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India

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Maharashtra Seamless

Acquisition provides growth visibility

- The company acquires Romanian seamless plant:** Maharashtra Seamless (MHS) has announced the acquisition of a 0.2MT seamless pipe plant in Romania. The company plans to bring the mill to India, although the finer details are still being worked out. The total transaction size is estimated to be Rs2.5B, which would be funded through internal accruals. We reiterate our Overweight rating on the stock.
- Growth visibility increases:** We believe MHS was trading at a significant discount to its peers in the Indian pipe sector as the company lacked growth drivers. We believe the acquisition increases the earnings growth visibility and strengthens the company's position as India's largest seamless pipe company. We would also highlight that following the acquisition the company still has a cash balance of Rs3.1B, giving it flexibility to pursue further organic/inorganic growth.
- FY09 margins to expand:** While we expect FY08 to remain challenging, we do believe margins will recover in FY09. We expect the benefit of the acquisition to flow through in FY10. We increase our EPS estimate by 5% for FY09 (due to higher realizations) and 12% for FY10 (due to the benefit of new mill).
- Price target, valuation, key risks:** Our new Dec-08 price target of Rs675 is based on 15x FY09E P/E. We believe the key risks to this are higher Chinese imports and the company's inability to pass on higher steel billet costs.

Reuters: MHSM.NS; Bloomberg: MHS IN

Rs in millions, year-end March

	FY 07	FY 08E	FY 09E	FY 10E		
Net sales	13,971	16,471	20,191	25,970	52-week range (Rs)	675-381
Net profit—pre-exceptional	2,356	2,413	3,176	3,962	Market cap (Rs MM)	41,027
EPS—pre-exceptional (Rs)	33.4	34.2	45.0	56.2	Market cap (US\$ MM)	1,026
Net sales growth (%)	45%	18%	23%	29%	Shares outstanding (MM shares)	71
Net profit growth (%)	69%	2%	32%	25%	Avg daily value (Rs MM)	122.0
ROE (%)	35%	24%	25%	26%	Avg daily value (US\$ MM)	3.00
ROCE (%)	35%	32%	36%	36%	Avg daily volume (MM shares)	0.21
P/E (x)	17.4	17.0	12.9	10.4	Index (Sensex)	19,796
EV/EBITDA (x)	11.4	10.3	7.9	7.9	Exchange rate (Rs/US\$)	40
P/B (x)	4.4	3.7	3.0	2.4	Performance	
					Absolute (%)	1M 22.7 3M -6.8 12M 24.2

Source: Company, Bloomberg, JPMorgan estimates.

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Overweight

Rs582.00

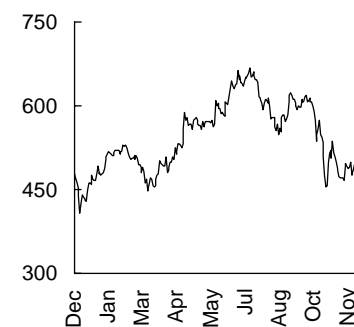
06 December 2007
Price Target: Rs675.00

India
Steel

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Share price performance



Source: Datastream

J.P. Morgan India Private Limited

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The total outlay is expected to be Rs2.5B, while a new mill of a similar size would have cost Rs6B

Acquisition in Romania

Maharashtra Seamless announced the acquisition of a 0.2MT seamless plant in Romania. The plant manufactures small-diameter seamless pipes. The company paid Rs 2.5B for the 0.2MT plant. The company is still in the process of working out the finer details of the entire transaction, and one of the options being explored is to bring the mill into India. We do not expect any contribution in revenues in FY09, but expect the mill to operate at 50% utilization in FY10. The acquisition increases the company's capacity from 0.35MT to 0.55MT of seamless pipes. The company expects the total outlay on the acquisition to be Rs2.5B, while a new mill of a similar size would have cost above Rs6B.

Table 1: Maharashtra Seamless capacity breakdown

MT, MW	Current Capacity	Additional Capacity	Total Capacity
Seamless Pipes upto 7"	0.15	0.2	0.35
Seamless Pipes upto 14"	0.2		
Total Seamless	0.35	0.2	0.55
ERW upto 21"	0.2		0.2
Wind Power Plant	7MW		7MW

Source: Company reports and JPMorgan estimates.

The acquisition would help maintain the company's leadership position in the seamless market in India

The company concluded the deal only recently and has not yet worked out the finer details of the transaction, so we have built in modest earnings expansion for FY10E

Further details awaited, but production expected in FY10E

The company has mentioned that as it concluded the transaction only very recently, it is still in the process of working through the finer details of the transaction. The company primarily wants to relocate the plant to India, which it believes would take 15-18 months. No location has been finalized, and various options are being explored in this regard. While the company has more or less given up on its greenfield Orissa steel billet project, we believe it would not be averse to acquiring a small or medium billet manufacturing facility. We have assumed a 35% capacity utilization of its new mill in FY10, although this could change as the finer details of the transaction become available.

Cash deployment positive

As we highlighted in our earlier report, MHS had a large net cash balance (Rs5.6B) and zero net debt. This increased the company's ability to pursue organic and inorganic growth opportunities. Lack of clear visible growth and margin pressure were the key reasons for Maharashtra Seamless underperforming its peers in the pipe sector and also the broader market. We believe the recent acquisition increases the growth visibility and reinforces the quest for acquisitions. The company would still have a significant cash balance remaining post this acquisition (Rs3B). We believe the acquisition addresses investors' concerns about the cash balance on the balance sheet, and we believe this should reduce the valuation discount between Maharashtra Seamless and the other Indian pipe companies.

Figure 1: Maharashtra Seamless, Welspun Gujarat and Jindal SAW one-year forward P/E bands



Source: Bloomberg. JPMorgan estimates

Increasing our estimates for FY09-10

We increase our FY09 and FY10 earnings estimates by 5% and 12%, respectively, on a combination of higher margins in FY09E and contribution from the Romanian acquisition in FY10E. While we were forecasting a modest margin recovery in FY09, we are now factoring in a higher margin recovery in FY09 on the back of expectations of higher realizations of seamless pipes.

The company is also in the process of petitioning the government to impose an anti-dumping duty on imports of seamless pipes from China. While we currently have no visibility on this happening any time soon, we believe any such action by the government would be a strong positive for the company

Table 2: Estimate changes for FY08-10E

Rs in millions, year-end March

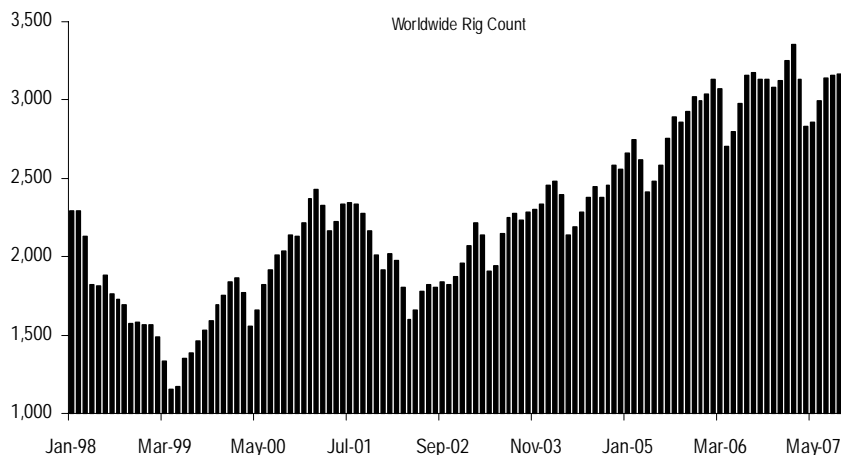
	FY08E	FY09E	FY10E
Sales (New)	16,471	20,191	25,970
Sales (Old)	16,471	19,787	22,868
% Change		2%	14%
Net Profit (New)	2,413	3,176	3,962
Net Profit (Old)	2,413	3,035	3,531
% Change	0%	5%	12%
EPS (Rs, New)	34.2	45.0	56.2
EPS (Rs, Old)	34.2	43.0	50.1
% Change	0%	5%	12%

Source: JPMorgan estimates.

