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3QFY2008 Results Preview

Box Full Of Opportunities

Research

January 2008

Strategy

A record-setting year

The year 2007 has indeed been a landmark year for the Indian stock markets, which rallied to touch all-time highs of 20K. Over the course of CY2007, the BSE Sensex gained an outstanding 47.1%, reflecting the strong performance of the Indian economy and Corporate India. 2007 marked the fifth consecutive year of the bull-run that began in early 2003, reflecting the tremendous progress that the Indian economy and corporate sector have made over this period. This phenomenal growth was aided by unprecedented fund flows into the equity markets. FII inflows during the year grossed a substantial US $18bn, nearly double the amount seen in the previous year. It was the strong growth and high levels of profitability of Corporate India that were the primary factors that attracted this flood of liquidity into the markets.

The fancies of 2007

We delve into a few key themes here that played out during CY2007. 'Liquidity' was the key theme that played out through 2007. The year was characterised by strong liquidity chasing Indian corporates. Strong FDI and PE funding marked the year, as global PE majors made a beeline for India, one of the most exciting economic growth stories globally. Clearly, PE majors are evincing high interest in India, given its multi-year growth story and plethora of sectors to invest in. As is evident from the figures (*Source: Grant Thornton India*), PE and venture capital investments in India (completed and announced) stood at a significant US $17.1bn over January - December 15, 2007. This is a significant jump from the US $7.8bn recorded in CY2006. Thus, going ahead, India as a market is certainly expected to witness greater interest and action from PE firms.

Consequently, the key theme that played out was that of Equity Infusion and Dilution. Large Indian corporates, with easy access to funds are leveraging this to power their growth plans. Going into 2008, we believe the theme will get further strengthened and aid wealth creation for shareholders in the long run. Apart from accelerating the growth momentum, it also provides value-unlocking opportunities. Major sectors that were recipients of PE funding in 2007 included Infrastructure, Real Estate and Financial Services. With these sectors poised for strong growth in 2008 also, there is unlikely to be any slowdown in demand for funds from them, with PE majors only too willing to provide the supply. Thus, we expect this theme to play out meaningfully this year as well.

A few good sectors

If an analysis of sector-wise performance in CY2007 is done, Infrastructure, Capital Goods and Real Estate led the rally. The government's strong focus on infrastructure led to the order books of the infrastructure companies soaring up resulting in impressive growth. With strong GDP growth rates, the Capital Goods sector, which has a strong correlation with the economy, also proved to be an out-performer. Soaring Real Estate prices on the back of significant high demand for housing, saw major players in this space such as Unitech and the recently re-listed DLF, India's largest real estate firm, rake it in. As we go into 2008, most of these sectors are expected to continue to post robust growth on account of their strong correlation with the economy. The Indian economy is chugging along at 8-9% annual growth. The country's favourable population demographics, talented and ambitious human resource base, strong entrepreneurial spirit, and ever-increasing affluence are expected to be the key drivers for the sustained strong GDP growth rates going ahead.

2008 – Growth v/s Value: Which way to go?

Given that India is currently at the cusp of an investment and consumption boom, the economy is expected to continue to post robust growth of 8-9% yoy in the medium term. Pertinently, India is now a critical and sought after destination for investments and fund flows by FIIs and PE investors. It is no longer a 'potential' market, but one that is already living up to its significant potential. Thus, we would not delve into which way the markets would move based purely on fund flows and availability of easy liquidity, but would attempt to guide investors regards investing in the markets, with the objective to garner maximum returns.

In 2008, we do not foresee a major decline in the Indian stock markets, given their strong fundamentals. We believe it would be a toss-up between 'pure growth' stocks or 'growth and value' stocks. In sectors such as the ones we have mentioned, while growth would be strong, stock prices already factor in most of this growth, in many cases even several years into the future and thus, these stocks are available at premium valuations. But, it should be noted that these companies have performed impressively on the fundamental front, leading to them commanding such valuations. However, going forward, if they were to slip up on the execution front and deliver 'below-expected numbers', their stock prices would go out of favour and in such a market, which is impatient for performance, these stocks would take a lot of time to once again catch investors' fancy.

The key theme that we expect will play out over the next couple of years in India on the back of ample investment opportunities available in India is the Equity Infusion and Dilution theme. It should be noted that such moves lead to dilution in equity, leading to the EPS getting temporarily depressed. However, such moves shore up the net worth of the company, which fuels its future growth. Large Indian corporates have already leveraged the same and going into 2008, we believe the theme would get further strengthened and aid wealth creation for shareholders in the long run.

We also believe that this theme will start to percolate down to the mid-sized companies and new business models and recommend investors to play such themes in 2008. One such theme is Contract Research Organisations (CRO). We believe this space has an opportunity to scale up going forward on the back of compelling competitive advantages in form of cost of labour and time savings. Currently, the

Strategy

Indian CRO industry is around US $120mn, which is expected to increase to US $800mn by 2010. The potential in the sector is also evident from the strong inflow of PE and VC capital investments. Recently, Sequoia Capital invested Rs100cr in the Hyderabad-based pharma and biotech research firm, GVK Biosciences. Going forward, we expect many more CROs to attract PE investments and CROs like GVK biosciences to get listed by 2008. This may enhance the funding options and also re-rating of the segment. Thus, investing in such themes could prove to be rewarding for investors in calendar year 2008.

Infrastructure - Multi-year growth on large-scale build outs

As is evident despite the impressive GDP growth rates being clocked by the country and strong growth expected to continue in future, India continues to lag for want of good infrastructure, be it roads, railways, ports, airports or power. If India is to record sustained GDP growth, then the availability of quality infrastructure is critical. Hence, clearly the Infrastructure sector is poised for multi-year growth, as the government is set to spend billions of Dollars on improving the condition of India's roads, bridges, power scenario and airports. As a result, the order books of all infrastructure majors have skyrocketed and stand at several times these companies' annual sales, providing strong visibility of growth for the next several years, as the orders get executed.

In recent times, promoters have been increasing their stakes in their companies through preferential issues and warrants at prices higher than the prevailing market price. This signifies their confidence in the future prospects of their companies and gives these companies ample funds for their expansion purposes. An example of a company where promoters are increasing their stake is Reliance Energy (REL) and the company is emerging as a key Infrastructure player. REL promoters recently undertook equity infusion of Rs8,000cr in the company, which has enhanced the future prospects of its business. Hindustan Construction Company (HCC) is another company where the promoters have been increasing their stake in the company.

Capital Goods – Capital performance!

The Capital Goods space seems primed for impressive growth going ahead. The sector has a strong correlation with economic growth and given strong GDP forecasts, this sector is unlikely to miss out on its share of the spoils. A case in point here is Vesuvius India, which is well-placed to leverage on the Steel and Aluminum capex cycle. The Steel industry capacity in India seems poised to grow at an impressive 12% CAGR over the next 4-5 years compared with to a considerably lower 6% CAGR over the last decade. With the government's strong focus on infrastructure, the quantity of steel required would be substantial. Also, with mega plans lined up by the Real Estate developers on the special economic zones (SEZ) despite the several hurdles, construction activity in the country will certainly be at its peak and steel requirement will be significant. The country's Aluminum production capacity is also slated to grow at a strong CAGR of 13-15% over the next few years. This is likely to benefit Vesuvius India, which has the Steel and Aluminum Industries as its major customers, thus leading to the company being a key beneficiary of the strong growth expected.

Domestic Consumption theme – Banking, Autos, Telecoms

We believe that the Indian consumption theme is a potent one that has still to play out completely. Further, with the Indians getting more affluent in a fast-growing economy, their spending on food, entertainment, cars, financial services and telecommunications, etc is set to leapfrog. Hence, we are positive on the Banking, Passenger Cars, FMCG and Telecom sectors and believe that these sectors adequately reflect the playing out of the domestic consumption theme.

The economy expected to grow at a strong pace of 8-9% going ahead would along side witness growing affluence and improvement in lifestyles. A fall-out would be individual savings and investments witnessing a significant spurt. Herein, the need for financial intermediation would assume importance leading to the Indian Banking and Financial Services sector being a key beneficiary supported by a softer interest rate outlook. This is in addition to the strong growth expected by corporate India once again resulting in a significant demand for funds from this segment as well. This corroborates our positive view on the sector.

In a stock-specific approach, we are positive on ICICI Bank. The Bank is expected to record strong growth in Advances during FY2008-10E. Adequate capitalisation and a large net worth place the Bank at a distinct advantage over peers. Further, being a key financial conglomerate, the Bank would be a key beneficiary of equity infusions and higher credit off-take. A changing credit mix should also enable the Bank to enhance its NIMs.

The private sector banking space apart, we are also positive on the PSU Banks (PSBs). We believe the business and earnings growth outlook is strong for the PSBs, which will be driven by robust credit demand from the corporate, infrastructure and SME segments and the increased competitiveness of these banks on the technology front. Risks of capital constraints in the immediate future also seem to be ebbing, with the government approving further equity investments in SBI.

The Indian Telecom Sector is also high on the reckoning list. The Indian mobile tele-density still at low levels of just 20%, there still remains tremendous scope for growth. The sector is adding over 8mn new subscribers every month, driven by rapid expansion of coverage area, a continuous lowering of minimum subscription costs and introduction of a greater number of low-cost but feature-rich handsets in the market. Going ahead, we expect the Indian mobile subscriber base to grow at a CAGR of 39% over FY2007-10E to 432.0mn by FY2010E. Scale is of paramount

Strategy

importance in a highly competitive sector. Hence, we prefer the leaders in the industry viz., Bharti Airtel and RCOM. The core telecom business apart, new business initiatives such as DTH and IPTV service launches are also expected to contribute going ahead.

Telecom Infra. companies - An emerging sub theme

A new sub theme is clearly emerging in the Indian Telecom sector viz., Telecom Infrastructure companies, or tower companies (towercos). Telecom is a capex-intensive business and a significant part of wireless capex (around 60%) comprises passive infrastructure, that is, the towers and associated infrastructure. We believe there exists significant growth potential in this business. We have already seen two major deals in this space the first by RCOM, which sold a 5% stake in it's hived off towerco, Reliance Telecom Infrastructure (RTIL) for an implied equity valuation of US $6.75bn. The next major deal came through very recently, with the hived off towerco of Bharti Airtel, Bharti Infratel, selling a 7.5-10% stake for US $1bn, giving an implied enterprise value (EV) of US $10-12.5bn to Infratel. Thus, these transactions clearly show the global interest in the Indian Telecom Infrastructure story. The potential listing of these companies will provide further value unlocking opportunities for shareholders.

IT, Pharma – Laggards in 2007, leaders in 2008?

We believe the IT and Pharmaceutical spaces provide a high margin of safety, as all the negatives seem to have been discounted, notably concerns about the appreciation of the Rupee against the Dollar. This was amply reflected in the significant under-performance by these sectors in 2007 vis-à-vis the BSE Sensex. While the Sensex gained 47.1% in the calendar year, the BSE IT Index lost 14.1%, a record relative under-performance of 61.2%. As for the BSE Healthcare Index, it did gain 16.5%, but relative to the Sensex it under-performed substantially by over 30%.

While investor concerns regards the various headwinds facing the IT sector relating to unfavourable currency movements and wage inflation are certainly valid, it should be noted that IT stocks with valuations of around 16x FY2009E earnings discount the same fairly well. Thus, despite these headwinds, IT companies' profitability, while having been impacted to some extent, has not taken a real beating, as these companies have multiple levers to mitigate the impact. These include, among others, higher billing rates, scale benefits through SG&A leverage, higher employee utilisation rates and improved subsidiary profitability. Also, with the Rupee unlikely to appreciate any further, or at least appreciate gradually rather than abruptly, we believe the IT stocks have factored in the same. We are positive on companies like 3i Infotech, TCS and Satyam.

As regards the Pharma sector, we believe the sector has been punished on the back of concerns about Rupee appreciation. Pertinently, Rupee appreciation, unlike in the IT sector does not hurt the Pharma companies as much, since these companies have well-diversified businesses across geographies. Further, concerns on the pricing front would subside as the sector has witnessed significant consolidation. Also, larger players like Ranbaxy and Dr. Reddy's (DRL) stand to benefit from the emerging macro-trends, such as authorised generics and out-of-court settlements. On the valuation front, the stocks in this space have under-performed significantly, which with improved profitability going ahead, would provide good risk-adjusted returns. The Indian CRAMS players are also all set to post sustainable growth on the back of increased penetration of the Indian players in the overall CRAMS opportunity pie, and increased global traction towards CRAMS. Thus, we believe the CRAMS space is well-placed to provide good returns on a sustainable basis. The stocks that we like in the space are Shasun Chemicals and NPIL.

Real Estate – 'Banking' on land

We believe Real Estate stocks, which are expected to continue to rake in the money in the next year, are, however, richly valued. Given the risk of property prices falling, along with the sharp run-up seen by these stocks last year, the risk-reward equation does seem skewed towards risk at the moment. However, we believe there are opportunities to invest in the Real Estate space, not directly through investing in Real Estate companies, rather through companies that have land banks and are likely to unlock value through these land banks. One such example is Bombay Dyeing. Such companies and numerous other textile companies own large tracts of land that is lying unused and we certainly believe that such companies are likely to provide opportunities for value-unlocking through the sale or development of their land banks, given the huge demand for scarce real estate in the country.

Valuation

The past five years have indeed been highly exciting times for investors in the Indian stock markets, who have seen their investments appreciate by an amazing 501% on a point-to-point basis. On a CAGR basis, this works out to an outstanding 43.1%. This has been chiefly driven by the impressive financial performances of India Inc., benign global interest rates, excess liquidity and the increasing interest of global fund houses in India, given its multi-year secular growth story. Going ahead, we expect the Indian economy and corporates to continue to record good growth, aided by favourable population demographics, a solid human resources pool, a strong entrepreneurial spirit in the country and ever-increasing affluence.

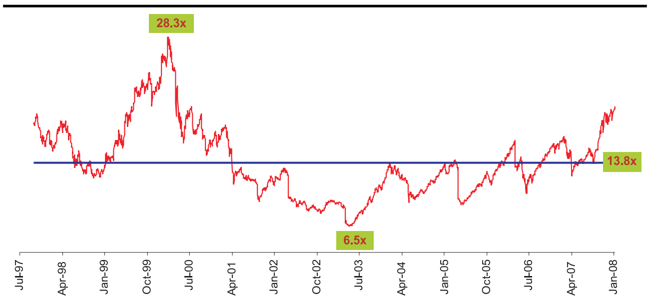
FY2007 proved to be a strong year for the Sensex companies, which logged in strong Net Profit growth of 39.1% over FY2006. Thus far, FY2008 has been a good year. We expect Net Profit growth in FY2008 to come in at 27.9% yoy, which although much slower than the FY2007 growth rate, is still good. In FY2009, we expect a further moderation in EPS growth, which is expected to come in at 17.7%. Over FY2007-09E, we expect the Sensex Net Profit to register a CAGR growth of 22.7% with an FDEPS of Rs872 in FY2008

Strategy

and Rs1,020 in FY2009, excluding strategic investments. It should be noted that with the inclusion of real estate giant DLF in the Sensex, the growth gets boosted significantly, as DLF is expected to record impressive CAGR growth of 118.3% over the mentioned period. Excluding DLF, the Sensex EPS is expected to grow at a CAGR of 20% over FY2007-09E, reflecting the strongly positive impact of the stock on the index's EPS growth rate. We expect sectors like Engineering, Banking and Telecom to record the strongest growth, apart from DLF. The IT sector, despite the significant headwinds being faced by it, is likely to grow at a CAGR in excess of 20%, which is, however, much slower than the growth seen in the previous few years.

On the valuation front, at current levels, the Sensex trades at 23.7x FY2008E and 20.3x FY2009E earnings. Including the strategic investments of the Sensex companies, valuations would be 21.1x FY2008E and 18.3x FY2009E earnings, considerably higher than the 10-year average of 13.8x. Nonetheless, given the significant levels of interest being currently evinced in the Indian markets by global investors, we expect Indian equities to continue to command premium valuations, even as growth expectations should be moderated, with 15-20% annual returns likely from here on.

