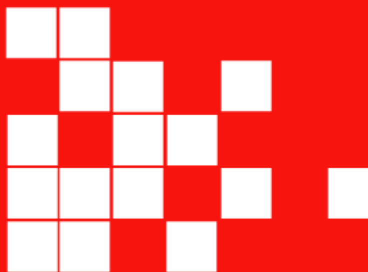
Macquarie Research
Equities



INDIA

India earnings preview

6 April 2007

Is earnings growth slowing?

Event

- Our earnings growth forecasts for the 56 companies in our universe suggest a slowdown in aggregate growth to 12% YoY in 4Q FY3/07 from the 83% achieved in 3Q FY3/07. Sequentially, we expect earnings to drop 6% QoQ. This poses the question of whether earnings growth is poised to slow down.

Impact

- **Only a partial earnings slowdown.** One-offs in two of the largest sectors, oil & gas, and banks, are likely to skew growth. The oil & gas sector typically witnesses violent unpredictable swings in subsidy allocations, especially in the 4Q of every financial year. Stripping out oil & gas, estimated PAT growth improves to 35% YoY and 2% QoQ. Similarly, the banks will make ~Rs 9bn of one-off general provisioning. Stripping this out, the banks' PAT growth increases to 37% YoY and 7 % QoQ. Excluding both oil & gas profits and banks' one-offs, PAT growth rises to a significant 41% YoY and 7% QoQ.
- **EBITDA margin expansion, but PAT pressure.** We expect strong top-line aggregate growth of 24% YoY and even stronger EBITDA growth of 29% suggesting margin expansion of 100bp. Nevertheless, aggregate PAT margins will be squeezed by 140bp, a trend generally evident in most sectors and primarily attributable to higher interest costs.
- **Telecom, pharma and property likely to show high growth, albeit off a lower base.** Robust subscriber growth of 70-100% should cushion telecom average revenue per user (ARPU) declines, while pharma growth should be driven by US generic launches by Dr Reddy's. Similarly, property sector growth should come from better volumes and margins off a low base.
- **Cement and IT sectors driven by volume growth**, with PAT growth of 73% and 46%, respectively. Volume growth in cement should be 8-10% and for IT, 35-40%. A small loss expected for Arvind Mills should force a 50% fall in textile aggregate PAT growth. Ex-Arvind, textile growth should be 26% YoY.

Outlook

- **Cautious on cyclicals given risk of hard landing.** The latest CRR hike was a serious surprise to the market, raising the probability of a hard landing. We think the market will be cautious on cyclicals (where the cycle relates to the Indian economy) and rate sensitives for a little while.
- **Focus on low-interest-rate-sensitive stocks.** We are positive on companies whose earnings are relatively protected from rising interest rates or where top-line growth is somewhat hedged against a hard landing. This is reflected in our top 5 stock picks - **Bharti Airtel** (BHARTI IN, Rs753, Outperform, TP: Rs1,025), **TCS** (TCS IN, Rs1,203, Outperform, TP: Rs1,672), **Reliance Industries** (RIL IN, Rs1,362, Outperform, TP: Rs1,590), **Tata Steel** (TATA IN, Rs467, Outperform, Target: Rs556) and **Dr Reddy's** (DRRD IN, Rs738, Outperform, TP: Rs837.5).

Fig 1 Sector earnings growth, 4QFY07E

Sectors	YoY PAT growth	QoQ PAT growth
Pharmaceuticals (2)	413%	-11%
Telecom (2)	105%	7%
Properties (2)	99%	23%
Cement (5)	73%	13%
IT (3)	46%	9%
Retail (3)	32%	0%
Metals (7)	29%	0%
Banks (12)	10%	-14%
Others (2)	1%	115%
Construction (6)	-1%	15%
Oil & Gas (7)	-24%	-22%
Textiles (5)	-50%	1%
Macquarie's universe (incl.Oil&Gas)	12%	-6%
Macquarie's universe (excl.Oil&Gas)	35%	2%
Macquarie's universe (excl. Oil&Gas, excl. Banks' provisioning)	41%	7%

Source: Macquarie Research, April 2007

Note: Number of stocks under coverage that reported are in indicated in parenthesis

Fig 2 Highest earnings grwth 4QFY07E

Companies	YoY PAT growth	QoQ PAT growth (%)	Rec
Syndicate Bank	1939%	-7%	O/P
India Cements	314%	40%	Neutral
Mahindra GESCO	213%	160%	O/P
Ultratech Cements	213%	20%	O/P
Reliance Comm	122%	5%	O/P

Source: Macquarie Research, April 2007

Fig 3 Lowest earnings growth 4Q FY07E

Companies	YoY PAT growth	QoQ PAT growth (%)	Rec
Arvind Mills	-110%	-553%	U/P
HPCL	-93%	-64%	O/P
BPCL	-89%	-35%	O/P
Patel Engg	-83%	-87%	O/P
Nagarjuna Const.	-62%	-70%	Neutral

Source: Macquarie Research, April 2007

Fig 4 Our top picks

Companies	PER (x) FY07E	EPS CAGR (%) FY06-09E	ROE (%) FY07E
Bharti Airtel	33.4	61%	37%
TCS	27.9	41%	57%
Reliance Inds	17.1	21%	21%
Tata Steel	5.4	8%	42%
Dr Reddy's	20.5	66%	24%

Source: Macquarie Research, April 2007

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Fig 5 4Q FY3/07 estimates for Macquarie's universe, by sector

Sector	Net sales (Rs m)			EBITDA (Rs m)			PAT (Rs m)			Key sector drivers
	4QFY3/07E	% chg (YoY)	% chg (QoQ)	4QFY3/07E	% chg (YoY)	% chg (QoQ)	4QFY3/07E	% chg (YoY)	% chg (QoQ)	
Banks	139,096	28%	11%	59,596	13%	-4%	39,099	10%	-14%	Liquidity constraints in the last quarter of FY3/07 will put pressure on the cost of funding for some banks, though most of it would have been passed on. We expect loan growth to taper a bit, given the combination of rising rates and LDRs hitting their regulatory ceilings. The RBI recently imposed additional general provisions (up to 2%, from 1% earlier) on specified categories of loans – real estate, personal loans, credit cards – and this will severely depress profits across the board, given that it has to be absorbed in a single quarter. We expect headline profits to increase by 10% YoY for the 12 banks we track - without the general provisions, profits would be up 37%.
Cement	75,280	37%	8%	24,395	91%	15%	15,675	73%	13%	We forecast volume growth of 8-10% and realisation gains of 2-3% QoQ to drive earnings for this quarter.
Construction	111,490	61%	48%	10,472	34%	40%	5,957	-1%	15%	Strong volume growth expected, driven by healthy order book. Profits would be depressed as companies provide for higher tax rates after withdrawal of benefits under Sec 80IA
IT	135,100	35%	8%	36,810	45%	10%	30,957	46%	9%	We forecast 35-40% volume growth for large IT companies given large deals won, helped by <3% market share of Indian IT firms in the US$1tr IT and BPO market.
Metals	317,020	17%	4%	115,660	39%	0%	67,000	29%	0%	We forecast volume growth of 8-10%. However, this would be offset to some extent by the reduction in metal prices, for flat QoQ profit numbers.
Oil & Gas	995,644	16%	3%	154,925	9%	-2%	69,850	-24%	-22%	Subsidy allocation amongst the public sector companies will be the key to 4th quarter profits. Historically there has been a large swing in subsidy provisions in the 4th quarter, resulting in variance in profits for these companies. Petrochemical margins were higher YoY although declined sharply QoQ. Refining margins have also increased from the lows of the last quarter.
Pharmaceuticals	17,870	59%	-4%	3,467	152%	7%	2,269	413%	-11%	Strong revenue growth in the sector is led by Dr Reddy's, on the back of its US generic launches. Strong YoY improvement in margins should lead to solid EBITDA growth and strong PAT growth.
Properties	17,657	47%	66%	9,713	67%	35%	5,691	99%	23%	Better volumes and margins should drive the quarterly results. Part of the residential developments sold in last 1-2 years would be booked in this quarter.
Retail	10,585	63%	0%	858	52%	0%	354	32%	0%	Sector PAT is expected to grow 32% YoY driven by store additions, but offset by depreciation and interest related to new stores kicking in ahead of sales. Cyclically 4Q is not the strongest quarter for retail. Upside from subsidiaries and real estate/ private equity ventures not reflected in standalone results. We believe focus should remain on the broader long-term retail story of aggressive expansion plans with control over rentals versus quarterly standalone results.
Telecom	96,353	51%	11%	39,379	69%	11%	23,018	105%	7%	Robust YoY subscriber growth to the order of 70-100% will cushion ARPU declines, leading to robust revenue growth. ARPU decline will probably be less than what the market expects. Sustained margin expansion for both BHARTI and RCOM should lead to superb EBITDA and PAT growth YoY.
Textiles	16,671	13%	5%	3,160	20%	13%	1,235	-50%	1%	Expecting increased volumes and realisations to drive sales and margins for Raymond, Himatsingka, Welspun and Vardhman. Weaker denim realisations will put pressure on Arvind Mills' profits. We expect the textiles sector ex-Arvind Mills will report PAT growth of 26% YoY.
Others	35,297	60%	75%	9,008	57%	194%	4,673	1%	115%	
Macquarie's total universe (incl Oil & Gas, incl one-off banks' provisioning)	1,968,064	24%	8%	467,443	29%	4%	265,778	12%	-6%	
Macquarie's total universe (excl Oil & Gas, incl one-off banks' provisioning)	972,420	33%	13%	312,518	41%	7%	195,928	35%	2%	
Macquarie's total universe (excl Oil & Gas, excl one-off banks' provisioning)	972,571	33%	13%	321,645	46%	10%	205,308	41%	7%	