Overall exploration environment remains robust

Seamless pipes are part of the Oil Country Tubular Goods (OCTG) universe. The consumption of OCTG is driven by oil and gas exploration capex. Globally, exploration budgets have increased after the sharp increase in energy prices over the past 2-3 years. One of the leading indicators for exploration is the rig counts that are released by Baker Hughes, a US company tracking the sector. Currently, worldwide rig count levels are at multi-year highs. We expect worldwide spending in exploration to stay at the current elevated levels.

Figure 2: Worldwide rig count

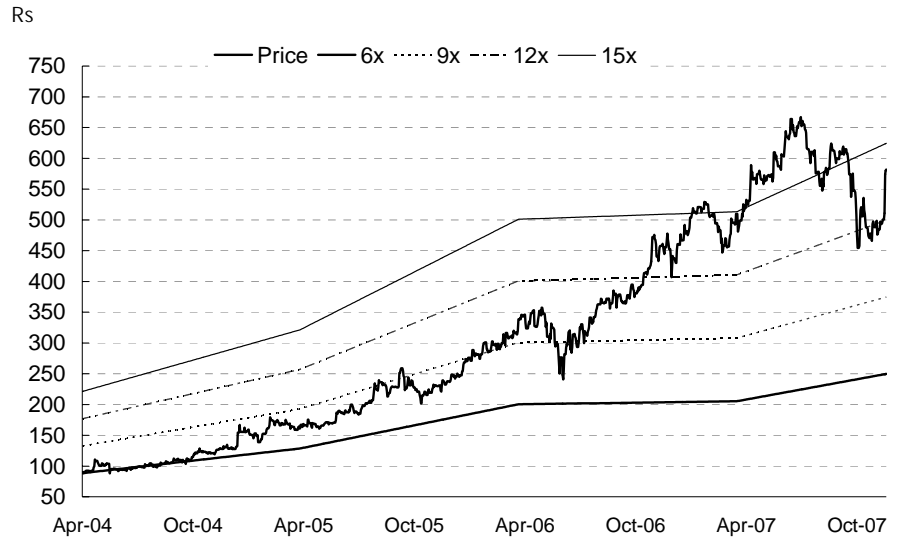


Source: Baker Hughes

Valuation and key risks

We value Maharashtra Seamless on a combination of P/E and P/E relative to MSCI India. Maharashtra Seamless was trading at a significant discount to its peers in India on a combination of lower growth visibility and expected margin pressures. We increase our target multiple from 13.5x to 15x FY09E earnings and arrive at a new price target of Rs675. The target multiple is at the high end of its long-term trading band, as the acquisition gives earnings visibility and addresses investor concerns on cash deployment. Our target multiple also translates into a relative multiple of 0.6x to JPMorgan MSCI India target multiple for FY09E, its long-term average

Figure 3: Maharashtra Seamless: One-year trading bands

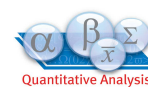


Source: Bloomberg, JPM Estimates

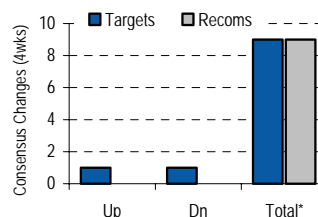
We believe the key risks to our price target are a continued surge in imports from China and the company's inability to pass on higher steel billet costs next year.

All Data As Of 06-Dec-07

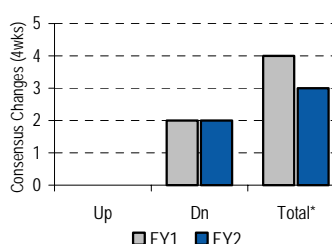
Q-Snapshot: Maharashtra Seamless Ltd.



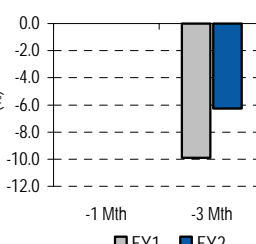
Targets & Recommendations



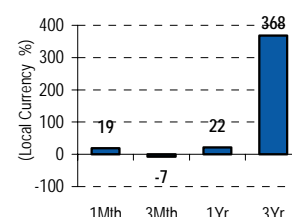
EPS Revisions



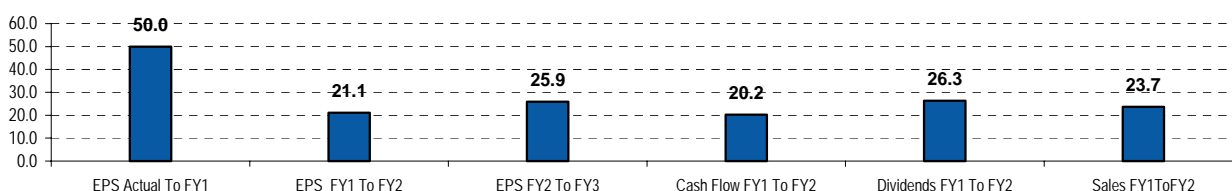
EPS Momentum (%)



Historical Total Return (%)



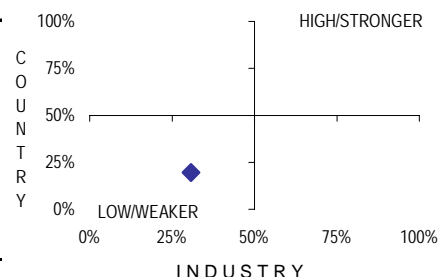
Consensus Growth Outlook (%)



Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	75%	77%
Valuations: P/E Vs Sector (12mth fwd EPS)	85%	87%
Valuations: EPS Growth (forecast)	70%	76%
Momentum: 12 Month Price Momentum	35%	26%
Momentum: 1 Month Price Reversion	20%	4%
Quality: Return On Equity (forecast)	66%	74%
Quality: Earnings Risk (Variation in Consensus)	16%	34%
Earnings&Sentiment: Earnings Momentum	20%	48%
Earnings&Sentiment: Change in Recoms	10%	13%
Earnings&Sentiment: Net Revisions Fy2 EPS	4%	8%

JPMorgan Composite Q-Score



COMPOSITE Q-SCORE** (0% To 100%)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
1942-JP	Kandenko Co. Ltd.	Japan	1,258	6.65	32.2	23%
509550-IN	Gammon India Ltd.	India	1,237	1.08	43.4	38%
1924-JP	PanaHome Corp.	Japan	1,191	3.13	635.9	4%
T03-SG	Tat Hong Holdings Ltd.	Singapore	1,107	1.82	17.7	96%
1721-JP	Comsys Holdings Corp.	Japan	1,077	15.22	10.9	18%
500265-IN	Maharashtra Seamless Ltd.	India	1,027	0.93	14.3	31%
531120-IN	Patel Engineering Ltd.	India	1,020	1.03	39.4	28%
8874-JP	Joint Corp.	Japan	1,016	12.76	7.9	86%
3311-HK	China State Construction International Holdings	Hong Kong	997	2.95	25.2	82%
1833-JP	Okumura Corp.	Japan	952	8.08	-4.2	0%
1881-JP	Nippo Corp.	Japan	881	2.26	16.3	12%

Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
500252-IN	Lakshmi Machine Works Ltd.	Industrial Machinery	1,075	1.67	14.9	78%
500179-IN	HCL Infosystems Ltd.	Information Technology Services	1,067	0.41	12.4	85%
531642-IN	Marico Ltd.	Household/Personal Care	1,060	0.24	26.6	86%
532777-IN	Info Edge (India) Ltd.	Personnel Services	1,036	0.65	137.9	30%
532705-IN	Jagran Prakashan Pvt. Ltd.	Publishing: Newspapers	1,034	0.07	35.7	89%
500265-IN	Maharashtra Seamless Ltd.	Steel	1,027	0.93	14.3	20%
532839-IN	Dish TV India Ltd.	Cable/Satellite TV	1,022	3.69	-12.7	3%
532209-IN	Jammu & Kashmir Bank Ltd.	Regional Banks	1,020	0.18	12.2	66%
531120-IN	Patel Engineering Ltd.	Engineering & Construction	1,020	1.03	39.4	27%
515055-IN	Anant Raj Industries Ltd.	Real Estate Development	964	0.21	18.3	99%
532401-IN	Vijaya Bank	Regional Banks	943	1.20	9.9	57%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qnsnapshot/>

Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.

