



India Strategy



*Continued upswing
in global equities
and unprecedented
FII inflows...*

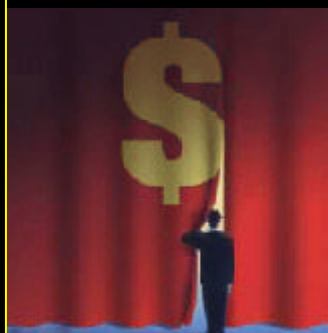
*...together with easing of
concerns relating to
inflation and rate hikes...*

*...have led to Sensex
valuations crossing
historical averages on
all parameters*

*Estimated earnings
growth at 16% for
2QFY08 is the lowest in
the last six quarters*

*Adopt a sector / stock-
specific investment
approach to maximize
returns*

RESULTS PREVIEW



Quarter ended September 2007

Euphoric times

Contents

India Strategy	3-38	5. FMCG	117-134	HPCL	198
1. Automobiles	39-60	Asian Paints	123	IOC	199
Amtek Auto	50	Britannia Industries	124	Indraprastha Gas	200
Ashok Leyland	51	Colgate Palmolive	125	ONGC	201
Bajaj Auto	52	Dabur India	126	Reliance Industries	202
Bharat Forge	53	GSK Consumer	127	11. Pharmaceuticals	203-227
Eicher Motors	54	Godrej Consumer Products	128	Aurobindo Pharma	211
Hero Honda	55	Hindustan Unilever	129	Aventis Pharma	212
Mahindra & Mahindra	56	ITC	130	Biocon	213
Maruti Suzuki India	57	Marico	131	Cadila Healthcare	214
Swaraj Mazda	58	Nestle India	132	Cipla	215
Tata Motors	59	Tata Tea	133	Dishman Pharma	216
TVS Motor	60	United Spirits	134	Divi's Laboratories	217
2. Banking	61-87	6. Information Technology	135-153	Dr Reddy's Labs.	218
Andhra Bank	68	Geometric Software	140	GSK Pharma	219
Axis Bank	69	HCL Technologies	141	Jubilant Organosys	220
Bank of Baroda	70	Hexaware Technologies	142	Lupin	221
Bank of India	71	i-flex solutions	143	Nicholas Piramal	222
Canara Bank	72	Infosys	144	Pfizer	223
Corporation Bank	73	Infotech Enterprises	145	Ranbaxy Labs.	224
Federal Bank	74	KPIT Cummins	146	Shasun Chemicals	225
HDFC	75	Mphasis	147	Sun Pharmaceuticals	226
HDFC Bank	76	Patni Computer	148	Wockhardt	227
ICICI Bank	77	Sasken Communication	149	12. Retailing	228-235
Indian Bank	78	Satyam Computer	150	Pantaloon Retail	233
Indian Overseas Bank	79	TCS	151	Shopper's Stop	234
J&K Bank	80	Tech Mahindra	152	Titan Industries	235
Karnataka Bank	81	Wipro	153	13. Telecom	236-243
Oriental Bank	82	7. Infrastructure	154-165	Bharti Airtel	241
Punjab National Bank	83	BL Kashyap	158	Idea Cellular	242
State Bank	84	Gammon India	159	Reliance Communication	243
Syndicate Bank	85	GMR Infrastructure	160	14. Textiles	244-256
Union Bank	86	Hindustan Construction	161	Alok Industries	250
Vijaya Bank	87	IVRCL	162	Arvind Mills	251
3. Cement	88-102	Jaiprakash Associates	163	Gokaldas Exports	252
ACC	96	Nagarjuna Construction	164	Himatsingka Seide	253
Ambuja Cement	97	Patel Engineering	165	Raymond	254
Birla Corporation	98	8. Media	166-167	Vardhman Textiles	255
Grasim Industries	99	Zee Entertainment	167	Welspun India	256
India Cements	100	9. Metals	168-181	15. Utilities	257-266
Shree Cement	101	Hindalco	174	CESC	261
UltraTech Cement	102	Hindustan Zinc	175	NTPC	262
4. Engineering	103-116	Jindal Steel	176	Neyveli Lignite	263
ABB	107	JSW Steel	177	PTC India	264
Alstom Projects	108	Nalco	178	Reliance Energy	265
Bharat Electronics	109	Sterlite Industries	179	Tata Power	266
BHEL	110	SAIL	180	16. Others	267-274
Crompton Greaves	111	Tata Steel	181	Ashapura Minechem	267
Cummins India	112	10. Oil & Gas	182-202	Blue Star	268
Larsen & Toubro	113	BPCL	194	Bombay Rayon	269
Siemens	114	Cairn India	195	Concor	270
Suzlon Energy	115	Chennai Petroleum	196	Everest Kanto Cylinders	271
Thermax	116	GAIL	197	Great Offshore	272
				Greaves Cotton	273
				United Phosphorus	274

India Strategy

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007



From 'half full' in April 2007...
...to 'joyous ride' in July 2007



...to 'euphoric times' -Oct.2007



Diwali*... a month earlier!!

The festival of Diwali has arrived a month earlier in the Indian markets. The BSE Sensex has continued its upward march during 2QFY08, closing the quarter at an all-time high of 17,291. The markets have delivered returns of 18%, after posting 12% returns in 1QFY08. From a state of 'joyous ride' (title of our last Strategy report dated 6 July 2007) in 1QFY08, we are now in 'euphoric times'. Continued upswing in global equities (most global markets are at all-time highs), unprecedented injection of liquidity by FIIs (net FII flows were over US\$7b in 2QFY08), easing of concerns relating to inflation and rate hikes have been the key drivers of this performance.

Post this strong performance, valuations of BSE Sensex have crossed historical averages on all parameters. The BSE Sensex now trades at FY08E P/E of 20.2x (15-year average is 18.3x), P/B of 4.4x (15-year average is 2.1x) and earnings yield to bond yield of 0.63x (15-year average is 0.73x). Valuations higher than historic averages are driven by opportunities from the next trillion-dollar GDP and strong government finances, besides strong liquidity and easing interest rates. However, some of the risks that this liquidity-driven rally is ignoring are slower momentum in earnings, valuations at the higher end of averages and fragile political scenario.

We estimate 2QFY08 earnings growth at 16% for Sensex, as compared to 27% in 1QFY08 and an average growth of 26% in the last nine quarters. The slowdown in growth is largely due to the impact of rupee appreciation on export-oriented businesses and continued impact of higher interest rates on Autos. Our profit estimates could see upsides for the quarter, due to forex gains and other income (in 1QFY08, earnings grew of 27% v/s our estimate of 18%, led by higher other income). We are estimating 19% growth in Sensex EPS in FY08 to Rs855 and 18% growth in FY09 to Rs 1,007.

Our target range for the Sensex, based on FY09E earnings is 16,300-18,300 (14-16x FY09E EPS plus 2,300 points of embedded value). In the near-term, excessive liquidity has the potential to take the market index beyond our target range. We would recommend staying invested in sectors where valuations are reasonable considering the earnings growth or where we expect changes in macro-economic environment to lead to positive surprises. Our top bets are Wireless and Financials. We would also favor Cement and Metals, given the scope of earnings upgrades ahead. Moreover, our view on Autos and Real Estate is positive, as lower interest rates in the next 12 months could lead to positive surprises and valuation re-rating.

Our top large-cap bets are Bharti, SBI, Axis Bank, Maruti, Unitech, Tata Steel, ITC, Ranbaxy, and Grasim. Amongst the mid-caps, we prefer Sintex, Puravankara, Nagarjuna Construction, Bombay Rayon, Indian Bank, United Phosphorus, Birla Corp and Dish TV.

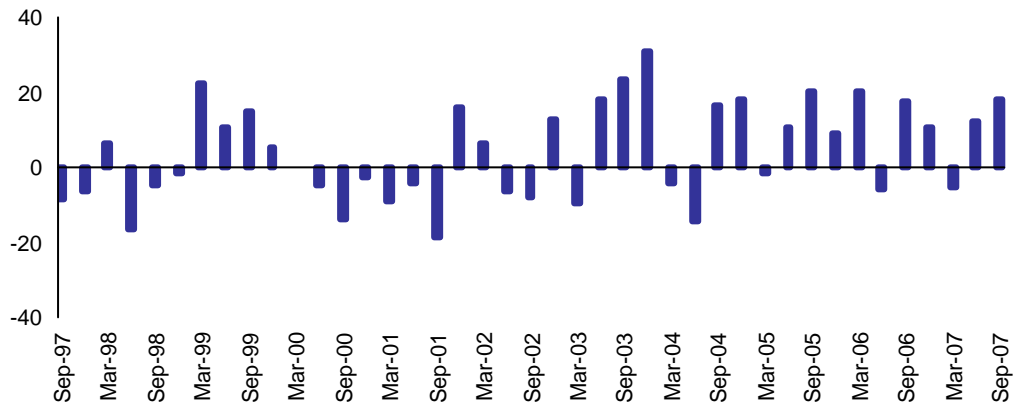
* Hindu festival of lights usually celebrated in October/November

2QFY08 – Sensex at new highs, making several records

The Sensex gained 18% in 2QFY08 to close at an all-time high of 17,291...

In 2QFY08, the BSE Sensex gained 18% to close at an all-time high of 17,291, following a 12% gain in 1QFY08. With this, the BSE Sensex is up 25% in CY07 YTD – the sixth consecutive year of positive returns.

SENSEX RETURN OVER THE PAST 41 QUARTERS (%)

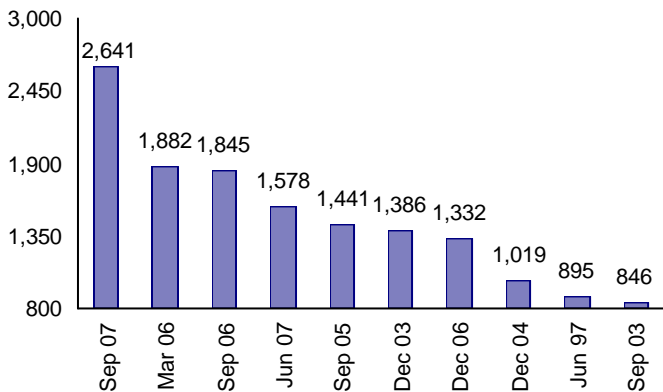


Source: Motilal Oswal Securities

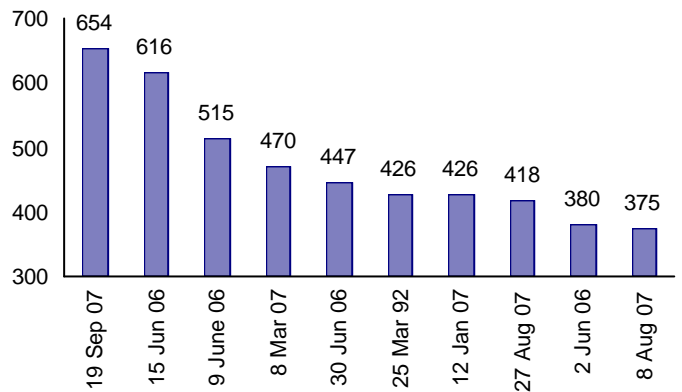
The quarter also witnessed several new records created in a short time period:

- ✦ highest absolute rise in any quarter – 2,641 points (or 18%)
- ✦ highest ever single-day absolute rise – 654 points on 19 September 2007
- ✦ fastest ever 1,000-point rise – 16,000 to 17,000 in six trading sessions
- ✦ first 12-day successive positive run since 1995 – only the 3rd such occurrence in the last 28 years

TOP 10 QUARTERLY RISE IN BSE SENSEX (POINTS)



HIGHEST EVER SINGLE-DAY ABSOLUTE RISE IN BSE SENSEX



Source: Motilal Oswal Securities

FIRST 12-DAY SUCCESSIVE POSITIVE RUN SINCE 1995	
DATE	CONTINUOUS DAYS OF POSITIVE RETURN
9-Jun-83	11
6-Jul-90	10
10-Mar-92	11
22-Nov-93	12
27-Jul-95	16
18-Jun-96	10
25-Jan-01	10
13-Oct-03	11
13-Sep-05	10
3-Oct-07	12

Source: MOSL

FASTEST EVER 1,000-POINT RISE – 16,000 TO 17,000 IN SIX TRADING SESSIONS / SEVEN CALENDER DAYS		
SENSEX	DATE	NO OF CALENDER DAYS
100	3-Apr-79	
1,000	25-Jul-90	4,131
2,000	15-Jan-92	539
3,000	29-Feb-92	45
4,000	30-Mar-92	30
5,000	8-Oct-99	2,748
6,000	11-Feb-00	126
7,000	20-Jun-05	1,956
8,000	08-Sep-05	80
9,000	28-Nov-05	81
10,000	06-Feb-06	70
11,000	21-Mar-06	43
12,000	20-Apr-06	30
13,000	30-Oct-06	193
14,000	05-Dec-06	36
15,000	06-Jul-07	213
16,000	19-Sep-07	75
17,000	26-Sep-07	7

Source: Motilal Oswal Securities

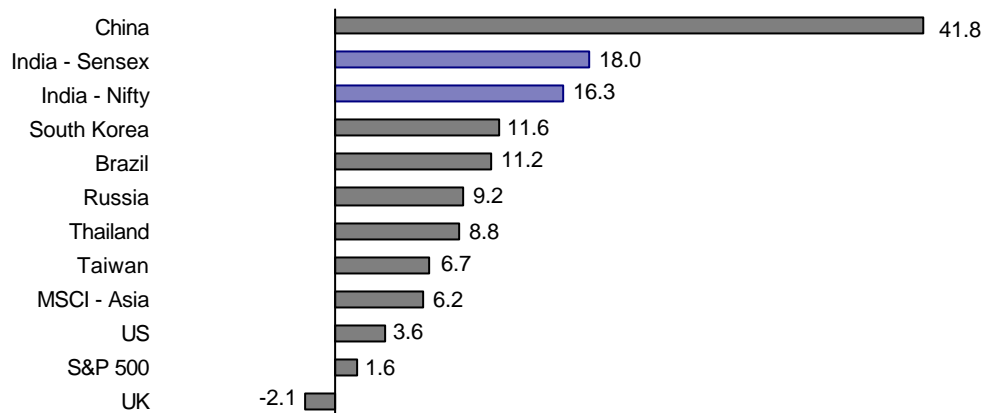
We believe that with markets and valuations at new highs, it is important to focus on both the positives and the risks. Amongst the key positives that we see are: sustained liquidity in Indian equities, ease in domestic interest rates, opportunities from the next trillion-dollar GDP, and strong government finances. The key risks that the markets appear to be ignoring are: slower momentum in earnings, valuations at the higher end of averages, fragile political scenario.

Global trends driving the local markets

Several global indices, including BRICs, have hit their all-time highs in CY07 so far. The upswing in global equities has had a positive impact on Indian markets also. Indian markets have been amongst the best performers in 3QCY07, making up for their underperformance in the earlier part of the year.

...in tandem with global indices, several of which have also hit all-time highs

MAJOR MARKET PERFORMANCE - 3QCY07



Source: Bloomberg/Motilal Oswal Securities

Of the 30 Sensex stocks, 11 have managed to outperform the Index in CY07 YTD. While Reliance Energy has managed to outperform every Index stock by a huge margin, bulk of the performance came in the recent quarter. Reliance Industries, Financials and Engineering have also been key outperformers.

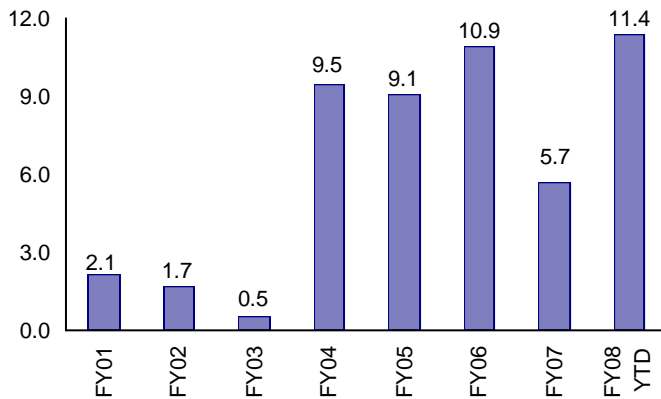
YTD PERFORMANCE OF INDIVIDUAL SENSEX STOCKS

COMPANY NAME	SECTOR	PRICE 29/12/2006	PRICE 28/09/2007	YTD CHG (%)
Reliance Energy	Utilities	520	1,206	131.9
Larsen & Toubro	Engineering	1,443	2,813	94.9
Reliance Inds.	Oil & Gas	1,270	2,296	80.8
B H E L	Engineering	1,149	2,033	76.9
Tata Steel	Metals	482	850	76.3
St Bk of India	Banking	1,246	1,951	56.6
H D F C	Banking	1,625	2,527	55.6
Bharti Airtel	Telecom	629	941	49.7
NTPC	Utilities	136	193	41.8
HDFC Bank	Banking	1,070	1,439	34.5
Grasim Inds.	Cement	2,789	3,513	26.0
BSE Sensex		13,787	17,291	25.4
Reliance Communi	Telecom	471	586	24.3
ICICI Bank	Banking	890	1,063	19.4
Ranbaxy Labs.	Pharma	392	434	10.9
O N G C	Oil & Gas	870	958	10.1
ACC	Cement	1,086	1,195	10.1
ITC	FMCG	176	190	7.8
Maruti Suzuki	Auto	927	1,000	7.8
Ambuja Cem.	Cement	141	144	1.8
Hind. Unilever	FMCG	217	219	1.3
Hindalco Inds.	Metals	174	172	-1.2
Bajaj Auto	Auto	2,619	2,540	-3.0
Satyam Computer	IT	484	444	-8.4
TCS	IT	1,219	1,057	-13.3
Tata Motors	Auto	900	778	-13.6
Infosys Tech.	IT	2,241	1,897	-15.3
M & M	Auto	906	752	-17.0
Dr Reddy's Labs.	Pharma	811	649	-20.0
Wipro	IT	605	460	-23.9
Cipla	Pharma	251	182	-27.2

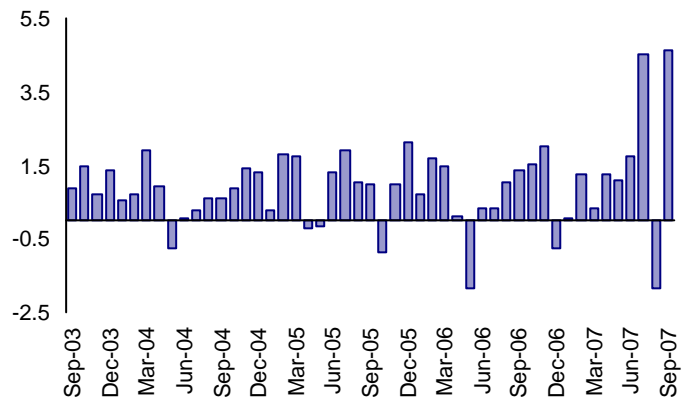
Source: Motilal Oswal Securities

Increased global liquidity is driving up equity valuations. For the first 78 days of the quarter, the BSE Sensex was up 7%. Then, on 18 September, the Fed announced a 50bp cut in its funds rate. That caused the market to shoot up by another 10% in just eight days. Net FII investments in September 2007 hit an all-time high of US\$4.4b.

YEARLY TREND IN NET FII INVESTMENTS (US\$B)



MONTHLY TREND IN NET FII INVESTMENTS (US\$B)



Source: Motilal Oswal Securities

The quarter witnessed significant volatility in market movements and views, globally. The first half of the quarter was dominated by sub-prime woes, which led to a significant correction in global equity indices. Indian markets also reacted, with the BSE Sensex declining from its high of 15,795 to 13,989 on 21 August 2007. As the global markets recovered from the sub-prime concerns and the US Fed reduced its key rates by 50bp, Indian markets witnessed significant interest from all classes of investors.

FII's have injected unprecedented liquidity into Indian stock markets...

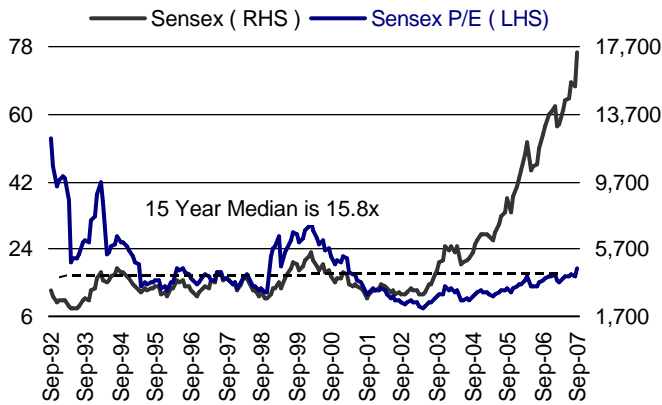
From a low of 13,989 in 21 August 2007, the Sensex gained 24% to close the quarter at 17,291. The underperformance of Indian equities v/s other emerging markets narrowed in 3QCY07. Unprecedented FII flows were the key contributors to this rise. In 2QFY08, net FII inflows were US\$7.3b, just marginally lower than the total FII inflows of US\$8b in CY06. As the India story becomes more exciting, we do not rule out higher proportion of flows to India, going forward.

...causing valuations of Indian equities to cross their historical averages

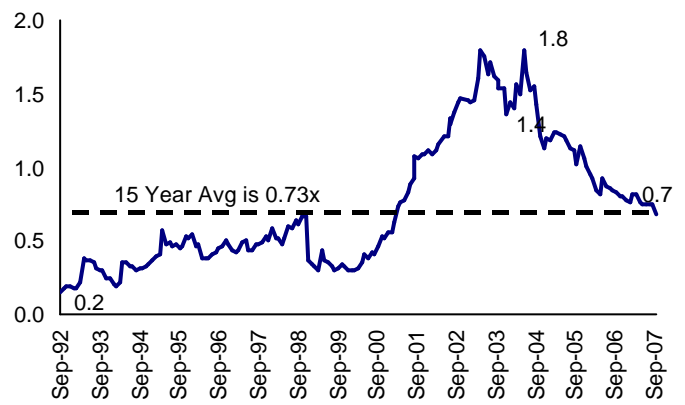
Liquidity-driven rally ignoring valuations

Post the sharp gains over the last two quarters, the valuations of Indian equities have now crossed their historical averages. We believe that the strong inflows from FIIs and domestic institutions (largely insurance companies) have further potential to drive up valuations. This exuberance comes at a time when earnings growth is amongst the lowest in the last five years and RoEs are on a decline. The significant increase in the embedded values of several large stocks have also played an important role in driving up the markets.

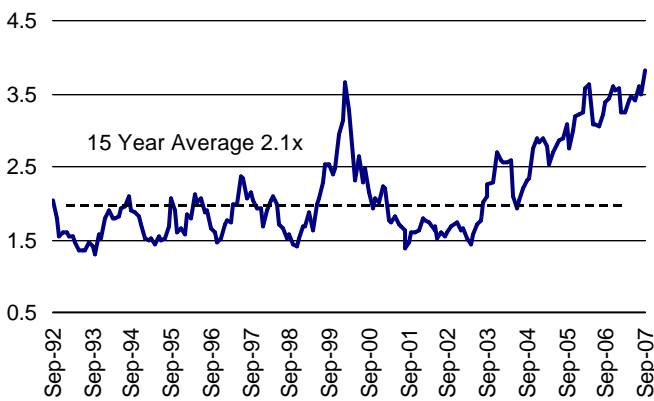
SENSEX P/E (X)



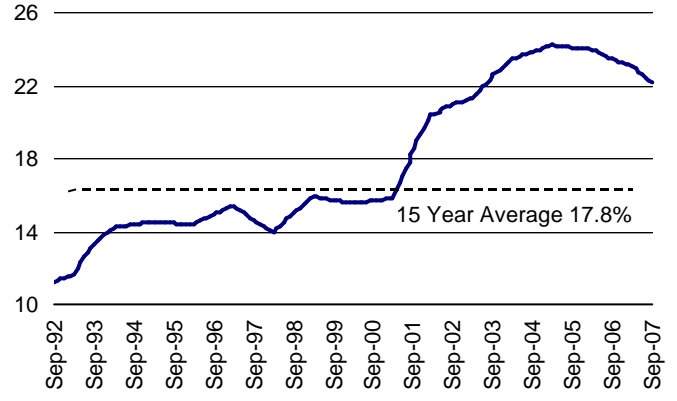
SENSEX EARNINGS YIELD V/S BOND YIELD



SENSEX P/B (X)



SENSEX ROE (%)



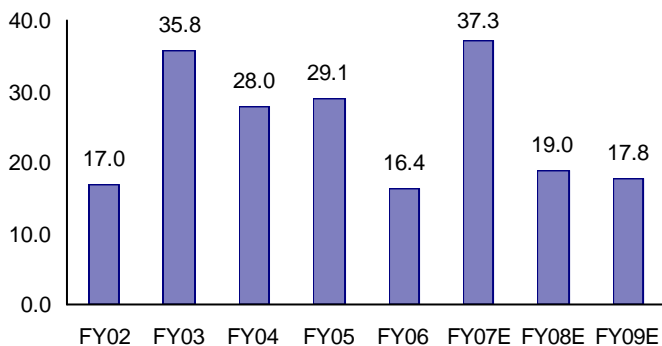
Source: Motilal Oswal Securities

Earnings growth momentum showing some slowdown in FY08

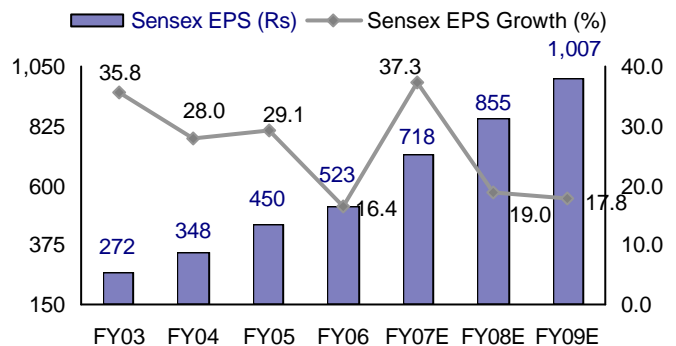
Earnings growth has slowed down in FY08...

For the last five years, Sensex EPS has grown at a CAGR of 27%. Our estimates indicate an EPS growth of 19% in FY08 and 18% growth in FY09. In 1QFY08, we saw some sign of a slowdown, with revenue growth of 15% and EBITDA growth of 17%. Profit growth was higher at 27% due to higher contribution from other income.

SENSEX EPS GROWTH (%)

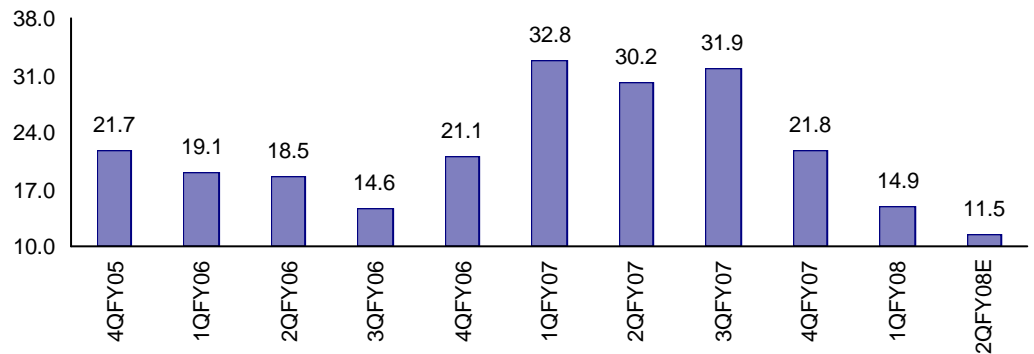


SENSEX EPS

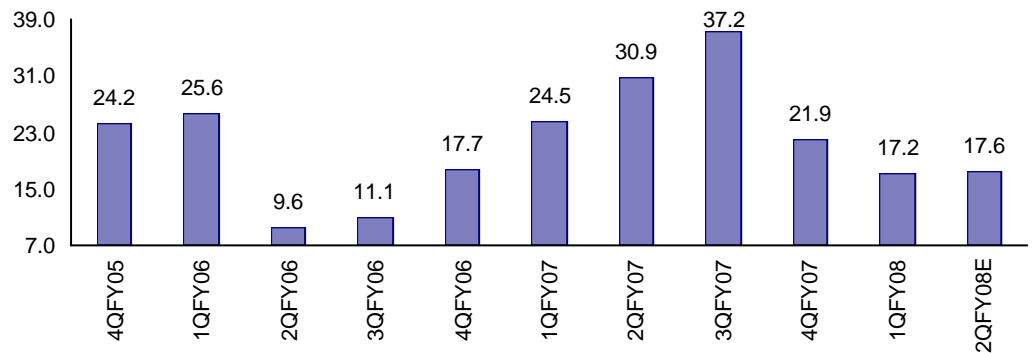


Source: Motilal Oswal Securities

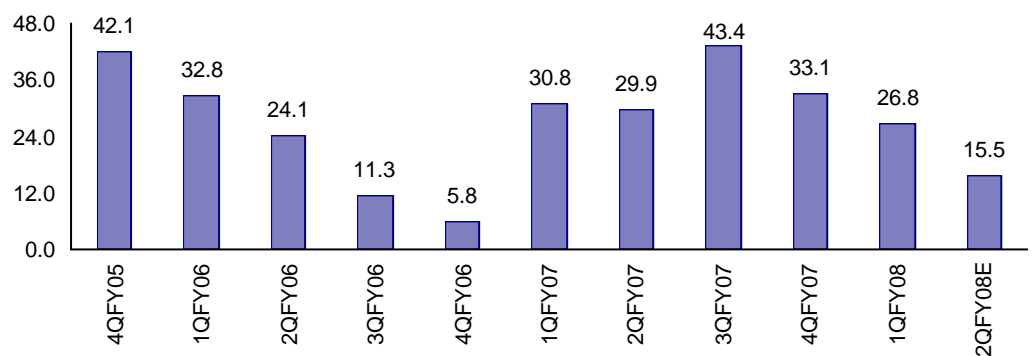
QUARTERLY SENSEX SALES GROWTH (%)



QUARTERLY SENSEX EBITDA GROWTH (%)



QUARTERLY SENSEX PAT GROWTH (%)

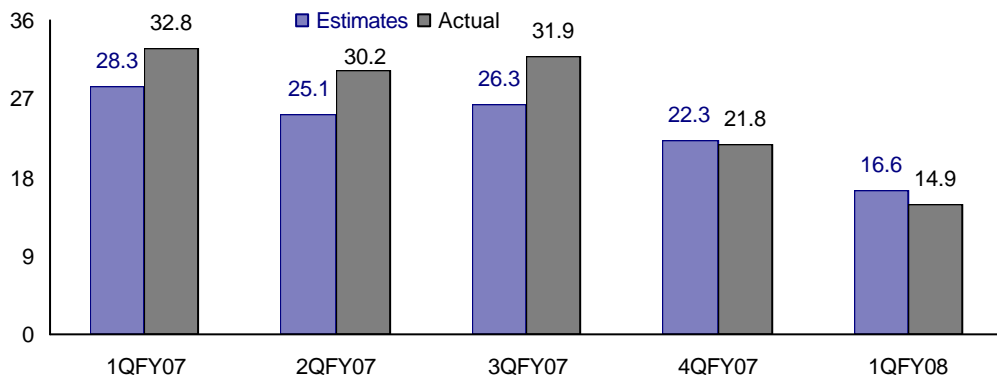


Source: Motilal Oswal Securities

...and current market valuations leave little room for earnings disappointments

Our estimates for 2QFY08 indicate sales growth of 12%, EBITDA growth of 18% and profit growth of 16%. In the last several quarters, profits have tended to be 4-5% higher than estimates. Going forward, this trend will need to be sustained, as current market valuations leave little room for earnings disappointments. Already, sales in the last two quarters have been lower than estimated. Stronger rupee, rising domestic and global competition, and cost-push (mainly employee costs) may make it increasingly difficult for companies to surpass expectations on a sustained basis.

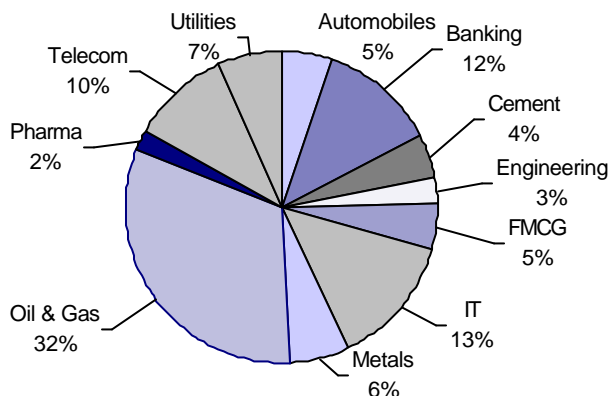
SENSEX SALES GROWTH ACTUAL V/S ESTIMATES



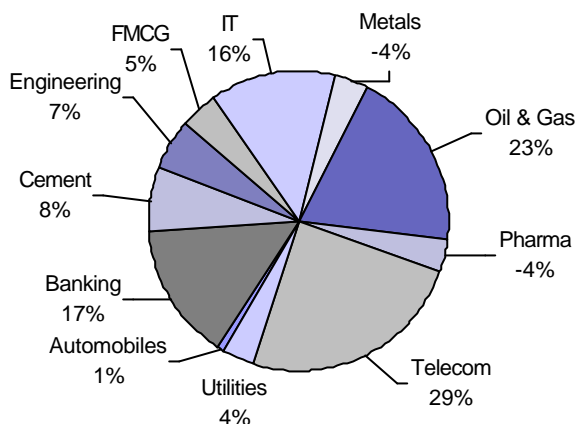
Source: Motilal Oswal Securities

We did a top-down analysis of the key assumptions in arriving at our earnings growth estimates for various sectors. While rupee appreciation remains a big threat to earnings estimates, we also expect the high base impact in sectors such as Wireless and Cement to slow down earnings momentum. Sectors that could give positive surprises are FMCG, Banking and Steel.

SECTORAL CONTRIBUTION TO TOTAL SENSEX EARNINGS



SECTORAL CONTRIBUTION TO GROWTH IN SENSEX EARNINGS



Source: Motilal Oswal Securities

RISK TO EARNINGS ON SENSEX STOCKS

COMPANY	WEIGHT IN		PAT GROWTH (%)		RISK TO EARNINGS
	INDEX (%)	FY08E	FY09E		
Automobile	5.46	10.0	16.0		
Bajaj Auto	1.46	3.2	16.9		Expecting volume turnaround in most segments in 2HFY08 and FY09. Any disappointment could lead to lower earnings
Mahindra & Mahindra	1.29	16.9	16.9		
Maruti Suzuki	1.14	25.6	17.0		
Tata Motors	1.57	-1.9	13.6		
Banking	23.12	22.8	25.4		
HDFC	5.34	25.3	25.7		Positive upsides could be from lower interest rates on bond gains. Negatives could be increase in NPAs.
HDFC Bank	3.56	34.2	37.0		
ICICI Bank	10.18	31.1	30.6		
State Bank	4.04	16.1	20.0		
Cement	4.53	30.3	7.4		
ACC	1.18	31.1	10.1		Positive upside could result from higher prices. We have assumed Rs6/bag in 2HFY08 and flat prices in FY09 over average FY08
Ambuja Cements	1.24	16.9	10.5		
Grasim Industries	2.11	39.0	4.1		
Engineering	9.39	30.7	27.5		
BHEL	3.05	29.5	28.3		Earnings can see upsides in case of higher margins and stronger volume growth
Larsen & Toubro	6.34	32.2	26.5		
FMCG	6.49	14.8	16.2		
Hind. Unilever	2.12	16.8	12.8		Volume growth could be higher for consumer sector. Moreover, stable input prices and currency appreciation can increase margins
ITC	4.37	13.7	18.2		
IT	13.50	20.4	23.7		
Infosys	8.06	21.6	24.1		Our estimates factor in a Re-US\$ rate of Rs40 in FY08 and Rs39 in FY09. Any appreciation in the rupee beyond these levels could pose downside risks to our estimates. Any reduction/ tightening of IT budgets for CY08 could slowdown growth in FY09
Satyam Computer	2.46	18.2	22.3		
TCS	1.81	18.6	22.6		
Wipro	1.17	22.8	25.3		
Metals	4.46	51.7	18.1		
Hindalco	1.29	-65.2	64.7		Estimates for steel companies can see upsides as prices move higher
Tata Steel	3.17	128.2	13.4		
Oil & Gas	17.59	16.3	0.4		
ONGC	3.59	19.3	-8.5		Higher upstream sharing of fuel under-recoveries, rupee appreciation, further delays in hiking gas prices Rupee Appreciation; Weakness in Refining Margins; Lower than expected petchem margins
Reliance Inds.	14.00	11.9	14.4		
Pharma	2.52	-8.7	12.5		
Cipla	0.81	-16.2	26.2		Currency appreciation, Govt. policies regarding drug price control, NPPA liability of Rs9b
Dr Reddy' s Labs	0.72	-34.2	13.8		
Ranbaxy Labs	0.99	44.8	1.6		
Telecom	9.14	49.0	29.9		
Bharti Airtel	5.47	51.3	31.0		Subscriber additions could be higher than estimates. Also impact of forex gains could be higher
Reliance Comm	3.67	45.8	28.5		
Utilities	3.78	18.1	5.7		
NTPC	2.09	17.8	5.3		Pace of capacity addition and change in regulatory framework (returns)
Reliance Energy	1.69	19.9	8.9		
Sensex	100	23.1	14.4		

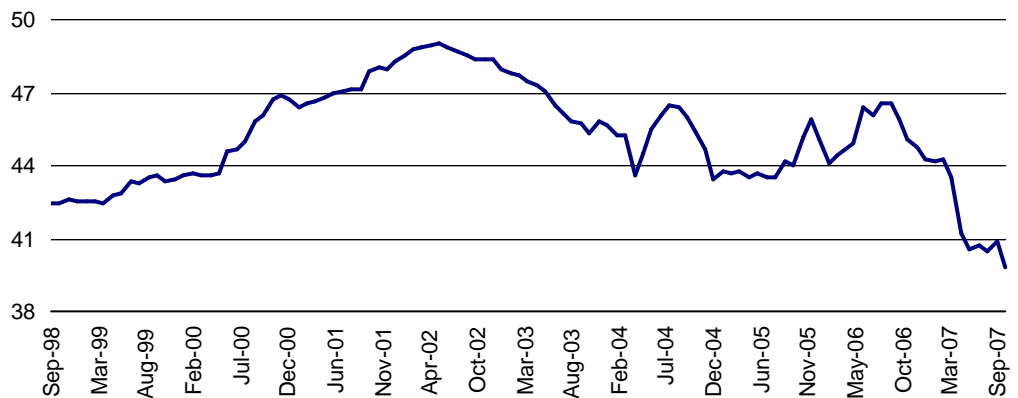
Source: Motilal Oswal Securities

Rupee appreciation – remains a key threat to earnings

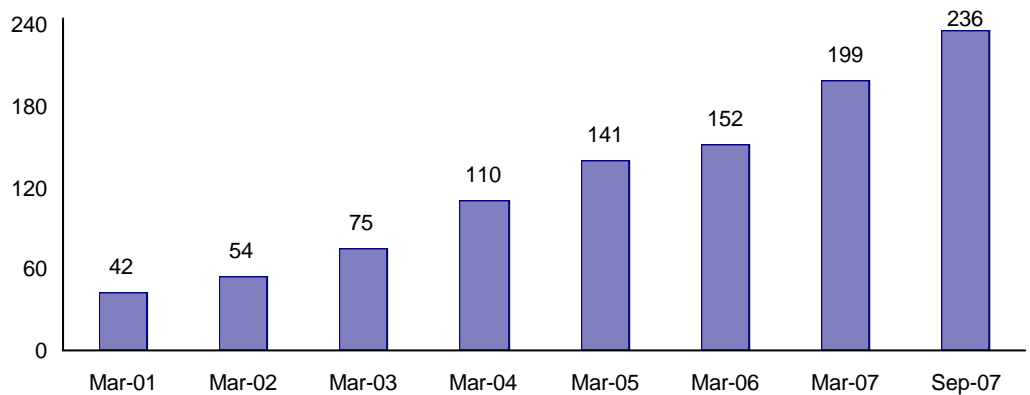
The rupee has appreciated vis-à-vis the dollar to a nine-year high...

Following a gain of 6.4% against the US dollar in 1QFY08, the Indian rupee gained a further 2.3% in 2QFY08 to close at a 9-year high of Rs39.77/US\$. Strong capital flows in the system and higher interest rates in the domestic market have led to an unprecedented rally in the Indian rupee. As the US rates are on a decline, flows to emerging markets and India are likely to remain strong.

RUPEE V/S DOLLAR RATE (RS/US\$)



FOREX RESERVE (US\$B)



Source: Bloomberg/Motilal Oswal Securities

...which is negatively impacting corporate earnings

While a stronger rupee has helped the RBI to fight inflation, it has a negative impact on corporate earnings. The EBITDA growth of BSE Sensex was just 17% in 1QFY08 and we estimate growth of 18% in 2QFY08. Within the Sensex earnings, 13.5% comes from Software Services. Overall, currency movement impacts almost 50% of the earnings.