Source: Company data, Macquarie Research, April 2007

Fig 6 4Q FY3/07 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	EBITDA (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	PAT (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	Key assumptions
Banks										
ICICI Bank	18,241	50%	7%	10,626	20%	-2%	7,541	-5%	-17%	Net interest income expected to increase by 50% YoY. Non-interest income expected to be robust and grow by 29% mainly driven by retail, wholesale and international businesses. Additional general provision of Rs3bn expected to push down net income.
HDFC Bank	9,709	31%	5%	3,489	-8%	-19%	1,863	-26%	-37%	Fee income growth expected to increase by 78% YoY. Additional general provision (1%) expected to be around Rs1.5bn.
SBI	43,709	23%	11%	13,556	-30%	-20%	7,486	-12%	-30%	Net interest income (NII) expected to increase by 2% YoY on the back of higher loan yields. Net income expected to fall by 12% YoY mainly on account of higher NPL charges and additional general provisions.
UTI Bank	5,200	66%	25%	2,874	25%	2%	1,737	14%	-6%	Fee income expected to grow by 32% YoY. Operating expense to be in line with our full-year forecasts.
Syndicate Bank	6,089	55%	10%	2,127	-	18%	2,103	1939%	-7%	NII expected to increase by 55% YoY. Margins to remain stable.
Union Bank	8,229	38%	20%	4,537	106%	25%	2,951	104%	15%	NII expected to increase by 38% YoY driven by higher asset yields. Operating expense to be in line with our full-year forecasts.
Vijaya Bank	2,573	6%	-3%	1,076	-	-9%	769	—	-17%	Net interest margin (NIM) expected to remain stable for 4Q FY3/07.
Punjab National Bank	15,418	31%	7%	5,821	50%	-3%	4,063	41%	-5%	YoY NII expected to increase by 31%. Additional general provision of Rs0.95bn expected in 4Q07.
HDFC	7,276	29%	42%	6,680	30%	50%	5,278	24%	48%	Net operating income expected to increase by 31% YoY. Expected to maintain its margins.
Bank of Baroda	10,255	18%	7%	3,711	41%	-28%	2,087	0%	-37%	NII expected to increase by 18% YoY, similar to growth seen in 3Q. Operating expenses expected to increase by 6% YoY.
Bank of India	10,407	24%	21%	3,329	5%	3%	1,512	-41%	-41%	NII expected to increase by 24% YoY on the back of expected improvement in asset mix (more towards retail & agriculture). Net income expected to fall by 12% YoY on account of higher NPL charges and additional general provision.
IDBI	1,990	-41%	-6%	1,769	-23%	15%	1,710	-15%	35%	YoY NII to fall by 40% due to higher funding costs. Operating expenses expected to increase by 25% YoY mainly due to integration and other related costs associated with the UWB acquisition.
Total	**139,096**	**28%**	**11%**	**59,596**	**13%**	**-4%**	**39,099**	**10%**	**-14%**	
Cement										
ACC	16,595	25%	2%	4,951	57%	6%	3,293	40%	-4%	Flat sales and 2% increase in realisation QoQ.
Gujarat Ambuja	15,084	63%	15%	5,621	75%	17%	3,890	30%	15%	Not comparable due to merger of ACEL. Sales up 10% QoQ and realisation up 2%.
Grasim Industries	23,826	34%	5%	7,692	107%	15%	4,821	84%	17%	Cement sales up 5.7% QoQ & increase in sponge iron realisation by Rs1500/t QoQ
Ultratech Cements	14,094	38%	12%	4,358	127%	15%	2,551	213%	20%	Cement sales up 10% QoQ and 2% increase in sales realisation QoQ.
India Cements	5,681	34%	20%	1,773	132%	33%	1,121	314%	40%	Cement sales up 17% QoQ and flat realisation.
Total	**75,280**	**37%**	**8%**	**24,395**	**91%**	**15%**	**15,675**	**73%**	**13%**	
Construction										
Nagarjuna Construction	9,799	53%	40%	881.9	66%	10%	132.6	-62%	-70%	Strong revenue growth driven by robust order book position. 140bp increase YoY in interest and depreciation costs. Net profits to be depressed by high tax rate due to withdrawal of tax benefits.
Hindustan Construction	9,448	23%	76%	897.5	33%	54%	243.6	-44%	11%	Revenues for the quarter expected to grow 23% YoY. High interest and depreciation costs continue to drag profit growth. Net profits to be depressed by high tax rate due to withdrawal of tax benefits.
Patel Engineering	4,370	45%	100%	428	59%	2%	37	-83%	-87%	Strong revenue growth of 45% YoY from ramp-up in hydro and road projects Net profits to be depressed by high tax rate due to withdrawal of tax benefits.

