs1.9 bn, which was up 30% yoy and 17% ahead of our estimates. While NII growth was lower than our expectations, lower operating expenses and provision burden helped the bank report higher profits. Business growth continued to be moderate with advances increasing 20% yoy. The asset quality remains healthy with the company having a net NPL ratio of 0.3% and gross NPL ratio of 1.7% as of December 2007. We have updated our earnings model post these financial results, retain our BUY rating with a target price of Rs470 based on FY2009 estimates.

Subdued NII growth, interest expense behavior baffles us

- Net interest income of Corporation Bank in 3QFY08 was Rs3.5 bn, a growth of 6% yoy and 8% lower-than-estimates.
- While the growth in interest income was a healthy 26% yoy, a 38% yoy growth in interest expenses led to the subdued NII growth.
- Interest expense of Corporation Bank was Rs7.5 bn in 1QFY08, Rs7.1 bn in 2QFY08, which has increased to Rs7.7 bn in 3QFY08. Not only higher deposits but higher cost of deposit led this expense to increase. We remain unclear for the likely reason for an increase in interest expense in the 3Q, specially when most banks, including Corporation Bank have reduced deposit rates both on retail and bulk segment.
- Consequently, NIM fell qoq by 30 bps. We however, remain optimistic that margins will improve in 4QFY08 as the bank has seen a marginal improvement in CASA ratio (to 30% as of December 2007 from 29% as of September 2007) along with the reduction in the bulk deposit.

Non-interest income disappoints

- Non-interest income earnings in 3QFY08 were Rs1.7 bn, reporting only a marginal growth of 5% yoy.
- While there was good traction in the forex income, which increased to Rs100 mn in 3QFY08 (up 100% yoy). The contribution from the treasury income was subdued at 9% yoy, recovery from written-off accounts declined 15% yoy and fee income remained flat at Rs423 mn.

Lower-than-expected operating expenses and provision burden aid PAT

- Corporation Bank had an operational expense of Rs2.2 bn, which was up 12% yoy and 11% below our expectations.
- The company's operational costs (ex-employee expenses) were Rs1.1 bn and flat compared to the corresponding figure last year. We note that this expense has remained virtually stagnant for the past six quarters.
- Company has provided Rs1.1 bn on an estimated basis in 9mFY08 for complying with the revised AS-15 guidelines.
- Corporation Bank's gross and net NPLs declined to Rs6 bn and Rs1.1 bn as of December 2007 from Rs6.1 bn as of September 2007 and Rs6.2 bn as of December 2006. The gross NPL ratio now stands at 1.7% and net NPL ratio of 0.3% and is amongst the best in the industry.
- The healthy asset quality along with minimal investment provision burden implied that the overall provision expenses in the current quarter were just Rs97 mn v/s Rs700 mn last year.

Corporation Bank, Quarterly results (Rs mn)

	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	% chg	3Q08FYKS	Actual Vs
Interest income	8,325	8,868	9,807	11,201	10,835	11,187	26.1		
Advances	5,736	6,221	6,678	7,478	7,636	8,213	32.0		
Investments	2,301	2,275	2,431	2,676	2,678	2,750	20.9		
Others	288	372	698	1,047	521	223	(40.1)		
Interest expenses	5,158	5,536	5,777	7,479	7,092	7,652	38.2		
Net interest income	**3,167**	**3,333**	**4,029**	**3,722**	**3,743**	**3,535**	**6.1**	**3,833**	**(7.8)**
NII adjst for invst amort.	**3,018**	**3,295**	**3,848**	**3,525**	**3,546**	**3,337**	**1.3**	**3,633**	**(8.1)**
Non-interest income	1,131	1,593	1,800	1,384	1,832	1,670	4.8	1,800	(7.2)
Fee and comm.	356	417	338	411	381	423	1.3	392	7.9
Invts gains	(54)	400	122	196	547	438	9.4	500	(12.4)
Forex income	38	41	262	85	102	83	100.2	150	(45.0)
Dividend on shares	39	22	29	-	25	13	(38.0)	50	(73.2)
Other income	470	453	652	-	483	494	9.0	400	23.5
Bad debt recovery	282	259	397	240	294	219	(15.3)	250	(12.3)
Other income excluding treasury	1,184	1,192	1,678	1,188	1,285	1,232	3.3	1,300	(5.2)
Total income	**4,297**	**4,926**	**5,830**	**5,106**	**5,574**	**5,205**	**5.7**	**5,633**	**(7.6)**
Operating expenses	1,941	1,995	2,217	2,154	2,432	2,231	11.8	2,500	(10.8)
Employee cost	912	936	1,037	1,080	1,270	1,152	23.0	1,300	(11.4)
Other cost	1,028	1,059	1,180	1,074	1,162	1,080	1.9	1,200	(10.0)
Pre-tax and pre-provision profit	2,357	2,931	3,612	2,953	3,142	2,973	1.5	3,133	(5.1)
Provisions	387	832	1,694	397	739	295	(64.5)	800	(63.1)
NPLs	452	668	570	345	624	110	(83.5)	600	(81.7)
Invt. Depreciation	(64)	9	338	(182)	(81)	(15)	(262.6)	-	
Invt amortization	149	38	181	197	197	198	423.5	200	(1.1)
PBT	1,970	2,099	1,918	2,556	2,404	2,678	27.6	2,333	14.8
Tax	700	635	735	785	790	769	21.2	700	9.9
Net profit	**1,270**	**1,464**	**1,184**	**1,771**	**1,614**	**1,909**	**30.4**	**1,633**	**16.9**
Tax rate (%)	36	30	38	31	33	29		30	
Balance sheet (Rs bn)									
Capital	1.4	1.4	1.4	1.4	1.4	1.4	20.0		
Reserves and surplus	32.3	36.7	36.2	36.2	36.2	36.2	30.3		
Deposits	380.2	396.5	423.6	432.3	457.4	491.8			
Share of demand deposit (%)	29.8	31.0	34.1	28.7	28.7	30.0	(3.3)		
Borrowings	20.9	23.8	30.2	19.0	20.1	18.4	(22.7)		
Other liabilities and provisions	25.4	27.8	35.8	30.1	27.1	31.3	13.0		
P and L account balance	2.7	-0.1	0.0	1.8	3.4	5.3			
Total Liabilities	**462.9**	**486.1**	**527.2**	**520.8**	**545.7**	**584.4**	20.2		
Cash and balances with RBI	22.6	34.7	29.8	35.1	36.3	38.1	10.1		
Bal with banks, money at call and short notice	8.0	30.0	37.4	30.3	25.0	25.2	(16.2)		
Investments	136.6	118.0	144.2	136.0	141.1	159.8	35.4		
Advances	280.0	288.6	299.5	303.5	326.7	344.6	19.4		
Retail	70.0	68.5	76.6	74.7	81.6	81.1	18.5		
Fixed assets	2.6	2.7	2.8	2.8	2.7	2.7	2.3		
Other assets	13.0	12.2	13.5	13.1	13.9	14.0	15.3		
Total assets	**462.9**	**486.1**	**527.2**	**520.8**	**545.7**	**584.4**	20.2		
Asset quality details									
Gross NPLs (Rs mn)	6,163	6,249	6,246	6,369	6,172	5,985	(4.2)		
Gross NPLs (%)	2.2	2.1	2.1	2.1	1.9	1.7			
Net NPLs (Rs mn)	1,344	1,364	1,408	1,396	1,131	1,123	(17.7)		
Net NPLs (%)	0.5	0.5	0.5	0.5	0.4	0.3			
Yield management measures (%)									
Yield on funds	7.8	7.9	NA	9.1	8.7	8.6			
Yield on advances	8.7	8.9	9.1	10.2	10.2	10.3			
Yield on investments	7.6	7.7	7.7	8.2	7.5	7.4			
Cost of deposits	5.0	5.2	5.3	6.6	6.4	6.4			
Cost of funds	4.6	4.8	4.8	6.0	5.7	5.8			
Spreads	3.2	3.2	NA	NA	3.1	2.7			
NIM	3.2	3.2	3.2	3.0	3.0	2.9			
NIM adj for investment amtz	NA	NA	NA	NA	2.85	2.74			
Capital adequacy details (%)									
CAR	13.3	13.7	12.8	13.3	13.3	12.1			
Tier I	NA	12.3	11.3	11.8	12.1	10.8			
Tier II	NA	1.4	1.5	1.5	1.3	1.3			