CURRENCY IMPACT ON SENSEX STOCKS

COMPANY	(%) PROFIT IN SENSEX FY08E	WEIGHT IN INDEX (%)	IMPACT OF CURRENCY
Automobile	5.88	5.46	
Bajaj Auto	1.11	1.46	Neutral; Exports are 20% of sales but to neighbouring countries
Mahindra & Mah.	1.38	1.29	
Maruti Suzuki	1.63	1.14	Positive impact on a YoY basis, marginally negative (by 0.8%) on a QoQ basis
Tata Motors	1.76	1.57	Positive impact due to foreign currency loans and capex
Banking	12.50	23.12	
HDFC	1.64	5.34	No direct impact; Indirect impact is through inflation
HDFC Bank	1.28	3.56	
ICICI Bank	3.41	10.18	
State Bank	6.17	4.04	
Cement	4.80	4.53	
ACC	1.21	1.18	No direct impact
Ambuja Cements	1.31	1.24	Cement exports & import of coal off-sets impact of currency movement
Grasim Industries	2.28	2.11	No direct impact
Engineering	4.60	9.39	
BHEL	2.58	3.05	Positive; Net imports at 12% of revenues
Larsen & Toubro	2.02	6.34	Neutral; Exports just at 2%; L&T Infotech contributes just 2% to Cons PAT
FMCG	4.06	6.49	
Hind. Unilever	1.50	2.12	Positive; Reduces the input price pressure
ITC	2.56	4.37	Neutral
IT	12.18	13.50	
Infosys	3.78	8.06	Negative; Every 1% currency gain lower EPS by 1.25-1.5% (ex other Income)
Satyam Computer	1.39	2.46	
TCS	4.09	1.81	
Wipro	2.92	1.17	
Metals	8.97	4.46	
Hindalco	0.81	1.29	Negative impact due to import parity prices
Tata Steel	8.15	3.17	
Oil & Gas	28.87	17.59	
ONGC	17.71	3.59	Negative - Every 1% currency gain reduces earnings by 1.8%.
Reliance Inds.	11.16	14.00	Negative - Every 1% currency gain reduces earnings by 1.7%.
Pharma	1.63	2.52	
Cipla	0.47	0.81	Negative impact at operational level
Dr Reddy' s Labs	0.51	0.72	
Ranbaxy Labs	0.65	0.99	Negative impact at operational level. But will record large translation gains on FCCBs
Telecom	9.23	9.14	
Bharti Airtel	5.38	5.47	Positive impact due to foreign currency loans and capex
Reliance Comm	3.85	3.67	
Utilities	7.27	3.78	
NTPC	6.46	2.09	No direct impact
Reliance Energy	0.80	1.69	No direct impact; Translation gains on outstanding FCCBs could be positive

Impacted adversely by Rupee appreciation

Source: Motilal Oswal Securities

The political situation too is rather fragile

The political situation is rather fragile

Politics is another factor, which could have an adverse impact on the markets in the near term. The key issues are:

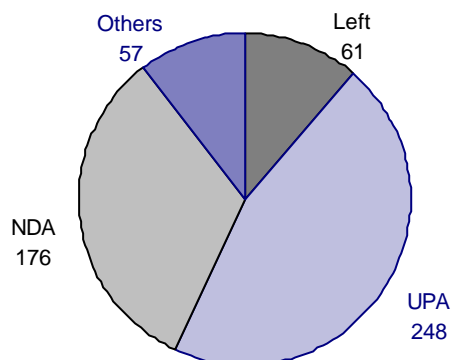
- ✍ UPA-Left imbroglio over the Indo-US nuclear deal
- ✍ Series of state elections in the run-up to the central elections in May 2009

UPA-Left imbroglio over the Indo-US nuclear deal: In 2006, the Congress-led UPA government signed a deal with the US government, which will give it access to nuclear fuel and reactors to help meet India's power requirements. One crucial process in the deal is the 123 Agreement (under Section 123 of the US Atomic Energy Act, 1954), under which India's nuclear reactors will be under safeguard of the International Atomic Energy Agency (IAEA), the nuclear watchdog of the United Nations.

The Left's contention is that signing of this agreement will jeopardize India's "strategic" use of nuclear power. Accordingly, it has threatened of serious consequences (possible withdraw of support to the government), if it initiates negotiations with the IAEA. The government, on its part, seems intent on going ahead with the deal. Though it has said that the Left's concerns will be addressed, the situation is fragile.

The opposition too has (obviously) opposed the deal. If the Left withdraws support, the UPA becomes a minority government, implying a likely mid-term election. If that happens, it could negatively impact the markets. The current political equation does not favor any definite outcome in the event of any election, and hence the element of uncertainty will continue to persist.

LOK SABHA SEATS TALLY



Source: Motilal Oswal Securities

Series of state elections in the run-up to central elections: Beginning with Gujarat in December 2007, 13 states go into elections in the run-up to central elections in May 2009. Any setbacks to the UPA will further hamstring the government's ability to tackle long-term economic issues such as check over anti-business agitations (e.g. against Reliance Retail in UP and Orissa), FDI in retail, etc.

INDIA: ELECTION SCHEDULE

OFFICE/STATE	MONTH YEAR	LOKSABHA SEAT	ASSEMBLY SEAT
Gujarat	Dec-07	26	182
Himachal Pradesh	Mar-08	4	68
Meghalaya	Mar-08	2	60
Nagaland	Mar-08	1	60
Tripura	Mar-08	2	60
Jammu & Kashmir	Nov-08	6	87
Madhya Pradesh	Dec-08	29	230
Mizoram	Dec-08	1	40
Nct Delhi	Dec-08	7	70
Chhatisgarh	Dec-08	11	90
Rajasthan	Jan-09	25	200
Sikkim	May-09	1	32
Andhra Pradesh	May-09	42	294
Central Elections	May-09	543	

Source: Election Commission

Easing of interest rates could result in significant opportunities

We see increasing probability of lower interest rates in India

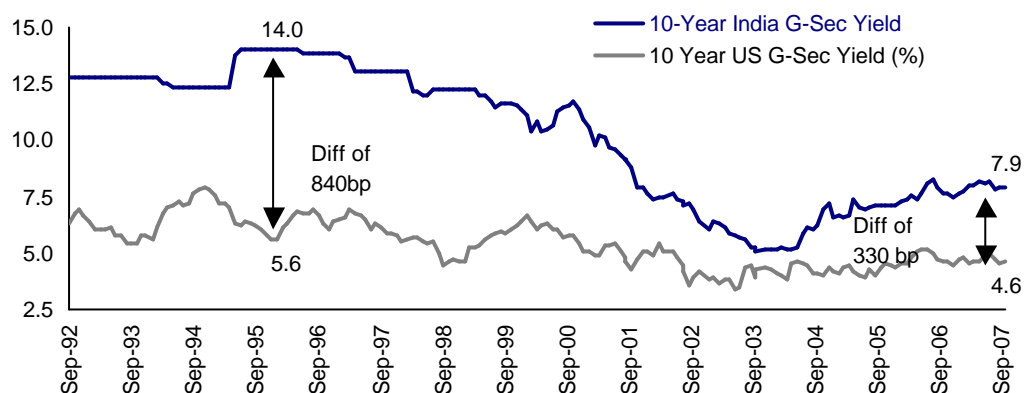
We see increasing probability of lower interest rates in India. The change in macro environment both globally and locally has paved way for RBI to consider easing rates in the next few months. With inflation well under control, US Fed's action of reducing rates and slowdown in domestic credit to desired levels, the RBI will be positively inclined to change the monetary stance that it has pursued for the last couple of years.

US has begun the process of lowering rates

The US Fed has already begun the process of lowering interest rates...

The US Fed reacted to the sub-prime concerns with a 50bp reduction in its key benchmark rates. With expectations of further rate cuts in US, we see more pressure on the Indian rupee. The difference between the sovereign bond yields has widened in recent times. Earlier, in 2001, as US started the series of rate cuts, India too had responded and the gap had narrowed. We believe that actions by US Fed will be an important determinant of RBI's monetary policy.

US BOND YIELDS V/S INDIAN BOND YIELDS



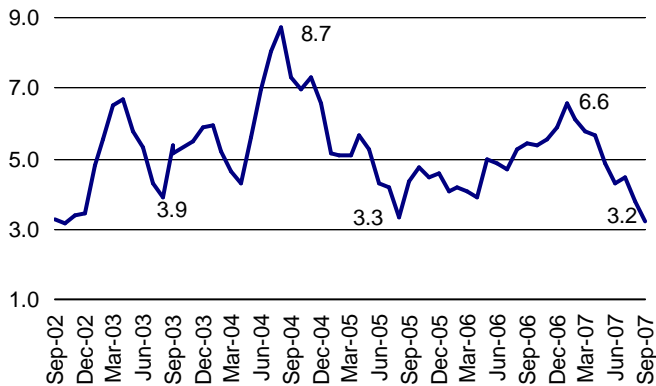
Source: Bloomberg/Motilal Oswal Securities

Inflation is at its low, could demand change in monetary policy stance

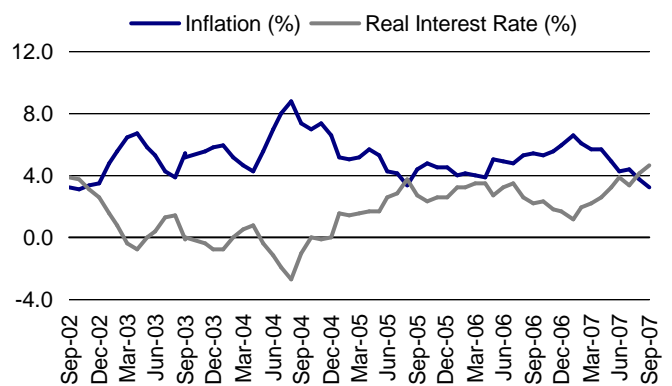
...and tamed inflation should encourage RBI to follow suit

Inflation has fallen significantly during the quarter to 3.3%, from a high of 6.6% in January 2007. The real interest rate has now risen to 4.7%, levels not witnessed since June 2002. The taming of inflation would give a significant boost to the regime of stable interest rates. Since December 2006, interest rates have risen by ~300bp. Moreover, as the RBI raised CRR, it also resulted in a credit squeeze.

INFLATION (%)



INFLATION V/S INTEREST RATE



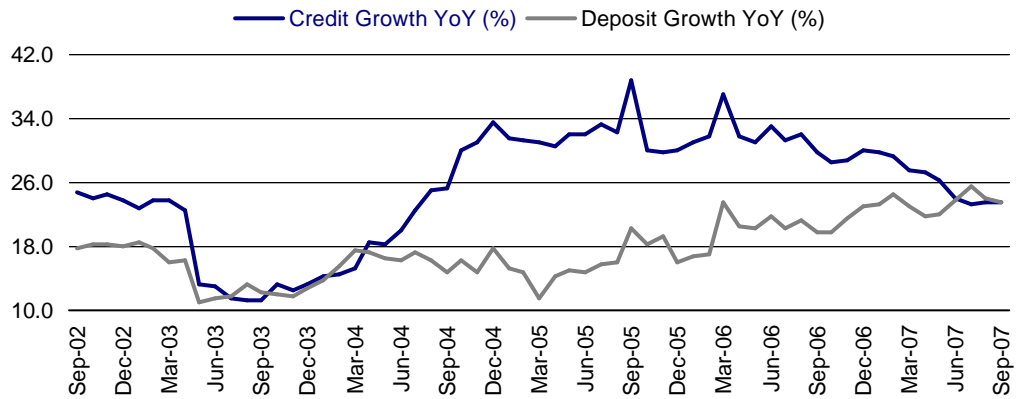
Source: Motilal Oswal Securities

Higher inflation had not only resulted in tight monetary policy but had also curbed the ability of several industries to raise their product prices. With inflation expected to remain in the comfort band of 4-5%, we expect the industries to gain pricing power. Already, there is evidence of price hikes in cement and steel; more price hikes are likely in the near future.

We see following triggers for higher credit flow and stable/lower interest rates in 2HFY08:

- ✎ The RBI has consistently used CRR as a liquidity management tool. With a 200bp hike in CRR in the last 8 months, the RBI has effectively sucked Rs600b of liquidity. While currency management is making the task of liquidity management more difficult, we expect RBI to consider CRR cuts once stability persists. Also, as the credit growth has slowed down to 22-23% (within the comfort band of RBI), RBI will be under less pressure to increase rates, CRR.

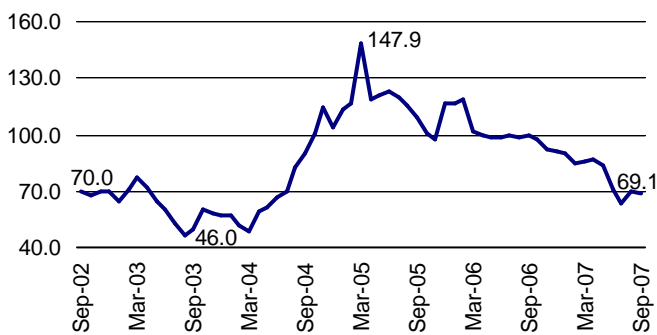
CREDIT AND DEPOSIT GROWTH YOY (%)



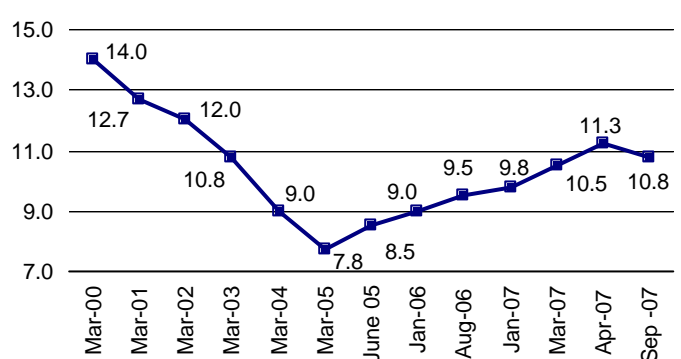
Source: Motilal Oswal Securities

✎ The lendable resources that banks have in hand are rising. Higher deposit rates, along with significant capital raising, have led to substantial growth in resources. With more money in hand than lending avenues, banks have reduced their rush of grabbing high cost deposits. The incremental C/D ratio has been on a decline. Moreover, the increase in lending rates over the last few months has also created some resistance from borrowers. We believe that banks would now be more moderate in pricing both deposits and loans. We are already seeing early signs of reduction in rates on retail loans. A number of banks have cut rates on mortgages and other retail loans in the recent past.

INCREMENTAL C/D RATIO (%)



MORTGAGE RATES (%)



Source: Motilal Oswal Securities

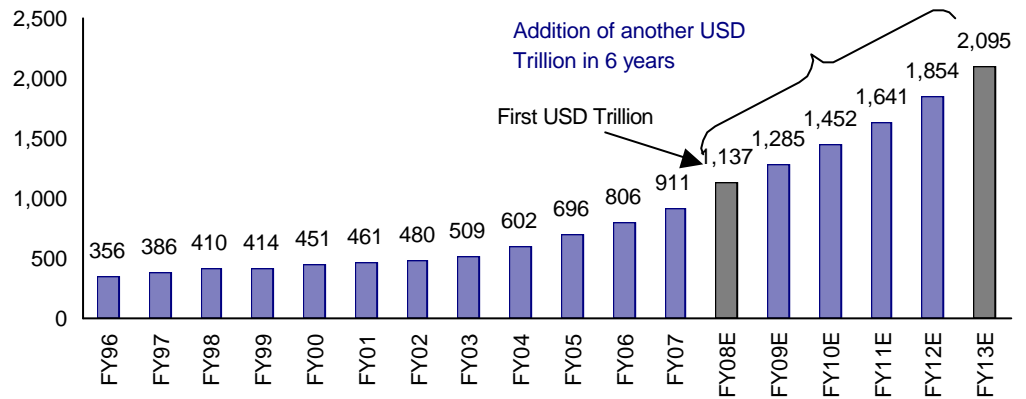
✎ The government has approved the bill to empower RBI to cut SLR below 25%. We expect banks to be net buyers of government bonds at the current rate of SLR. Considering the increased appetite of insurance and pension funds for government bonds, we expect the demand for bonds to outstrip supply significantly in FY08. This would allow the RBI to reduce the rate of SLR to channelize more funds from the banking sector towards credit growth.

Another trillion-dollar opportunity over the next five years

In FY08, India's GDP is likely to cross US\$1t...

During FY08, India's GDP is expected to cross the US\$1t mark. Based on nominal GDP growth rate of 12-14%, we expect addition of the second US\$1t in the next 5-6 years.

INDIAN GDP (US\$B)

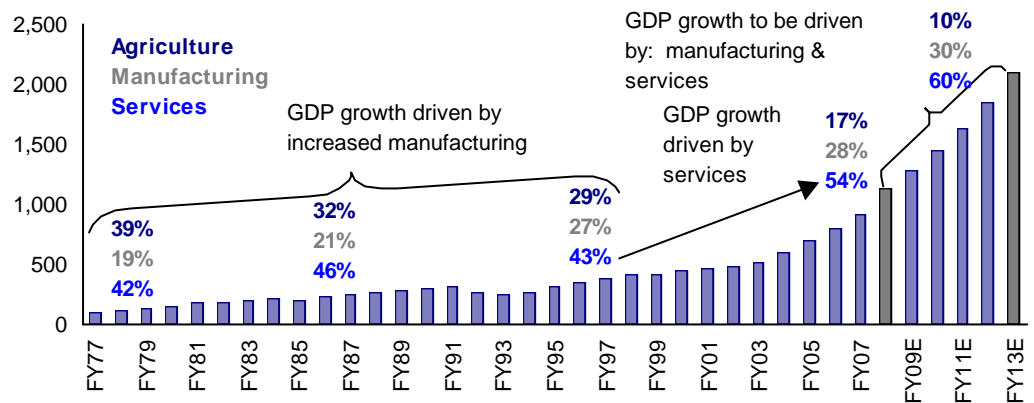


Source: Motilal Oswal Securities

...and we expect addition of the second US\$1t in the next 5-6 years

This throws up several opportunities – the addition of the next US\$1t would lead to (1) increased consumption demand, (2) improved lifestyles, and (3) higher infrastructure spending. Till 1997, India's GDP growth was largely driven by manufacturing. In the past decade, services were the key contributor to growth. Going forward, we expect the pace of GDP growth to accelerate, driven by twin engines of manufacturing and services.

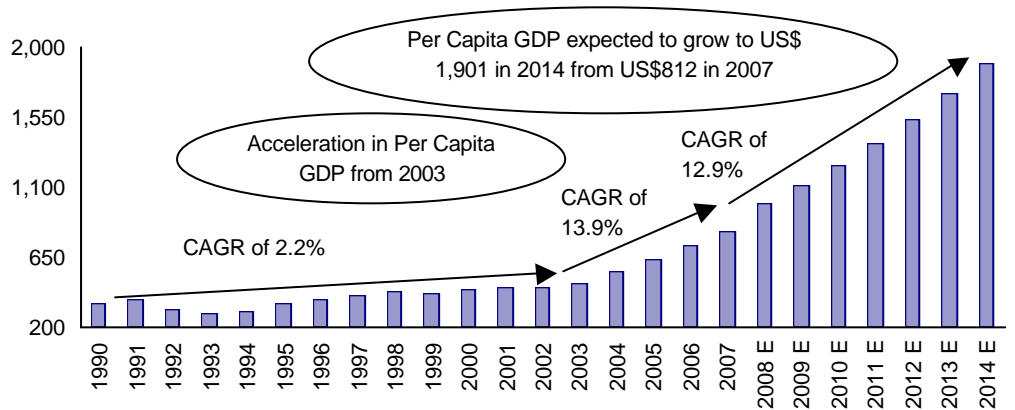
GDP COMPOSITION



Source: Motilal Oswal Securities

- (1) **Increased consumption demand**, as higher per capita GDP will lead to higher share of discretionary investment in consumption mix. In FY00, Indian consumer spend on food and clothing stood at ~55%, which declined to ~44% during FY06. We expect per capita GDP to increase to US\$1,901 in FY14, from US\$812 in FY07.

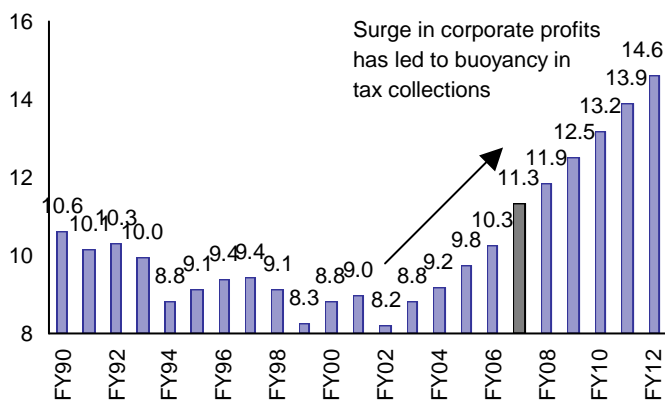
PER CAPITA INCOME (US\$)



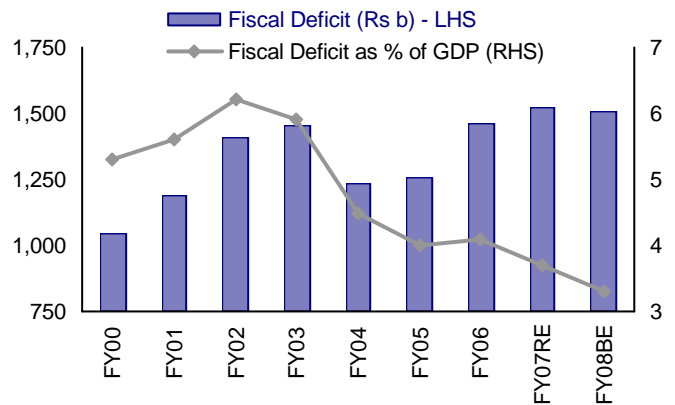
Source: Motilal Oswal Securities

- (2) **Improved lifestyles**, led by higher discretionary income and stable product prices. This trend will lead to creation of large businesses in future, many of which are ‘MATURED’ industries in the developed world, but ‘SUNRISE’ industries in India. For instance, processed food, insurance, retail, financial services, real estate, travel, media and entertainment, etc.
- (3) **Higher infrastructure spending** by the government. Buoyant tax collections would result in lower fiscal deficit (as percentage of GDP) and lower interest payments (as percentage of revenue receipts). The addition of the next US\$1t to GDP and improving government finances will lead to the government becoming the next ‘BIG’ spender in the economy, which will drive investments in infrastructure (roads, power, ports, urban infrastructure, etc), health and education.

TAX COLLECTION TO GDP (%)



FISCAL DEFICIT



Source: Motilal Oswal Securities

Sectoral performances have become divergent

With the markets at an all-time high and significant re-rating in specific sectors, it would be interesting to note the change in valuations of the key sectors relative to the benchmark indices. We calculated the sector average P/E for the last three years and the current P/E to see the variations. Key observations are:

Sectors that are trading at a higher premium / lower discount to the 3-year average:

- ✗ Engineering: 52% premium to Sensex v/s average premium of 17%
- ✗ Utilities: 15% premium to Sensex v/s average discount of 9%
- ✗ Infrastructure: 56% premium to Sensex v/s average premium of 20% [value of BoT, RE, etc not considered here]
- ✗ Banks: 13% discount to Sensex v/s average discount of 27% [value of insurance not considered here]

SECTOR PE AT PREMIUM / DISCOUNT TO SENSEX PE (%)

SECTOR	SECTOR PE AT PREMIUM / DISCOUNT TO SENSEX PE (%)	
	AVERAGE	CURRENT
Auto	+2	-15
Banks	-27	-13
Cement	-23	-38
Engineering	+17	+52
FMCG	+50	+27
Infrastructure	+20	+56
IT	+48	+1
Media	+126	+86
Metals	-62	-53
Oil & Gas	-32	-29
Pharma	+54	-2
Retail	+102	+123
Telecom	+28	+29
Textiles	-4	-48
Utilities	-9	+15

Source: Motilal Oswal Securities

Sectors that are trading at a lower premium / higher discount to the 3-year average:

- ✗ IT: 1% premium to Sensex v/s average premium of 48%
- ✗ Pharma: 2% discount to Sensex v/s average premium of 54%
- ✗ Autos: 15% discount to Sensex v/s average premium of 2%
- ✗ Textiles: 48% discount to Sensex v/s average discount of 4%

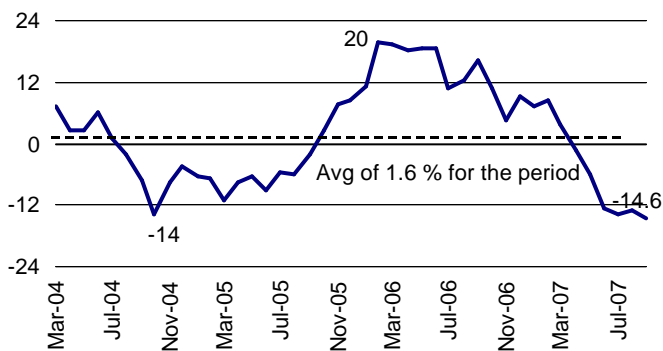
Sectors that are trading at the highest premium to the Sensex now:

- ✗ Retail: 123% premium to Sensex
- ✗ Media: 86% premium to Sensex
- ✗ Infrastructure: 56% premium to Sensex [value of BoT, RE, etc not considered here]
- ✗ Engineering: 52% premium to Sensex
- ✗ FMCG: 27% premium to Sensex

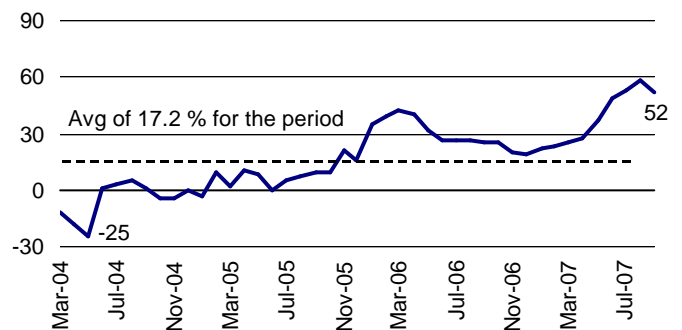
Sectors that are trading at the highest discount to the Sensex now:

- ✂ Metals: 53% discount to Sensex
- ✂ Textiles: 48% discount to Sensex
- ✂ Cement: 38% discount to Sensex
- ✂ Autos: 15% discount to Sensex

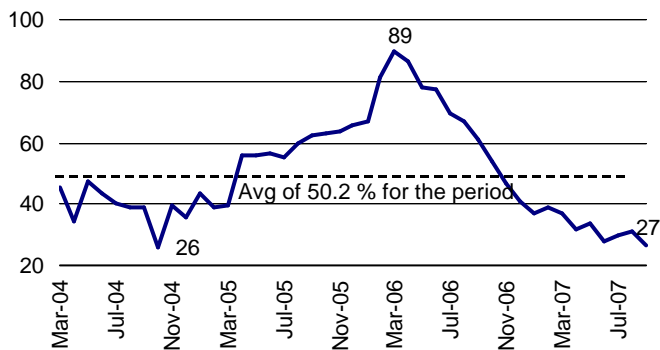
AUTO P/E RELATIVE TO SENSEX P/E



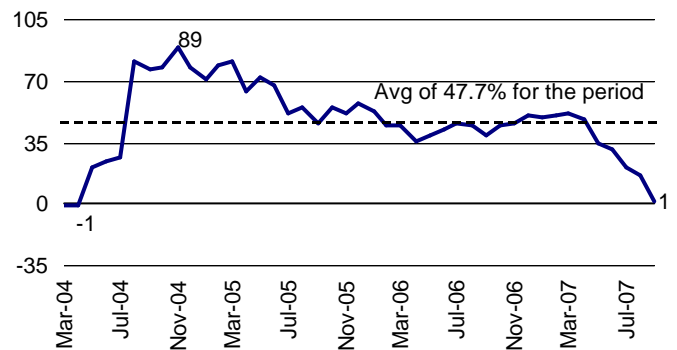
ENGINEERING P/E RELATIVE TO SENSEX P/E



FMCG P/E RELATIVE TO SENSEX P/E



IT P/E RELATIVE TO SENSEX P/E



Source: Motilal Oswal Securities

Adopt stock-specific approach to maximize returns

We recommend a stock-specific approach to maximize returns

Our target range for the Sensex, based on FY09E earnings is 16,300-18,300 (14-16x FY09E EPS plus 2,300 points of embedded value). In the near-term, excessive liquidity has the potential to take the market index beyond our target range. We would recommend staying invested in sectors where valuations are reasonable considering the earnings growth or where we expect changes in macro-economic environment to lead to positive surprises. Our top bets are Wireless and Financials. We would also favor Cement and Metals, given the strong earnings growth ahead. Moreover, our view on Autos and Real Estate is positive, as lower interest rates in the next 12 months could lead to positive surprises and valuation re-rating.

Our top large-cap bets are Bharti, SBI, Axis Bank, Maruti, Unitech, Tata Steel, ITC, Ranbaxy, and Grasim. Amongst the mid-caps, we prefer Sintex, Puravankara, Nagarjuna Construction, Bombay Rayon, Indian Bank, United Phosphorus, Birla Corp and Dish TV.

MOST MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	20.4	22.0	1.6	Overweight
SBI	2.8	6.0	3.2	Buy
Axis Bank	1.1	6.0	3.9	Buy
Union Bank	0.0	4.0	4.0	Buy
IDFC	0.7	4.0	3.3	Buy
Indian Bank	0.0	2.0	2.0	Buy
Engg./Infrastrcuture/Real Estate	12.1	12.0	0.9	Overweight
DLF	0.0	4.0	4.0	Buy
Unitech	0.9	4.0	3.1	Buy
Larsen & Toubro	4.4	2.0	-2.4	Neutral
Nagarjuna Construction	0.0	2.0	2.0	Buy
Telecom	6.8	10.0	3.2	Overweight
Bharti Airtel	3.8	6.0	2.2	Buy
Reliance Comm	2.6	4.0	1.4	Buy
Information Technology	10.6	10.0	-0.6	Neutral
Infosys	5.6	6.0	0.4	Buy
Satyam Computers	1.7	4.0	2.3	Buy
Auto	5.0	7.0	2.0	Overweight
Maruti Suzuki	0.8	3.0	2.2	Buy
Bajaj Auto	1.0	2.0	1.0	Buy
Mahindra & Mahindra	0.9	2.0	1.1	Buy
FMCG	6.0	7.0	1.0	Overweight
ITC	3.0	5.0	2.0	Buy
Nestle India	0.3	2.0	1.7	Buy
Metals	5.8	7.0	1.2	Overweight
Tata Steel	2.2	4.0	1.8	Buy
SAIL	0.8	3.0	2.2	Buy
Petrochemicals	11.4	7.0	-4.4	Underweight
Reliance Inds.	9.7	7.0	-2.7	Buy
Cement	3.8	6.0	2.2	Overweight
Grasim Industries	1.5	4.0	2.5	Buy
Birla Corp	0.0	2.0	2.0	Buy
Pharmaceuticals	3.1	5.0	1.9	Overweight
Ranbaxy Labs	0.7	3.0	2.3	Buy
Nicholas Piramal	0.0	2.0	2.0	Buy
Others	5.3	4.0	-1.3	Underweight
Sintex Inds.	0.0	2.0	2.0	Buy
Dish TV	0.1	2.0	1.9	Buy
Oil & Gas	4.9	3.0	-1.9	Neutral
ONGC	2.5	3.0	0.5	Buy
Utilities	4.6	0.0	-4.6	Underweight
Cash	0.0	0.0		
Total	100.00	100.00		

ANNUAL PERFORMANCE - MOST UNIVERSE

(RS BILLION)

SECTOR	SALES				EBITDA				NET PROFIT			
	FY07	FY08E	FY09E	CH. (%)*	FY07	FY08E	FY09E	CH. (%)*	FY07	FY08E	FY09E	CH. (%)*
Auto (11)	912	1,024	1,160	12.3	116	125	145	8.0	77	81	93	4.9
Banks (20)	640	763	925	19.3	445	527	657	18.5	224	273	334	21.8
Cement (7)	348	423	485	21.6	106	145	167	37.3	62	84	93	37.0
Engineering (10)	707	950	1,222	34.3	103	142	185	37.7	74	99	129	33.2
FMCG (12)	462	550	635	19.0	90	106	125	18.2	63	75	92	18.8
IT (14)	715	916	1,174	28.1	180	216	274	20.1	151	180	224	19.5
Infrastructure (8)	167	216	294	29.3	26	36	52	39.1	12	15	21	27.0
Media (1)	15	18	21	18.1	3	5	7	67.9	2	4	5	48.1
Metals (8)	1,304	2,889	3,048	121.6	455	607	649	33.5	264	320	355	21.4
Oil Gas & Petchem (9)	6,303	6,906	6,186	9.6	780	862	844	10.5	419	486	483	16.0
Pharma (17)	363	404	468	11.4	74	80	95	7.8	55	60	68	8.4
Retail (3)	62	97	139	57.2	5	7	10	47.0	2	3	5	48.6
Telecom (3)	374	546	720	46.3	146	224	298	53.2	79	119	157	50.7
Textiles (7)	100	118	140	17.8	16	20	25	20.9	6	7	9	10.0
Utilities (6)	492	585	660	18.9	131	167	179	27.7	90	104	109	14.8
Others (8)	110	151	186	37.4	25	33	42	33.6	15	20	27	32.0
MOST (144)	13,072	16,555	17,463	26.6	2,701	3,303	3,754	22.3	1,597	1,931	2,203	20.9
MOST Excl. Banks (124)	12,432	15,791	16,538	27.0	2,256	2,776	3,096	23.1	1,373	1,658	1,870	20.8
MOST Excl. Oil & Gas (135)	6,769	9,649	11,276	42.6	1,921	2,442	2,910	27.1	1,178	1,445	1,720	22.7
MOST Excl. Tata Steel (143)	12,820	15,279	16,151	19.2	2,626	3,102	3,542	18.1	1,554	1,833	2,093	18.0
MOST Excl. RMs (141)	9,121	12,185	13,665	33.6	2,517	3,115	3,570	23.8	1,503	1,827	2,104	21.5

* Growth FY08 over FY07; For Banks : Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel figures are consolidated including Corus.

VALUATIONS - MOST UNIVERSE

SECTOR	P/E			EV/EBITDA			P/BV		ROE			DIV. YLD (%)	EARN. CAGR
	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(%)	(%)	(%)		
(NO. OF COMPANIES)	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY07	FY08E	FY09E	FY07E (FY09-07)	
Auto (11)	18.2	17.3	15.1	11.1	10.2	8.5	4.4	3.7	24.3	21.5	20.9	1.6	9.6
Banks (20)	21.1	17.3	14.2	N.M	N.M	N.M	3.7	2.9	17.4	16.6	16.3	1.1	21.9
Cement (7)	17.1	12.5	11.3	10.0	7.3	6.1	6.5	4.5	38.1	36.3	29.8	1.1	22.7
Engineering (10)	43.3	32.5	24.9	30.7	22.4	17.7	13.5	10.4	31.2	32.0	33.4	0.6	31.7
FMCG (12)	30.2	25.4	20.9	20.5	17.0	14.1	9.5	7.8	31.3	30.8	32.1	1.8	20.2
IT (14)	24.9	20.9	16.8	19.7	16.3	12.5	8.1	6.2	32.4	29.8	28.8	0.9	21.9
Infrastructure (8)	67.2	52.9	37.9	34.7	25.5	19.1	8.4	6.3	12.4	12.0	13.2	0.2	33.1
Media (1)	62.7	42.4	29.3	47.1	27.5	19.4	5.7	5.1	13.4	17.4	17.2	0.3	46.4
Metals (8)	12.0	9.9	9.0	6.9	5.8	5.2	4.1	2.4	34.1	24.4	21.9	1.3	16.0
Oil Gas & Petchem (9)	15.6	13.5	13.6	9.2	8.2	8.5	3.5	3.0	22.6	22.0	18.5	1.9	7.4
Pharma (17)	21.1	19.4	17.0	16.6	15.0	12.4	5.4	4.2	25.6	21.7	20.6	1.2	11.3
Retail (3)	76.5	51.5	33.4	35.6	24.9	17.5	8.8	7.8	11.5	15.1	18.3	0.3	51.4
Telecom (3)	41.8	27.7	21.2	23.8	15.6	11.6	8.2	6.3	19.6	22.7	22.9	0.0	40.6
Textiles (7)	13.3	12.1	8.6	9.3	8.8	7.4	1.2	1.1	8.9	8.9	11.3	1.7	24.5
Utilities (6)	25.3	22.1	20.9	16.6	13.3	13.1	3.2	2.9	12.7	13.2	12.8	1.4	10.0
Others (8)	22.1	16.7	12.6	14.3	10.8	8.3	5.7	4.4	25.6	26.3	27.2	0.8	32.4
MOST (144)	21.4	17.7	15.5	N.M	N.M	N.M	4.9	3.9	23.1	21.8	20.5	1.2	17.5
MOST Excl. Banks (124)	21.4	17.7	15.7	13.2	10.9	9.7	5.2	4.1	24.4	23.0	21.5	1.2	16.7
MOST Excl. Oil & Gas (135)	23.4	19.1	16.0	N.M	N.M	N.M	5.5	4.2	23.3	21.8	21.1	1.0	20.8
MOST Excl. Tata Steel (143)	21.5	18.2	15.9	11.1	9.4	8.2	4.9	3.9	23.0	21.7	20.4	1.1	16.0
MOST Excl. RMs (141)	22.2	18.2	15.8	N.M	N.M	N.M	5.3	4.1	23.7	22.3	21.0	1.1	18.3

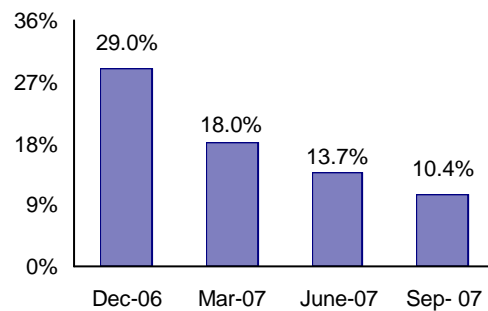
N.M. - Not Meaningful

Source: Motilal Oswal Securities

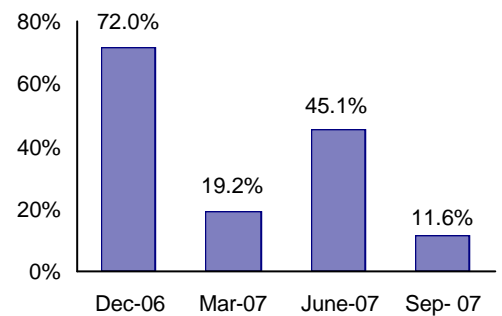
2QFY08: lowest PAT growth in last seven quarters

We see a relatively weak corporate performance in 2QFY08. For our Universe of 144 companies, we expect sales growth of just 10.5% YoY, EBITDA growth of 16.6% YoY and PAT growth of 11.6% YoY. This is the lowest sales growth in the last ten quarters and the lowest PAT growth in the last seven quarters. A major drag on the aggregates is the muted growth in Oil, Gas & Petchem and expected de-growth in Metals. Telecom, Cement and Engineering are expected to sustain their growth momentum in 2QFY08, as well.

QUARTER-WISE SALES GROWTH (YOY)



QUARTER-WISE NET PROFIT GROWTH (YOY)



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

(RS MILLION)

SECTOR (NO. OF COMPANIES)	SALES			EBITDA			NET PROFIT		
	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Auto (11)	218,265	231,136	5.9	28,006	27,896	-0.4	18,768	18,361	-2.2
Banks (20)	152,528	180,286	18.2	107,672	125,988	17.0	57,981	66,593	14.9
Cement (7)	67,011	83,155	24.1	19,620	27,451	39.9	12,528	17,169	37.0
Engineering (10)	146,101	197,650	35.3	18,042	24,228	34.3	13,365	16,735	25.2
FMCG (12)	114,123	130,786	14.6	22,891	26,441	15.5	16,359	18,704	14.3
IT (14)	172,836	217,608	25.9	44,063	50,794	15.3	36,252	42,845	18.2
Infrastructure (8)	30,632	36,911	20.5	4,208	5,489	30.5	1,985	2,323	17.0
Media (1)	3,497	4,199	20.1	217	1,254	478.4	188	817	335.7
Metals (8)	309,439	321,565	3.9	113,350	110,382	-2.6	67,865	66,830	-1.5
Oil Gas & Petchem (9)	1,689,383	1,759,483	4.1	208,345	249,802	19.9	136,502	147,703	8.2
Pharma (17)	94,802	100,999	6.5	20,148	20,585	2.2	14,409	14,721	2.2
Retail (3)	13,282	21,850	64.5	1,123	1,620	44.3	585	701	19.9
Telecom (3)	78,832	113,452	43.9	30,550	47,512	55.5	16,361	26,487	61.9
Textiles (7)	23,018	26,901	16.9	4,282	4,394	2.6	1,872	1,266	-32.4
Utilities (6)	120,198	137,574	14.5	26,317	31,834	21.0	20,371	21,443	5.3
Others (8)	23,685	33,593	41.8	5,376	7,183	33.6	3,442	4,528	31.6
MOST (144)	3,257,633	3,597,147	10.4	654,211	762,853	16.6	418,830	467,225	11.6
MOST Excl. Banks (124)	3,105,105	3,416,861	10.0	546,539	636,865	16.5	360,850	400,633	11.0
MOST Excl. Oil & Gas (135)	1,568,250	1,837,664	17.2	445,866	513,051	15.1	282,329	319,523	13.2
MOST Excl. Banks & Oil (115)	1,415,722	1,657,378	17.1	338,194	387,064	14.5	224,348	252,930	12.7
MOST Excl. Metals & Oil (127)	1,258,811	1,516,099	20.4	332,516	402,669	21.1	214,464	252,692	17.8
MOST Excl. RMs (141)	2,129,295	2,415,104	13.4	580,251	670,486	15.6	363,523	411,798	13.3

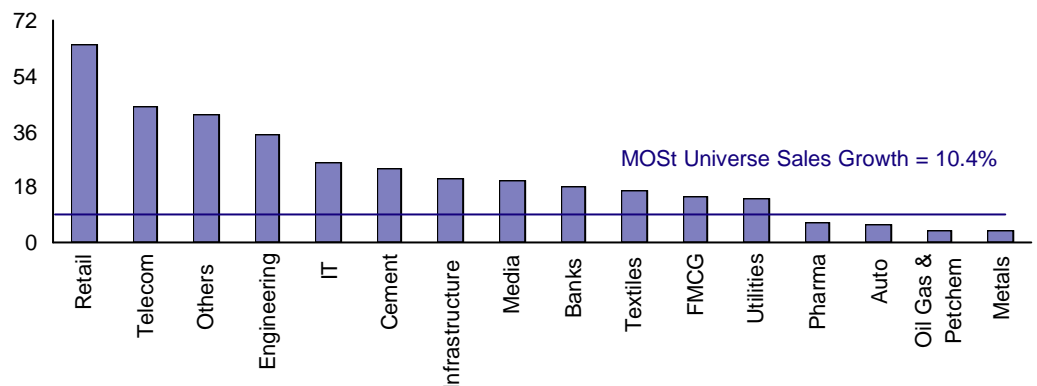
Source: Motilal Oswal Securities

Sales growth muted at 10.5% overall (17.3% excl Oil & Gas)

Retail would be the fastest growing sector, followed by Telecom

- ✎ We expect our Universe of 144 companies to record muted sales growth of 10.4% YoY in 2QFY08. The major sectors driving sales growth are – Telecom (44%), Engineering (35%), IT (25%), Cement (24%) and Infrastructure (20.5%). The growth rate is dragged down by Oil, Gas & Petchem, which is expected to grow at just 4% YoY. Excluding this sector, sales growth is 17.2% YoY. The other growth laggards are Autos (5.9%), Metals (3.9%) and Pharma (6.5%).
- ✎ Telecom sector is expected to witness revenue growth of 44% on the back of sustained strong addition to the wireless subscriber base (+23.2m in 2QFY08). Bharti leads the pack with a revenue growth of 49% YoY followed by Reliance Communication with 37% YoY.
- ✎ We expect Engineering sector to record sales growth of 35% YoY, on the back of sustained capex in the Indian economy, specially in the power sector. Suzlon and Siemens are likely to grow at over 50% YoY, followed by ABB at 37% and BHEL at 36%.
- ✎ Infrastructure sector is expected to record revenue growth of 20.5% YoY, driven by strong order book position. All companies under coverage should show growth of over 25% YoY except Nagarjuna Construction (2% YoY) and Jaiprakash Associates (10% YoY).
- ✎ Cement is expected to witness sales growth of 24% YoY, driven by ~12% volume growth and ~12% higher prices. India Cement should see the highest growth at 46% YoY followed by Shree Cement with 43%.
- ✎ Auto sales growth is muted at 5.9%. Two-wheelers are likely to be down 8.5% YoY – Hero Honda, Bajaj Auto and TVS Motors, all three are expected to de-grow. Excluding two-wheelers, the rest of the Auto sector (including ancillaries) should grow at a modest 11.7% YoY.
- ✎ Metal sector sales growth is low at 3.9% YoY due to lower international prices of non-ferrous metals, stronger rupee and lower import duty. Hindustan Zinc is expected to be hit hardest, with sales growth down 21.5% YoY.

