

India News

Economy

- The Department of Economic Affairs has suggested aggressive sterilization of foreign capital inflows, tightening of government expenditure and intervention in key farm produce markets, such as wheat, to curb inflation. Aggressive sterilization could result in the Reserve Bank of India mopping up excess liquidity under the market stabilization scheme (Business Standard).

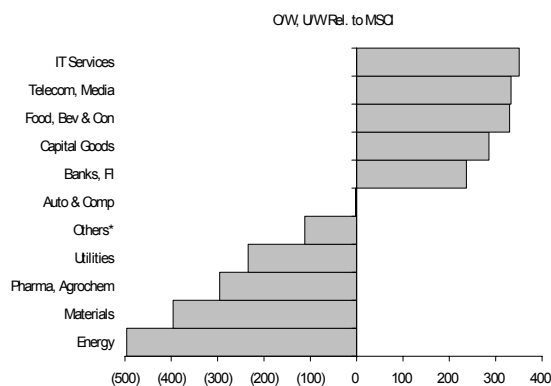
Industry

- The Ministry of Defence has questioned the Department of Telecom's assurance to telecom operators that 40MHz of spectrum will be vacated by July. This could jeopardize India's 3G foray (Business Standard).

Companies

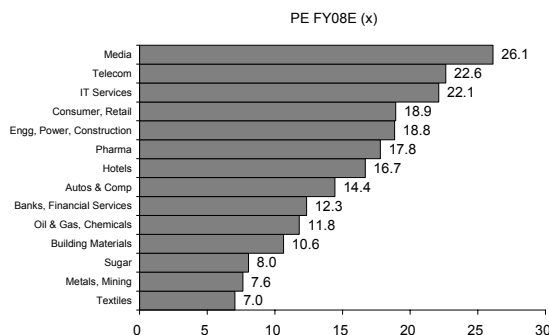
- **Idea Cellular:** Idea Cellular has signed a US\$500m network expansion contract with Nokia Siemens. The two-year deal will double Idea's capacity in 6 of its 11 existing circles (Economic Times).
- **Patni Computer Systems:** Patni Computers has formed a new consulting services practice within its manufacturing business unit to offer solutions designed to improve business performance and competitiveness through strategies, processes and tools (Business Line).

Key Overweights/ Underweights



Source: Citigroup Investment Research

CIR Universe P/E FY08E (x)