Fig 6 4Q FY3/07 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	EBITDA (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	PAT (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	Key assumptions
Larsen & Toubro	63,835	38%	55%	6259.4	8%	46%	4710.6	3%	37%	Revenue growth to pick up after seven quarters of sluggish growth. EBITDA margins to decline as new projects entering execution phase would not cross threshold for profit recognition.
IVRCL Infra & Projects	8,268	40%	58%	802.0	44%	44%	362.9	-17%	13%	Strong revenue growth driven by robust order book position. Decline in interest costs due to recent capital-raising. Net profits to be depressed by high tax rate due to withdrawal of tax benefits.
Punj Lloyd	15,771	—	10%	1,203	—	45%	471	—	-1%	Strong revenue growth driven by order inflows over last five quarters. EBITDA margins to improve as proportion of pipeline projects increases.
Total	**111,490**	**61%**	**48%**	**10,472**	**34%**	**40%**	**5,957**	**-1%**	**15%**	
IT										
Infosys Technologies	40,326	54%	10%	13,408	61%	12%	10,792	60%	10%	QoQ volume rise of 10.3%; YoY price rise of 3% ; Rs appreciation of 2% YoY
TCS	52,862	22%	9%	13,960	45%	10%	12,320	44%	12%	QoQ volume rise of 9.0%; YoY Price rise of 3% ; Rs appreciation of 2% YoY
Wipro	41,912	37%	6%	9,442	29%	7%	7,845	31%	5%	QoQ volume rise of 9.3%; YoY Price rise of 3%; Rs appreciation of 2% YoY
Total	**135,100**	**35%**	**8%**	**36,810**	**45%**	**10%**	**30,957**	**46%**	**9%**	
Metals										
Hindalco	39,673	9%	-15%	9,284	0%	-11%	5,613	-20%	-13%	Drop in copper TC/RCs to 16c/lbs from 35c/lbs QoQ.
NALCO	14,470	-6%	0%	8,698	-10%	3%	5,793	-5%	1%	Flat sales and 3% increase in aluminium realisation QoQ
Tata Steel	51,326	24%	15%	21,238	63%	19%	12,983	66%	22%	Sales up 13% and realisation up 3% QoQ
SAIL	96,568	5%	13%	27,320	80%	12%	16,869	53%	15%	Sales up 10% and realisation up 2.7% QoQ
Hindustan Zinc	23,254	31%	-6%	16,741	33%	-12%	11,492	43%	-12%	Drop in zinc prices by 17% QoQ
Sterlite Industries	68,143	34%	1%	24,174	27%	-13%	10,395	28%	-20%	Drop in copper TC/RCs to 16c/lbs from 35c/lbs QoQ.
JSW Steel	23,586	49%	2%	8,204	97%	3%	3,855	3%	6%	Flat sales and 3% increase in realisation QoQ
Total	**317,020**	**17%**	**4%**	**115,660**	**39%**	**0%**	**67,000**	**29%**	**0%**	
Oil & Gas										
ONGC	168,096	16%	-5%	82,089	22%	-8%	31,156	27%	-33%	Lower (QoQ) production and crude prices. In 3Q FY07 subsidy allocation was done on ad-hoc basis in favour of ONGC; likely to be reversed partially
BPCL	245,675	15%	1%	4,418	-9%	-36%	1,980	-89%	-35%	In 3Q FY07 subsidy provisioning was done on ad-hoc basis; likely to be reversed partially. Higher sales to be driven by increase in volumes
HPCL	231,954	11%	5%	2,925	-85%	51%	1,477	-93%	-64%	Dec-06 PAT was higher due to one-time tax write-off of Rs3bn. Higher provisioning for under-recoveries.
Reliance Industries	287,046	17%	8%	53,343	32%	13%	26,693	7%	-5%	Higher volumes should drive the top-line growth. Petrochemical margins were stronger YoY but lower QoQ.
GAIL	42,216	15%	-4%	8,876	13%	-15%	6,655	63%	0%	Marginally lower sales due to higher provisioning for under-recoveries, PAT increasing YoY due to increase in petrochemical margins and interest income on cash reserves
Petronet LNG	17,754	89%	12%	2,055	35%	13%	1,021	54%	20%	Company has processed 6 spot cargoes (4 in 3Q FY07), which should result in higher sales and margins
Cairn India	2,903	N.M.	N.M.	1,219	N.M.	N.M.	868	N.M.	N.M.	There is no history available for the company. The current producing fields are Ravva and CB-OS/2, which are much smaller than the famed Rajasthan fields
Total	995,644	16%	3%	154,925	9%	-2%	69,850	-24%	-22%	

Fig 6 4Q FY3/07 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	EBITDA (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	PAT (Rs m) 4QFY3/07E	% chg (YoY)	% chg (QoQ)	Key assumptions
Pharmaceuticals										
Dr. Reddy's Labs	13,612	95%	-12%	2,047	—	-16%	1,161	—	-38%	Net revenue down QoQ as Finasteride and Simvastatin exclusivity expired last quarter. Ondansetron exclusivity driving growth in 4Q FY07E. Betapharm revenue to decrease 10% QoQ. International generics revenue to decrease 17.8% QoQ in 4Q FY07E
GlaxoSmithKline Pharma	4,258	0%	33%	1,420	1%	75%	1,108	9%	63%	Pharmaceutical segment to grow 10% YoY (mostly in line with industry growth); net revenue flat YoY because of disposal of AFC unit during last year; gross margins to remain at 59.6%.
Total	**17,870**	**59%**	**-4%**	**3,467**	**152%**	**7%**	**2,269**	**413%**	**-11%**	
Properties										
Unitech	16,166	40%	59%	9,174	61%	29%	5,444	96%	20%	Result should be better than our original estimate due to income from UCP listing (expected EPS of Rs14 as against our original estimate of Rs8)
Mahindra GESCO	1,491	222%	232%	539	408%	335%	247	213%	160%	First 3 quarters did not include subsidiary results, and hence, with their inclusion the overall numbers should go up sharply
Total	**17,657**	**47%**	**66%**	**9,713**	**67%**	**35%**	**5,691**	**99%**	**23%**	
Retail										
Pantaloon Retail	7,919	74%	5%	600	56%	5%	222	37%	5%	Sales growth (>60% YoY) should be encouraging. Muted PAT growth expected (+17% YoY) as depreciation and interest related to new stores kick in ahead of sales. Standalone results for PF do not capture many store formats and real estate/ private equity subsidiaries. Quarterly standalone results not as important as the broader retail story of aggressive expansion plans with control over rentals.
Shopper's Stop	2,074	36%	-12%	174	41%	-12%	87	18%	-12%	Results may seem weak (<20% YoY PAT growth). However YoY results are not representative as part of a loss-making subsidiary (Crossword) is now part of the standalone entity. Upside from HyperCITY not captured by standalone results.
Provogue	592	50%	-17%	84	51%	-17%	46	41%	-17%	Expecting strong earnings growth of >40% YoY, on the back of 50% YoY sales growth, offset by higher rentals on new stores and lower than average tax rate in 4Q FY06. Standalone results for PF do not capture real estate subsidiary Prozone.
Total	**10,585**	**63%**	**0%**	**858**	**52%**	**0%**	**354**	**32%**	**0%**	
Telecom										
Bharti Airtel	55,758	63%	13%	22,830	79%	14%	13,251	94%	9%	Strong growth in wireless business; subscriber base in Mar'07 at 37.2m; ARPU to fall 2.3% QoQ to Rs417; MoU expected at 473 mins (up 1.3% QoQ). Overall EBITDA margin expected at 40.9% (up 10bp QoQ).
Reliance Communications	40,595	37%	8%	16,548	58%	8%	9,767	122%	5%	Cut in handset subsidies to improve margins. Overall EBITDA margin expected at 40.8% (up 10bp QoQ). ARPU to fall to 313 in 4Q FY07E from the 328 in 3Q FY07. MoU expected at 440 minutes compared to 454 in previous quarter.
Total	**96,353**	**51%**	**11%**	**39,379**	**69%**	**11%**	**23,018**	**105%**	**7%**	
Textiles										
Raymond	3,442	-10%	15%	597	14%	22%	401	19%	10%	Sales to decline YoY because of spin-off of the denim business. Margins to increase, driven by worsted fabrics.
Arvind Mills	3,833	7%	-14%	707	-18%	-7%	(136)	-110%	-553%	YoY increase in sales due to merger with Arvind Brands. Denim volumes and realisation to remain weak. Increase in power costs will add further pressure to margins.

