

Sensex	17,291
Nifty	5,021

Four wheelers

Positive

Sector summary:

In Q2FY08 commercial vehicles (CVs) faced a tough environment. Higher interest rates and tight liquidity impacted sales of trucks as operators postponed purchases. Car sales bucked the trend aided by new model launches discounts. Longer term, strong freight availability will be the key driver for CVs. Easing of liquidity and the launch of new models will be the key driver for cars and UV's. The recent announcements by banks to increase exposure to the automobile sector and signs of softening interest rates augur well for sector and should lead to a resurgence in growth in the forthcoming quarters. Stock valuations have corrected and are now at the lower end of their trading range. Our outlook for the 4-wheeler sector remains cautiously positive.

Key highlights of the results:

- CV sales growth slowed down in Q2FY08, because of higher interest rates, tightening of liquidity and a higher base effect. Passenger vehicles continued to report growth on the back of new model launches and price discounts.
- Our four wheeler universe is expected to report a growth of 8.7% in revenues, 8.0% in EBITDA and 4.9% in PAT. EBITDA margins and Adj PAT margins are expected to contract by 6bps and 27bps respectively.
- Operating margins will be lower YoY because of the inability of companies to pass on the hike in raw material prices.

Total vehicle sales – Four wheelers

(nos)	Q2FY08E	Q2FY07	% YoY	Q1FY08	% QoQ	FY08E	FY07	% YoY
M&HCVs	65,409	69,714	(6.2)	60,200	8.7	300,274	299,511	0.3
Domestic	59,645	65,174	(8.5)	55,285	7.9	275,904	275,141	0.3
Exports	5,764	4,540	27.0	4,915	17.3	24,370	24,370	0.0
LCVs	58,673	53,723	9.2	52,563	11.6	258,864	223,210	16.0
Domestic	49,773	45,206	10.1	44,203	12.6	223,224	192,282	16.1
Exports	8,900	8,517	4.5	8,360	6.5	35,640	30,928	15.2
Passenger vehicles	435,158	384,418	13.2	394,361	10.3	1,747,699	1,578,176	10.7
Domestic	376,469	333,178	13.0	347,543	8.3	1,526,278	1,379,698	10.6
Exports	58,688	51,240	14.5	46,818	25.4	221,421	198,478	11.6
Total sales	559,240	507,855	10.1	507,124	10.3	2,306,837	2,100,897	9.8
Domestic	485,887	443,558	9.5	447,031	8.7	2,025,406	1,847,121	9.7
Exports	73,352	64,297	14.1	60,093	22.1	281,431	253,776	10.9

Source: Religare Institutional Equity Research

Our top pick is:

- Tata Motors

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Valuation summary – Four wheelers

Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs bn)	Sales		EBITDA		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs)	YoY (%)	Adj EPS (Rs)	P/E (x)	Adj EPS (Rs)	P/E (x)
Ashok Leyland	44	Hold	38	58	18,200	8.6	1,838	36.1	1,104	13.0	0.8	11.8	3.7	11.8	3.5	12.5
Maruti Suzuki	976	Reduce	904	282	44,660	30.6	5,806	22.1	4,532	25.8	15.7	25.8	65.0	15.0	67.4	14.5
Tata Motors	751	Accumulate	860	289	63,936	(2.7)	6,957	(6.1)	3,957	(13.3)	9.2	(17.5)	42.1	17.8	50.3	14.9
Total				630	126,796	8.7	14,601	8.0	9,593	4.9			15.2		13.7	

Source: Religare Institutional Equity Research, Bloomberg

Key data

Sector	Automobiles
Market Cap	Rs299bn/US\$7.5bn
52 Wk H/L (Rs)	975/616
Avg. daily vol. (6 month)	1,913,392

BSE Code	500570
NSE Code	TATAMOTORS
Bloomberg	TTMT IN
Reuters	TAMO.BO

Sensex	17,291
Nifty	5,021

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	38.7	40.7
MFs and institutions	16.3	14.2
Promoters	33.4	33.4
Others	11.5	11.7

Absolute returns (%)

	1 mth	3 mth	12 mth
Tata Motors	17.4	17.0	(7.6)
Sensex	15.9	19.2	39.7
BSE Auto	14.0	13.1	1.2

Tata Motors

Accumulate
Current Price: Rs751
Target price: Rs860
Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QE	FY07	FY08E
Net Sales	57,834	65,718	69,568	82,670	60,568	63,936	275,790	291,435
<i>Change %</i>	49.1	37.4	37.1	20.1	4.7	(2.7)	33.8	5.7
Total Expenditure	51,571	58,310	60,333	73,293	53,240	56,979	243,507	258,836
EBITDA	6,263	7,408	9,236	9,377	7,329	6,957	32,284	32,599
<i>EBITDA margin (%)</i>	10.8	11.3	13.3	11.3	12.1	10.9	11.7	11.2
<i>Change (%)</i>	30.4	29.9	50.1	11.6	17.0	(6.1)	28.8	1.0
Depreciation	7,402	7,604	8,139	8,775	5,270	6,957	30,895	30,540
EBIT	12.8	11.6	11.7	10.6	8.7	10.9	11.2	10.5
<i>EBIT margin (%)</i>	58.9	28.9	24.5	7.3	(28.8)	(8.5)	22.2	-1.1
Other Income	1,411	1,435	1,435	1,583	1,475	1,750	5,863	6,589
Interest exp/(inc)	4,853	5,973	7,801	7,795	5,854	5,207	26,421	26,009
PBT	8.4	9.1	11.2	9.4	9.7	8.1	9.6	8.9
Tax	859	848	143	604	863	900	2,455	2,800
Effective tax rate (%)	726	956	852	598	816	900	3,131	3,100
Extraordinary exp/(Inc)	4,986	5,866	7,092	7,801	5,902	5,207	25,745	25,709
PAT	1,164	1,447	1,956	2,031	1,254	1,250	6,597	6,305
<i>PAT margin (%)</i>	23.3	24.7	27.6	26.0	21.2	24.0	25.6	24.5
<i>Change (%)</i>	0	0	5	3	(20)	0	8	(19.7)
Adjusted PAT	4,673	4,564	4,313	5,318	3,005	3,957	18,868	17,761
<i>Adj PAT margin (%)</i>	8.1	6.9	6.2	6.4	5.0	6.2	6.8	6.1
<i>Change (%)</i>	77.2	29.8	27.3	21.6	(35.7)	(13.3)	35.6	(5.9)
Equity Capital (Rs mn)	3,831	3,852	3,853	3,854	3,854	3,854	3,854	3,859
EPS	10.0	11.5	13.3	15.0	12.1	10.3	49.7	50.3
Adj EPS	12.2	11.8	11.2	13.8	7.8	10.3	49.0	46.0
EPS - Diluted	11.4	11.1	10.5	12.9	7.0	9.2	45.9	41.1

Financial highlights

- Net sales** are expected to decline by 2.7% YoY to Rs63.9bn.
- EBITDA** is expected to decline by 6.1% YoY to Rs7.0bn. EBITDA margins are expected to fall to 10.9%, a drop of 40bps YoY because of higher raw material prices and the company's inability to pass the hike to the customers due to intense competition.
- PAT** is expected to decline by 13.3% YoY to Rs4.0bn. PAT margins are expected to decline by 75bps to 6.2%. This is because of the decline in EBITDA margins.

Future outlook

- The company is expected to completely revamp its CV portfolio by the end of FY09, which will help it maintain its dominance in the CV segment. The tie-up with Fiat and the proposed new launches in the passenger vehicle segment will help Tata Motors improve its market position.