Exhibit 1: P/E Band of the Sensex



Source: Angel Research

3QFY2008 Results - Curtain Raiser

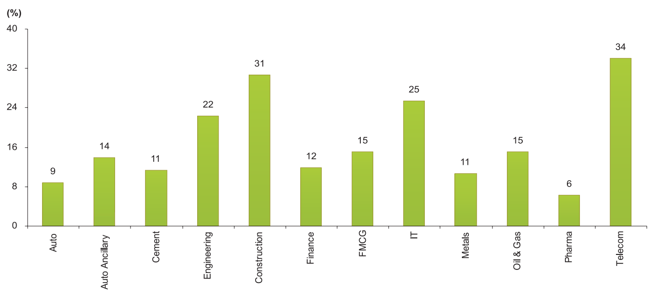
Sensex companies to continue to record strong Earnings

For 3QFY2008, we expect the Sensex companies to post Net Sales and Net Profit growth of 17.3% and 19.0%, respectively. The sectors that we expect would post higher growth than the overall growth of the universe are Engineering, Financials, IT, Oil & Gas and Telecom. We expect Net Profits of these sectors to yoy grow by 31%, 30%, 22%, 23% and 42%, respectively. Growth in these sectors would be led primarily by robust sales growth and strong improvement on the operating front. However, sectors like Auto, Cement, Metals and Pharmaceutical are expected to post disappointing numbers, recording Net Profit growth of 7%, 9%, 7% and 0%, respectively. The Power sector companies are expected to witness a yoy decline of over 10% in Net Profits. It should be noted that the Sensex numbers are excluding the figures of real estate giant DLF, which was recently included in the Sensex, since the consolidated year-ago figures are not available.

3QFY2008 - Sectoral expectations

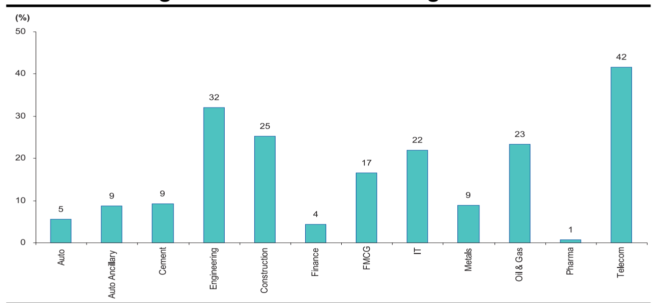
For the companies in our universe, we expect a 15.2% and 18.1% yoy growth in Sales and Net Profits, respectively. The key out-performers, on a yoy basis, are expected to be the Telecom, Engineering, Construction, Oil and Gas, and IT sectors, which would grow Net Profits by 42%, 32%, 25%, 23% and 22% respectively, which is higher than the average growth rate. Telecom is expected to perform well on the back of strong subscriber additions and greater coverage of India's landscape by mobile service operators. Engineering and Construction companies would continue to record good performances, aided by good execution skills and bulging order books. Autos are expected to post a subdued performance on the back of lower sales growth and margin pressures. On the operating front, most industries, barring Telecom, Construction and FMCG, are expected to face pressure.

Exhibit 2: Angel Universe - Net Sales growth



Source: Angel Research

Exhibit 3: Angel Universe - Net Profit growth



Source: Angel Research

Research Team

3QFY2008 Sectoral Outlook

Sector	Key Trends	Comments
Automobile	● Auto companies continued to witness flat volume growth during 3QFY2008 despite a quarter full of festivals. However, going forward, we expect the sector to clock better growth on the back of easing concerns over interest rates. ● Also, we believe going ahead success of the new launches, both in the two-wheeler and four-wheeler segment, will determine the sales fortune of the players.	● For 3QFY2008, we expect all the OEMs to post a disappointing earnings performance on the back of declining sales except Maruti Suzuki. ● OPMs are expected to remain under pressure on higher input costs and intensifying competition.
Auto Ancillary	● Auto Ancillaries are expected to witness sluggish growth on the back of slowdown in Auto volumes. ● Margins are expected to be under pressure due to high input costs and no price hike being passed to most OEMs. ● An appreciating Rupee is expected to pull down realisation of the companies with high exports exposure.	● Broadly, the sector is expected to deliver a moderate set of numbers for 3QFY2008. ● Amongst the pack, Amtek Auto and Subros could deliver better-than-expected performance in 3QFY2008.
Banking	● We expect private sector banks to deliver strong growth in NII in the wake of large capital raising programmes completed in 1HFY2008, through a combination of NIM expansion and aggressive business growth.With robust growth in various non-interest income streams as well, these banks may recoup fall in RoEs sooner than expected. ● PSU Banks are expected to deliver moderate growth in core earnings, underpinned by further gains from operating leverage and modest growth in non-interest income. ● On the macro-economic front, Q3FY2008 saw moderation in numerous indicators, including WPI, exchange rates and accretion to forex reserves.	● Macro-economic data point to the imminent lifting of the overhang on the Banking sector of the RBI's hawkish stance. Going forward, we expect robust business and earnings growth underpinned by imminent softening of interest rates (post 4QFY2008E). ● Large PSU Banks also appear favourably placed as the risk of capital constraints in the immediate future has appreciably receded with the government approving further equity investment in SBI and allowing issue of preference share capital for shoring up Tier-I capital. ● Our valuations take into account sustainable RoEs and accordingly favour banks with core competitive advantages including size, superior distribution networks and payment systems and robust risk-management processes. Our Top Picks are ICICI Bank, Corporation Bank, Axis Bank and Yes Bank.
Cement	● After a good run over the last several quarters, Q3FY2008 was a relatively subdued quarter for the industry as a whole. While volume sales were impacted in part on account of capacity constraints, cement prices stabilised during the quarter, barring some strength in the Southern region. Also, cost pressures in the form of high coal prices posed a significant challenge for the cement companies.	● We expect a mixed Q3FY2008 performance by large cap cement majors. While we expect Grasim to report a good set of numbers aided by its VSF and Sponge Iron Divisions, we expect the pure cement players to report a tempered set of numbers. This is in wake of a slowdown in volume sales and absence of any significant improvement in realisations, barring companies having a considerable presence in the Southern region.

3QFY2008 Sectoral Outlook

Sector	Key Trends	Comments
FMCG	● For 3QFY2008, we expect our FMCG universe to report a steady Topline growth of 14-15% and Earnings growth of 15-17% driven by recent price hikes, inorganic contributions and rising consumer spends. ● Margins are expected to improve slightly owing to the impact of price hikes getting reflected leading to a higher value growth.	● Nestle, Marico, Asian Paints and Colgate are expected to report the strongest earnings growth during the quarter. HUL, the segment leader, is expected to witness pickup in its personal care portfolio (owing to early winter). We expect ITC to post a relatively smaller decline in cigarette volumes this quarter owing to impact of price hikes getting absorbed by the consumers. ● We remain bullish on the Mid-cap space, particularly companies like Godrej Consumer and GSK Consumer and prefer Nestle in the large caps.
Infrastructure	● 3QFY2008 would be one of the best quarters for the sector on the back of strong order book and continuous order inflow from all the verticals of the infrastructure. We expect the industry to clock a CAGR growth of 30-35% on the Revenue front over the next few years. We expect companies to clock stable Operating Margins of 10-12% for 3QFY2008.	● We believe that interest rates are close to their peak. Further, we expect RBI would take clue from another US Fed rate cute by 25bp. Hence, going ahead, we expect the rates to cool off, which would be a big positive for the sector. We remain bullish on the sector. However due to the sharp run up in the share prices currently we are Neutral on the sector.
Metals	● Steel prices remained strong during the quarter having averaged 3.9% higher on yoy basis and 2.6% on qoq basis. We expect steel prices to remain strong going forward on account of raw material cost pressures like that of iron ore, met coke and freight costs. Domestic steel players have already announced a price hike of Rs 500-1500 per tonne with effect from January 2008, which will reflect in 4QFY08. We expect steel prices to remain strong in the short to medium term. Base metals like aluminium and copper remained subdued with a negative bias during the quarter. Copper TcRc margins have also remained soft. However, we expect volume sales to have been robust for the Metals sector as a whole.	● Similar to the previous quarter, we expect the Steel pack to deliver a robust set of numbers aided volume growth and higher price realization during the quarter. However, we expect Nalco and Hindalco to continue to indicate pressure on profitability due to weak aluminium and alumina prices.
Oil & Gas	● GRMs are likely to follow the 2QFY2008 trend with RIL reporting over US$13-13.5/ bbl and OMCs also likely to report similar GRMs as 2QFY2008. ● Marketing margins are likely to be under severe pressure as oil prices have gone up significantly during 3QFY2008 ● Upstream major, ONGC's net realisations are likely to be about US$ 62-64/ bbl. ● Gujarat Gas is likely to post flattish volume growth with margin expansion, IGL - 11-12% volume growth and GSPL 14% volume growth.	● RIL may surprise us mainly on account of better petchem margins. ● ONGC to bear higher subsidy during the quarter and hence net realizations would be higher due to rise in oil price. Gas distribution companies Gujarat Gas and IGL to post double-digit growth in bottom-line while GSPL to post de-growth due to interest and depreciation capitalisation.

Results Preview - 3QFY2008

3QFY2008 Sectoral Outlook

Sector	Key Trends	Comments
Pharmaceutical	● Sales growth of large cap Pharmaceutical companies is likely to be subdued; while select mid-cap players are likely to post double-digit growth. ● High competitive pressures would keep margins under pressure, barring a few.	● Amongst Indian pack Wockhardt, Orchid Chemicals and Indoco Remedies are expected to post robust growth. While rest of the pack would post subdued numbers, on back of margin pressures.
Software	● Volume growth to remain robust at around 6.5% qoq, with total revenues in Rupee terms expectedto grow by 6.9% qoq; Dollar revenues to grow by astrong 8.9% qoq, even in what is traditionally aseasonally weak quarter. Billing rates to continuewith their upward trend, driven primarily by aconsistently improving business mix. ● Margin performance to be encouraging, with TCS and Infosys expected to witness a 30-55bp qoq improvement, while Satyam is expected to see a 101bp qoq rise. Wipro to see a strong 121bpqoq improvement. Net Profits are expected to grow by a strong 10.3% qoq.	● The sector continues to under-perform on account of continued concerns on margins due to Rupee appreciation and wage inflation. A key point to watch out for would be management commentary on the overall demand environment in the US and the impact of the US sub-prime issue on the BFSI space. Comments on CY2008 IT budgets also need to be closely tracked. From a long-term standpoint, the sector fundamentals remain strong. We remain bullish on the sector, however, with a caveat that ex-pectations need to be re-aligned with ground realities.
Telecom	● Topline growth is expected to remain strong in the region of 34% yoy on continued buoyancy in subscriber additions, even as ARPUs continue to witness downward pressure. Growth to remain strong in the other business segments as well, namely enterprise, broadband and long distance. ● Operating leverage in terms of subscriber additions, aided by cost saving initiatives like infrastructure sharing likely to enable continued margin strength. This is likely to lead to impressive bottomline growth of over 40% yoy in 3QFY2008E (excluding one-time items).	● Monthly mobile net adds have been strengthening. We expect telecom majors to continue to report healthy numbers. Mobile teledensity is still at low levels of just 20%, leaving strong scope for growth. Going forward, we expect continued strong growth over the medium-term. However, the recent imbroglio and legal tangles on spectrum allocation could adversely impact the sector's growth if it is not amicably resolved. The progress on 3G is likely to enable better experience for consumers. With the recent deals in the telecom infrastructure space and potential listings going ahead, these companies arelikely to create enhanced value for telcos likeBharti, RCOM and Idea. We maintain our positive stance on the sector.

Automobile

Post the robust growth in FY2007, the Indian Automobile sector witnessed a slowdown in demand and volume de-growth in 1HFY2008 on the back of higher interest rates and inflation. The Automobile players however, geared up for the festive season in the second half of the fiscal. But, the cheers of festivity failed to restore the volumes in same strength. The numbers were mixed for the four wheelers while the two wheelers continued to post weak volume numbers.

In the long term however, we remain optimistic on the Automobile sector. Overall, the key demand drivers remain intact and during the next three-four years, the sector is estimated to witness investments to the tune of Rs300bn. Companies are expanding capacity to meet both the domestic as well as global demand and avail of the fiscal sops in states like Uttarakhand. We expect the Indian Auto sector to consolidate on the back of strong domestic demand, reasonable interest rates and sustained business confidence.

Auto Index rises 6.3% in 3QFY2008: The BSE Auto Index has underperformed the benchmark sensitive index, the BSE, over the last one year. However, the Auto majors turned in a better relative performance towards end of the September 2007 quarter on the back of better valuation vis-à-vis the broader markets. Sentiment for the Auto stocks has also turned positive with concerns over the interest rates easing and players expected to register better volumes going ahead. Overall, the BSE Auto Index posted a positive return of 6.3% in December quarter. Two-wheelers registered a lacklustre performance in (volume terms) 3QFY2008 with Bajaj Auto, Hero Honda and TVS witnessing a yoy decline in total volumes by 2.6%. Inflation and high interest rates adversely impacted two-wheeler volumes. However, stocks like Hero Honda and TVS Motor witnessed a recovery on the bourses after touching their nadir in 2QFY2008. Nonetheless, two-wheeler majors could not retain the strength as 3QFY2008 continued with flattish volume performance.

Four wheelers corrected sharply in 1HFY2008 due to interest rate hike concerns, though volumes reported were in line with our estimates. However, Maruti was the lone player that surprised with a positive yoy growth every month. On the bourses, the stock spiked sharply hitting its 52-weeks high in 2QFY2008. However, concerns of slowdown on a higher base and news of MNC competitors entering the market in 2008 (especially Compact segment) kept the stock range bound in 3QFY2008. Tata Motors underperformed during 1QFY2008 due to cost pressures, change in the interest rate scenario and higher base effect of overloading. However, in last two quarters, it witnessed a turnaround on the back of expected softening of interest rates and recovery of the commercial vehicles (CV) segment in 4QFY2008E. Overall, growth for FY2008 is expected to be lower and would be in the range of 8-10% for the sector. However, Operating Margins would face challenging times due to the increase in raw material costs and intensifying competition.

Commercial vehicles continued flat performance: After a stong growth in FY2007, goods M&HCV have been on a downtrend since the beginning of FY2008 slipping by 3.8% in the first eight months of FY2008. CV volumes were impacted by the high interest rates. However, freight rates have started to move up. Freight index is up 1.3% mom while diesel adjusted freight index is up 5.4% mom, which has been moving upwards since September 2007. This, combined with the 300bp drop in truck finance rates in the last 2-3 months to about 11% from a peak of 14% in April, makes us more confident of the M&HCV industry returning to growth in FY2009. Tata Motors registered 7.1% growth in CV volumes during 3QFY2008 on the back of 18% growth in LCV while M&HCV segment has reported 1.6% decline during the quarter. We currently estimate a 3% growth in volumes in FY2008 for Ashok Leyland and 4% for Tata Motors.

Passenger cars riding high on success of Maruti: The passenger vehicle (PV) players clocked a mixed bag performance in 9MFY2008, although outperforming the overall industry. The PV segment registered a 14.4% growth in the first eight months of FY2008. The compact car segment clocked robust growth. The mid-size segment also recorded impressive growth on the back of couple of new launches like *SX4* and *Logan* during 9MFY2008. Going ahead, the new launches announced by the majors are expected to aid growth of the car segment. Continuing its growth story, Maruti posted a growth of 17.1% and 18.5% during 3QFY2008 and 9MFY2008, respectively. Maruti maintained its domestic growth momentum at 15.2% and 16.7% yoy during 3QFY2008 and 9MFY2008 respectively, while its exports grew 51.5% yoy in the mentioned period. However, Tata Motors reported a decline of 6.4% and 3.7% in volumes during 3QFY2008 and 9MFY2008, respectively.