SECTORAL SALES GROWTH - QUARTER ENDED SEPTEMBER 2007 (%)



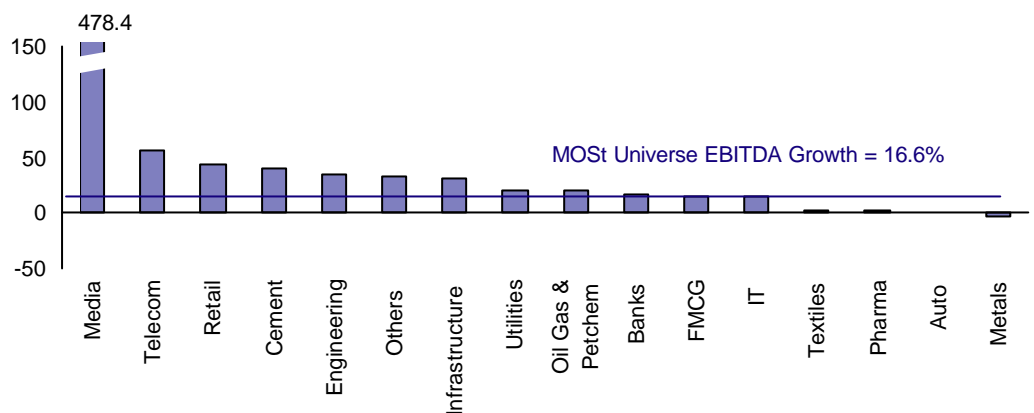
Source: Motilal Oswal Securities

EBITDA margins excluding Banks and Oil & Gas to drop 50bp

Media would show the highest EBITDA jump, followed by Telecom

- ✂ We expect our Universe of 114 companies (excluding Banks and Oil, Gas & Petchem) to register 2QFY08 EBITDA growth of 14.5% YoY. This is lower than topline growth of 17.2%, implying a 50bp drop in EBITDA margin. The major drags on margin are the currency sensitive sectors – Metals (-230bp), Textiles (-230bp) and IT (-200bp YoY, +30bp QoQ). Only two sectors are expected to see meaningful margin expansion – Cement (+370bp) and Telecom (+310bp).
- ✂ Metal sector margins are dragged down by non-ferrous metals, adversely affected by lower prices on LME, stronger rupee and lower import duty. The worst affected are Nalco (-1,180bp), Hindustan Zinc (-510bp) and Hindalco (-500bp).
- ✂ Textiles sector margins will be hit by falling product prices and the rising rupee. We expect the worst hit to include Arvind (-820bp), Himatsingka (-740bp) and Raymond (-470bp).
- ✂ IT sector margins could see a sharp 200bp drop YoY due to the double whammy of wage hikes coupled with a stronger rupee.
- ✂ Cement sector is expected to see healthy EBITDA growth of 40% YoY. Though cement prices are higher almost 12% YoY, cost pressures, mainly coal and freight, will check margin expansion to only 370bp YoY.
- ✂ Telecom sector is expected to report strong EBITDA growth of 54.8% YoY (EBITDA margin expansion of 310bp) on the back of operating leverage following high subscriber addition.
- ✂ Oil, gas & petchem sector is expected to witness a strong 190bp expansion in margins due to a variety of company-specific reasons. GAIL margins should expand 830bp due to low-base effect, as it had lost one month's production in 2QFY07 due to floods. Reliance margins are expected to be 210bp higher due to improved GRMs. For IOC, benefits of Panipat refinery (commissioned post-2QFY07) are expected drive margins higher by 170bp. (Note: For oil marketing companies, our estimates factor in oil bonds worth Rs 120b to be issued in 2QFY08 against Rs 133b in 2QFY07.)

SECTORAL EBITDA GROWTH - QUARTER ENDED SEPTEMBER 2007 (%)



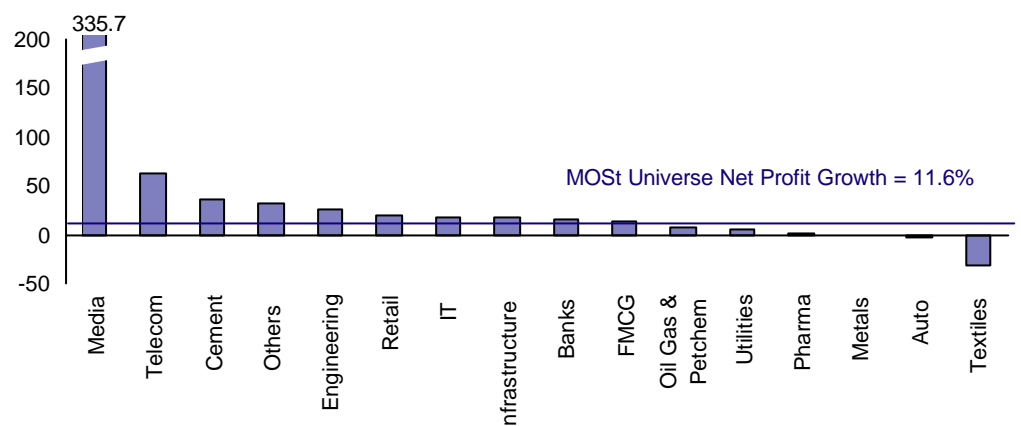
Source: Motilal Oswal Securities

Media would witness the fastest net profit growth in our universe, followed by Telecom

PAT growth of 11.6% YoY – lowest in last seven quarters

- ✍ We expect overall PAT growth to be muted at 11.6% YoY. The major drags on profit growth are Autos (-1.8% YoY), Metals (-1.5% YoY), Pharma (+2.2% YoY), Utilities (+5.3% YoY) and Oil, Gas & Petchem (+8.8%). The sectors with the highest PAT growth are Telecom (+65.1% YoY), Cement (+37% YoY) and Engineering (+25.2% YoY). In almost all sectors, PAT growth is lower than EBITDA growth, suggesting higher burden of depreciation and interest.
- ✍ Telecom is the highest profit growth sector. Bharti leads the pack with expected PAT growth of 68% YoY, followed by RCom at 61% YoY.
- ✍ In Cement, four of the seven companies in our Universe are expected to clock PAT growth of over 40%. Ultratech leads the pack with 55% PAT growth. Ambuja Cement is expected to grow the slowest at 17% YoY.
- ✍ Engineering PAT expected to grow 25% YoY, led by L&T (+64% YoY), ABB (+41% YoY), Crompton (+36% YoY) and BHEL (+31% YoY). Only one company is expected to show PAT de-growth – Suzlon (-13% YoY).
- ✍ Three sectors are expected to register PAT de-growth – Textiles (-32% YoY), Autos (-1.8% YoY) and Metals (-1.5% YoY).
- ✍ Profit growth for Sensex companies is expected to be 15.7% YoY. The top five performers are expected to be Bharti (+68% YoY), L&T (+64% YoY), RCom (+61% YoY), ACC (+45% YoY) and Grasim (+41% YoY). The bottom five are likely to be Dr Reddy's (-47% YoY), Cipla (-34% YoY), Hindalco (-23% YoY), Tata Motors (-17% YoY) and Bajaj Auto (-9.5% YoY).

SECTORAL NET PROFIT GROWTH - QUARTER ENDED SEPTEMBER 2007 (%)



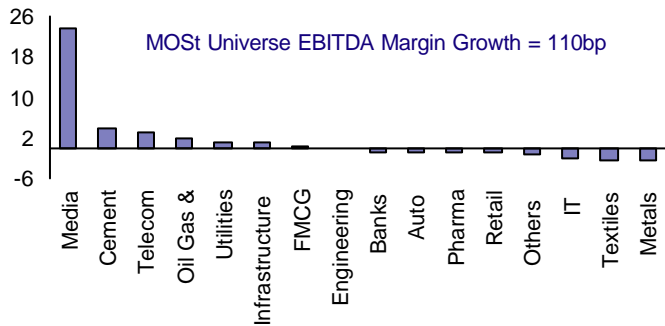
Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

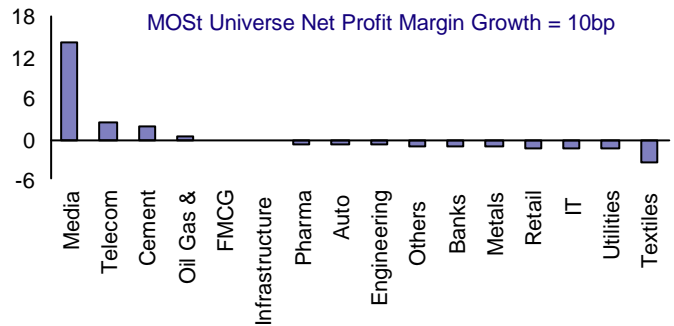
SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Auto (11)	12.8	12.1	-0.8	8.6	7.9	-0.7
Banks (20)	70.6	69.9	-0.7	38.0	36.9	-1.1
Cement (7)	29.3	33.0	3.7	18.7	20.6	2.0
Engineering (10)	12.3	12.3	-0.1	9.1	8.5	-0.7
FMCG (12)	20.1	20.2	0.2	14.3	14.3	0.0
IT (14)	25.5	23.3	-2.2	21.0	19.7	-1.3
Infrastructure (8)	13.7	14.9	1.1	6.5	6.3	-0.2
Media (1)	6.2	29.9	23.7	5.4	19.5	14.1
Metals (8)	36.6	34.3	-2.3	21.9	20.8	-1.1
Oil Gas & Petchem (9)	12.3	14.2	1.9	8.1	8.4	0.3
Pharma (17)	21.3	20.4	-0.9	15.2	14.6	-0.6
Retail (3)	8.5	7.4	-1.0	4.4	3.2	-1.2
Telecom (3)	38.8	41.9	3.1	20.8	23.3	2.6
Textiles (7)	18.6	16.3	-2.3	8.1	4.7	-3.4
Utilities (6)	21.9	23.1	1.2	16.9	15.6	-1.4
Others (8)	22.7	21.4	-1.3	14.5	13.5	-1.1
MOST (144)	20.1	21.2	1.1	12.9	13.0	0.1
MOST Excl. Banks (124)	17.6	18.6	1.0	11.6	11.7	0.1
MOST Excl. Oil & Gas (135)	28.4	27.9	-0.5	18.0	17.4	-0.6
MOST Excl. Banks & Oil (115)	23.9	23.4	-0.5	15.8	15.3	-0.6
MOST Excl. Metals & Oil (127)	26.4	26.6	0.1	17.0	16.7	-0.4
MOST Excl. RMs (141)	27.3	27.8	0.5	17.1	17.1	0.0

Source: Motilal Oswal Securities

EBITDA MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2007 (%)



NET PROFIT MARGIN GROWTH - QUARTER ENDED SEPTEMBER 2007 (%)



Source: Motilal Oswal Securities

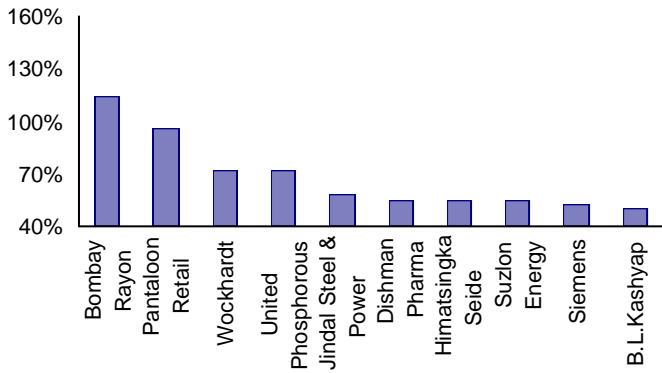
SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
Oil Gas & Petchem (9)	20.6	Oil Gas & Petchem (9)	38.2	Oil Gas & Petchem (9)	23.1
Engineering (10)	15.2	Banks (20)	16.9	Telecom (3)	20.9
IT (14)	13.2	Telecom (3)	15.6	Banks (20)	17.8
Telecom (3)	10.2	Cement (7)	7.2	IT (14)	13.6
Banks (20)	8.2	IT (14)	6.2	Cement (7)	9.6
Utilities (6)	5.1	Engineering (10)	5.7	Engineering (10)	7.0
FMCG (12)	4.9	Utilities (6)	5.1	FMCG (12)	4.8
Cement (7)	4.8	FMCG (12)	3.3	Others (8)	2.2
Auto (11)	3.8	Others (8)	1.7	Utilities (6)	2.2
Metals (8)	3.6	Infrastructure (8)	1.2	Media (1)	1.3
Others (8)	2.9	Media (1)	1.0	Infrastructure (8)	0.7
Retail (3)	2.5	Retail (3)	0.5	Pharma (17)	0.6
Infrastructure (8)	1.8	Pharma (17)	0.4	Retail (3)	0.2
Pharma (17)	1.8	Textiles (7)	0.1	Auto (11)	-0.8
Textiles (7)	1.1	Auto (11)	-0.1	Textiles (7)	-1.3
Media (1)	0.2	Metals (8)	-2.7	Metals (8)	-2.1

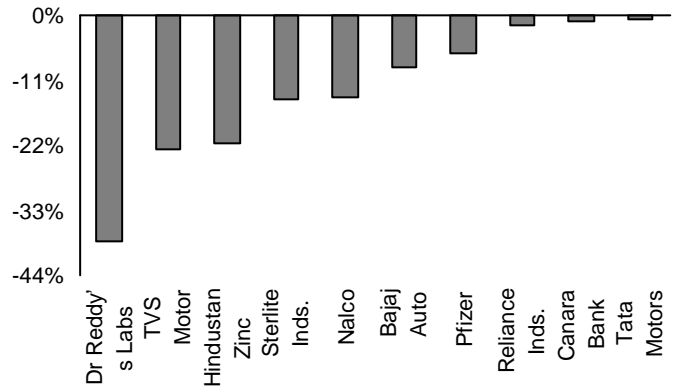
Source: Motilal Oswal Securities

Scoreboard (quarter ended September 2007)

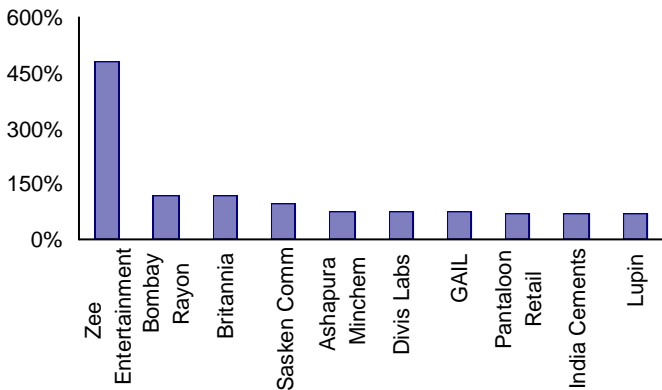
TOP 10 BY SALES GROWTH (%)



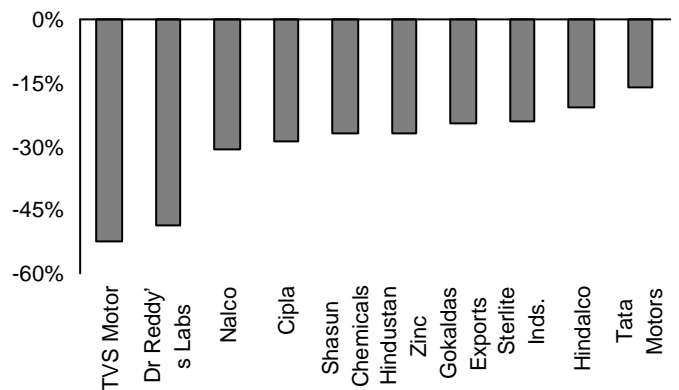
WORST 10 BY SALES GROWTH (%)



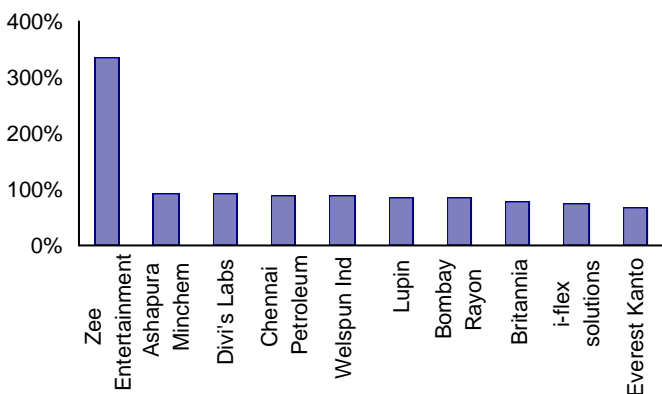
TOP 10 BY EBITDA GROWTH (%)



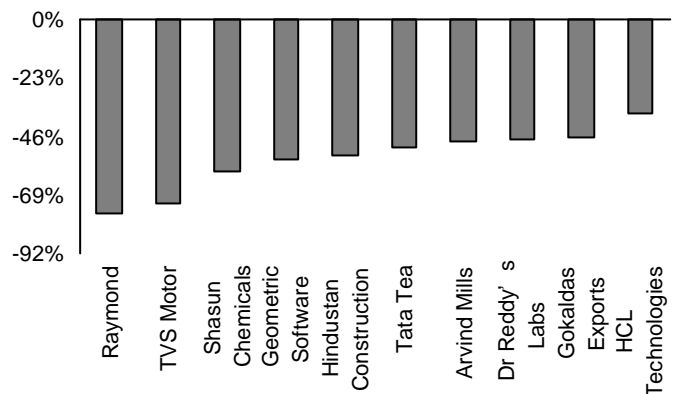
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Matrix: Excluding DocPharma

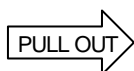
Source: Motilal Oswal Securities

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Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company's quarterly and annual results or because of differences in the way we classify account heads as opposed to the company.

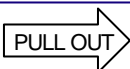
Ready reckoner: valuations

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Automobiles														
Amtek Auto	360	Buy	24.0	31.0	35.7	15.0	11.6	10.1	9.1	6.7	5.4	19.3	19.9	18.7
Ashok Leyland	46	Buy	3.2	3.4	3.8	14.1	13.5	12.1	8.7	8.0	7.1	23.3	22.0	21.3
Bajaj Auto	2,540	Buy	127.2	131.3	153.5	20.0	19.3	16.5	14.7	14.0	11.0	23.3	20.6	20.6
Bharat Forge	286	Buy	12.0	12.5	16.2	23.8	22.8	17.6	13.3	13.8	10.7	17.5	17.2	16.7
Eicher Motors	421	Neutral	21.8	25.8	30.4	19.3	16.3	13.8	9.2	7.8	6.4	14.8	15.4	15.9
Hero Honda	745	Neutral	43.4	43.1	50.2	17.2	17.3	14.8	11.0	11.1	8.9	38.3	31.9	31.2
Mahindra & Mahindra	752	Buy	55.1	64.3	75.2	13.7	11.7	10.0	13.0	11.2	9.7	25.9	22.6	20.8
Maruti Suzuki	1,000	Buy	53.9	67.7	79.2	18.5	14.8	12.6	10.8	8.1	6.7	22.7	22.6	21.2
Swaraj Mazda	304	Neutral	15.3	24.3	28.1	19.8	12.5	10.8	11.2	7.6	6.7	21.2	27.1	25.6
Tata Motors	778	Buy	52.9	51.9	59.0	14.7	15.0	13.2	9.9	10.6	9.1	27.6	21.4	21.0
TVS Motor	70	Neutral	2.8	2.2	2.7	25.0	32.4	25.8	13.6	14.2	11.7	8.2	6.1	7.3
Sector Aggregate						18.2	17.3	15.1	11.1	10.2	8.5	24.3	21.5	20.9
Cement														
ACC	1,195	Neutral	58.6	76.8	84.6	20.4	15.5	14.1	13.7	9.9	8.7	35.1	34.2	29.7
Ambuja Cements	144	Buy	8.8	10.3	11.4	16.3	14.0	12.6	11.6	9.2	7.7	47.3	36.3	29.8
Birla Corporation	337	Buy	42.4	52.0	55.7	7.9	6.5	6.0	4.9	3.7	2.9	49.0	39.9	31.4
Grasim Industries	3,513	Buy	214.7	298.3	310.6	16.4	11.8	11.3	7.9	5.8	5.0	29.6	30.2	24.6
India Cements	292	Buy	17.6	26.2	27.9	16.6	11.2	10.5	13.0	8.0	6.6	44.1	42.4	32.0
Shree Cement	1,522	Buy	45.6	138.3	168.4	33.4	11.0	9.0	9.9	6.2	4.4	42.3	70.9	49.7
UltraTech Cement	1,043	Buy	62.8	87.9	106.4	16.6	11.9	9.8	10.2	7.5	6.0	55.8	48.2	39.0
Sector Aggregate						17.1	12.5	11.3	10.0	7.3	6.1	38.1	36.3	29.8
Engineering														
ABB	1,294	Neutral	16.1	23.8	30.8	80.5	54.3	42.0	55.8	35.4	27.0	36.7	49.5	53.0
Alstom Projects	830	Neutral	16.6	23.4	28.7	50.0	35.5	28.9	43.1	29.8	23.7	33.3	37.4	35.7
Bharat Electronics	1,840	Buy	89.2	102.3	120.1	20.6	18.0	15.3	11.4	9.9	8.1	32.5	29.4	27.5
BHEL	2,033	Neutral	48.8	63.2	81.1	41.7	32.2	25.1	25.5	19.6	16.0	28.8	29.6	30.0
Crompton Greaves	333	Neutral	6.6	9.8	14.4	50.5	33.9	23.2	36.0	25.2	19.2	32.6	36.8	37.7
Cummins India	435	Neutral	11.7	15.9	20.3	37.4	27.4	21.4	27.8	19.5	14.5	25.4	29.7	31.1
Larsen & Toubro	2,813	Neutral	63.9	84.4	106.8	44.0	33.3	26.3	43.0	29.5	23.8	26.1	28.9	28.9
Siemens	1,352	Neutral	31.0	45.0	58.3	43.7	30.0	23.2	26.8	19.7	16.5	42.1	47.9	47.7
Suzlon Energy	1,447	Neutral	30.0	40.6	59.8	48.1	35.7	24.2	35.7	23.2	16.6	29.0	28.0	29.9
Thermax	750	Buy	16.1	23.6	32.5	46.5	31.8	23.0	29.4	21.3	15.1	39.7	41.2	43.9
Sector Aggregate						43.3	32.5	24.9	30.7	22.4	17.7	31.2	32.0	33.4
FMCG														
Asian Paints	983	Buy	28.1	33.7	41.3	34.9	29.1	23.8	21.8	17.7	14.6	35.7	35.1	34.4
Britannia	1,457	Buy	47.3	77.9	90.4	30.8	18.7	16.1	23.8	11.0	9.2	17.9	25.3	23.6
Colgate	402	Neutral	14.2	18.1	21.5	28.3	22.2	18.7	25.0	20.3	16.8	70.1	136.3	272.9
Dabur	106	Neutral	3.3	4.0	5.0	32.3	26.4	21.1	26.2	20.7	17.0	58.8	53.7	51.1
Godrej Consumer	141	Neutral	5.9	7.1	8.3	23.8	20.0	17.0	18.1	15.7	13.5	123.8	145.8	167.0
GSK Consumer	639	Buy	30.2	34.5	39.1	21.2	18.5	16.4	13.1	10.9	9.4	22.9	22.7	22.2
Hind. Unilever	219	Neutral	7.0	8.1	9.2	31.4	26.9	23.9	27.7	23.7	20.5	56.5	61.5	64.5
ITC	190	Buy	7.2	8.2	9.6	26.4	23.3	19.7	17.1	14.9	12.3	25.9	25.7	26.6
Marico	61	Buy	2.0	2.6	3.2	29.9	23.4	18.8	18.2	14.7	12.1	74.9	66.6	58.0
Nestle	1,324	Buy	33.9	43.7	53.8	39.1	30.3	24.6	23.5	18.3	15.0	53.8	61.8	68.3
Tata Tea	802	Neutral	50.6	44.9	78.7	15.9	17.9	10.2	7.8	5.5	4.4	14.0	6.8	10.9
United Spirits	1,746	Buy	25.4	44.1	69.9	68.8	39.6	25.0	34.5	19.9	16.3	17.2	22.4	20.0
Sector Aggregate						30.2	25.4	20.9	20.5	17.0	14.1	31.3	30.8	32.1



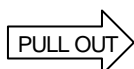
Ready reckoner: valuations

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Information Technology														
Geometric Software	97	Neutral	6.1	6.8	9.5	16.0	14.3	10.3	10.4	10.1	6.1	20.9	18.0	21.6
HCL Technologies	300	Buy	18.9	19.0	22.8	15.9	15.8	13.1	13.2	10.4	8.1	29.9	25.8	27.4
Hexaware	125	UR	9.4	9.2	11.4	13.3	13.6	10.9	10.1	9.5	7.3	22.7	15.3	16.6
i-flex solutions	1,890	Neutral	33.2	39.8	55.1	56.9	47.5	34.3	41.9	33.6	24.0	15.3	13.8	16.7
Infosys	1,897	Buy	68.4	80.5	97.9	27.7	23.6	19.4	23.0	19.2	14.6	42.3	34.9	32.5
Infotech Enterpr	267	Buy	17.7	18.7	27.0	15.1	14.3	9.9	10.2	8.2	5.6	31.5	24.9	28.2
KPIT Cummins Inf	120	Buy	6.8	8.2	11.7	17.8	14.7	10.3	13.5	9.2	6.6	29.7	26.5	27.7
MphasisS	286	Buy	7.3	12.4	15.2	39.1	23.0	18.8	22.5	11.4	8.5	27.4	43.4	38.5
Patni Computer	470	Neutral	25.8	30.6	34.2	18.2	15.4	13.7	10.6	10.2	7.9	16.8	17.4	16.9
Sasken Comm	334	Buy	15.5	13.6	21.8	21.5	24.6	15.3	14.2	14.8	8.6	11.0	8.8	13.0
Satyam Computer	444	Buy	21.5	24.8	30.1	20.7	17.9	14.7	16.8	13.8	10.6	27.9	25.8	25.3
TCS	1,057	Buy	41.7	50.8	62.2	25.4	20.8	17.0	20.3	17.2	13.7	64.9	57.6	48.3
Tech Mahindra	1,331	UR	46.4	58.7	78.9	28.7	22.7	16.9	21.7	17.0	11.9	66.2	47.4	37.3
Wipro	460	Buy	19.7	23.8	29.4	23.3	19.4	15.6	18.1	14.7	11.0	32.4	30.3	29.8
Sector Aggregate						24.9	20.9	16.8	19.7	16.3	12.5	32.4	29.8	28.8
Infrastructure														
B.L.Kashyap	2,418	Neutral	46.4	79.0	112.8	52.1	30.6	21.4	30.2	20.4	14.6	18.2	25.2	28.2
Gammon India	466	Buy	10.8	13.7	19.7	43.0	33.9	23.6	23.3	17.7	13.2	8.3	9.6	12.2
GMR Infrastructure	174	Neutral	1.1	1.0	1.2	165.1	180.1	147.1	58.1	49.7	31.5	10.1	8.6	9.6
Hindustan Construction	137	Buy	2.1	3.9	7.4	64.2	35.2	18.5	23.7	13.4	9.7	6.6	9.1	13.3
IVRCL Infra.	422	Buy	10.5	13.5	18.9	40.2	31.3	22.4	24.1	17.5	12.8	15.1	12.3	15.3
J P Associates	1,092	Buy	19.7	22.8	30.1	55.3	47.9	36.3	34.0	23.8	19.7	15.6	13.2	12.3
Nagarjuna Construction	253	Buy	6.4	8.1	11.8	39.5	31.3	21.4	25.9	17.5	13.3	13.5	13.4	14.4
Patel Engineering	453	Buy	18.8	19.0	25.7	24.1	23.8	17.6	18.0	14.1	11.2	24.1	14.5	17.0
Sector Aggregate						67.2	52.9	37.9	34.7	25.5	19.1	12.4	12.0	13.2
Media														
Zee Entertainment	342	Neutral	5.5	8.1	11.7	62.7	42.4	29.3	47.1	27.5	19.4	13.4	17.4	17.2
Metals														
Hindalco	172	Neutral	24.2	7.5	12.3	7.1	23.1	14.0	5.7	9.0	7.4	22.8	6.5	9.2
Hindustan Zinc	813	Buy	105.1	93.8	102.6	7.7	8.7	7.9	4.8	5.1	4.1	58.2	35.1	28.4
Jindal Steel & Power	5,183	Buy	228.3	305.5	357.3	22.7	17.0	14.5	14.0	9.7	7.6	28.3	27.9	27.3
JSW Steel	851	Buy	71.7	102.4	114.8	11.9	8.3	7.4	6.9	5.7	5.3	24.1	25.9	23.6
Nalco	302	Neutral	37.0	24.3	27.2	8.2	12.4	11.1	4.5	5.8	6.6	30.8	22.6	17.6
SAIL	207	Buy	14.6	20.4	21.8	14.1	10.1	9.5	7.9	5.6	5.4	34.8	34.6	28.6
Sterlite Inds.	748	Buy	80.6	59.4	63.4	9.3	12.6	11.8	5.6	4.9	4.0	45.3	19.1	17.3
Tata Steel	850	Buy	70.2	114.6	130.0	12.1	7.4	6.5	9.7	5.2	4.7	27.6	24.7	22.7
Sector Aggregate						12.0	9.9	9.0	6.9	5.8	5.2	34.1	24.4	21.9
Oil & Gas														
BPCL	356	Buy	59.2	57.4	57.3	6.0	6.2	6.2	5.7	5.5	5.5	18.8	16.4	14.8
Cairn India	181	Buy		0.6	0.8		311.9	234.5		43.5	43.7		0.4	0.5
Chennai Petroleum	280	Neutral	37.9	54.6	51.8	7.4	5.1	5.4	5.2	4.0	4.1	21.4	25.1	20.2
GAIL	379	Neutral	24.2	30.7	32.4	15.6	12.3	11.7	10.7	7.9	7.3	22.8	19.9	18.5
HPCL	266	Buy	37.4	34.8	30.8	7.1	7.7	8.6	6.6	6.5	7.0	13.2	11.7	10.0
Indraprastha Gas	129	Not Rated	9.9	11.5	12.3	13.1	11.2	10.5	6.5	5.0	4.6	32.6	30.6	26.8
IOC	470	Buy	50.2	60.2	57.1	9.4	7.8	8.2	6.5	6.1	6.2	16.4	16.9	14.0
ONGC	958	Buy	83.1	99.1	90.7	11.5	9.7	10.6	5.9	5.1	5.3	32.5	32.3	25.6
Reliance Inds.	2,296	Buy	82.2	92.0	97.2	27.9	25.0	23.6	17.7	16.2	16.5	22.1	19.5	17.3
Sector Aggregate						15.6	13.5	13.6	9.2	8.2	8.5	22.6	22.0	18.5



Ready reckoner: valuations

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Pharmaceuticals														
Aurobindo Pharma	602	Sell	29.4	45.5	53.7	20.5	13.2	11.2	15.6	9.3	7.8	22.7	26.3	23.9
Aventis Pharma	1,166	Buy	73.5	72.3	89.1	15.9	16.1	13.1	10.4	10.4	7.7	28.6	24.0	24.8
Biocon	473	Buy	20.0	24.1	28.5	23.7	19.6	16.6	17.0	13.8	11.2	18.7	15.4	16.0
Cadila Health	311	Buy	18.7	21.3	26.3	16.7	14.6	11.8	11.7	9.3	7.6	30.0	27.6	27.5
Cipla	182	Neutral	8.6	7.2	9.1	21.2	25.3	20.1	17.5	18.6	15.8	20.7	15.2	16.7
Dishman Pharma	291	Buy	11.0	13.8	16.8	26.5	21.1	17.4	26.0	18.3	14.7	35.4	30.6	28.7
Divis Labs	1,217	Neutral	29.7	41.1	50.7	40.9	29.6	24.0	32.5	23.8	19.2	43.5	40.9	37.0
Dr Reddy's Labs	649	Buy	55.5	36.5	41.6	11.7	17.8	15.6	7.9	13.3	11.4	22.4	13.3	13.6
GSK Pharma	1,112	Buy	42.7	42.9	46.7	26.0	25.9	23.8	17.3	17.3	15.4	30.3	23.2	22.1
Jubilant Organosys	312	Buy	12.4	21.1	19.1	25.2	14.8	16.3	16.5	11.9	9.5	26.4	33.6	22.6
Lupin	586	Neutral	35.0	36.6	39.2	16.8	16.0	14.9	17.8	12.0	11.5	41.3	32.1	27.3
Nicholas Piramal	281	Buy	11.0	13.1	16.2	25.6	21.5	17.4	19.5	14.8	12.1	23.1	23.2	23.8
Pfizer	715	Neutral	40.5	45.0	40.1	17.6	15.9	17.9	11.1	9.0	10.4	27.5	18.6	15.2
Ranbaxy Labs	434	Buy	13.4	19.5	19.8	32.3	22.3	22.0	21.0	19.3	14.2	20.9	26.2	23.5
Shasun Chemicals	90	Buy	-0.6	9.2	12.6	-142.7	9.9	7.2	7.9	8.6	5.9	19.8	13.7	17.4
Sun Pharma	966	Buy	37.9	41.6	51.0	25.5	23.2	18.9	27.0	18.4	14.6	35.9	22.8	20.3
Wockhardt	417	Neutral	22.3	23.9	27.4	18.7	17.4	15.2	13.9	10.8	9.1	28.3	24.0	22.6
Sector Aggregate						21.1	19.4	17.0	16.6	15.0	12.4	25.6	21.7	20.6
Retailing														
Pantaloon Retail	540	Buy	4.2	7.6	12.4	129.7	70.8	43.4	42.2	26.9	18.4	5.0	8.5	11.2
Shopper's Stop	581	Neutral	9.8	12.0	16.7	59.0	48.6	34.9	29.6	21.6	16.0	11.7	13.2	16.7
Titan Industries	1,469	Neutral	26.6	36.1	53.8	55.3	40.7	27.3	30.7	23.5	16.7	35.4	35.4	37.9
Sector Aggregate						76.5	51.5	33.4	35.6	24.9	17.5	11.5	15.1	18.3
Telecom														
Bharti Airtel	941	Buy	22.5	34.0	44.5	41.9	27.7	21.2	24.6	16.2	11.8	37.4	38.4	34.8
Idea Cellular	125	Neutral	1.9	3.8	5.3	65.5	32.7	23.6	24.0	15.7	11.3	19.8	19.8	22.8
Reliance Comm	586	Buy	15.6	22.6	29.0	37.5	26.0	20.2	22.7	14.9	11.4	18.2	18.3	19.4
Sector Aggregate						41.8	27.7	21.2	23.8	15.6	11.6	19.6	22.7	22.9
Textiles														
Alok Ind	71	Neutral	8.3	9.2	10.3	8.5	7.7	6.9	9.4	9.1	8.9	16.5	13.2	13.2
Arvind Mills	62	Neutral	0.8	1.6	4.0	73.7	39.8	15.5	10.2	10.3	8.6	1.1	2.0	5.0
Gokaldas Exports	248	Neutral	20.4	18.7	25.6	12.1	13.2	9.7	8.9	9.2	7.3	18.9	15.1	17.9
Himatsingka Seide	101	Neutral	5.6	6.2	11.4	18.1	16.3	8.9	18.9	10.8	6.5	9.3	9.8	16.4
Raymond	324	Neutral	15.5	18.1	27.6	21.0	17.9	11.8	9.0	7.0	5.5	10.5	7.7	10.9
Vardhman Textiles	147	Buy	26.8	22.3	28.0	5.5	6.6	5.3	6.9	8.4	7.0	16.6	12.2	13.7
Welspun Ind	67	Neutral	6.8	9.0	12.8	9.9	7.5	5.2	10.8	8.7	6.6	8.8	10.8	13.9
Sector Aggregate						13.3	12.1	8.6	9.3	8.8	7.4	8.9	8.9	11.3
Utilities														
CESC	487	Neutral	20.6	23.8	25.6	23.6	20.4	19.0	11.6	12.4	12.0	17.0	13.5	12.8
Neyveli Lignite Corp.	105	Buy	4.3	4.1	4.3	24.6	25.4	24.7	14.1	12.9	12.9	8.8	8.2	8.1
NTPC	193	Neutral	8.0	9.4	9.9	24.3	20.6	19.6	15.5	12.8	12.6	14.0	15.1	14.5
PTC India	91	Buy	2.3	2.9	3.4	39.1	31.1	26.8	47.3	30.9	24.3	13.8	15.9	16.8
Reliance Energy	1,206	Buy	34.1	40.9	44.6	35.3	29.4	27.0	46.6	16.9	17.9	10.2	12.4	12.4
Tata Power	855	Buy	29.2	31.6	32.2	29.3	27.0	26.5	17.8	16.2	15.1	9.4	8.6	8.4
Sector Aggregate						25.3	22.1	20.9	16.6	13.3	13.1	12.7	13.2	12.8



Ready reckoner: valuations

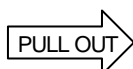
	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Others														
Ashapura Minchem	457	Buy	33.3	57.4	75.3	13.7	8.0	6.1	9.5	6.7	5.6	47.4	44.4	39.9
Blue Star	317	Buy	7.9	12.7	17.5	40.1	25.0	18.2	25.1	15.7	11.3	36.9	46.1	47.6
Bombay Rayon	239	Buy	8.6	13.0	19.6	27.7	18.4	12.2	17.9	13.8	10.4	17.1	15.5	18.4
Concor	2,101	Buy	102.4	125.2	150.5	20.5	16.8	14.0	13.6	10.7	8.5	28.4	27.6	26.5
Everest Kanto	234	Buy	7.4	9.6	14.0	31.8	24.3	16.7	20.0	15.5	10.9	31.7	24.7	25.8
Great Offshore	817	Buy	38.1	47.9	73.6	21.4	17.0	11.1	14.5	10.9	8.4	23.5	26.5	26.1
Greaves Cotton	317	Buy	24.9	26.6	35.3	12.7	11.9	9.0	9.4	7.3	5.2	48.0	38.3	38.5
United Phosphorous	396	Buy	14.3	18.4	26.7	27.7	21.5	14.8	14.6	10.7	8.1	20.8	22.9	26.9
Sector Aggregate						22.1	16.7	12.6	14.3	10.8	8.3	25.6	26.3	27.2

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Banks														
Andhra Bank	105	Buy	11.1	12.5	14.4	9.4	8.4	7.3	1.6	1.4	1.3	17.8	18.1	18.7
Axis Bank	764	Buy	23.4	26.4	37.8	32.7	28.9	20.2	6.3	3.2	2.8	21.0	15.7	14.9
Bank of Baroda	327	Buy	28.1	33.9	40.8	11.6	9.6	8.0	1.4	1.3	1.1	12.4	13.6	14.7
Bank of India	277	Buy	23.0	28.7	34.2	12.0	9.6	8.1	2.4	2.0	1.6	21.3	22.2	22.1
Canara Bank	278	Buy	34.7	39.2	43.6	8.0	7.1	6.4	1.4	1.2	1.1	18.8	18.4	17.9
Corporation Bank	388	Sell	37.4	45.6	52.8	10.4	8.5	7.4	1.5	1.3	1.2	15.0	16.3	16.7
Federal Bank	372	Buy	34.2	43.1	54.0	10.9	8.6	6.9	2.1	1.8	1.4	21.3	22.2	22.9
HDFC	2,527	Buy	62.1	82.0	86.1	40.7	30.8	29.3	11.5	6.8	5.2	31.3	25.1	20.6
HDFC Bank	1,439	Buy	35.8	43.1	59.0	40.3	33.4	24.4	7.1	4.3	3.8	19.5	16.8	16.6
ICICI Bank	1,063	Neutral	34.6	36.8	48.0	30.7	28.9	22.1	3.9	2.5	2.3	13.4	11.4	10.8
Indian Bank	160	Buy	17.7	22.0	27.3	9.1	7.3	5.9	2.1	1.7	1.4	28.4	25.2	25.6
Indian Overseas Bank	144	Buy	18.5	22.0	26.7	7.8	6.6	5.4	2.0	1.6	1.3	29.1	27.5	26.6
J&K Bank	783	Buy	56.6	68.1	83.5	13.8	11.5	9.4	1.9	1.7	1.5	14.4	15.5	16.7
Karnataka Bank	224	Buy	14.6	19.2	22.3	15.3	11.7	10.0	2.2	1.9	1.7	15.1	17.5	17.7
Oriental Bank	242	Neutral	33.0	37.6	42.6	7.3	6.4	5.7	1.2	1.0	0.9	15.4	16.0	16.5
Punjab National Bank	543	Buy	48.8	57.9	68.5	11.1	9.4	7.9	1.7	1.5	1.3	16.0	16.9	17.5
State Bank	1,951	Buy	86.3	99.0	117.0	22.6	19.7	16.7	3.3	2.9	2.5	15.4	15.6	16.2
Syndicate Bank	92	Buy	13.7	15.6	16.6	6.7	5.9	5.6	1.5	1.2	1.1	21.9	20.3	18.6
Union Bank	163	Buy	16.7	21.1	26.0	9.8	7.8	6.3	1.7	1.5	1.3	19.2	20.7	21.8
Vijaya Bank	70	Neutral	7.6	8.8	9.6	9.2	7.9	7.3	1.6	1.4	1.3	18.6	18.9	18.2
Sector Aggregate						21.1	17.3	14.2	3.7	2.9	2.3	17.4	16.6	16.3