Vehicle sales – Tata Motors

(nos)	Q2FY08E	Q2FY07	% YoY	Q1FY08	% QoQ	FY08E	FY07	% YoY
LCVs	37,302	36,565	2.0	35,278	5.7	166,061	149,263	11.3
M&HCVs	38,040	43,453	(12.5)	35,887	6.0	184,497	184,608	(0.1)
Passenger cars (including MPV)	43,287	47,421	(8.7)	45,435	(4.7)	185,264	195,408	(5.2)
Uvs	14,261	12,145	17.4	10,761	32.5	57,695	49,526	16.5
Total sales	132,890	139,584	(4.8)	127,361	4.3	593,517	578,805	2.5

Source: Religare Institutional Equity Research

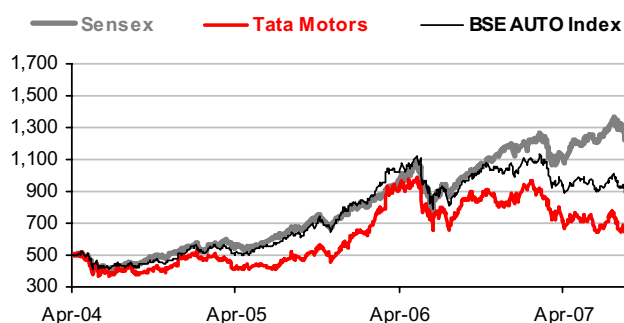
Valuations and Recommendation

We have valued Tata Motors on a sum-of-the parts (SOTP) basis. Its subsidiaries and investments are valued at Rs150 and its core business at Rs710/shares, which implies P/E of 12.0x 2-year forward earnings. Tata Motors trades at the lower end of its historical trading band and any positive news flow will trigger an upside. Hence our **Accumulate** rating.

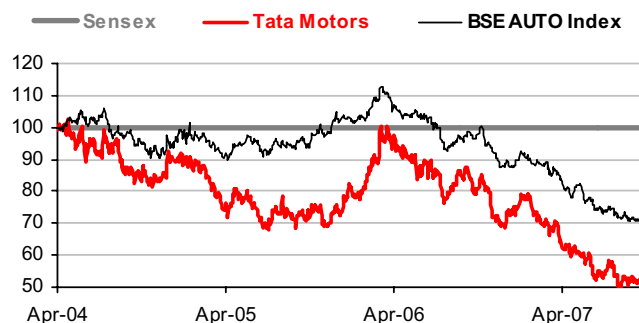
Stock performance

Tata Motors

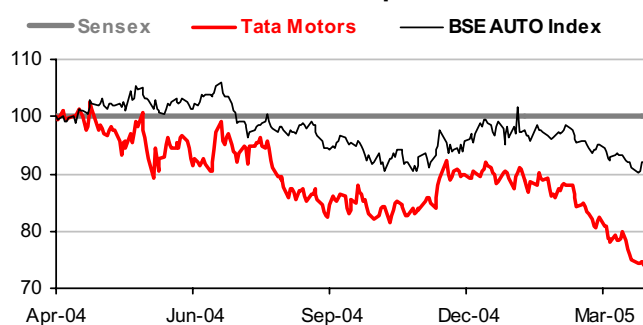
Absolute Perf. From Apr 04



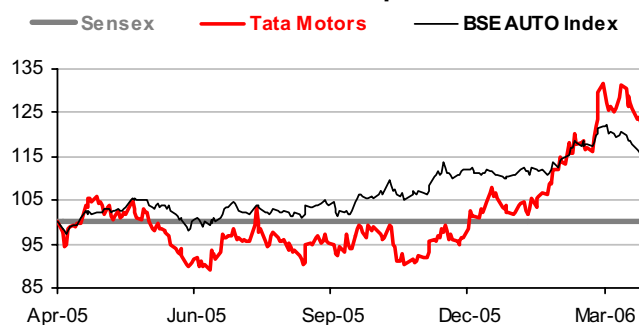
Relative Perf. From Apr 04



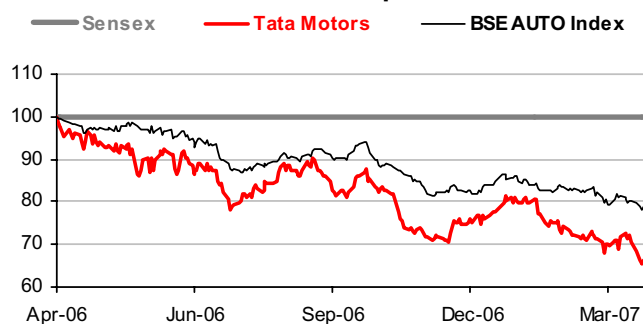
Relative Perf. From Apr 04 to Mar 05



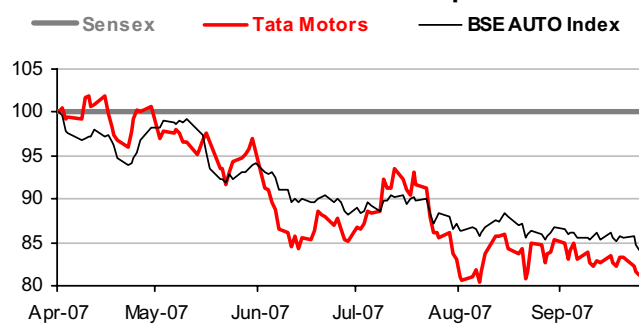
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

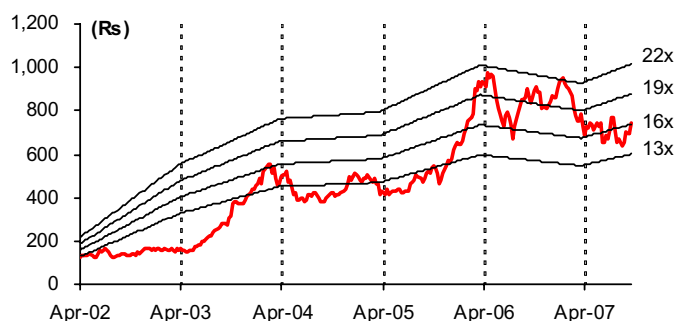


Source: Bloomberg, Religare Institutional Equity Research

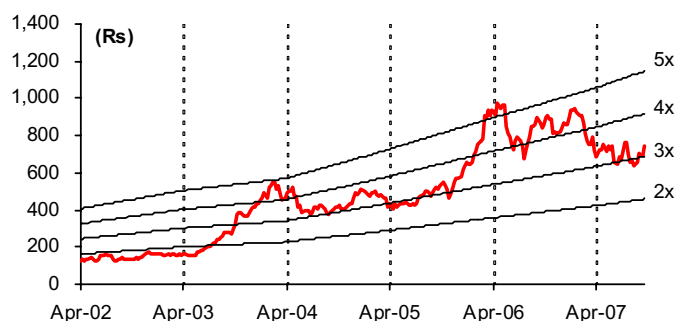
12 month forward rolling band charts

Tata Motors

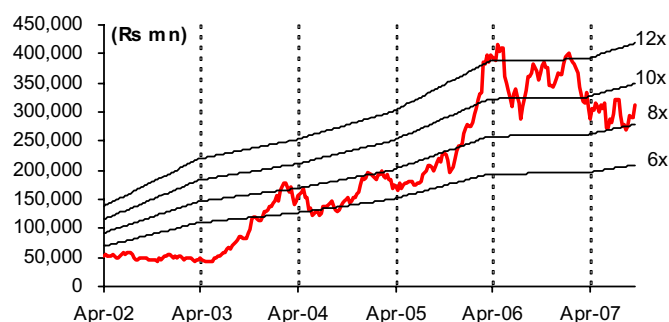
P/E Band



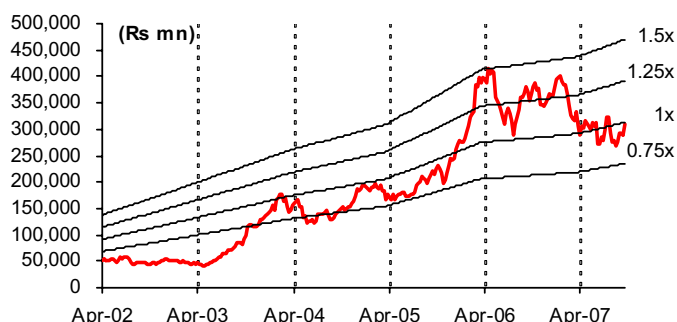
P/BV Band



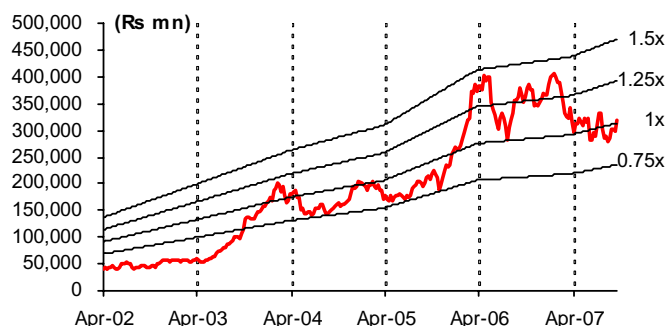
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Tata Motors