Two-wheeler segment skids off growth path: During 3QFY2008, the two-wheeler segment continued to de-grow mainly because of the increase in interest rates. Even the cheer of festive season and new launches during the quarter failed to bring back positive growth for the segment. Combined motorcycle sales for the top-three companies declined by 3.6% yoy during 3QFY2008. Bajaj Auto clocked negative growth of 4% yoy during the quarter. Competition among the two-wheeler majors, Bajaj Auto, TVS Motors and Hero Honda, is intensifying with all of them having launched and announcing launch of new products in the different segments. Though the companies reeled under Margin pressure due to an increase in input cost, the same was not passed on to the customers. We expect the companies to continue to reel under pressure in the near term as well.

Moderate growth in the Auto-components segment: Post the boom in the domestic Auto sector, the Auto components segment also registered strong growth and performance in FY2007. The Indian Auto components industry has grown at a CAGR of 16% over the last five years, while exports have grown at a CAGR of over 25%. The Auto components

Automobile

industry in FY2007 derived 70% of its demand from the Auto OEMs, 16% from the Replacement market and 14% from the Exports market. Exports are clearly the key growth area for the Indian Auto component manufacturers. These Exports cater to the US and European markets, and are targeted to meet requirements of the global OEMs and the Replacement market. *However, continued appreciation in the Rupee is putting a brake on Exports' growth and could emerge as a big risk factor for the Auto Ancillaries. Companies will have to take a hit on Margins and face stiff competition from Auto Ancillary suppliers from countries like China.*

Outlook

Automobile demand will continue to be driven by new model launches, increasing affordability and rising household incomes. Post the near term uncertainties due to the high interest rates, we expected the sector to clock better growth in 3QFY2008 on the back of the festive season. However, baring the passenger vehicle segment, CV and two wheelers continued their lacklustre performance. Also, we believe going ahead, success of the new launches, both in the two-wheeler and four-wheeler segments, will determine the sales fortune of the players.

Pressure on Operating Margins to continue: Input cost of the players had spiraled in FY2007 and 1HFY2008 following a jump in the steel and aluminum prices. Persistent volatility in the metal prices is expected to continue and exert cost pressures on the companies during 3QFY2008 as well. Hence, we estimate Operating Margins to continue to reel under pressure during 3QFY2008. Net Profit growth for most of the Auto companies would primarily depend on average realisations and the cost-cutting measures adopted by the players.

Auto-ancillary sector to track Auto: The Auto-ancillary sector has tracked growth of the Automobile sector. Going ahead, in FY2008, increasing efficiencies and supplies by the segment are likely to see more outsourcing opportunities. But, players would have to be ready to adjust to any appreciation in the Rupee in the long run while increasing their export targets. This could well be an uphill task as countries like China are offering products at comparatively better prices. We estimate the sector to clock a CAGR growth of 15% over the next four-five years. Broadly, the sector is expected to deliver a mixed bag of numbers on the back of a slowdown in overall auto demand in 3QFY2008. **Our Top picks in the Auto sector are Maruti, M&M, Tata Motors and Bajaj Auto with a long-term perspective. In the Auto-ancillary space, we prefer Amtek Auto and Subros.**

Exhibit 1: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
March End	(Rs)	3QFY08E	*%chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Ashok Leyland	54	1,748.6	*(1.6)*	9.5	*(85)*	79.7	*(24.3)*	0.6	*(24.3)*	3.9	4.2	*7.6*	13.8	12.8	-	Neutral
Bajaj Auto	2,586	2,713.4	*5.7*	15.7	*154*	346.8	*0.5*	34.3	*0.5*	124.5	139.1	*11.8*	20.8	18.6	2,746	Accumulate
Hero Honda	701	2,764.9	*3.7*	11.9	*58*	230.2	*10.1*	11.5	*10.1*	45.8	50.5	*10.2*	15.3	13.9	-	Neutral
Maruti	965	4,723.1	*28.4*	13.0	*(78)*	447.1	*18.8*	15.5	*18.8*	60.7	72.6	*19.7*	15.9	13.3	1,260	Buy
M&M@	823	2,930.1	*13.7*	13.5	*148*	279.9	*15.5*	11.3	*11.2*	38.2	47.3	*23.8*	21.5	17.4	952	Buy
Tata Motors@	784	7,260.6	*4.4*	11.9	*(142)*	506.9	*(1.2)*	13.2	*(1.3)*	48.8	56.8	*16.4*	16.1	13.8	880	Accumulate
TVS Motors	71	900.6	*(3.7)*	3.0	*(17)*	11.5	*0.2*	0.5	*0.2*	2.1	3.0	*42.9*	33.7	23.6	-	Neutral

Exhibit 2: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
June End	(Rs)	2QFY08E	*%chg*	2QFY08E	*chg bps*	2QFY08E	*% chg*	2QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Amtek Auto*	447	1181.4	*20.0*	19.9	*4*	108.1	*11.3*	8.3	*5.7*	29.4	33.2	*12.7*	15.2	13.5	530	Buy
Amtek India*	190	307.5	*30.0*	24.9	*102*	39.7	*23.4*	3.8	*2.2*	12.5	15.5	*23.7*	15.2	12.3	195	Neutral
Ahmednagar Forg	239	179.8	*18.0*	20.3	*(46)*	18.5	*5.7*	5.6	*5.7*	21.7	27.3	*25.7*	11.0	8.8	270	Accumulate

Exhibit 3: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
March End	(Rs)	3QFY08E	*%chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Bharat Forge*	369	1068.3	*5.0*	16.0	*(42)*	79.3	*3.0*	3.6	*3.0*	15.0	18.5	*23.4*	24.6	19.9	390	Accumulate
Motherson Sumi*	112	431.0	*25.0*	14.0	*(221)*	30.9	*3.4*	0.9	*(31.1)*	4.3	5.2	*20.6*	26.2	21.7	-	Neutral
Omax Auto	85	184.8	*3.0*	6.4	*(389)*	3.6	*(46.1)*	1.7	*(46.1)*	7.4	11.5	*55.5*	11.6	7.4	95	Accumulate
Rico Auto*	36	230.3	*1.0*	15.0	*184*	11.0	*22.1*	0.9	*22.1*	2.9	3.5	*19.7*	12.2	10.2	-	Neutral
Ang Auto	180	31.1	*5.0*	21.8	*(444)*	4.6	*(22.1)*	3.8	*(48.1)*	13.6	14.2	*4.9*	13.3	12.7	-	Neutral
Subros	56	167.2	*6.7*	12.5	*43*	7.2	*8.5*	1.2	*8.5*	4.9	6.1	*23.6*	11.4	9.2	65	Buy
Sona Koyo	64	217.3	*20.0*	11.1	*114*	10.7	*61.0*	1.1	*53.4*	3.6	4.3	*18.5*	17.7	15.0	70	Accumulate

*Source: Company, Angel Research; Note: CMP as on January 4, 2008.; * Consolidated Results; FY08E and FY09E earning calculated on fully diluted Equity Shares.; @Adjusted for extraordinary items.*

Analyst - Vaishali Jajoo

Banking

The large private sector banks in our universe of stocks completed their major capital raising programmes in 1HFY2008. Hence, we expect these banks to clock an expansion in NIMs in 3QFY2008 while the other banks are expected to maintain NIMs. Overall, the private banks are expected to continue with the aggressive business growth observed in 1HFY2008. Resultant growth in Net Interest Income (NII) coupled with robust growth in various non-interest income streams (especially third party commissions and forex gains), suggests that these banks may recoup the fall in RoEs sooner than expected. However, operating expenses are expected to continue to grow at a high rate on account of the continued investments in distribution networks and payment systems. More appropriately such expenses are categorised as gestation period expenses, as the new branches usually take upto 18-24 months to penetrate their respective catchment areas, and even longer to achieve full potential for low-cost deposits.

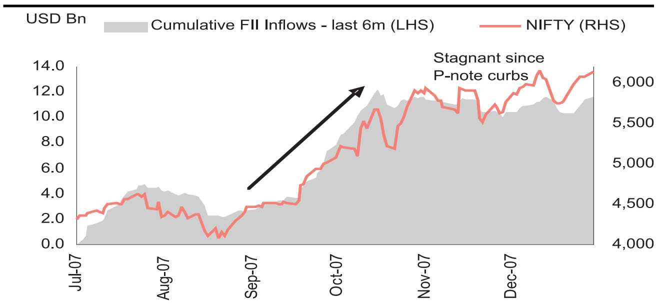
The PSU Banks are expected to deliver moderate growth in core earnings, underpinned by further gains from operating leverage and modest growth in non-interest income. A number of mid-sized PSU banks reported NIM compression in recent quarters, mainly on account of aggressive reliance on bulk deposits. In valuing these banks, we use normalised RoEs below their current high rate of returns. Further, in line with our sector view, we have built in an increase in slippages (fresh NPAs) in our estimates for all banks on a conservative basis.

Key developments

Money supply, interest rates and other macro-economic developments

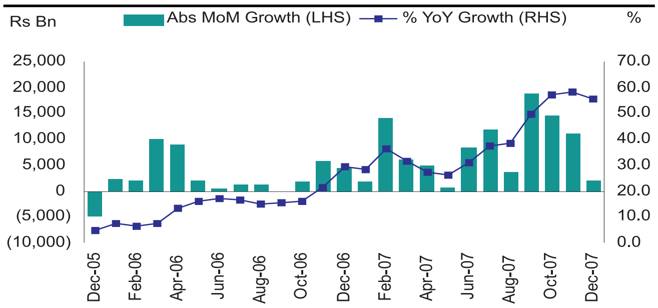
In the first fortnight of 3QFY2008, the continued surge in forex inflows (following the softening of interest rates by the US Federal Reserve) kept growth in money supply above the RBI's comfort level. Reliance of the monetary policy on sterilisation tools such as CRR and MSS alone, proved to be unsustainable. This eventually prompted the government to take measures (in this case, regulation of capital inflows through the participatory note route) to moderate capital inflows at the source. Earlier, in August 2007, the RBI had placed restrictions on ECBs for Rupee spending. As a result, ECBs mobilised by Indian corporates in 3QFY2008 at US $11bn, were 20% lower than the corresponding quarter of last year (and to a large extent raised to fund cross-border outbound M&A transactions) - as against the 280% yoy growth in 2QFY2008 to US $18.5bn. By December 28, 2007, yoy growth in forex reserves had moderated to 55%, after a sustained acceleration from 4.5% during the same period last year to a peak of 60.5% as on November 9, 2007.

Exhibit 1: Moderation in FII inflows



Source: RBI, Angel Research

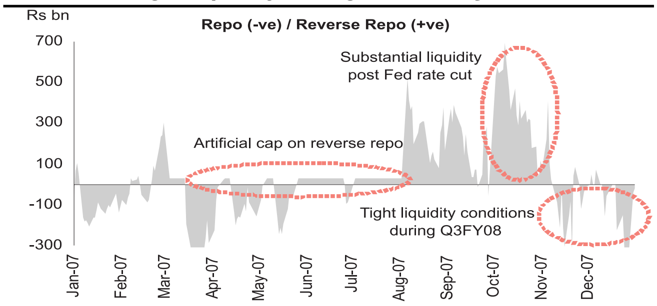
Exhibit 2: Moderation in accretion to forex reserves



Source: RBI, Angel Research

YoY deposit and credit growth remained range bound at around 25% and 22%, respectively. However, in absolute terms, during 3QFY2008 (upto December 21, 2007), deposits increased by Rs77,700cr while commercial credit increased by Rs96,400cr and investments by Rs32,200cr, leading to tight liquidity conditions and high interest rates at the short-end of the yield curve.

Exhibit 3: Tight liquidity during most of 3QFY2008



Source: RBI, Angel Research

While most banks did cut deposit rates in November 2007 before the onset of tight liquidity, further softening of interest rates is unlikely in Q4FY2008E even if forex inflows revive moderately, as numerous banks chase balance sheet growth (SBI increased rates by 25-175bp on term deposits in the short duration slabs recently). The deposit rate cuts by banks (25-125bp since September 2007), should help banks protect NIMs in wake of the increase in CRR and in our opinion, do not warrant expectations of softening in the lending rates in the near term.

Banking

Exhibit 4: Retail Term deposit rates were reduced again in early November by most banks (should help compensate for NIM erosion due to CRR hikes)

	Prevailing peak card rates	Decrease in rates In Nov 07	Decrease in rates Since Sept 07
Andhra Bank	8.75	0.25	0.75
Bank of Baroda	8.50	0.50	1.00
Bank of India	8.75	0.75	0.75
Canara Bank	8.75	(0.25)	0.25
Corporation Bank	8.75	(0.25)	0.25
HDFC Bank	8.75	0.25	0.75
ICICI Bank	8.75	0.75	0.75
Indian Bank	8.75	0.25	0.25
IOB	8.75	0.50	0.85
PNB	8.50	0.25	1.00
Syndicate Bank	9.00	0.60	0.60
Union Bank	8.75	0.25	0.75
Axis Bank	9.00	0.00	0.50
Yes Bank	9.00	0.50	1.25

Source: Company websites, Angel Research

That said, macro-economic conditions, especially the moderation in forex inflows observed during the quarter, do point towards an imminent lifting of the overhang on the Banking sector of the RBI's hawkish stance. Even as inflation and forex rates remained within RBI's comfort zone, outstanding MSS balances actually showed de-growth during December. Eventually, while sustained capital inflows should help maintain moderate growth in money supply, thus paving the way for softening of interest rates, in the absence of any significant surge in inflows, the RBI too should be able to maintain status quo in its next monetary policy review.

New RBI guidelines permitting issue of preference shares to meet regulatory capital requirements

RBI announced guidelines on October 29, 2007 allowing banks to issue perpetual preference shares as Tier-I capital. Banks can now issue hybrids and preference shares up to 40% (earlier 15%) of overall Tier-I. As seen in developed markets, preference capital is likely to become a useful tool for improving leverage in the hands of Indian banks. As the local market for these instruments develops and banks start utilising this option for meeting their capital needs, their long-term, sustainable RoE outlook should improve materially. Consequently, we believe these guidelines will have a positive impact on valuations in the form of a re-rating of banking stocks (driven by increase in justified price to book value multiples).

Moreover, a number of PSU banks are approaching the 51% limit on government shareholding – with privatisation being a politically sensitive issue that could drag on for a long time, this option provides them with an immediate relief to the problem of potential capital constraints arising from Basel II requirements as well as balance sheet growth.

Outlook

With macro-economic data pointing to the imminent lifting of the overhang on the Banking sector of the RBI's hawkish stance, we feel banks are set to deliver strong business and earnings growth. We prefer banks with inherent competitive advantages including size, superior distribution networks and payment systems and robust risk-management processes - all of which contribute to higher sustainable RoEs. Our valuations take into account sustainable RoEs and accordingly favour banks with the above mentioned strengths, as much (or more than) high returns and earnings growth in the near-term driven by non-core income such as recoveries and treasury gains.

Large PSU banks also appear favourably placed on account of the following factors (ratings under review):

- Strong business and earnings growth outlook driven by robust credit demand from corporate, infrastructure and SME sector and increased competitiveness on the technology front.
- Risk of capital constraints in the immediate future receding with the government approving further equity investment in SBI.
- Earnings growth underpinned by a softening interest rate outlook.
- Further gains through operating leverage (with the 6th Pay Commission posing a downside risk).
- Increase in potential financial leverage on account of recent guidelines allowing preference share capital as Tier-I capital.