Ready reckoner: quarterly performance

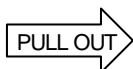
	CMP (RS) 28.9.07	RECO	SALES			EBITDA			NET PROFIT		
			SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Automobiles											
Amtek Auto	360	Buy	8,877	11,540	30.0	1,602	2,054	28.2	872	1,096	25.7
Ashok Leyland	46	Buy	16,757	17,436	4.1	1,320	1,534	16.2	716	756	5.5
Bajaj Auto	2,540	Buy	24,360	22,181	-8.9	3,652	3,069	-16.0	3,314	3,006	-9.3
Bharat Forge	286	Buy	4,507	5,408	20.0	1,177	1,163	-1.2	622	551	-11.5
Eicher Motors	421	Neutral	4,565	5,406	18.4	263	324	23.1	142	176	24.1
Hero Honda	745	Neutral	22,300	23,094	3.6	2,835	2,563	-9.6	2,160	2,014	-6.7
Mahindra & Mahindra	752	Buy	24,501	27,206	11.0	3,292	3,183	-3.3	2,472	2,491	0.8
Maruti Suzuki	1,000	Buy	34,192	43,561	27.4	5,428	7,087	30.6	3,713	4,609	24.1
Swaraj Mazda	304	Neutral	1,710	1,779	4.0	98	133	35.2	49	62	26.5
Tata Motors	778	Buy	65,718	65,177	-0.8	7,779	6,518	-16.2	4,459	3,531	-20.8
TVS Motor	70	Neutral	10,779	8,347	-22.6	560	267	-52.3	248	70	-71.9
Sector Aggregate			218,265	231,136	5.9	28,006	27,896	-0.4	18,768	18,361	-2.2
Cement											
ACC	1,195	Neutral	13,577	17,443	28.5	3,660	5,186	41.7	2,254	3,271	45.1
Ambuja Cements	144	Buy	11,310	12,958	14.6	3,962	4,750	19.9	2,938	3,446	17.3
Birla Corporation	337	Buy	3,647	4,165	14.2	979	1,355	38.4	675	844	25.0
Grasim Industries	3,513	Buy	20,108	24,689	22.8	5,322	7,751	45.7	3,360	4,732	40.8
India Cements	292	Buy	5,164	7,538	46.0	1,726	2,957	71.4	1,248	1,858	48.9
Shree Cement	1,522	Buy	3,160	4,530	43.4	1,427	1,823	27.8	778	1,044	34.3
UltraTech Cement	1,043	Buy	10,045	11,833	17.8	2,545	3,629	42.6	1,274	1,972	54.8
Sector Aggregate			67,011	83,155	24.1	19,620	27,451	39.9	12,528	17,169	37.0
Engineering											
ABB	1,294	Neutral	10,706	14,667	37.0	1,106	1,650	49.2	821	1,157	40.9
Alstom Projects	830	Neutral	2,677	3,346	25.0	322	423	31.2	313	376	20.0
Bharat Electronics	1,840	Buy	8,343	9,177	10.0	1,865	2,134	14.4	1,483	1,653	11.5
BHEL	2,033	Neutral	33,412	45,524	36.3	4,563	6,487	42.2	3,600	4,720	31.1
Crompton Greaves	333	Neutral	8,240	10,538	27.9	736	975	32.5	387	526	36.0
Cummins India	435	Neutral	4,674	5,750	23.0	786	977	24.4	627	759	21.1
Larsen & Toubro	2,813	Neutral	37,361	47,820	28.0	3,062	4,834	57.9	1,831	3,009	64.4
Siemens	1,352	Neutral	14,997	22,934	52.9	1,244	1,738	39.7	1,367	1,779	30.1
Suzlon Energy	1,447	Neutral	20,870	32,348	55.0	3,600	3,946	9.6	2,354	2,043	-13.2
Thermax	750	Buy	4,823	5,546	15.0	758	1,063	40.2	582	713	22.4
Sector Aggregate			146,101	197,650	35.3	18,042	24,228	34.3	13,365	16,735	25.2
FMCG											
Asian Paints	983	Buy	7,849	8,700	10.8	1,203	1,330	10.6	777	860	10.6
Britannia	1,457	Buy	5,497	7,100	29.2	288	625	117.0	238	425	78.6
Colgate	402	Neutral	3,200	3,625	13.3	558	650	16.5	505	591	16.9
Dabur	106	Neutral	5,641	6,710	18.9	973	1,190	22.3	727	930	27.9
Godrej Consumer	141	Neutral	2,318	2,800	20.8	397	475	19.8	310	371	19.7
GSK Consumer	639	Buy	3,015	3,400	12.8	528	610	15.5	362	406	12.1
Hind. Unilever	219	Neutral	30,660	34,340	12.0	4,029	4,550	12.9	3,830	4,420	15.4
ITC	190	Buy	28,876	33,500	16.0	9,727	10,850	11.5	6,796	7,820	15.1
Marico	61	Buy	3,780	4,650	23.0	605	700	15.6	306	426	39.2
Nestle	1,324	Buy	7,227	8,761	21.2	1,425	1,761	23.6	872	1,065	22.1
Tata Tea	802	Neutral	9,740	9,900	1.6	1,801	1,850	2.7	1,071	530	-50.5
United Spirits	1,746	Buy	6,321	7,300	15.5	1,357	1,850	36.4	563	860	52.7
Sector Aggregate			114,123	130,786	14.6	22,891	26,441	15.5	16,359	18,704	14.3



Ready reckoner: quarterly performance

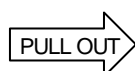
	CMP (RS) 28.9.07	RECO	SALES			EBITDA			NET PROFIT		
			SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Infrastructure											
B.L.Kashyap	2,418	Neutral	1,707	2,560	50.0	182	272	49.3	106	154	44.6
Gammon India	466	Buy	4,830	5,795	20.0	418	523	25.2	197	245	24.7
GMR Infrastructure	174	Neutral	3,125		-	1,250		-	256		-
Hindustan Construction	137	Buy	4,257	5,534	30.0	395	546	38.4	42	19	-53.9
IVRCL Infra.	422	Buy	3,644	4,920	35.0	308	443	43.6	155	197	26.8
Jaiprakash Associates	1,092	Buy	7,700	8,932	16.0	1,980	2,569	29.7	900	1,131	25.7
Nagarjuna Construction	253	Buy	6,517	6,647	2.0	618	771	24.8	334	342	2.2
Patel Engineering	453	Buy	1,979	2,523	27.5	307	366	19.1	250	234	-6.4
Sector Aggregate			30,632	36,911	20.5	4,208	5,489	30.5	1,985	2,323	17.0
Media											
Zee Entertainment	342	Neutral	3,497	4,199	20.1	217	1,254	478.4	188	817	335.7
Metals											
Hindalco	172	Neutral	46,342	47,958	3.5	9,864	7,825	-20.7	6,495	5,014	-22.8
Hindustan Zinc	813	Buy	24,410	19,160	-21.5	18,560	13,583	-26.8	12,980	9,562	-26.3
Jindal Steel & Power	5,183	Buy	7,896	12,476	58.0	3,085	4,813	56.0	1,572	2,289	45.6
JSW Steel	851	Buy	21,946	26,515	20.8	6,963	9,213	32.3	3,463	4,415	27.5
Nalco	302	Neutral	14,416	12,402	-14.0	8,751	6,069	-30.6	5,950	4,228	-28.9
SAIL	207	Buy	85,391	96,885	13.5	23,333	30,152	29.2	14,428	19,460	34.9
Sterlite Inds.	748	Buy	67,180	57,689	-14.1	25,746	19,559	-24.0	11,656	10,534	-9.6
Tata Steel	850	Buy	41,858	48,480	15.8	17,048	19,168	12.4	11,321	11,328	0.1
Sector Aggregate			309,439	321,565	3.9	113,350	110,382	-2.6	67,865	66,830	-1.5
Oil & Gas											
BPCL	356	Buy	288,323	293,397	1.8	17,138	19,940	16.4	12,585	11,825	-6.0
Cairn India	181	Buy		2,925	-		2,131	-		572	-
Chennai Petroleum	280	Neutral	66,527	77,733	16.8	2,380	3,779	58.8	972	1,850	90.3
GAIL	379	Neutral	37,070	43,247	16.7	5,891	10,457	77.5	4,484	6,569	46.5
HPCL	266	Buy	262,351	260,895	-0.6	16,462	17,583	6.8	12,220	10,472	-14.3
Indraprastha Gas	129	Not Rated	1,542	1,706	10.7	645	730	13.1	348	394	13.3
IOC	470	Buy	577,665	627,751	8.7	40,359	54,843	35.9	30,503	33,129	8.6
ONGC	958	Buy	140,686	144,756	2.9	73,448	84,894	15.6	44,790	47,893	6.9
Reliance Inds.	2,296	Buy	315,220	309,998	-1.7	52,020	57,574	10.7	30,600	35,569	16.2
Sector Aggregate			1,689,383	1,759,483	4.1	208,345	249,802	19.9	136,502	147,703	8.2
Pharmaceuticals											
Aurobindo Pharma	602	Sell	4,800	5,897	22.9	691	1,002	45.1	546	711	30.0
Aventis Pharma	1,166	Buy	2,431	2,700	11.0	687	676	-1.6	538	496	-7.8
Biocon	473	Buy	2,490	2,923	17.4	659	796	20.8	453	539	18.8
Cadila Health	311	Buy	4,748	6,160	29.7	1,090	1,279	17.3	705	824	16.9
Cipla	182	Neutral	8,961	9,967	11.2	2,276	1,615	-29.0	1,803	1,187	-34.2
Dishman Pharma	291	Buy	1,170	1,815	55.2	246	349	42.0	168	216	28.5
Divis Labs	1,217	Neutral	1,614	2,100	30.1	435	772	77.6	313	600	91.9
Dr Reddy's Labs	649	Buy	20,039	12,391	-38.2	4,220	2,168	-48.6	2,798	1,472	-47.4
GSK Pharma	1,112	Buy	3,970	4,147	4.4	1,283	1,331	3.7	991	1,004	1.3
Jubilant Organosys	312	Buy	4,659	6,117	31.3	801	1,105	37.9	544	848	55.9
Lupin	586	Neutral	4,886	6,502	33.1	763	1,298	70.2	518	966	86.3
Nicholas Piramal	281	Buy	6,547	6,983	6.7	1,139	1,068	-6.2	655	585	-10.7
Pfizer	715	Neutral	1,765	1,651	-6.4	317	415	30.8	228	335	46.6
Ranbaxy Labs	434	Buy	16,087	16,795	4.4	2,697	2,855	5.9	1,571	2,038	29.7
Shasun Chemicals	90	Buy	1,030	1,074	4.3	166	121	-27.1	78	31	-60.0
Sun Pharma	966	Buy	5,229	6,260	19.7	1,708	2,121	24.2	1,864	2,089	12.1
Wockhardt	417	Neutral	4,377	7,518	71.8	971	1,612	66.0	636	782	23.0
Sector Aggregate			94,802	100,999	6.5	20,148	20,585	2.2	14,409	14,721	2.2

Tata Steel quarter numbers does not include Corus



Ready reckoner: quarterly performance

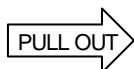
	CMP (RS)	RECO	SALES			EBITDA			NET PROFIT		
	28.9.07		SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Retailing											
Pantaloons Retail	540	Buy	6,034	11,850	96.4	415	715	72.1	162	172	6.0
Shopper's Stop	581	Neutral	2,013	2,700	34.1	162	205	26.6	80	89	11.1
Titan Industries	1,469	Neutral	5,235	7,300	39.4	546	700	28.3	342	440	28.5
Sector Aggregate			13,282	21,850	64.5	1,123	1,620	44.3	585	701	19.9
Telecom											
Bharti Airtel	941	Buy	43,572	64,994	49.2	17,025	27,168	59.6	9,338	15,173	62.5
Idea Cellular	125	Neutral		16,604	-		5,479	-		2,171	-
Reliance Comm	586	Buy	35,260	48,458	37.4	13,525	20,345	50.4	7,023	11,313	61.1
Sector Aggregate			78,832	113,452	43.9	30,550	47,512	55.5	16,361	26,487	61.9
Textiles											
Alok Ind	71	Neutral	4,172	4,591	10.1	968	1,097	13.4	326	302	-7.3
Arvind Mills	62	Neutral	3,932	5,346	36.0	859	727	-15.3	101	53	-47.7
Gokaldas Exports	248	Neutral	2,810	2,871	2.2	316	238	-24.6	208	111	-46.5
Himatsingka Seide	101	Neutral	470	728	55.0	159	192	20.9	163	141	-13.3
Raymond	324	Neutral	3,586	4,769	33.0	641	630	-1.8	556	131	-76.4
Vardhman Textiles	147	Buy	5,283	5,702	7.9	917	1,004	9.4	423	348	-17.7
Welspun Ind	67	Neutral	2,764	2,892	4.6	423	506	19.7	95	179	87.9
Sector Aggregate			23,018	26,901	16.9	4,282	4,394	2.6	1,872	1,266	-32.4
Utilities											
CESC	487	Neutral	6,750	6,953	3.0	1,400	1,442	3.0	690	741	7.4
Neyveli Lignite Corporation	105	Buy	6,079	6,809	12.0	2,143	2,928	36.6	1,639	1,631	-0.5
NTPC	193	Neutral	68,138	75,679	11.1	18,408	21,721	18.0	14,410	15,417	7.0
PTC India	91	Buy	13,147	18,235	38.7	95	111	16.7	86	97	11.9
Reliance Energy	1,206	Buy	14,076	16,610	18.0	1,775	2,907	63.8	1,864	2,286	22.6
Tata Power	855	Buy	12,008	13,289	10.7	2,495	2,724	9.2	1,682	1,271	-24.4
Sector Aggregate			120,198	137,574	14.5	26,317	31,834	21.0	20,371	21,443	5.3
Others											
Ashapura Minchem	457	Buy	2,510	3,459	37.8	324	575	77.7	214	412	92.3
Blue Star	317	Buy	3,759	5,263	40.0	328	471	43.6	184	280	52.1
Bombay Rayon	239	Buy	1,033	2,213	114.3	200	433	117.1	111	204	84.1
Concor	2,101	Buy	7,693	9,617	25.0	2,522	3,105	23.1	1,895	2,261	19.3
Everest Kanto	234	Buy	1,001	1,301	30.0	263	344	30.7	136	229	68.0
Great Offshore	817	Buy	1,271	1,338	-	624	611	-	388	242	-
Greaves Cotton	317	Buy	2,520	2,879	14.2	395	349	-11.6	246	207	-15.5
United Phosphorous	396	Buy	5,169	8,861	71.4	1,345	1,905	41.7	656	935	42.6
Sector Aggregate			23,685	33,593	41.8	5,376	7,183	33.6	3,442	4,528	31.6



Ready reckoner: quarterly performance

	CMP (RS) 28.9.07	RECO	SALES			EBITDA			NET PROFIT		
			JUN.07	SEP.07	CHG. (%)	JUN.07	SEP.07	CHG. (%)	JUN.07	SEP.07	CHG. (%)
Information Technology											
Geometric Software	97	Neutral	1,129	1,209	7.1	79	126	60.7	117	53	-54.9
HCL Technologies	300	Buy	16,120	17,516	8.7	3,474	3,651	5.1	4,867	3,079	-36.7
Hexaware	125	Under Review	2,616	2,664	1.8	321	330	2.9	261	284	8.7
i-flex solutions	1,890	Neutral	5,321	5,786	8.8	729	944	29.6	415	731	76.1
Infosys	1,897	Buy	37,730	41,384	9.7	10,840	12,464	15.0	10,790	11,028	2.2
Infotech Enterpr	267	Buy	1,488	1,669	12.2	264	307	16.3	130	202	56.2
KPIT Cummins Inf	120	Buy	1,353	1,484	9.7	215	243	13.1	109	153	40.4
Mphasis	286	Buy	5,316	5,555	4.5	978	1,024	4.7	513	645	25.7
Patni Computer	470	Neutral	6,628	6,788	2.4	1,217	1,131	-7.1	1,348	901	-33.2
Sasken Comm	334	Buy	1,284	1,419	10.6	62	121	96.1	64	55	-14.6
Satyam Computer	444	Buy	18,302	19,577	7.0	4,103	3,934	-4.1	3,783	3,741	-1.1
TCS	1,057	Buy	52,029	56,354	8.3	13,265	14,527	9.5	11,856	11,920	0.5
Tech Mahindra	1,331	Under Review	8,763	9,262	5.7	1,934	1,991	3.0	1,696	1,652	-2.5
Wipro	460	Buy	41,832	46,939	12.2	8,907	10,001	12.3	7,105	8,400	18.2
Sector Aggregate			199,911	217,608	8.9	46,386	50,794	9.5	43,053	42,845	-0.5

	CMP (RS) 28.9.07	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)	SEP.06	SEP.07	CHG. (%)
Banks											
Andhra Bank	105	Buy	3,309	3,673	11.0	2,231	2,329	4.4	1,465	1,482	1.2
Axis Bank	764	Buy	3,652	5,258	44.0	2,745	4,044	47.3	1,420	2,009	41.5
Bank of Baroda	327	Buy	8,908	10,147	13.9	6,157	6,184	0.4	2,884	3,117	8.1
Bank of India	277	Buy	8,494	9,858	16.1	4,791	6,187	29.2	2,121	3,015	42.1
Canara Bank	278	Buy	9,811	9,697	-1.2	6,152	6,011	-2.3	3,618	3,448	-4.7
Corporation Bank	388	Sell	3,167	3,739	18.1	2,208	3,078	39.4	1,270	1,636	28.8
Federal Bank	372	Buy	1,675	2,017	20.5	1,390	1,647	18.4	695	817	17.7
HDFC	2,527	Buy	5,331	6,809	27.7	4,740	6,061	27.9	3,680	4,631	25.8
HDFC Bank	1,439	Buy	8,456	11,686	38.2	6,066	7,753	27.8	2,629	3,470	32.0
ICICI Bank	1,063	Neutral	15,770	20,991	33.1	16,119	18,891	17.2	7,550	9,631	27.6
Indian Bank	160	Buy	4,537	5,317	17.2	2,973	3,766	26.7	1,692	2,166	28.0
Indian Overseas Bank	144	Buy	6,119	7,178	17.3	4,148	4,823	16.3	2,499	2,973	19.0
J&K Bank	783	Buy	1,933	2,094	8.3	1,378	1,490	8.1	845	940	11.2
Karnataka Bank	224	Buy	906	1,203	32.8	741	1,033	39.5	596	567	-4.9
Oriental Bank of Commerce	242	Neutral	4,128	4,588	11.1	3,141	3,517	12.0	3,108	2,339	-24.7
Punjab National Bank	543	Buy	13,628	14,589	7.1	8,888	8,956	0.8	5,050	4,648	-8.0
State Bank	1,951	Buy	38,987	45,184	15.9	24,726	29,656	19.9	11,845	14,076	18.8
Syndicate Bank	92	Buy	4,846	5,684	17.3	3,031	3,466	14.4	2,051	2,158	5.2
Union Bank	163	Buy	6,276	7,812	24.5	4,283	5,389	25.8	1,942	2,414	24.3
Vijaya Bank	70	Neutral	2,598	2,761	6.3	1,766	1,706	-3.4	1,023	1,056	3.2
Sector Aggregate			152,528	180,286	18.2	107,672	125,988	17.0	57,981	66,593	14.9



Automobiles

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.	
Amtek Auto	50	While industry volume growth in April-August 2007 has declined by 2.6%, indications are that the worst is now over, especially with interest rates coming off the peak in key segments like commercial vehicles. Auto volume growth during August 2007 was positive for the first time in FY08, boosted by rapid growth in exports, although domestic volume growth was still marginally negative.
Ashok Leyland	51	
Bajaj Auto	52	
Bharat Forge	53	Despite the overall volumes trading negative territory, segments like passenger cars, utility vehicles (UVs) and light commercial vehicles (LCVs) have been able to sustain robust growth rates. We believe that these segments will continue to display robust volume growth.
Eicher Motors	54	
Hero Honda	55	
Mahindra & Mahindra	56	Demand for passenger vehicles is being boosted by expected rapid growth in high and middle income households due to strong economic growth, increased urbanization, steady introduction of new products, greater penetration in upper-end vehicle segments, aggressive capex plans of most OEM's and the plan to develop India into a regional automotive hub leading to higher exports, etc.
Maruti Suzuki India	57	
Swaraj Mazda	58	
Tata Motors	59	Demand for LCVs is being driven by the increased acceptance of the hub-and-spoke model, and success of Tata Motors' sub-one tonner <i>Ace</i> , which has cannibalized three-wheeler sales as well.
TVS Motor	60	

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Automobiles							
Amtek Auto	Buy	11,540	30.0	2,054	28.2	1,096	25.7
Ashok Leyland	Buy	17,436	4.1	1,534	16.2	756	5.5
Bajaj Auto	Buy	22,181	-8.9	3,069	-16.0	3,006	-9.3
Bharat Forge	Buy	5,408	20.0	1,163	-1.2	551	-11.5
Eicher Motors	Neutral	5,406	18.4	324	23.1	176	24.1
Hero Honda	Neutral	23,094	3.6	2,563	-9.6	2,014	-6.7
Mahindra & Mahindra	Buy	27,206	11.0	3,183	-3.3	2,491	0.8
Maruti Suzuki	Buy	43,561	27.4	7,087	30.6	4,609	24.1
Swaraj Mazda	Neutral	1,779	4.0	133	35.2	62	26.5
Tata Motors	Buy	65,177	-0.8	6,518	-16.2	3,531	-20.8
TVS Motor	Neutral	8,347	-22.6	267	-52.3	70	-71.9
Sector Aggregate		231,136	5.9	27,896	-0.4	18,361	-2.2

AUTO VOLUMES SNAPSHOT FOR APRIL - AUGUST FY08 YTD

	FY08	FY07	% GR.
Domestic Sales			
Motorcycles	2,172,474	2,536,668	-14.4
Two wheelers	2,785,561	3,045,091	-8.5
Three wheelers	150,184	160,485	-6.4
Passenger cars	501,173	438,662	14.3
UVs	89,480	81,268	10.1
M&HCV	92,474	97,500	-5.2
LCV	76,937	66,299	16.0
Total	3,695,809	3,889,305	-5.0
Export Sales			
Motorcycles	321,321	237,103	35.5
Two wheelers	344,017	276,161	24.6
Three wheelers	57,779	49,765	16.1
Passenger cars	84,048	82,401	2.0
UVs	2,868	2,338	22.7
M&HCV	8,810	6,580	33.9
LCV	13,203	12,090	9.2
Total	510,725	429,335	19.0
Total Sales			
Motorcycles	2,493,795	2,773,771	-10.1
Two wheelers	3,129,578	3,321,252	-5.8
Three wheelers	207,963	210,250	-1.1
Passenger cars	585,221	521,063	12.3
UVs	92,348	83,606	10.5
M&HCV	101,284	104,080	-2.7
LCV	89,748	78,389	14.5
Total	4,206,534	4,318,640	-2.6

Source: SIAM/Motilal Oswal Securities

Volume growth had weakened in 1QFY08, particularly in M&HCVs and two-wheelers, on the back of short-term concerns like higher interest rates, tighter financing norms, and the higher base of the previous year. With interest rates softening in segments like CVs, coupled with the arrival of the festive season (delayed by one month as compared to previous year), the outlook for these segments is also turning positive. We expect the turnaround to commence in 2HFY08, with robust volume growth expected in FY09.

On the back of an absolute decline in volumes in 2QFY08, we expect sector revenues to grow at 5.9% YoY. However, margin pressures, particularly for two-wheeler companies would lead to sector EBITDA margin declining 70bp YoY to 12.1% (an increase of 50bp QoQ).

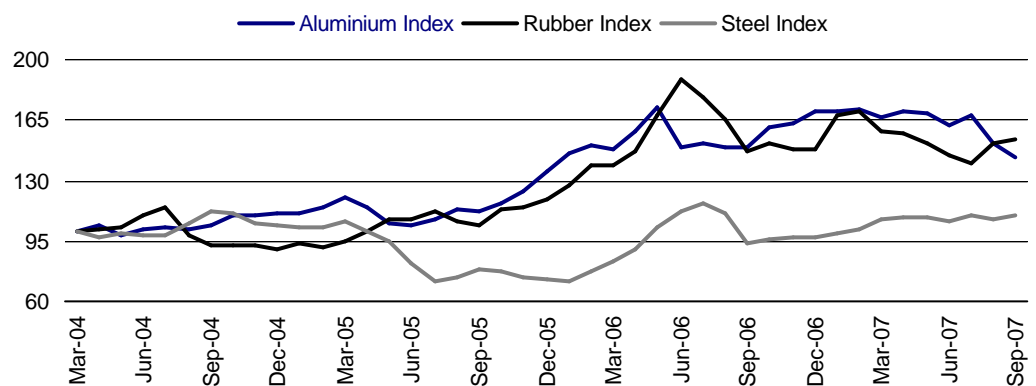
Risks to the sector growth are easing

We believe that the risk to the sector growth from rising interest rates (leading to concerns on demand growth) and high input cost prices (impacting operating performance and leading to concerns on margins) have declined as compared to 1QFY08. However, with the crude

price maintaining an upward trend, the prices of petrol and diesel, which saw two successive price cuts in 2HFY07, may be increased once more.

The strong demand pull due to the structural and fundamental factors mentioned earlier should sustain volume growth momentum in the medium to long term, with EBITDA margins expected to be stable at FY08 levels. Leaders in the sector have aggressive plans of new products, models and markets, which should drive volume growth.

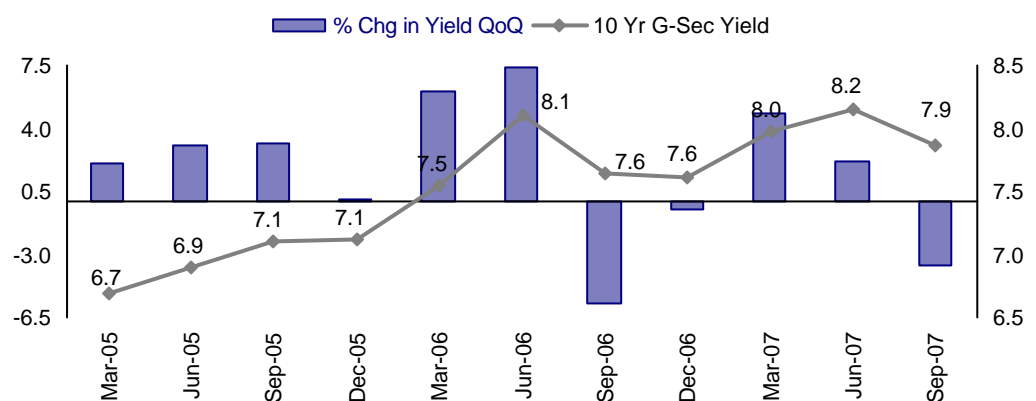
PRICES OF KEY INPUTS HAVE DECLINED ...



Source: LME/Bloomberg/Rubber Board of India/Motilal Oswal Securities

Price of key input commodities have declined or have been stable. This will slightly ease the pressure on margins.

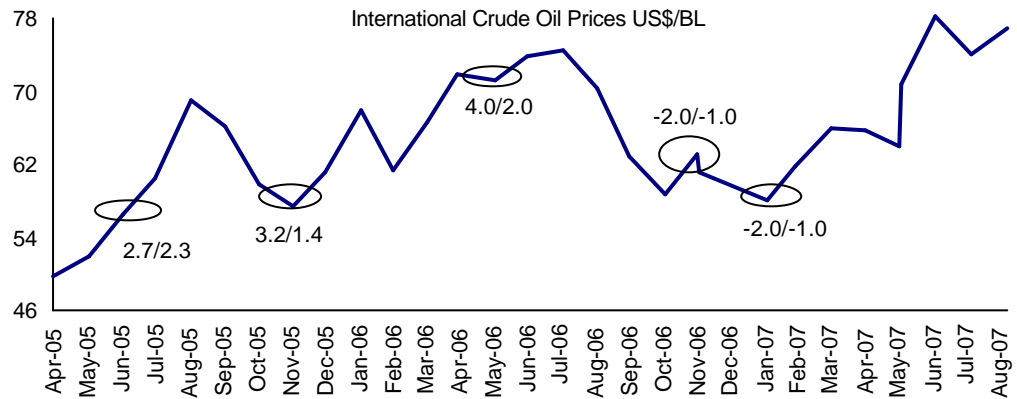
...10-YEAR G-SEC YIELD HAS DECLINED ...



Source: Bloomberg/Motilal Oswal Securities

Interest rates have declined. This is a positive for the auto sector, since lower rates would mean lower financing cost.

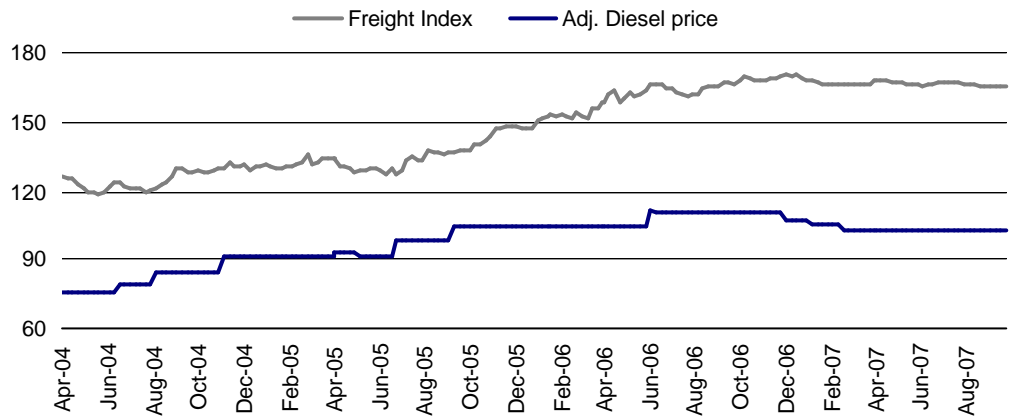
...WHILE CRUDE PRICE HAS MOVED UPWARDS



Note: Figures below the circles indicate the absolute increase in petrol/diesel prices; Circles indicating price increase/decrease to be put in Source: Bloomberg/Motilal Oswal Securities

Crude prices have come off the low seen in February 2007, and are now significantly higher.

FREIGHT RATES HAVE REMAINED FLAT



Source: TCIL/Motilal Oswal Securities

As a result, sector margins are expected to decline 70bp YoY to 12.1%. The negative impact on margins for two-wheelers, and auto component companies is expected to be higher as margins are expected to decline 130bp and 180bp respectively.

SECTOR EBITDA MARGIN (%)

	2QFY08	2QFY07	1QFY08
Four-wheeler Companies	11.7	12.3	11.3
Two-wheeler Companies	11.0	12.3	10.4
Auto Component Companies	19.0	20.8	18.3
Auto Sector	12.1	12.8	11.6

Source: Company/Motilal Oswal Securities

Key developments

Acquisitions / joint ventures

- ✦ M&M has acquired 63.3% in Punjab Tractors (PTL) – 43.3% stake of Actis and Burman's and a further 20% following the open offer at Rs360 per share. The deal values the equity portion of the company at Rs21.9b, implying a cash outflow of Rs9.5b to buy the 43.3% stake and a further Rs4.4b for the open offer. Post-acquisition, M&M's market share in tractors has increased from ~30% to over 40%. The acquisition has helped M&M consolidate its position in the North Indian markets in general and the states of Punjab and Haryana in particular. M&M will also acquire Swaraj Engines, a JV with Kirloskar that manufactures engines for tractors and Swaraj Automobiles that makes auto components and seats for tractors.
- ✦ Maruti intends to set up a 49:51 joint venture company with Futaba Industrial of Japan to manufacture exhaust pipes, exhaust mufflers and exhaust manifolds primarily for Maruti, Suzuki Motor Corporation and associates. The investment in this JV is expected to be Rs1.82b. The factory will be constructed in Manesar, Haryana and is expected to start operations by September 2008. It will become fully operational by 2010. Futaba is the largest manufacturer of exhaust system components for automobiles in Japan, with a market share of 35%. The component manufacturer has been a key supplier to Suzuki. It has recently forayed into manufacturing chassis and fuel-related component parts as well.
- ✦ Ashok Leyland has entered into an initial agreement to form three joint ventures with Nissan Motor Company for the development, manufacture and distribution of LCVs. This partnership is a positive development for Ashok Leyland, as it has near-zero presence in the LCV space (its LCV sales have averaged 45 units per month in April-July 2007). With the Avia acquisition offering a presence in MCVs, Ashok Leyland would be able to boast a complete portfolio of CVs, once the JVs with Nissan get operationalized.

Other

- ✦ Bajaj Auto has launched its new bike XCD 125 DTS-Si (Digital Twin Spark – Swirl Induction) at an ex-showroom price of Rs41,000. It is a 125cc bike giving mileage equivalent to that of a 100cc bike. The management expects this new bike to be a blockbuster product, causing a shift in the consumer preferences away from 100cc motorcycles. The bike is positioned in the space between the *Platina* (100cc) and the *Discover* (135cc) and is targeting a segment where Bajaj's presence is the weakest.
- ✦ Tata Motors has launched the passenger carrier version of its successful sub-one ton LCV, *Ace*. The target audience for this vehicle (named *Magic*) would be potential purchasers of autorickshaws, ambulances, security vans, etc. Simultaneously launched with the *Magic* was the *Winger* — a maxi-van, offering a blend of a car with the spaciousness of a bus for intra-city and long-distance transport. The management expects these launches to complement each other in both the urban areas as well as in the rural interiors.

- ✎ TVS Motors has announced seven new products, to be launched in a phased manner over October and November 2007. These launches will attempt to revive its motorcycle sales and will also mark its entry into the three-wheeler segment. The new two-wheeler launches announced by the company are a new 125cc bike, *Flame*, a 160cc variant of *Apache*, an electric scooter model, and a 110cc version of *Star City*. It has also marked its entry into the three-wheelers space, with three two-stroke variants in petrol, CNG, and LPG.

Passenger vehicles: expect double-digit volume growth

Demand for passenger vehicles is being boosted by expected rapid growth in high and middle income households due to strong economic growth, increased urbanization, steady introduction of new products, greater penetration in upper-end vehicle segments, aggressive capex plans of most OEM's and the plan to develop India into a regional automotive hub leading to higher exports, etc.

We remain extremely positive on Maruti's growth prospects. We expect its volumes to grow at 16.4% CAGR over FY07-10; aggressive model launches could result in positive surprises both in domestic and export markets. Its successful entry into the diesel segment with the launch of the *Swift* diesel, the replacement of the *Baleno* with the new-age *SX4*, and the impending launches of the *Swift* sedan (*Esteem* replacement), and the *Splash* (in the A2 segment) would help Maruti to maintain its dominance in the passenger cars segment and outpace industry growth. Moreover, new launches by other auto companies in a booming economy and upgradation cycle would see the overall passenger vehicle industry maintaining double-digit volume growth.

CVs: demand slackens

The M&HCV industry growth has slackened in April-August 2007 on two main counts – the high base of the previous year, and more importantly, higher interest rates, which have led to a significant increase in the cost of ownership of a vehicle. With the interest rates on CVs declining, we expect the scenario to improve significantly in 2HFY08, but input cost pressures would result in stagnant margins in most segments. LCVs, driven by the success of the *Ace*, have maintained a robust growth rate even in FY08.

Our positive view on the four-wheeler sector is based upon structural and fundamental positives such as the strong growth in the economy/industry, policy focus on infrastructure, increased propensity to spend among the middle and affluent classes, development of India as a small car manufacturing hub, increasing middle-class population, reduction in duties, ban on overloading, infrastructure development, aggressive capex plans of most passenger car manufacturers, and aggressive targets set in the Draft Automotive Mission Plan 2006-2016.

We remain positive on **Tata Motors** and **Ashok Leyland**.

Two-wheelers: expected to bounce back in 2HFY08

The motorcycle segment has lost momentum in CY07 due to the rising interest cost, tighter financing norms, and high base effect of previous year. Over April–August 2007, the motorcycle sales have declined by 10.1%, with the three majors – Hero Honda, Bajaj Auto and TVS Motors registering volume declines of 3.3%, 10.7% and 37.5% respectively. The launch of the new bike *XCD* 125 by Bajaj Auto is expected to help the company pick up volumes, while also improving on its EBITDA margin.

Intense competitive pressures and sluggish volume growth in 2QFY08 would adversely impact the performance of the two-wheeler segment. EBITDA margins of the two-wheeler players have come under pressure on account of aggressive pricing of entry-level bikes like *Platina*, price cuts and promotional offers, new launches resulting in higher development costs and increased ad spend, and higher raw-material prices. These factors have impacted all the three two-wheeler majors. However, we are upgrading our recommendation on **Bajaj Auto** to **Buy**, following the launch of *XCD*, greater visibility of margin improvement, and expectation of higher two-wheeler volumes 2HFY08 onwards.

Tractors: volume growth taking a pause

Focus on agri-driven growth and normal monsoons have been the demand drivers for tractors. However, the high base of the previous years, and lower availability of financing have led to lower tractor volume growth in 1HFY08. M&M's performance has been in line with that of the tractor industry. Given the high base of the previous year, we expect the growth rate for tractors to be significantly lower at 5-6% in FY08. In FY07, the industry had seen volume growth of 20.5%.

M&M also has a sizeable presence in USA (with sales of 10,000 units in FY06) and is gaining a foothold in China via Jiangling Tractor. It has also set up distribution in Australia. M&M now has a presence in the largest tractor markets in the world. Currently, its exports are at 7.5% of sales and we expect this to improve to 15% over the next 3-4 years.

Valuation and view

After a rapid surge in volumes in FY07 across all segments, the auto sector has witnessed sluggish growth in 1HFY08. Growth has been lower due to the high base of the previous year, and more importantly, higher interest rates, which led to a significant increase in the cost of ownership of a vehicle. Further, stringent financing norms for segments such as two-wheelers and tractors led to lower availability of credit as well, leading to these segments underperforming the auto industry.

However, with interest rates softening in segments like CVs, coupled with the arrival of the festive season (delayed by one month as compared to previous year), the outlook for these segments is also turning positive. We expect the turnaround to commence in 2HFY08,

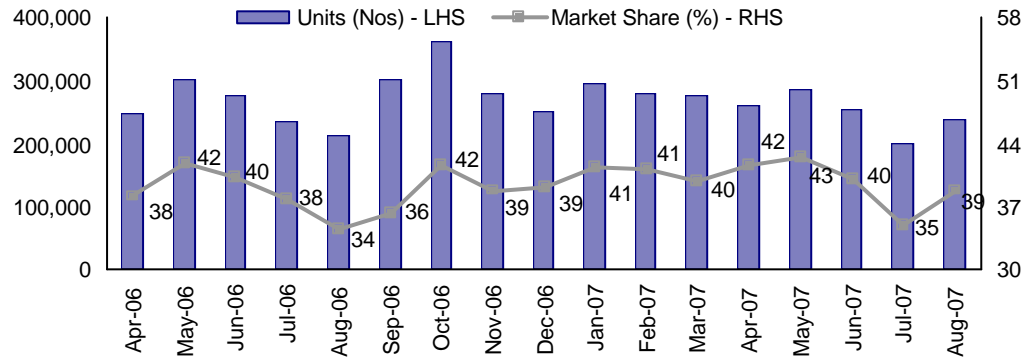
with robust volume growth in FY09. However, intense competitive pressures could adversely impact the performance of the two-wheeler segment.

Our positive view on the four-wheeler sector is based upon structural and fundamental positives such as the strong growth in the economy/industry, policy focus on infrastructure, increased propensity to spend among the middle and affluent classes, development of India as a small car manufacturing hub, increasing middle-class population, infrastructure development, aggressive capex plans of most passenger car manufacturers, and aggressive targets set in the Draft Automotive Mission Plan 2006-2016.

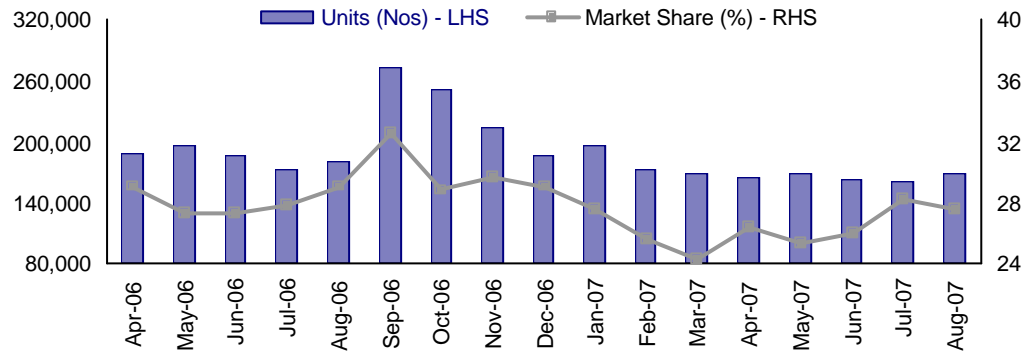
Valuations continue to be in a comfortable zone. We reiterate our **Overweight** stance on four-wheelers. Our top picks, **Maruti Suzuki, Bajaj Auto, M&M** and **Tata Motors** are dominant players in highly consolidated segments, where the top-two players command more than 50% market share.