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	206,022	275,352	291,435	336,043	383,710
EBITDA	25,059	32,266	32,599	37,135	42,357
EBITDA margin (%)	12.2	11.7	11.2	11.1	11.0
Depreciation	5,209	5,863	6,589	9,016	10,952
EBIT	19,850	26,403	26,010	28,119	31,405
Other income	2,891	2,452	2,800	3,300	3,800
Interest Exp/(Inc)	2,264	3,136	3,100	3,150	3,050
PBT	20,477	25,718	25,710	28,269	32,155
PBT margin (%)	9.9	9.3	8.8	8.4	8.4
Cos share in JV	(57)	(14)	(20)	0	0
Taxes	5,245	6,597	6,305	6,533	7,077
Extra ord exp/Minority interest	0	0	0	0	0
PAT(Reported)	15,289	19,135	19,424	21,736	25,078
PAT margin (%)	7.4	6.9	6.7	6.5	6.5
Less: Extra ordinary income / Others	1371	266	1663	0	0
Adj PAT	13,917	18,868	17,762	21,736	25,078

Quarterly – Financials

(Rs mn)

(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net sales	57,834	65,718	69,568	82,670	60,568
Changes (%)	49.1	37.4	37.1	20.1	4.7
EBITDA	6,263	7,408	9,236	9,377	7,329
Changes (%)	30.4	29.9	50.1	11.6	17.0
Margin (%)	10.8	11.3	13.3	11.3	12.1
PAT	3,819	4,417	5,132	5,767	4,668
PAT adj	4,673	4,564	4,313	5,318	3,005
Changes (%)	77.2	29.8	27.3	21.6	(35.7)
Margin (%)	7.8	6.8	6.3	6.4	5.0
EPS adj (Rs)	12.2	11.8	11.2	13.8	7.8
EPS dil (Rs)	11.4	11.1	10.5	12.9	7.0

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	18.3	33.7	5.8	15.3	14.2
EBITDA (%)	19.1	28.8	1.0	13.9	14.1
PAT adjusted (%)	11.6	35.6	(5.9)	22.4	15.4
EPS adjusted (%)	7.7	31.4	(6.2)	22.2	15.3
EPS diluted (%)	4.1	27.4	(8.5)	19.4	15.4
EPS Consl and diluted (%)	16.1	17.8	(3.7)	17.6	14.3

Valuations

P/E (x)	20.8	16.3	17.8	14.9	12.9
P/BV (x)	5.2	4.2	3.6	3.0	2.6
EV/EBITDA (x)	12.1	9.9	9.8	8.5	7.1
EV/Sales (x)	1.5	1.2	1.1	0.9	0.8

Profitability

EBITDA margin (%)	12.2	11.7	11.2	11.1	11.0
Adj PAT margin (%)	6.7	6.8	6.1	6.4	6.5
RoE (%)	20.9	23.5	17.3	17.3	18.0
RoCE (%)	30.2	29.8	23.1	21.5	22.2
RoIC (%)	28.4	23.7	19.1	18.6	19.6

B/S ratios

Inventory days	35.6	33.2	35.0	35.0	35.0
Creditor days	26.9	20.7	20.0	20.0	20.0
Debtor days	12.7	10.4	12.0	12.0	12.0
Working Capital days	20.4	39.5	40.5	29.7	20.5
Net debt/equity	(0.0)	0.2	(0.1)	(0.1)	(0.1)

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	3,829	3,854	3,859	3,863	3,867
Total Res. & Surplus	51,542	64,843	77,330	92,206	109,757
Total Shareholders' fund	55,371	68,698	81,189	96,069	113,624
Convertible Debt	19,046	17,647	37,582	36,267	32,511
Others Debt	10,322	22,445	22,312	19,333	19,233
Total Loans	29,368	40,091	59,894	55,600	51,743
Deferred tax liability (net)	6,225	7,868	10,118	12,618	15,118
Total liabilities	90,965	116,657	151,201	164,287	180,486

Assets

Net fixed assets & others	35,700	38,811	57,222	75,706	87,254
Capital WIP & others	9,512	25,133	18,783	18,446	10,236
Total non-current assets	45,212	63,944	76,005	94,152	97,490
Total investments - non current	18,378	24,242	26,742	31,742	36,742
Current assets					
Inventories	20,122	25,010	27,946	32,223	36,794
Sundry debtors	7,158	7,822	9,581	11,048	12,615
Cash & cash equivalents	12,968	8,795	31,022	29,146	41,089
Cash	11,194	8,268	25,494	23,618	35,561
Liquid investments	1,774	528	5,528	5,528	5,528
Other current assets	58,139	60,319	55,059	50,059	50,059
Total current assets	98,387	101,946	123,609	122,477	140,557
Total current liabilities	59,003	59,935	61,154	70,075	79,609
Total provisions	12,150	13,643	14,104	14,111	14,798
Net current assets	27,233	28,368	48,352	38,290	46,151
Misc. expenditure	141	102	102	102	102
Total assets	90,965	116,657	151,201	164,287	180,486

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from operations					
PBT	19,674	24,039	23,479	25,769	29,655
Tax paid	(4,385)	(4,904)	(4,055)	(4,033)	(4,577)
Dep & amortization	10,077	12,391	15,994	18,698	21,079
Working capital changes	(27,576)	(9,424)	(2,272)	4,145	(1,181)
Others	0	0	0	0	0
Net cash from operations	(2,210)	22,101	33,147	44,580	44,976
Cash from investments					
Capital expenditure	(11,095)	(23,660)	(18,650)	(27,163)	(14,291)
Sale/purchase of inv & others	11,084	(4,391)	(7,500)	(5,000)	(5,000)
Net cash from investments	(11)	(28,051)	(26,150)	(32,163)	(19,291)
Cash from financing					
Issue of shares & share premium	4,450	0	0	0	0
Dividend paid	(5,142)	(5,667)	(6,763)	(7,224)	(7,231)
Debt change	(4,760)	9,697	19,803	(4,295)	(3,856)
Others	(3,101)	(994)	(2,809)	(2,775)	(2,655)
Net cash from financing	(8,553)	3,036	10,230	(14,293)	(13,743)
Net change in cash	(10,774)	(2,914)	17,227	(1,876)	11,943

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	37.4	49.1	46.1	56.3	64.9
EPS diluted - wtd	36.1	46.0	42.1	50.3	58.0
EPS Consl and diluted	45.1	53.1	51.1	60.2	68.8
CEPS	53.5	64.9	67.4	79.6	93.2
Book value	144.6	178.2	210.4	248.7	293.8
Dividend	13.0	15.0	16.0	16.0	17.5
O/s shs.-actual (mn)	382.9	385.4	385.9	386.3	386.7
O/s shs.-diluted (mn)	408.9	411.5	432.2	432.2	432.2
O/s shs wtd / diluted (mn)	385.4	410.2	421.8	432.2	432.2

Key data

Sector	Automobiles
Market Cap	Rs60bn/US\$1.5bn
52 Wk H/L (Rs)	51/34
Avg. daily vol. (6 month)	4,362,206

BSE Code	500477
NSE Code	ASHOKLEY
Bloomberg	AL IN
Reuters	ASOK.BO

Sensex	17,291
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Shareholding pattern (%)