Our Top Picks are ICICI Bank, Corporation Bank, Axis Bank and Yes Bank

Exhibit 5: Quarterly Estimates — Rs cr

Company	CMP	NII		Net Profit		EPS (Rs)		EPS (Rs)			Adj. B/Value		P/E (x)		P/ABV		Target	Reco
	(Rs)	3QFY08E	*%chg*	3QFY08E	*%chg*	3QFY08E	*%chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	Price (Rs)	
Axis Bank	1,056	499	*39.2*	245	*32.5*	6.9	*32.5*	27.8	35.8	*28.9*	237.1	263.8	38.0	29.5	4.5	4.0	1,125	Accumulate
HDFC Bank	1,696	1,002	*43.8*	411	*39.0*	11.6	*39.0*	43.6	58.0	*32.9*	333.2	379.5	38.9	29.3	5.1	4.5	-	Neutral
ICICI Bank	1,286	2,167	*23.7*	1,111	*22.1*	10.0	*22.1*	31.9	39.7	*24.8*	383.3	407.9	40.4	32.4	3.4	3.2	1,508	Buy
Yes Bank	260	95	*99.2*	48	*91.3*	1.6	*91.3*	6.1	9.5	*55.2*	47.3	71.6	42.7	27.5	5.5	3.6	289	Accumulate
Corp Bank	453	362	*23.4*	173	*18.1*	12.1	*18.1*	45.3	52.5	*16.1*	293.7	328.2	10.0	8.6	1.5	1.38	541	Buy
Indian Bank	213	366	*N.A.*	223	*N.A.*	5.0	*N.A.*	21.2	24.9	*17.4*	91.4	110.4	10.0	8.6	2.3	1.9	-	Neutral
IOB	202	529	*22.3*	293	*18.8*	5.4	*18.8*	22.1	25.4	*14.9*	88.4	108.0	9.1	7.9	2.3	1.9	-	Neutral

Source: Company, Angel Research; Note: CMP as on January 4, 2008.

Analyst - Vaibhav Agrawal

Results Preview - 3QFY2008

Cement

Unlike several earlier quarters wherein cement companies clocked handsome profits on account of strong demand and high cement realisations yoy; we expect 3QFY2008 to be a relatively subdued quarter. Cement consumption pattern across most regions remained relatively subdued during the quarter, which prevented cement companies from passing on higher costs in entirety to consumers. Thus, cement prices remained largely unchanged qoq though they were higher on a yoy basis. Moreover, with no significant capacity having come on stream, capacity utilisation levels continued to remain high, which helped support cement prices through the quarter. Nonetheless, we do not expect the cement companies to spring any surprises during 3QFY2008.

Cement: The underperformers

After being in the limelight in the previous quarter, the December 2007 quarter witnessed large-cap cement stocks underperform the benchmark index by a considerable margin. The reason for this underperformance could be traced to the fact that the cement prices have largely stabilised despite an increase in input costs, chiefly coal, which is expected to put pressure on margins. Since the cement prices across most regions are already ruling at historic highs, cement manufacturers found it difficult to effect any further price hikes.

Exhibit 1: Sensex v/s Cement stocks (3QFY2008)

Cement majors	Abs. return (%)	Relative to Sensex (%)
Sensex	17.3	-
Grasim	3.9	(13.4)
Ambuja Cements	2.2	(15.2)
Ultratech	(2.7)	(20.0)
ACC	(14.3)	(31.6)

Source: BSE, Angel Research

Against the above backdrop, we expect the cement companies to report a mixed performance for 3QFY2008, with the AV Birla Group companies outperforming the Holcim Group companies. This was also largely depicted in the behaviour of the group companies on the bourses during the quarter. Performance of the Ambuja Cements stock must be viewed considering that the Holcim open offer at Rs154/share was in progress and ended in early December 2007.

Temporary slowdown in demand

The despatch numbers for October and November 2007 have been relatively subdued at about 6.5% yoy combined growth. Further, considering the despatch numbers declared by the large cap cement players for December 2007, we do not expect a significant improvement in the all-India scenario during the quarter.

Exhibit 2: All-India Cement scenario (3QFY2008E, MT)

	3QFY2008	3QFY2007	*% chg*
Capacity	173.1	165.1	*4.8*
Production	41.4	38.7	*6.8*
CU (%)	**96**	**94**	
Despatches	41.3	38.5	*7.2*
Export			
- Cement	1.1	1.4	*(19.1)*
- Clinker	0.8	1.1	*(22.9)*
Consumption			
- North	8.3	7.7	*8.2*
- East	5.8	6.2	*(7.2)*
- South	11.5	10.6	*9.1*
- West	8.1	7.1	*15.0*
- Central	5.8	5.6	*2.7*

Source: CMA, Angel Research

The Eastern and Central regions were laggards in terms of the consumption pattern during the quarter. However, we continue to remain confident that the overall demand for cement would continue to grow at 8-9% per annum for the next several years.

Exhibit 3: All-India Cement scenario (9MFY2008E, MT)

	9MFY2008E	9MFY2007	*% chg*
Capacity	172.1	165.1	*4.2*
Production	122.2	112.9	*8.3*
CU (%)	**95**	**91**	
Despatches	121.6	112.3	*8.3*
Export			
- Cement	2.9	4.6	*(36.2)*
- Clinker	1.8	2.3	*(23.3)*
Consumption			
- North	24.2	22.0	*9.8*
- East	17.9	17.4	*3.0*
- South	36.3	32.0	*13.5*
- West	23.2	19.9	*16.6*
- Central	17.4	16.3	*6.4*

Source: CMA, Angel Research

The slower growth in 3QFY2008 production and despatch numbers have impacted the overall numbers for 9MFY2008. Notably, while the yoy cement production growth is expected to slowdown from the 9% in 1HFY2008 to 8.3% in 9MFY2008, cement despatches too are expected to have slowed down yoy from 8.8% to 8.3% in the respective periods. However, interestingly, cement companies enjoying the advantage of exports increased their exports during the quarter which is evident from the fact that cement exports increased from around 0.6MTPA in 2QFY2008 to nearly 1.1MTPA in 3QFY2008.

Cement

Exhibit 4: Cement prices: Topping out?

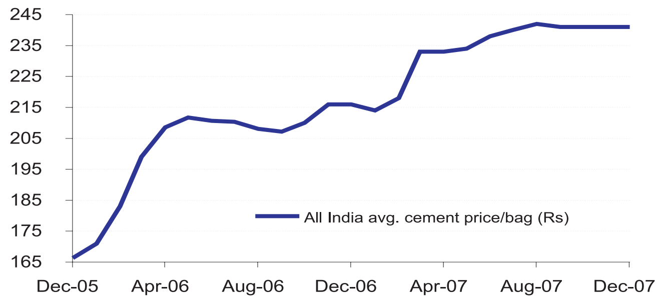
Market	Q3FY2008	Q3FY2007	% YoY
Mumbai	265	244	*8.7*
Delhi	239	217	*10.0*
Kolkata	211	195	*8.1*
Chennai	249	200	*24.9*

Source: CRIS INFAC, Angel Research

Holding the price line!

As already mentioned earlier, the cement industry continues to operate at high capacity utilisation rates (~96% in 3QFY2008) which helped them hold the cement price line. Demand from the construction, real estate and infrastructure sectors have broadly remained firm. However, yoy , average cement prices have registered the maximum gains in the Southern region of over 20% yoy with the other regions logging 8-10% higher realisations over the corresponding quarter of last year.

Exhibit 5: All-India average Cement Prices (Rs/bag)



Source: CRIS INFAC, Angel Research

The average all-India prices were higher by around 13% yoy and currently are at over Rs240 per bag compared to about Rs212 per bag in the corresponding quarter of last year. Notably, however, on the qoq basis, all-India average cement prices have remained unchanged.

Feeling the pinch

Cement companies during the quarter had to face pressure on the cost front with coal costs on the rise. It must be noted that while the cement companies purchase a certain proportion of the coal requirements through coal linkages at prices, which are lower than the market prices, the balance quantity is acquired from the open market. With the coal prices having risen substantially during the quarter, we expect cement companies to face considerable challenge on the costs front.

Not off the government radar, completely!

While there was no action from the Central government during the quarter, it was a State government that swung into action to control the cement prices. The Tamil Nadu government warned cement manufacturers in the state that if the cement prices were not reduced, the government might take over the companies. It must be noted that cement prices in the Southern region have been on the rise in wake of the strong demand and limited supplies. The companies having a significant presence in the state include India Cements and Madras Cements. While this move by the government is aimed at controlling cement prices in the state, we believe that the demand-supply balance would ultimately be the deciding factor for cement prices.

Outlook

We expect the dream run enjoyed by cement companies over the last several quarters to temper hereon. This is on account of our expectation of no or marginal increase in cement prices (primarily to offset cost pressures) going forward. We expect the December 2007 quarter results to be a pre-cursor of the same. While we expect the demand for cement to remain robust going forward, high base effect and lack of pricing power would prevent cement companies from delivering surprises on the financial performance front.

It must be noted that the capacity increase planned by the cement industry over the next couple of years would exceed the demand for cement, which would inevitably lead to a correction in the cement prices. We believe cement prices would peak in FY2008 and weaken FY2009 onwards. Amidst these concerns, **we maintain our Neutral view on the sector.**

Exhibit 6: Quarterly Estimates Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			EV/Tonne(x)		Target	Reco
	(Rs)	3QFY08E	*%chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
ACC*	1,001	1,819	*12.3*	29.2	*30*	331	*(7.6)*	17.6	*(7.7)*	71.3	67.8	*(4.9)*	211	201	-	**Neutral**
Ambuja Cements*	144	1,490	*12.1*	34.4	*(160)*	356	*5.5*	2.3	*5.1*	13.7	11.0	*(19.7)*	258	243	-	**Neutral**
Ultratech	978	1,415	*12.3*	29.3	*(90)*	238	*12.2*	19.2	*12.2*	78.2	74.2	*(5.1)*	187	145	-	**Neutral**
Grasim**	3,595	4,068	*10.3*	31.3	*110*	673	*21.1*	73.4	*21.1*	293.6	317.7	*8.2*	12.2	11.3	-	**Neutral**

*Source: Company, Angel Research; Note: CMP as on January 4, 2008. ; * December ending ; ** Consolidated, Valuation on P/E basis*

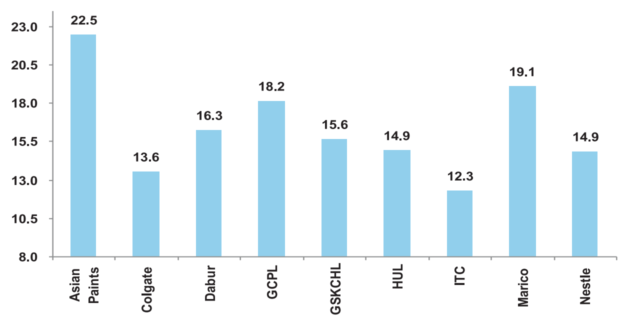
Analyst - Hitesh Agrawal

Results Preview - 3QFY2008

FMCG

A strong economic scenario, rising disposable incomes, low penetration levels and growing consumer spending are expected to keep the ball rolling for the FMCG companies in 2HFY2008E. Increased focus by FMCG companies to penetrate the rural market (accounts for 35% offtake) coupled with innovative product launches, deeper distribution network, growing modern retail and a wider product portfolio are expected to be the key growth drivers going ahead. Several companies have also used the inorganic route to grow at a faster pace and we expect this trend to pick up. Nevertheless, the major challenge for the industry remains the steep and continuous rise in the commodity prices. While most companies have resorted to price hikes to combat inflationary pressures, we expect this trend to moderate in the future owing to rising competition. We expect 3QFY2008 to be another decent quarter for the FMCG companies and expect our universe of stocks to register a steady 14-15% growth in Topline led by companies like Marico, Godrej Consumer and Asian Paints.

Exhibit 1: Revenue Growth yoy (3QFY2008E)



Source: Company; Angel Research; Note: HUL and GSKCHL figures are for 4QCY2007

Rising input prices – 'the biggest challenge'

The biggest source of concern for the FMCG companies in CY2007 has been the ever increasing raw material prices, which have been constantly impacting gross margins of most companies. However, 2QFY2008 witnessed some positive development on this front with several companies showing an improvement in gross margins largely owing to the full impact of price hikes taken over several quarters getting reflected leading to a higher value growth for most companies. We expect this trend to continue in the next few quarters until the impact of price hikes stabilise. A stronger Rupee has also benefited some companies like Asian Paints who import a major requirement of raw materials.

Home-care products like detergents and soaps have been the most badly hit owing to constant rise in palm oil prices on the back of alternative demand for bio-fuels in the global market. Other raw materials, which are consistently on an uptrend include vegetable oils, wheat, milk and milk powder and green coffee.

Better Pricing Power – 'the major saviour'

Taking cues from a buoyant Indian economy and rising consumer spending coupled with escalating Margin pressures due to the relentless rise in raw material prices over the past 12 months, most FMCG companies have resorted to judicious price hikes across categories to protect their Margins. Led by Hindustan Unilever (HUL), most of the companies have taken price hikes in toilet soaps and detergents despite the entry of a stronger competitor – ITC into the soaps segment. HUL, for instance, has raised the prices of several products like *Lifebuoy*, *Wheel Green* and *Rin Advance*. Godrej Consumer Products (GCPL) too has effected marginal price hikes on soaps. Full impact of the 5-7% price hikes undertaken by most consumer goods companies over the past couple of quarters has started positively reflecting in their numbers.

New Product Launches – 'key growth driver'

Entry into new categories through innovative product launches continues to remain an integral part of the growth strategy for most FMCG companies. Personal care and Processed Foods are expected to witness the highest activity. In Personal care, we are particularly bullish on categories like deodorants, shampoos and skin care, which have dismal penetration levels in India. In the Processed Foods segment, *'Health and Wellness'* has been the major theme playing out, with most players rolling out products around this platform primarily led by companies like HUL, ITC and Nestle.

3QFY2008 witnessed a lot of action in terms of new product launches, with the biggest launch being entry of ITC into the Soaps segment with its value for money offering – *Superia.* Recently, ITC also extended the *Fiama Di Wills* brand to soaps to cater to the premium end. Dabur entered the malted food drinks market with the launch of *Chyawan Junior* and also launched a surface cleaner brand *Dazzl*. The company also unveiled the brand name *New-U* for its H&B stores, a retail venture where beauty, health and wellness products will be on the offering. Dabur is expected to launch low fruit concentrate or nectar drinks and is also eyeing the healthy snacks market. HUL entered the kids segment in the toothpaste category under a new sub-brand *Pepsodent Kids.* It is all set to introduce a range of nutritional drinks and snacks for children in early 2008, under its *Amaze Brainfood* brand, a part of Unilever's global portfolio. Britannia is focused on bolstering the dairy business while Nestle plans to expand its coffee business post launching a range of probiotic dairy products.

M&A activity – 'not so fast moving'

Most Indian FMCG companies are looking at acquisitions on the back of strong cash reserves, rising global opportunities and growing appetite for growth via the inorganic route. Moreover, owing to limited opportunities in the domestic market, several players are looking at international targets. However, apart from a few deals, nothing major has happened in the past several quarters

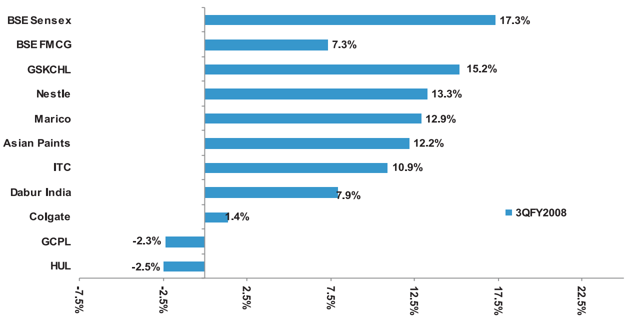
FMCG

owing to dearth of quality targets. Godrej Consumer, GSKCHL and Dabur are actively scouting for acquisitions. During the quarter, Marico acquired the consumer division of Enaleni Pharma establishing its entry into the South African ethnic hair care and health care market. HUL sold its Modern Foods unit to Middle East-based Switz Group.

FMCG Index - 'continues to underperform'

In terms of stock market performance, 3QFY2008 witnessed interesting times with certain weeks witnessing an outperformance by the FMCG Index vis-à-vis the Sensex. This was largely led by heavyweight ITC, which witnessed heavy institutional buying during the quarter owing to factors like new product launches (personal care), media reports of ITC planning to acquire Parle's confectionery business and possibility of demerger of its business units into separate companies in the future. However, none of the FMCG stocks were able to outperform the Sensex during the quarter as a whole, with GCPL and HUL posting negative returns.