Source: Company, Kotak Institutional Equities estimates.

Technology

MINT.BO, Rs351	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	460
52W High -Low (Rs)	1022 - 325
Market Cap (Rs bn)	13.5

Financials

April y/e	2007	2008E	2009E
Sales (Rs bn)	5.9	7.3	9.3
Net Profit (Rs bn)	0.9	1.0	1.2
EPS (Rs)	22.8	23.6	30.3
EPS gth	*23.3*	*3.8*	*28.3*
P/E (x)	15.4	14.8	11.6
EV/EBITDA (x)	12.0	10.5	8.1
Div yield (%)	0.3	0.7	0.9

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	35.4	-	-
FIIs	1.8	0.0	0.0
MFs	0.4	0.0	0.0
UTI	-	-	-
LIC	1.0	0.0	0.0

MindTree Consulting: Solid business model at inexpensive valuations; upgrade to BUY

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- **Valuations attractive post the steep 29% correction in the past one month**
- **Robust business model backed by quality management**
- **3QFY08 results in line with expectations; impressive margin performance**
- **Upgrade to BUY**

The company reported robust 3QFY08 results, broadly in line with our expectations (ex forex-loss). Revenues grew 5% qoq and 45% yoy to US$47 mn. More importantly, operating margins expanded 120 bps qoq despite lower number of billing days and pressure from rupee appreciation during the quarter. The company reported net income of Rs208 mn, 23% lower than our expectations, primarily on account of forex losses. We have made modest adjustments to our revenue estimate and EPS estimates and adjusted our DCF based target price to Rs460 (Rs520 earlier). However, the recent steep correction (29% over the past one month) in MindTree's (MT) stock price provides an opportunity to buy a quality mid-cap Indian IT company at reasonable valuations. We have highlighted our positive stance on the business model of the company in the past. MT has put in place building blocks critical for growth—an illustrious management team, excellent systems and processes, preferred employer brand and quality clients. The stock is trading at 11.6XFY2009E and 10XFY2010E EPS, reasonable in our view given our forecast EPS CAGR of 15.6% over the next three years. Upgrade to BUY from ADD earlier.

Solid business model at inexpensive valuations. We believe MindTree is well positioned to deliver robust revenue growth over the next few years given its (a) comprehensive service offerings in the segments it operates in; (b) marquee, scalable client relationships; (c) ability to recruit high-quality talent in a supply-constrained market—the company has been consistently rated a 'preferred employer' by industry surveys; and (d) ability to manage growth thanks to upfront investments in systems and processes. We believe that each of the above four points are critical building blocks for any mid-sized company with scale aspirations. We find several mid-sized companies that compromised on the above factors, resulting in several performance issues and inability to move beyond the critical US$300 mn revenue point. We back MindTree to move the beyond this critical size barrier. We forecast Rupee revenue and earnings CAGR of 26% and 15.6%, respectively, for MT over the next three years. Post the recent steep correction, the stock is trading at 11.6xFY2009E and 10xFY2010E EPS, inexpensive in our view.

Results in line with expectations; core business metrics show a positive trend: MT's 3QFY08 results were in line with our expectations at the operating level. Revenues grew 5% qoq in US$ terms to US$47.2 mn, marginally below our expectation of 6% qoq growth. More importantly, yoy revenue growth of 45% was one of the highest among the mid-tier IT companies. The key highlight of the quarter in our view was the impressive 120 bps qoq (40 bps yoy) improvement in EBITDA margins despite rupee appreciation and decline in utilization due to lower number of billing days in the quarter. Margin increase was driven by higher realizations (2.1% blended) and SG&A efficiencies. Net income at Rs208 mn was down 23% qoq (14% below our expectations) primarily on account of forex losses of Rs24 mn (versus forex gains of Rs32.3 mn in the previous quarter) and higher-than-expected tax rate of 16.9%.