Fig 6 4Q FY3/07 estimates for Macquarie's universe, by company

Company name	Net sales (Rs m)			EBITDA (Rs m)			PAT (Rs m)			Key assumptions
	4QFY3/07E	% chg (YoY)	% chg (QoQ)	4QFY3/07E	% chg (YoY)	% chg (QoQ)	4QFY3/07E	% chg (YoY)	% chg (QoQ)	
Himatsingka Seide	512	35%	11%	168	58%	18%	183	34%	21%	Higher volumes and realisation on silk fabrics business should drive revenue growth and margin expansion.
Vardhman Textiles	6,302	27%	16%	1,123	34%	16%	622	27%	21%	Higher volumes and realisation on yarn fabric business and fast ramp of the new capacities in the fabric business.
Welspun India	2,582	26%	1%	565	80%	27%	165	34%	4%	Robust growth in sheets business and higher volumes and capacity utilisation of terry towel business. An increased proportion of sales of low value products from the Anjar facility will keep realisations flat.
Total	**16,671**	**13%**	**5%**	**3,160**	**20%**	**13%**	**1,235**	**-50%**	**1%**	
Others										
Suzlon Energy	34,097	63%	78%	8,348	64%	229%	4,273	0%	135%	EBITDA margins are assumed to reach 20% for full-year FY07
Hotel Leelaventure	1,200	3%	18%	660	0%	25%	400	7%	12%	Better RevPARs across company's hotels to result in better EBITDA margins of 55% for 4Q FY07E.
Total	**35,297**	**60%**	**75%**	**9,008**	**57%**	**194%**	**4,673**	**1%**	**115%**	
Macquarie's total universe (incl Oil & Gas, incl one-off bank provisioning)	1,968,064	24%	8%	467,443	29%	4%	265,778	12%	-6%	
Macquarie's total universe (excl Oil & Gas, incl one-off bank provisioning)	972,420	33%	13%	312,518	41%	7%	195,928	35%	2%	
Macquarie's total universe (excl Oil & Gas, excl one-off bank provisioning)	972,571	33%	13%	321,645	46%	10%	205,308	41%	7%	

* EPS / PAT is net of extraordinary / one-time income but includes other income. Consolidated numbers are used where applicable.

Source: Company data, Macquarie Research, April 2007

Fig 7 4Q FY07 results calendar (of companies under Macquarie's coverage and part of BSE-100 Index)

Sun	Mon	Tue	Wed	Thurs	Fri	Sat
1 Apr	**2 Apr**	**3 Apr**	**4 Apr**	**5 Apr**	**6 Apr**	**7 Apr**
8 Apr	**9 Apr**	**10 Apr**	**11 Apr**	**12 Apr**	**13 Apr**	**14 Apr**
					Infosys Technologies	
15 Apr	**16 Apr**	**17 Apr**	**18 Apr**	**19 Apr**	**20 Apr**	**21 Apr**
	HCL Technologies Petronet LNG TCS	HDFC Bank UTI Bank		ACC	Satyam Computer Services Gujarat Ambuja Cement	Ultratech Cement
22 Apr	**23 Apr**	**24 Apr**	**25 Apr**	**26 Apr**	**27 Apr**	**28 Apr**
			IDFC Mahindra GESCO MTNL Grasim Industries	ABB Patni Computer Systems	Bharat Electronics Wipro Pantaloon Retail	ICICI Bank
29 Apr	**30 Apr**					
	JSW Steel Reliance Communications					

Source: Macquarie Research, April 2007

Our top five stock picks

Bharti Airtel (BHARTI IN, Rs753, Outperform, TP: Rs1,025) – 36.1% upside

- Bharti delivers one of the lowest tariffs per minute in the world, but still generates attractive operating margins (41.5% in FY08E) and returns (ROE 40.9% in FY08E).
- Bharti's low-cost position, driven by its scale, innovation and efficiency, should insulate it from competitive threats.
- Further EBITDA margin expansion in the next three years and better asset leverage will result in higher return ratios (ROE).
- Among Asia's cheapest wireless stocks on valuation multiples adjusted for growth. On EV/EBITDA by EBITDA CAGR, it is at 0.43x, while on PEG, it trades at 0.67x.
- More sharing of passive infrastructure should increase margins.

TCS (TCS IN, Rs1,203, Outperform, TP: Rs1,672) – 39.0% upside

- Huge volume growth due to small base effect (combined market share of Indian IT <3% on a market size of ~US$1tr) and emergence of the 'offshore' model becoming mainstream and driving large infrastructure outsourcing deals (TCS' 1H07 large deal pipeline was 4x that seen in 1H06).
- Presence of margin expansion levers, like 0-3 years employee mix - ie, the percentage of employees with 0-3 years of experience - (TCS at 52% as against Infosys at 59%) and offshore mix (TCS at 46% as against Infosys at 51%), would lower the per capita employee cost. These should more than offset the effect of margin erosion arising from wage inflation. TCS also enjoys the industry's lowest attrition rates.
- Lastly, focus on software products business (driving non-linear growth and therefore operational gearing), adoption of global delivery model (delivery centres spanning from China to Chennai and Chile providing near-shoring capabilities) and complementary inorganic growth (eight relatively small gap-filling acquisitions in the past three years) would squarely position TCS to translate the growth into shareholder value.

Reliance Industries (RIL IN, Rs1,362, Outperform, TP: Rs1,590) – 16.7% upside

- RIL recently embarked on a staggering capex plan of US$19bn over the next five years to fuel aggressive growth.
- Earnings poised to triple as expansion plans in refining, petchem, oil & gas and organised retail contribute over the next five years.
- Financing growth not a concern as free cashflow should be sufficient to fund capex.
- ROE is expected to rise consistently due to contribution from high-margin businesses such as oil & gas.
- Fall in gearing would enhance flexibility to raise debt for funding stepped-up capex.

Tata Steel (TATA IN, Rs467, Outperform, Target: Rs556) – 19.1% upside

- India's largest private sector steel manufacturer, and with the acquisition of Corus is now the fifth largest steel producer globally.
- Six-fold expansion planned over the next 10 years, to drive the synergy benefits with Corus.
- Highest operating leverage to steel prices and the best steel play to ride the upcycle in the sector, in our view.
- Highest EBITDA margins in steel globally, along with a rich resource base and investment book, not being factored into valuations.

Dr Reddy's Labs (DRRD IN, Rs738, Outperform, TP: Rs837.5) – 13.5% upside

- Launch of generic Ondansetron towards the end of December 2006 is expected to drive quarterly earnings for 4Q FY07 and 1Q FY08.
- Overall structural improvement in business and earnings mix, robust outlook for all base businesses including Betapharm (excluding the impact of 180 days marketing exclusivities and authorised generic launches).
- Strong growth outlook for FY09.

Fig 8 Overview of our coverage universe — Macquarie India's cheat sheet

Sector (Analyst)	Ticker	Price (Rs)	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY07E	PER (x) FY08E	P/BV (x) FY07E	P/BV (x) FY08E	ROE (FY07E)	EPS CAGR (FY06-09E)	Rating	Investment outlook
BSE 30*	SENSEX	12,856										
Banks (Seshadri Sen/Madhur Rao)												
ICICI Bank	ICICIBC IN	839	17,427	34.43	22.4	16.1	3.1	2.7	14%	35%	Outperform	Our optimism on ICICI bank is premised on three counts: • We expect strong, above-consensus EPS growth of 27% in FY3/07 and 29% in FY3/08 on the back of robust growth in assets at 30% pa over FY3/07–09. • We expect the loan mix to change: retail loans at 45% by FY3/09, against 65% today; the overseas business to double its share to 12–15%. • ROE should surge strongly in FY3/08 and FY3/09 as leverage improves, despite lower ROA on the back of poorer NIM.
HDFC Bank	HDFCB IN	943	6,928	16.81	26.2	21.3	4.7	3.4	20%	29%	Outperform	We like the stock mainly because of: • HDFC's superior margins and access to good low-cost deposits, and a track record of growing its CASA (current account savings account) faster than term deposits. • Rapid increase in its customer base likely to lift profits through rising fee income. • The bank's strong presence in semi-urban areas (as over half its branches and retail loans come from non-metro areas).
SBI	SBIN IN	948	11,590	43.77	12.8	9.7	1.5	1.4	13%	11%	Underperform	• We think that the stock has run ahead of itself in terms of earnings improvement. While SBI remains a quality state-owned bank and an obvious play on the growing economy, company-specific issues should keep earnings growth depressed for some time. • With ROEs remaining capped at 17%, 1.4x P/BV (consolidated) appears to be reasonably expensive, especially in comparison to other state-owned banks.
UTI Bank	UTIB IN	451	2,953	10.09	18.6	15.2	3.7	2.5	21%	33%	Outperform	• We expect UTI Bank to grow its assets at a CAGR of 27% over FY03/06–09E. • The bank grew its network by 38% to 355 branches in FY3/06. Going forward, we expect its branch expansion to be relatively smoother than at some of its private sector peers which were indicted by the RBI in the 'IPO scam' recently. • New capital norms from the RBI mean that UTI's frequent capital issuance will slow down, if not stop altogether (we forecast the latter). Moreover, when foreign banks are allowed to buy local banks (we think in 2009), UTI Bank is likely to be among the first acquisition targets.
Syndicate Bank	SNDB IN	61	734	3.39	3.9	3.5	1.0	0.8	27%	24%	Outperform	• A confluence of negatives rendered FY3/06 a bad year for SNDB's earnings. However, this has given SNDB's balance sheet and future growth strong resilience – downside is now protected and we expect the upside to start flowing through. • The bank has transferred 72% of the securities to the HTM (held to maturity) category, and we expect investment depreciation to be at a mere 4% of operating profit. • Non-recurring expenses comprised 18% of the bank's wage bill last year. With the employee base set to continue to shrink, we expect cost/assets to drop by 61bp over FY3/06-09E.
Union Bank	UNBK IN	103	1,205	2.90	5.3	3.9	1.1	0.9	22%	34%	Outperform	• We forecast UNBK to post strong earnings growth of 65% for FY3/07, one of the highest among the state-owned banks. • UNBK has one of the lowest cost/asset ratios in India, which is attributable to its higher assets/branch. • The stock appears to be trading below FY3/07E BV. We believe its poor 4Q FY3/06 numbers were due more to one-off factors than a weakening of underlying fundamentals. We expect a re-rating from 1.0x P/BV to 1.6x P/BV on the back of an ROE improvement from 18.7% to 24.8%.