* Total number of target prices, recommendations or EPS forecasts that make up consensus. ** The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

Maharashtra Seamless: Summary of financials

Rs in millions, year-end March

Profit and Loss statement					Cash flow statement				
	FY07E	FY08E	FY09E	FY10E		FY07E	FY08E	FY09E	FY10E
Revenues	13,971	16,471	20,191	25,970	Net Income (Pre Exceptional)	2,356	2,413	3,176	3,962
% change Y/Y	45%	18%	23%	29%	Add: Depreciation	146	155	165	177
EBITDA	3,410	3,472	4,600	5,806	Working Capital Movement	-767	1,266	-677	-1,053
% change Y/Y	64%	2%	33%	26%	Operational Cash Flow	1,734	3,835	2,664	3,087
EBITDA Margin (%)	24%	21%	23%	22%	Net Capex	-196	-192	-2,700	-550
EBIT	3,265	3,316	4,436	5,629	Free cash flow	1,538	3,642	-36	2,537
% change Y/Y	69%	2%	34%	27%	Equity raised/ (repaid)	3,174	0	0	0
EBIT Margin (%)	23%	20%	22%	22%	Debt raised/ (repaid)	-3,848	-582	0	0
Net Interest	-279	-285	-305	-285	Other	0	0	0	0
Earnings before tax	3,544	3,601	4,741	5,914	Dividends paid	-427	-482	-563	-643
% change Y/Y	71%	2%	32%	25%	Beginning cash	3,192	3,232	5,703	5,103
Tax	-1,189	-1,188	-1,564	-1,952	Ending cash	3,232	5,703	5,103	6,997
as % of EBT	-34%	-33%	-33%	-33%	DPS	5	6	7	8
Net Income (Pre Exceptional)	2,356	2,413	3,176	3,962					
% change Y/Y	69%	2%	32%	25%					
Shares Outstanding	71	71	71	71					
EPS (pre exceptional)	33	34	45	56					
% change Y/Y	56%	2%	32%	25%					
Balance sheet					Ratio Analysis				
	FY07A	FY08E	FY09E	FY10E		FY07A	FY08E	FY09E	FY10E
Inventories	2,513	2,707	3,319	4,269	EBITDA margin	24%	21%	23%	22%
Debtors	1,996	1,579	1,936	2,490	Operating margin	23%	20%	22%	22%
Cash and bank balances	3,232	5,703	5,103	6,997	Net profit margin	17%	15%	16%	15%
Interest receivable accrued	0	0	0	0	Sales growth	45%	18%	23%	29%
Loans and advances	394	500	500	500	Net profit growth	69%	2%	32%	25%
Investments	538	540	540	540	EPS growth	56%	2%	32%	25%
Net fixed assets	2,858	2,895	5,430	5,803					
Total assets	11,531	13,924	16,829	20,599	Sales/assets	121%	118%	120%	126%
Liabilities					Assets/equity (x)	125%	125%	122%	120%
Sundry Creditors	508	1,056	1,267	1,638	ROE	35%	24%	25%	26%
Others	289	786	866	947	ROCE	35%	32%	36%	36%
Total current liabilities	797	1,842	2,133	2,584					
Total debt	1,082	500	500	500					
Other liabilities	411	411	411	411					
Total liabilities	2,290	2,753	3,044	3,495					
Shareholders' equity	9,241	11,171	13,785	17,104					
BVPS	131	158	195	243					

Source Company data, JPMorgan estimates.

India Equity Strategy

Color of Money - November

- **Global concerns vs. domestic support.** The MSCI India lost 1.3% over November, but outperformed the EM Index (down 7%). Relative outperformance was aided by support from domestic mutual funds turning net buyers over the month. FII selling was also muted in relation to other EMs, due to the recent amendment to P Note regulations.
- **Domestic risk appetite is back, as political concerns recede.** Small and mid caps outperformed large caps. Also the outstanding position in the derivatives market hit an all time high. Additionally, the increase in open interest in stock futures has outpaced that in index futures by a substantial amount.
- **Insider activity.** Insiders were marginal buyers over the month, but breadth was in favor of sellers.
 - **Net buy:** Indiabulls Financials, RIL, Kotak Mahindra Bank, M&M
 - **Net sell:** L&T, ICICI Bank, Bajaj Auto, Ambuja Cement, ITC, Dr. Reddy's Lab, Asian Paints, HDFC, Satyam Comp
- **Special focus – Year end flows and market performance.** An analysis of FII activity over Dec-Jan indicates a stronger bias towards buying in January. Returns have however typically moderated over the month.

Table 3: Year end flows and market performance

	FII Flows (US\$ mn)		Sensex Return (%)	
	December	January	December	January
Dec-97	(134)	(77)	2.8	(11.9)
Dec-98	50	105	8.7	8.5
Dec-99	363	35	8.3	4.0
Dec-00	(123)	865	(0.6)	8.9
Dec-01	52	88	(0.8)	1.5
Dec-02	88	185	4.6	(3.8)
Dec-03	1,355	697	15.7	(2.5)
Dec-04	1,473	101	5.9	(0.7)
Dec-05	2,046	805	6.9	5.6
Dec-06	(797)	500	0.7	2.2
Average	437	330	5.2	1.2
Median	70	145	5.3	1.8

Source: Sebi, Datastream

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Indian Equity Strategy

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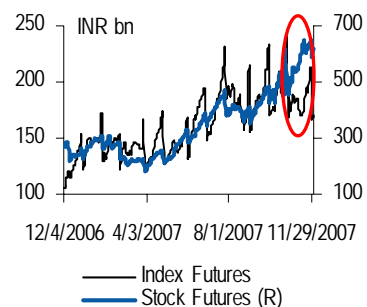
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Figure 4: Open Interest

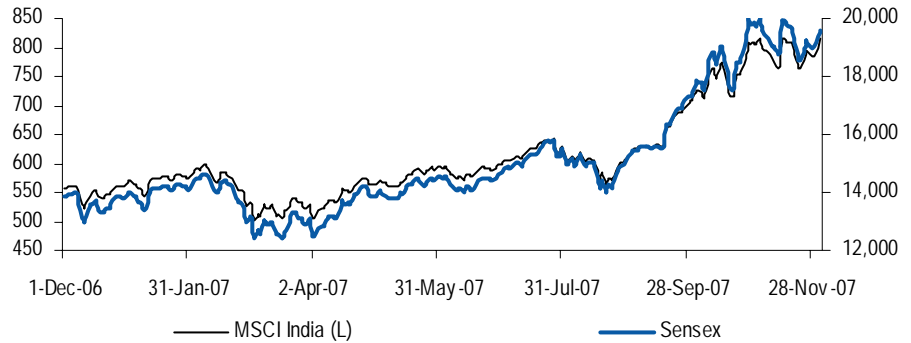


Source: Bloomberg

Market performance

The MSCI India Index lost a marginal 1.3% (INR) over November

Figure 5: BSE Sensex and MSCI India

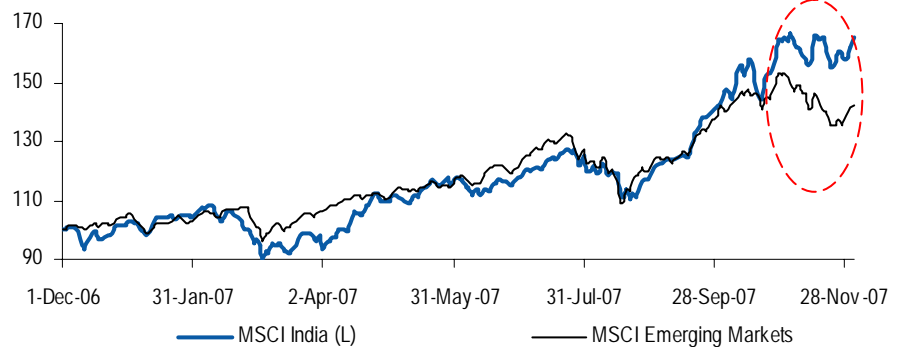


Source: Datastream

Indian equities outperformed emerging markets over the month. MSCI India index (US\$) lost 2% vs. MSCI EM (US\$) loss of 7%

YTD, India has significantly outperformed the MSCI EM index, with a return of 64% vs. 42%

Figure 6: India vs. emerging markets



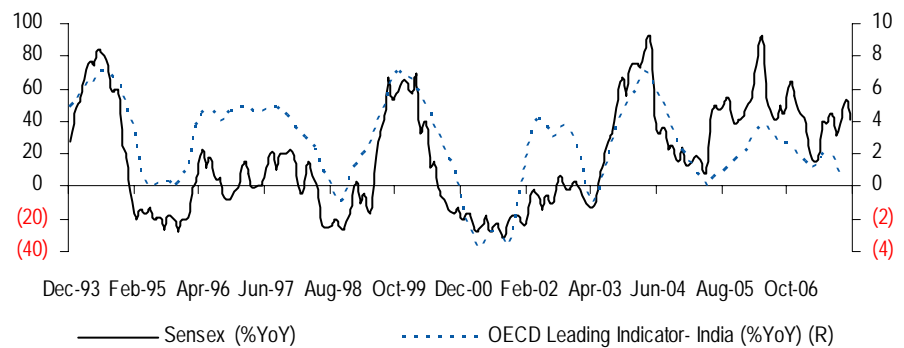
Source: MSCI, Datastream.
 Rebased performance of MSCI US\$ indices.