Total income guidance raised by 3.3% to US$186 mn—still conservative in our view: MT has raised its US$ 'total income' (core revenues + other income) guidance for FY2008 to US$186 mn from US$178-180 mn, implying a yoy growth of 40.4%, impressive in our view. Note that MT includes other income (interest income + forex gains) in its guidance. We find the upward revision in MT's 'total income' guidance conservative—the implied 4QFY08 'total income' growth guidance is 3.8%, with core implied core revenue growth guidance a more conservative 0.5% qoq (assuming no forex gains or losses in 4QFY08 and excluding US$1 mn revenue contribution from consolidation of recently acquired TES PV). We note that MT had reported core revenue growth of 9% in the Mar 2007 quarter. Our 'total income' estimate of US$187.4 mn (core revenue estimate of US$181 mn) for FY2008 is higher than the company guidance. The company has maintained its net income guidance for FY2008 at US$22.6 mn (implies a 7% qoq net income growth in 4QFY08). Our net income estimate of US$23.3 mn for FY2008 is 3% higher than the company's guidance.

Other metrics—strong hiring, improvement in realizations: We highlight some of the other key metrics for the quarter—(a) the company had a strong net hiring of 365 (organic, excluding 160 employees from acquisition of TES PV) in the Dec 2007 quarter. MT's 9MFY08 net hiring at 1,265 (30% of end-FY2007 employee base) lends confidence to revenue growth visibility; (b) MT had another quarter of improvement in realizations—2.1% on a blended basis; (c) the company increased the number of F/G-500 clients to 41 from 39 in the previous quarter.

Revising estimates: We have revised our EPS estimates to factor in the potential slowdown in the US economy. Our revised fully diluted EPS estimates for FY2009E and FY2010E stand at Rs30.3 and Rs35.2, respectively (Rs31.3 and Rs36.8 earlier). Our end-March 2009 DCF-based target price of Rs460/share (Rs520 earlier) implies a multiple of 15.2XFY2009E and 10.1XFY2010E EPS.

Key changes to FY2008-10 estimates

	New			Old			Change (%)		
Rs mn	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**	**FY2008**	**FY2009**	**FY2010**
Revenues (Rs mn)	**7,265**	**9,255**	**11,867**	**7,291**	**9,543**	**12,346**	**(0.4)**	**(3.0)**	**(3.9)**
Revenues (US$ mn)	**181**	**240**	**316**	**182**	**248**	**329**	**(0.4)**	**(3.0)**	**(3.8)**
EBITDA	1,211	1,513	1,863	1,177	1,529	1,957	2.9	(1.1)	(4.8)
Net Profit	933	1,197	1,389	967	1,237	1,456	(3.5)	(3.3)	(4.6)
EPS (Rs/ share)	**24.2**	**30.5**	**35.3**	**25.0**	**31.5**	**37.0**	**(3.5)**	**(3.3)**	**(4.6)**
Fully diluted EPS	**23.6**	**30.3**	**35.2**	**24.5**	**31.3**	**36.8**	**(3.5)**	**(3.3)**	**(4.6)**
Re/ $ rate	40.1	38.5	37.5	40.1	38.5	37.5	0.0	(0.0)	(0.0)
EBITDA margin	16.7	16.4	15.7	16.1	16.0	15.9			

Source: Kotak Institutional Equities estimates.

MindTree Consulting: Indian GAAP consolidated quarterly earnings statement

Rs mn	Dec-06	Sep-07	Dec-07	qoq (%)	yoy (%)	Kotak E	Deviation	Comments
Revenues	**1,468**	**1,820**	**1,865**	**2.5**	**27.0**	**1,883**	**(0.9)**	Revenues grew 5% in US$ terms to US$47.2 mn versus our expectation of 6% growth. Driven by volume growth of 2.6% and blended pricing improvement of 2%.
Software development expenses	(884)	(1,177)	(1,206)	2.5	36.5	(1,209)	**(0.2)**	
Gross profit	**584**	**643**	**659**	**2.5**	**12.8**	**674**	**(2.3)**	
SG&A expenses	(335)	(347)	(334)	(3.7)	(0.2)	(364)	**(8.2)**	
EBITDA	**249**	**295**	**324**	**9.8**	**30.2**	**310**	**4.6**	EBITDA margin improvement of 130bps significantly better than expectations. Driven by improvement in realizations and SG&A efficiencies (120bps impact)
Depreciation	(67)	(81)	(89)	10.3	33.1	(82)	**8.9**	
EBIT	**182**	**214**	**235**	**9.6**	**29.2**	**228**	**3.0**	
Interest	(6)	(18)	(16)	(12.0)	156.2	(18)	**(12.0)**	
Other income	13	103	31	(69.7)	146.2	58	**(45.9)**	Includes forex loss of Rs24mn versus forex gains of Rs32.3 mn in 2QFY08
Profit before tax	**188**	**299**	**250**	**(16.3)**	**32.9**	**268**	**(6.5)**	
Tax	0	(28)	(42)	51		(25)		
Net profit	**188**	**271**	**208**	**(23.2)**	**10.5**	**243**	**(14.4)**	
Minority interest	—	—	—			-		
Net income	**188**	**271**	**208**	**(23.2)**	**10.5**	**243**	**(14.4)**	Net income below expectations as a result of forex losses and higher-than-expected tax provision
Extraordinaries	—	—	—			-		
Net profit- reported	**188**	**271**	**208**	**(23.2)**	**10.5**	**243**	**(14.4)**	
EBITDA margin	**17.0**	**16.2**	**17.4**			**16.5**		
EPS (Rs/ share)	**6.3**	**7.2**	**5.5**	**(23.2)**	**(11.9)**	**6.5**	**(14.4)**	
Shares outstanding (mn)	30.0	37.6	37.6			37.6		
Fully Diluted EPS (Rs/ share)	**4.8**	**6.9**	**5.3**	**(23.2)**	**10.5**	**6.2**	**(14.4)**	
Fully DilutedShares outstanding (mn)	39.5	39.5	39.5			39.5		

Guidance (FY2008)	lower end	upper end	Comments
Revenues (US$ mn)	186.0	186.0	Revenue guidance for FY2008 increased to US$186 mn from US$180 mn earlier.
Growth (%)	43.0	43.0	
Net Income (US $mn)	22.6	22.6	Net income guidance maintained at US$22.6 mn, though at a lower Re/USD assumption

Source: Kotak Institutional Equities estimates.