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Vijaya Bank	VJYBK IN	40	401	1.01	4.8	3.8	0.9	0.8	20%	66%	Outperform	• Trading at a historically low valuation of 11% discount to the average P/BV for the last three years. • High expected dividend yield of more than 6% in FY07E. • Increasing earnings at 70% CAGR to FY08E because of high interest income and lower provisions. • Reduced vulnerability to interest rates as a result of 60% of bond portfolio being in the HTM category and high CASA of 35%.
Punjab National Bank	PNB IN	440	3,226	8.84	8.4	5.6	1.3	1.1	17%	28%	Outperform	• Its strong retail base makes the bank one of the few to enjoy emerging pricing power in loans without sacrificing its edge in deposits. • We expect strong operating performance in FY03/07 and the positive outlook for FY3/08 to overshadow potential bond losses, especially as the outlook for interest rates softens. • Risk to recommendation: Higher-than-expected increase in bond yields could lead to higher-than-expected bond losses.
HDFC	HDFC IN	1,528	8,908	22.99	24.6	20.3	7.1	5.9	31%	22%	Outperform	• We see the bank as the best defensive stock under coverage – best able to manage margins in a tight liquidity environment. • Its strong focus on asset quality is another reason why we expect its high valuations to persist. • Risk to recommendation: Slowdown in economy might affect mortgage growth and possibly affect the future growth of HDFC and its listed subsidiaries.
Bank of Baroda	BOB IN	213	1,802	4.62	7.3	6.0	0.9	0.8	13%	26%	Underperform	• Bank of Baroda suffers from a very weak asset mix. Its loans are low yield, due primarily to a large corporate and international book. Its investment book has so far compensated for the low loan spreads, but this too faces significant repricing going forward. • The bank's 2006 issue looks unnecessary, in hindsight. New capital norms give the bank far more flexibility in non-equity capital. With growth opportunities limited by weak internal systems and a lack of competitiveness, the bank is trapped in a low ROE situation. • We are sceptical about BOB's rebranding exercise making a significant difference. SOE banks suffer from a significant brand disadvantage, which is difficult to solve with simple advertising – back-end changes (employee attitudes, systems and processes) are more difficult to achieve. BOB is cheap on P/BV valuations, and its ROE accounts for much of this, as seen in its relatively high PER. With no ROE improvement visible, we see this bank remaining at a low P/BV rating.
Bank of India	BOI IN	161	1,824	10.55	8.2	6.5	1.4	1.2	18%	32%	Outperform	• We expect BOI to record an annual credit growth of 22% CAGR over FY3/06–09E on the back of favourable economic conditions. • We expect its NIM to trend up by 25bp over the next three years. • We believe that the bank's vicious cycle of low capital, slow loan growth, low margins and continued capital destruction caused by low credit to deposit ratio will be broken by the new capital norms, which will allow the bank to leverage its equity far better. • Improved financials: A better loan-to-deposit ratio (LDR) is expected to drive NIMs up, and at least partially improve its poor cost-to-income ratio. As its ROA expands by 15bp in three years, we expect its ROE to improve to a peer-comparable 21% and a 32% CAGR in EPS over FY3/06–09.

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					FY07E	FY08E	FY07E	FY08E				
IDBI	IDBI IN	74	1,247	12.84	8.5	7.3	0.8	0.7	10%	20%	Underperform	• Legacy effect on NIM. IDBI is weighed down by a heavy burden of legacy, as it struggles with its large book of bad loans, manifested in the SASF bonds, and high cost borrowings. As a result, IDBI has done well and will continue to suffer from sub-normal NIM for quite some time. • The UWB acquisition is unlikely to help matters significantly. While the added branches will be positive, we do not see it as being sufficient to sort out the bank's problem with legacy high-cost liabilities. • We do not think the bank will be able to forego government concessions in the short term. Apart from the event risk that this represents, we also believe it ties the bank down to its unprofitable development role. • Equity book remains the only upside.
Cement (Rakesh Arora/Arijay Prasad)												
ACC	ACC IN	722	3,141	27.02	7.8	7.1	3.0	2.2	46%	33%	Neutral	• We believe that Holcim, having acquired ACC recently, is looking to consolidate the existing operations and is unlikely to make a large expansion. We estimate this will result in lower-than-industry growth for ACC over the medium term. • We rate ACC as Neutral based on its high valuations. Our target price is Rs1,230 based on DCF. At our target price, ACC would trade at 8.5x EV/EBITDA, 13x PER and US$209 real EV/T on CY07 estimates. This is in line with historical peak multiples.
Gujarat Ambuja	GAMB IN	106	3,732	19.77	9.1	8.8	3.2	2.5	43%	10%	Outperform	• The launch of blended cement has seen the conversion ratio jump from 1.18x to 1.26x. However, volume growth should remain in line with the industry average. • Switch from furnace oil to coal for captive power plant to save Rs100/t. • 43% production comes from the northern region, which may face overcapacity in the next 3–4 years.
Grasim Industries	GRASIM IN	2,113	4,500	13.86	10.8	8.2	3.0	2.2	32%	34%	Outperform	• Grasim's cement division has been the fastest growing among the cement majors. • VSF capacity is being expanded at the right time to capture the boom in the textile market in the post quota era. • Steel cycle in Asia is turning up and with better gas availability in FY07E, the worst for the sponge iron division may be over. • Subsidiaries Ultratech and Shree Digvijay cement have returned to profitability.
Ultratech Cements	UTCEM IN	693	2,005	2.48	10.4	6.9	4.7	2.8	57%	73%	Outperform	We reiterate our Outperform rating on Ultratech mainly on account of: • Cement despatches should grow higher than our estimated demand growth of 8.5% for the industry. • Significant savings in operating costs after commissioning of its 92MW captive power plant. • Cost reductions due to higher blending (we expect the conversion ratio to jump from 1.19x to 1.23x in FY3/07 and to 1.27x in FY3/08).
India Cements	ICEM IN	152	780	21.33	7.2	6.0	3.1	2.5	22%	132%	Neutral	• Biggest beneficiary of the removal of the double taxation structure in Tamil Nadu. • Market leader in the south (18% share), which is seeing one of the highest increases in cement prices. • Recently raised capital, but further dilution may be needed to fund growth. Capacity utilisation has risen to 95%+ and scope for further squeezing of assets is limited.