September 2007 data indicate a weakening outlook for all the major seven economies except Canada.

The latest data for major OECD non-member economies point to moderation in expansion in China, India and Brazil, but an improved outlook for Russia.

The CLI for India increased by 0.2 point in August and is 1.7 points higher than a year ago.

Figure 7: OECD composite leading indicators and Sensex

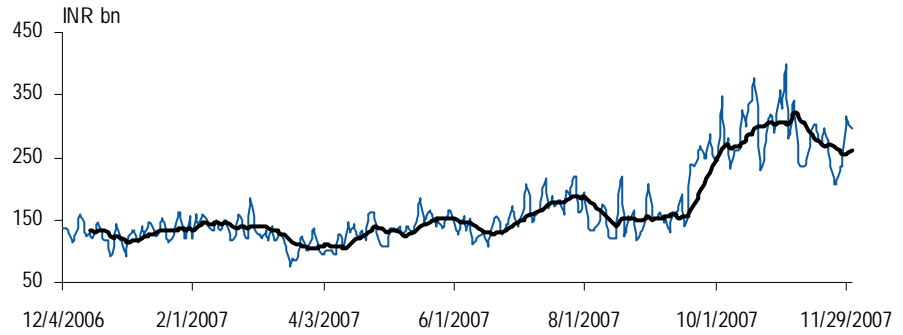


Source: JPMorgan, Economics, Datastream

Turnover sustained at relatively high levels over the month. The new regulation on P-Notes announced in late October has not had a significant impact on trading value.

Summary of Investor activity

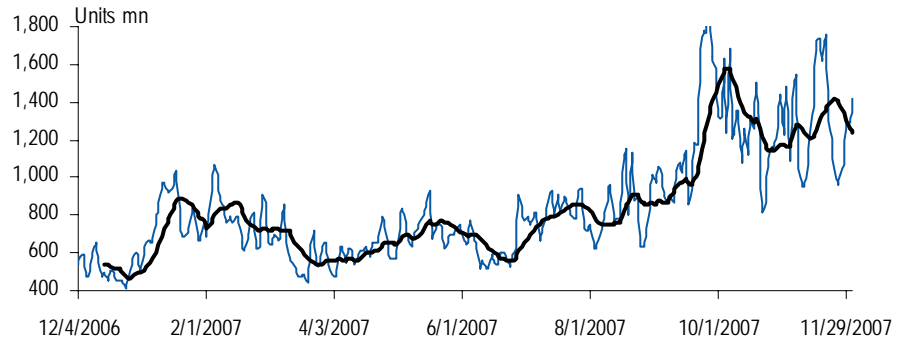
Figure 8: Trading value - cash market



Source: Bloomberg. Aggregate turnover of NSE and BSE.
 Bold line is 10 days moving average

Trading volumes also remain healthy. Mid Cap index outperformed the large caps over the month.

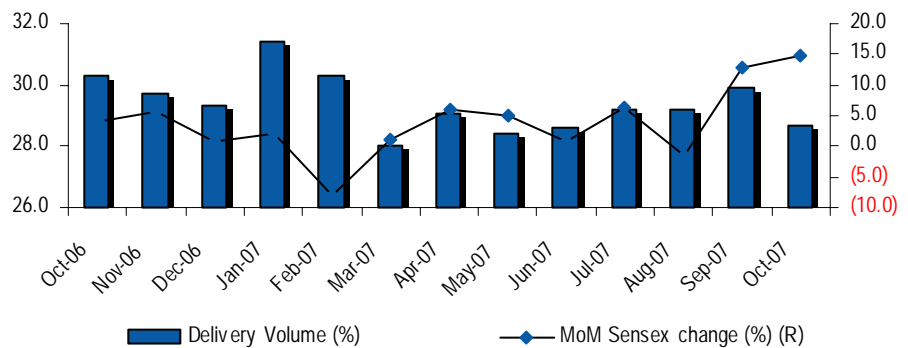
Figure 9: Trading volume - cash market



Source: Bloomberg. Aggregate turnover of NSE and BSE.

Delivery volumes dipped marginally over October.

Figure 10: Aggregate delivery volume (Percentage of total cash volume traded)



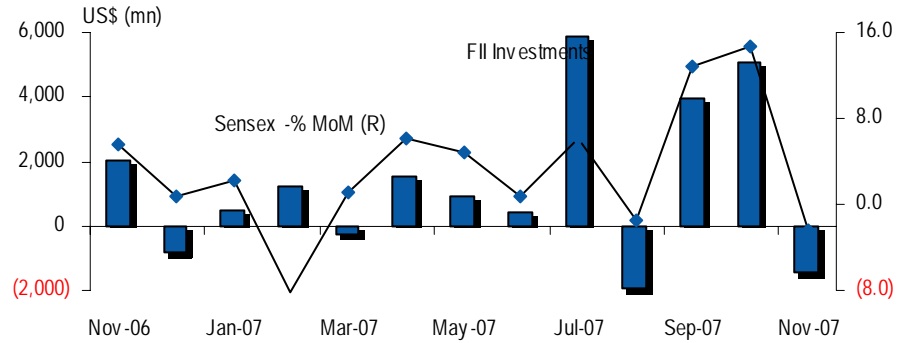
Source: NSE, BSE.

FII activity

FII's turned sellers over the month and net sold equities aggregating US\$ 1.5 bn.

Other than the broad based EM sell off over November, the trend could also be partially attributed to investors being constrained due to the amendment to P-Note regulation.

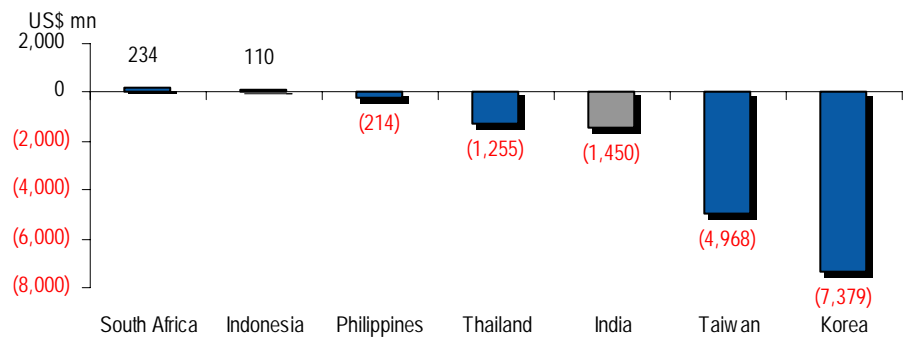
Figure 11: FII investments and Sensex



Source: Datastream, Seb

Most of the key emerging markets saw net selling by FIIs over November.