MindTree Consulting- consolidated Indian GAAP profit & loss statement. March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E
Revenues	**4,488**	**5,904**	**7,265**	**9,255**	**11,867**
Software development expenses	(2,735)	(3,509)	(4,661)	(6,038)	(7,848)
Gross profit	**1,753**	**2,395**	**2,604**	**3,218**	**4,019**
Administrative and other expenses	(999)	(1,309)	(1,393)	(1,705)	(2,155)
EBITDA	**754**	**1,086**	**1,211**	**1,513**	**1,863**
Depreciation	(209)	(244)	(342)	(391)	(469)
EBIT	**544**	**841**	**869**	**1,122**	**1,395**
Interest	(53)	(30)	(59)	-	-
Other income	66	82	252	222	328
Profit before tax	**558**	**893**	**1,062**	**1,344**	**1,723**
Tax	(15)	7	(129)	(147)	(334)
Net profit	**542**	**899**	**933**	**1,197**	**1,389**
EPS (Rs/share)	**18.5**	**23.8**	**24.2**	**30.5**	**35.3**
Fully Diluted EPS (Rs/Share)	**17.1**	**22.8**	**23.6**	**30.3**	**35.2**
Margins (%)					
Gross profit margin	39.1	40.6	35.8	34.8	33.9
EBITDA margin	16.8	18.4	16.7	16.4	15.7
EBIT margin	12.1	14.3	12.0	12.1	11.8
NPM	12.1	15.2	12.8	12.9	11.7
Growth rates (%)					
Revenues	82.1	31.5	23.1	27.4	28.2
Gross profit	102.8	36.6	8.7	23.6	24.9
EBITDA	204.4	44.0	11.6	24.9	23.1
EBIT	281.1	54.5	3.3	29.2	24.3
Net profit	221.2	65.9	3.8	28.3	16.0

Source: Kotak Institutional Equities estimates.

Technology

POLS.BO, Rs86	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	95
52W High -Low (Rs)	237 - 64
Market Cap (Rs bn)	8.5

Financials

March y/e	2007	2008E	2009E
Sales (Rs bn)	10.3	11.1	13.1
Net Profit (Rs bn)	1.0	0.7	1.0
EPS (Rs)	10.3	7.6	10.5
EPS gth	*359.1*	*(26.1)*	*38.1*
P/E (x)	8.4	11.3	8.2
EV/EBITDA (x)	4.5	5.4	3.9
Div yield (%)	2.0	2.0	2.0

Shareholding, September 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	27.9	-	-
FIIs	5.4	0.0	0.0
MFs	1.2	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Polaris Software Lab: Revival in revenue growth remains the key to stock performance. Maintain SELL

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- **Results below expectations**
- **Product business remains the key to revival in revenue growth**
- **Improved client mining required to push growth in FY2009**
- **Maintain SELL with an end-March 2009 DCF-based target price of Rs95/ share**

Polaris' reported net income of Rs191 mn for Dec 2007 quarter was 23% below our expectations. The company disappointed on both revenue and margin performance. Revenues grew 3.1% to Rs2.82 bn (our expectation was Rs2.93 bn). Revenue growth in US$ terms was 6% qoq. More importantly, yoy revenue growth (US$ terms) stood at only 19% (significantly below industry growth rate), with the Intellect business growing at 31%. OPM improvement of 100 bps qoq was significantly below our expectations; we note that OPM was down 530 bps on a yoy basis. The performance, once again highlights that execution, though improving, is still a work in progress. The business model risks remain with a high dependence on a few clients, uncertainty around success of Intellect product suite and continuity of execution challenges (with a weak employee profile). We believe that improvement in revenue growth profile holds the key to stock performance—we note that any slowdown in IT budgets could make the environment even more difficult for the company. We have revised our FY2008 and FY2009 EPS estimates downwards by 13% and 10% to Rs9.1 and Rs11.6, respectively. Maintain SELL.

3QFY08 performance below expectations: Polaris reported a 3.1% qoq revenue growth (5.9% qoq growth in US$ terms). Revenue growth was weak across both product and services, with product revenues showing weakness after several quarters of strong growth. The company's BPO subsidiary, Optimus, had a strong quarter and grew 33% qoq in US$ terms (off a small base). Optimus now accounts for 5.6% of Polaris' revenues. OPM at 12% (up 100 bps qoq, down 530 bps yoy) was below our expectations of 13.2%. Net income at Rs191mn (down 40% yoy) was 23% below our expectations.

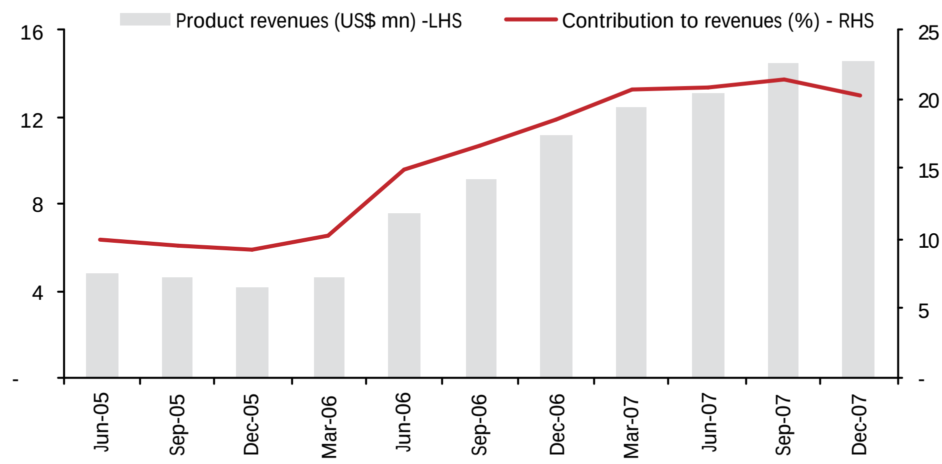
OPM performance disappointing once again: Polaris' 3QFY08 OPM improved 100 bps qoq to 12% versus our expectation of a 120bps improvement. More important, OPM decline yoy was 530 bps from 17% in 3QFY07. SG&A expenses as a percentage of revenues have increased 100 bps yoy to 21.8% as the company continues to invest in its sales and marketing activities. The management indicated that the company has been investing substantial amount of money in growing its products business and expects these investments to start paying dividends (better revenue growth and margin leverage) over the next two to four quarters. In addition, the company also highlighted levers like pricing improvements, utilization rates, etc. for improving margins; however, we believe that an improved revenue growth profile holds the key to Polaris' OPM performance. We factor in a 350 bps decline in OPM in FY2008.