Exhibit 2: Stock Performance - 3QFY2008



Source: Company, Angel Research

We believe the FMCG stocks will start gathering momentum in the next couple of quarters owing to its defensive nature and domestic consumption play aided by peak indices, stronger Rupee and higher interest rates. A better Earnings visibility, steady growth momentum, high cash flow generation and rich dividend yield would aid the FMCG stocks to post returns in line with the broader indices in the coming quarters. Moreover, announcements on the acquisition front or new product launches would act as additional triggers for the stocks.

Outlook

Picking up from the strong momentum started in 2005, the Rs72,000cr FMCG sector managed to register yet another strong year in 2007, with growth rates in high double digits. We expect CY2008 to be another year of steady growth in the mid teens supported by deeper rural penetration, changing retail landscape and growing international expansion by most FMCG companies. We expect volume growth to remain strong in most categories owing to gross under penetration and higher number of value for money offerings.

For 3QFY2008, we expect our FMCG universe to report a steady Topline growth of 14-15% yoy driving an Earnings growth of 15-17% yoy. Sector leader, HUL, is expected to report a steady 14.9% Topline growth and 12.4% Bottomline growth backed by pickup in its personal care portfolio (owing to early winter) and steady growth in its soaps & detergents segment. ITC is expected to witness an improvement in cigarette volumes in the 2HFY2008 as the consumers absorb the 21% average price hike. We expect ITC to register a modest 12.3% yoy growth and 13.8% yoy growth in Earnings in the quarter. We maintain Neutral view on both HUL and ITC owing to the sharp run up in their share prices during the quarter.

We remain bullish on the prospects of the FMCG stocks particularly the Mid-cap space including companies like Godrej Consumer and GSK Consumer, which continue to underperform despite higher Earnings growth and steady fundamentals. Among the heavyweights, we prefer Nestle, a strong play on the food processing sector in India, in comparison to HUL and ITC. We believe the steady underperformance of most FMCG stocks provides an attractive entry point for long-term investors to cash in on the Indian consumption story.

Exhibit 3: Quarterly Estimates Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	*%chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Asian Paints^	1,126	1,146.2	22.5	13.6	36	91.3	27.9	9.5	27.9	38.6	46.8	21.3	29.2	24.1	-	**Neutral**
Colgate	457	366	13.6	18.9	196	61	21.4	4.5	21.4	17.5	20.4	16.5	26.1	22.4	489	**Accumulate**
Dabur India ^	121	718.2	16.3	16.4	10	93.2	17.5	1.1	17.5	4.0	4.8	20.8	30.6	25.4	-	**Neutral**
GCPL ^	138	281.2	18.2	21.3	(37)	45.4	14.6	2.0	14.6	6.9	8.4	21.0	19.9	16.5	174	**Buy**
GSK *	689	306.1	15.6	12.7	236	32.5	28.8	7.7	28.8	38.8	45.1	16.1	17.8	15.3	821	**Buy**
HUL *	231	3,626.9	14.9	16.0	13	543.5	12.4	2.5	12.4	8.0	9.3	16.5	29.0	24.9	-	**Neutral**
ITC	220	3,555.0	12.3	33.9	(34)	816.5	13.8	2.2	13.8	8.2	9.7	17.5	26.7	22.7	-	**Neutral**
Marico ^	79	487.4	19.1	14.1	49	41.1	44.8	0.7	44.8	2.7	3.3	23.1	29.5	24.0	-	**Neutral**
Nestle *	1,460	845.9	14.9	17.8	145	90.5	44.9	9.4	44.9	43.6	53.7	23.1	33.5	27.2	1,699	**Buy**

*Source: Company, Angel Research; Note: CMP as on January 4, 2008. ; * December Ending. ^ Consolidated*

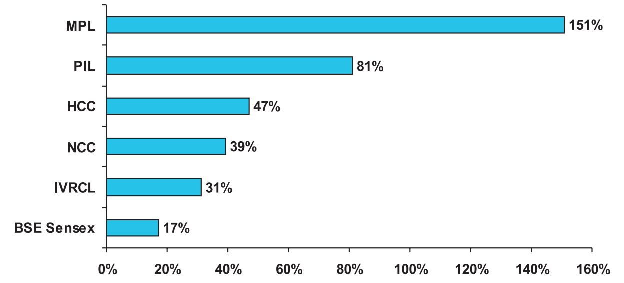
Analyst **- Anand Shah**

Infrastructure

Sensex v/s Infrastructure stocks

Since the start of the bull-run in May 2003 and till the sharp correction in May-June 2006, all construction stocks big and small have outperformed the Sensex by a huge margin. However, post the clarifications on Section 80IA by the government in the Union Budget, infrastructure stocks have seen some battering. Also, we had downgraded the estimates of all Construction stocks by at least 20%. In 2QFY2008, the Construction stocks in our universe underperformed the Sensex. But, in 3QFY2008, the infrastructure companies have clearly outperformed the Sensex.

Exhibit 1: Sensex v/s Infrastructure stocks



Source: Company, Angel Research

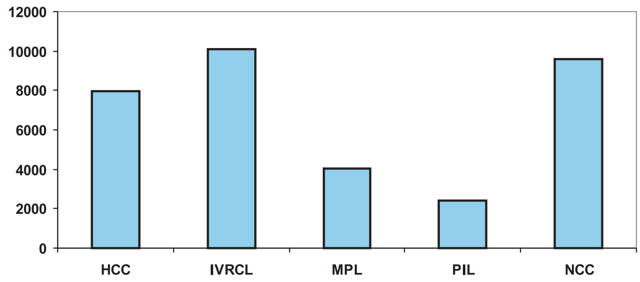
Robust Earnings Outlook

The Infrastructure sector has embarked on a secular growth path led by strong investments by both the government and private sector players across segments including Roads, Ports, Power, Airports, Railways, Urban Planning, etc. We expect the robust order inflows and changing industry dynamics to drive a more than 30% CAGR growth in Revenues and Earnings of the infrastructure companies in our universe, for at least the next couple of years.

Diversified, Quality order book depicts visibility

Accelerated development of roadways under NHDP has been the bread and butter for major construction companies. Though this entails huge investments, it still plays a crucial role in the order book of the players. Strong inflow of orders from other sectors such as Power, Ports, Airports, Water and Sanitation Projects, etc., have helped further bolster Margins of the players and also these segments fetch higher Margins compared to the Road projects. The industry has also evolved from being public investment driven to being on strong private public partnership (PPP) mode. The BOT projects have become the flavour of the day. Growing number of complex jobs have also given way to the domestic construction companies joining hands with the global leaders to better their pre-qualifications for bagging orders. Investment in infrastructure is expected to be in the range of US $475bn over the next four to five years, which would provide immense opportunity to all the players in the segment. Further, overseas markets such as Middle East continue to tick in strong order inflows for the domestic construction majors further fortifying their order book. A huge order book not only gives revenue visibility but also gives infrastructure companies some elbow room for the selection of orders with respect to margins and areas of operation in which they specialise.

Exhibit 2: Order Book Position (Rs cr)

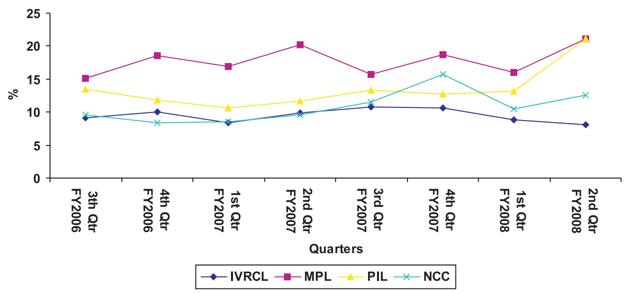


Source: Company, Angel Research

EBIDTA Margins

On the Margins front, the hardening trend in the commodity prices like cement and steel, and capital expenditure on machinery though elicit concerns, efforts by the industry players to achieve better working capital management along with the price escalation clause linked to WPI, are likely to keep Margins intact going ahead. Moreover, with the industry maturing and plenty of opportunities available for all, the price-cutting tactics are reducing as the players focus on sustaining Margins amidst rising input costs.

Exhibit 3: EBIDTA Margins Trend



Source: Company, Angel Research

Key Developments in 3QFY2008

NCC bags Export order

The Government of Oman awarded the prestigious Wadi Adai Al Amerat road project to Nagarjuna Construction Company (NCC) during 3QFY2008. The project cost is estimated at around Omani Riyals 56.549mn (Rs570cr). The proposed 7.5km road is to be completed in 18 months. The project, among other things, involves the construction of six new bridges of varying lengths, nine box culverts and one single lane bridge.

Government of Karnataka selects consortium of Maytas, NCC and VIE India

The Government of Karnataka has selected the consortium

Infrastructure

of Maytas Infra, NCC Infrastructure Holdings and VIE India Project Development and Holding LLC (VIE) to develop and operate the airport proposed at Gulbarga and Shimoga on a BOT basis. Two separate special purpose vehicles (SPVs) are to be set up. The details of consortium partners and shareholding pattern of Maytas, NCC Infrastructure Holdings and VIE are 37%, 37% and 26%, respectively. The construction period is 24 months from the date of signing the agreement and the concession period is 30 years. Further, the agreement shall, at the option of the consortium, be extended for a further period of 30 years. This is first of its kind of order for Maytas and NCC.

IVRCL Infrastructure acquires Alkor Petroo

IVRCL Infrastructure & Projects has acquired the city-based unlisted company Alkor Petroo. The company signed a share purchase agreement to acquire all the shares of Alkor for a consideration of Rs6cr. It has envisaged Rs8.5cr to take care of the liabilities and investments. In addition, the company proposes to invest around Rs200cr during the exploration phase. Alkor has five exploration blocks in Yemen and Egypt along with the Gujarat State Petroleum Corporation (GSPC) and others. GSPC is the operator for all the five blocks. Alkor had 25% participating interest in Yemen and 20% in Egypt in the joint venture initiative. Two of the blocks (Block 19 in Yemen and Block 6 in Egypt) have a potential of over $1bn during the lifetime of the blocks. Revenues from the other blocks are under evaluation. Block 19 had a potential of 143 million barrels and 17 billion cubic feet.

Pratibha Industries secures contract from Delhi International Airport

Pratibha Industries has secured a contract for the construction/expansion of domestic arrival terminal of the Indira Gandhi International Airport, New Delhi from the Delhi International Airport. Total value of the contract is Rs41.4cr. The project involves construction and expansion of the domestic arrival terminal at the Indira Gandhi International Airport at New Delhi. The project is to be executed in about five months.

Outlook

2007 was another remarkable year, with the Indian economy clocking a yoy real GDP growth of 9.2% (9%). This has resulted in an unprecedented CAGR GDP growth in excess of 8% over the last four years. By March 2012, roughly Rs24,000bn would be required to be invested across the infrastructure sectors to sustain the 9% GDP growth. Future holds great opportunities for the infrastructure players as can be concluded from the estimated allocations to the infrastructure sector in the ensuing years. It is inconceivable that such huge sums can be raised without contributions from the private sector. Further, where reforms are ongoing, as in Roads, Telecom, Ports and Aviation, there have been no dearth of financing. Even the promise of reforms in Power and Oil & Gas has attracted new investments. In the past year, Infrastructure has seen the entire gamut of deals ranging from M&As to PPPs. There's been a stream of successful IPOs (MPSEZL, Maytas, CCCL) and more private equity deals then ever before. New players, including specialised funds such as the Infrastructure Finance Company, have entered the financing arena. Private equity is much in evidence too. Even vanilla commercial banks are interested in infrastructure exposure. The Insurers have also been seeking sector penetration. However, this far the impact has been uneven. Urban Infrastructure remains the laggard because it is run by the inefficient municipalities. If JNNURM conditionalities cause changes in the mindset, things may improve hereon. In any case, the next four years are likely to see ever more and more funds getting allocated for the sector. Consequently, more orders with bigger ticket sizes would get registered across different sectors. That presents a vast opportunity for all the players in the sector. Hence, overall we are positive on the infrastructure sector.

Exhibit 4: Quarterly Estimates — **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	*% chg*	3QFY08E	*chg bp*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*% chg*	FY08E	FY09E	Price (Rs)	
HCC*	255	702.4	*31.0*	12.7	*25.0*	28.1	*27.8*	0.7	*27.8*	2.5	5.9	*136.0*	102.0	43.2	-	**Neutral**
NCC*	365	850.0	*21.5*	11.6	*6.0*	48.9	*8.9*	2.3	*8.9*	9.3	11.8	*26.9*	39.2	30.9	-	**Neutral**
IVRCL*	569	713.0	*33.7*	11.0	*21.0*	44.4	*38.3*	2.7	*38.3*	13.9	20.0	*43.9*	40.9	28.5	-	**Neutral**
MPL*	627	200.0	*66.0*	15.2	*(58.0)*	14.6	*49.3*	3.9	*49.3*	15.5	23.9	*54.2*	40.5	26.2	-	**Neutral**
PIL	444	113.6	*37.7*	13.6	*32.0*	8.5	*30.3*	5.7	*30.3*	15.6	24.0	*53.8*	28.5	18.5	-	**Neutral**

*Source: Company, Angel Research; Note: CMP as on January 4, 2008.; *Standalone Numbers*

***Analyst* - Shailesh Kanani**

Metals

Metals shining once again…

Metal stocks were star performers during 3QFY2008 outperforming the Sensex by a significant margin. This was reflected in the BSE Metal Index, which surged 43.6% during the quarter and outperformed the Sensex by a hefty 26.3%. Steel stocks performed well mainly on account of the strong steel prices during the quarter and expectations of better prices going ahead on the back of rising input costs of iron ore and met coke. Mine allocation to the players, acquisition of mines abroad and news of possible acquisition of smaller companies kept the metal stocks, particularly the Mid and Small-cap stocks in the limelight during the quarter. We expect the steel companies to deliver a relatively stronger performance compared to the non-ferrous players for the quarter.

Exhibit 1: Sensex v/s Metal stocks (3QFY2008)

Metal majors	Abs. return (%)	Relative to Sensex (%)
Sensex	17.3	-
BSE Metals	43.6	26.3
SAIL	37.7	20.4
Tata Steel	24.5	7.2
Hindalco	25.0	7.7
Nalco	63.5	46.2

Source: Capitaline

Steel majors SAIL and Tata Steel gained 37.7% and 24.5% on the bourses respectively, during the quarter, while Hindalco and Nalco moved up 25.0% and 63.5%, respectively.

We expect demand to have been reasonably strong, particularly in steel, which would aid the Topline of these companies. Firm steel prices during the quarter would also contribute to the Topline growth of the steel companies. In perspective, benchmark HRC prices were higher by 3.9% yoy and 2.6% qoq in 3QFY2008. On the non-ferrous front, aluminium prices averaged a significant 10.4% yoy on the lower side in 3QFY2008 and a little over 4% on a qoq basis. Spot alumina prices have however, shown signs of stability. Copper prices meanwhile increased by 2.1% yoy in 3QFY2008 and averaged lower by 6.7% compared to 2QFY2008. Notably, Indian copper manufacturers like Hindalco and Sterlite are primarily custom smelters and hence their performance is linked to the TcRc margins earned by them, which continued to remain under pressure during the quarter.

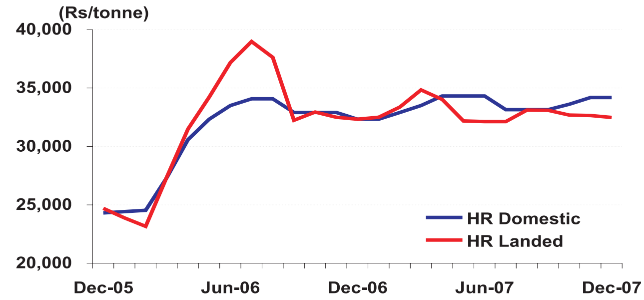
Rupee appreciation continues to be a concern

During 3QFY2008, the Indian Rupee continued its uptrend against the US Dollar (US$) with the appreciation being greater than that witnessed in 2QFY2008. On a quarterly average basis, the Rupee appreciated 2.7% against the US $ in 3QFY2008 vis-à-vis the 1.8% appreciation seen in 2QFY2008. An uninterrupted appreciation in the Rupee undoubtedly poses a considerable challenge for the domestic metal companies as the landed cost of imports reduces, which in turn pressurises the pricing power of the domestic players.