PERFORMANCE OF MAJOR PLAYERS IN THE INDUSTRY

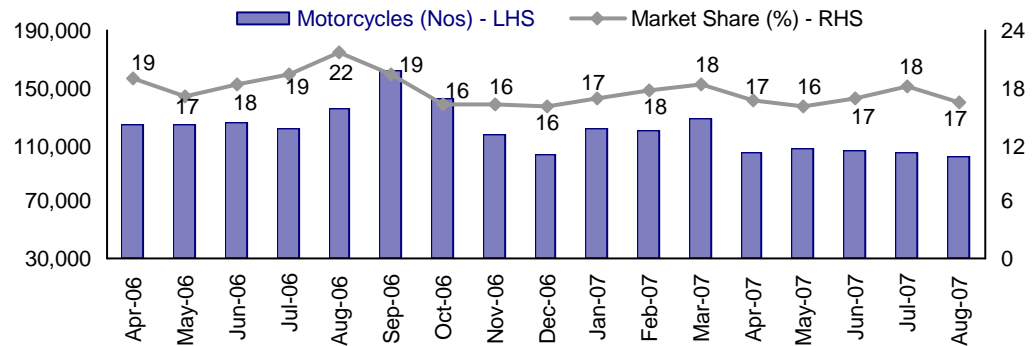
HERO HONDA: MONTHLY MARKET SHARE MOVEMENT (TWO-WHEELERS)



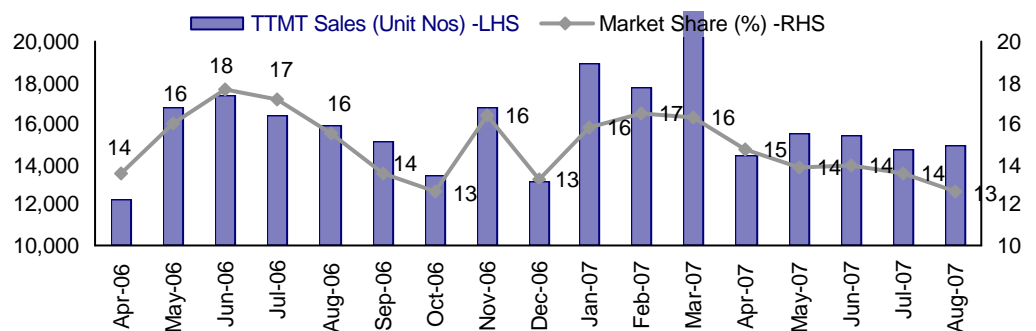
BAJAJ AUTO: MONTHLY MARKET SHARE MOVEMENT (TWO-WHEELERS)



TVS MOTORS: MONTHLY MARKET SHARE MOVEMENT (TWO-WHEELERS)

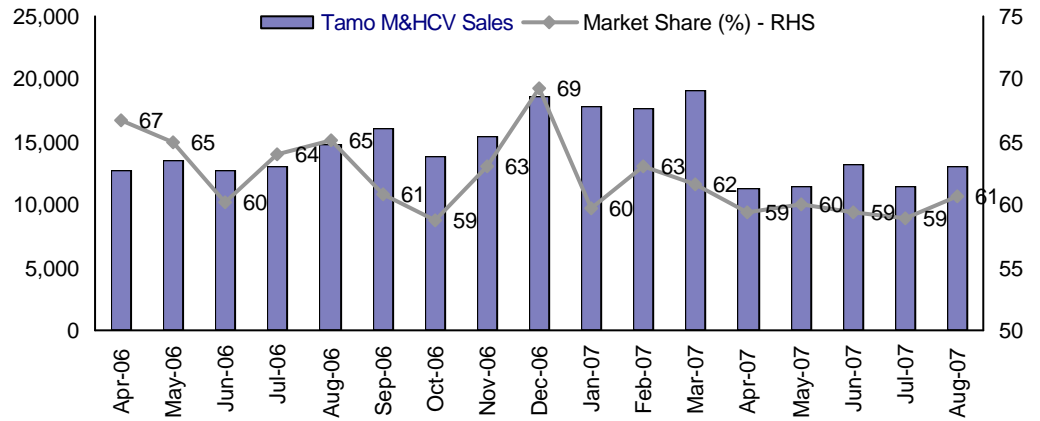


TATA MOTORS: MONTHLY MARKET SHARE MOVEMENT (PASSENGER CARS)

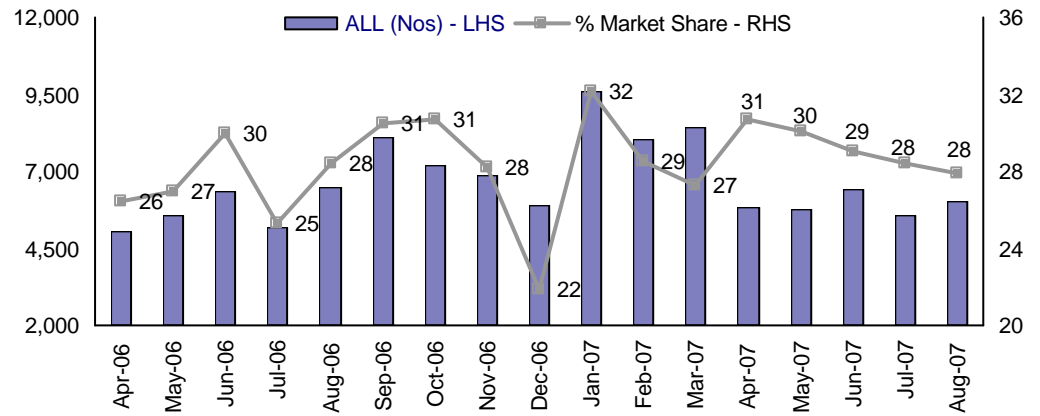


Source: SIAM/Motilal Oswal Securities

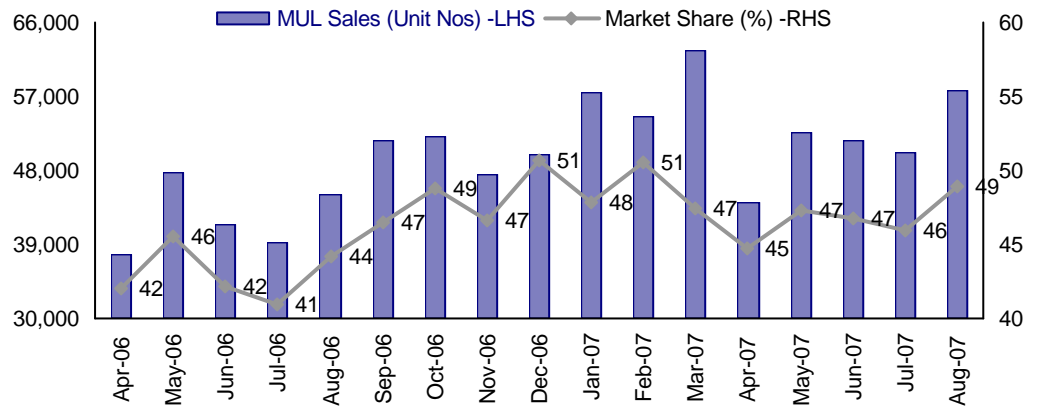
TATA MOTORS: MONTHLY MARKET SHARE MOVEMENT (M&HCV)



ASHOK LEYLAND: MONTHLY MARKET SHARE MOVEMENT (M&HCV)



MARUTI UDYOG: MONTHLY MARKET SHARE MOVEMENT (PASSENGER CARS)



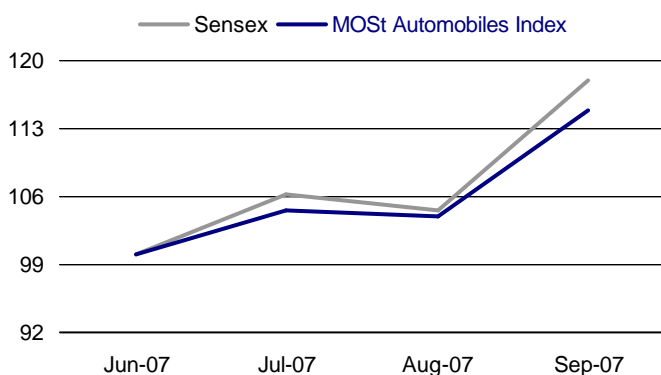
Source: SIAM Motilal Oswal Securities

Stock performance and valuations

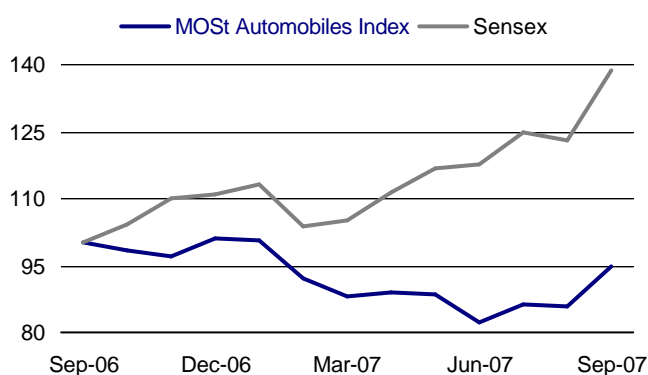
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Automobiles						
Amtek Auto	-12	8	-32	-32	-28	11
Ashok Leyland	22	4	2	-36	6	7
Bajaj Auto	21	-13	2	-53	6	-10
Bharat Forge	-8	-18	-27	-58	-24	-15
Eicher Motors	19	36	0	-3	4	40
Hero Honda	9	-6	-10	-45	-6	-2
Mahindra & Mahindra	6	13	-13	-27	-9	16
Maruti Suzuki	33	6	14	-34	18	9
Swaraj Mazda	-4	33	-23	-6	-19	37
Tata Motors	17	-8	-2	-47	1	-4
TVS Motor	9	-43	-11	-83	-7	-40

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
	28.9.07													
Automobiles														
Amtek Auto	360	Buy	24.0	31.0	35.7	15.0	11.6	10.1	9.1	6.7	5.4	19.3	19.9	18.7
Ashok Leyland	46	Buy	3.2	3.4	3.8	14.1	13.5	12.1	8.7	8.0	7.1	23.3	22.0	21.3
Bajaj Auto	2,540	Buy	127.2	131.3	153.5	20.0	19.3	16.5	14.7	14.0	11.0	23.3	20.6	20.6
Bharat Forge	286	Buy	12.0	12.5	16.2	23.8	22.8	17.6	13.3	13.8	10.7	17.5	17.2	16.7
Eicher Motors	421	Neutral	21.8	25.8	30.4	19.3	16.3	13.8	9.2	7.8	6.4	14.8	15.4	15.9
Hero Honda	745	Neutral	43.4	43.1	50.2	17.2	17.3	14.8	11.0	11.1	8.9	38.3	31.9	31.2
Mahindra & Mahindra	752	Buy	55.1	64.3	75.2	13.7	11.7	10.0	13.0	11.2	9.7	25.9	22.6	20.8
Maruti Suzuki	1,000	Buy	53.9	67.7	79.2	18.5	14.8	12.6	10.8	8.1	6.7	22.7	22.6	21.2
Swaraj Mazda	304	Neutral	15.3	24.3	28.1	19.8	12.5	10.8	11.2	7.6	6.7	21.2	27.1	25.6
Tata Motors	778	Buy	52.9	51.9	59.0	14.7	15.0	13.2	9.9	10.6	9.1	27.6	21.4	21.0
TVS Motor	70	Neutral	2.8	2.2	2.7	25.0	32.4	25.8	13.6	14.2	11.7	8.2	6.1	7.3
Sector Aggregate						18.2	17.3	15.1	11.1	10.2	8.5	24.3	21.5	20.9

Amtek Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	AMTK IN
	REUTERS CODE
S&P CNX: 5,021	AMTK.BO

28 September 2007

Buy

Rs360

Previous Recommendation: Buy

Equity Shares (m)	162.6
52-Week Range	438/305
1,6,12 Rel. Perf. (%)	-11/-36/-32
M.Cap. (Rs b)	58.6
M.Cap. (US\$ b)	1.5

YEAR END	NET SALES (RS M)	PAT (RS M)	ADJ.EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/07A	39,898	3,909	24.0	55.7	15.0	2.2	19.3	15.6	1.6	9.1
6/08E	50,409	5,039	31.0	28.9	11.6	1.7	19.9	18.0	1.2	6.7
6/09E	57,443	5,810	35.7	15.3	10.1	1.2	18.7	18.8	1.0	5.4

- ✦ We expect Amtek Auto's consolidated revenues to grow 30% YoY to Rs 11.5b in 1QFY08, while consolidated adjusted PAT should grow 25.7% YoY to Rs 1.1b.
- ✦ EBITDA margin is likely to expand 40bp QoQ, but decline 20bp YoY to 17.8%, due to the appreciation of the rupee vis-à-vis the euro and the dollar. EBITDA should increase 28.2% YoY to Rs 2.1b.
- ✦ Amtek Auto's subsidiaries – Benda Amtek and Amtek Siccardi – would continue to contribute to topline growth, while margin improvement at Ahmednagar Forgings would help expand consolidated EBITDA margin.
- ✦ We expect Amtek Auto to report net sales of Rs 50.4b in FY08 (up 26.3%), and an adjusted PAT of Rs 5b (up 28.9%).
- ✦ The company has acquired the assets of UK-based JL French's Witham unit, which manufactures high pressure die casting (HPDC) aluminum mainly for automotive applications for European companies. This is Amtek's second asset acquisition in the aluminum foundry space in FY07.
- ✦ Amtek Auto is the only player in India with strong presence in both forgings and castings along with machining capacity to supply finished components to global OEMs. On a fully consolidated basis, valuations of Amtek Auto are the cheapest in the auto component space. The stock trades at 11.6x FY08E consolidated EPS of Rs 31 and 10.1x FY09E EPS of Rs 35.7. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	8,877	9,667	10,805	10,549	11,540	12,277	13,507	13,085	39,898	50,409
Change (%)	46.5	39.7	45.6	44.1	30.0	27.0	25.0	24.0	43.9	26.3
Total Cost	7,275	7,890	8,812	8,715	9,486	10,067	11,008	10,623	32,692	41,184
EBITDA	1,602	1,777	1,994	1,834	2,054	2,210	2,499	2,462	7,206	9,225
As % of Sales	18.0	18.4	18.4	17.4	17.8	18.0	18.5	18.8	18.1	18.3
Change (%)	53.0	42.8	48.4	43.6	28.2	24.4	25.3	34.2	46.7	28.0
Other Income	151	178	203	366	250	240	260	283	898	1,033
Interest	171	199	211	251	235	225	215	211	832	886
Depreciation	330	339	368	421	410	430	445	459	1,457	1,744
PBT	1,252	1,417	1,618	1,527	1,659	1,795	2,099	2,075	5,815	7,627
Tax	293	343	409	441	448	485	567	560	1,486	2,059
Effective Tax Rate (%)	23.4	24.2	25.3	28.9	52.8	41.4	38.5	26.9	25.6	27.0
PAT	959	1,074	1,209	1,086	1,211	1,310	1,532	1,514	4,328	5,568
Minority Interest	87	103	125	105	115	124	146	144	419	529
PAT after Minority Interest	872	971	1,085	981	1,096	1,186	1,387	1,371	3,909	5,039
Change (%)	59.8	55.7	55.4	52.5	25.7	22.1	27.8	39.7	55.7	28.9

E: MOST Estimates

Ashok Leyland

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	AL IN
	REUTERS CODE
S&P CNX: 5,021	ASOK.BO

28 September 2007

Buy

Rs46

Previous Recommendation: Buy

	YEAR END	NET SALES (RS M)	PAT (RS M)	ADJ.EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA	
Equity Shares (m)	1,331.8											
52-Week Range	51/34											
1,6,12 Rel. Perf. (%)	11/-17/-36											
M.Cap. (Rs b)	60.9	3/07A	71,682	4,276	3.2	41.4	14.1	3.2	23.3	22.8	0.8	8.6
M.Cap. (US\$ b)	1.5	3/08E	81,548	4,521	3.4	5.7	13.5	2.9	22.0	17.9	0.8	8.0
		3/09E	91,437	5,036	3.8	11.4	12.1	2.6	21.3	18.7	0.7	7.1

- Ashok Leyland is likely to report flat vehicle volumes in 2QFY08, resulting in sales growth of 4.1% YoY to Rs 17.4b. Sales growth would be higher than volume growth, as the company's product mix is shifting towards higher tonnage vehicles. For FY08, we expect Ashok Leyland to register volume growth of 8% to 89,749 units.
- Volume growth in the CV goods segment has been negative in 1HFY08 due to higher interest rates impacting demand, and the high base of last year. However, the demand from the bus segment is strong, and will help the company to show flat volume growth.
- In 2QFY08, we expect EBITDA margin to increase 90bp YoY, resulting in an EBITDA of Rs 1.5b (growth of 16.2% YoY). EBITDA margin improvement would be driven by the ongoing productivity improvement and cost reduction programs.
- We expect Ashok Leyland to register overall volume growth of 8% in FY08 and 9% in FY09. It has entered into an initial agreement to form three joint ventures with Nissan Motor for the development, manufacture and distribution of LCV products. This partnership is a positive development for Ashok Leyland, as it has near-zero presence in LCVs.
- The stock trades at 13.5x FY08E EPS of Rs 3.4 and 12.1x FY09E EPS of Rs 3.8. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	17,040	19,869	20,068	26,124	18,163	19,879	22,500	29,207	83,101	89,749
Net Sales	14,239	16,757	17,776	22,910	16,211	17,436	20,927	26,974	71,682	81,548
Change (%)	33.9	34.0	47.8	32.3	13.9	4.1	17.7	17.7	36.6	13.8
Total Cost	13,026	15,437	15,907	20,314	14,665	15,902	18,834	23,911	64,685	73,312
EBITDA	1,213	1,320	1,869	2,596	1,546	1,534	2,093	3,063	6,997	8,236
As a % of Sales	8.5	7.9	10.5	11.3	9.5	8.8	10.0	11.4	9.8	10.1
Change (%)	41.4	10.3	61.0	20.6	27.5	16.2	12.0	18.0	30.3	17.7
Non-Operating Income	139	99	64	169	76	80	65	142	470	362
Interest	5	4	26	19	128	130	125	137	53	519
Gross Profit	1,346	1,415	1,907	2,746	1,494	1,484	2,033	3,069	7,414	8,080
Less: Depreciation	328	365	332	481	413	435	440	439	1,506	1,726
PBT	1,019	1,050	1,574	2,264	1,081	1,049	1,593	2,630	5,908	6,353
Tax	262	334	463	573	361	294	430	747	1,632	1,832
Effective Tax Rate (%)	25.7	31.8	29.4	25.3	33.4	28.0	27.0	28.4	27.6	28.8
Adj. PAT (before EO)	756	716	1,112	1,692	720	756	1,163	1,883	4,276	4,521
Change (%)	126.1	-10.7	96.5	28.0	-4.8	5.5	4.6	11.3	41.4	5.7
Extraordinary Income	0	268	0	54	197	0	0	0	322	197
Extraordinary Loss	65	31	59	30	35	0	0	0	185	35
Rep. PAT	692	954	1,053	1,715	882	756	1,163	1,883	4,413	4,683
Change (%)	7.5	27.1	93.1	28.5	27.5	-20.8	10.5	9.8	34.8	6.1

E: MOSt Estimates

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Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	BJA IN
	REUTERS CODE
S&P CNX: 5,021	BJAT.BO
Equity Shares (m)	101.2
52-Week Range	3,175/2,063
1,6,12 Rel. Perf. (%)	-5/-31/-53
M.Cap. (Rs b)	257.0
M.Cap. (US\$ b)	6.5

28 September 2007

Buy

Rs 2,540

Previous Recommendation: Sell

YEAR	NET SALES	ADJ. PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	95,204	12,869	127.2	14.6	20.0	4.6	23.3	24.6	2.2	14.7
3/08E	101,868	13,283	131.3	3.2	19.3	4.0	20.6	22.6	2.0	14.0
3/09E	114,593	15,530	153.5	16.9	16.5	3.4	20.6	23.1	1.7	11.0

- ✘ Total volumes of Bajaj Auto have declined 13.3% YoY in 2QFY08, the second successive quarter of volume decline. Motorcycle volumes have declined 14.7% YoY while three-wheelers volumes have declined 7.2% YoY.
- ✘ We expect sales to decline 8.9% YoY to Rs22.2b. Despite three-wheelers contributing higher to the product mix (12.2% v/s 11.4% in 2QFY07), we expect EBITDA margin to dip by 120bp YoY, but increase by 70bp QoQ to 13.8%. We estimate EBITDA at Rs3.1b (decline of 16% YoY) and adj. PAT at Rs3b (decline of 5.4% YoY).
- ✘ Margins would expand QoQ due to lower salary expenses (annual bonuses are paid in 1Q). We expect margins to improve further in 2HFY08 due to better product mix and higher DEPB benefit due to the revised rate of benefit and higher exports.
- ✘ The company has launched its new 125cc bike XCD, which it expects to be a blockbuster product. If successful, it would help the company revive its motorcycle sales and improve its EBITDA margin. Bajaj is targeting monthly sales of 50,000 units of XCD by October 2007 itself.
- ✘ We are upgrading our recommendation to **Buy**, following the launch of XCD, greater visibility of margin improvement, and expectation of higher two-wheeler volumes 2HFY08 onwards. The stock trades at 19.3x FY08E EPS of 131.3 and 16.5x FY09E EPS of Rs 153.5.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	647,086	708,125	738,219	625,346	571,590	614,093	781,650	807,165	2,718,776	2,774,498
Net Sales	22,027	24,360	25,682	23,136	21,091	22,181	28,281	30,315	95,204	101,868
Change (%)	34.8	30.5	28.4	6.8	-4.2	-8.9	10.1	31.0	24.2	7.0
Total Cost	18,408	20,708	22,046	19,873	18,338	19,112	24,140	25,857	81,034	87,447
EBITDA	3,619	3,652	3,636	3,263	2,754	3,069	4,141	4,458	14,170	14,422
As % of Sales	16.4	15.0	14.2	14.1	13.1	13.8	14.6	14.7	14.9	14.2
Change (%)	40.5	15.7	1.5	-23.2	-23.9	-16.0	13.9	36.6	4.5	1.8
Other Income	946	1,424	1,609	1,577	1,027	1,567	1,810	1,614	5,556	6,018
Interest	7	20	2	24	1	18	10	28	53	56
Depreciation	481	492	472	458	490	500	520	552	1,903	2,062
PBT	4,076	4,564	4,771	4,358	3,290	4,118	5,421	5,493	17,770	18,321
Tax	1,300	1,250	1,200	1,151	1,025	1,112	1,464	1,438	4,901	5,038
Effective Tax Rate (%)	31.9	27.4	25.2	26.4	31.2	27.0	27.0	26.2	27.6	27.5
Adj. PAT	2,776	3,314	3,571	3,208	2,265	3,006	3,957	4,055	12,869	13,283
Change (%)	32.8	14.0	22.8	-3.9	-18.4	-9.3	10.8	26.4	14.5	3.2
PAT	2,660	3,176	3,452	3,083	2,265	3,006	3,957	4,055	12,371	13,283
Change (%)	27.3	9.2	23.3	-4.2	-14.9	-5.4	14.7	31.5	12.3	7.4

E: MOST Estimates

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Bharat Forge

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BHFC IN
	REUTERS CODE
S&P CNX: 5,021	BFRG.BO

28 September 2007

Buy

Rs286

Previous Recommendation: Buy

Dil. Equity Shares (m)	237.3
52-Week Range	396/271
1,6,12 Rel. Perf. (%)	-9/-44/-58
M.Cap. (Rs b)	63.6
M.Cap. (US\$ b)	1.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	CON. EPS (RS)	P/E (X)	CON. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	18,644	2,533	10.0	12.0	28.6	23.8	17.5	15.8	3.1	12.3
3/08E	22,413	2,482	9.8	12.5	29.2	22.8	17.2	14.6	2.9	13.0
3/09E	26,878	3,083	12.2	16.2	23.5	17.6	16.7	15.9	2.3	10.0

- ✦ We expect Bharat Forge to post sales growth of 20% YoY in 2QFY08 to Rs5.4b, driven by 7.8% increase in domestic sales and 37.5% increase in exports. Completion in ramp-up of capacities would help accelerate sales growth.
- ✦ We expect EBITDA to decline 1.2% YoY to Rs1.2b, with EBITDA margin declining 460bp YoY to 21.5%. We estimate PAT at Rs551m (down 11.5% YoY).
- ✦ Bharat Forge's performance in 1QFY08 was negatively impacted by the appreciating rupee; it has indicated that it would pursue corrective measures. The company also plans to improve EBITDA margin by reducing costs and hedging its expenses against the dollar.
- ✦ The company plans capex of Rs3.5b for its non-automotive business ventures – aerospace, oil & gas exploration, energy, railways & locomotives, marine activities, infrastructure, solar, wind & thermal power equipment, etc. Entry into the non-automotive space would further de-risk Bharat Forge's business model and this segment is expected to contribute up to 40% of global revenues by FY11 (17% in FY07 and 25% in FY09).
- ✦ Bharat Forge's global subsidiaries operate at a blended margin of about 8-9%. The company plans to enhance margins by achieving higher capacity utilization and introducing value-added products.
- ✦ We remain positive on Bharat Forge's 'dual shore' model and the management's global vision. The stock trades at 22.8x FY08E and 17.6x FY09E consolidated EPS of Rs12.5 and Rs16.2 respectively. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,206	4,507	4,771	5,161	4,969	5,408	5,967	6,069	18,644	22,413
Change (%)	15.7	19.7	19.5	17.7	18.1	20.0	25.1	17.6	18.2	20.2
Total Expenses	3,132	3,330	3,532	3,917	3,956	4,245	4,535	4,589	13,912	17,325
EBITDA	1,073	1,177	1,239	1,243	1,012	1,163	1,432	1,481	4,732	5,088
As % of Sales	25.5	26.1	26.0	24.1	20.4	21.5	24.0	24.4	25.4	22.7
Change (%)	23.3	21.1	25.6	18.1	-5.7	-1.2	15.6	19.1	21.9	7.5
Other Income	233	192	162	222	200	190	165	233	809	789
Interest	176	197	215	234	234	210	200	183	821	827
Depreciation	229	250	253	267	329	333	338	344	998	1,344
Extraordinary Expenses	101	0	22	0	0	0	0	0	124	0
Extraordinary Income	0	0	0	0	333	0	0	0	0	333
PBT	800	922	911	965	983	810	1,059	1,187	3,598	4,039
Tax	285	301	281	322	335	259	349	391	1,189	1,334
Effective Tax Rate (%)	35.6	32.6	30.9	33.4	34.1	32.0	33.0	32.9	33.0	33.0
PAT	515	622	630	643	648	551	710	797	2,409	2,705
Adj. PAT	616	622	652	643	425	551	710	797	2,533	2,482
Change (%)	29.9	20.1	22.4	21.3	-31.0	-11.5	8.8	24.0	23.3	-2.0

E: MOSI Estimates; quarter numbers are for standalone company.

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Eicher Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	EIM IN
	REUTERS CODE
S&P CNX: 5,021	EICH.BO

28 September 2007

Neutral

Equity Shares (m)	28.1
52-Week Range	462/222
1,6,12 Rel. Perf. (%)	0/33/-3
M.Cap. (Rs b)	11.8
M.Cap. (US\$ b)	0.3

Previous Recommendation: Neutral

Rs421

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	19,525	613	21.8	21.5	19.3	2.9	14.8	15.6	0.5	9.2
3/08E	22,754	724	25.8	18.3	16.3	2.5	15.4	16.7	0.5	7.8
3/09E	25,438	854	30.4	17.9	13.8	2.2	15.9	17.6	0.4	6.4

- ✦ We expect Eicher Motors' CV volumes to grow 5.3% YoY in 2QFY08 and 10.8% in FY08, led by the passenger and LCV goods segments. Its two-wheeler volumes are also seeing robust growth, defying the general industry trend (21.3% YoY growth in 2QFY08).
- ✦ Eicher should report sales of Rs5.4b for the quarter, resulting in an EBITDA of Rs324m and PAT of Rs176m. For FY08, we expect sales of Rs22.8b and PAT of Rs724m (18.3% growth).
- ✦ The management has decided not to transfer the motorcycle business to a subsidiary as was initially planned, due to its being unable to find a suitable JV partner.
- ✦ Eicher Motors is a small player in the CV industry, facing margin pressures. However, initiatives such as restructuring, new model launches in high growth segments, attempts to improve realizations and reduce costs, would help counter margin pressures.
- ✦ The company enjoys good recall for its products. While growth may get capped on account of its limited geographical reach and distribution and service network, it is attempting to resolve this issue by expanding its marketing and distribution network. We maintain our **Neutral** recommendation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	3,831	4,565	4,938	6,191	4,644	5,406	5,762	6,943	19,525	22,754
Change (%)	-1.2	29.3	26.6	20.3	21.2	18.4	16.7	12.1	18.7	16.5
Total Expenses	3,649	4,301	4,612	5,807	4,381	5,081	5,394	6,532	18,369	21,387
EBITDA	183	263	326	384	263	324	369	411	1,156	1,367
As a % of Sales	4.8	5.8	6.6	6.2	5.7	6.0	6.4	5.9	5.9	6.0
Non-Operating Income	73	73	52	70	53	75	55	79	267	262
Interest	34	31	32	41	53	45	45	38	138	180
Gross Profit	221	305	346	413	263	354	379	452	1,285	1,448
Less: Depreciation	98	99	102	107	109	110	112	111	405	442
PBT	123	206	244	306	155	244	267	341	879	1,006
Tax	39	65	66	97	43	68	75	95	267	282
Effective Tax Rate (%)	31.7	31.3	27.0	31.8	28.0	28.0	28.0	28.0	30.3	28.0
PAT	84	142	178	209	111	176	192	245	613	724
Adjusted PAT	84	142	178	209	111	176	192	245	613	724
Change (%)	2,238.9	N.A.	-39.6	-25.5	32.2	24.1	8.0	17.5	22.0	18.3

E: MOSt Estimates

Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HH IN
	REUTERS CODE
S&P CNX: 5,021	HROH.BO

28 September 2007

Neutral

Rs745

Previous Recommendation: Neutral

Equity Shares (m)	199.7
52-Week Range	809/565
1,6,12 Rel. Perf. (%)	2/-21/-45
M.Cap. (Rs b)	148.7
M.Cap. (US\$ b)	3.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	99,000	8,659	43.4	-10.9	17.2	6.0	38.3	48.5	1.3	11.0
3/08E	104,085	8,609	43.1	-0.6	17.3	5.1	31.9	40.3	1.3	11.1
3/09E	116,946	10,019	50.2	16.4	14.8	4.3	31.2	39.3	1.0	8.9

- Hero Honda's total volumes in 2QFY08 have increased marginally by 0.5% YoY (a decline 5.8% QoQ). Though volumes have been subdued, the company's motorcycle product mix has improved, with >125cc bikes constituting 5.4% of its motorcycle sales during April-August 2007 (3.4% in FY07, 1.8% during April-August 2006).
- We expect net sales to increase 3.6% YoY to Rs23.1b, while operating margins are likely to decline 160bp YoY to 11.1%, resulting in an EBITDA of Rs2.6b. We estimate PAT at Rs2b, a decline of 6.7% YoY. New launches resulting in higher advertising costs, aggressive promotional offers and discounts, and higher channel inventory would continue to squeeze margins.
- Hero Honda has adopted an aggressive new model launch strategy; new launches in FY07 included *CBZ X-treme*, the new *Karizma*, a *Glamour* variant with alloy wheels, *CD Delux* and *CD Dawn* with new engines, *Glamour FI*, etc. Its venture into the scooters segment has scaled up rapidly – scooter sales constituted 3.1% of Hero Honda's two-wheeler sales during April-August 2007 (2.8% in FY07).
- The new 0.5m-unit plant in Uttaranchal is likely to be completed by mid-FY08, but production is likely to commence only in FY09. This would help Hero Honda to avail tax benefits in FY09.
- We expect volume growth of 1.3% in FY08 and 8.4% in FY09; volumes are likely to pick up in 2HFY08. The stock trades at 17.3x FY08E EPS of Rs43.1 and 14.8x FY09E EPS of Rs50.2. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	832,692	751,967	896,113	855,984	802,853	756,066	915,000	904,572	3,336,756	3,378,491
Net Sales	23,644	22,300	26,661	26,396	24,480	23,094	27,631	28,880	99,000	104,085
Change (%)	19.6	2.9	15.2	17.0	3.5	3.6	3.6	9.4	13.6	5.1
Total Cost	20,454	19,465	23,641	23,629	21,845	20,530	24,453	25,442	87,189	92,271
EBITDA	3,190	2,835	3,019	2,767	2,635	2,563	3,178	3,438	11,810	11,814
As % of Sales	13.5	12.7	11.3	10.5	10.8	11.1	11.5	11.9	11.9	11.4
Change (%)	9.1	-15.0	-20.1	-23.3	-17.4	-9.6	5.2	24.3	-13.4	0.0
Other Income	523	595	336	445	389	654	380	519	1,899	1,943
Interest	-33	-65	-55	-77	-90	-60	-60	-46	-230	-255
Depreciation	323	344	376	355	376	400	440	461	1,398	1,677
Extraordinary Expense	0	0	0	80	0	0	0	0	80	0
PBT	3,423	3,151	3,034	2,854	2,737	2,878	3,178	3,542	12,461	12,334
Tax	1,045	991	943	904	839	863	953	1,069	3,882	3,725
Effective Tax Rate (%)	30.5	31.5	31.1	31.7	30.6	30.0	30.0	30.2	31.2	30.2
PAT	2,377	2,160	2,092	1,950	1,898	2,014	2,224	2,472	8,579	8,609
Adj. PAT	2,377	2,160	2,092	2,030	1,898	2,014	2,224	2,472	8,659	8,609
Change (%)	16.6	-9.2	-20.1	-24.2	-20.1	-6.7	6.3	21.8	-10.9	-0.6

E: MOSt Estimates

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Mahindra & Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	MM IN
	REUTERS CODE
S&P CNX: 5,021	MAHM.BO

Dil. Equity Shares (m)	255.9
52-Week Range	1,002/608
1,6,12 Rel. Perf. (%)	-1/-35/-27
M.Cap. (Rs b)	192.4
M.Cap. (US\$ b)	4.8

28 September 2007

Buy

Rs752

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	CON.	P/E	CON.	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
3/07A	99,874	9,198	35.9	55.1	20.9	13.7	25.9	22.3	1.6	13.3
3/08E	112,230	9,536	37.3	64.3	20.2	11.7	22.6	20.7	1.3	11.5
3/09E	124,299	10,085	39.4	75.2	19.1	10.0	20.8	20.4	1.2	10.0

- ✘ M&M has reported overall volume growth of 8.3% YoY in 2QFY08 (excluding *Logan*), driven by strong growth in LCVs (+40.2% YoY) and UVs (+18.2% YoY). Three-wheeler volumes have grown merely 2.6% YoY on account of the high base of the previous year. Tractor volume growth, which was marginally negative in 1QFY08, has declined further to 5.7% YoY.
- ✘ Net sales should grow 11% YoY to Rs27.2b. We expect margins to improve 110bp QoQ, but decline 170bp YoY to 11.7%, resulting in a 3.3% decline in EBITDA to Rs3.2b, and an adjusted PAT of Rs2.5b – a growth of 0.8% YoY.
- ✘ In FY08, we expect M&M to deliver 12.4% total income growth to Rs112.2b, with a corresponding net profit growth of 3.7% to Rs9.5b.
- ✘ M&M's JV with Renault to manufacture 0.5m cars in India by 2012 will establish its presence in the fast-growing passenger car segment. The first offering of this JV – the sedan *Logan* has already been launched in April 2008.
- ✘ M&M enjoys market leadership in both utility vehicles and tractors. Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. M&M trades at a discount to most of its peers. The stock quotes at 11.7x FY08E and 10x FY09E consolidated earnings of Rs64.3 and Rs75.2, respectively. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	62,417	66,649	73,971	77,729	70,915	72,203	81,400	85,738	280,766	310,256
Total Income	22,172	24,501	25,761	27,439	26,128	27,206	28,489	30,406	99,874	112,230
Change (%)	22.4	28.0	17.8	23.2	17.8	11.0	10.6	10.8	22.7	12.4
Total Cost	19,660	21,209	22,664	24,340	23,357	24,023	25,071	26,825	87,874	99,276
EBITDA	2,512	3,292	3,096	3,099	2,771	3,183	3,419	3,581	12,000	12,954
As % of Sales	11.3	13.4	12.0	11.3	10.6	11.7	12.0	11.8	12.0	11.5
Change (%)	30.2	50.9	17.5	46.3	10.3	-3.3	10.4	15.6	35.4	8.0
Non-Operating Income	454	478	412	354	316	490	423	356	1,698	1,584
Extraordinary Income	190	1,393	0	116	0	0	0	0	1,699	0
Extraordinary Expense	15	0	6	192	16	0	0	0	213	16
Interest	-147	-155	-168	-205	-51	-65	-59	-61	-675	-236
Gross Profit	3,288	5,318	3,670	3,582	3,122	3,738	3,900	3,998	15,859	14,758
Less: Depreciation	463	501	522	609	571	585	610	618	2,096	2,384
PBT	2,825	4,817	3,148	2,973	2,551	3,153	3,290	3,380	13,763	12,375
Tax	784	952	731	613	640	662	757	791	3,079	2,850
Effective Tax Rate (%)	27.7	19.8	23.2	20.6	25.1	21.0	23.0	23.4	22.4	23.0
PAT	2,042	3,865	2,417	2,360	1,912	2,491	2,534	2,588	10,684	9,525
Change (%)	40.6	145.9	3.5	-26.5	-6.4	-35.5	4.8	9.7	24.7	-10.8
Adj PAT	1,867	2,472	2,423	2,436	1,923	2,491	2,534	2,588	9,198	9,536
Change (%)	27.2	55.8	35.3	49.0	3.0	0.8	4.6	6.3	42.0	3.7

E: MOST Estimates

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Maruti Suzuki India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	MSIL IN
	REUTERS CODE
S&P CNX: 5,021	MRTL.BO

28 September 2007

Buy

Rs 1,000

Equity Shares (m)	289.0
52-Week Range	1,027/713
1,6/12 Rel. Perf. (%)	4/-9/-34
M.Cap. (Rs b)	288.9
M.Cap. (US\$ b)	7.3

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	149,663	15,574	53.9	28.5	18.5	4.2	22.8	30.2	1.7	10.8
3/08E	183,774	19,564	67.7	25.6	14.8	3.3	22.6	30.6	1.3	8.1
3/09E	218,430	22,892	79.2	17.0	12.6	2.7	21.2	29.1	1.1	6.7

- Maruti's volumes have grown 21.3% YoY in 2QFY08, with good performance in the A2 segment, and the launch of the SX4 boosting A3 segment sales as well. Sales should grow 27.4% YoY to Rs43.6b. We expect a 40bp YoY improvement in EBITDA margin to 16%, driven by greater operational efficiencies, strengthening of rupee vis-à-vis yen, and the new plant operating at full production levels.
- Though rising input/power costs, consolidation of the Manesar assembly plant and higher royalty payments due to new model launches are challenges to the margins, Maruti would be able to enhance its profitability due to successful cost reduction, productivity improvement and increased localization, leading to higher internal efficiencies. We expect an EBITDA of Rs7.1b (+30.6% YoY) and PAT of Rs4.6b (+24.1% YoY).
- Maruti's debut in the diesel car segment, the launch of the Zen Estilo and the SX4, and impending launches like the Swift sedan and the Splash would help the company to increase market share. We expect volumes to grow by 16.9% in FY08 and 16% in FY09.
- We remain positive on Maruti's growth prospects. We estimate EPS at Rs67.7 for FY08 and Rs79.2 for FY09. The stock trades at 14.8x FY08E and 12.6x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	144,948	157,683	172,181	200,112	169,669	191,325	207,000	220,881	674,924	788,875
Net Sales	31,255	34,192	36,795	44,298	39,308	43,561	46,005	51,463	146,539	180,337
Change (%)	19.0	12.5	18.2	34.0	25.8	27.4	25.0	16.2	21.2	23.1
Other Operating Income	602	612	783	1,127	833	735	862	1,008	3,125	3,437
Total Cost	26,689	29,376	31,723	38,931	33,560	37,208	39,509	44,256	126,718	154,533
EBITDA	5,168	5,428	5,855	6,494	6,580	7,087	7,358	8,215	22,945	29,241
As % of Sales	16.2	15.6	15.6	14.3	16.4	16.0	15.7	15.7	15.3	15.9
Change (%)	42.0	37.5	15.1	18.0	27.3	30.6	25.7	26.5	26.2	27.4
Non-Operating Income	831	605	372	1,065	1,400	696	427	653	2,873	3,176
Extraordinary Income	0	0	129	0	0	0	0	0	129	0
Extraordinary Expense	0	60	0	0	0	0	0	0	60	0
Interest	33	31	157	156	151	155	150	156	376	612
Gross Profit	5,967	5,942	6,199	7,404	7,829	7,628	7,635	8,712	25,511	31,805
Less: Depreciation	641	596	759	718	822	850	875	904	2,714	3,451
PBT	5,326	5,346	5,440	6,686	7,007	6,778	6,760	7,808	22,797	28,354
Tax	1,630	1,672	1,676	2,201	2,011	2,169	2,163	2,446	7,178	8,790
Effective Tax Rate (%)	30.6	31.3	30.8	32.9	28.7	32.0	32.0	31.3	31.5	31.0
PAT	3,696	3,674	3,764	4,485	4,996	4,609	4,597	5,362	15,619	19,564
Adjusted PAT	3,696	3,713	3,680	4,485	4,996	4,609	4,597	5,362	15,574	19,564
Change (%)	63.2	49.7	8.6	12.6	35.2	24.1	24.9	19.6	31.4	25.6

E: MOSt Estimates

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Swaraj Mazda

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SM IN
	REUTERS CODE
S&P CNX: 5,021	SWRJ.BO

28 September 2007

Neutral

Equity Shares (m)	10.5
52-Week Range	385/214
1,6,12 Rel. Perf. (%)	-22/-46/-6
M.Cap. (Rs m)	3,186.5
M.Cap. (US\$ m)	80.1

Previous Recommendation: Neutral

Rs304

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	6,034	161	15.3	-3.5	19.8	4.2	21.2	17.2	0.7	11.2
3/08E	6,940	255	24.3	58.5	12.5	3.4	27.1	24.0	0.6	7.6
3/09E	7,645	295	28.1	15.7	10.8	2.8	25.6	24.3	0.5	6.7