Business model risks remain higher than other players: While we like the product-led revenue growth strategy adopted by Polaris, we would like to highlight the potential risks of the approach in the event of a spending slowdown. Polaris' small size and weaker positioning with the clients (relative to some of its larger peers) makes it more vulnerable than peers to the risk of (1) a cut in new spending in the BFSI vertical and (2) vendor rationalization by some of the large clients.

Revival in growth rate hinges on success in products business and better client mining: We believe that an uptick in Polaris' revenue growth in FY2009 hinges on two key aspects—(1) success of its Intellect-led client acquisition strategy. We note that the 'Intellect' business slowed down considerably this quarter after several quarters of strong growth; and (2) improved mining of its existing client base; Polaris now has 17 AAA, 18 AA, and 31 A accounts. We have, however, been disappointed with Polaris' mining of these accounts. Also, the company added only 1 AA and 1 A account in the previous quarter.

Revising estimates: We have revised our FY2008 and FY2009 EPS estimates downwards by 16% and 5.8% to Rs7.6 and Rs10.5, respectively. The revision is primarily on the back of lower revenue growth assumptions. We maintain our SELL rating with a revised end-March 2008 DCF-based target price of Rs95/share (Rs105 earlier).

Products business of Polaris slowed down in the Dec '07 quarter



Source: Company, Kotak Institutional Equities.

Key changes to estimates, FY2008E-FY2010E

	Revised			Earlier			Change (%)		
	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E	FY2008E	FY2009E	FY2010E
Revenues (US$ mn)	279	341	402	286	342	403	(2.4)	(0.3)	(0.2)
Revenues (Rs mn)	11,120	13,121	15,089	11,390	13,327	15,326	(2.4)	(1.5)	(1.5)
EBITDA (Rs mn)	1,235	1,588	1,781	1,365	1,666	1,808	(9.5)	(4.7)	(1.5)
EBIT (Rs mn)	765	1,083	1,232	884	1,161	1,259	(13.5)	(6.7)	(2.1)
Net profit (Rs mn)	747	1,032	1,105	890	1,095	1,155	(16.0)	(5.8)	(4.4)
EPS (Rs)	7.6	10.5	11.2	9.1	11.1	11.8	(16.0)	(5.8)	(4.4)
EBITDA margin (%)	11.1	12.1	11.8	12.0	12.5	11.8			
EBIT margin (%)	6.9	8.3	8.2	7.8	8.7	8.2			
Re/US$ rate	39.8	38.5	37.5	39.8	38.5	37.5	—	—	—

Source: Kotak Institutional Equities estimates.

Polaris Software interim results (Rs mn)

	3QFY07	2QFY08	3QFY08	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation	Comments on QoQ performance
Revenues	**2,740**	**2,736**	**2,821**	**3.1**	**3.0**	**2,927**	**(3.6)**	Revenue growth of 3.1% in US$ terms substantially lower than our expectation of a 7% growth. More importantly, yoy revenue growth of only 3% disappointing in our view
Cost of revenues	(1,696)	(1,847)	(1,870)	1.2	10.2	(1,941)	(3.7)	
Gross profit	**1,044**	**889**	**952**	**7.1**	**(8.8)**	**986**	**(3.5)**	
Sales & marketing expenses	(305)	(315)	(316)	0.4	3.6	(319)	(0.9)	
General administration expenses	(265)	(272)	(297)	9.4	12.4	(284)	4.8	
SG&A expenses	(570)	(587)	(614)	4.5	7.7	(603)	1.8	
Operating Profits	**474**	**302**	**338**	**12.1**	**(28.7)**	**383**	**(11.8)**	Operating margin improvement of 100bps below our expectations of a 210bps improvement. The company has not been able to achieve scale efficiencies on SG&A as it continues to invest in growing revenues.
Non-operating Income	43	39	13	(67.4)	(70.8)	45	(71.5)	
EBIDTA	517	341	351	3.0	(32.2)	428	(18.0)	
Financial expenses	(2)	(2)	(2)	26.1	41.1	(2)		
EBDT	516	339	348	2.9	(32.4)	426	(18.2)	
Depreciation	(124)	(119)	(112)	(5.5)	(9.5)	(122)	(7.6)	Includes amortization of capitalized product development expenses
Pretax profits	**392**	**220**	**236**	7.4	(39.7)	304	(22.4)	
Tax	(69)	(37)	(45)	19.6	(34.8)	(56)	(20.4)	
Net profit	**323**	**182**	**191**	4.9	(40.8)	248	(22.9)	Net income 23% below expectations on account of lower than expected revenues as well as profitability.
Extraordinaries	-	-	-			-		
PAT-Reported	**323**	**182**	**191**	4.9	(40.8)	**248**	(22.9)	
Period EPS								
EPS - recurring (Rs)	3.3	1.9	1.9	4.6	(40.9)	2.5		
EPS - reported (Rs)	3.3	1.9	1.9	4.1	(41.2)	2.5		
Margins								
Gross margin (%)	38.1	32.5	33.7			33.7		
SG&A expenses (%)	20.8	21.5	21.8			20.6		
Operating profit margin (%)	**17.3**	**11.0**	**12.0**			**13.1**		
Net profit margin (%)	11.8	6.7	6.8			8.5		
Revenue Mix (Rs mn)								
Services	2,233	2,151	2,249	4.5	0.7			
Products	507	585	573	(2.0)	13.0			Growth in the products (Intellect) business slowed down after several quarters of strong growth. Growth in Intellect-driven business key to revival of revenue growth.
Revenues from Citigroup (%)	43.8	38.7	38.4					
Revenues from Citigroup (Rs mn)	1,200	1,059	1,083	2.3	(9.7)			Slide in Citigroup revenues continues. Down 10% yoy.

Source: Kotak Institutional Equities estimates.