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FII's NRI, ADR/GDR	26.1	29.5
MFs and institutions	20.5	17.8
Promoters	38.8	38.8
Others	14.6	13.9

Absolute returns (%)

	1 mth	3 mth	12 mth
Ashok Leyland	26.4	21.7	3.6
Sensex	15.9	19.2	39.7
BSE Auto	14.0	13.1	1.2

Ashok Leyland

Hold
Current Price: Rs44
Target price: Rs38
Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QE	FY07	FY08E
Net Sales	14,239	16,757	17,776	22,910	16,211	18,200	71,682	78,318
<i>Change %</i>	33.9	34.0	47.8	32.1	13.9	8.6	36.5	9.3
Total Expenditure	13,052	15,407	15,935	20,261	14,468	16,362	64,655	69,764
EBITDA	1,187	1,350	1,841	2,649	1,743	1,838	7,027	8,555
<i>EBITDA margin (%)</i>	8.3	8.1	10.4	11.6	10.8	10.1	9.8	10.9
<i>Change (%)</i>	33.3	16.2	58.5	21.1	46.9	36.1	30.1	21.7
Depreciation	328	365	332	481	413	420	1,506	1,689
EBIT	859	986	1,508	2,168	1,330	1,418	5,521	6,865
<i>EBIT margin (%)</i>	6.0	5.9	8.5	9.5	8.2	7.8	7.7	8.8
Other Income	139	337	64	169	76	175	708	350
Interest exp/(inc)	5	4	26	19	128	75	53	350
PBT	993	1,319	1,546	2,318	1,278	1,518	6,176	7,015
Tax	262	334	463	573	361	414	1,632	1,881
Effective tax rate (%)	26.4	25.4	29.9	24.7	28.3	27.3	26.4	26.8
Extraordinary exp/(Inc)	38	31	31	30	0	1	131	35
PAT	692	954	1,053	1,715	917	1,103	4,413	5,100
<i>PAT margin (%)</i>	4.9	5.7	5.9	7.5	5.7	6.1	6.2	6.5
<i>Change (%)</i>	7.5	27.1	93.1	28.5	27.5	15.7	34.8	15.6
Adjusted PAT	721	977	1,076	1,738	760	1,104	4,511	4,978
<i>Adj PAT margin (%)</i>	5.1	5.8	6.1	7.6	4.7	6.1	6.3	6.4
<i>Change (%)</i>	60.2	28.1	92.2	28.8	5.5	13.0	44.5	10.3
Equity Capital (Rs mn)	1,310	1,310	1,323	1,324	1,324	1,324	1,324	1,332
EPS	0.53	0.73	0.80	1.30	0.69	0.83	3.33	3.83
Adj EPS	0.55	0.75	0.81	1.31	0.57	0.83	3.41	3.74
EPS Diluted	0.52	0.72	0.79	1.29	0.69	0.83	3.31	3.83

Financial highlights

- Net sales are expected to rise by 8.6% YoY to Rs18.2bn, driven by a 5.8% growth in average realizations.
- EBITDA is expected to grow by 36.1% YoY to Rs1.8bn. EBITDA margins are expected to rise to 10.1%, an increase of 204bps YoY, because of a better product mix.
- Adjusted PAT is expected to increase by 13.0% YoY to Rs1.1bn.

Future outlook

- Freight rates and availability are the key growth drivers for the company. The company's strategy of diversifying its product base by entering the LCV segment will help reduce volatility in vehicle sales past FY10.

Total vehicle sales – Ashok Leyland

(nos)	Q2FY08E	Q2FY07	% YoY	Q1FY08	% QoQ	FY08	FY07	% YoY
M&HCVs	20,290	19,781	2.6	18,004	12.7	86,216	82,831	4.1
<i>Domestic</i>	17,863	18,182	(1.8)	16,597	7.6	78,252	76,820	1.9
<i>Exports</i>	2,427	1,599	51.8	1,407	72.5	7,964	6,011	32.5
LCVs	129	88	46.6	159	(18.9)	485	300	61.7
<i>Domestic</i>	129	88	46.6	142	(9.2)	454	289	57.1
<i>Exports</i>	0	0	nm	17	(100.0)	31	11	181.8
Total sales	20,419	19,869	2.8	18,163	12.4	86,701	83,131	4.3

Source: Religare Institutional Equity Research

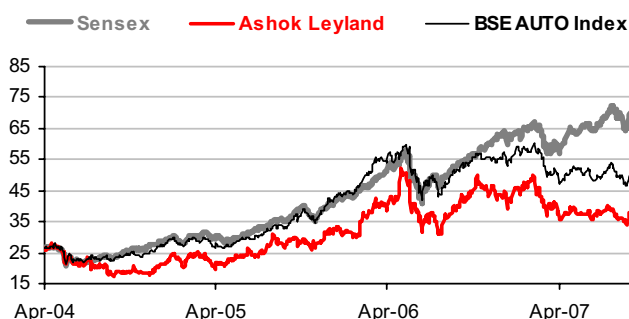
Valuations and Recommendation

Ashok Leyland currently trades at 12.5x and 12.8x 12m forward and 24m forward earnings respectively and EV/EBITDA multiple of 8.6x 12m forward and 8.2x 24m forward. Historically, despite a strong industry outlook it has either traded at high single digit or low double digit multiples. While both Tata Motors and ALL will benefit from a rebound in the CV cycle, our preferred play is Tata Motors, which is the larger and stronger player. We maintain our **Hold** rating and have a price target of Rs38 at which it will trade at 11x 2-year forward earnings.

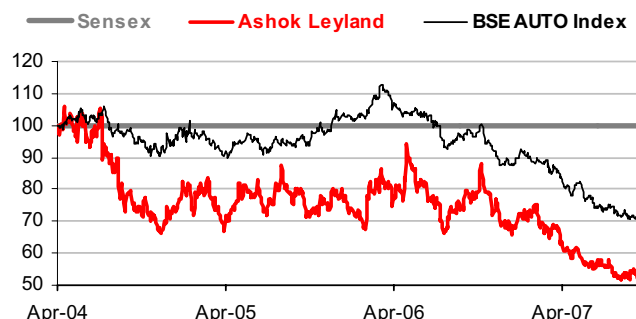
Stock performance

Ashok Leyland

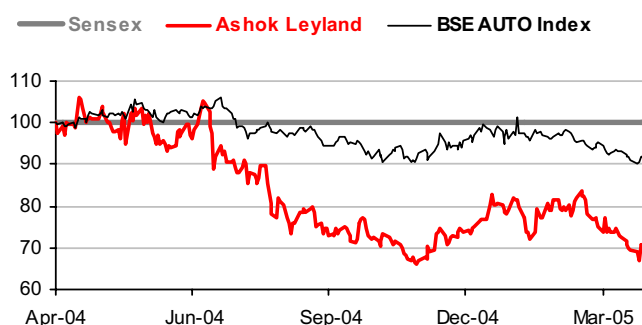
Absolute Perf. From Apr 04



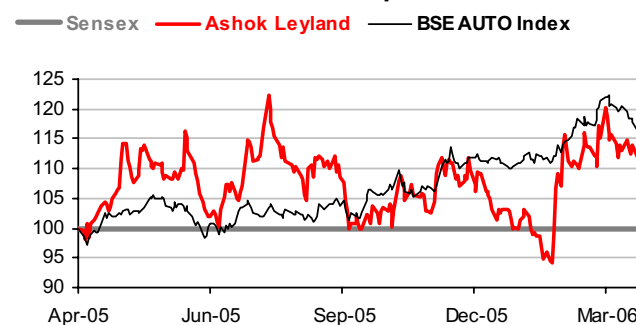
Relative Perf. From Apr 04



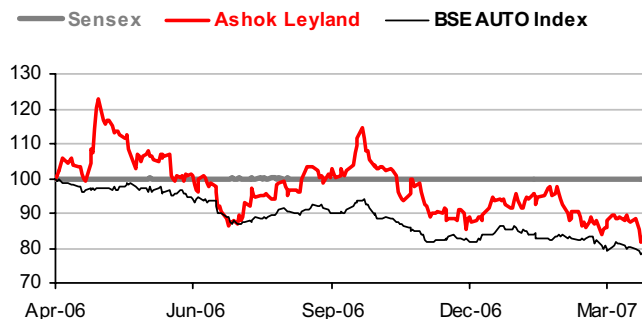
Relative Perf. From Apr 04 to Mar 05



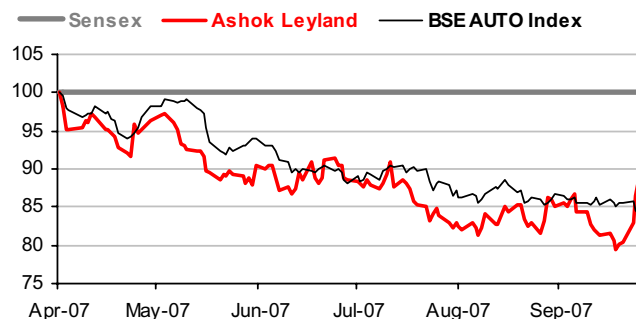
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