Steel sector in 3QFY2008

The demand for steel continued to remain strong during the quarter. Steel prices too remained firm due to the strong demand from Emerging markets like India and China. Also, rising input costs of iron ore and met coke supported the steel prices. During the quarter, the benchmark domestic HRC prices averaged Rs34,000 per tonne, higher by 3.9 % yoy and 2.6% qoq.

Exhibit 2: Domestic HRC Steel Prices (Rs/tonne)



Source: Crisinfac

Pertinently, in the US and Europe, some strengthening in the steel prices was witnessed in the region of US $20-25 per tonne during the quarter. While part of this could be attributed to rising input costs of iron ore and met coke, declining exports from China also aided the uptrend. In China, HRC prices have surged by almost US $40-50 in recent times in the wake of hardening input prices.

China continues to be leader

Considering that China constitutes almost a third of the world steel production, which continues to increase at 18-20% yoy, the trendsetter for future steel price movement would largely be China. China exported over 58 million tonnes of steel from January-November 2007, which is higher by almost 55% yoy. However, Chinese exports witnessed a slowdown during the quarter, as the Chinese government's efforts at controlling exports started to yield results. Also, over the last several months, the Chinese authorities have made concerted efforts to curb steel exports by scraping the export rebates and introducing an export tax. We believe, these measures coupled with others like the probable implementation of export quotas in China or a further hike in the export taxes, and China's plans to close down inefficient steel capacities could help support the steel prices going ahead.

Input costs an important factor in pricing

Key inputs like iron ore and met coke prices are trading close to their record highs and their prices increased significantly during 3QFY2008. The Spot iron ore prices witnessed a sharp rise of almost US $40-50 per tonne on account of strong demand from China and congestion at

Metals

major ports like Australia, which led to the hardening of freight rates. Spot iron ore prices in China, which buys almost half of the world's traded iron ore considering its furious pace of steel production, witnessed the sharpest increase with the price per tonne increasing from around US $130-140 to almost US $180-200 per tonne during the quarter. The met coke prices also increased from US $280-300 per tonne to US $350-400 per tonne. The sharp increase in the Spot prices of these inputs will lead to the contract prices getting negotiated at 25-30% higher levels. A sharp increase in these input costs has led to a cost-push rise in the steel prices.

Steel sector outlook

Steel prices remained strong during the quarter and we expect the trend to continue in the medium-term chiefly on account of the strong demand from Emerging markets like India and China, rising input costs of iron ore and met coke and Chinese government's efforts to reduce steel exports.

China has initiated measures to reduce the export of steel products to manage its burgeoning trade surplus with the US. It initiated its efforts with a 10% export tax on semi-finished steel products such as billets and slabs in November 2006. However, with exports showing no signs of slowing down, China reduced the export duty rebate on various products, hiked the export taxes and implemented non-monetary measures such as licensing of steel exports between April 2007 and June 2007. It has again, with effect from January 2008, levied export taxes on certain new categories of steel products and hiked the levies on certain existing products. These steps to curb exports by the Chinese government augur well for the global steel industry.

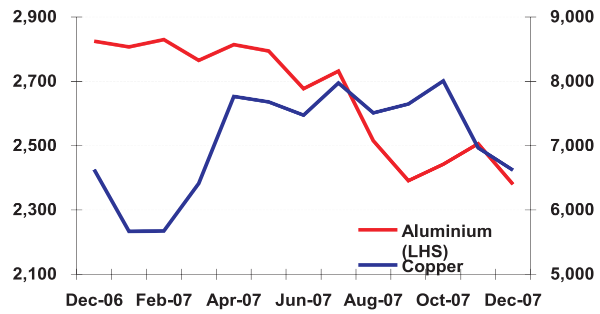
Rising key input costs of iron ore and met coke act as a cushion for the steel prices. This has already resulted in the recent hike announced by the international and domestic steel players. With effect from January 2008, the major domestic steel producers have increased the prices by Rs500 to Rs1,500 per tonne across various products.

Non-ferrous metals in Q3FY2008

Non ferrous metals, unlike ferrous, displayed some weakness during the quarter primarily on account of rising global alumina, aluminium and copper production.

On the alumina front, with China having considerably reduced its import requirements on account of a rise in domestic production, pressure has been clearly witnessed in the alumina prices since the last one year. Similarly, with the prospects of surplus in aluminium and rising copper inventories, prices of these commodities ruled week during the quarter. Average LME aluminium prices were at US $2,443 per tonne during the quarter, lower by 4.1% on a qoq basis and down 10.1% yoy. Average LME Copper prices at US $7,198 per tonne in 3QFY2008 were lower by 6.7% on a qoq basis, albeit higher by 2.1% on yoy basis.

Exhibit 3: Average LME Aluminium and Copper prices



Source: Crisinfac, LME

Non-Ferrous Metals sector outlook

Outlook for the non-ferrous metals sector is positive on the demand front. Going ahead, the demand for base metals is expected to slowdown on the back of a possible slowdown in the US, which is a key consumer of base metals. However, we believe the demand for base metals would not get adversely impacted in a significant manner as the two new growth engines for the world, China and India, are maintaining their consumption growth pattern. On the domestic front, robust outlook for end user industries viz., automobile, consumer durables, construction, power and packaging and an estimated GDP growth of 8-9% shall ensure that demand for metals in the domestic market continues to be buoyant. However, we maintain that despite the robust demand outlook, excess supply pressures would lead to a correction in the base metal prices, which would impact the profitability of companies in these sectors. Hence, we maintain our Neutral stance on Metals.

Exhibit 4: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	*%chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Hindalco*	220	4,937	*6.0*	18.5	*(390)*	596	*(7.4)*	4.9	*(21.4)*	18.6	15.5	*(16.7)*	11.8	14.2	-	**Neutral**
Nalco	516	1,315	*(9.2)*	42.5	*(1,580)*	425	*(25.7)*	6.6	*(25.7)*	27.0	23.7	*(12.2)*	19.1	21.8	-	**Neutral**
Tata Steel*^	931	5,080	*13.6*	42.5	*260*	1,238	*16.4*	16.9	*(7.6)*	109.4	127.7	*16.7*	8.5	7.3	-	**Neutral**
SAIL	274	9,860	*15.5*	29.1	*60*	1,832	*24.5*	4.4	*24.5*	17.9	21.7	*21.2*	15.3	12.6	-	**Neutral**

*Source: Company, Angel Research; Note: CMP as on January 4, 2008.; * Full year EPS calculations based on fully diluted equity; ^ FY2008 & FY2009 incld. Corus; Hindalco numbers excld. Novelis*

***Analyst* - Hitesh Agrawal / Pawan Burde**

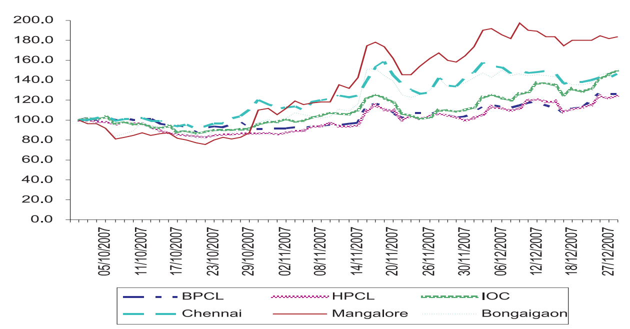
Oil & Gas

A stupendous rally was witnessed in the Oil and Gas sector on the bourses with the stocks hitting new highs during 3QFY2008, which reflected the remarkable performance registered by the sector in 2QFY2008. Investors even found renewed interest in stocks of the OMCs like IOC, BPCL and HPCL. It was another quarter of healthy GRMs from all the refiners. The most remarkable event of the quarter was oil touching almost US $100/ bbl and managing to keep the prices above US $90/ bbl through the quarter. Although, it barely missed the coveted US $100/ bbl mark, at the time of releasing the report it touched the US $100/ bbl mark.

Re-rating of Refinery stocks

The earlier quarter was dominated by Reliance stocks like RIL, RNRL while this quarter it was Essar Oil, which led the re-rating of the Indian refiners. Post the ambitious investment plans of RIL and oil & gas PSUs, Essar announced its refinery expansion plans. The company plans to expand its existing refining capacity of 10.5mn tonnes (2,20,000bbls/ day) to 34.0mn tonnes (7,00,000bbls/ day) at Vadinar. Total investment for the project is envisaged at US $6bn. Funding for the same will be done through a 2:1 Debt: Equity with the promoters infusing close to US $2bn through a preferential allotment. The expanded capacity will be operational by 2010 and will produce high quality fuels complying with Euro IV and Euro V norms. This will be another big private sector refinery after RIL's Jamnagar and RPL's upcoming refinery.

Exhibit 1: Crude oil price movement



Source: Bloomberg, Angel Research

Essar Oil was ablaze with the investment news and triggered the re-rating of the entire refining space. Since globally refineries are operating close to 90% capacity utilisation levels, we have witnessed strong refining margins since the past one and a half years. Further, since the new capacities have been delayed, the high GRM environment is likely to sustain for the next 2-3 years, which augurs well for the refining segment. This event triggered the rally in the Indian refinery stocks, which have gained handsomely during the quarter.

Company updates

GSPC has decided to call for bids to sell 30% of its KG basin block KG-OSN-2001/3, the gas potential is pegged at 1-3TCF. GSPC owns 80% of the assets while the balance is shared by GeoGlobal Resources and Jubilant Enpro. The money thus raised will be utilised for the development of the block, which is expected to start production by 2009-10.

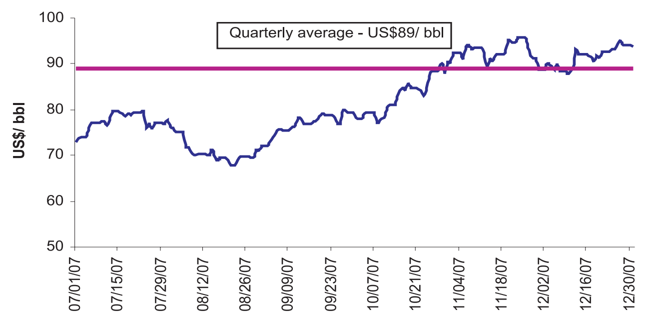
Petronet is going in for forward integration through its power generation foray. The company has got the go ahead from its Board for the feasibility study of the 1,200MW gas-based power plant at an estimated investment of Rs3,600cr. Although, it is a good diversification move, concerns regards availability of LNG still persist apart from capped RoEs on power generation.

ONGC continues to invest in the Bombay High legacy field to enhance the output and has planned investments to the tune of Rs10,000cr over and above the earlier investments of close to Rs10,000cr, to boost the output to 3lakh bpd by end 2008.

HPCL has planned total capex of over US $4.5bn by 2012 on exploration, gas marketing and petrochemicals. Out of the total capex, about US $1 will be utilised for E&P initiatives.

One of the instrumental events during the quarter was RIL's 4.01% stake sale in its subsidiary RPL for a total consideration of Rs4,023cr. This has reduced RIL's stake in RPL at 70.99% making a handsome Rs3,840cr gain.

Exhibit 2: Crude - Crosses US $100/ bbl mark

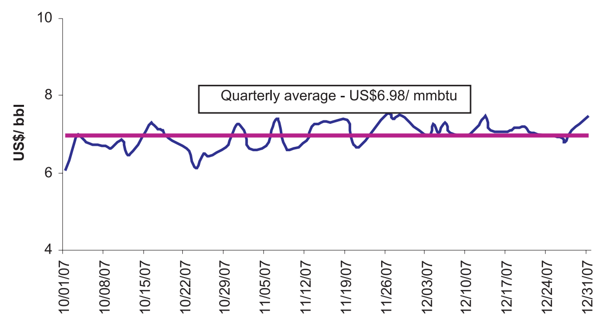


Source: Bloomberg, Angel Research

Crude prices witnessed an incessant rally during the quarter, almost touching the much coveted US $100/ bbl mark. There were quite a few issues including geopolitical tension between Iran and Turkmenistan, drop in US inventories and possible US slowdown, which fueled this spike in oil prices. Post the subprime meltdown, the world economy feared about US slow down, which would reduce consumption, and hence the oil prices spiked significantly. But, the Fed rate cut helped the oil prices to cool off slightly. But, again the continuous drop in US inventories in the midst of winter is driving the oil prices and at the time of releasing the report, the oil prices managed to cross the US$ 100/ bbl mark.

Oil & Gas

Exhibit 3: Natural Gas - no substantial movement



Source: Bloomberg, Angel Research

Gas prices remained volatile during the quarter without significant spikes. The US inventory remained in control which helped the prices to average about US$6.98/ mmbtu during the quarter.

Outlook

We expect ONGC's net realisations during 2QFY2008 to be around US $64/ bbl given the fact that gross realisations were around US $87-88/ bbl. The average Rupee-Dollar rate during the quarter was around Rs39.5/ US$, which will impact realizations, but a marginal rise in Oil and Gas production will partially negate the impact.

Petrochemical major, Reliance Industries, is expected to post double-digit GRMs of close to US $13/ bbl. Petrochemical prices remained strong, which bodes well for RIL. This coupled with the profit from RPL stake sale will help the company to show once again spectacular results in 3QFY2008.

Under-recoveries are likely to further burden the OMCs, which are losing heavily on the retail fuels viz., petrol, diesel, PDS kerosene and domestic LPG. Although the government offered support through oil bonds worth Rs23,457cr for FY2008, the rising oil prices are likely to take a toll on the OMCs' profitability. Only the oil bonds are not likely to wipe out the worries of the OMCs. Hence, the government is now contemplating a price hike in the retail fuels coupled with revision in taxes on petroleum products. We need to wait and watch for the move till next month.

Since the gas transmission and distribution companies are not prone to the vagaries of the oil price, we believe they are safe bets. Although Gujarat Gas is likely to report flat yoy volumes, Margin expansion will drive profitability. We need to note that in the corresponding quarter of last year, the company's Margins had plunged due to a revision in the gas purchase prices.

GSPL's gas supply to NTPC has commenced, which will drive the company's transmission volumes. We estimate 14% yoy volume growth, but the same may not trickle down to the Bottom-line due to higher Interest and Depreciation capitalisation.

We estimate Petronet LNG to report higher volumes through Spot supplies. The company is trying hard to tap gas supplies for its Dahej and upcoming Kochi facility but is facing problems due to scarcity in the global LNG market.

IGL is expected to report around 10.4% growth in CNG volumes while the PNG volumes are likely to jump by over 41% due to the low base effect. Margin expansion will help the company report double-digit Bottom-line. Although, we have witnessed a sharp run-up in all gas stocks, we believe that the future remains bright for these companies due to the availability and thrust on use of clean fuel CNG.