- ✦ We expect Swaraj Mazda to report volume growth of 2% YoY for 2QFY08, as volumes have been negatively impacted by the slowdown in CV sales. As a result, we expect net sales to increase 4% YoY to Rs1.8b.
- ✦ While EBITDA margins were under pressure in FY07 due to poor operating performance, we expect a 180bp improvement in FY08 to 7.5%. We estimate PAT at Rs62m for 2QFY08 and Rs255m for FY08.
- ✦ Swaraj is increasing its production capacity from 12,000 units a year to 36,000 units per year over the next 2-3 years.
- ✦ We estimate EPS at Rs24.3 for FY08 and at Rs28.1 for FY09.
- ✦ Currently, Swaraj is facing pressure on its operating margins. It is also incurring huge capex over the next 2-3 years. We expect margin and capex pressures to affect profitability. Our recommendation is **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	1,181	1,710	1,492	1,651	1,530	1,779	1,750	1,881	6,034	6,940
Change (%)	-20.0	15.2	-6.2	5.0	29.6	4.0	17.3	13.9	-1.4	15.0
Total Cost	1,150	1,612	1,385	1,533	1,404	1,647	1,622	1,733	5,680	6,406
EBITDA	31	98	107	119	126	133	128	148	355	534
As % of Sales	2.6	5.7	7.2	7.2	8.2	7.5	7.3	7.9	5.9	7.7
Change (%)	-74.4	-6.7	37.2	142.3	306.5	35.2	19.6	24.4	2.7	50.6
Interest	19	24	25	25	30	32	34	35	93	131
Gross Profit	12	74	82	93	96	101	94	113	261	403
Depreciation	6	7	8	8	8	9	9	9	29	35
PBT	6	67	74	85	88	92	85	104	232	368
Tax	4	18	24	25	28	29	25	31	71	113
Tax Rate (%)	70.0	26.6	32.4	29.7	31.8	32.0	29.0	30.0	30.7	30.7
PAT	2	49	50	60	60	62	60	73	161	255
Adj. PAT	2	49	50	60	60	62	60	73	161	255
Change (%)	-97.3	-10.5	47.1	407.6	3,233.3	26.5	20.4	21.5	-3.5	58.5

E: Most Estimates

Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TTMT IN
	REUTERS CODE
S&P CNX: 5,021	TAMO.BO

28 September 2007

Buy

Rs778

Dil. Equity Shares (m)	407.2
52-Week Range	975/616
1,6,12 Rel. Perf. (%)	1/-26/-47
M.Cap. (Rs b)	316.8
M.Cap. (US\$ b)	8.0

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	CON.	P/E	CON.	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
3/07A	274,048	18,963	46.6	52.9	16.7	14.7	27.6	27.1	1.1	9.3
3/08E	300,576	16,823	41.3	51.9	18.8	15.0	21.4	22.5	1.0	10.0
3/09E	336,485	18,803	46.2	59.0	16.8	13.2	21.0	22.9	0.9	9.0

- ✦ Tata Motors has posted a 2.8% volume decline in 2QFY08. While M&HCV volumes have declined 8.6% YoY, UV volumes have fallen 8.8% YoY, and car volumes have fallen 6.4% YoY, LCV volumes have increased 10.9% YoY.
- ✦ Volumes have been negatively impacted by higher interest rates, and the higher base of the previous year particularly in M&HCVs.
- ✦ We estimate 2QFY08 sales at Rs65.2b (lower by 0.8% YoY) and EBITDA at Rs6.5b (decline of 16.2% YoY), with EBITDA margin decline of 180bp YoY to 10%. This would result in adjusted PAT declining 20.8% YoY to Rs3.5b.
- ✦ The company plans capex of Rs120b over the next four years, for which it has announced its intention to raise US\$450m, which would result in further equity dilution of 4.4%. Of the balance capex, around Rs75b would be from internal accruals and the rest would be raised in international/domestic markets.
- ✦ We estimate consolidated EPS at Rs51.9 for FY08 and Rs59 for FY09. The stock trades at 15x FY08E and 13.2x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	126,031	139,319	141,393	172,635	127,487	135,463	160,000	199,128	579,378	622,078
Total Income	57,835	65,718	68,252	82,242	60,568	65,177	78,006	96,824	274,048	300,576
Change (%)	49.1	37.4	34.5	19.7	4.7	-0.8	14.3	17.7	33.0	9.7
Total Cost	50,329	57,939	59,816	73,096	55,105	58,659	69,816	86,277	241,180	269,857
EBITDA	7,506	7,779	8,436	9,147	5,463	6,518	8,191	10,547	32,868	30,718
As % of Sales	13.0	11.8	12.4	11.1	9.0	10.0	10.5	10.9	12.0	10.2
Change (%)	58.6	30.6	27.7	4.9	-27.2	-16.2	-2.9	15.3	26.4	-6.5
Non-Operating Income	859	848	143	601	863	875	210	518	2,452	2,466
Forex Gain / (Loss)	-783	254	1,316	518	2,059	0	0	0	1,305	2,059
Extraordinary Income	0	0	0	0	20	0	0	0	0	20
Extraordinary Expense	242	316	235	257	0	0	0	0	1,049	0
Interest	726	956	852	597	816	875	925	998	3,131	3,614
Gross Profit	6,614	7,610	8,809	9,412	7,589	6,518	7,476	10,066	32,445	31,649
Depreciation & Amort.	1,411	1,435	1,435	1,582	1,475	1,600	1,675	1,720	5,863	6,469
Product Dev. Expenses	103	175	287	285	193	210	230	259	850	893
PBT	5,100	5,999	7,087	7,545	5,921	4,708	5,571	8,087	25,732	24,287
Tax	1,282	1,582	1,956	1,778	1,254	1,177	1,448	2,193	6,597	6,072
Effective Tax Rate (%)	25.1	26.4	27.6	23.6	21.2	25.0	26.0	27.1	25.6	25.0
PAT	3,819	4,417	5,132	5,767	4,668	3,531	4,122	5,895	19,135	18,215
Change (%)	40.0	30.7	11.7	25.6	22.2	-20.1	-19.7	2.2	25.2	-4.8
Adj PAT	4,505	4,459	4,407	5,592	3,275	3,531	4,122	5,895	18,963	16,823
Change (%)	70.9	26.8	17.3	27.5	-27.3	-20.8	-6.5	5.4	39.7	-11.3

E: MOSt Estimates

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TVS Motor

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TVSS IN
	REUTERS CODE
S&P CNX: 5.021	TVSS.BO

28 September 2007

Neutral

Equity Shares (m)	237.5
52-Week Range	130/53
1,6,12 Rel. Perf. (%)	1/-21/-83
M.Cap. (Rs b)	16.6
M.Cap. (US\$ b)	0.4

Previous Recommendation: Neutral

Rs70

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	38,550	666	2.8	-37.9	25.0	2.1	8.2	7.7	0.5	13.6
3/08E	37,456	513	2.2	-22.9	32.4	2.0	6.1	6.7	0.5	14.2
3/09E	40,542	645	2.7	25.6	25.8	1.9	7.3	7.5	0.5	11.7

- TVS Motors has registered overall volume decline of 22.9% YoY in 2QFY08, with motorcycle volumes declining 44.1% YoY. While scooter volumes have increased by 2.4% the quarter, mopeds have registered robust performance, increasing 18.1% YoY. These segments have maintained robust growth rates as they are not as dependent as motorcycles upon financing.
- We expect 2QFY08 sales to decline 22.6% YoY to Rs8.3b and estimate EBITDA margin at 3.2%, resulting in an EBITDA of Rs267m. Net profit would decline 71.9% YoY to Rs70m. The management has guided that margins would remain under pressure in 1HFY08, due to high cost of raw-materials and intense competitive activity.
- It has launched the 110cc *Star City* and has announced several new product launches in the coming months, which include the 125cc bike *Flame*, the *Apache EFI*, and its first two-stroke three-wheeler offerings, which would be offered in petrol, CNG and LPG variants. Subsequently, the company also plans to launch four-stroke three-wheelers.
- TVS Motor's volumes have been negatively impacted by the aggressive strategies adopted by Hero Honda and Bajaj Auto. Entry in the three-wheeler segment would help diversify revenues over a period of time. However, we believe operating performance remains an area of concern.
- We expect TVS Motor to report an EPS of Rs2.2 in FY08 and Rs2.7 in FY09. The stock trades at 32.4x FY08E EPS and 25.8x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Volumes (nos)	375,496	419,195	363,670	369,853	320,161	322,996	390,000	430,340	1,528,214	1,463,497
Net Sales	9,218	10,779	9,354	9,199	7,833	8,347	10,282	10,994	38,550	37,456
Change (%)	25.4	36.6	7.3	9.6	-15.0	-22.6	9.9	19.5	19.2	-2.8
Total Cost	8,802	10,219	9,058	9,098	7,642	8,080	9,881	10,542	37,177	36,145
EBITDA	416	560	296	101	191	267	401	452	1,373	1,311
As % of Sales	4.5	5.2	3.2	1.1	2.4	3.2	3.9	4.1	3.6	3.5
Change (%)	-16.3	21.9	-51.2	-79.1	-54.0	-52.3	35.3	348.0	-32.9	-4.5
Other Income	178	109	176	270	182	150	200	238	732	770
Interest	60	62	86	113	98	90	100	111	321	399
Depreciation	233	244	245	154	239	240	247	263	876	989
Extraordinary Gain / (Expense)	0	0	0	0	72	0	0	0	0	72
PBT	301	363	141	103	109	87	254	315	909	765
Tax	89	114	27	13	34	17	60	77	243	187
Effective Tax Rate (%)	29.5	31.5	18.8	12.6	30.8	20.0	23.5	24.3	26.7	24.5
PAT	213	248	115	90	75	70	194	239	666	578
Change (%)	-14.6	-22.3	-63.1	-68.9	-64.5	-71.9	69.6	164.0	-43.1	-13.2
Adj. PAT	213	248	115	90	10	70	194	239	666	513
Change (%)	-14.6	11.6	-63.1	-68.9	-95.1	-71.9	69.6	164.0	-37.9	-22.9

E: MOST Estimates

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Banking

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Andhra Bank	68
Axis Bank	69
Bank of Baroda	70
Bank of India	71
Canara Bank	72
Corporation Bank	73
HDFC	74
HDFC Bank	75
Federal Bank	76
ICICI Bank	77
Indian Bank	78
Indian Overseas Bank	79
J&K Bank	80
Karnataka Bank	81
Oriental Bank	82
Punjab National Bank	83
State Bank	84
Syndicate Bank	85
Union Bank	86
Vijaya Bank	87

Credit growth has come down from a CAGR of 29% in FY04-07 and 26% in June 2007 to 23.4% till 14 September 2007. In September 2007, non-food credit has increased by 3.7% from March 2007 levels and 4% from June 2007 levels. This indicates some pick up in credit offtake during 2QFY08 as against a no-growth situation observed during 1QFY08. Interest rates (on both deposits and advances) have moderated (by 25-50bp) from their peaks reached in March/April 2007. Our interactions with bankers suggest that interest rates may further moderate in 3QFY08 especially with onset of festival season. With the macro Indian growth story continuing to be robust and the drivers of credit growth intact (interest rates expected to moderate further), we expect credit growth to increase to 25% level from 3QFY08.

Increasing interest rates on deposits have played their role in improving mobilization for the banks. The deposit growth improved from 17% in FY05-06 to 22-23% in FY07 and YTD FY08. Deposits have increased till 14 September 2007 by 7.1% from March 2007 and 2.8% from June 2007 levels. C/D ratio for the industry has come off from ~74% in March 2007 to 71% in September 2007, as deposit growth has remained robust while credit growth has slowed down during 1HFY08.

While the higher costs of resources continue for the banking system, lending rates have peaked out. Additionally, incremental investments in SLR are margin dilutive for all the

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO	NET INTEREST INCOME		OPERATING PROFIT		NET PROFIT		
	SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)	
Banks							
Andhra Bank	Buy	3,673	11.0	2,329	4.4	1,482	1.2
Axis Bank	Buy	5,258	44.0	4,044	47.3	2,009	41.5
Bank of Baroda	Buy	10,147	13.9	6,184	0.4	3,117	8.1
Bank of India	Buy	9,858	16.1	6,187	29.2	3,015	42.1
Canara Bank	Buy	9,697	-1.2	6,011	-2.3	3,448	-4.7
Corporation Bank	Sell	3,739	18.1	3,078	39.4	1,636	28.8
Federal Bank	Buy	2,017	20.5	1,647	18.4	817	17.7
HDFC	Buy	6,809	27.7	6,061	27.9	4,631	25.8
HDFC Bank	Buy	11,686	38.2	7,753	27.8	3,470	32.0
ICICI Bank	Neutral	20,991	33.1	18,891	17.2	9,631	27.6
Indian Bank	Buy	5,317	17.2	3,766	26.7	2,166	28.0
Indian Overseas Bank	Buy	7,178	17.3	4,823	16.3	2,973	19.0
J&K Bank	Buy	2,094	8.3	1,490	8.1	940	11.2
Karnataka Bank	Buy	1,203	32.8	1,033	39.5	567	-4.9
Oriental Bank	Neutral	4,588	11.1	3,517	12.0	2,339	-24.7
Punjab National Bank	Buy	14,589	7.1	8,956	0.8	4,648	-8.0
State Bank	Buy	45,184	15.9	29,656	19.9	14,076	18.8
Syndicate Bank	Buy	5,684	17.3	3,466	14.4	2,158	5.2
Union Bank	Buy	7,812	24.5	5,389	25.8	2,414	24.3
Vijaya Bank	Neutral	2,761	6.3	1,706	-3.4	1,056	3.2
Sector Aggregate		180,286	18.2	125,988	17.0	66,593	14.9

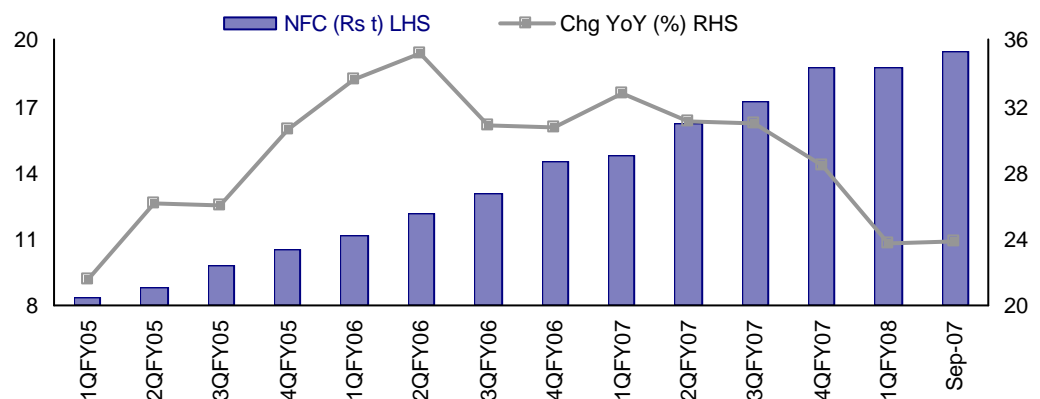
banks. Thus, we expect margins to moderate for most of the small and mid sized players in the industry. We expect SBI, Union Bank and Indian Bank from the state-owned banks (SOB) to sustain their margins at FY07 levels while we expect Axis Bank, HDFC Bank and ICICI Bank from private sector banks to improve margins during FY08 mainly on account of their significant capital raising during 1HFY08.

The Bankex is up by 45% since March 2007. The valuations for SOBs at 1-2x FY09E BV, with RoEs in the range of 15-25%, appear reasonable. We prefer selective buying with a preference for banks with a high earnings visibility. We like SBI and BoI among large cap banks while we like Union Bank and IOB among mid-cap banks. Among private players, we like HDFC Bank, HDFC and Axis Bank – given their strong earnings growth prospects.

Credit growth moderated further

Credit growth has come down from a CAGR of 29% in FY04-07 and 26% in June 2007 to 23.4% till 14 September 2007. In September 2007, non-food credit has increased by 3.7% from March 2007 levels and 4% from June 2007 levels. This indicates some pick up in credit offtake during 2QFY08 as against a no-growth situation observed during 1QFY08.

YOY NON-FOOD CREDIT GROWTH



Source: Company/Motilal Oswal Securities

RBI's monetary tightening through successive CRR hikes during FY07 (100bp) and FY08 (100bp) have played their role in moderating credit growth. A distinct slowdown in retail loans growth – led by housing finance – has been a key reason for moderation in the credit growth. The increased interest rates along with higher property prices are making housing unaffordable and consumers are postponing their buying decisions. With the onset of festival season, stabilized realty prices, and some signs of softening of housing interest rates from few banks, the housing demand is expected to pick up from 3QFY08, but shall still lag the historic growth of 25-40%.

Moderating interest rates to boost credit demand

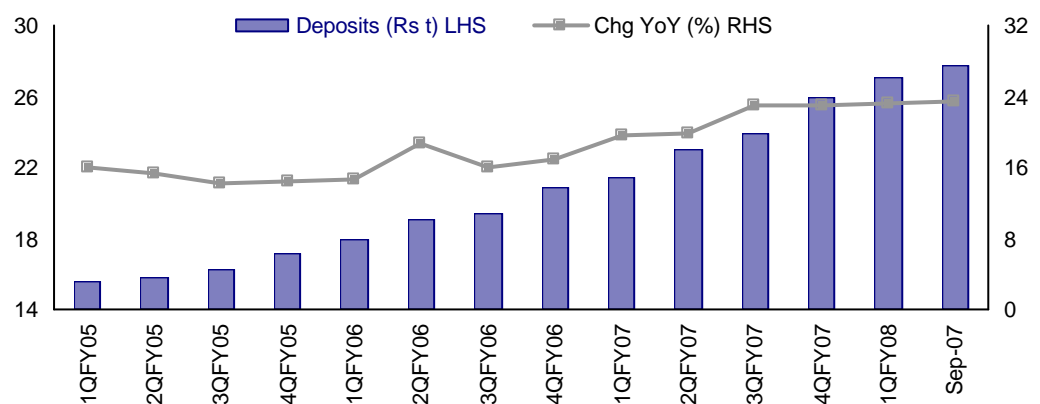
Interest rates (on both deposits and advances) have moderated (by 25-50bp) from their peaks reached in March/April 2007. While the fall in commercial vehicle finance rates has been as large as 200bp, housing loans rates are down by 25-50bp. Our interactions with bankers suggest that interest rates would further moderate in 3QFY08, especially with the onset of festival season.

With the macro Indian growth story continuing to be robust and the drivers of credit growth intact (interest rates expected to moderate further), we expect credit growth to increase to 25% level from 3QFY08. All bankers indicate that the slowdown in credit growth during the first five months of FY08 is a temporary phenomenon and also a higher base effect of FY07. They expect credit offtake to be strong from 3QFY08 and are optimistic of achieving credit growth of ~25% during FY08.

Deposits growth remains strong

Increasing interest rates on deposits have played their role in improving mobilization for the banks. The deposit growth improved from 17% in FY05-06 to 22-23% in FY07 and YTD FY08. Deposits have increased till 14 September 2007 by 7.1% from March 2007 and 2.8% from June 2007 levels. C-D ratio for the industry has come off from ~74% in March 2007 to 71% in September 2007, as deposit growth has remained robust while credit growth has slowed down during 1HFY08.

YOY DEPOSITS GROWTH



Source: Company/Motilal Oswal Securities

Most banks had launched limited period special deposits schemes offering interest rates of 9.5%+ for retail term deposits during 4QFY07 to meet the liquidity crunch. The success of these schemes is vouched by the strong growth in deposits observed from 4QFY07. In line with expectations, almost all banks have withdrawn these special interest rates schemes during 2QFY08. However, still bank rates remain attractive (~8.5-9%) when compared to other small savings instruments which earn ~8%. There has been a marked shift of savings from other instruments like post offices, NSCs, PFs to banking deposits from FY07.

As the differential between savings interest rate (3.5%) and term deposit rate has increased from ~2% to ~5% currently, there has been transfer of funds from savings to term deposits. Though growing current account and savings account (CASA) is a prime agenda for all the banks, the widening interest rate differential would act as a major challenge. Incremental CASA ratio has dropped to 30% in FY07 v/s 47% in FY08. The banks with a large branch network and an efficient and cutting edge technology would be better off in raising core deposits and thus containing increase in cost of deposits. Also, the banks with higher CASA ratio (like HDFC Bank, Axis Bank, SBI, PNB BoI, Union Bank) would be better placed to bear the increasing cost of deposits.

The SLR ratio reduced from 30% a year ago to 29% in September 2007. As credit demand remained sluggish in 1HFY08 and deposits growth was strong, banks have invested the funds into SLR securities. SLR investments have increased by 14.6% from March 2007 levels as against credit growth of 2.8% and deposits growth of 7.1% during the same period. On a QoQ basis, SLR ratio has increased by ~100bp for the system.

Margins likely to moderate

All banks increased their PLR by 125-200bp during January-April 2007. While loan yields showed significant improvement (120-150bp) for all the banks in 1QFY08, the sluggishness in credit growth and faster deposits growth with higher interest costs offset the improvement in yields. While the higher costs of resources continue for the banking system, lending rates have peaked out. Additionally, incremental investments in SLR are margin dilutive for all the banks. Thus, we expect margins to come under pressure for most of the small and mid sized players in the industry.

We expect banks with higher CASA and retail deposits base to sustain margins during FY08, while banks with high reliance on bulk deposits would see margins under pressure. We expect SBI, Union Bank and Indian Bank from the state-owned banks to sustain their margins at FY07 levels while we expect Axis Bank, HDFC Bank and ICICI Bank from private sector banks to improve margins during FY08, mainly on account of their significant capital raising during 1HFY08. We expect all other banks to report a decline in margins for FY08 ranging from 10bp to 40bp according to their asset liability profile.

2QFY08 – the period of capital raising

HDFC Bank and Axis Bank raised US\$1b each during 2QFY08. ICICI Bank, which completed its US\$5b capital raising in 1QFY08 itself, enjoyed a full quarter of the money raised. We believe these banks would repay high cost deposits with this equity money during 2QFY08. This would enable them to improve their NIMs during the quarter. We expect NIM improvement of 20-30bp for these banks on account of the capital raising. The capital raising would also enable these banks to sustain or even improve their margins during FY08.

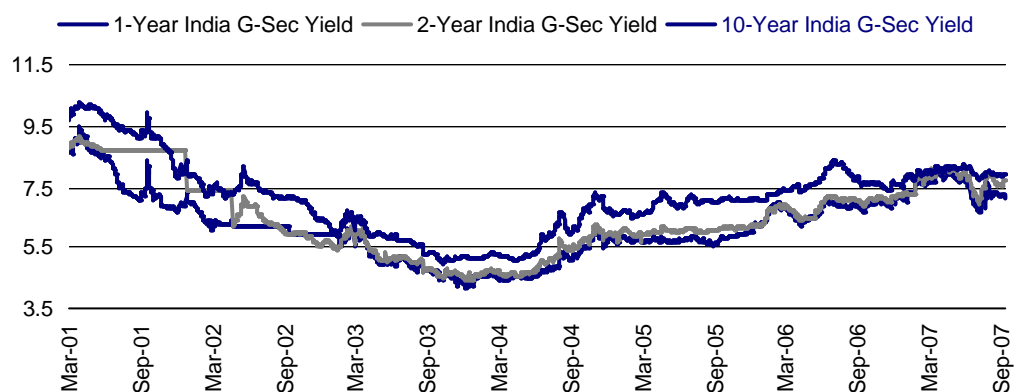
Amongst state-owned banks, we expect State Bank of India and Syndicate Bank to raise capital during FY08. We are positive on banks that can raise capital at higher premium, where RoEs would bounce back in a couple of years as they leverage the new capital. We prefer Axis Bank, HDFC Bank and State Bank of India for the same reason.

Inflation benign; G-Sec yields coming down

Inflation dropped from its highs of 6.5%+ in March and April 2007 and <4.5% in June 2007 to below 3.5% in September 2007. This fall is in line with our expectations and is on account of higher base effect of inflation index in 1HFY07 and tougher monetary measures adopted by the RBI during FY07. The RBI has kept a target to keep inflation rate close to 5% during FY08.

As inflation has come off from its highs and banks have increased their investments in G-Secs, yields have come down across maturities. While 10-year G-Sec yield has come down by 23bp since June 2007, 1-year yield is down by 25bp.

INFLATION V/S 10 YR AND 2 YR G-SEC YIELDS



Source: Company/Motilal Oswal Securities

The decrease in yields in shorter end securities would mean some release of MTM provisions made by the banks during 4QFY07. We also expect treasury profits to remain high for most of the banks during 2QFY08 on account of this moderation of yields. We expect OBC, Canara Bank to reverse some of the provision for depreciation on their AFS investment book during 2QFY08.

We prefer selective buying

The Bankex is up by 45% since March 2007. The valuations for PSU banks at 1-2x FY09E BV, with RoEs in the range of 15-25%, appear reasonable. We prefer selective buying with a preference for banks with a high earnings visibility.

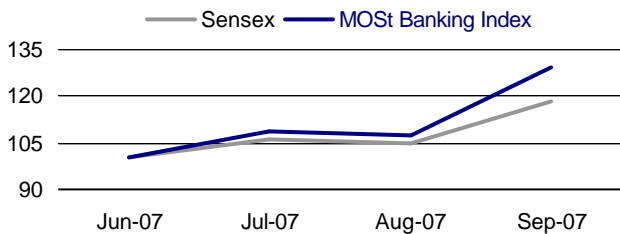
The recent CRR hike of 0.5% to 7% and increased cost of deposits are bound to put pressure on NIMs of banks, especially the low CASA banks and those which have been involved in aggressive bulk deposits in 4QFY07. Among state-owned banks, we like banks that are strong on the liability franchise and are growing at a steady pace. We like SBI and BOI among large cap banks while we like Union Bank and IOB among mid-cap banks. Among private players, we like HDFC Bank, HDFC and Axis Bank - given their strong earnings growth prospects.

Stock performance and valuations

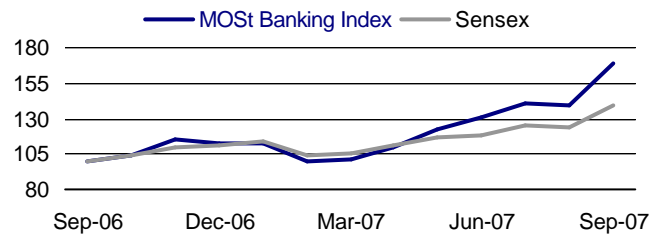
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Banking						
Andhra Bank	27	10	8	-30	-7	-58
Axis Bank	32	94	13	54	-3	26
Bank of Baroda	26	14	7	-26	-8	-54
Bank of India	23	69	4	29	-11	1
Canara Bank	7	-6	-12	-45	-27	-73
Corporation Bank	25	-10	5	-49	-10	-78
Federal Bank	27	76	7	37	-8	9
HDFC	29	68	10	29	-5	1
HDFC Bank	32	55	13	15	-2	-13
ICICI Bank	13	50	-6	10	-21	-18
Indian Bank	27	-	8	-	-7	-
Indian Overseas Bank	25	30	6	-10	-9	-38
J&K Bank	18	83	-2	43	-17	15
Karnataka Bank	28	94	9	54	-6	26
Oriental Bank of Commerce	13	-13	-7	-52	-22	-80
Punjab National Bank	5	3	-14	-37	-29	-65
State Bank	33	90	13	50	-2	22
Syndicate Bank	25	6	5	-34	-10	-62
Union Bank	27	18	8	-22	-7	-50
Vijaya Bank	45	22	26	-18	11	-46

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Banks														
Andhra Bank	105	Buy	11.1	12.5	14.4	9.4	8.4	7.3	1.6	1.4	1.3	17.8	18.1	18.7
Axis Bank	764	Buy	23.4	26.4	37.8	32.7	28.9	20.2	6.3	3.2	2.8	21.0	15.7	14.9
Bank of Baroda	327	Buy	28.1	33.9	40.8	11.6	9.6	8.0	1.4	1.3	1.1	12.4	13.6	14.7
Bank of India	277	Buy	23.0	28.7	34.2	12.0	9.6	8.1	2.4	2.0	1.6	21.3	22.2	22.1
Canara Bank	278	Buy	34.7	39.2	43.6	8.0	7.1	6.4	1.4	1.2	1.1	18.8	18.4	17.9
Corporation Bank	388	Sell	37.4	45.6	52.8	10.4	8.5	7.4	1.5	1.3	1.2	15.0	16.3	16.7
Federal Bank	372	Buy	34.2	43.1	54.0	10.9	8.6	6.9	2.1	1.8	1.4	21.3	22.2	22.9
HDFC	2,527	Buy	62.1	82.0	86.1	40.7	30.8	29.3	11.5	6.8	5.2	31.3	25.1	20.6
HDFC Bank	1,439	Buy	35.8	43.1	59.0	40.3	33.4	24.4	7.1	4.3	3.8	19.5	16.8	16.6
ICICI Bank	1,063	Neutral	34.6	36.8	48.0	30.7	28.9	22.1	3.9	2.5	2.3	13.4	11.4	10.8
Indian Bank	160	Buy	17.7	22.0	27.3	9.1	7.3	5.9	2.1	1.7	1.4	28.4	25.2	25.6
Indian Overseas Bank	144	Buy	18.5	22.0	26.7	7.8	6.6	5.4	2.0	1.6	1.3	29.1	27.5	26.6
J&K Bank	783	Buy	56.6	68.1	83.5	13.8	11.5	9.4	1.9	1.7	1.5	14.4	15.5	16.7
Karnataka Bank	224	Buy	14.6	19.2	22.3	15.3	11.7	10.0	2.2	1.9	1.7	15.1	17.5	17.7
Oriental Bank	242	Neutral	33.0	37.6	42.6	7.3	6.4	5.7	1.2	1.0	0.9	15.4	16.0	16.5
Punjab National Bank	543	Buy	48.8	57.9	68.5	11.1	9.4	7.9	1.7	1.5	1.3	16.0	16.9	17.5
State Bank	1,951	Buy	86.3	99.0	117.0	22.6	19.7	16.7	3.3	2.9	2.5	15.4	15.6	16.2
Syndicate Bank	92	Buy	13.7	15.6	16.6	6.7	5.9	5.6	1.5	1.2	1.1	21.9	20.3	18.6
Union Bank	163	Buy	16.7	21.1	26.0	9.8	7.8	6.3	1.7	1.5	1.3	19.2	20.7	21.8
Vijaya Bank	70	Neutral	7.6	8.8	9.6	9.2	7.9	7.3	1.6	1.4	1.3	18.6	18.9	18.2
Sector Aggregate						21.1	17.3	14.2	3.7	2.9	2.3	17.4	16.6	16.3

Andhra Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ANDB IN
	REUTERS CODE
S&P CNX: 5,021	ADBK.BO
Equity Shares (m)	485.0
52-Week Range	107/70
1,6,12 Rel. Perf. (%)	12/1/-30
M.Cap. (Rs b)	50.7
M.Cap. (US\$ b)	1.3

28 September 2007

Buy

Rs 105

Previous Recommendation: Buy

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	18,644	5,379	11.1	10.6	9.4	1.6	11.3	17.8	1.2	1.6
3/08E	20,738	6,055	12.5	12.6	8.4	1.4	10.8	18.1	1.2	1.5
3/09E	23,592	6,970	14.4	15.1	7.3	1.3	11.0	18.7	1.2	1.3

- ✦ We expect net interest income (NII) to grow 11% YoY to Rs3.7b. Margins would remain under pressure as bank had resorted to bulk deposits during 4QFY07 and the credit growth has been subdued during 1HFY08.
- ✦ While fee income growth remains dismal, higher recoveries from written off accounts and higher treasury profits may bring in positive surprises to the earnings growth.
- ✦ With gross NPAs at just 1.5% and net NPAs at 0.2%, incremental provisioning for NPAs would be low.
- ✦ The bank is a play on steady asset growth, clean books and reasonable RoE. The stock trades at 7.3x FY09E EPS and 1.3x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	7,601	7,721	8,128	9,699	9,895	10,115	10,566	12,221	33,153	42,796
Interest Expense	4,249	4,412	4,493	5,820	6,273	6,442	6,604	7,498	18,978	26,817
Net Interest Income	3,352	3,309	3,635	3,879	3,621	3,673	3,962	4,723	14,175	15,979
% Change (Y-o-Y)	22.2	14.7	22.8	25.1	8.0	11.0	9.0	21.8	21.2	12.7
Other Income	843	1,287	1,327	1,384	1,125	1,210	1,227	1,198	4,469	4,759
Net Income	4,195	4,596	4,962	5,263	4,746	4,882	5,188	5,921	18,644	20,738
% Change (Y-o-Y)	19.3	13.1	19.6	20.4	13.1	6.2	4.6	12.5	19.4	11.2
Operating Expenses	2,306	2,365	2,356	2,305	2,512	2,554	2,592	2,675	9,332	10,333
Operating Profit	1,890	2,231	2,606	2,958	2,234	2,329	2,596	3,246	9,312	10,405
Other Provisions	291	92	645	810	93	150	300	957	1,463	1,500
Profit before Tax	1,599	2,140	1,961	2,148	2,141	2,179	2,296	2,289	7,849	8,905
Tax Provisions	435	675	600	760	730	697	735	687	2,470	2,849
Net Profit	1,164	1,465	1,361	1,388	1,411	1,482	1,562	1,601	5,379	6,055
% Change (Y-o-Y)	36.7	10.2	5.6	0.1	21.2	1.2	14.7	15.4	10.6	12.6
Cost to Income Ratio (%)	55.0	51.5	47.5	43.8	52.9	52.3	50.0	45.2	50.1	49.8
Interest Exp./Interest Income (%)	55.9	57.1	55.3	60.0	63.4	63.7	62.5	61.4	57.2	62.7
Other Income/Net Income (%)	20.1	28.0	26.7	26.3	23.7	24.8	23.6	20.2	24.0	22.9

E: M0St Estimates; * HTM amortization is included in the provisions in FY07 while in FY08 it is included in other Income for quarterly results

Axis Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	AXSB IN
	REUTERS CODE
S&P CNX: 5,021	AXBK.BO

28 September 2007

Buy

Rs605

Equity Shares (m)	349.6
52-Week Range	775/373
1,6,12 Rel. Perf. (%)	12/20/54
M.Cap. (Rs b)	267.3
M.Cap. (US\$ b)	6.7

Previous Recommendation: Buy

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	24,784	6,590	23.4	34.5	32.7	6.3	11.6	21.0	1.1	6.5
3/08E	36,311	9,235	26.4	12.9	28.9	3.2	14.1	15.7	1.1	3.3
3/09E	51,310	13,202	37.8	43.0	20.2	2.8	11.7	14.9	1.1	2.9

- ✦ We expect strong NII growth of 44% in 2QFY07 on the back of 50%+ loan growth, improved yield on advances, and strong growth in CASA.
- ✦ We expect NIMs to increase to 3%+ during 2QFY08 on account of the capital rising during the quarter. Cost of funds is likely to be largely contained as the bank repaid high cost deposits with the follow-on issue money.
- ✦ The bank continues to be in a rapid branch expansion and manpower addition phase. Opex is likely to grow ~45% YoY.
- ✦ Another key driver has been sustained growth in its fee-based income. We expect core fee income to grow 50% in 2QFY08.
- ✦ Earnings are expected to increase 42% YoY to Rs2b in 2QFY08 supported by robust growth in NII and fee income.
- ✦ The stock trades at 20.2x FY09E EPS and 2.8x FY08E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	9,539	10,501	11,896	13,668	15,370	16,696	18,082	19,663	45,604	69,812
Interest Expense	6,321	6,849	7,738	9,025	10,901	11,438	12,071	12,740	29,933	47,151
Net Interest Income	3,218	3,652	4,158	4,642	4,468	5,258	6,011	6,923	15,671	22,661
Y-o-Y Growth (%)	44.7	43.0	44.7	48.4	38.8	44.0	44.6	49.1	45.3	44.6
Other Income	2,005	2,048	2,797	3,011	3,423	3,129	3,526	3,571	9,114	13,650
Net Income	5,223	5,699	6,956	7,653	7,892	8,387	9,538	10,495	24,784	36,311
Operating Expenses	2,392	2,955	3,370	3,430	4,212	4,343	4,717	5,046	12,146	18,319
Operating Profit	2,832	2,745	3,586	4,223	3,680	4,044	4,820	5,449	12,639	17,993
Y-o-Y Growth (%)	39.2	16.3	40.0	100.6	29.9	47.3	34.4	29.0	39.5	42.4
Provision & Contingencies	1,008	588	763	1,065	1,009	1,000	850	1,141	2,674	4,000
Profit before Tax	1,824	2,157	2,824	3,158	2,670	3,044	3,970	4,308	9,965	13,993
Tax Provisions	618	738	977	1,039	921	1,035	1,350	1,452	3,375	4,757
Net Profit	1,206	1,420	1,846	2,119	1,750	2,009	2,620	2,856	6,590	9,235
Y-o-Y Growth (%)	30.1	30.2	40.2	39.8	45.2	41.5	41.9	34.8	35.9	40.1
Int Exp/Int Earned (%)	66.3	65.2	65.0	66.0	70.9	68.5	66.8	64.8	65.6	67.5
Other Income / Net Income (%)	38.4	35.9	40.2	39.3	43.4	37.3	37.0	34.0	36.8	37.6
Cost to Income Ratio (%)	45.8	51.8	48.4	44.8	53.4	51.8	49.5	48.1	49.0	50.4

E: MOST Estimates; * Adjusted for reclassification of mortization on HTM investments as part of other income

Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BOB IN
	REUTERS CODE
S&P CNX: 5,021	BOB.BO

28 September 2007

Buy

Rs327

Previous Recommendation: Buy

Equity Shares (m)	365.5
52-Week Range	331/189
1,6,12 Rel. Perf. (%)	8/17/-26
M.Cap. (Rs b)	119.4
M.Cap. (US\$ b)	3.0

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	49,593	10,265	28.1	24.1	11.6	1.4	11.8	12.4	0.8	1.5
3/08E	55,540	12,395	33.9	20.8	9.6	1.3	11.0	13.6	0.8	1.4
3/09E	63,280	14,915	40.8	20.3	8.0	1.1	11.0	14.7	0.8	1.2

- ✦ We expect business growth to remain subdued for the bank with ~3% QoQ increase in advances as well as deposits. We expect margins to be 3%+.
- ✦ We expect fee income growth to remain strong and treasury profits to remain healthy during the quarter.
- ✦ The bank is likely to provide for AS-15 compliance, which would impact profitability. We expect quarterly provision of ~Rs550m on this account.
- ✦ BoB's asset quality has improved significantly over the last one year with coverage ratio at 77% and net NPAs at 0.67%. Recoveries during the quarter are expected to be robust, which would further improve asset quality and require lower NPA provisioning.
- ✦ PAT growth is likely to be modest at 8% YoY on account of higher base effect. However, higher than expected treasury profits and recoveries can bring in positive surprises to our estimates.
- ✦ At 1.1x FY09E BV, the valuations are attractive, we maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	19,677	21,859	23,870	26,721	26,546	27,761	30,434	35,624	92,126	120,366
Interest Expense	11,378	12,952	14,262	15,674	16,961	17,614	19,539	23,072	54,266	77,186
Net Interest Income	8,299	8,908	9,608	11,046	9,586	10,147	10,895	12,552	37,861	43,180
% Change (YoY)	9.4	13.9	17.8	27.5	15.5	13.9	13.4	13.6	19.3	14.0
Other Income	2,775	3,217	3,337	3,978	3,702	2,900	2,704	3,055	11,732	12,360
Net Income	11,074	12,125	12,945	15,024	13,287	13,047	13,599	15,607	49,593	55,540
% Change (YoY)	14.5	11.1	19.0	21.3	20.0	7.6	5.1	3.9	15.3	12.0
Operating Expenses	6,040	5,968	6,375	7,584	6,843	6,863	7,204	8,852	25,443	29,763
Operating Profit	5,034	6,157	6,569	7,440	6,445	6,184	6,395	6,754	24,150	25,778
Provision & Contingencies	2,531	1,593	1,417	3,118	1,414	1,600	1,500	3,036	7,608	7,550
PBT	2,503	4,564	5,153	4,322	5,030	4,584	4,895	3,719	16,543	18,228
Tax Provisions	871	1,680	1,861	1,866	1,722	1,467	1,566	1,078	6,278	5,833
Net Profit	1,632	2,884	3,292	2,457	3,308	3,117	3,328	2,641	10,265	12,395
% Change (YoY)	4.0	11.3	62.8	17.7	102.7	8.1	1.1	7.5	24.1	20.8
Cost to Income Ratio (%)	54.5	49.2	49.3	50.5	51.5	52.6	53.0	56.7	51.3	53.6
Int Exp/ Int Earned (%)	57.8	59.2	59.7	58.7	63.9	63.4	64.2	64.8	58.9	64.1
Other Income / Net Income (%)	25.1	26.5	25.8	26.5	27.9	22.2	19.9	19.6	23.7	22.3

E: MOST Estimates; * HTM amortization is included in the Provisions in FY07 while in FY08 it is included in Other Income for quarterly results

Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BOI IN
	REUTERS CODE
S&P CNX: 5,021	BOI.BO
Equity Shares (m)	488.1
52-Week Range	281/132
1,6,12 Rel. Perf. (%)	3/27/29
M.Cap. (Rs b)	135.2
M.Cap. (US\$ b)	3.4

28 September 2007

Buy

Rs277

Previous Recommendation: Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	50,034	11,232	23.0	60.2	12.0	2.4	11.6	21.3	0.9	2.5
3/08E	56,091	14,012	28.7	24.8	9.6	2.0	11.9	22.2	0.9	2.1
3/09E	65,535	16,677	34.2	19.0	8.1	1.6	10.5	22.1	0.9	1.8