Property

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**23-Jan**	**Target**
MGesco	BUY	697	890
Sobha	ADD	759	960
DLF	ADD	924	1,250
Unitech	REDUCE	393	335
HDIL	BUY	999	1,030
IVR Prime	BUY	257	600
Jagran	ADD	128	147

Reiterating BUY rating on IVR Prime and Mahindra Lifespaces post our visit to the Chennai property exhibition

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- **Key growth clusters—OMR and GST Road (Maraimalai Nagar-Tambaram)**
- **Our assumptions for IVR Prime and Mahindra Lifespaces are at a 20% discount to current market prices; limited downside risks even as competition from new players may pressure residential prices**
- **We reiterate our BUY rating on IVR Prime and Mahindra Lifespaces. Recent correction in stock prices provides good entry points**

We recently visited a property exhibition, FAIRPRO, organized by CREDAI in Chennai. We observed a lot of residential development in key growth cluster areas—OMR and GST road. A large number of projects have been launched in Chennai in the recent past indicating continued demand. However, we also observed uneasiness among certain developers regarding OMR on account of DLF launching a project at a 15% discount to current market prices—indicating prices are likely to come under pressure. However, we see limited downside risks to our pricing assumptions for IVR Prime and Mahindra Lifespaces since they are at an approximately 20% discount to current market prices. The recent sharp correction in the stock prices of IVR Prime and Mahindra Lifespace provides a good entry point and we reiterate our BUY rating.

Key growth clusters–OMR and GST Road

We note that OMR and GST road have attracted a lot of developers considering that these areas already have developed infrastructure facilities. We have compiled a list of 67 projects of which 21 projects were located on OMR and GST road. We also observed large residential development in the stretch between OMR and GST road, specifically in Medavakam, Pallikaranai and Padur.

Old Mahabalipuram Road (OMR). This area in south Chennai is also known as the IT highway of Chennai. The area has been able to attract large IT companies such as TCS, Satyam and CSC. High growth in OMR has resulted in developers launching a lot of residential projects. Exhibit 2 highlights the major developers who have launched projects in the area. We also note that DLF has announced to launch a residential project in this area (7 kms behind Satyabhama college) at around 15% discount to the current prevailing prices. Various developers were at unease on account of discount being offered and believed that current residential prices at around Rs3,500/ sq. ft could come under pressure.

GST Road (Maraimalai Nagar-Tambaram). GST road connects Chennai to Mahindra World City (MWC). This area is well connected by road and rail networks to Chennai. We observed a lot of residential/plotted development across the stretch. We observed that large number of project launches have taken place around MWC to cater to professionals working in IT/ITES companies that have set up presence inside MWC.

Other emerging areas. We believe Sriperumbudur area would also become a major residential hub in the near future. Currently, Hirco has launched 'Palace Gardens' which is midway between Sriperumbudur and MWC. We have observed a number of projects starting to sell plotted development, indicating good investor demand in the region.

Competition intensifying with new players coming in; prices may come under pressure

More than 28 real estate developers focusing on Chennai were present at the exhibition, which highlights the fragmented state of the industry. Exhibit 1 lists all the participating companies with properties in Chennai. We believe that large number of regional players will not likely allow a single player to dictate prices in a particular area on a sustained basis. DLF has launched its residential projects in OMR at 10%-15% discounts to garner market share in Chennai.

A few developers acknowledged that entry of new players could lead to re-adjustment of prices. We believe such price adjustment could lead to sharp increase in demand in Chennai as commercial activity in the city remains very strong. Also Chennai has witnessed sharp price inflation in the last eighteen months and this was resulting in slowing residential offtake in the region. We expect residential demand to be 381 mn sq. ft for the next 5 years in Chennai backed by growth in IT/ITES and manufacturing sectors.

Our residential assumptions for MWC, Chennai are at 20% discount to similar locations

Our selling price assumptions of Rs2,224/ sq. ft for the apartments are quite conservative in our view considering the current prices for the residential projects in the vicinity of MWC. The nearest projects to MWC being developed by Akshaya Homes and Hallmark Infrastructure are quoting Rs2,800/ sq. ft and Rs2,600/ sq. ft respectively. Exhibit 2 highlights the prices being quoted by developers on the GST Road. We believe that residential units inside MWC are likely to account for premium on account of excellent road and train connectivity, presence of schools and presence of large number of processing units. Thus, we believe that downside risks to out selling price assumptions are limited.

We have considered residential development of 245 acres of land equivalent to 16 mn sq. ft of saleable area. This would result in development of 9,000 residential units over the next 8 years, while the number of people to be employed in the SEZ is likely to be much more.

Exhibit 3 provides details of our key assumptions and Exhibit 4 is our DCF model for Mahindra World City, Chennai (MWC). MWC has seen immense success and has firm commitments for clients for entire processing area. MWC is spread over approximately 1,400 acres with SEZ of 841 acres and domestic tariff area of 559 acres. MWC has made significant progress in terms of attracting key IT companies and auto manufacturing companies. The connectivity of the area has also improved with the direct access to the SEZ from the station and more frequency of train services from Chennai.

IVR Prime derives almost 50% of its NAV from Chennai.

We observe large number of residential projects on GST road and OMR largely on account of success of commercial units in the region. As economic activity increased in these regions, new residential projects have increased manifold in the last couple of years. This is clearly indicated since number of completed apartments in the region are lesser compared to apartments currently being constructed. We believe similar success of Sriperumbudur as industrial area is likely to trigger large residential demand in the near future. We observe that already a few plotted developments have been launched in the region indicating large investor demand.

IVR Prime derives almost 50% of its NAV from Chennai. We believe that large part of NAV of PUDL comes from regions, for which established benchmarks are available.

Key regions that contribute significantly to PUDL's NAV are as below.

Chennai: Almost 90% of the total 47.7 mn sq. ft of land bank in Chennai is located in Sriperumbudur. We believe Sriperumbudur is an emerging area considering the investments being attracted by it. Exhibit 6 shows that Sriperumbudur contributes 45% to PUDL's NAV. We have assumed selling price assumptions of Rs2,000/sq. ft for the residential development and Rs2,625/sq. ft for commercial development in the Sriperumbudur region. In our view these assumptions have limited downside risks considering that the nearest residential project (around 8-10 kms from Sriperumbudur) 'Palace Gardens' launched by Hirco is quoting at Rs3,100/sq. ft.

We believe that several factors will help attract global companies to Sriperumbudur– presence of Nokia and Hyundai, good infrastructure facilities, abundant manpower, industrial parks promoted by SIPCOT and the new upcoming airport in the region.