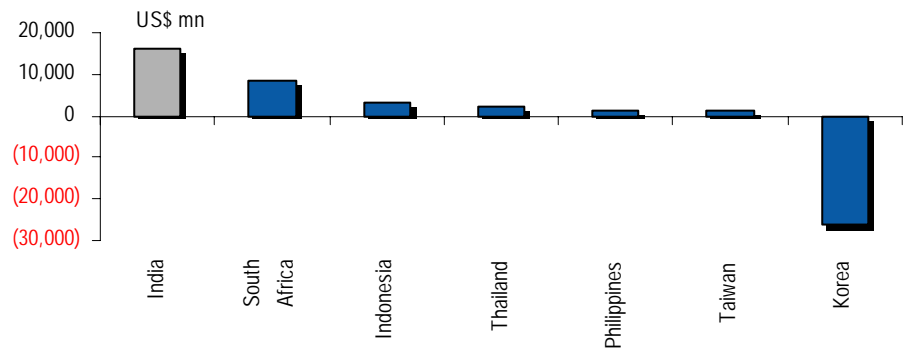
Figure 12: Key emerging markets and FII flows – September



Source: Bloomberg

...YTD India has received the maximum net flows amongst key emerging markets.

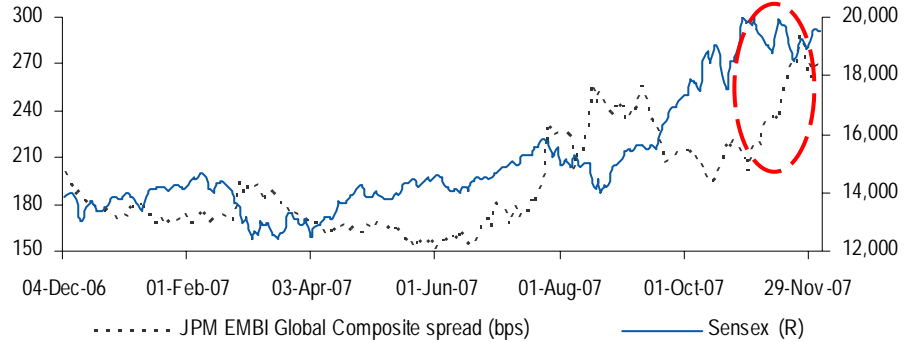
Figure 13: YTD 2007 FII net flows



Source: Sebi

EMBI spreads reached to one year high.
Higher EMBI spreads typically indicate lower risk appetite and is not conducive for EM outperformance.

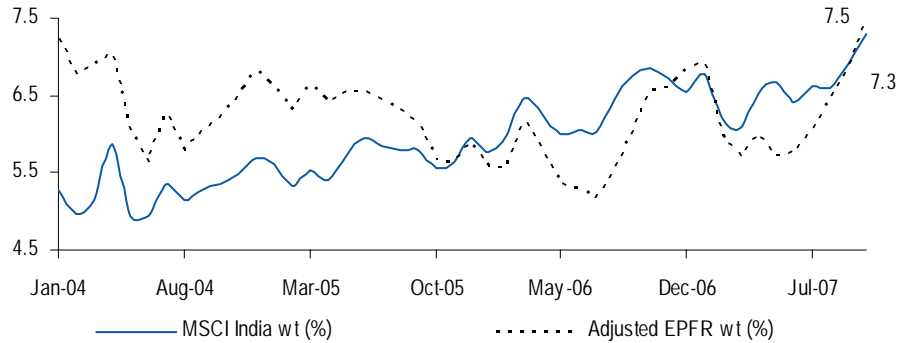
Figure 14: EMBI spreads and Sensex



Source: Datastream

Last available EPFR data for October indicates that foreign investors have turned marginally overweight on India in the emerging market context.

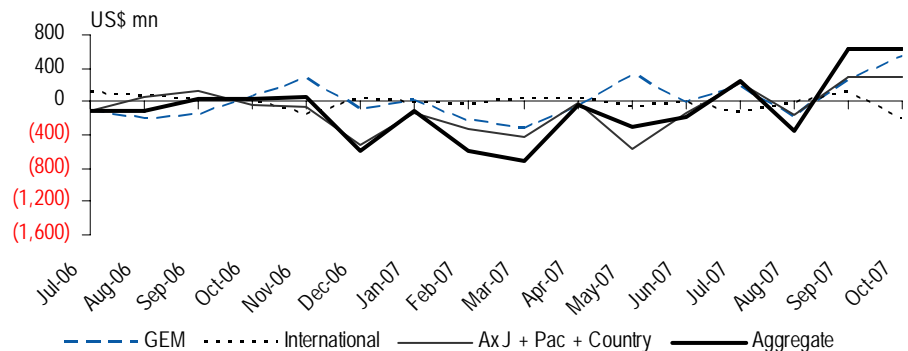
Figure 15: India weight in MSCI and EPFR universe



Source: MSCI, Datastream, EPFR

FII's across categories have been buying into Indian equities.

Figure 16: Figure 17: International flows into India and fund style



Source: EPFR

JPMorgan does not expect any change in benchmark rates in India.

We expect a 25 bps cut in the US Fed rate at the FOMC meeting on Dec 11, 2007.

Table 4: Global Interest rate trend

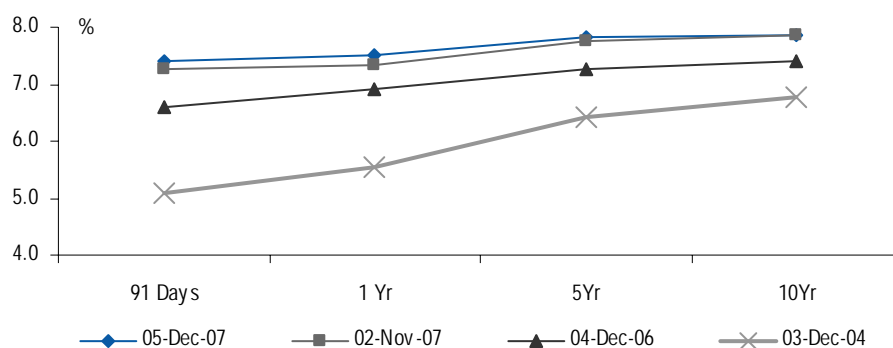
	Mar-06	Jun-06	Sep-06	Dec-06	Current	Dec-07 (E)	Dec-08 (E)
USA	4.75	5.25	5.25	5.25	4.50	4.25	4.50
Japan	0.00	0.00	0.25	0.25	0.50	0.50	1.00
Euro	2.50	2.75	3.25	3.50	4.00	4.00	4.00
India	6.50	6.50	7.00	7.25	7.75	7.75	7.75

Source: JPMorgan Economics

The yield curve flattened further over the month. While the long term yield remained unchanged the short term rates inched up.

Yields across maturities have moved up by 100 to 200 bps over the last three years.

Figure 18: Indian yield curve

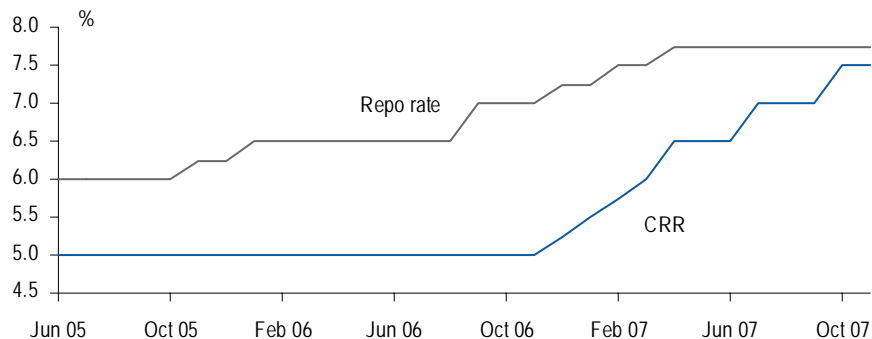


Source: Datastream

JPMorgan expects no change in benchmark interest rates over the year.

The RBI raised CRR by 50 bps in the October credit policy to 7.5%.

Figure 19: Cash reserve ratio and repo rate



Source: JPMorgan economics

Money Flows monitor

Table 5: Money flows - November

Outflow	Inflow
ICICI Bank Ltd	Reliance Industries Limited
Axis Bank Limited	Reliance Energy Ltd
Oil & Natural Gas Corp Ltd	State Bank Of India
Housing Development Finance	Sun Pharmaceutical Indus
Satyam Computer Services Ltd	Ambuja Cements Limited
Maruti Suzuki India Ltd	Tata Power Company Limited
Indiabulls Financial Service	ITC Ltd
Ranbaxy Laboratories Ltd	Gail India Ltd
Zee Entertainment Enterprise	Hindalco Industries Limited
Larsen & Toubro Limited	Infosys Technologies Ltd

Source: Bloomberg

Money flow here is sum of daily trade volume * daily price change.