- Loans and deposits growth is expected to remain strong at ~25%; above industry growth rate. While CASA ratio may fall, margins would remain stable QoQ.
- Sustained fee income growth at 20-25% as well as higher treasury profits on account of IL&FS stake sale by the bank during the quarter would ensure other income remains higher.
- While there are no concerns on asset quality, we expect the bank to make higher provisions towards NPAs to further bring down the NPA ratios.
- The bank continues to be the most consistent in term of improvement in core performance. We believe BoI has many levers to bring in positive surprises to our earnings estimate. The stock trades at 8.1x FY09E EPS and 1.6x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07*	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	20,211	22,582	23,187	26,154	27,273	29,017	30,375	32,197	91,803	118,862
Interest Expense	12,566	14,088	14,599	16,474	17,801	19,160	20,147	21,060	57,399	78,168
Reported Net Interest Income	7,644	8,494	8,588	9,680	9,472	9,858	10,228	11,136	34,405	40,694
% Change (Y-o-Y)	36.8	46.8	30.8	15.5	23.9	16.1	19.1	15.1	30.7	18.3
Reported Other Income	3,107	3,533	3,223	5,767	3,812	3,356	3,545	4,684	15,630	15,397
Net Income	10,751	12,026	11,811	15,447	13,284	13,213	13,773	15,821	50,034	56,091
% Change (Y-o-Y)	26.0	36.4	28.5	32.9	23.6	9.9	16.6	2.4	31.1	12.1
Operating Expenses	6,075	7,236	6,279	6,495	6,506	7,026	7,166	8,432	26,084	29,130
Operating Profit	4,676	4,791	5,532	8,952	6,778	6,187	6,607	7,389	23,950	26,961
Other Provisions	1,685	1,587	2,286	3,064	1,992	2,000	2,100	1,408	8,621	7,500
Profit before tax	2,991	3,204	3,246	5,888	4,786	4,187	4,507	5,981	15,329	19,461
Tax Provisions	904	1,083	697	1,414	1,634	1,172	1,203	1,440	4,097	5,449
Net Profit	2,087	2,121	2,549	4,474	3,152	3,015	3,093	4,752	11,232	14,012
% Change (Y-o-Y)	21.5	60.5	78.1	75.9	51.0	42.1	21.4	6.2	60.1	24.8
Cost to Income Ratio (%)	56.5	60.2	53.2	42.0	49.0	53.2	52.0	53.3	52.1	51.9
Interest Exp./Interest Income (%)	62.2	62.4	63.0	63.0	65.3	66.0	66.3	65.4	62.5	65.8
Other Income/Net Income (%)	28.9	29.4	27.3	37.3	28.7	25.4	25.7	29.6	31.2	27.5

E: MOST Estimates; NII adjusted of one-off but not for amortization

Canara Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CBK IN
	REUTERS CODE
S&P CNX: 5,021	CNBK.BO
Equity Shares (m)	410.0
52-Week Range	320/174
1,6,12 Rel. Perf. (%)	1/9/-45
M.Cap. (Rs b)	114.1
M.Cap. (US\$ b)	2.7

28 September 2007

Buy

Rs278

Previous Recommendation: Buy

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	54,778	14,208	34.7	5.8	8.0	1.4	13.5	18.8	1.0	1.5
3/08E	58,831	16,056	39.2	13.0	7.1	1.2	12.0	18.4	1.0	1.3
3/09E	66,156	17,865	43.6	11.3	6.4	1.1	11.6	17.9	0.9	1.2

- ✘ We expect margins to remain under pressure. Cost of funds continues to be high, as the bank built aggressive bulk deposits during 4QFY07 along with a slower growth in advances during 2HFY08.
- ✘ We expect muted business growth during 2QFY08 over March/June 2007 levels as the bank is in process of shedding its high cost deposits as well as low yielding and short term advances, which it had contracted aggressively during 4QFY07.
- ✘ Other income growth has been lumpy for the bank for several past quarters on account of abruptness in its treasury profits, forex income, recoveries from written off accounts and other miscellaneous income. We expect the bank to register higher treasury profits and recoveries during the quarter to cover up for a poor operating performance.
- ✘ Canara Bank continues to enjoy one of the best asset qualities in the industry with gross NPAs at a mere 1.55% and net NPAs at 0.98%. We do not expect any negative surprises on asset quality front from the bank. Thus NPA provisions would continue to remain low for the bank going forward.
- ✘ The stock trades at 6.4x FY09E EPS and 1.1x FY09E BV. We maintain **Buy** as the valuations are attractive.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Earned	25,128	26,800	29,614	32,105	33,800	34,839	37,017	38,676	113,646	144,332
Interest Expended	15,649	16,988	19,220	21,512	24,859	25,143	25,370	25,627	73,377	100,999
Net Interest Income	9,478	9,811	10,394	10,593	8,941	9,697	11,647	13,049	40,268	43,333
% Change (YoY)	13.8	21.6	8.5	7.7	-5.7	-1.2	12.1	23.2	12.4	7.6
Non Interest Income	2,582	3,133	2,993	6,262	3,801	3,446	3,442	4,159	14,509	15,498
Net Income	12,060	12,944	13,387	16,855	12,742	13,143	15,089	17,208	54,778	58,831
Operating Expenses	6,158	6,792	6,369	6,334	6,621	7,132	7,133	7,538	25,653	28,424
Operating Profit	5,902	6,152	7,018	10,521	6,121	6,011	7,956	9,670	29,125	30,407
% Change (YoY)	5.3	5.9	0.4	39.8	3.7	-2.3	13.4	-8.1	14.2	4.4
Other Provisions & Contingencies	3,743	1,534	2,630	4,970	3,015	1,500	2,200	2,035	12,417	9,400
PBT	2,159	4,618	4,388	5,551	3,106	4,511	5,756	7,635	16,708	21,007
Provision for Taxes	250	1,000	750	500	700	1,063	1,357	1,832	2,500	4,952
Net Profit	1,909	3,618	3,638	5,051	2,406	3,448	4,399	5,804	14,208	16,056
% Change (YoY)	2.2	18.0	2.1	2.3	26.0	-4.7	20.9	14.9	5.8	13.0
Cost / Income	51.1	52.5	47.6	37.6	52.0	54.3	47.3	43.8	46.8	48.3
Int Exp / Int Income	62.3	63.4	64.9	67.0	73.5	72.2	68.5	66.3	64.6	70.0
Other Income / Net Income	21.4	24.2	22.4	37.2	29.8	26.2	22.8	24.2	26.5	26.3

E: Most Estimates

Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CRPBK IN
	REUTERS CODE
S&P CNX: 5,021	CRBK.BO

28 September 2007

Sell

Rs388

Equity Shares (m)	143.4
52-Week Range	445/212
1,6,12 Rel. Perf. (%)	3/-2/-49
M.Cap. (Rs b)	55.7
M.Cap. (US\$ b)	1.4

Previous Recommendation: Sell

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	19,436	5,361	37.4	20.6	10.4	1.5	12.8	15.0	1.2	1.5
3/08E	21,627	6,536	45.6	21.9	8.5	1.3	12.0	16.3	1.1	1.3
3/09E	25,057	7,568	52.8	15.8	7.4	1.2	11.0	16.7	1.1	1.2

- ✗ The bank has significantly improved its yields to 10.15% during 1QFY08. We believe further improvement in yields would only be marginal for the bank. Credit growth also remains sluggish at ~20%; below industry levels.
- ✗ The bank had resorted to aggressive bulk deposits intake during 4QFY07 and 1QFY08, which impacted its margins during 1QFY08. We believe maintaining margins would be a key challenge for the bank on account of increased cost of funds and lower credit offtake.
- ✗ While fee income continues to grow at a slower pace, NSE stake sale during the quarter would boost other income and operating profit for the bank.
- ✗ Asset quality remains robust with net NPAs below 0.5%. We do not expect any material weakening of the asset portfolio.
- ✗ The stock trades at 7.4x FY09E EPS and 1.2x FY09E BV. We maintain **Sell**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	7,301	8,325	8,868	9,808	11,201	11,322	11,618	12,177	34,302	46,318
Interest Expense	4,053	5,158	5,536	5,777	7,479	7,582	7,611	7,677	20,524	30,350
Net Interest Income	3,248	3,167	3,333	4,030	3,722	3,739	4,006	4,500	13,778	15,968
% Change (Y-o-Y)	15.6	3.3	1.5	29.6	14.6	18.1	20.2	11.7	12.3	15.9
Other Income	1,650	982	1,408	1,619	1,187	1,570	1,619	1,282	5,658	5,659
Net Income	4,898	4,148	4,741	5,649	4,909	5,310	5,625	5,783	19,436	21,627
% Change (Y-o-Y)	14.8	-1.2	15.6	27.2	0.2	28.0	18.7	2.4	14.3	11.3
Operating Expenses	1,883	1,941	1,995	2,217	2,154	2,232	2,314	2,574	8,036	9,273
Operating Profit	3,015	2,208	2,745	3,432	2,756	3,078	3,311	3,209	11,400	12,353
% Change (Y-o-Y)	19.1	-7.7	26.8	40.2	-8.6	39.4	20.6	-6.5	19.5	8.4
Other Provisions	838	238	647	1,513	200	600	600	1,051	3,235	2,450
PBT	2,177	1,970	2,099	1,919	2,556	2,478	2,711	2,159	8,166	9,903
Tax Provisions	735	700	635	735	785	843	922	818	2,804	3,367
Net Profit	1,442	1,270	1,464	1,185	1,771	1,636	1,789	1,341	5,361	6,536
% Change (Y-o-Y)	16.8	20.3	27.2	18.1	22.8	28.8	22.2	13.2	20.6	21.9
Cost to Income Ratio (%)	38.4	46.8	42.1	39.3	43.9	42.0	41.1	44.5	41.3	42.9
Interest Expense/Interest Income (%)	55.5	62.0	62.4	58.9	66.8	67.0	65.5	63.0	59.8	65.5
Other Income/Net Income (%)	33.7	23.7	29.7	28.7	24.2	29.6	28.8	22.2	29.1	26.2

E: Most Estimates; All quarters have been adjusted for reclassification of amortization on HTM as part of other income

Federal Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	FB IN
	REUTERS CODE
S&P CNX: 5,021	FED.BO
Equity Shares (m)	85.8
52-Week Range	380/188
1,6,12 Rel. Perf. (%)	0/36/37
M.Cap. (Rs b)	31.9
M.Cap. (US\$ b)	0.8

28 September 2007

Buy

Rs372

Previous Recommendation: Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	10,191	2,927	34.2	30.0	10.9	2.1	13.4	21.3	1.3	2.2
3/08E	11,585	3,687	43.1	25.9	8.6	1.8	12.9	22.2	1.3	1.8
3/09E	13,484	4,621	54.0	25.3	6.9	1.4	12.4	22.9	1.4	1.5

- ✦ We expect strong NII growth of 21% on the back of sustained margins and modest asset growth.
- ✦ Lower treasury profits and recoveries would subdue other income growth, while fee income growth would remain modest at 10-12%.
- ✦ Asset quality has substantially improved with gross NPAs at 2.92% and net NPAs at 0.37% as of June 2007. Hence, we expect NPA provisions to remain low.
- ✦ Federal Bank is a play on improving asset quality, consolidation and attractive valuations. The stock trades at 6.9x FY09E EPS and 1.4x FY09E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	4,083	4,337	4,441	5,313	5,592	5,638	5,773	6,181	18,174	23,185
Interest Expense	2,497	2,662	2,676	3,033	3,665	3,621	3,692	3,729	10,850	14,707
Net Interest Income	1,586	1,675	1,766	2,280	1,928	2,017	2,081	2,452	7,324	8,478
% Change (Y-o-Y)	10.0	25.0	18.1	32.4	21.5	20.5	17.9	7.6	22.1	15.8
Other Income	543	726	545	1,054	1,005	650	750	702	2,867	3,107
Net Income	2,129	2,401	2,310	3,333	2,932	2,667	2,831	3,154	10,191	11,585
% Change (Y-o-Y)	14.2	26.0	16.8	37.8	37.8	11.1	22.5	-5.4	24.8	13.7
Operating Expenses	991	1,011	973	1,086	1,048	1,021	1,070	1,275	4,061	4,415
Operating Profit	1,137	1,390	1,337	2,247	1,884	1,647	1,761	1,879	6,130	7,170
Prov for Tax	176	170	196	388	545	329	352	207	1,055	1,434
Provisions and Contingencies	559	526	321	867	670	500	400	480	2,148	2,050
Net Profit	402	695	820	993	669	817	1,009	1,191	2,927	3,687
% Change (Y-o-Y)	-17.5	28.2	14.5	95.6	66.6	17.7	23.0	20.0	30.0	25.9
Cost to Income Ratio (%)	46.6	42.1	42.1	32.6	35.7	38.3	37.8	40.4	39.8	38.1
Interest Exp./Interest Income (%)	61.2	61.4	60.2	57.1	65.5	64.2	64.0	60.3	59.7	63.4
Other Income/Net Income (%)	25.5	30.2	23.6	31.6	34.3	24.4	26.5	22.3	28.1	26.8

E: MOST Estimates

HDFC

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HDFC IN
	REUTERS CODE
S&P CNX: 5,021	HDFC.BO
Equity Shares (m)	271.0
52-Week Range	2,544/1,383
1,6,12 Rel. Perf. (%)	12/32/29
M.Cap. (Rs b)	684.9
M.Cap. (US\$ b)	17.2

28 September 2007

Buy

Rs2,527

Previous Recommendation: Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	22,294	15,704	62.1	23.2	40.7	11.5	13.0	31.3	2.8	11.7
3/08E	31,290	22,233	82.0	32.2	30.8	6.8	16.0	28.4	3.1	6.8
3/09E	36,198	24,729	86.1	5.0	29.3	5.2	14.0	20.6	2.7	5.3

- Despite concerns relating to growth in mortgages, we expect HDFC to maintain its traditional growth of 26-27% in disbursements and 25%+ in loans.
- As ICICI Bank and other SOBs slow down disbursements owing to margin concerns, we expect HDFC to gain market share.
- We expect 26% earnings (pre-exceptional) growth in 2QFY08. HDFC continues to be one of the most consistent performers in the sector and we expect sustained outperformance in future as well.
- HDFC has completed its stake sale in Intelnet during 2QFY08, thus profits from that transaction would be booked during the quarter. This would lead to a pre-tax profit of Rs3.15b in the quarter.
- We expect spreads to improve QoQ as cost of funds has moderated while lending rates have remained unchanged.
- Adjusting for the value of its investments, HDFC is available at 23x FY09E EPS. With strong growth prospects, we are optimistic over the future earnings prospects of HDFC. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Income from Operations	12,457	14,468	14,545	17,285	18,270	19,966	20,363	25,304	58,755	83,902
Other Income	28	95	39	45	34	90	50	46	208	220
Total Income	12,485	14,563	14,585	17,330	18,304	20,056	20,413	25,349	58,963	84,122
YoY Change (%)	33.6	38.9	38.2	39.8	46.6	37.7	40.0	46.3	37.8	42.7
Interest and Other Charges	8,014	9,137	9,475	10,042	12,451	13,157	13,739	16,045	36,669	55,393
Other Expenses	667	686	614	474	765	837	829	528	2,442	2,960
Total Expenses	8,681	9,823	10,089	10,517	13,217	13,995	14,568	16,573	39,110	58,353
PBDT	3,805	4,740	4,495	6,813	5,087	6,061	5,845	8,776	19,852	25,770
YoY Change (%)	22.0	22.3	25.8	31.4	33.7	27.9	30.0	28.8	26.0	29.8
Depreciation	37	39	47	52	37	47	56	80	175	220
PBT	3,767	4,701	4,448	6,761	5,050	6,014	5,789	8,696	19,678	25,550
Provision for Tax	799	1,021	886	1,261	1,322	1,383	1,332	1,840	3,974	5,876
PAT	2,968	3,680	3,562	5,501	3,728	4,631	4,458	6,856	15,704	19,673
YoY Change (%)	20.0	23.1	25.2	29.0	25.6	25.8	25.1	24.6	24.9	25.3
Post Tax Profit on Intelnet Stake Sale	0	0	0	0	0	2,560	0	0	0	2,560
Reported PAT	2,968	3,680	3,562	5,501	3,728	7,191	4,458	6,856	15,704	22,233

E: MOST Estimates

HDFC Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HDFCB IN
	REUTERS CODE
S&P CNX: 5,021	HDBK.BO
Equity Shares (m)	319.4
52-Week Range	1,459/888
1,6,12 Rel. Perf. (%)	9/16/15
M.Cap. (Rs b)	459.6
M.Cap. (US\$ b)	11.5

28 September 2007

Buy

Rs 1,439

Previous Recommendation: Buy

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	49,847	11,419	35.8	28.3	40.3	7.1	13.1	19.5	1.4	7.3
3/08E	67,413	15,328	43.1	20.5	33.4	4.3	13.4	16.8	1.4	4.4
3/09E	89,332	20,997	59.0	37.0	24.4	3.8	11.5	16.6	1.5	3.8

- HDFC Bank is expected to maintain its trend of consistent PAT growth of ~30%+. We expect margins to improve during 2QFY08 on account of capital raising of US\$1b during the quarter.
- HDFC Bank has added 218 branches in the last three quarters and is expected to add about 90-100 more branches in FY08. This branch expansion makes us comfortable about profitable and robust business growth, going forward.
- Rapid expansion of branch network would continue to keep upward pressure on operating expenses while we expect the overall cost-to-income ratio to be held firm at ~48-49% in 2QFY08.
- The equity raising of US\$1b in FY08 is significantly book accretive. While RoEs would come down on account of this capital raising in near future, we expect returns to bounce back to 20%+ level over the next 3-4 years. On a post diluted basis, the stock trades at 24.4x FY09E EPS and 3.8x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	15,043	16,357	17,593	19,898	21,259	23,063	24,542	27,883	68,890	96,747
Interest Expense	6,867	7,901	8,307	8,721	10,836	11,377	11,796	13,000	31,795	47,009
Net Interest Income	8,176	8,456	9,286	11,177	10,422	11,686	12,747	14,882	37,096	49,737
Growth (%)	56.1	38.1	38.5	51.2	27.5	38.2	37.3	33.1	45.7	34.1
Other Income	2,909	3,401	3,129	3,312	5,158	4,217	3,911	4,389	12,751	17,675
Net Income	11,086	11,857	12,415	14,490	15,581	15,903	16,658	19,271	49,847	67,413
Growth (%)	40.8	35.9	28.4	38.8	40.5	34.1	34.2	33.0	45.6	35.2
Operating Expenses	5,527	5,791	6,050	6,839	7,744	8,150	8,833	9,856	24,208	34,583
Operating Profit	5,558	6,066	6,365	7,650	7,837	7,753	7,825	9,415	25,639	32,829
Provisions and Contingencies	2,040	2,481	2,060	2,671	3,071	2,650	2,100	2,468	7,309	10,289
Profit Before Tax	3,518	3,585	4,305	4,980	4,766	5,103	5,725	6,947	18,330	22,540
Provision for Taxes	1,125	955	1,349	1,544	1,553	1,633	1,832	2,195	6,912	7,213
Net Profit	2,393	2,629	2,956	3,436	3,212	3,470	3,893	4,752	11,419	15,328
Growth (%)	30.4	31.7	31.7	30.5	34.2	32.0	31.7	38.3	30.8	34.2
Cost to Income Ratio (%)	49.9	48.8	48.7	47.2	49.7	51.2	53.0	51.1	48.6	51.3
Interest Exp./Interest Income (%)	45.6	48.3	47.2	43.8	51.0	49.3	48.1	46.6	46.2	48.6
Other Income/Total Income (%)	26.2	28.7	25.2	22.9	33.1	26.5	23.5	22.8	25.6	26.2

E: M0St Estimates; * HTM amortization is included in the Provisions in FY07 while in FY08 it is included in Other Income for quarterly results

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ICICIB IN
	REUTERS CODE
S&P CNX: 5,021	ICBK.BO
Equity Shares (m)	1,108.3
52-Week Range	1,071/673
1,6,12 Rel.Perf.(%)	7/-10/10
M.Cap. (Rs b)	1,178.3
M.Cap. (US\$ b)	29.6

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 1,063

	YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
	3/07A	125,650	31,102	34.6	21.2	30.7	3.9	11.7	13.4	1.0	4.2
	3/08E	168,285	40,784	36.8	6.4	28.9	2.5	15.6	11.4	1.0	2.6
	3/09E	224,645	53,250	48.0	30.6	22.1	2.3	13.3	10.8	1.1	2.4

- ✦ Margins are expected to improve during 2QFY08 to 2.5%+ on account of full quarter impact of equity capital raised during 1QFY08.
- ✦ The bank has raised lending rates aggressively and its retail lending rates are higher v/s the market. Housing disbursements continue to be on a YoY decline for the bank. Thus, the loan book growth would continue to slow down.
- ✦ Fee income would continue to grow rapidly likely reporting ~40-45% growth YoY driven by robust performance in its insurance, credit cards and international business.
- ✦ With deteriorating asset quality and exposure to riskier asset classes, we expect NPA provisions to continue to remain high.
- ✦ At CMP, excluding the subsidiaries, the stock trades at 15.5x FY09E EPS and 1.6x FY09E BV. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	50,386	54,694	58,247	66,616	75,661	83,606	90,294	97,299	229,943	346,860
Interest Expense	35,634	38,924	41,159	47,869	58,519	62,615	66,685	69,107	163,585	256,926
Net Interest Income	14,753	15,770	17,088	18,747	17,143	20,991	23,609	28,192	66,358	89,934
Growth (%)	52.2	46.9	32.1	36.5	16.2	33.1	38.2	50.4	40.9	35.5
Other Income	10,110	15,701	19,806	18,339	17,153	19,000	21,000	21,198	59,292	78,351
Net Income	24,863	31,471	36,894	37,087	34,295	39,991	44,609	49,390	125,650	168,285
Operating Expenses	15,215	15,352	17,133	19,206	19,053	21,100	22,000	25,448	66,906	87,602
Operating Profit	9,648	16,119	19,761	17,881	15,242	18,891	22,609	23,941	58,744	80,683
Growth (%)	-0.6	54.4	65.4	20.7	58.0	17.2	14.4	33.9	51.1	37.3
Provisions and Contingencies	2,163	7,093	8,910	8,763	5,523	6,700	7,500	9,981	22,294	29,704
Profit before Tax	7,486	9,025	10,852	9,117	9,720	12,191	15,109	13,960	36,450	50,979
Provision for Taxes	1,286	1,475	1,751	836	1,969	2,560	3,173	2,494	5,348	10,196
Net Profit	6,200	7,550	9,101	8,281	7,751	9,631	11,936	11,466	31,102	40,784
Growth (%)	17.0	30.2	42.2	4.8	25.0	27.6	31.2	38.5	22.4	31.1
Interest Exp./Interest Income (%)	70.7	71.2	70.7	71.9	77.3	74.9	73.9	71.0	71.1	74.1
Other Income/Net Income (%)	40.7	49.9	53.7	49.5	50.0	47.5	47.1	42.9	47.2	46.6
Cost/Income (%)	61.2	48.8	46.4	51.8	55.6	52.8	49.3	51.5	53.2	52.1

E: MOST Estimates; * Quarterly numbers adjusted for amortization in FY07

Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	INBK IN
	REUTERS CODE
S&P CNX: 5,021	INBA.BO
Equity Shares (m)	429.8
52-Week Range	178/77
1,6, 12 Rel. Perf. (%)	-6/46/-
M.Cap. (Rs b)	68.8
M.Cap. (US\$ b)	1.7

28 September 2007

Buy

Rs 160

Previous Recommendation: Buy

	YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
	3/07A	26,052	7,598	17.7	20.5	9.1	2.1	14.1	28.4	1.5	2.2
	3/08E	29,292	9,464	22.0	24.6	7.3	1.7	12.5	25.2	1.6	1.8
	3/09E	33,205	11,715	27.3	23.8	5.9	1.4	11.0	25.6	1.7	1.4

- Considering the comfortable liquidity position of the bank, we expect loan book growth to remain strong at ~24-25% YoY – higher than the industry growth rate.
- We expect margins to remain stable for bank as it can enjoy incremental C-D ratio of >100% over the next two years.
- While recoveries would tend to pick up from 2QFY08, we expect major traction to begin only from 3QFY08.
- Bank's higher operating profitability would enable it to make higher provisions towards AS-15 liability, NPAs and standard assets.
- Stock trades at 5.9x FY09E EPS and 1.4x FY09E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q*	1Q	2QE	3QE	4QE		
Interest Income	9,562	10,322	10,766	12,196	12,029	12,690	13,325	13,792	42,847	51,835
Interest Expense	5,468	5,785	6,406	6,466	7,124	7,373	7,742	7,718	24,126	29,957
Net Interest Income	4,094	4,537	4,360	5,730	4,905	5,317	5,583	6,073	18,720	21,878
% Change (Y-o-Y)	20.2	26.1	18.1	30.0	19.8	17.2	28.1	6.0	24.0	16.9
Other Income	922	1,437	857	3,215	1,739	1,900	1,800	1,975	7,332	7,413
Net Income	5,016	5,974	5,217	8,945	6,644	7,217	7,383	8,048	26,052	29,292
% Change (Y-o-Y)	9.4	21.0	9.1	46.3	32.5	20.8	41.5	-10.0	32.0	12.4
Operating Expenses	2,721	3,001	2,761	3,529	3,346	3,451	3,313	3,476	12,466	13,587
Operating Profit	2,295	2,973	2,456	5,416	3,298	3,766	4,070	4,572	13,586	15,705
Other Provisions	417	1,043	333	2,486	907	1,300	1,300	1,193	4,744	4,700
Profit before Tax	1,878	1,930	2,123	2,930	2,391	2,466	2,770	3,379	8,842	11,005
Tax Provisions	230	238	218	577	270	300	320	651	1,244	1,541
Net Profit	1,648	1,692	1,905	2,353	2,121	2,166	2,450	2,728	7,598	9,464
% Change (Y-o-Y)	20.7	60.2	54.7	69.2	28.7	28.0	28.6	15.9	50.6	24.6
Cost to Income Ratio (%)	54.2	50.2	52.9	39.5	50.4	47.8	44.9	43.2	47.9	46.4
Interest Exp./Interest Income (%)	57.2	56.0	59.5	53.0	59.2	58.1	58.1	56.0	56.3	57.8
Other Income/Net Income (%)	18.4	24.1	16.4	35.9	26.2	26.3	24.4	24.5	28.1	25.3

E: MOST Estimates

Indian Overseas Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IOB IN
	REUTERS CODE
S&P CNX: 5,021	IOBK.BO
Equity Shares (m)	544.8
52-Week Range	151/89
1,6, 12 Rel. Perf. (%)	3/4/-10
M.Cap. (Rs b)	78.6
M.Cap. (US\$ b)	2.0

28 September 2007

Buy

Rs 144

Previous Recommendation: Buy

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	29,478	10,084	18.5	28.7	7.8	2.0	13.3	29.1	1.4	2.1
3/08E	35,451	11,992	22.0	18.9	6.6	1.6	12.0	27.5	1.3	1.7
3/09E	42,298	14,525	26.7	21.1	5.4	1.3	11.7	26.6	1.3	1.4

- Loan book is expected to grow ~24-25% YoY on account of the bank's comfortable liquidity position (the bank continues to hold significant excess SLR) as well as the consolidation of Bharat Overseas Bank's advances.
- We expect fee income growth (20%+) and treasury profits to remain strong during the quarter. However on a reported basis, other income would decline on account of reclassification of amortization on HTM investments.
- While slippages continue to remain high for the bank, robust recoveries have offset their impact; thereby improving asset quality over several previous quarters (Net NPAs 0.5% in 1QFY08). We do not expect material weakness in asset quality for the bank, while we have factored in higher NPA provisions for the bank on a conservative basis.
- PAT growth is likely to be 19% YoY in 2QFY08, driven by steady growth in NII, robust fee income and lower provisions.
- The stock trades at 5.4x FY09E EPS and 1.3x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	12,409	13,721	14,737	17,454	18,462	19,062	19,348	20,433	58,321	77,305
Interest Expense	6,654	7,602	8,686	9,771	11,372	11,884	12,062	12,296	32,713	47,613
Net Interest Income	5,755	6,119	6,051	7,682	7,090	7,178	7,286	8,137	25,608	29,692
% Change (Y-o-Y)	19.1	18.3	15.1	42.0	23.2	17.3	20.4	5.9	23.9	15.9
Other Income	-342	1,520	1,980	1,905	616	1,450	1,750	1,943	3,870	5,759
Net Income	5,413	7,639	8,031	9,587	7,706	8,628	9,036	10,080	29,478	35,451
% Change (Y-o-Y)	-18.6	10.4	17.1	27.3	42.4	12.9	12.5	5.1	5.5	20.3
Operating Expenses	3,302	3,491	3,116	3,970	3,614	3,805	4,050	4,425	13,878	15,895
Operating Profit	2,111	4,148	4,916	5,618	4,092	4,823	4,986	5,655	15,600	19,555
Other Provisions	-554	541	1,251	1,820	620	750	700	830	1,866	2,900
Tax Provisions	445	1,108	1,197	900	787	1,100	1,300	1,477	3,650	4,663
Net Profit	2,220	2,499	2,468	2,898	2,685	2,973	2,986	3,348	10,084	11,992
% Change (Y-o-Y)	21.2	25.9	25.1	41.7	20.9	19.0	21.0	15.5	28.7	18.9
Cost to Income Ratio (%)	61.0	45.7	38.8	41.4	46.9	44.1	44.8	43.9	47.1	44.8
Interest Exp./Interest Income (%)	53.6	55.4	58.9	56.0	61.6	62.3	62.3	60.2	56.1	61.6
Other Income/Net Income (%)	-6.3	19.9	24.7	19.9	8.0	16.8	19.4	19.3	13.1	16.2

E: MOST Estimates; *Amortization on HTM investments and transfer losses on AFS to HTM included in Other income

Jammu & Kashmir Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	JKBK IN
	REUTERS CODE
S&P CNX: 5,021	JKBK.BO

28 September 2007

Buy

Rs 783

Previous Recommendation: Buy

Equity Shares (m)	48.5
52-Week Range	797/398
1,6,12 Rel. Perf. (%)	0/-13/43
M.Cap. (Rs b)	38.0
M.Cap. (US\$ b)	1.0

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	9,281	2,745	56.6	55.2	13.8	1.9	13.2	14.4	1.0	2.0
3/08E	10,621	3,302	68.1	20.3	11.5	1.7	12.1	15.5	1.0	1.8
3/09E	12,418	4,047	83.5	22.6	9.4	1.5	11.6	16.7	1.0	1.6

- NII is expected to grow 8% to Rs2.1b in 2QFY08 on the back of strong loan book growth. We expect margins to remain under pressure.
- Fee income growth aided by insurance distribution commission has been a key driver of earnings. We expect the same trend to continue during 2QFY08.
- Management has guided for higher-than-industry growth in advance during FY08. Management's ability to source core deposits to fund this growth without impacting margins would be the key strategy to watch out for.
- Asset quality significantly deteriorated during 4QFY07 (Net NPAs increased to >1%) as some legacy accounts were recognized as NPAs. Management has guided for improvement in asset quality through recoveries during FY08. Some signs of improvement in asset quality were visible during 1QFY08. Asset quality improvement would be a key area to watch out for going forward.
- The stock trades at 9.4x FY09E EPS and 1.5x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	4,547	4,621	4,631	5,210	5,751	5,938	6,020	6,628	18,993	24,336
Interest Expenses	2,760	2,688	2,680	3,187	3,854	3,844	3,806	4,054	11,315	15,558
Net Interest Income	1,786	1,933	1,951	2,024	1,896	2,094	2,214	2,574	7,678	8,778
% Change (Y-o-Y)	18.7	18.2	21.2	7.3	6.2	8.3	13.5	27.2	15.7	14.3
Other Income	219	354	329	701	358	395	450	639	1,602	1,842
Net Income	2,005	2,287	2,279	2,725	2,254	2,489	2,664	3,213	9,281	10,621
Operating Expenses	829	908	888	1,094	943	999	1,021	1,253	3,724	4,215
Operating Profit	1,176	1,378	1,392	1,631	1,312	1,490	1,643	1,960	5,556	6,405
% Change (Y-o-Y)	29.6	36.1	38.4	19.2	11.5	8.1	18.1	20.2	29.4	15.3
Prov. & Contingencies	291	194	298	621	190	200	300	860	1,404	1,550
Profit before Tax	886	1,185	1,094	1,010	1,122	1,290	1,343	1,100	4,152	4,855
Provision for Taxes	260	340	250	557	289	350	380	534	1,407	1,554
Net Profit	626	845	844	453	832	940	963	566	2,745	3,302
% Change (Y-o-Y)	29.2	53.7	66.6	98.6	33.0	11.2	14.2	25.1	55.2	20.3
Cost to Income	41.3	39.7	39.0	40.1	41.8	40.1	38.3	39.0	40.1	39.7
Int.Expense/Int. Earned	60.7	58.2	57.9	61.2	67.0	64.7	63.2	61.2	59.6	63.9
Cost to Net Int.Income	46.4	47.0	45.5	54.0	49.7	47.7	46.1	48.7	48.5	48.0

E: MOST Estimates; All quarters have been adjusted for reclassification of amortization on HTM

Karnataka Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	KBL IN
	REUTERS CODE
S&P CNX: 5,021	KNBK.BO

28 September 2007

Buy

Rs224

Equity Shares (m)	121.3
52-Week Range	229/104
1,6,12 Rel. Perf. (%)	9/-3/54
M.Cap. (Rs b)	27.1
M.Cap. (US\$ b)	0.7

Previous Recommendation: Buy

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	5,941	1,770	14.6	0.5	15.3	2.2	11.5	15.1	1.1	2.3
3/08E	6,970	2,327	19.2	31.4	11.7	1.9	11.0	17.5	1.3	2.0
3/09E	7,967	2,702	22.3	16.1	10.0	1.7	11.5	17.7	1.3	1.8

- ✦ We expect strong NII growth YoY on account of lower base and expect margins to slide down QoQ as the bank built up its deposits base. While yields on advances are likely to improve marginally, cost of funds would put pressure on margin.
- ✦ The bank has shown robust growth in traditional fee income of 35% during FY07. Even during 1QFY08, fee income grew by 20%+. We expect the bank to continue to maintain 20-25% growth in non treasury income going forward.
- ✦ There have been some issues with asset quality over the last couple of quarters. Gross as well as net NPAs in absolute numbers have increased in 4% and 9% QoQ in 1QFY08. Asset quality improvement would be a key area to watch out for, going forward.
- ✦ Bank had a write back of investment provisions of Rs230m in 2QFY07, which boosted its earnings during that quarter. Thus, we expect earnings to decline YoY on account of high base effect, despite a strong operating performance growth.
- ✦ Karnataka Bank is a play on improving key operating parameters and consolidation. The stock trades at 10x FY09E EPS and 1.7x FY09E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	2,858	2,953	3,220	3,532	3,619	3,721	3,928	4,004	12,563	15,272
Interest Expense	1,904	2,047	2,170	2,243	2,375	2,517	2,647	2,682	8,364	10,221
Net Interest Income	953	906	1,050	1,289	1,244	1,203	1,281	1,322	4,199	5,051
% Change (Y-o-Y)	5.0	18.8	7.5	27.5	30.5	32.8	22.0	2.6	14.8	20.3
Other Income	449	487	397	410	418	450	500	551	1,743	1,919
Net Income	1,402	1,393	1,448	1,698	1,662	1,653	1,781	1,873	5,941	6,970
% Change (Y-o-Y)	1.2	14.7	7.7	22.8	18.5	18.7	23.1	10.3	11.5	17.3
Operating Expenses	520	653	553	650	623	620	640	765	2,376	2,648
Operating Profit	882	741	895	1,049	1,038	1,033	1,141	1,108	3,566	4,322
Other Provisions	331	-163	62	608	246	200	200	254	838	900
Tax Provisions	183	308	294	173	275	267	301	252	957	1,095
Net Profit	368	596	539	268	518	567	640	602	1,770	2,327
% Change (Y-o-Y)	-11.8	42.8	29.8	-47.5	40.8	-4.9	18.8	124.9	0.6	31.4
Cost to Income Ratio (%)	37.1	46.8	38.2	38.3	37.5	37.5	35.9	40.8	40.0	38.0
Interest Exp./Interest Income (%)	66.6	69.3	67.4	63.5	65.6	67.7	67.4	67.0	66.6	66.9
Other Income/Net Income (%)	32.0	35.0	27.4	24.1	25.1	27.2	28.1	29.4	29.3	27.5

E: MOST Estimates

Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	OBC IN
	REUTERS CODE
S&P CNX: 5,021	ORBC.BO

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs242

Equity Shares (m)	250.5
52-Week Range	280/157
1,6,12 Rel. Perf. (%)	3/-2/-52
M.Cap. (Rs b)	60.7
M.Cap. (US\$ b)	1.5

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	22,946	8,268	33.0	2.9	7.3	1.2	12.5	15.4	1.2	1.2
3/08E	25,348	9,425	37.6	14.0	6.4	1.0	12.0	16.0	1.2	1.1
3/09E	29,808	10,684	42.6	13.4	5.7	0.9	11.0	16.5	1.1	0.9

- ✘ We expect margins to remain lower at 2.7% during 2QFY08 as credit growth remains subdued during 1HFY08 and higher proportion of bulk deposits continues to keep cost of funds high.
- ✘ Bank has been shedding its high cost deposits and replacing them with retail term and savings deposits during past two quarters. The yields on advances are expected to improve marginally by 10-15bp during 2QFY08 which we believe would enable the bank to sustain margins despite continued high cost of funds.
- ✘ Sustained growth in fee income and controlled operating costs would help the bank to show improved operating profit performance during 2QFY08.
- ✘ OBC continues to enjoy robust asset quality with net NPAs at 0.65%. Recoveries are expected to remain strong. Moreover, the bank has a pool of Rs2b of specific NPA provisions made in excess of the RBI requirement. It is likely that the bank will reverse these NPA provisions and deliver strong earnings growth during the year. We are not factoring this in our estimates.
- ✘ The stock trades at 5.7x FY09E EPS and 0.9x FY09E BV. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q*	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	11,353	12,822	13,137	14,336	15,341	16,413	16,816	17,648	51,649	66,218
Interest Expense	7,244	8,695	8,924	9,874	10,910	11,825	11,869	12,450	34,736	47,053
Net Interest Income	4,110	4,128	4,213	4,462	4,431	4,588	4,947	5,198	16,913	19,165
% Change (YoY)	2.0	2.1	6.7	10.7	7.8	11.1	17.4	16.5	5.4	13.3
Other Income	1,687	1,579	1,330	1,437	1,462	1,700	1,500	1,521	6,033	6,183
Net Income	5,797	5,707	5,543	5,899	5,893	6,288	6,447	6,719	22,946	25,348
% Change (YoY)	16.3	-1.0	6.3	5.0	1.7	10.2	16.3	13.9	6.3	10.5
Operating Expenses	2,287	2,566	2,476	2,650	2,642	2,771	2,724	2,852	9,979	10,989
Operating Profit	3,510	3,141	3,067	3,249	3,251	3,517	3,723	3,868	12,967	14,359
Provision & Contingencies	1,477	-737	81	1,616	506	400	400	494	2,436	1,800
PBT	2,033	3,878	2,986	1,633	2,745	3,117	3,323	3,374	10,531	12,559
Tax Provisions	481	771	550	462	741	778	829	842	2,263	3,134
Net Profit	1,553	3,108	2,437	1,171	2,004	2,339	2,494	2,532	8,268	9,425
% Change (YoY)	48.2	37.2	19.1	-56.2	29.1	-24.7	2.3	116.1	2.9	14.0
Cost to Income Ratio (%)	39.4	43.4	44.7	44.9	44.8	44.1	42.3	42.4	43.5	43.4
Int Exp/Int Earned (%)	63.8	59.9	67.9	68.9	71.1	72.0	70.6	70.5	67.3	71.1
Other Income / Net Income (%)	29.1	29.9	24.0	24.4	24.8	27.0	23.3	22.6	26.3	24.4

E: Most Estimates

Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	PNB IN
	REUTERS CODE
S&P CNX: 5,021	PNB.BO

28 September 2007

Buy

Rs543

Previous Recommendation: Buy

Equity Shares (m)	315.3
52-Week Range	594/300
1,6, 12 Rel. Perf. (%)	0/-17/-37
M.Cap. (Rs b)	171.1
M.Cap. (US\$ b)	4.3

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
3/07A	65,569	15,401	48.8	7.0	11.1	1.7	12.3	16.0	1.0	1.8
3/08E	72,364	18,257	57.9	18.5	9.4	1.5	11.4	16.9	1.0	1.6
3/09E	85,679	21,600	68.5	18.4	7.9	1.3	11.0	17.5	1.1	1.4

- ✦ We expect margins to remain stable QoQ but down YoY on account of aggressive intake of high cost deposits during 4QFY07. While yields improvement would be marginal going forward, managing the rising cost of funds would be a major challenge for the bank.
- ✦ Thrust on growing fee income, robust technological support and widespread customer franchise would enable PNB to improve fee income by ~20% in 2QFY08.
- ✦ Sharp deterioration in asset quality in last couple of quarters continues to be a concern. However, the management is confident of recovering the slippages and bringing down the NPA ratios. We expect earnings growth to remain muted on account of higher provisions towards NPAs.
- ✦ The stock trades at 7.9x FY09E EPS and 1.3x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	26,305	27,643	29,483	31,944	33,633	36,424	38,974	42,294	115,375	151,324
Interest Expense	13,476	14,015	15,024	17,714	19,850	21,835	23,582	24,783	60,229	90,050
Net Interest Income	12,829	13,628	14,459	14,230	13,782	14,589	15,392	17,511	55,146	61,274
% Change (YoY)	17.9	14.4	19.7	20.6	7.4	7.1	6.5	23.1	18.2	11.1
Other Income	-940	2,840	3,231	5,184	-659	3,400	3,800	4,549	10,423	11,090
Net Income	11,888	16,468	17,689	19,414	13,124	17,989	19,192	22,060	65,569	72,364
% Change (YoY)	-11.4	9.6	21.8	21.2	10.4	9.2	8.5	13.6	11.2	10.4
Operating Expenses	6,969	7,580	8,123	10,591	8,770	9,033	9,304	9,477	33,262	36,583
Operating Profit	4,920	8,888	9,567	8,824	4,354	8,956	9,888	12,583	32,306	35,781
Provision & Contingencies	-216	1,018	3,577	6,127	-1,905	2,500	3,800	5,305	10,615	9,700
PBT	5,135	7,870	5,990	2,697	6,259	6,456	6,088	7,278	21,691	26,081
Tax Provisions	1,460	2,820	1,691	320	2,009	1,808	1,800	2,208	6,291	7,824
Net Profit	3,675	5,050	4,299	2,377	4,251	4,648	4,288	5,070	15,401	18,257
% Change (YoY)	2.6	19.7	16.0	-17.7	15.7	-8.0	-0.3	113.3	7.0	18.5
Cost to Income Ratio (%)	58.6	46.0	45.9	54.6	66.8	50.2	48.5	43.0	50.7	50.6
Int exp/Int Earned (%)	51.2	50.7	51.0	55.5	59.0	59.9	60.5	58.6	52.2	59.5
Other Income / Net Income (%)	-7.9	17.2	18.3	26.7	-5.0	18.9	19.8	20.6	15.9	15.3