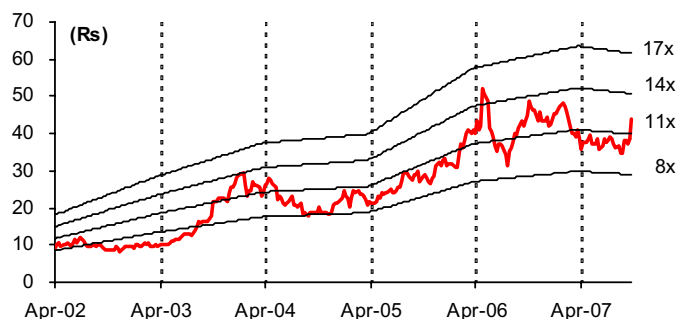


Source: Bloomberg, Religare Institutional Equity Research

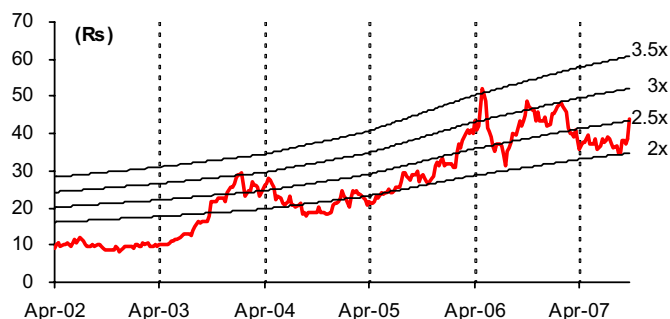
12 month forward rolling band charts

Ashok Leyland

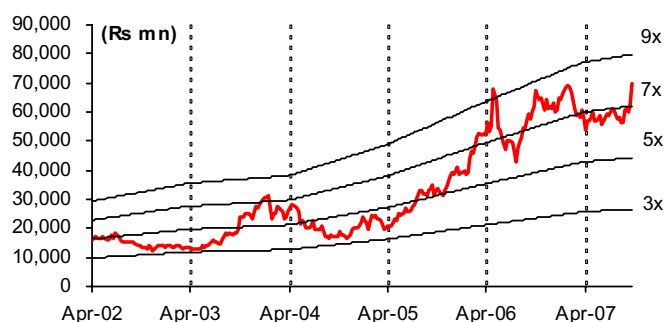
P/E Band



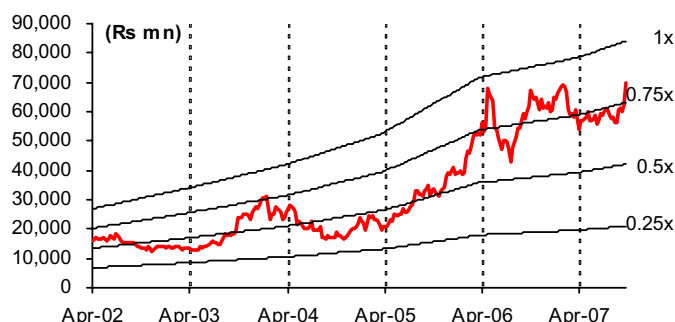
P/BV Band



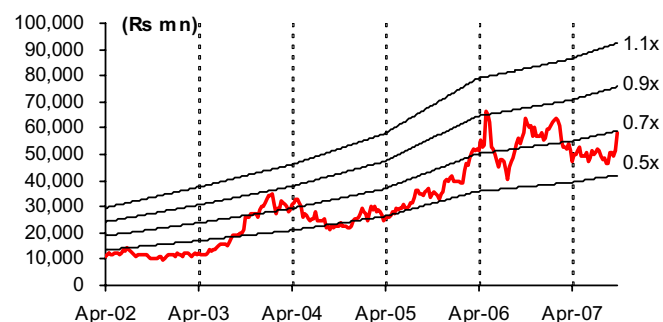
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Ashok Leyland

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	52,477	71,682	78,318	89,593	100,952
EBITDA	5,401	7,026	8,555	9,166	10,073
EBITDA margin (%)	10.3	9.8	10.9	10.2	10.0
Depreciation	1,260	1,506	1,689	2,282	3,356
EBIT	4,141	5,520	6,866	6,884	6,717
Other income	330	708	500	575	590
Interest Exp/(Inc)	165	53	350	1,100	1,250
PBT	4,306	6,175	7,016	6,359	6,057
PBT margin (%)	8.2	8.6	9.0	7.1	6.0
Cos share in JV	(217)	131	35	0	0
Taxes	1,250	1,632	1,881	1,682	1,495
Extra ord exp/Minority interest	0	0	0	0	0
PAT(Reported)	3,273	4,412	5,100	4,677	4,562
PAT margin (%)	6.2	6.2	6.5	5.2	4.5
Less: Extra ordinary income / Others	152	(98)	122	0	0
Adj PAT	3,121	4,510	4,978	4,677	4,562

Quarterly – Financials

(Rs mn)

(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net sales	14,239	16,757	17,776	22,910	16,211
Changes (%)	33.9	34.0	47.8	32.1	13.9
EBITDA	1,187	1,350	1,841	2,649	1,743
Changes (%)	33.3	16.2	58.5	21.1	46.9
Margin (%)	8.3	8.1	10.4	11.6	10.8
PAT	692	954	1,053	1,715	882
PAT adj	721	977	1,076	1,738	760
Changes (%)	60.2	28.1	92.2	28.8	5.5
Margin (%)	5.1	5.8	6.1	7.6	4.7
EPS adj (Rs)	0.6	0.7	0.8	1.3	0.6
EPS dil (Rs)	0.5	0.7	0.8	1.3	0.6

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	25.5	36.6	9.3	14.4	12.7
EBITDA (%)	27.7	30.1	21.8	7.1	9.9
PAT adjusted (%)	12.2	44.5	10.4	(6.0)	(2.5)
EPS adjusted (%)	10.7	36.8	5.8	(6.3)	(2.5)
EPS diluted (%)	6.2	44.5	10.4	(6.0)	(2.5)
EPS Consl and diluted (%)	6.2	44.5	10.4	(6.0)	(2.5)

Valuations

P/E (x)	16.4	13.2	11.5	12.5	12.8
P/BV (x)	3.8	3.1	2.7	2.4	2.2
EV/EBITDA (x)	11.2	9.2	8.1	8.6	8.2
EV/Sales (x)	1.2	0.9	0.9	0.9	0.8

Profitability

EBITDA margin (%)	10.3	9.8	10.9	10.2	10.0
Adj PAT margin (%)	5.2	5.4	5.5	4.6	4.0
RoE (%)	18.6	24.5	24.2	20.2	18.0
RoCE (%)	21.5	26.8	25.4	19.3	15.4
RoIC (%)	24.7	24.0	20.0	14.2	11.0