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Construction (Gopal Ritolia)												
Gammon India	GMON IN	296	601	2.73	17.9	12.5	2.4	2.0	14%	35%	Neutral	• With the focus on infrastructure spending expected to continue over the next three years, investment of approximately Rs4,356bn is envisaged. • Gammon is a prime beneficiary of increased infrastructure spending and has experienced strong growth in its order book to Rs65bn – an enviable cover of 5.1x years of revenues.
Nagarjuna Construction	NJCC IN	157	757	6.55	35.2	20.5	3.2	2.8	14%	20%	Neutral	• Relatively weaker order book position presents downside risk to our revenue estimates. • Large capital raising plans would dampen earnings growth. • Superior delivery track record as compared to peers underlines its capability to better exploit the growth opportunities
Hindustan Construction	HCC IN	90	536	8.72	75.4	23.2	2.7	2.5	9%	17%	Neutral	• Revenue growth to lag peers on account of large proportion of long gestation projects and lower book-to-bill ratio. • Order inflow visibility is subdued as current order book has stretched resources.
Patel Engineering	PEC IN	313	434	2.13	47.6	18.9	2.8	2.5	19%	12%	Outperform	• Strong order book position provides sufficient growth visibility. • Continued traction in order inflows would help sustain the growth momentum. • Announcements of real estate development plans could provide upside to our land bank valuation.
Larsen & Toubro	LT IN	1,548	10,084	29.94	27.6	22.7	6.4	5.1	26%	20%	Underperform	• Sluggish revenue growth for the last seven quarters. • Margin expansion during 9M FY3/07 driven more by cyclical reasons than structural improvements. Expectation of robust growth over the already large base of annual order inflows unlikely to be met. • 100% valuation premium to mid cap peers unjustified.
IVRCL Infra and Projects	IVRC IN	268	806	31.99	72.0	23.1	2.5	2.3	11%	22%	Outperform	• Growth visibility in the core construction business is strong driven by a robust order book and a strong order pipeline. • Ramp-up in new segments strengthens growth momentum in the construction business. • Weak outlook for real estate business due to lack of clear land titles for a large proportion of the land bank and possible delay in proposed IPO for the real estate subsidiary.
Punj Lloyd	PUNJ IN	154	935	12.63	20.7	3.1	0.6	0.5	13%	176%	Outperform	• Consolidating its position as the second-largest E&C player in India by increasing the capability gap vis-à-vis mid-sized peers. • Wide geographical footprint enables it to exploit the capex upsurge in both the domestic and overseas markets • Recent acquisitions to start contributing to profit faster than expected on account of continued inflow of higher margin orders.
Information Technology (Suveer Chainani/Shreyans Jain)												
Infosys Technologies	INFO IN	1,992	26,146	80.48	29.3	21.7	10.7	7.6	44%	110%	Outperform	• Indian IT industry's current global market share stands at only 5% and globalisation is redefining the scope of the industry by introducing new services. We believe Infosys will deliver strong net profit CAGR in FY03/06–09E of 43.1% even without leveraging its balance sheet. • Our modified BCG growth-share analysis of the Indian IT industry shows that Infosys has a fairly optimised portfolio of services, building capabilities in future 'stars' like business process outsourcing (BPO) and package implementation, and is executing well in Europe penetration. • Infosys is among the top two Indian companies in terms of optimised operating levers. Relative to its peers, it commands the highest onsite billing rates (~US$64/hr) and has the best employee mix (0–3 year employees ~60%). • Fuelled by the recent success of 'Finacle', Infosys has a good opportunity to build much-required non-linearity into its business model. This unit has grown rapidly at over 70% YoY and has recently won marquee clients and industry accounts.

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TCS	TCS IN	1,194	27,140	37.32	27.9	19.1	13.0	8.9	57%	41%	Outperform	• Huge volume growth due to a small base effect (combined market share of Indian IT <3% on a market size of ~US$1tr) and emergence of the 'offshore' model becoming main stream driving large infrastructure outsourcing deals (TCS' 1H07 large deal pipeline was 4x stronger than a year earlier). • Presence of margin expansion levers like 0-3 years employee mix (TCS at 52% as against Infosys at 59%) and offshore mix (TCS at 46% as against Infosys at 51%), would lower the per capita employee cost. These would more than offset the effect of margin erosion arising from wage inflation. TCS also enjoys the industry's lowest attrition rates. • Lastly, focus on software products business (driving non-linear growth and therefore operational gearing), adoption of global delivery model (delivery centres spanning China, Chennai to Chile providing near-shoring capabilities) and complimentary inorganic growth (eight relatively small gap-filling acquisitions in the past three years), would squarely position TCS to translate the growth into shareholder value.
Wipro	WPRO IN	551	18,476	16.47	27.6	19.8	8.1	6.1	32%	34%	Outperform	• For FY3/07, Indian companies should have just 3.8% of the nearly US$0.5tr IT services market and only 1.8% of the nearly US$0.5tr BPO services market. With the global adoption of the India delivery model, Indian players should continue to take market share from legacy players – India's share of large contracts (>US$50m) increased from 1% in 2002 to 7% in 2006. Wipro, similar to any other large-cap Indian IT company, should benefit from riding the tide. • In its efforts to take market share from legacy players, Wipro is using its inorganic growth to its benefit. During the past two years, it has acquired seven companies (each accounting for less than 4% of revenue) through which it is building customer relationships, higher value-added service capabilities and market penetration. • Although Wipro was one of the first companies to adopt a vertical industry structure, we believe that it will benefit from simplifying its organisational structure. At present, some of its industry domain capabilities are spread across its 'sales organisation' as well as its 'industry groups'. Similarly, some of its horizontal skills are parked under its 'industry groups' and 'service lines' as well as the 'CTO organisation'.
Metals (Rakesh Arora/Arijay Prasad)												
Hindalco	HNDL IN	132	3,557	18.98	6.1	6.4	1.2	1.1	23%	2%	Outperform	Our top pick in the sector mainly on account of: • High copper TC/RC margins locked in for FY3/07E (US23c/lb). • Capacity expansion to increase aluminium capacity by 280% is proceeding on schedule and upon completion will reduce cash costs of aluminium production to US$1,000 per tonne while cash costs of alumina are expected to drop to US$100 per tonne. • A high proportion of Hindalco's sales (56%) come from value added products, which we believe have significant scope to command a premium.
NALCO	NACL IN	235	3,511	1.62	6.8	9.8	2.0	1.7	33%	-5%	Underperform	We expect Nalco's earnings to drop 30% in FY3/08 after hitting a peak in FY3/07 (up 37% YoY), due mainly to: • Our global commodities team's expectations that alumina prices have already peaked and Nalco's strategy to shift towards relying on spot rates instead of long-term contracts. • Nalco is not likely to see any significant volume growth (as no capacity expansion is likely to happen until December 2008), compared to Hindalco which is set to triple its capacity in the next three years.