Table 6: Foreign holding – MSCI India sectoral trend

(%)	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sept-07
Consumer Discretionary	43.8	42.3	43.9	43.8	44.1	40.4	41.9
Consumer Staples	55.8	53.2	53.7	52.6	52.8	51.5	51.7
Energy	15.7	16.6	16.5	16.1	15.9	16.7	17.5
Financials	50.9	49.2	50.4	50.4	50.4	44.7	44.5
Health Care	38.4	34.8	32.1	33.5	33.1	32.6	31.4
Industrials*	35.0	34.8	34.7	34.6	33.2	31.2	30.1
Information Technology	28.5	25.6	26.7	28.6	27.4	27.6	28.4
Materials	30.5	26.4	26.4	28.7	27.8	29.2	28.9
Telecoms	22.9	19.1	13.3	14.4	14.1	13.6	13.7
Utilities	22.2	20.5	22.0	21.9	20.9	20.9	21.2

Source: NSE, MSCI, Datastream

* - Tata Motors is classified as Industrials

Over July – Sept 07 quarter, foreign investors have increased their holdings in Consumer Discretionary, Energy and IT Services, while reducing exposure to Health Care, Industrials and Materials stocks.

Table 7: Stocks with significant changes in foreign ownership (July – Sept 07)

	Higher holding	Reduced holding
1	Indiabulls Real Estate	Dish Tv India
2	Gujarat Ambuja Cements	Hindalco Industries
3	Infr.Dev.Finance Co.	Mahindra & Mahindra
4	HDFC Bank	Tata Motors
5	ACC	Cipla
6	Maruti Udyog	Ranbaxy Labs.
7	Kotak Mahindra Bank	Asian Paints
8	Larsen & Toubro	Tata Iron & Steel
9	Housing Development Fin.	Satyam Computer Services
10	Tata Power	Reliance Communications

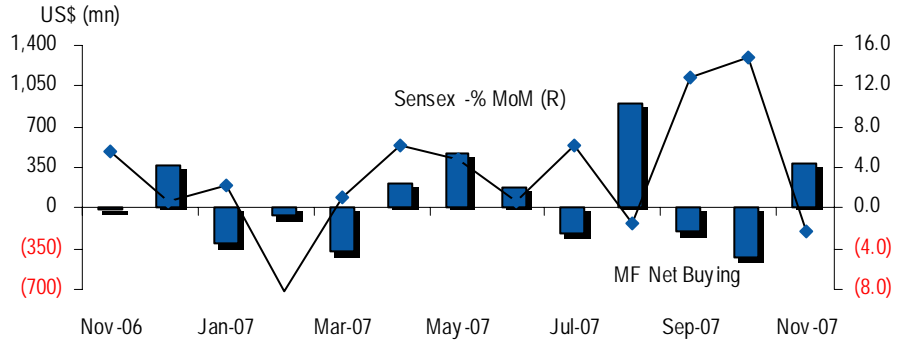
Source: NSE, MSCI, Datastream

Domestic institutional investor activity

Mutual funds turned net buyers over November.

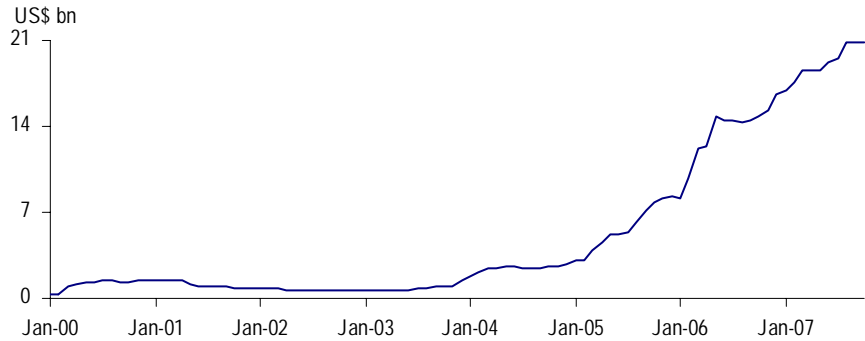
YTD domestic mutual funds have net invested a meager US\$ 540 mn.

Figure 20: Domestic mutual fund buying and Sensex



Source: Sebi, Datastream

Figure 21: Cumulative equity mutual fund subscription

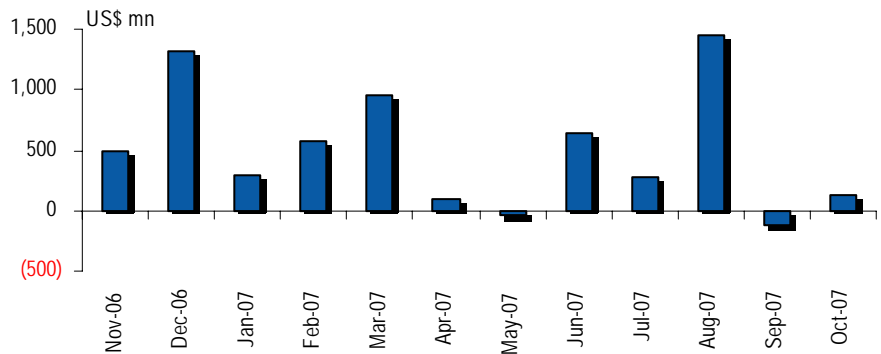


Source: AMFI

October data indicates marginal net subscription into equity MF schemes.

YTD equity mutual funds have seen net inflows of US\$ 4.2 bn.

Figure 22: Net subscription – equity funds



Source: AMFI

The first year premium collected by the life insurance sector declined for the second consecutive month ...the decline is led by LIC, while private sector players continue to grow at a healthy rate.

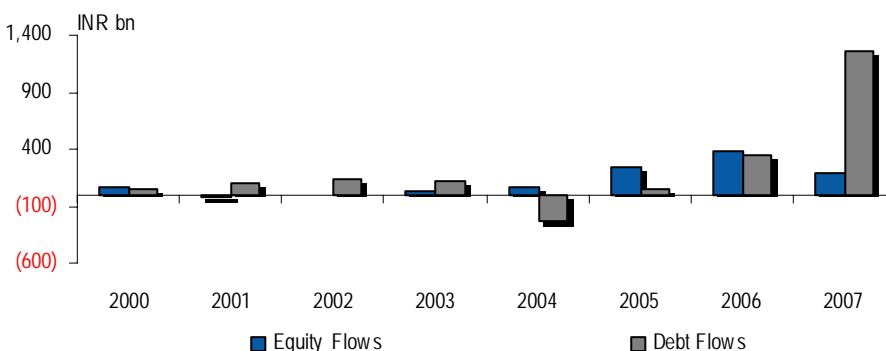
Table 8: Life insurance premium and estimated investments in equities

(INR mn)	Oct-07	Sep-07	Aug-07	July-07	June-07	May-07	Apr-07
LIC	31,397	25,548	60,206	56,052	35,310	29,156	21,343
Industry	54,544	52,188	80,851	73,446	51,801	43,494	29,823
(YoY)	-18%	-14%	48%	68%	-34%	12%	49%
Fiscal Year - YTD	6%						
Renewal premium (E)	70,908	73,063	113,192	102,824	72,521	60,892	44,734
Total amt.	125,452	125,250	194,043	176,269	124,323	104,386	74,557
'@ 25% amt. into equities	31,363	31,313	48,511	44,067	31,081	26,097	18,639

Source: Irda, JPMorgan estimates.

Debt funds have attracted significantly higher amounts as compared to equity funds over Jan-October 2007.