Source: Citigroup Investment Research estimates

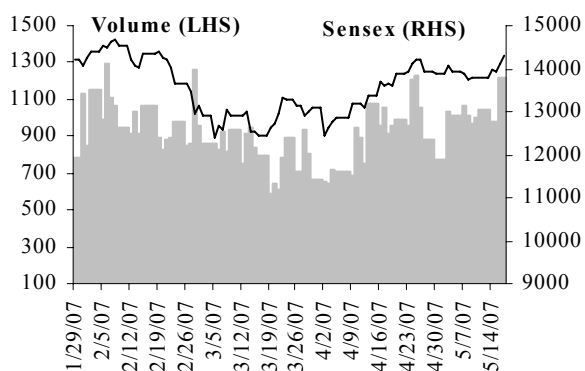
Market Snapshot

Performance (%)	1-Day	1-Week	1-Month	3-Month	6-Month	12-Month	YTD	Mkt Volume	
								BSE	NSE
								59,520	(Rs Mils.)
								123,720	(Rs Mils.)
Absolute								Top Volume*	(Rs Mils.)
BSE Sensex	1.22	3.84	4.41	2.07	5.88	17.04	3.72	TATA STL	1315.5
CIR India Index	1.25	4.51	7.11	11.23	14.51	10.48	13.76	PARSVNATH	659.7
Aluminum	(0.78)	(0.40)	4.29	4.54	(1.11)	(24.13)	0.34	REL PET	554.5
Auto	(1.19)	(0.72)	(0.04)	(13.08)	(7.23)	(19.89)	(13.13)	IDBI LTD	547.5
Banks	1.70	8.42	14.80	9.57	2.73	27.42	3.82	POWER FINAN	415.0
Capital Goods	0.82	4.79	4.89	10.89	15.24	20.58	15.80	IDEA CELL	378.7
Cement	1.92	1.70	11.31	(11.86)	(17.75)	(3.03)	(18.62)	WELSP GUJ SR	292.3
Consumer	(0.64)	1.35	(1.62)	1.55	(10.96)	(20.36)	(5.91)	ARVIND MILLS LTD.	146.4
Hotels	(0.43)	5.32	(1.07)	1.97	(2.29)	4.18	(4.82)	DENA BANK	123.7
IT Services	1.13	0.63	(4.28)	(15.51)	(8.26)	9.34	(13.41)	ISPAT INDUST	35.5
Media	(0.38)	5.68	7.74	10.59	(11.90)	13.59	0.02	Top Gainers*	Close (Rs)
Oil & Gas	1.71	3.98	5.67	3.98	5.13	(4.38)	7.02	STR OPTICAL	211
Petrochemical	3.08	6.53	15.39	22.45	32.61	53.66	31.96	RELIANCE CAPITAL LTD.	901
Pharmaceutical	(0.10)	0.80	(1.92)	(2.66)	(5.56)	(17.45)	(3.29)	INGERSOL RND	309
Power	0.66	1.41	4.62	(4.39)	2.71	(3.53)	2.58	JAIPRAK ASSO	652
Steel	0.62	4.32	10.46	31.24	52.61	31.97	46.57	MOSER BAER	432
Telecom Equipment	6.37	8.82	1.97	3.01	(9.38)	(9.18)	(4.69)	INDIAN OIL C	515
Telecom	0.38	3.50	5.32	11.22	40.21	74.37	30.99	I.B.P.LTD.	532
Relative to BSE-30 Sensex								POWER FINAN	153
CIR India Index	0.03	0.68	2.70	9.17	8.63	(6.56)	10.04	TATA CHEMICALS LTD.	241
Aluminum	(2.00)	(4.24)	(0.12)	2.47	(6.98)	(41.17)	(3.38)	ORIENTAL BK	232
Auto	(2.41)	(4.56)	(4.45)	(15.15)	(13.11)	(36.93)	(16.85)	Top Losers*	Close (Rs)
Banks	0.48	4.58	10.39	7.50	(3.15)	10.38	0.10	BAJAJ AUTO	2,500
Capital Goods	(0.40)	0.95	0.48	8.82	9.36	3.54	12.09	FERT CHEM	24
Cement	0.70	(2.14)	6.90	(13.92)	(23.62)	(20.07)	(22.34)	D-LINK INDIA	81
Consumer	(1.86)	(2.49)	(6.03)	(0.52)	(16.84)	(37.40)	(9.63)	GUJ MIN DEVL	693
Hotels	(1.65)	1.49	(5.48)	(0.10)	(8.16)	(12.86)	(8.54)	HCL INFOSYS	151
IT Services	(0.09)	(3.21)	(8.69)	(17.57)	(14.13)	(7.70)	(17.13)	J B CHEM PHR	79
Media	(1.60)	1.84	3.33	8.53	(17.78)	(3.45)	(3.70)	WYETH LTD	517
Oil & Gas	0.49	0.14	1.26	1.91	(0.75)	(21.42)	3.30	ANDHRA BANK	89
Petrochemical	1.86	2.69	10.98	20.38	26.73	36.62	28.24	HINDUJA TMT	575
Pharmaceutical	(1.32)	(3.03)	(6.33)	(4.73)	(11.44)	(34.49)	(7.01)	MIRC ELECTRO	20
Power	(0.56)	(2.43)	0.21	(6.46)	(3.16)	(20.57)	(1.14)		
Steel	(0.60)	0.49	6.05	29.17	46.74	14.93	42.85		
Telecom Equipment	5.15	4.98	(2.44)	0.94	(15.25)	(26.22)	(8.41)		
Telecom	(0.84)	(0.34)	0.91	9.15	34.33	57.33	27.27		

Source: The Economic Times, www.bseindia.com.

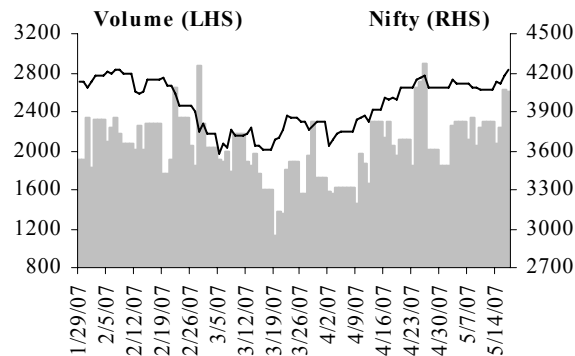
Source: Citigroup Investment Research

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

Bajaj Auto (BJAT.BO)

Demerger Plans: The Devil's in the Details. Cutting Target Price

Jamshed Dadabhoy

+91-22-6631-9883

jamshed.dadabhoy@citigroup.com

Hold/Low Risk	2L		
Price (17 May 07)	Rs2,500.30		
Target price	Rs2,600.00		
<i>from Rs2,886.00</i>			
Expected share price return	4.0%		
Expected dividend yield	1.8%		
Expected total return	5.8%		
Market Cap	Rs252,989M US\$6,231M		
	2007	2008E	2009E
EPS new(Rs)	122.27	133.87	151.50
EPS Growth(%)	10.7	9.5	13.2
P/E	20.4	18.7	16.5
EV/EBITDA	20.0	17.8	14.3
Consensus Data	na	138.53	155.25

Price Performance (RIC: BJAT.BO, BB: BJA IN)