B/S ratios

Inventory days	87.4	73.2	73.2	73.2	70.0
Creditor days	93.1	85.1	85.0	85.0	85.0
Debtor days	30.7	24.1	24.0	24.0	22.0
Working Capital days	15.0	10.9	11.3	14.4	12.4
Net debt/equity	(0.3)	0.0	0.3	0.6	0.7

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	1,222	1,324	1,332	1,332	1,332
Total Res. & Surplus	12,903	17,622	20,613	22,954	25,180
Total Shareholders' fund	14,125	18,946	21,944	24,286	26,512
Convertible Debt	3,449	235	0	0	0
Others Debt	3,471	6,169	10,697	20,380	23,894
Total Loans	6,919	6,404	10,697	20,380	23,894
Deferred tax liability (net)	1,797	1,969	2,269	2,619	3,019
Total liabilities	22,841	27,319	34,910	47,285	53,425

Assets

Net fixed assets & others	9,433	13,070	20,381	31,100	41,869
Capital WIP & others	1,414	2,375	4,000	4,444	1,250
Total non-current assets	10,847	15,445	24,381	35,544	43,119
Total investments - non current	1,014	1,051	1,051	1,051	1,051
Current assets					
Inventories	9,026	10,703	11,422	13,021	14,037
Sundry debtors	4,243	5,229	5,150	5,891	6,085
Cash & cash equivalents	8,696	5,509	4,414	4,944	4,968
Cash	6,029	4,349	3,414	3,944	3,968
Liquid investments	2,668	1,160	1,000	1,000	1,000
Other current assets	3,026	6,696	7,500	7,750	7,000
Total current assets	24,992	28,137	28,486	31,607	32,089
Total current liabilities	11,469	16,516	15,618	17,590	19,568
Total provisions	2,616	1,042	3,634	3,570	3,510
Net current assets	10,907	10,579	9,234	10,446	9,011
Misc. expenditure	73	244	244	244	244
Total assets	22,841	27,319	34,910	47,285	53,425

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from operations					
PBT	4,523	6,045	7,016	6,359	6,057
Tax paid	(1,136)	(1,356)	(1,325)	(1,395)	(1,155)
Dep & amortization	1,134	269	1,905	3,283	4,507
Working capital changes	(1,301)	41	(2,342)	(619)	1,519
Others	0	0	0	0	0
Net cash from operations	3,220	5,000	5,254	7,628	10,928
Cash from investments					
Capital expenditure	(2,593)	(6,704)	(10,625)	(13,444)	(10,931)
Sale/purchase of inv & others	1,257	(793)	259	99	99
Net cash from investments	(1,336)	(7,497)	(10,366)	(13,345)	(10,832)
Cash from financing					
Issue of shares & share premium	0	0	235	0	0
Dividend paid	(1,356)	(1,792)	0	(2,336)	(2,336)
Debt change	(1,053)	(934)	4,293	9,683	3,514
Others	(167)	(167)	(350)	(1,100)	(1,250)
Net cash from financing	(2,576)	(2,894)	4,177	6,247	(72)
Net change in cash	(692)	(5,391)	(935)	530	23

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	2.6	3.5	3.7	3.5	3.4
EPS diluted - wtd	2.3	3.4	3.7	3.5	3.4
EPS Consl and diluted	2.3	3.4	3.7	3.5	3.4
CEPS	3.7	4.5	5.1	5.2	5.9
Book value	11.6	14.3	16.5	18.2	19.9
Dividend	1.2	1.5	1.5	1.5	1.5
O/s shs.-actual (mn)	1,222	1,324	1,332	1,332	1,332
O/s shs.-diluted (mn)	1,332	1,332	1,332	1,332	1,332
O/s shs wtd / diluted (mn)	1,332	1,332	1,332	1,332	1,332

Key data

Sector	Automobiles
Market Cap	Rs288bn/US\$7.2bn
52 Wk H/L (Rs)	1,027/713
Avg. daily vol. (6 month)	836,442

BSE Code	532500
NSE Code	MARUTI
Bloomberg	MSIL IN
Reuters	MRTI.BO

Sensex	17,291
Nifty	5,021

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	12.7	12.9
MFs and institutions	17.2	22.7
Promoters	64.5	58.7
Others	5.6	5.6

Absolute returns (%)

	1 mth	3 mth	12 mth
Maruti Udyog	20.1	33.3	6.1
Sensex	15.9	19.2	39.7
BSE Auto	14.0	13.1	1.2

Maruti Suzuki

Reduce
Current Price: Rs976
Target price: Rs904
Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2QE	FY07	FY08E
Net Sales	31,255	34,192	36,795	44,298	39,308	44,660	146,539	175,951
<i>Change %</i>	19.0	12.5	18.2	35.2	25.8	30.6	21.5	20.1
Total Expenditure	26,689	29,436	31,723	38,787	33,560	38,854	126,635	152,509
EBITDA	4,566	4,756	5,072	5,510	5,748	5,806	19,904	23,442
<i>EBITDA margin (%)</i>	14.6	13.9	13.8	12.4	14.6	13.0	13.6	13.3
<i>Change (%)</i>	40.6	36.0	8.9	13.3	25.9	22.1	22.4	17.8
Depreciation	641	596	759	718	822	900	2,714	3,630
EBIT	3,925	4,160	4,313	4,792	4,926	4,906	17,191	19,812
<i>EBIT margin (%)</i>	12.6	12.2	11.7	10.8	12.5	11.0	11.7	11.3
Other Income	1,433	1,217	1,284	2,050	2,233	1,800	5,984	7,723
Interest exp/(inc)	33	31	157	156	151	151	376	279
PBT	5,326	5,346	5,440	6,686	7,007	6,555	22,798	27,256
Tax	1,630	1,672	1,676	2,201	2,011	2,022	7,179	8,480
Effective tax rate (%)	30.6	31.3	30.8	32.9	28.7	30.9	31.5	31.1
Extraordinary exp/(Inc)	0	0	0	0	0	0	0	0
PAT	3,696	3,674	3,764	4,486	4,996	4,532	15,620	18,776
<i>PAT margin (%)</i>	11.8	10.7	10.2	10.1	12.7	10.1	10.7	10.2
<i>Change (%)</i>	63.2	39.9	11.0	24.3	35.2	23.3	31.4	20.2
Adjusted PAT	3,624	3,603	3,907	4,486	4,996	4,532	15,620	18,776
<i>Adj PAT margin (%)</i>	11.6	10.5	10.6	10.1	12.7	10.1	10.7	10.7
<i>Change (%)</i>	60.0	37.2	15.2	16.7	37.8	25.8	31.4	20.2
Equity Capital (Rs mn)	1,445	1,445	1,445	1,445	1,445	1,445	1,445	1,445
EPS	12.8	12.7	13.0	15.5	17.3	15.7	54.0	65.0
Adj EPS	12.5	12.5	13.5	15.5	17.3	15.7	54.0	65.0
EPS Diluted	12.8	12.7	13.0	15.5	17.3	15.7	54.0	65.0

Financial highlights

- Net sales are expected to rise by 30.6% YoY to Rs44.7bn, driven by a 23.1% growth in vehicle sales. We expect the gross average realization from passenger vehicles to be higher at Rs255,000 per unit, compared to Rs 239,500 in Q2FY07. This is because of change in product mix in favor of premium vehicles, which includes Suzuki *Swift* and Suzuki *SX4*.
- EBITDA is expected to rise by 22.1% YoY to Rs5.8bn. EBITDA margins are expected to fall to 13.0%, a drop of 90bps YoY.
- Adj PAT is expected to rise by 25.8% YoY to Rs4.5bn.

Future outlook

- While Maruti will benefit from the stability in the interest rate outlook, a higher base effect will mean that percentage growth in 2H FY 08 will be lower than in 1H FY 08. Capacity constraints in its new models which are doing well like *Swift* and *Sx4* will prevent it from getting the maximum benefit of a pick-up in demand. Even when the new plant gets commissioned in end FY 09, its export obligations will mean lower capacity for domestic markets.
- Post FY09/FY10, the outlook could worsen with the entry of Honda, Nissan, Toyota and Volkswagen in the small car segment. This is likely to impact Maruti in the long run.