Figure 23: Mutual fund – equity & debt subscription

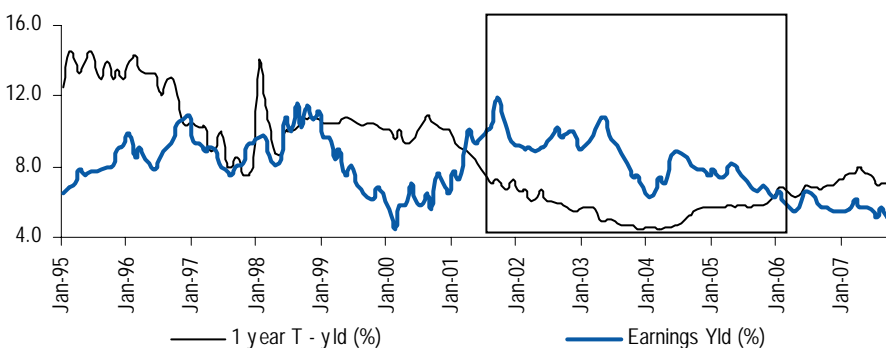


Source: AMFI

Note – 2007 data is for January to Oct only.

Short term interest rates inched up, while the earnings yield fell over the month, improving the relative attractiveness of bonds.

Figure 24: Earnings yield and interest rate



Source: Datastream, MSCI, IBES

Trend in household savings

Table 9: Household savings

Data in the RBI's FY07 annual report released earlier this year indicates that over FY07 households increased their allocation to bank deposits, insurance and shares & debentures at the expense of Provident and pension funds and small saving schemes.

	Per cent to Total Financial Saving		
	2004-05P	2005-06P	2006-07#
Saving (Gross)	100.0	100.0	100.0
Currency	8.5	8.7	8.6
Deposits	37.2	47.1	55.7
Shares and Debentures	1.1	4.9	6.3
Claims on Government	24.5	14.6	5.2
Insurance Funds	15.7	14.0	15.0
Provident and Pension Funds	13.0	10.5	9.2

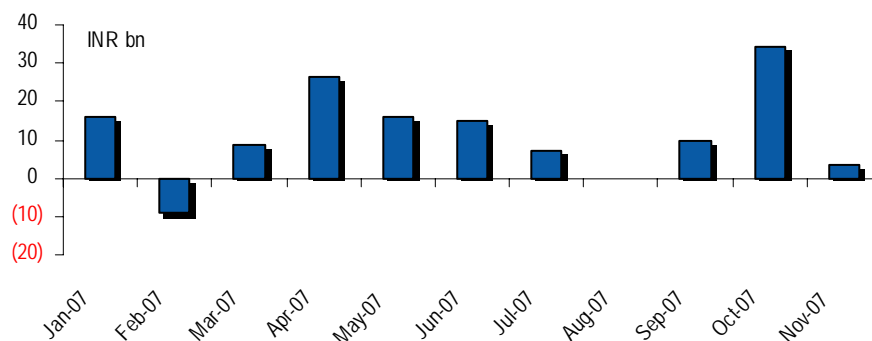
Source: RBI, P: Provisional.# : Preliminary Estimates.

Insider Activity

Insiders were marginal net buyers over November

However, the breadth was in favor of net selling.

Figure 25: Net insider transaction value – MSCI India companies



Source: MSCI, Bloomberg, JPMorgan

Table 10: Insider net buy / sell

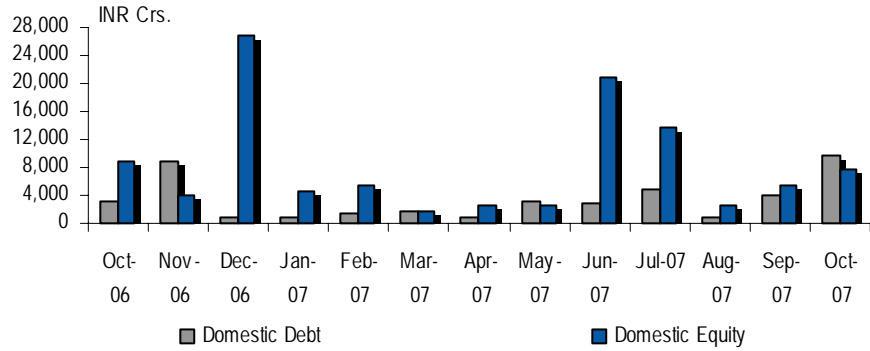
Buy	Sell
Indiabulls Finl.Svs.	Larsen & Toubro
Reliance Industries	Icici Bank
Kotak Mahindra Bank	Bajaj Auto
Mahindra & Mahindra	Gujarat Ambuja Cements
	ITC
	Dr.Reddy's Laboratories
	Asian Paints
	Housing Development Fin.
	Satyam Computer Services

Source: Bloomberg, JPMorgan

Equity fund raising marginally picked up over October

Corporate activity

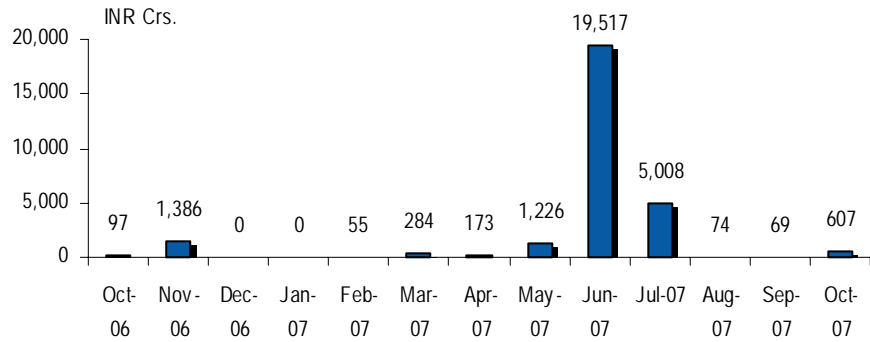
Figure 26: Capital raised from primary capital market -Domestic



Source: CMIE

Overseas fund raising also marginally picked up over October. We expect this trend to continue through to the end of the year.

Figure 27: Capital raised from primary capital market -Overseas

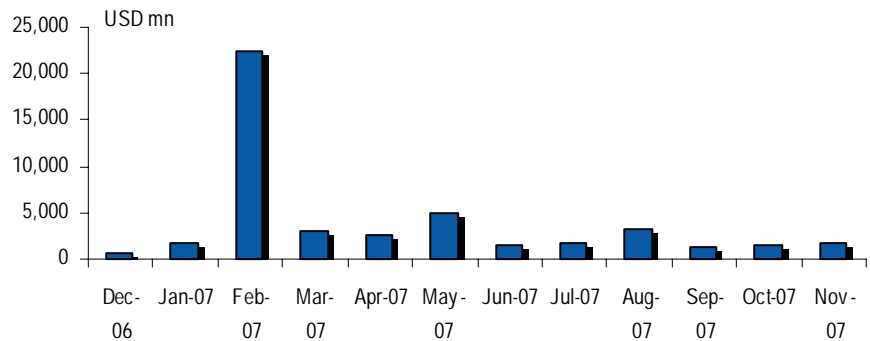


Source: CMIE

M&A announcements remained flat.

Momentum in mega overseas deals appears to have abated.

Figure 28: Mergers & acquisitions announced

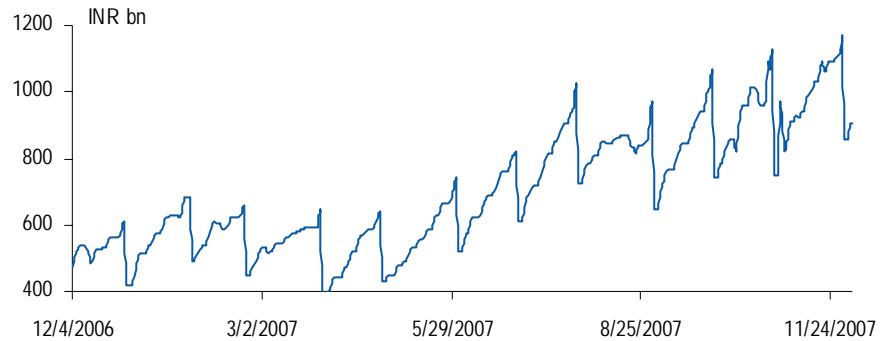


Source: Bloomberg

Derivatives action

Aggregate F&O open interest reached a new high over November. However, hedge fund activity seems to have moderated significantly following the new regulations on P-Notes.