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					FY07E	FY08E	FY07E	FY08E				
Tata Steel	TATA IN	465	6,273	51.11	5.4	6.2	1.8	1.4	42%	8%	Outperform	• India's largest private sector steel manufacturer. • Six-fold expansion over the next 10 years. • Highest EBITDA margins in steel globally, along with a rich resource base and investment book, not being factored into valuations.
SAIL	SAIL IN	115	11,001	28.64	8.6	9.3	2.8	2.3	38%	11%	Outperform	• India's largest integrated steel company with capacity of 13.5m tonnes. • Strong earnings momentum driven by sustained high steel prices and significant cost savings. • Low-cost doubling of capacity to sustain earnings in the long term.
Hindustan Zinc	HZ IN	648	6,360	10.79	6.0	6.0	3.5	2.3	82%	38%	Outperform	• Hindustan Zinc is India's only and the world's third-largest integrated zinc play with 68% domestic market share. It has the best-quality zinc deposits and is among the lowest-cost producers globally, on a sustained growth path.
Sterlite Industries	STLT IN	466	6,046	18.21	6.0	6.6	2.4	1.3	48%	30%	Outperform	• Our target price of Rs744 for Sterlite Industries is based on a sum-of-parts valuation. Sterlite is a Vedanta group company with interests in zinc, copper and aluminium. It is one of the fastest-growing companies in base metals and operates in the lowest quartile of cost for both zinc and copper. • On consolidated numbers, the company currently trades at a 15–18% discount to PER valuations of its global metals and mining peers. • Given Sterlite's high volume growth and anticipated upgrades – our forecasts are 32% above consensus – we believe the stock should re-rate as triggers play out.
JSW Steel	JSTL IN	497	1,813	6.64	7.0	6.0	1.5	1.2	26%	19%	Outperform	• JSW is one of the cheapest of the 15 steel stocks covered globally by Macquarie Research. It is trading at a PER of just 5.2x and an EV/EBITDA of 3.8x our FY3/08 estimates. • JSW is under-researched; it is not covered by any other foreign broker. • We expect the company's improving balance sheet and strong growth outlook to drive a re-rating of the stock. Also, we expect Indian steel stocks to be re-rated in line with their Asian peers to reflect increasing consolidation and the stable outlook for steel prices. • We estimate JSW to grow its net income by a 23% CAGR over the next three years and we expect volume growth to be the key earnings driver, with help from a better product mix and cost savings.
Oil & Gas (Jal Irani/Amit Mishra)												
Oil & Natural Gas Corp.	ONGC IN	844	41,948	33.34	9.2	9.6	2.8	2.5	33%	8%	Underperform	Contrarian Underperform rating on ONGC: • ONGC is caught in a unique no-win situation: Upside is capped due to increasing subsidy burden; while falling oil prices directly impact the bottom line. • Fundamentals are deteriorating due to inefficiency in finding commercially viable new reserves and a surge in rig hiring charges and employee costs.
Bharat Petroleum	BPCL IN	303	2,545	5.79	7.4	6.1	0.8	0.7	12%	47%	Outperform	• Retail margins to rebound due to duty cuts, price hikes and favourable rebalance of subsidies. • GRMs to rebound and stay strong until FY09E, due to demand growth and constrained capacity. • Rs2bn annual sales tax and diversification benefits from merger with Kochi Refineries. • Mumbai refinery expansion and upgrade expected to boost GRMs and yield 17% IRR.
Hindustan Petroleum	HPCL IN	250	1,974	7.31	7.3	5.0	0.9	0.7	13%	64%	Outperform	• Retail margins to rebound due to recent duty cuts and price hikes. • Rebalance of subsidies in favour of oil marketing companies.

Fig 8 Overview of our coverage universe — Macquarie India's cheat sheet

Sector (Analyst)	Ticker	Price (Rs)	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY07E	PER (x) FY08E	P/BV (x) FY07E	P/BV (x) FY08E	ROE (FY07E)	EPS CAGR (FY06-09E)	Rating	Investment outlook
Reliance Industries	RIL IN	1,358	43,946	112.16	17.1	14.5	3.1	2.9	21%	21%	Outperform	• GRMs to rebound and stay strong until FY09E, due to demand growth and constrained capacity. • RIL recently embarked on a staggering capex plan of US$19bn over the next five years to fuel aggressive growth. • Earnings poised to triple as expansion plans in refining, petchem, oil & gas and organised retail contribute over the next five years. • Financing growth not a concern as free cashflow would be sufficient to fund capex. • ROE is expected to rise consistently due to contribution from high-margin businesses such as oil & gas. • Fall in gearing would enhance flexibility to raise debt for funding stepped-up capex.
GAIL	GAIL IN	293	5,746	5.01	10.4	10.4	2.1	1.9	21%	-4%	Underperform	• GAIL is no longer a monopoly as a draft pipeline policy allows competition. • Uncertainty looms over natural gas transmission volumes, a business that contributes ~50% of GAIL's EBITDA. • Petrochemical/LPG product prices could fall as they are linked to oil prices. Also, input costs are increasing. • GAIL is trading at a 10x PER, which may seem inexpensive. However, we believe these are peak cycle earnings for the petrochemical and LPG business.
Petronet LNG	PLNG IN	43	744	2.04	10.4	6.2	2.3	1.7	25%	39%	Neutral	• Strong near-term growth driven by high-margin spot cargoes. Spot cargoes will likely be the main driver of earnings growth over the next 3 years. • Petronet has been importing spot cargoes regularly. Now it is entering into short-term contracts (1-5 years) with various suppliers including Ras Gas of Qatar and Adgas of Abu Dhabi. • Large price differential (of ~US$5/mmbtu currently) between domestic gas and crude oil equivalent coupled with tight domestic gas supply in the next 3 years will allow high margins on spot cargoes to continue in the medium term.
Cairn India	CAIR IN	127	5,249	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	Neutral	• We derive a sum-of-parts value (DCF valuations for Rajasthan and Ravva fields and relative valuation for other fields) of Rs141/share or US$9.5/boe. We have assigned a premium of Rs16 per share (~13% of equity value) to Cairn's strong track record in striking oil. We maintain a Neutral rating with a target price of Rs127.
Pharmaceuticals (Shubham Majumder/Ankur Arora)												
Dr. Reddy's Labs	DRRD IN	729	2,843	13.12	20.5	20.3	4.5	3.8	24%	66%	Outperform	• Launch of generic Ondansetron towards the end of December 2006 is expected to drive quarterly earnings for 4Q FY07 and 1Q FY08. • Overall structural improvement in business and earnings mix, robust outlook for all base businesses including Betapharm (excluding the impact of 180 days' marketing exclusivities and authorised generic launches). • Strong growth outlook for FY09.
GlaxoSmithKline Pharma	GLXO IN	1,108	2,181	2.58	20.9	17.8	6.5	5.5	33%	18%	Outperform	• Best placed to benefit from the new product patent regime in India given the high quality management, quality pipeline, solid parentage and highly productive sales force. • Focus on 30 power brands expected to deliver above-market sales growth over the next three years. • Expect GSK India to build a portfolio of at least seven new patented drugs with annual sales of US$30m each within five to seven years of launch.
Properties (Siddhartha Gupta/Matt Nacard)												
Unitech	UT IN	343	6,449	33.26	43.2	13.7	31.9	9.9	114%	300%	Outperform	• Unitech has the largest land bank among the listed real estate developers in India.

Fig 8 Overview of our coverage universe — Macquarie India's cheat sheet

Sector (Analyst)	Ticker	Price (Rs)	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY07E	PER (x) FY08E	P/BV (x) FY07E	P/BV (x) FY08E	ROE (FY07E)	EPS CAGR (FY06-09E)	Rating	Investment outlook
Mahindra GESCO	MGSCO IN	593	510	22.52	54.3	10.0	16.5	6.3	20%	286%	Outperform	• We forecast an EPS increase of 66x from Rs1.04 in FY06 to Rs68.9 in FY09. This impressive growth should consume only 13.5% of its total land bank. Land has come cheaply at an average of Rs150 psf. • Our NAV does not assume any value for the Special Economic Zones (SEZ) of 10,134 acres and New Kolkata International Development Project (38,000 acres). • MGSCO is a pioneer in the SEZ space. It had an operational SEZ at a time when the competitors' SEZ plans were still at the drawing board stage. • MGSCO has a superior execution expertise, client acquisition strategy and developmental plans in place to successfully develop proposed SEZs. • We keenly await further SEZ policy announcements over the next week and look out for rollouts that run a risk of getting delayed. If any gets delayed, we would revise downwards our FY08-FY09 numbers.
Retail (Unmesh Sharma)												
Pantaloon Retail	PF IN	391	1,278	1.39	56.4	28.9	6.3	5.2	14%	75%	Outperform	Our top pick in the sector: • Massive plan to expand retail space by 6x over the next three years expected to drive 75% earnings CAGR. • Investments in real estate and private equity ventures ensure supply of space for expansion plans and reduce exposure to a surge in rentals. • IPO/placement of stakes in subsidiaries to unlock significant value for shareholders over next 12–18 months.
Shopper's Stop	SHOP IN	612	491	0.26	54.4	34.9	7.2	6.2	14%	58%	Outperform	• Aggressive plan to multiply retail space by 4x over three years is likely to drive 58% earnings CAGR. • Private labels and strategy to target upper and upper-middle income group consumers to help maintain stable margins. • Exercise of option to acquire a 51% stake in hypermarket chain 'Hypercity' should boost earnings growth to 63% CAGR.
Provogue	PROV IN	449	169	0.48	45.2	33.0	3.2	3.0	10%	41%	Outperform	• Well positioned to leverage its strong apparel brand through massive store additions and drive 41% earnings CAGR. • Prozone, its retail real estate development venture, provides access to high-margin lease income in a fast-growing retail market. • Prozone also ensures supply of space for expansion plans and reduces exposure to a surge in rentals.
Telecom (Shubham Majumder/Ankur Arora)												
Bharti Airtel	BHARTI IN	746	32,839	20.62	33.4	20.4	10.5	6.9	37%	61%	Outperform	• Bharti delivers one of the lowest tariffs per minute in the world, but still generates attractive operating margins (41.5% in FY08E) and returns (ROE 40.9% in FY08E). • Bharti's low-cost position, driven by its scale, innovation and efficiency, should insulate it from competitive threats. • Further EBITDA margin expansion in the next three years and better asset leverage will result in higher return ratios (ROE). • Among Asia's cheapest wireless stocks on valuation multiples adjusted for growth. On EV/EBITDA by EBITDA CAGR, it is at 0.43x while on PEG, it trades at 0.67x. • Hiving tower business into a separate subsidiary could increase margins.
Reliance Communications	RCOM IN	397	18,878	78.33	26.2	17.0	3.8	3.1	19%	149%	Outperform	• RCOM offers high earnings growth to investors over next two years. EPS is forecast to grow at a CAGR of 48% and EBITDA at 44%, among the highest for the 18 Asian wireless stocks. • RCOM will remain a strong No. 2 in the wireless business, closely tracking Bharti. We forecast a subscriber base of 89.5m in March 2010.