Exhibit 3: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		Diluted EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	Q3FY08E	*% chg*	3QFY08E	*chg bps*	3QFY08E	*% chg*	3QFY08E	*% chg*	FY08E	FY09E	*% chg*	FY08E	FY09E	Price (Rs)	
GSPL	110	106	21.1	84.6	*(200.0)*	18	*(35.2)*	0.34	*(34.6)*	1.6	2.9	79.0	67.9	37.9	-	**Neutral**
Gujarat Gas *	353	314	14.8	18.9	*670*	33	*86.4*	5.1	*82.1*	22.9	24.2	5.7	15.4	14.6	396	**Accumulate**
IGL	173	177	10.6	42.6	*170*	41	*16.3*	3.0	*16.6*	11.3	12.8	13.3	15.3	13.6	-	**Neutral**
Petronet LNG	117	1,611	2.2	12.4	*140*	105	*23.0*	1.4	*23.9*	4.8	5.4	12.5	24.4	21.7	-	**Neutral**
ONGC ^	1,344	16,144	3.3	56.1	*(110)*	5,265	*12.8*	24.6	*12.8*	86.6	92.9	7.3	15.5	14.5	-	**Neutral**
RIL #	2,986	33,975	22.3	18.6	*80*	3,948	*41.1*	28.3	*40.8*	91.4	103.1	12.8	32.7	29.0	3,344	**Accumulate**

*Source: Company, Angel Research, CMP as on January 4, 2008; Note: * - Calender year, ^ - standalone numbers for quarter and consolidated numbers for full year; # - Q3FY07 numbers do not include IPCL numbers, does not include profit from sale of RPL stake*

Analyst - **Rohit Nagraj**

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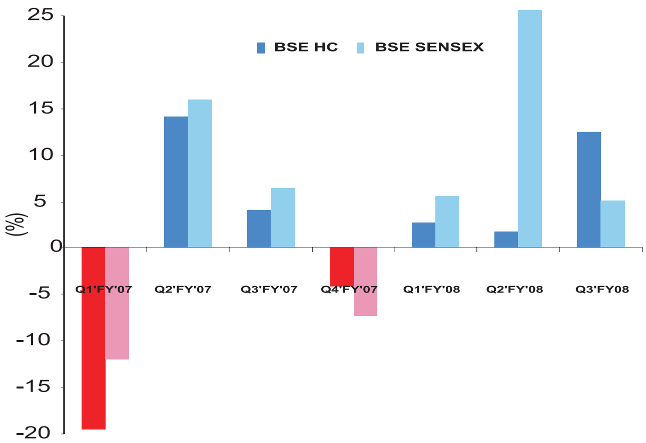
Pharmaceutical

Healthcare Bull run after a long hiatus

Post being under-performers during the bull run, pharma stocks finally made an up move during 3QFY2008. Asset reallocation during the quarter aided the uptrend in the sector. Key stocks that participated in the rally included Sun Pharma, Glenmark , Ranbaxy and Nicholas Piramal (NPIL) spurted following de-merger of its R&D unit into a separate company.

Apart from the R&D related theme, other stocks that out-performed the BSE Healthcare index were from Contract Research and Manufacturing Services (CRAMS) like Jubilant Organosys (JUBL), Dishman and Divi's Lab. Some Mid-caps like Orchid Chemicals also performed well on the back of new product launches in the Regulated markets. Going ahead, we expect the sector to continue its out-performance on the back of the emerging opportunities in CRAMS, new product launches and in-organic growth initiatives.

Exhibit 1: Healthcare v/s Sensex



Source: Angel Research, Cline

Innovators favour out-of-the-court-settlements

Innovator companies have been facing challenges both on account of low productivity in R&D and high competition from the generic players, which have been filing Para-IVs aggressively. With some of the products being blockbuster products, innovators as well as authorised generics have been favouring out-of-the-court settlements as it delays entry of the generic players before the patent expiry. The generic players have also opted for the same as it provides better revenue visibility in a highly competitive macro-environment.

Among the Indian filers, Ranbaxy has 20 FTFs addressing a market of $26bn. In 2007, the company entered two out-of-the-court settlements with GSK and Astellas & Boehringer Ingelheim for *Valtrex* and *Flomax* having a market size of $1.3bn and $1.2bn, respectively. Apart from this Ranbaxy would also be eligible for 180-day exclusivity for *Atorvastatin*, which has global sales of $8.5bn. Besides Ranbaxy, other major Indian drug companies such as Sun Pharma and Lupin have also opted for settling patent challenges with their innovators.

Going ahead, over the next 4-5 years, drugs worth $65-70bn are expected to go off-patent. Of this, drugs worth around $20bn would face patent expiry in 2008. Some of the products that would go off-patents include *Risperdal*, *Fosamax*, *Topomax*, *Lamictal* and *Depakote*.

Exhibit 2: An out-of-court remedy

Generic firm	Innovator	Patented Drug	Sales ($)
Sun Pharma	Novartis	Exelon	200mn
Ranbaxy	Astellas & Boehringer	Flomax	1.2bn
Ranbaxy	GSK	Valtrex	1.3bn
Lupin	Abbott & Astellas	Omnicef	637mn

Source: Industry

R&D De-merger

The competitive scenario in generic space has forced many Indian players to re-structure their operations and majority of them have de-merged their R&D units. With the R&D pipeline of the Indian pharma companies widening, fund requirements for NCE R&D is expected to increase as more products move into clinical trails (clinical trials account for bulk of the R&D expenditure, almost 2/3rd). With more products moving into clinical trails, these investments are likely to increase further. Thus, the industry expects the de-merger to help enhance its funding options including out-licensing of molecules, and getting strategic and/or financial investor, among others.

Sun Pharmaceutical recently hived off its R&D unit into a separate entity (SPARC), which was followed by NPIL, which also decided to hive-off its NCE R&D unit (NPRC).This has set a trend for the rest of the pharma pack, with Ranbaxy, India's largest pharmaceutical company, also opting for de-merger of its NCE unit. Recently, Glenmark Pharma (GPL) unveiled plans to re-organise its business into two distinct groups - Generics (mostly non-branded to be listed as Glenmark Generics by 1QFY2009) and specialty (NCE and branded generics).This is the first time that any Indian pharma company has split its business in such a manner. Glenmark Generics will be a wholly-owned subsidiary of GPL, which plans to come out with an IPO in 1QFY2009.

CRAMS - Momentum to continue

Over the last three years, Indian CRAMS has scaled up significantly. At present, India has a minuscule but growing presence in the CRAMS segment. India is being preferred for both CMG and CRO activities.

In 2007, the Indian CRAMS players were more focused on consolidating their M&A activities executed in 2006. NPIL, Shasun Chemicals and Dishman Pharma continued to consolidate their operations. JUBL continued its M&A pursuits and acquired the CMO firm, Hollister - Stier; a firm specialising in contract manufacture of injectables.

Growth opportunities available in the segment can be

Pharmaceutical

gauged from the fact that a company like Reliance Life Sciences has entered the sector. Reliance Life Sciences has started a complete range of contract manufacturing and contract research services to address the products discovery and development needs of customers in the biotechnology industry.

In CRAMS, currently contract manufacturing has scaled-up faster than the CRO. However, we believe that CROs have opportunities to scale up going forward, on the back of compelling competitive advantages including cost of labour and time savings on the back of faster patient recruitment. Further, India provides a diversified gene pool compared to other countries. Currently, the Indian CRO industry is around $120mn, which would to increase to $800mn by 2010. The potential for the sector is also evident from the strong inflow of Private Equity and Venture Capital investments in the sector. Recently, Sequoia Capital invested Rs100cr in the Hyderabad-based pharma and biotech research firm, GVK Biosciences. With growing R&D spend and increasing participation in clinical development activities, the global CRO industry is poised to grow at a high rate of 13% over the next three years. Indian CROs, which have lower penetration of overall CRO opportunity, are expected to log higher growth. Going ahead, we expect many more CROs to attract PE investments and CROs like GVK Biosciences to get listed by 2008. This may enhance the funding options along with the sector getting re-rated. This would also benefit some CRAMS players like JUBL and Biocon, which have CROs as part of their consolidated CRAMS business.

DMFs slow down

Indian pharma companies, which were in a filing spree over the years, have witnessed a slow down in recent times. In 3QFY2008, only 26 DMFs were filed and constituted 19% of overall filings. With this, share of the Indian filings as a % to overall filings fell 30% yoy. Earlier, majors Cipla, Ranbaxy, DRL and Sun Pharma had been on a filing spree.

Outlook

For 3QFY2008, we expect the pharma sector to declare subdued set of numbers as there were no new product launches during the period. Thus, while Topline is expected to remain robust, Margins would be under pressure resulting in a decline in Profitability during the quarter.

Among the Generic players, we believe that apart from Wockhardt, Indoco Remedies and Sun Pharmaceuticals, other players would post a subdued performance. On the other hand, in CRAMS, NPIL is expected to post robust growth.

In terms of investments, we believe that CRAMS not only provides better sustainable growth but is also a better investment avenue in the Pharmaceutical space. In Generics, we believe that the overall macro-environment remains challenging and hence only few stocks would be able to leverage the same. We hence recommend cherry picking within the space. **Our Top Picks in the sector include Ranbaxy, DRL, Wockhardt, Cadila Healthcare, Shasun Chemicals, Aventis Pharma and Indoco Remedies.**

Exhibit 3: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	%chg	3QFY08E	chg bps	3QFY08E	% chg	3QFY08E	% chg	FY08E	FY09E	%chg	FY08E	FY09E	Price (Rs)	
Aventis #	1128	240	*10.1*	20.6	*100*	35.1	*1.2*	15.3	*1.2*	56.6	77.1	*36.2*	19.9	14.6	1600	**Buy**
Cadila	309	561	*21.6*	16.7	*130*	62.2	*(5.7)*	5.0	*(5.7)*	22.1	27.9	*26.2*	14.0	11.1	430	**Buy**
Cipla	213	1003	*13.9*	18.7	*(160)*	205.6	*11.5*	2.6	*11.5*	7.6	8.5	*11.6*	28.0	25.0	-	**Neutral**
Dr. Reddys	729	1126	*(27.1)*	12.0	*(610)*	108.4	*(42.3)*	6.2	*(42.3)*	43.1	43.2	*0.2*	16.9	16.9	900	**Buy**
Glaxo # $	1035	372	*19.2*	24.6	*(140)*	70.0	*3.2*	8.0	*3.2*	43.7	48.3	*10.5*	23.7	21.4	1260	**Buy**
Indoco*	339	96	*21.3*	20.1	*250*	13.3	*38.7*	11.3	*38.7*	35.2	50.3	*42.9*	9.6	6.7	380	**Accumulate**
NPIL	350	752	*15.8*	17.3	*290*	88.1	*70.6*	4.2	*70.6*	19.2	21.5	*12.0*	18.2	16.3	400	**Accumulate**
Orchid Chem@	310	474	-	32.9	-	68.1	-	6.9	-	17.2	25.3	*47.1*	18.0	12.3	-	Neutral
Ranbaxy Lab#	426	1822	*7.4*	8.6	*(240)*	162.1	*(11.6)*	4.3	*(11.6)*	16.1	20.7	*28.6*	26.4	20.6	490	**Buy**
Shasun Chem	89	217	*17.3*	2.3	*(250)*	7.0	*(40.2)*	1.4	*(40.2)*	10.9	14.7	*34.9*	8.2	6.1	107	**Buy**
Sun Pharma	1108	672	*24.9*	32.0	*(10)*	227.6	*14.5*	12.1	*14.5*	43.3	50.8	*17.3*	25.6	21.8	-	**Neutral**
Wockhardt #	427	698	*32.6*	25.7	*250*	111.3	*27.6*	10.2	*27.6*	32.2	36.7	*14.0*	13.3	11.6	550	**Buy**

*Source: Company, Angel Research; Note: CMP as on January 4, 2008.; $- Excluding Extra ordinary Income; # -Q4'07; *- Q2'08; @- the corresponding figures are not avaible*

***Analyst -* Sarabjit Kour Nangra / Akshat Vyas**

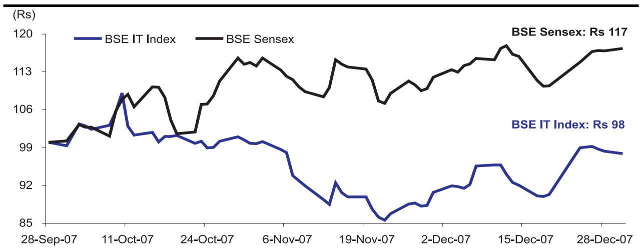
Software

BSE IT Index - Déjà vu yet again

The December 2007 quarter was the fourth consecutive quarter that the BSE IT index under-performed vis-à-vis the benchmark index, the BSE Sensex. Even as the 2QFY2008 results reported by top-tier software companies were fairly enthusing, investor concerns about a possible recession in the key US economy coupled with the intensifying sub-prime market crisis and continued worries over wage inflation and higher tax rates led to IT stocks yet again failing to make much headway during the quarter. Thus, even as the major software companies performed impressively and robust hiring continued along with strong order book positions, concerns about deteriorating profitability in the future prevented any relative out-performance by these stocks.

Nonetheless, the overall demand environment for offshoring remains strong. Global corporations are constantly looking at cutting costs and improving productivity. Hence, technology continues to play a strategic role in the transformational initiatives of an organisation, with offshoring being a key part of the strategy. However, wage inflation remains the biggest issue for IT companies. With the competitive environment for scarce human resources clearly heating up, annual wage hikes of 15-20% remain the sector's primary bug-bear. There is a clear necessity to shift to alternative models, like output-based pricing and platform-based offerings, which typically have greater operating leverage than the current primarily linear model.

Exhibit 1: BSE IT Index - A sense of déjà vu



Source: C-line, Angel Research

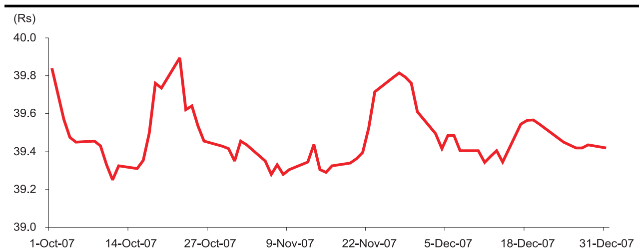
In terms of stock performance, it should be noted that the IT Index as a whole significantly under-performed the Sensex. However, among the top-tier stocks, only Infosys lost ground over the quarter. Due to the fact that Infosys accounts for as much as 45% of the IT index weightage, its under-performance dragged down the overall index performance. The other four IT stocks among the 'Top-5' software companies' stocks all gained ground over the quarter. Wipro,after being the biggest under-performer in recent times, gained the maximum of 14.3% over the quarter. TCS and Satyam added 2.5% and 1.3% respectively, while HCL Technologies, like Wipro, clocked double-digit returns of 10.5%. However, Tech Mahindra lost nearly 15%, as the Indian Rupee appreicated against the British Pound.

The Mid-cap IT stocks witnessed a divergent trend. With the Rupee movement showing some stability for the second consecutive quarter, the stock movements also showed some stability after a disastrous performance in 2QFY2008. Infotech Enterprises, after shedding a substantial 33% in the previous quarter, proved to be the best performer during 3QFY2008 among the IT Mid-caps, gaining by over 17%. Prithvi Information Solutions gained nearly 9%, after losing 17% in 2QFY2008. However, Geometric, Zensar Technologies and 3i Infotech lost 4.2%, 3.8% and 1.4% respectively, over the quarter.

Currency movement – Stability continues

During 3QFY2008, the Indian Rupee saw further appreciation against the US Dollar. However, as in the previous quarter, the movement was gradual. On the basis of the quarterly average, the Rupee appreciated 2.7%. This is certainly manageable for Software companies and we do not expect any significant impact on the companies' financials on account of the exchange rate. However, yoy the realised Rupee rates are expected to be significantly lower by around 11%, and this will certainly pinch the sector.

Exhibit 2: Rupee-Dollar - Trading range-bound



Source: Bloomberg, Angel Research

Volumes to remain revenue driver in a traditionally sluggish quarter

We expect top-tier IT companies to report continued strong sequential Topline growth in 3QFY2008, even as this is traditionally a slow quarter, given that it is the holiday season and thereof a lesser number of billing days. We estimate a 6.9% qoq Topline growth driven by volume growth of around 6.5%, with the balance coming from pricing-led improvements (only Global IT Services included for Wipro). The lower realised Rupee-Dollar rate (down 1.8% qoq) will impact Topline growth marginally. The growth in Dollar terms, on the other hand, is expected to be an impressive 8.9% qoq. Revenue visibility remains strong for top-tier software companies, as indicated by the ever-improving client metrics and expansion of service lines. On a yoy basis, growth in Dollar terms is expected to be an impressive 38.5%. However, the Rupee growth rate is expected to be much lower at 23%, due primarily to an 11.2% lower realised rate.