Total vehicle sales - Maruti

(nos)	Q2FY08E	Q2FY07	% YoY	Q1FY08	% QoQ	FY08E	FY07	% YoY
Domestic Sales	178,172	149,518	19.2	160,603	10.9	708,072	635,629	11.4
Exports	15,906	8,170	94.7	9,065	75.5	55,425	39,294	41.1
Total	194,078	157,688	23.1	169,668	14.4	763,498	674,923	13.1

Source: Religare Institutional Equity Research

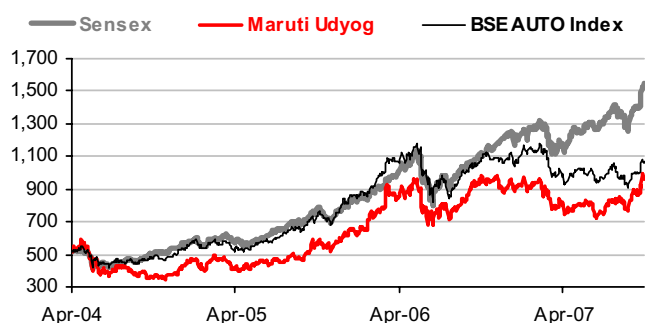
Valuations and Recommendation

Maruti currently trades at 14.5x and 13.0x FY08E and FY09E earnings. Earnings growth for Maruti will be slower in 2H FY 08 because of a higher base and higher depreciation from the new plant. Growth in Q1 FY 08 partly came from forex gains, for which a separate number is not yet available. As a result we main cautious and maintain our **Reduce** rating, despite our expectations of better demand for cars in 2H FY 08.

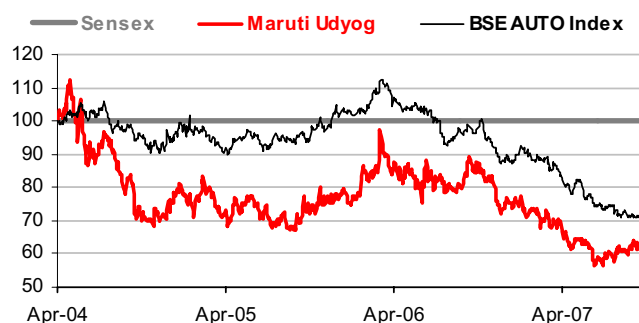
Stock performance

Maruti Suzuki

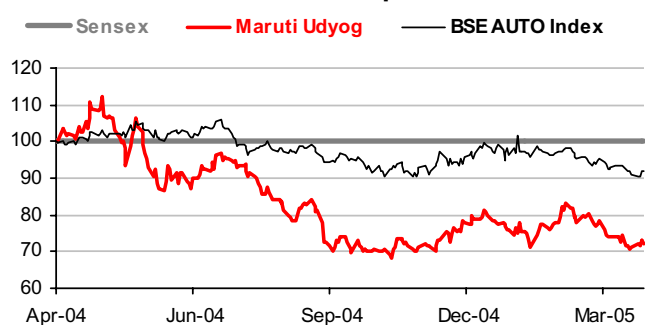
Absolute Perf. From Apr 04



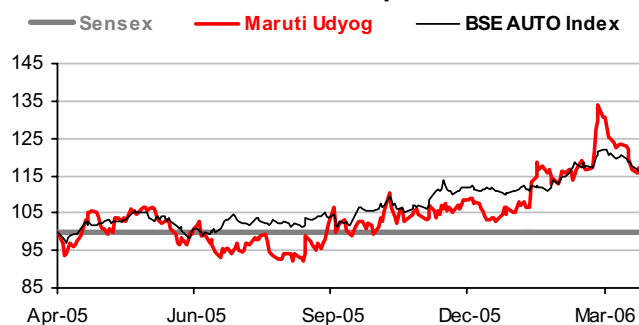
Relative Perf. From Apr 04



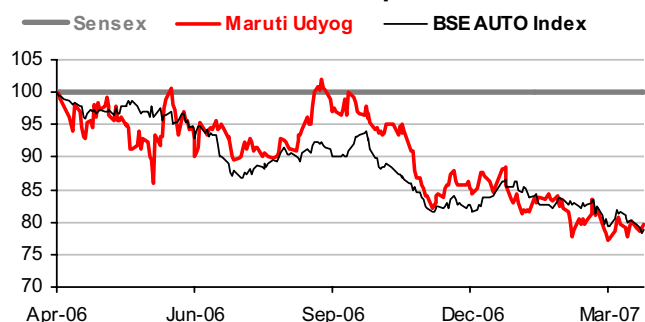
Relative Perf. From Apr 04 to Mar 05



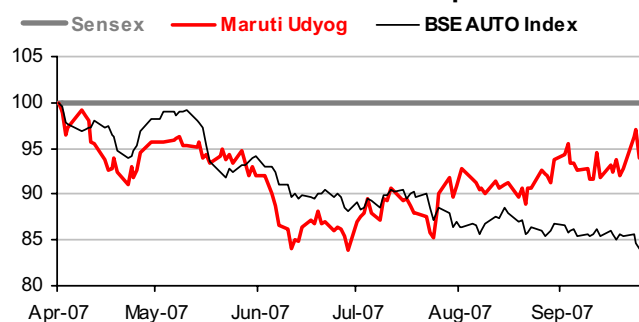
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