Fig 8 Overview of our coverage universe — Macquarie India's cheat sheet

Sector (Analyst)	Ticker	Price (Rs)	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x) FY07E	PER (x) FY08E	P/BV (x) FY07E	P/BV (x) FY08E	ROE (FY07E)	EPS CAGR (FY06-09E)	Rating	Investment outlook
												• Listing of FLAG Telecom and a separate tower subsidiary could further unlock value for RCOM. • EBITDA margin expansion in the next three years due to more infrastructure sharing arrangements • We believe RCOM presents a solid, easy and liquid way of playing the compelling Indian wireless growth story.
Textiles (Jal Irani/Unmesh Sharma)												
Raymond	RW IN	337	481	0.56	11.7	8.6	1.5	1.3	14%	34%	Outperform	Our top pick in the sector: • World's third-largest worsted fabric producer. • Leverages on India's strongest textile franchises to capture a 40% CAGR in the domestic branded garment retail market. • Unique high-end strategy involving JVs with leading European design houses. • Proposed plant relocation will reduce cost and release real estate value.
Arvind Mills	ARVND IN	43	210	2.50	6.9	13.4	0.5	0.5	2%	1%	Underperform	• Weakness in denim is likely to last for at least 6–9 months and we may not see a solid turnaround for at least 12–15 months. • Any turnaround will likely be impacted by a surge in power cost. This is because price renegotiations during the gas supply contract renewal in November 2007 are likely to increase power cost by 9% in FY3/08 and 18% in FY3/09. This may be alleviated once gas from Reliance Industries becomes available, but this is at least two years away. • Greater focus on garment exports and branded retail should lead to long-term margin expansion and help reduce over-exposure to denim. Until then, the denim business will drive profits and share price performance.
Himatsingka Seide	HSS IN	116	263	0.15	17.7	13.0	1.9	1.7	11%	44%	Outperform	• Highly competent management team and business model based on strong design competencies. • Aggressive capex plan to tap opportunities in the high-end cotton bed linen market. • Virtually debt-free balance sheet to help fund growth through leverage by tapping the technology upgradation fund, improving return on capital.
Vardhman Textiles	VTEX IN	200	268	0.26	5.9	5.0	0.8	0.7	14%	10%	Outperform	• Rapid expansion to result in enhanced economies of scale. • Technology, vertical integration and proximity to sources of cotton at new facilities. • Capital-intensive projects, with advantage of 5% interest subsidy provided by the technology upgrading fund, should lower cost of funds.
Welspun India	WLSI IN	74	124	0.12	9.0	6.8	0.8	0.8	9%	32%	Outperform	• Welspun is well poised to benefit from a dual opportunity: The dismantling of quotas should drive a surge in exports, and domestic demographic changes have driven organised retail sector growth of 41% CAGR. • Aggressive expansion plans are on schedule. This should help Welspun evolve into a 'home textiles' player. • Recent acquisition of UK home textiles brand Christy is in line with strategy of driving margins through designer brands.
Others												
Suzlon Energy	SUEL IN	966	6,457	23.16	27.5	18.6	7.7	5.8	31%	31%	Neutral	• Globalisation strategy will be its future source of growth; growth to date driven by industrial electricity users tapping their own power sources. • Best performing manufacturer with the highest profits and margins. Expect a 45% sales CAGR of over the next three years and global market share of >15% by 2015.

Fig 8 Overview of our coverage universe — Macquarie India's cheat sheet

Sector (Analyst)	Ticker	Price (Rs)	Mkt cap (US$m)	6 mths avg turnover (US$m)	PER (x)		P/BV (x)		ROE (FY07E)	EPS CAGR (FY06-09E)	Rating	Investment outlook
					FY07E	FY08E	FY07E	FY08E				
Hotel Leelaventure	LELA IN	54	468	1.66	14.6	11.9	2.2	1.7	16%	26%	Outperform	• Both absolute and relative valuations indicate significant upside to the current stock price. The company is trading at a 28% discount to the average Indian hotel industry consensus earnings for FY08E, which we believe is unwarranted. • Company is expanding its current capacity from 1,135 rooms (4 hotels) to 2,565 rooms (9 hotels) in the next two years. • Focused on premium business travellers with 70% of its existing capacity and 83% of its expanded capacity catering to this segment.

* Based on consensus estimates

Source: Company data, Macquarie Research, April 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand
Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South Securities (South Africa)
Outperform – return > 5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	43.12%	58.91%	42.20%
Neutral	44.98%	22.92%	46.80%
Underperform	11.90%	18.17%	11.00%

For quarter ending 31 December 2006

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

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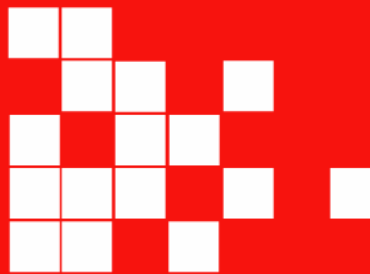

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Sales

Regional Heads of Sales

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Peter Slater (Boston)	(1 617) 217 2103
Michelle Paisley (China, Hong Kong)	(852) 2823 3516
Ulrike Pollak-Tsutsumi (Frankfurt)	(49) 69 7593 8747
Daniel Fust (Geneva)	(41) 22 818 7710
Thomas Renz (Geneva)	(41) 22 818 7712
Ajay Bhatia (India)	(9122) 6653 3200
Stuart Smythe (India)	(9122) 6653 3200
Eugene Ha (Korea)	(822) 3705 8643
K.Y. Nam (Korea)	(822) 3705 8607
Derek Wilson (London)(N Asia)	(44) 20 7065 5856
Julien Roux (London)	(44) 20 7065 5887
Lena Yong (Malaysia)	(603) 2059 8888
Ismael Pili (Philippines)	(65) 6231 2840
Greg Norton-Kidd (New York)	(1 212) 231 2527

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Mark Lawrence (New York)	(1 212) 231 2516
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Charles Nelson (UK/Europe)	(44) 20 7065 2032
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Sales Trading cont'd

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Depository Receipts - Robert Ansell	(852) 2823 4688
Derivatives - Vipul Shah	(852) 2823 3523
Futures - Tim Smith	(852) 2823 4637
Hedge Fund Sales - Darin Lester	(852) 2823 4736
Structured Products - Andrew Terlich	(852) 2249 3225