Exhibit 3: Dollar v/s Rupee growth of Top-tier IT companies*

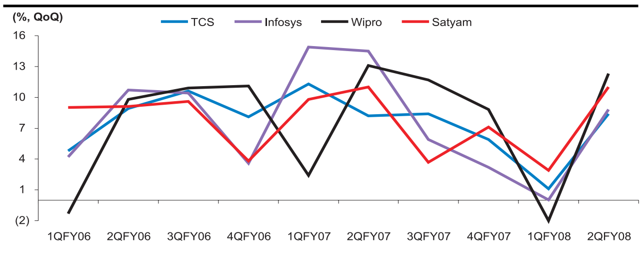
Particulars	3QFY07	2QFY08	3QFY08E	% chg qoq	% chg yoy
Dollar revenues (mn)**	2,938	3,737	4,068	8.9	38.5
Rupee revenues (cr)**	13,052	15,027	16,057	6.9	23.0
Realised Rupee rate	44.43	40.21	39.47	(1.8)	(11.2)

*Source: Company, Angel Research; * Companies include TCS, Infosys, Wipro and Satyam; ** For Wipro, only Global IT Service revenues are included.*

Results Preview - 3QFY2008

Software

Exhibit 4: Sales growth - Quarterly trends



Source: Company, Angel Research

We expect some improvement in billing rates, which will primarily be driven by an improving service mix. With the ever-increasing trend of output-based pricing catching on with Indian IT companies, billing rates could get a further boost going ahead, as Indian vendors show greater willingness to share risks with their clients. This can result in better pricing. This is clearly a strong lever that software companies have to offset the pressure exerted by an appreciating Rupee and wage inflation. Strong employee additions over the past few quarters at compounded quarterly growth rates (CQGRs) ranging between 7% and 10% also reflects the impressive traction and strong order books that the top-tier software companies have, and we expect this trend to continue in the near future.

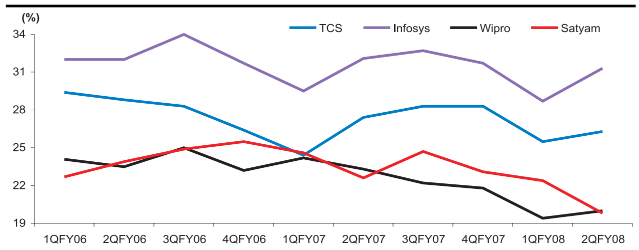
Margins to witness upside

The Rupee traded in a narrow range between Rs39 - 40 per Dollar in 3QFY2008. This stability is certainly a positive sign for software companies, as they do not have to worry too much about currency fluctuations and can focus on their core business. We expect the top-tier software companies to see a rise in their EBITDA Margins in the range of 30-125bp qoq, as they have multiple levers of Margin defence. With the first quarter being difficult on the Margins' front, we expect these companies to further use their Margin levers to catch up in the second half of the fiscal. On a company-specific basis, we expect Infosys and TCS to report a 34bp and 52bp expansion in Margins, respectively. Wipro and Satyam are expected to report a 121bp and 101bp Margin expansion, respectively. We expect the top-tier software companies to record better Margins in 2HFY2008.

Net Profits – Margins to drive impressive growth

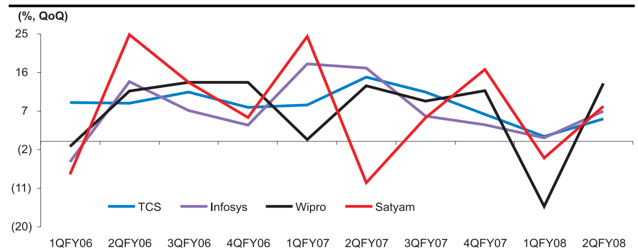
We expect strong double-digit growth in the Bottomline of these companies this quarter of 10.3% qoq. In 2QFY2008, the Other Income component stood at 14.2% of Net Profits, in line with our expectations of 14.1%. We expect this to dip to 11.2% this quarter, as the Rupee continues to stabilise against the Dollar. Thus, the quality of Earnings is expected to witness a continued improvement this quarter also.

Exhibit 5: EBITDA Margins - Quarterly trends



Source: Company, Angel Research

Exhibit 6: PAT - Quarterly trends



Source: Company, Angel Research

Key points to watch – CY2008 IT budgets, US BFSI space

Our key point of interest would be to check out how CY2008 IT budgets are shaping up. Indications point at some tightening in IT budgets this year. However, we do not expect the offshoring component to be impacted significantly. With the US sub-prime issue worsening by the day, the impact on the key Banking, Financial Services and Insurance (BFSI) space is another issue that will be closely watched. The BFSI sector is by far the biggest spender on IT and any impact on this space is likely to have some impact on Indian software majors also, notably Infosys and TCS, which have greater exposure to BFSI vis-à-vis Wipro, Satyam and HCL Technologies. Overall, we maintain our positive stance on the sector. **TCS, Satyam and 3i Infotech are our Top Picks.**

Exhibit 7: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	*% chg (QoQ)*	3QFY08E	*Chg bps (QoQ)*	3QFY08E	*% chg (QoQ)*	3QFY08E	*% chg (QoQ)*	FY08E	FY09E	*% chg*	FY08E	FY09E	Price (Rs)	
Infosys	1,695	4,344	5.8	31.6	34	1,188	8.0	20.5	6.8	80.0	97.1	21.4	21.2	17.5	2,137	Buy
TCS	1,005	5,978	6.0	26.8	52	1,347	8.0	13.8	8.0	52.6	63.6	21.1	19.1	15.8	1,273	Buy
Wipro	497	5,286	11.1	21.2	121	924	12.2	6.3	12.2	23.5	27.5	16.9	21.1	18.1	550	Accumulate
Satyam	422	2,134	5.0	20.8	101	433	5.8	6.3	5.8	24.9	30.8	24.1	17.0	13.7	524	Buy

Source: Company; Angel Research; Note: CMP as on January 4, 2008.

Analyst - Harit Shah

Telecom

Telecom stocks record mixed performance in 3QFY2008

In the December 2007 quarter, Telecom stocks recorded a mixed performance vis-à-vis the benchmark index, the BSE Sensex. There is currently no separate index of Telecom stocks. However, if we take a basket of major telecom stocks, the basket out-performed the Sensex, giving returns of over 26% (17% for the Sensex). However, this out-performance was achieved primarily due to impressive stock performances by VSNL and Tata Teleservices (Maharashtra). These two stocks gained 74% and 43% respectively, powering the gains for the basket.

Exhibit 1: Telecom stocks' performance during 3QFY2008

Company (Rs)	28 Sep-07	31 Dec-07	chg (%)
Bharti Airtel	941.2	994.6	5.7
Reliance Comm	585.7	746.5	27.5
Idea Cellular	125.2	138.7	10.8
MTNL	159.9	192.3	20.3
VSNL	438.6	763.6	74.1
Tata Tele. (M)	43.5	62.3	43.1
BSE Sensex	**17,291.1**	**20,287.0**	**17.3**

Source: C-line, Angel Research

However, the stock of Bharti Airtel, India's largest private integrated telecom solutions provider gained just 5.7% over the quarter, under-performing the Sensex by a significant margin. On the other hand, Reliance Communications (RCOM) out-performed the Sensex, having appreciated by 27.5% during the quarter. Idea Cellular and MTNL, on the other hand, gained 10.8% and 20.3%, respectively. MTNL gained on speculation about its plans for the development of its property.

The quarter was an eventful one, with a slew of developments taking place, most notably the spectrum issue, which divided the industry right down the middle and led to numerous litigations, with the GSM and CDMA operators pitched against each other, newer entrants demanding their share of the fast-growing telecom story and the Department of Telecommunications (DoT) caught in between the cross fires. Going forward, it is imperative that this issue is resolved in an amicable manner given that spectrum is the lifeblood of the telecom business. Other major initiatives taken during the quarter related to the commencement of a process that could lead to the implementation of mobile number portability (MNP) in 2008 and the auction of spectrum for 3G mobile services.

Key sector developments: DoT issues guidelines for 3G spectrum auction and MNP

3G services

- Spectrum for 3G services to be allocated through auction, open to existing and new players
- For GSM-based 3G technology (W-CDMA), spectrum to be allocated in the 2.1GHz band
- Initially, 3-6 GSM players will be allowed to offer 3G mobile services
- For CDMA-based 3G services (CDMA2000 1xEV-DO), there will be no auction, but operators will have to pay an amount proportionate to that paid by the highest bidder in the auction for the GSM players
- 3G CDMA spectrum will be allotted in the 800 MHz band
- Pricing of 10 MHz 3G spectrum - Base price to be Rs160cr for Mumbai, New Delhi and Category 'A' circles, Rs80cr for Chennai, Kolkata and Category 'B' circles and Rs30cr for Category 'C' circles
- 3G service providers would also have to pay additional spectrum charges of 0.5% of their adjusted gross revenues (AGRs), which will rise to 1% after three years of allotment of 3G spectrum
- DoT has also decided to auction spectrum for WiMax services in the 2.5 GHz band, with the base price being 25% of the amount quoted by the highest bidder for 3G spectrum

MNP

- This facility is likely to be available to mobile subscribers by the fourth quarter of 2008
- Mobile operators shall establish a logically centralized database
- Mobile operators shall adopt the Central Clearing House for processing porting requests
- Customers shall approach the recipient operator for porting their numbers
- Upgradation of networks shall be borne by the operators
- Common setup costs shall be borne by the operators based on the subscriber marketshare
- Introduction of MNP in Category 'A' circles will be reviewed in April 2008

The introduction of 3G services, as and when it happens, is likely to significantly improve customer experience, as they get access to a range of high-value added data services at faster speeds. This is certainly one way of sustaining ARPUs. However, we do not believe it will be a major revenue stream at least over the next three years. The introduction of MNP, on the other hand, is a consumer-friendly move and is likely to lead to a further fall in tariffs and higher subscriber churn rates, thus exerting pressure on Margins.

The DoT's technical wing, the Telecom Engineering Centre (TEC), also gave its recommendations on enhancing the subscriber-based norms for allocation of additional spectrum. The TEC's recommendations were even stiffer than those proposed by TRAI and mandate GSM operators to add 8-15x more subscribers vis-à-vis the current norms to be eligible for further spectrum. As expected, GSM operators took the DoT to court, while CDMA operators supported the recommendations of the TEC.

Strong Topline growth to continue, powered by subscriber growth

We expect the major telecom companies under our coverage, Bharti Airtel and RCOM, to report impressive Topline growth to the tune of 34% yoy and 6.7% qoq (combined) during 3QFY2008, respectively. Idea Cellular is

Telecom

expected to record a 4.6% qoq growth in Topline, while the yoy consolidated figures are not available. We expect the strong growth to be driven chiefly by continued strong subscriber numbers recorded by these companies, which has been the case over the past several quarters now. So far this quarter, Bharti has already added around 4.1mn mobile subscribers and appears set to cross 6mn quarterly net adds for the second consecutive quarter. RCOM, on the other hand, has added 3.1mn mobile subscribers and is likely to hit 4.6mn net quarterly additions in 3QFY2008 (CDMA + GSM), its highest-ever. Idea Cellular, on the other hand, is expected to add nearly 2.4mn subscribers over the quarter.

Both the companies continued to record impressive growth in subscriber numbers. Bharti Airtel has maintained its 2mn-plus monthly net add for the past five months in a row now. Going forward, we expect this growth momentum to be maintained in the medium-term. RCOM also continues to record strong monthly net adds. With ambitious roll-out plans over the next year, RCOM is likely to maintain and strengthen its net adds in the near future.

We expect the Mobility (wireless) business to be the major growth driver for both Bharti and RCOM. Bharti's Mobile Business is expected to clock a 45.1% yoy and a 7.8% qoq growth, driven primarily by a strong 72.1% yoy and a 12.6% qoq growth in its mobile subscriber base. ARPUs are expected to clock an 18.1% yoy and a 5.0% qoq fall. RCOM, on the other hand, is expected to grow its Wireless Business by 45.6% yoy and 7.6% qoq. We expect Idea Cellular's Wireless Business to grow by 4.8% qoq. We expect the other businesses of these companies, viz. long distance, global, broadband and enterprise to clock growth rates in the range of 10-55% yoy.

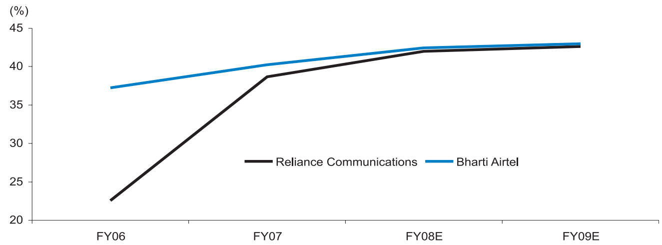
Margins to maintain strength on operating leverage

We expect both the companies to witness a firm trend in EBITDA Margins driven by operating leverage. We expect Bharti to record a 196bp yoy expansion (2bp qoq), while RCOM is expected to clock a 201bp yoy expansion (14bp qoq) in 3QFY2008. Idea Cellular is expected to clock a 15bp qoq improvement in Margins. EBITDA, in absolute terms, is expected to clock strong growth ranging between 35-45% yoy for Bharti and RCOM. Looking beyond the quarter, we believe that strong operating leverage, favourable regulatory initiatives and concrete steps by the industry on the infrastructure sharing front are likely to enable continued Margin strength in the medium-term.

Margin strength to drive strong Bottomline growth

We expect the Bottomline to witness continued strength and grow between 37-47% yoy for both these companies. Idea Cellular is expected to clock a 9.1% qoq growth in Bottomline, after a weak 2QFY2008.

Exhibit 2: EBITDA Margin trends



Source: Company, Angel Research

The emergence of a new breed - Towercos

The past few months have seen the emergence of a new breed of players in the Indian Telecom Sector, namely Telecom Infrastructure companies, or towercos. With the concept of infrastructure sharing taking off in a big way in India driven by coverage requirements and pressure on ARPUs leading to the need for focussed cost saving initiatives, these companies appear to have carved out a niche for themselves. In the previous quarter, RCOM had sold a 5% stake in its telecom infrastructure arm, Reliance Telecom Infrastructure (RTIL), to a group of leading institutional investors for an implied equity valuation of US $6.75bn. During 3QFY2008, Bharti sold a 7.5-10% stake in its hived off tower arm, Bharti Infratel, to a clutch of major investors for a consideration of US $1bn, implying an enterprise value of US $10-12.5bn for Infratel. This reflects the strong confidence in the Indian telecom infrastructure story and going ahead, we believe this will become a profitable business model in itself. Given the high competitive intensity, high minutes of usage, as-yet low mobile teledensity (20%) and huge coverage requirements, this business is likely to witness strong growth, driven by improving tenancy ratios.

Maintain positive stance on Telecom Sector

We maintain our positive view on the Telecom sector, despite the recent imbroglio and legal tangles on spectrum allocation. We expect the strong growth in telecom subscriber numbers to continue going ahead. We estimate the total Indian mobile subscriber base to grow at a CAGR of 38.9% over FY2007-10E to hit 432.0mn by FY2010. **Our Top Picks in the Indian Telecom space remain Bharti Airtel and RCOM.**

Exhibit 3: Quarterly Estimates — Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)		Target	Reco
	(Rs)	3QFY08E	*% chg (YoY)*	3QFY08E	*Chg bps (YoY)*	3QFY08E	*% chg (YoY)*	3QFY08E	*% chg (YoY)*	FY08E	FY09E	*%chg*	FY08E	FY09E	Price (Rs)	
Bharti Airtel	948	6,738	*37.1*	42.8	*196*	1,672	*37.6*	8.8	*37.5*	35.0	48.0	*37.3*	27.1	19.7	1,365	**Buy**
RCOM*	760	4,880	*30.0*	42.7	*201*	1,357	*46.8*	6.3	*41.4*	24.3	33.7	*38.7*	31.3	22.5	873	**Buy**
Idea Cellular	135	1,634	-	32.8	-	240	-	0.9	-	4.1	5.7	*39.3*	32.9	23.6	177	**Buy**

Source: Company; Angel Research; Note: CMP as on January 4, 2008.

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Angel Broking Ltd : BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546 Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838
Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 0220 / FMC Regn No: NCDEX / TCM / CORP / 0302

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