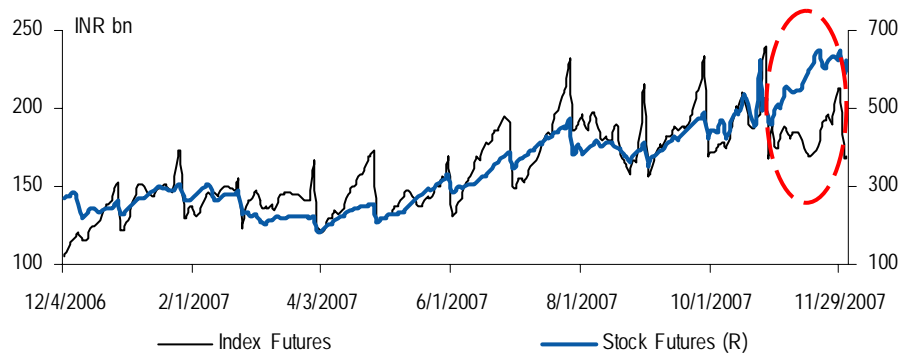
Figure 29: Aggregate F&O open Interest



Source: Bloomberg

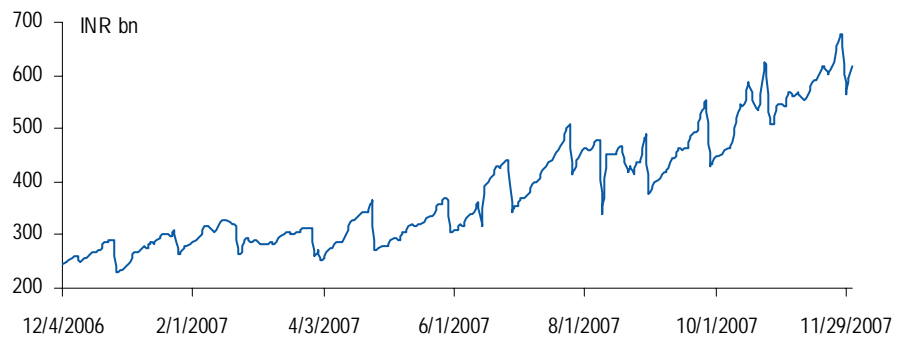
Open interest in the Index futures corrected while trend in stock futures continued remained strong. This could also be explained by relatively higher domestic participation

Figure 30: Open interest – Index & stocks futures



Source: Bloomberg

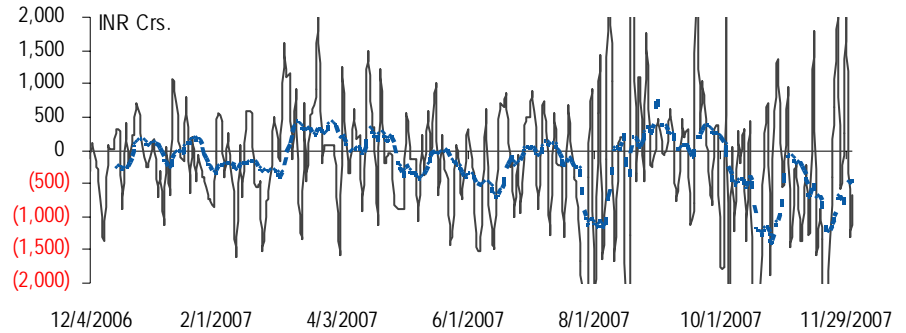
Figure 31: F&Os – open interest



Source: Bloomberg

FII's turned net buyers towards the end of the month.

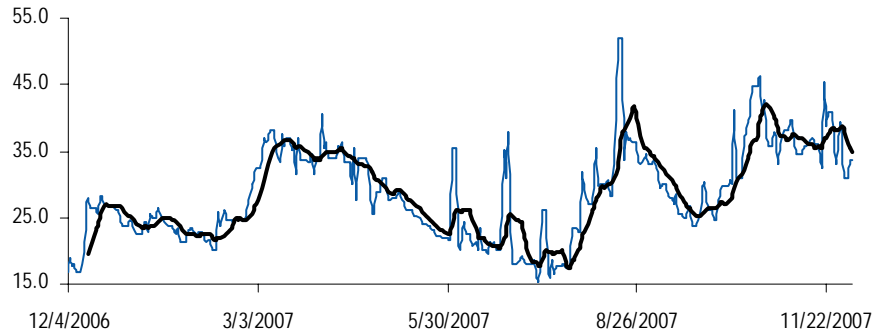
Figure 32: FIIs – Net buy / sell



Source: Bloomberg

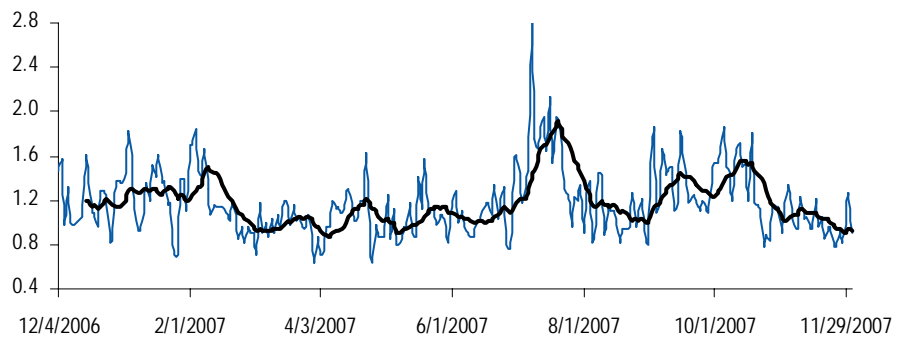
Implied volatility remained at a relatively high level through the month.

Figure 33: Nifty Index option - Implied volatility (%)



Source: Bloomberg

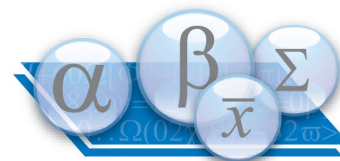
Figure 34: Nifty Index option – Put Call ratio



Source: Bloomberg

India In Style - Factor Analysis

Momentum Bites!



Quantitative Analysis

Asia Pacific Quantitative Analysis

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In this analysis we investigate how our library of commonly used quant factors has performed when tested against a large cap MSCI India universe.

It is clear from our testing results that there is an opportunity to generate abnormal returns in the MSCI India universe through the application of quantitative techniques. A number of factors were found to work well however as a group **it is momentum based metrics that dominated** in terms of their success rate, consistency and statistical significance.

In the course of this analysis we have also tested the JPMorgan Q-Score model. This model has been developed on the back of research conducted (primarily) in the Australian market and hence this test can be regarded as being very much out of sample. **The Q-Score model was found to be a statistically significant Alpha generator in the Indian market.**

Source: MSCI.

For additional details, please see the full stand-alone version of this note.

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Maharashtra Seamless

Company announces acquisition - ALERT

- **Company announces acquisition:** Maharashtra Seamless has announced the acquisition of a 0.2MT seamless plant in Romania. While we are still waiting for further details from the company, a report in today's The Economic Times mentioned the expected value of the deal at Rs2.5bn. The plant is owned by SC Republica SA and is the largest seamless plant in Romania. The acquisition gives the company access to the East European and Middle Eastern markets
- **Cash Balance put to work:** As we had mentioned in our initiation report dated November 19, 2007 (*Margin pressures appears to be in price*), the large underlying cash balance (currently Rs5.6bn) and zero net debt gave the company the flexibility to aggressively pursue organic and inorganic growth opportunities. The acquisition deploys the excess cash balance of the company
- **Possible Upside to our estimates:** While we await further clarity on the transaction, we believe there are upside risks to our earnings estimates for FY09
- **Maintain Overweight-** We maintain our Overweight rating on the stock. Any possible acquisition should be a strong positive for stock price performance. We continue to believe the company is a beneficiary of the exploration capex in Indian and the Middle East and the Romanian acquisition was likely to give the company a foothold in the attractive markets of Eastern Europe and Central Asia

Overweight

Rs579.20

05 December 2007

Steel

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Maharashtra Seamless (MHSM.NS) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
19-Nov-07	OW	485.40	580.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Initiated coverage Nov 19, 2007. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
 JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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IB clients*	51%	50%	38%
JPM SI Equity Research Coverage	42%	46%	12%
IB clients*	70%	63%	49%

*Percentage of investment banking clients in each rating category.

For purposes only of NASD/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category.

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