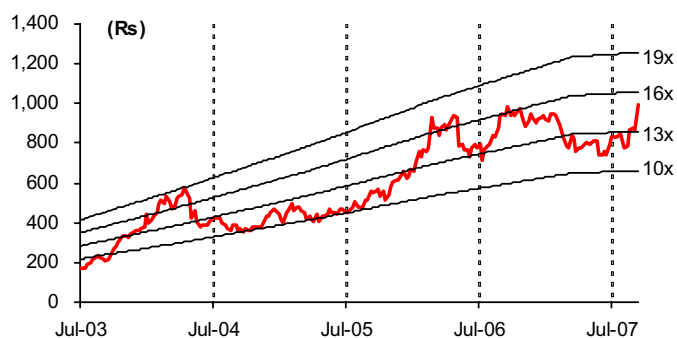


Source: Bloomberg, Religare Institutional Equity Research

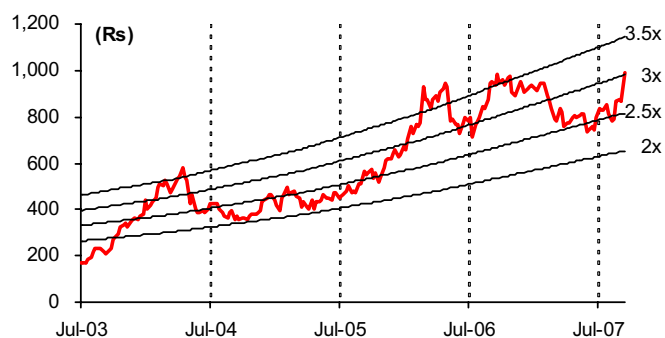
12 month forward rolling band charts

Maruti Suzuki

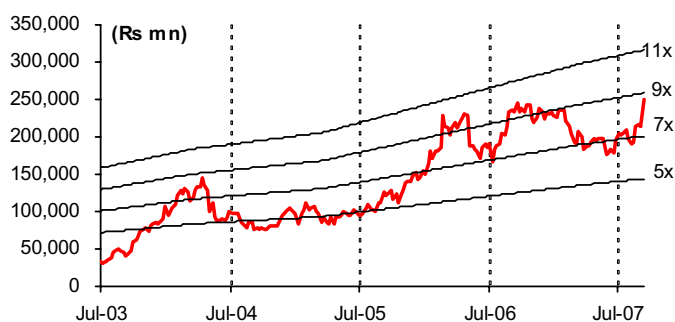
P/E Band



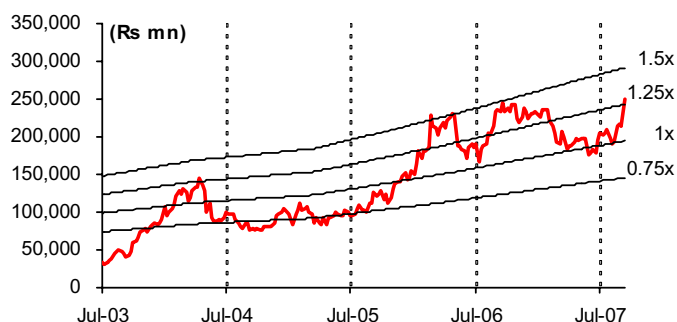
P/BV Band



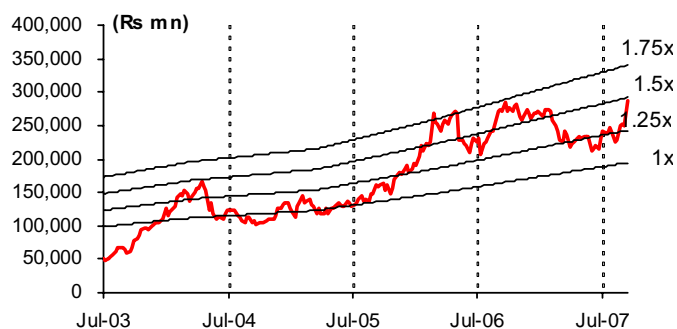
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Maruti Suzuki

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Net sales	122,925	149,497	179,550	209,115	265,904
EBITDA	18,669	22,862	27,041	30,411	35,816
EBITDA margin (%)	15.2	15.3	15.1	14.5	13.5
Depreciation	2,854	2,714	3,630	5,674	7,985
EBIT	15,815	20,148	23,411	24,737	27,831
Other income	1,889	3,026	4,123	3,978	4,116
Interest Exp/(Inc)	204	376	279	209	139
PBT	17,500	22,798	27,256	28,506	31,808
PBT margin (%)	14.2	15.2	15.2	13.6	12.0
Cos share in JV	0.0	0.0	0.0	0.0	0.0
Taxes	5,609	7,178	8,480	9,037	10,131
Extra ord exp/Minority interest	0	0	0	0	0
PAT(Reported)	11,891	15,620	18,776	19,470	21,677
PAT margin (%)	9.7	10.4	10.5	9.3	8.2
Less: Extra ordinary income / Others	(234)	0	0	0	0
Adj PAT	12,125	15,620	18,776	19,470	21,677

Quarterly – Financials

(Rs mn)

(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net sales	31,255	34,192	36,795	44,298	39,308
Changes (%)	19.0	12.5	18.2	35.2	25.8
EBITDA	4,566	4,756	5,072	5,510	5,748
Changes (%)	40.6	36.0	8.9	13.3	25.9
Margin (%)	14.6	13.9	13.8	12.4	14.6
PAT	3,696	3,674	3,764	4,486	4,996
PAT adj	3,624	3,603	3,907	4,486	4,996
Changes (%)	60.0	37.2	15.2	16.7	37.8
Margin (%)	11.1	10.2	10.2	9.7	12.0
EPS adj (Rs)	12.5	12.5	13.5	15.5	17.3
EPS dil (Rs)	12.8	12.7	13.0	15.5	17.3

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Growth					
Net sales (%)	9.7	21.6	20.1	16.5	27.2
EBITDA (%)	11.8	22.5	18.3	12.5	17.8
PAT adjusted (%)	42.0	28.8	20.2	3.7	11.3
EPS adjusted (%)	42.0	28.8	20.2	3.7	11.3
EPS diluted (%)	39.3	31.4	20.2	3.7	11.3
EPS Consl and diluted (%)					

Valuations

P/E (x)	23.7	18.1	15.0	14.5	13.0
P/BV (x)	5.2	4.1	3.3	2.7	2.3
EV/EBITDA (x)	13.4	10.6	9.1	8.1	6.7
EV/Sales (x)	2.0	1.6	1.4	1.2	0.9

Profitability

EBITDA margin (%)	15.2	15.3	15.1	14.5	13.5
Adj PAT margin (%)	9.9	10.4	10.5	9.3	8.2
RoE (%)	24.7	25.4	24.4	20.6	19.2
RoCE (%)	33.9	34.4	32.1	27.6	25.9
RoIC (%)	55.5	63.9	49.0	34.2	30.5

B/S ratios

Inventory days	36.3	25.7	25.7	28.0	30.0
Creditor days	22.8	32.8	32.8	32.8	32.8
Debtor days	20.3	20.0	20.0	23.0	23.0
Working Capital days	24.0	17.0	12.1	15.3	17.5
Net debt/equity	0.0	0.1	0.1	0.1	0.1

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	1,445	1,445	1,445	1,445	1,445
Total Res. & Surplus	53,081	67,094	84,179	101,620	120,826
Total Shareholders' fund	54,526	68,539	85,624	103,065	122,271
Convertible Debt	717	635	635	635	635
Others Debt	0	5,673	5,673	5,673	5,673
Total Loans	717	6,308	6,308	6,308	6,308
Deferred tax liability (net)	779	1,675	2,925	4,175	4,425
Total liabilities	56,022	76,523	94,857	113,548	133,004

Assets

Net fixed assets & others	16,952	26,597	43,487	58,563	70,278
Capital WIP & others	920	2,389	3,078	3,113	2,955
Total non-current assets	17,872	28,986	46,565	61,675	73,233
Total investments - non current	1,259	1,435	1,435	2,935	4,435
Current assets					
Inventories	8,812	7,132	9,389	11,991	16,610
Sundry debtors	6,548	7,474	9,838	13,177	16,756
Cash & cash equivalents	33,269	46,885	42,006	42,610	49,363
Cash	14,016	14,228	9,349	9,953	16,706
Liquid investments	19,253	32,657	32,657	32,657	32,657
Other current assets	8,120	9,625	14,625	14,625	14,625
Total current assets	56,749	71,116	75,859	82,403	97,354
Total current liabilities	15,058	20,110	24,899	29,011	37,069
Total provisions	4,800	4,905	4,102	4,454	4,950
Net current assets	36,891	46,101	46,858	48,938	55,336
Misc. expenditure	0	0	0	0	1
Total assets	56,022	76,523	94,857	113,548	133,005

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
Cash from operations					
PBT	17,500	22,798	27,256	28,506	31,808
Tax paid	(5,804)	(6,352)	(8,204)	(7,773)	(9,829)
Dep & amortization	1,345	(458)	(214)	1,905	4,007
Working capital changes	(815)	4,292	(4,833)	(1,828)	(140)
Others	0	0	0	0	1
Net cash from operations	12,226	20,280	14,005	20,810	25,848
Cash from investments					
Capital expenditure	(1,788)	(13,832)	(21,209)	(20,785)	(19,543)
Sale/purchase of inv & others	(3,519)	(10,536)	4,123	2,478	2,616
Net cash from investments	(5,307)	(24,368)	(17,086)	(18,307)	(16,926)
Cash from financing					
Issue of shares & share premium	0	0	0	0	0
Dividend paid	(578)	(1,011)	(1,519)	(1,691)	(2,029)
Debt change	(260)	(280)	(279)	(209)	(139)
Others	(2,359)	5,591	0	0	0
Net cash from financing	(3,197)	4,300	(1,798)	(1,899)	(2,167)
Net change in cash	3,722	212	(4,879)	604	6,754

Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY10E
EPS adjusted	42.0	54.0	65.0	67.4	75.0
EPS diluted - wtd	41.1	54.0	65.0	67.4	75.0
EPS Consl and diluted	0.0	0.0	0.0	0.0	0.0
CEPS	51.0	63.4	77.5	87.0	102.6
Book value	188.7	237.2	296.3	356.6	423.1
Dividend	3.5	4.5	5.0	6.0	7.5
O/s shs.-actual (mn)	289.0	289.0	289.0	289.0	289.0
O/s shs.-diluted (mn)	289.0	289.0	289.0	289.0	289.0
O/s shs wtd / diluted (mn)	289.0	289.0	289.0	289.0	289.0

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