Hyderabad. PUDL is setting up a 2.1 mn sq. ft IT Park cum mall project is Gacchibowli. This project contributes 15% to PUDL's NAV.

Noida. PUDL has two residential projects in Sectors 119, 121 and two commercial projects in Noida in Sector 144, which form part of a special economic zone.

Our target price of Rs600/ share is based on March 2009 NAV of Rs610/share.This implies a 130% upside from the current stock price of Rs257/share and we re-iterate our BUY rating.

Chennai property market is highly fragmented

List of real estate companies at the FAIRPRO exhibition

	Companies		Companies
1	Adroit Urban Developers	15	Olympia Infratech Pvt. Ltd
2	Akshaya Homes Pvt. Ltd	16	Purvankara
3	Arihant Foundations & Housing Ltd	17	Rajarathnam Constructions
4	Arun Excello	18	Real Value Homes
5	Asvini Foundations	19	RWD
6	Chaitnaya Builders	20	South India Shelter (SIS)
7	Doshi Housing Ltd	21	Sumanth & Co
8	Hirco	22	Truevalue Homes
9	Indus Cityscapes	23	L&T South City Project Limited
10	Jain Housing & Constructions Ltd	24	Marg Constructions
11	Kgeyes	25	ETA Star
12	Prestige Group	26	Navin Housing
13	SSPDL Group	27	Landmark Construction
14	Jamals	28	Hallmark Infrastructure

Source: FAIRPRO, Kotak Instituional Equities.

List of projects coming up in the OMR and GST Road

Company	Type	Project	Location	Rate/psf	Completion	Comments
VGN	Plots	Southern County	GST Road	1,040	Jun-08	7 kms from MWC
VGN	Plots	Nothwood Park	GST Road	1,000	Jun-08	2.5 kms from MWC
Indus	Residential	Habiterra	GST Road	3,200	Jan-09	11 kms from the airport.
Arun Excello Foundations	Residential	Desh	GST Road	2,850	Apr-08	
Akshaya Homes	Residential	Metropolis	GST Road	2,800	Dec-10	Total flats: 420. Royal Villas available at Rs2,950/sq. ft
Arihant	Residential	Villa Viviana	GST Road			In JV with JP Morgan
Bala Abirami Builders	Residential	Abirami Pine Valley	GST Road	1,850	Dec-09	8 kms ahead of MWC, near the Pepsi factory.
Bala Abirami Builders	Commercial	The Laurel	GST Road	5,500	Dec-09	8 kms ahead of MWC, near the Pepsi factory.
Hallmark Infrastructure	Residential	Golden County	GST Road	2,600	Jun-09	Infosys corporate booking
Landmark Construction	Residential	Centralia	GST Road	3,500	Aug-10	Initial discount of Rs250/ sq. ft and 3.5 kms from the airport
Vijay Shanthi	Residential	Park Avenue	OMR	2,800	Jun-10	Project to be launched in the next 2 months
Vijay Shanthi	Residential	Lotus Pond	OMR	2,800	Jun-10	Project to be launched in the next 2 months
Olympia	Residential	Opaline	OMR	3,380	Dec-09	
L&T	Residential	L&T Eden Park	OMR	3,600	Jan-10	
Mantri	Residential	Mantri Synergy	OMR	3,840	Dec-09	
Purvankara	Residential	Purva Swanlake	OMR	3,590	Dec-09	
ETA Star	Residential	Rose Dale	OMR	3,400	Mar-10	
Yuga Homes	Residential	Shem park	OMR	3,500	Sep-08	70% complete. 38/60 sold
Indus	Residential	Anantya	OMR	3,900	Jun-09	192 apartments

Note:
MWC is Mahindra world city, Chennai

Source: Kotak Institutional Equities.

Our residential pricing assumptions in Chennai are at 20% discount to similar locations

Key assumptions for Mahindra world city, Chennai

Chennai Housing	
Land area to be developed (acres)	245
Residential area (mn sq. ft)	110%
- Bungalows	2.0
- Row houses	2.8
- Apartment	10.9
Development timeframe	2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Housing development										
Bungalows										
Selling prices (Rs/sq. ft)	2,814	2,994	3,185	3,389	3,626	3,880	4,186	4,479	4,793	5,171
Construction cost (Rs/sq. ft)	1,300	1,365	1,433	1,577	1,655	1,738	1,912	2,008	2,108	2,319
Saleable area (mn sq. ft)	-	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	-
Row houses										
Selling prices (Rs/sq. ft)	2,550	2,715	2,891	3,078	3,294	3,524	3,798	4,064	4,348	4,686
Construction cost (Rs/sq. ft)	1,250	1,312	1,378	1,516	1,592	1,671	1,838	1,930	2,027	2,229
Saleable area (mn sq. ft)	-	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	-
Apartments										
Selling prices (Rs/sq. ft)	2,085	**2,224**	2,372	2,530	2,707	2,897	3,114	3,332	3,565	3,832
Construction cost (Rs/sq. ft)	1,150	1,208	1,268	1,395	1,464	1,538	1,691	1,776	1,865	2,051
Saleable area (mn sq. ft)	-	0.4	0.4	0.7	1.5	2.0	2.0	2.0	2.0	-

Source: Company, Kotak Institutional Equities.

DCF for Mahindra World city, Chennai project

Discounted cash flow analysis (Rs mn)

		2,007	2008E	2009E	2010E	2011E	2012E	2014E	2016E	2018E	2019E
EBITDA		363	268	337	827	1,307	1,892	3,644	3,333	58	63
Tax expense		(3)	-	-	-	-	-	-	-	-	(21)
Changes in working capital		**545**	**(1,082)**	**(382)**	**(235)**	**(244)**	**(487)**	**366**	**804**	**381**	**(1)**
Cash flow from operations		**906**	**(814)**	**(45)**	**592**	**1,062**	**1,405**	**4,010**	**4,137**	**438**	**42**
Capital expenditure		**(58)**	**47**	**(3)**	**(3)**	**(4)**	**(4)**	**(4)**	**(4)**	**(4)**	**(4)**
Free cash flow to the firm		**848**	**(767)**	**(48)**	**588**	**1,059**	**1,402**	**4,006**	**4,133**	**434**	**37**
Discounted cash flow-1 year forward		848	(767)	(48)	516	815	946	2,080	1,651	133	10
WACC	14.0%										
Growth from 2016 to perpetuity (%)	5.0%										
Fiscal Year end (March 31, XXXX)		31-Mar-07	31-Mar-08	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-14	31-Mar-16	31-Mar-18	1-Apr-18
Today		31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08	31-Mar-08
Years left		-	-	1	2	3	4	6	8	10	10
Discount factor at WACC	**1**	**1.00**	**1.00**	**0.88**	**0.77**	**0.67**	**0.59**	**0.46**	**0.35**	**0.27**	**0.27**