- What's New?** — BJAT management stated that Allianz has a call option on both the life and general insurance subsidiaries, which permits the latter to increase its stake to 74% and 50% respectively in the ventures, for a fairly nominal consideration. BJAT's stock price declined c9% on the back of this news; we could expect further immediate downside on the stock due to these and attendant concerns on the demerger.
- Cut Target Price** — Revise target price downward to Rs2,600 to reflect lower insurance value (Rs388 / share, vsRs510 earlier) and downward revision in core value to Rs1,542 (Rs1,679 earlier). Core business valued at 13x FY09E EPS. As we roll forward to FY09E, multiple is pared to 13x from 14x due to the industry slowdown. Cash and investments valued at Rs670 / share.
- Demerger Details** — Bajaj Auto will demerge its businesses into 3 entities a) Bajaj Auto Ltd. (auto businesses + Rs15bn in cash); b) Bajaj Finserve Ltd. (windpower projects, investments in the insurance ventures, investment in Bajaj Auto Finance and Rs8bn in cash); and c) Bajaj Holdings and Investment Ltd (residual cash >Rs40bn, investment in ICICI and 30% stake in both Bajaj Auto and Bajaj Finserve). All current shareholders of Bajaj Auto will get 1 share each of the new businesses (for every 1 share held in Bajaj Auto). All 3 businesses will be listed by Dec 2007, once regulatory and statutory approvals are obtained.
- Reiterate Hold/Low Risk (2L)** — We believe that this convoluted structure could create an overhang on Bajaj Auto's stock price over the near term. We maintain our Hold rating on the stock.

Cairn Plc & Cairn India

U-turn if you want to: Upgrading to 'Buy'

Mark A Bloomfield

+44-20-7986-4467

mark.bloomfield@citigroup.com

- **Bid spec justifies reappraisal of shares** — Cairn Plc shares have suffered since the IPO of Cairn India was first mooted in 2006, falling c.25% in the last year and underperforming UK E&P space by a similar amount. Cairn India has fallen by 15% since the IPO. Recent bid spec may well prove ephemeral, but should re-ignite investor interest.
- **Core valuation support** — Using \$47.50/bbl (Brent) long-term, the shares trade at 1.0x NAV. Our principal concern until now has been the lack of operational catalysts to drive the shares.
- **Asset market vs equity market** — But potential NOC interest raises the possibility that a higher oil price is used in a bid valuation. Cairn is the most leveraged play in the sector to long-term oil prices with c.35% upside, using the forward-curve.
- **Valuation support, a 'free option' on bid potential PLUS a potential near-term catalyst. Upgrade to Buy** — We don't rule out a possible bid. De-equitisation has yet to visit the oil sector, and Cairn's macro leverage, plus possible progress on the Rajasthan mid-stream, is attractive. We incorporate a 25% 'bid value' into our revised target prices, reflecting an asset valuation using a \$60/bbl oil price, and upgrade the ratings of both Cairn Plc and Cairn India to 'Buy'.
- **Cairn India, 1M (Buy/ Medium Risk), Rs185 TP** — We upgrade the stock to 1M from 2M. Our Rs145/sh base-case NAV retained with 25% 'bid value' premium supporting a revised target price of Rs185/sh (previously Rs145).
- **Cairn Plc, 1M (Buy/ Medium Risk), £21.25 TP** — We upgrade the stock to 1M from 2M. Our £17.00/sh base-case NAV retained, but factoring 25% premium to Cairn India NAV supports revised target price of £21.25/sh (previously £17.00).

India Technical Research Daily

Trading Above 10&20dma

Hitesh Chotalia
+91-22-6611-2664
hitesh.chotalia@citigroup.com

- **Nifty** — The index opened on a positive note and saw range-bound movement until the afternoon session when it rallied toward the close. The index ended the day up 51 points.
- **Range: Upper-End** — The index is trading around the upper end of the 4181-3981 trading band. The index should exhibit strength on breaking the 4181 level and test the all-time high around 4245.
- **Support** — The index has support around the 4151 level and the 10 dma at 4111, intra day dips should find support around these levels. The index is trading above its 10dma (4111) and 20dma (4096) which is considered positive. [dma=Daily Simple Moving Average].
- **Conclusion** — We expect further strength above 4181.

Figure 1: India Technical Research — Index Snapshot

Indices	Last Close	Current Close	Daily Change(Points)
Sensex	13929	14127	+198
Nifty	4120	4171	+51
Nifty Futures: Current Month	4131	4189	+58

Source: Citigroup Investment Research

Figure 2: India Technical Research — Support and Resistance (Daily)

Indices	Support	Resistance
Sensex	14023-13905-13864	14190-14384-14479
Nifty	4151-4111-4096	4181-4217-4245
Nifty Futures: Current Month	4160-4113-4094	4206-4229-4242

Source: Citigroup Investment Research estimates

Analyst Certification Appendix A-1

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Citigroup Global Markets is acting as advisor to Bayer AG in the sale of its diagnostics division to Siemens AG

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Data current as of 31 March 2007

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<i>% of companies in each rating category that are investment banking clients</i>	33%	48%	50%
India -- Asia Pacific (130)	58%	14%	28%
<i>% of companies in each rating category that are investment banking clients</i>	42%	50%	42%
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