	+ 1-year	
Total PV of free cash flow (a)	**10,386**	**99%**
FCF in year 2019	37	
Exit FCF multiple (X)	11	
Terminal value	412	
PV of terminal value (b)	**111**	**1%**
EV (a) + (b)	**10,497**	
EV (US$ mn)	**236**	
Net debt (FY2008)	1,050	
Equity value	**9,447**	
Implied share price (Rs)	**225**	
Exit EV/EBITDA multiple (X)	0.1	

Sensitivty of share price to different levels of WACC and growth rate (Rs)

Growth rate (%)	WACC (%) 13.0%	13.5%	14.0%	14.5%	15.0%	15.5%	16.0%
0%	235	230	224	218	213	208	203
1%	236	230	224	219	213	208	203
2%	236	230	224	219	213	208	203
3%	236	230	224	219	214	208	203
4%	236	230	225	219	214	208	203
5%	237	231	**225**	219	214	209	204
6%	237	231	225	220	214	209	204
7%	238	232	226	220	214	209	204
8%	239	232	226	220	215	209	204

Source: Kotak Institutional Equities.

MLIFE-Our March 2009 based NAV is Rs890/share

NAV break-up from various projects

	Valuation Methodology	Valuation of business (Rs bn)	Probability (%)	Value contribution (Rs bn)	Value contribution (Rs/share)
SEZs					
Chennai SEZ	DCF	9.4	100.0	9.4	224
Karla SEZ	DCF	16.2	10.0	1.6	39
Jaipur SEZ	DCF	15.6	70.0	10.9	260
Thane SEZ	DCF	0.7	100.0	0.7	17
Total			100.0	22.6	539
Mahindra Gesco standalone					
Residential properties	NAV	7.0	100.0	7.0	167
Commercial property	NAV	1.6	100.0	1.6	38
Total				8.6	205
FY2008 Net Debt		2.5	100.0	2.5	61
FY2008 Investments		3.8	100.0	3.8	90
Equity valuation (Rs/share)					894
Fully diluted no of shares (mn)				42.0	

Source: Kotak Institutional Equities

Three regions contribute 75% to PUDL's NAV

PUDL's NAV from key projects

	NAV	Area	
	(Rs mn)	(mn sq. ft)	(acres)
Chennai-Sriperumbudur	18,021	43.1	1,075
Hyderabad-Mall cum IT Park	6,270	2.1	12
NOIDA	8,200	6.7	80
Others	8,157	23.7	1,312
	40,648	**75.6**	**2,479**

Source: Kotak Institutional Equities.

Chennai contributes half of PUDL's NAV

City-wise land bank details

	Land bank	Developed area	Saleable area	Growth rate in selling prices (%)				
	(acres)	(mn sq. ft)	(mn sq. ft)	0	3	5	7	10
Bangalore	**73**	6.3	4.6	2.7	2.8	2.9	2.9	3.1
Chennai	**1,353**	47.7	47.7	12.7	16.8	19.8	23.0	28.3
Hyderabad	**19**	3.7	2.9	5.4	6.2	6.9	7.5	8.5
Noida	**80**	6.7	6.7	7.1	7.8	8.2	8.7	9.4
Pune	**880**	10.5	9.0	1.2	1.7	2.1	2.5	3.2
Vishakapatnam	**74**	4.7	4.7	0.6	0.7	0.8	0.9	1.0
Total	**2,479**	**79.6**	**75.6**	**29.6**	**36.1**	**40.7**	**45.6**	**53.5**

Source: Company, Kotak Institutional Equities.

We estimate March 2009E NAV for PUDL at Rs610/share

NAV sensitivity for various growth rate in selling prices

	March '09 based NAV			
	Growth rate in selling prices (%)			
	0	3	5	10
Valuation	**29.6**	**36.1**	**40.6**	**53.5**
Less: Land payments outstanding	(1.6)	(1.6)	(1.6)	(1.6)
Less: Present value of land payments outstanding for Noida	(4.0)	(4.0)	(4.0)	(4.0)
Add: Net cash	4.1	4.1	4.1	4.1
NAV	**28.1**	**34.6**	**39.1**	**51.9**
Total no. of shares (mn)				64.2
NAV/share (Rs)				609.8

Source: Kotak Institutional Equities.

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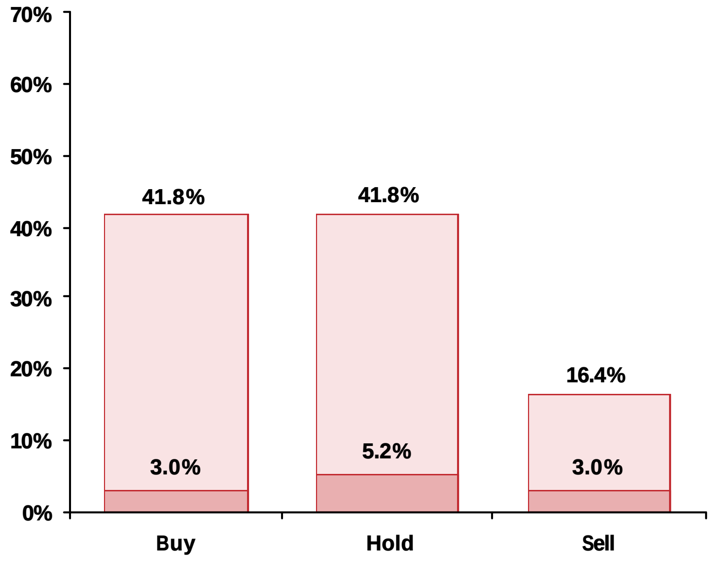

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Source: Kotak Institutional Equities. As of September 30, 2007

Ratings and other definitions/identifiers

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Old rating system

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