E: MOST Estimates

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State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SBIN IN
	REUTERS CODE
S&P CNX: 5,021	SBI.BO

28 September 2007

Buy

Rs 1,951

Previous Recommendation: Buy

Equity Shares (m)	526.3
52-Week Range	1,970/845
1,6,12 Rel. Perf. (%)	10/66/50
M.Cap. (Rs b)	1,026.7
M.Cap. (US\$ b)	25.8

YEAR END	NET INCOME (RS B)	PAT (RS B)	EPS (RS)	CON. EPS (RS)	CON. P/E (X)	P/BV (X)	CON. P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)
3/07A	218.2	45.4	86.3	120.9	16.1	3.3	2.4	12.3	15.4	0.9
3/08E	244.6	52.1	99.0	140.5	13.9	2.9	2.1	11.0	15.6	0.8
3/09E	287.0	61.6	117.0	168.5	11.6	2.5	1.8	10.2	16.2	0.8

Consolidated

- In comparison to 1Q margins of 3.3%, we expect some moderation, as deposit repricing is likely to be faster than asset yields repricing. The higher interest rates offered on term deposits would put upward pressure on the cost of funds. Advances growth for the bank is expected to be ~25% YoY.
- We expect fee income growth to be maintained at 15-16%, while treasury profits are expected to be Rs2b during 2QFY08.
- We expect strong growth in operating profits on account of steady growth in NII and further realization of operating leverage.
- NPA provisions would be higher as SBI's net NPA ratio continues to be higher than the industry at 1.6% and it is experiencing higher slippages. We expect the bank to start providing for revised AS-15 at a run rate of Rs2.2b per quarter.
- The stock trades at 11.6x FY09E consolidated EPS and 1.8x FY09E consolidated BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	88,572	93,775	97,359	115,415	113,865	116,142	123,111	147,577	394,910	500,696
Interest Expenses	49,466	54,788	57,846	72,213	68,891	70,958	75,215	96,932	234,368	311,996
Net Interest Income	39,106	38,987	39,513	43,201	44,974	45,184	47,896	50,645	160,542	188,699
% Change (Y-o-Y)	-8.1	8.1	-6.4	21.5	15.0	15.9	21.2	17.2	3.0	17.5
Other Income	7,096	14,338	18,110	28,941	8,426	14,500	14,500	18,522	57,692	55,947
Net Income	46,202	53,324	57,623	72,142	53,400	59,684	62,396	69,167	218,235	244,647
Operating Expenses	28,146	28,599	29,074	32,460	29,785	30,028	32,563	36,539	118,235	128,915
Operating Profit	18,056	24,726	28,549	39,682	23,615	29,656	29,833	32,628	100,000	115,731
% Change (Y-o-Y)	-47.5	24.7	9.8	34.0	30.8	19.9	4.5	-17.8	21.2	15.7
Other Provisions	2,511	6,813	11,662	14,126	1,594	8,000	11,000	17,407	24,096	38,000
Provision for Taxes	7,559	6,067	6,237	10,626	7,763	7,580	6,403	3,906	30,490	25,651
Net Profit	7,986	11,845	10,650	14,930	14,258	14,076	12,430	11,316	45,413	52,080
% Change (Y-o-Y)	-34.7	-2.5	-4.5	75.0	78.5	18.8	16.7	-24.2	3.1	14.7
Cost to Income Ratio	60.9	53.6	50.5	45.0	55.8	50.3	52.2	52.8	54.2	52.7
Interest Exp / Interest Earned	55.8	58.4	59.4	62.6	60.5	61.1	61.1	65.7	59.3	62.3
Other Income / Net Income	15.4	26.9	31.4	40.1	15.8	24.3	23.2	26.8	26.4	22.9

E: Most Estimates

Syndicate Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	SNDB IN
	REUTERS CODE
S&P CNX: 5,021	SBNK.BO

28 September 2007

Buy

Rs92

Previous Recommendation: Buy

Equity Shares (m)	522.0
52-Week Range	94/57
1,6,12 Rel. Perf. (%)	7/10/-34
M.Cap. (Rs b)	48.2
M.Cap. (US\$ b)	1.2

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	27,685	7,161	13.7	33.5	6.7	1.5	11.7	21.9	1.0	1.6
3/08E	30,780	8,151	15.6	13.8	5.9	1.2	11.3	20.3	0.8	1.3
3/09E	34,861	8,672	16.6	6.4	5.6	1.1	10.8	18.6	0.7	1.2

- ✦ We expect NII to grow strong by 17% YoY on a lower base in 2QFY07. Margins would continue to be lower ~2.8%, though they would improve marginally QoQ. The higher bulk deposits intake during 4QFY07 continue to put cost pressure.
- ✦ We expect non interest income to remain flat due to lower treasury profits. Fee income growth continues to be slow.
- ✦ As the loan book has grown at very strong rate in past, we believe that the delinquency risks are higher and thus expect higher provisions.
- ✦ The bank would come out of MAT during FY08 and thus tax provisions would tend to go up. We have assumed a 22% tax rate for 2QFY08.
- ✦ The stock trades at 5.6x FY09E EPS and 1.1x FY09E BV. Valuations are attractive. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	12,308	14,373	16,353	17,366	18,463	19,404	20,932	21,610	60,401	80,408
Interest Expense	7,249	9,527	10,794	11,330	12,993	13,719	14,571	14,753	38,900	56,037
Net Interest Income	5,059	4,846	5,559	6,037	5,470	5,684	6,360	6,857	21,501	24,371
% Change (Y-o-Y)	7.1	1.0	3.9	53.3	8.1	17.3	14.4	13.6	14.3	13.4
Other Income	1,262	1,656	1,490	1,938	1,531	1,600	1,600	1,678	6,185	6,409
Net Income	6,321	6,502	7,049	7,974	7,001	7,284	7,960	8,535	27,685	30,780
% Change (Y-o-Y)	4.6	7.0	8.0	35.3	10.7	12.0	12.9	7.0	13.3	11.2
Operating Expenses	3,382	3,471	3,768	3,239	3,855	3,818	4,070	3,986	13,860	15,730
Operating Profit	2,940	3,031	3,281	4,736	3,145	3,466	3,890	4,549	13,826	15,050
Other Provisions	884	730	1,478	3,617	482	700	1,000	2,419	6,547	4,600
Tax Provisions	250	250	-458	76	453	609	636	601	118	2,299
Net Profit	1,806	2,051	2,261	1,043	2,210	2,158	2,255	1,529	7,161	8,151
% Change (Y-o-Y)	10.7	17.1	20.4	911.5	22.4	5.2	-0.3	46.6	33.5	13.8
Cost to Income Ratio (%)	53.5	53.4	53.5	40.6	55.1	52.4	51.1	46.7	50.1	51.1
Interest Exp./Interest Income (%)	58.9	66.3	66.0	65.2	70.4	70.7	69.6	68.3	64.4	69.7
Other Income/Net Income (%)	20.0	25.5	21.1	24.3	21.9	22.0	20.1	19.7	22.3	20.8

E: MOST Estimates

Union Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	UNBK IN
	REUTERS CODE
S&P CNX: 5,021	UNBK.BO

28 September 2007

Buy

Rs 163

Previous Recommendation: Buy

Equity Shares (m)	505.1
52-Week Range	168/84
1,6,12 Rel. Perf. (%)	6/31/-22
M.Cap. (Rs b)	82.5
M.Cap. (US\$ b)	2.1

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	34,768	8,454	16.7	25.3	9.8	1.7	12.8	19.2	0.9	1.9
3/08E	40,342	10,634	21.1	25.8	7.8	1.5	12.0	20.7	0.9	1.6
3/09E	47,593	13,132	26.0	23.5	6.3	1.3	11.0	21.8	1.0	1.3

- ✘ We expect margins to remain stable at around 3-3.05% in 2QFY08 considering the modest asset growth and contained cost of funds.
- ✘ On account of higher base effect, asset growth would remain subdued at 15-16% in 2QFY08, while core deposits (CASA and retail term deposits) growth would remain strong at 20-25%.
- ✘ Core fee income is likely to continue to grow strongly at 25%+ YoY in 2QFY08 on back of bank's increased thrust on marketing third party products and scaling up traditional non-fund based revenue.
- ✘ Net NPAs have reduced to below 0.8% in 1QFY08. Management has a target to reduce this ratio to about 0.5% by FY08. Strong operating profit growth would enable the bank to make higher provisions for NPAs and still record strong earnings growth.
- ✘ We expect earnings to grow 24% YoY in 2QFY08 on the back of strong NII growth of 25% coupled with robust fee income growth.
- ✘ The stock trades at 6.3x FY09E EPS and 1.3x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	16,657	17,724	18,492	20,949	21,112	22,484	23,608	25,380	73,822	92,583
Interest Expense	10,312	11,449	11,633	12,526	13,399	14,672	15,332	16,542	45,920	59,944
Net Interest Income	6,345	6,276	6,859	8,423	7,713	7,812	8,276	8,838	27,902	32,639
% Change (Y-o-Y)	18.7	4.2	7.3	40.9	21.6	24.5	20.7	4.9	17.5	17.0
Other Income	1,258	1,918	2,052	2,418	1,783	1,800	2,000	2,120	6,865	7,703
Net Income	7,602	8,193	8,911	10,841	9,496	9,612	10,276	10,958	34,768	40,342
% Change (Y-o-Y)	16.8	15.8	14.5	40.6	24.9	17.3	15.3	1.1	21.2	16.0
Operating Expenses	3,730	3,910	3,860	3,259	4,241	4,223	4,246	4,303	14,759	17,013
Operating Profit	3,872	4,283	5,051	7,582	5,255	5,389	6,030	6,655	20,008	23,329
Other Provisions	1,186	1,220	1,426	3,153	1,554	1,750	1,600	2,396	6,204	7,300
Tax Provisions	1,018	1,122	1,067	2,144	1,450	1,225	1,491	1,229	5,350	5,395
Net Profit	1,668	1,942	2,558	2,285	2,251	2,414	2,939	3,029	8,454	10,634
% Change (Y-o-Y)	-30.6	217.8	11.7	58.0	34.9	24.3	14.9	32.5	25.3	25.8
Cost to Income Ratio (%)	49.1	47.7	43.3	30.1	44.7	43.9	41.3	39.3	42.5	42.2
Interest Exp./Interest Income (%)	61.9	64.6	62.9	59.8	63.5	65.3	64.9	65.2	62.2	64.7
Other Income/Net Income (%)	16.5	23.4	23.0	22.3	18.8	18.7	19.5	19.3	19.7	19.1

E: MOST Estimates; * HTM amortization is included in the Provisions in FY07 while in FY08 it is included in Other Income for quarterly results

Vijaya Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	VJYBK IN
	REUTERS CODE
S&P CNX: 5,021	VJBK.BO

28 September 2007

Neutral

Equity Shares (m)	433.5
52-Week Range	71/38
1,6,12 Rel. Perf. (%)	16/38/-18
M.Cap. (Rs b)	30.4
M.Cap. (US\$ b)	0.8

Previous Recommendation: Neutral

Rs 70

YEAR END	NET INCOME (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROAE (%)	ROAA (%)	P/ABV RATIO
3/07A	13,467	3,313	7.6	161.1	9.2	1.6	11.2	18.6	0.9	1.7
3/08E	14,808	3,829	8.8	15.6	7.9	1.4	11.0	18.9	0.8	1.5
3/09E	16,440	4,142	9.6	8.2	7.3	1.3	10.5	18.2	0.7	1.4

- ✂ We expect the bank to post a mere 6% YoY growth in NII to Rs2.8b as margins continue to be under pressure on account of high bulk deposits intake by the bank during FY07.
- ✂ Business growth would continue to be strong for the bank. Advances are expected to show 25%+ YoY growth while deposits are likely to post 24-25% growth YoY.
- ✂ The bank has one of the best asset qualities in the industry with gross NPA ratio at 2.2% and net NPAs below 0.5%. We expect incremental NPA provisions to remain lower.
- ✂ The stock trades at 7.3x FY09E EPS and 1.3x FY09E BV. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Interest Income	6,134	6,742	7,319	8,036	8,982	9,102	9,514	10,042	28,231	37,641
Interest Expense	3,551	4,144	4,669	5,148	6,346	6,340	6,443	6,541	17,512	25,671
Net Interest Income	2,583	2,598	2,650	2,888	2,636	2,761	3,071	3,501	10,719	11,970
% Change (Y-o-Y)	8.9	11.6	2.3	18.6	2.0	6.3	15.9	21.2	10.2	11.7
Other Income	866	718	730	846	685	650	700	803	2,748	2,838
Net Income	3,450	3,316	3,379	3,734	3,321	3,411	3,771	4,304	13,467	14,808
% Change (Y-o-Y)	1.5	1.4	1.7	15.9	-3.7	2.9	11.6	-0.8	7.2	10.0
Operating Expenses	1,498	1,550	1,657	1,802	1,609	1,705	1,790	2,018	6,507	7,122
Operating Profit	1,951	1,766	1,722	1,933	1,713	1,706	1,982	2,286	6,960	7,686
Other Provisions	1,105	475	535	1,779	349	450	750	1,351	3,483	2,900
Tax Provisions	120	268	260	-483	250	200	246	187	164	957
Net Profit	726	1,023	927	637	1,114	1,056	985	748	3,313	3,829
% Change (Y-o-Y)	163.7	36.3	57.7	NA	53.3	3.2	6.2	17.5	161.1	15.6
Cost to Income Ratio (%)	43.4	46.7	49.0	48.2	48.4	50.0	47.5	46.9	48.3	48.1
Interest Exp./Interest Income (%)	57.9	61.5	63.8	64.1	70.7	69.7	67.7	65.1	62.0	68.2
Other Income/Net Income (%)	25.1	21.7	21.6	22.6	20.6	19.1	18.6	18.7	20.4	19.2

E: MOST Estimates; * HTM amortization is included in the Provisions in FY07 while in FY08 it is included in Other Income for quarterly results

Cement

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
ACC	96
Ambuja Cement	97
Birla Corporation	98
Grasim Industries	99
India Cements	100
Shree Cement	101
UltraTech Cement	102

2QFY08: Highlights

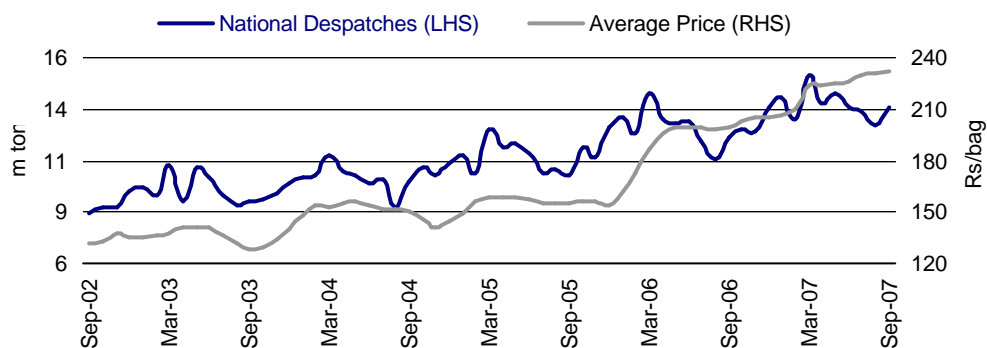
YoY Comparative (v/s 2QFY07)

- ✎ Volumes expected to be higher by 12.6%
- ✎ Prices expected to be higher by 9.9%

QoQ Comparative (v/s 1QFY08)

- ✎ Volumes expected to be lower by 4.8%
- ✎ Prices expected to be higher by 2.5%

CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE



Source: CMA/MOST

MOST CEMENT UNIVERSE: 1QFY08 PERFORMANCE AT A GLANCE

	VOLUME (M TON)		REALIZATION	
	2QFY08	2QFY07	GR. (%)	YOY (%)
ACC	4.9	4.3	15.2	12.2
Ambuja Cement	3.9	3.7	5.1	9.0
Grasim	3.7	3.4	8.0	10.7
Birla Corporation	1.3	1.3	2.4	13.4
Ultratech	3.8	3.6	4.6	8.7
India Cement	2.3	1.9	23.7	18.2
Shree Cement	1.5	1.1	35.1	6.1
Industry Average *	39.6	35.2	12.6	9.9

* Adjusted for increase in excise

Source: CMA/Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Cement							
ACC	Neutral	17,443	28.5	5,186	41.7	3,271	45.1
Ambuja Cements	Buy	12,958	14.6	4,750	19.9	3,446	17.3
Birla Corporation	Buy	4,165	14.2	1,355	38.4	844	25.0
Grasim Industries	Buy	24,689	22.8	7,751	45.7	4,732	40.8
India Cements	Buy	7,538	46.0	2,957	71.4	1,858	48.9
Shree Cement	Buy	4,530	43.4	1,823	27.8	1,044	34.3
UltraTech Cement	Buy	11,833	17.8	3,629	42.6	1,972	54.8
Sector Aggregate		83,155	24.1	27,451	39.9	17,169	37.0

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Pricing: Cement prices booming

2QFY08 highlights

- ✎ **YoY Comparative:** higher by 9.9%
- ✎ **QoQ Comparative:** higher by 2.5%

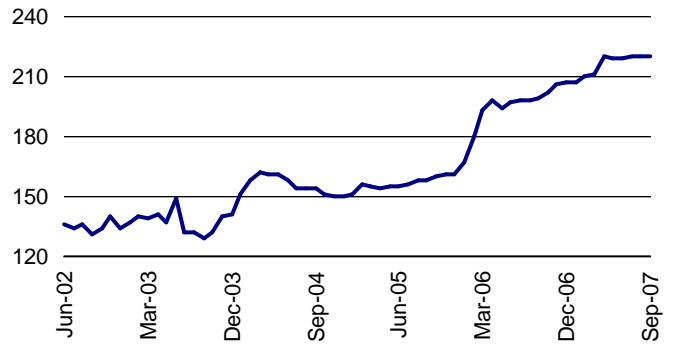
2QFY08: SUMMARY PRICING TREND

	PRICE CHANGE (%) *	
	YOY	QOQ
North	5.0	0.4
East	10.8	0.3
West	10.1	1.8
South	12.2	6.5
Central	10.6	1.9
National Average	9.9	2.5

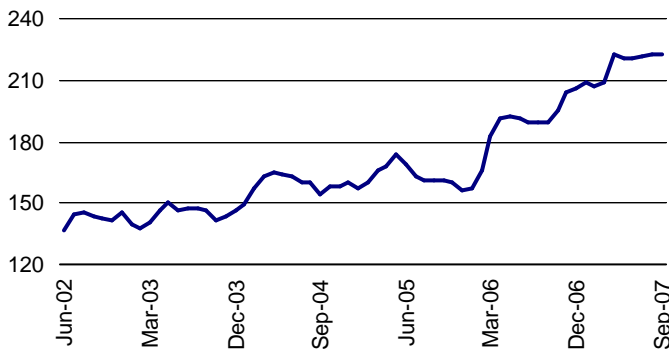
* adjusted for changes in prices for excise duty

Source: Industry/Motilal Oswal Securities

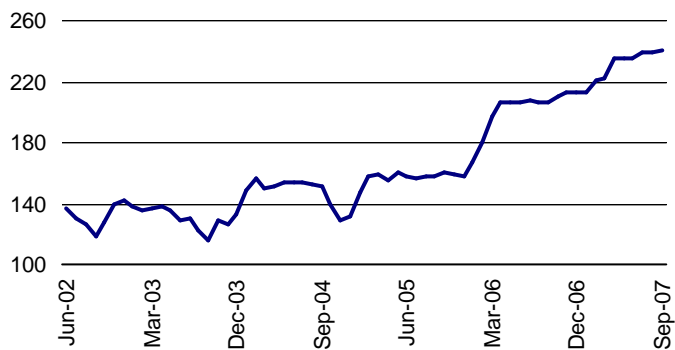
PRICE TREND – NORTH (RS/BAG)



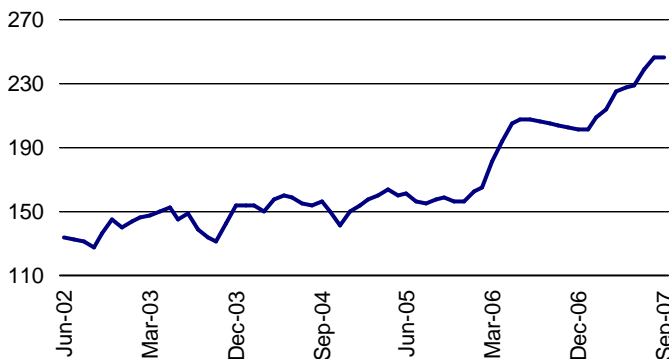
PRICE TREND – EAST (RS/BAG)



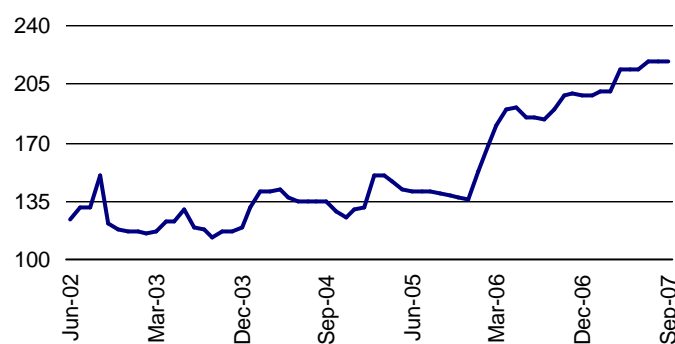
PRICE TREND – WEST (RS/BAG)



PRICE TREND – SOUTH (RS/BAG)



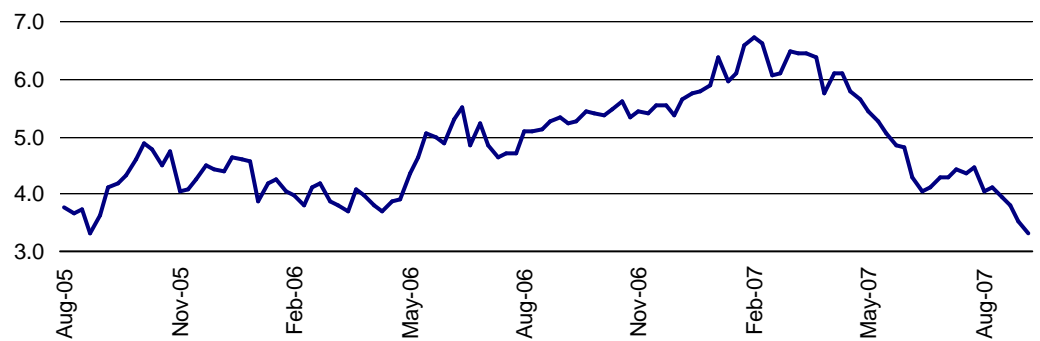
PRICE TREND – CENTRAL (RS/BAG)



Pricing flexibility to return earlier than expected ...

In the wake of higher inflation, the government has been closely monitoring cement prices and has taken several measures to control them. With inflation waning, we believe that the government would moderate its strict stance on the cement industry. Recently, the Minister of State for Commerce informed the Rajya Sabha that it would not administer cement prices and would rather focus on improving cement supply through imports.

INFLATION WANING DOWN (%)



Source: Bloomberg

We believe that there is strong likelihood of demand growth surpassing our estimates, in turn increasing longevity of the cement cycle.

THE GOVERNMENT HAS TAKEN SEVERAL INITIATIVES TO CONTROL CEMENT PRICES

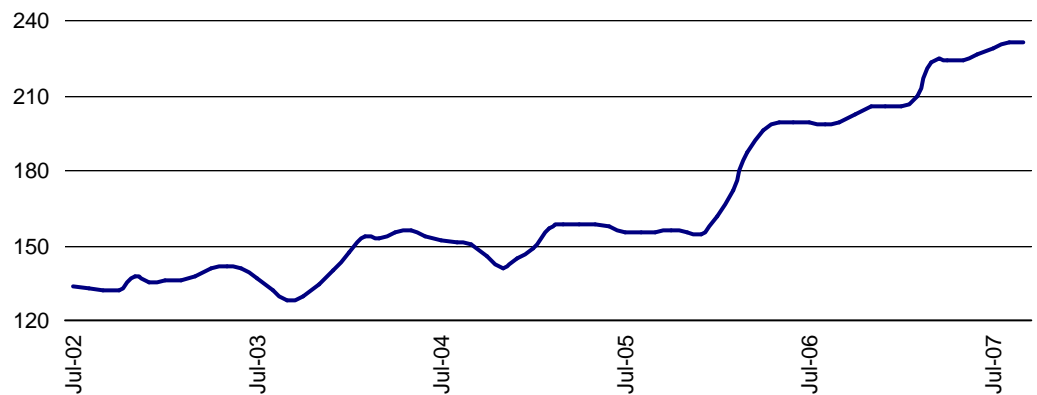
GOVERNMENT INITIATIVE	WHEN	REASONING	IMPACT	REMARK
Shift to ad-valorem rate of excise for cement priced at an MRP of over Rs190/bag	May '07	Lower excise burden if MRP is below Rs250/bag, than the specific rate of Rs600/ton	Positive	<ul style="list-style-type: none"> ✗ Reduces excise duty burden for cement priced at an MRP below Rs250/bag; however, MRP in most markets is in the range of Rs230-260/bag ✗ Favorable in times of declining cement prices, as impact would be diluted by lower excise burden
Exempting imported cement from CVD/SAD, if retail selling price is below Rs190/bag	Apr '07	Lowering cost of imported cement by abolishing CVD (Rs408/ton) and SAD (4%) for imported cement	Neutral	<ul style="list-style-type: none"> ✗ Reduces price of bagged imported cement by around Rs32/bag ✗ Negligible import yet due to regulatory and infrastructure constraints ✗ Retail price of imported cement might exceed Rs190/bag, thereby attracting CVD/SAD
Cap on cement prices for 1 year till February 2008	Mar '07	Restricts further increase in cement prices	Negative	<ul style="list-style-type: none"> ✗ No price hikes, even for cost inflation, but benefits of any sop to be passed on ✗ Resultant prices in-line with our price assumptions ✗ Validity of this agreement under cloud after exemption of CVD/SAD
Differential excise duty structure on cement, with excise of Rs600/ton for cement priced at an MRP of over Rs190/bag, else Rs350/ton	Feb '07	Encourage lower prices by offering sops to lower cement prices	Negative	<ul style="list-style-type: none"> ✗ Increases excise duty by Rs200/ton, which is immediately passed on ✗ Reduces scope for increase in cement prices, as it narrows gap between domestic and imported cement ✗ Price increase of Rs12/bag, to pass on higher excise, doesn't impact producer's realizations
Abolishment of 12.5% import duty on cement	Jan '07	Lowering cost of imported cement by Rs17-20/bag	Neutral	<ul style="list-style-type: none"> ✗ Negligible import yet due to regulatory and infrastructure constraints ✗ Retail price of imported cement might exceed Rs190/bag, thereby attracting CVD/SAD

Source: Motilal Oswal Securities

2QFY06: Firm cement prices despite the monsoons

Cement prices remained firm despite lower sequential demand on account of the monsoons. Cement volumes moved up by 12.8% YoY but declined 4.8% QoQ. High YoY volume growth also translated into 9.9% YoY or 2.5% QoQ increase in realization, reflecting strong underlying demand-supply dynamics.

TREND IN CEMENT PRICES (NATIONAL AVERAGE, RS/BAG)

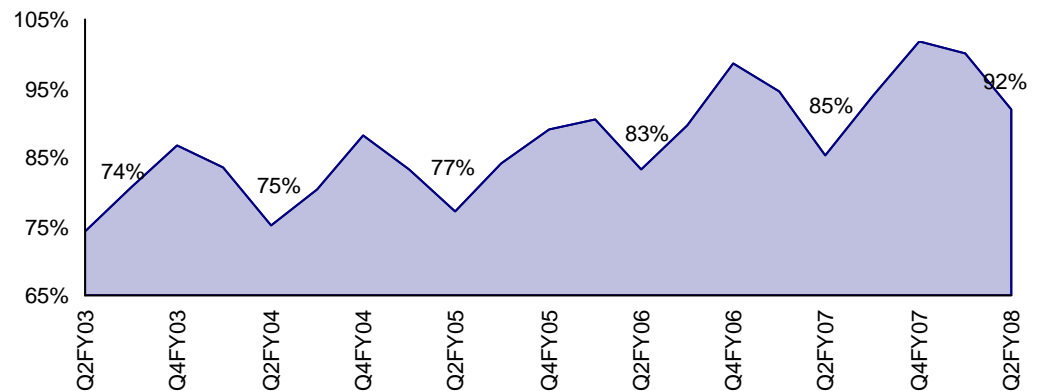


Source: CMA/Motilal Oswal Securities

Highest capacity utilization during monsoon period

High growth in demand and limited capacity addition has resulted in continuously higher capacity utilization for industry. For 2QFY08 the cement industry's capacity utilization reached 92% versus 85% in 2QFY07. Capacity utilization for the industry is expected to remain high due to continued higher demand and low capacity addition.

TREND IN CAPACITY UTILIZATION



Source: CMA/Motilal Oswal Securities

Import threat unwarranted, likely a sentiment overhang

We believe that cement imports to India are not feasible, despite the government abolishing all import barriers; the government has allowed Minerals & Metals Trading Corporation

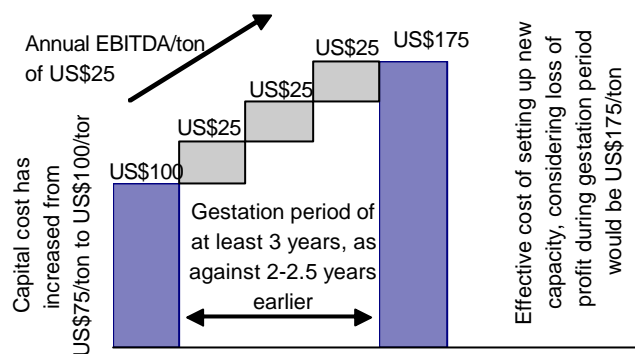
(MMTC) to import cement without BIS approval. The biggest impediments to imports are logistical bottlenecks and port infrastructure. Import of cement from Pakistan can be either through rail or sea route, as it wouldn't be feasible to import by roadways given security concerns. With around 65% of cement capacity in North Pakistan, limited plants have access to the Karachi port. Infrastructural bottlenecks at Indian ports and higher economic order size (15,000-20,000 tonne) makes it difficult to import cement by sea, single track railway line between India and Pakistan and higher turnaround time are hurdles for significant cement imports by rail.

Our interaction with Pakistan's cement manufacturers suggest that they would be looking at *f.o.b.* realizations of US\$65-70/tonne for exports to India, which is in line with the realizations they enjoy on exports to the Middle East. Further, cement prices in Pakistan have begun rising and are expected to rise further, driven by strong demand in the home market as well as in the Middle East. This, in turn, would reduce the attractiveness of exports to India. Further, our interaction with large domestic consumers suggested that pricing would not be the only key criteria for importing cement. Rather, the key determinant would be good quality, with assured supplies at favorable discount (15-20%) to prevalent domestic prices. As a result, consumers are still evaluating feasibility of imported cement.

Longer gestation, higher capital cost increase benchmark asset valuations

The cost of setting up a greenfield unit has gone up from US\$75/tonne to US\$100-110/tonne, based on cost escalation in all key factors like land, plant and equipment etc. Also, considering higher gestation period of at least three years and the prevailing EBITDA of US\$25/tonne, effective opportunity cost for greenfield expansion increases to US\$175/tonne. As a result, the effective benchmark asset valuation at which we expect buyers to emerge is US\$150-175/tonne. Recent open offer for Ambuja Cements by Holcim at US\$290/tonne (CY07E) and US\$225/tonne (CY09E - on fully expanded basis), vindicates increase in asset valuations.

BENCHMARK ASSET VALUATIONS GOING UP



Source: Motilal Oswal Securities

Strong volume growth, higher prices to drive earnings growth

We expect MOST cement universe to report around 11% volume growth, driven primarily by strong volume growth of 35% for Shree Cement, 24% for India Cement (due to Visaka Cements merger) and 15% for ACC. However, other cement companies under our coverage are expected to report muted volume growth, as they are operating at optimum capacity. Higher volumes, coupled with improvement in realizations (~Rs324 YoY and Rs62 QoQ) would drive improvement in EBITDA of Rs226/tonne to Rs 1,161/tonne.

TREND IN KEY OPERATING PARAMETERS (APRIL-SEPTEMBER QUARTER)

	VOLUME (M TON)			REALIZATION (RS/TON)			EBITDA (RS/TON)		
	SEP' 07	YOY (%)	QOQ (%)	SEP' 07	YOY (RS/T)	QOQ (RS/T)	SEP' 07	YOY (RS/T)	QOQ (RS/T)
ACC	4.9	15.2	-7.9	3,425	372	60	1,105	250	26
Birla Corp	1.3	2.4	-0.1	2,972	351	0	1,072	235	-83
Grasim	3.7	8.0	-6.4	3,123	301	40	1,275	249	42
Gujarat Ambuja	3.9	5.1	-12.3	3,366	277	30	1,234	126	-31
India Cement	2.3	23.7	0.7	3,230	498	198	1,273	354	127
Shree Cement	1.5	35.1	6.4	3,020	174	0	1,215	-70	-78
UltraTech	3.8	4.6	-15.3	3,025	242	60	961	256	-11
Sector Aggregate	21.3	11.2	-7.7	3,215	318	56	1,156	221	12

Source: Company/Motilal Oswal Securities

Overall, we expect our cement universe's revenue to grow by 23.5% YoY, with EBITDA margin expanding by 390bp to 34.7%, translating into 36.6% YoY increase in PAT.

TREND IN KEY FINANCIAL PARAMETERS (APRIL - SEPTEMBER QUARTER)

	NET SALES (RS M)			EBITDA MARGIN (%)			NET PROFIT (RS M)		
	SEP' 07	YOY (%)	QOQ (%)	SEP' 07	YOY (BP)	QOQ (BP)	SEP' 07	YOY (%)	QOQ (%)
ACC	17,443	28.5	-5.3	32.3	425	20	3,271	45.1	-6.9
Birla Corp	4,165	14.2	1.8	32.5	569	-260	844	25.0	-13.4
Grasim	13,462	18.0	-3.2	35.5	426	16	4,732	40.8	-7.5
Gujarat Ambuja	12,958	14.6	-11.5	36.7	163	-125	3,446	17.3	-14.6
India Cement	7,538	46.0	7.5	39.2	581	155	1,858	48.9	1.3
Shree Cement	4,530	43.4	6.4	40.2	-492	-258	1,044	34.3	-10.7
UltraTech	11,833	17.8	-13.3	30.7	533	-109	1,972	54.8	-24.0
Sector Aggregate*	71,928	23.3	-5.3	34.6	377	-37	12,437	35.7	-11.9

*Sector PAT excl Grasim

Source: Company/Motilal Oswal Securities

Upgrading earnings

We are upgrading our earnings estimates for the cement stocks under our coverage, boosted by increase in our cement price assumptions. We are now factoring in for Rs60/tonne (Rs3/bag) price increase in each of the remaining three quarters of FY08, as against flat cement prices at 1QFY08 level earlier. Also, we are now assuming flat prices for FY09 over FY08 (average) level. Our earnings estimate stands increased by 1%-13% for FY08E and by 10%-26% for FY09E.

REVISED EPS FORECAST (RS)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
ACC	76.8	75.0	2.5	84.6	70.2	20.5
Ambuja Cement	10.3	10.6	-2.6	11.4	10.1	13.1
Birla Corp	52.0	51.5	1.0	55.7	48.5	14.9
Grasim	298.3	281.7	5.9	310.6	274.7	13.1
India Cement	26.2	23.1	13.2	27.9	22.2	25.7
Kesoram Ind	79.9	73.5	8.7	89.4	74.5	19.9
Shree Cement	138.3	137.1	0.9	168.4	153.6	9.7
UltraTech	87.9	81.0	8.6	106.4	85.6	24.3

Source: Motilal Oswal Securities

Valuation and view

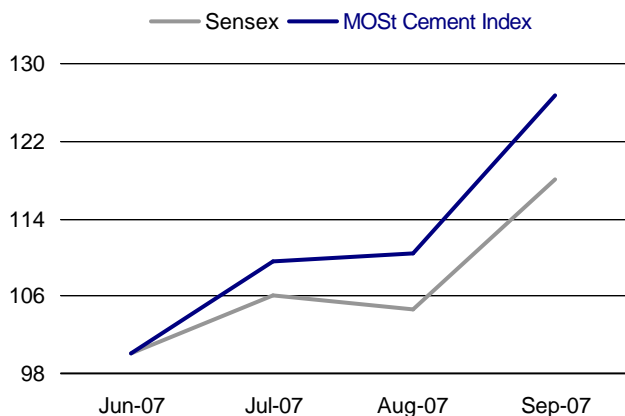
High volume growth and limited capacity addition has improved the demand-supply scenario for industry significantly and as a result industry is going through a cyclical upturn which is likely to continue for a few more years. Our outlook for the sector remains positive on the back of two fundamentals: (1) expectation of demand growth at 10% CAGR over FY06-FY09E; and (2) firm cement prices. As inflation numbers trend down due to base effect, the industry would enjoy better pricing flexibility based on demand-supply equilibrium. In large cap, **Grasim** remains our top pick, while we prefer **Birla Corp** and **Kesoram** among mid-caps.

Stock performance and valuations

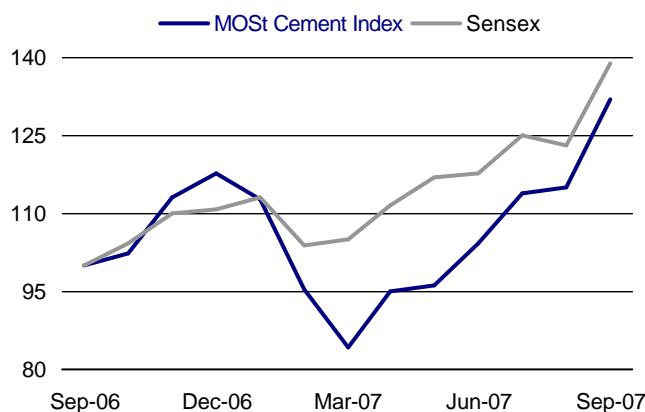
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Cement						
ACC	33	22	14	-18	5	-11
Ambuja Cement	15	25	-4	-15	-13	-9
Birla Corporation	26	0	7	-40	-2	-34
Grasim Industries	34	42	15	2	6	9
India Cement	42	33	23	-6	14	0
Shree Cement	19	51	-1	11	-10	17
UltraTech Cement	19	18	0	-22	-9	-16

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Cement														
ACC	1,195	Neutral	58.6	76.8	84.6	20.4	15.5	14.1	13.7	9.9	8.7	35.1	34.2	29.7
Ambuja Cements	144	Buy	8.8	10.3	11.4	16.3	14.0	12.6	11.6	9.2	7.7	47.3	36.3	29.8
Birla Corporation	337	Buy	42.4	52.0	55.7	7.9	6.5	6.0	4.9	3.7	2.9	49.0	39.9	31.4
Grasim Industries	3,513	Buy	214.7	298.3	310.6	16.4	11.8	11.3	7.9	5.8	5.0	29.6	30.2	24.6
India Cements	292	Buy	17.6	26.2	27.9	16.6	11.2	10.5	13.0	8.0	6.6	44.1	42.4	32.0
Shree Cement	1,522	Buy	45.6	138.3	168.4	33.4	11.0	9.0	9.9	6.2	4.4	42.3	70.9	49.7
UltraTech Cement	1,043	Buy	62.8	87.9	106.4	16.6	11.9	9.8	10.2	7.5	6.0	55.8	48.2	39.0
Sector Aggregate						17.1	12.5	11.3	10.0	7.3	6.1	38.1	36.3	29.8

ACC

Neutral

Rs 1,195

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ACC IN
	REUTERS CODE
S&P CNX: 5,021	ACC.BO

28 September 2007

Equity Shares (m)	187.8
52-Week Range	1,216/680
1,6,12 Rel. Perf. (%)	0/28/-18
M.Cap. (Rs b)	224.4
M.Cap. (US\$ b)	5.6

Previous Recommendation: Neutral

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	57,170	11,017	58.6	159.8	20.4	7.1	35.1	31.3	3.9	13.7
12/07E	71,994	14,441	76.8	31.1	15.5	5.3	34.2	38.7	3.0	9.9
12/08E	80,749	15,896	84.6	10.1	14.1	4.2	29.7	35.4	2.6	8.7

* Fully Diluted EPS; # CY05 EPS is annualised

- Dispatches during 3QCY07 are expected to grow by 15% to 4.9mt, on the low base of last year, aided by commissioning of new capacity. Average realization at Rs3,425/tonne, is expected to be higher by 12% YoY (~1.8% QoQ).
- Net sales are expected to grow 28.5% YoY to Rs17.4b, driven by significant improvement in realizations. Cement business EBITDA margins are expected to improve 430bp to 32.3%. However, due to decline in RMC business margins, overall EBITDA margins are likely to improve 270bp to 29.7%. EBITDA is likely to move up 42% YoY to Rs5.2b, translating into PAT growth of 45% to Rs3.27b.
- We are revising our earnings estimate for CY07 by 2.5% to Rs76.8 and for CY08 by 20.5% to Rs84.6, as a result of change in our cement pricing assumptions. Also, our price target is revised upward to Rs1,108 (~8x FY09E EV/EBITDA).
- Given its high operating leverage (~2% change in CY08E EPS for every Re1/bag change in cement price) and largest capacity, ACC would be one of the biggest beneficiaries of the current upcycle in cement prices. However, valuations appear rich - 14.1x CY08E EPS and 8.7x CY08E EV/EBITDA. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	5.05	4.63	4.27	4.85	4.93	5.34	4.92	5.49	18.9	20.7
YoY Change (%)	12.5	5.0	8.4	6.1	-2.4	15.3	15.2	13.3	9.1	9.7
Cement Realization	2,553	3,079	3,053	3,191	3,283	3,365	3,425	3,485	2,914	3,392
YoY Change (%)	16.8	38.3	37.4	47.3	28.6	9.3	12.2	9.2	32.8	16.4
QoQ Change (%)	17.9	20.6	-0.8	4.5	2.9	2.5	1.8	1.8		
Net Sales	13,364	14,317	13,577	15,923	16,348	18,427	17,443	19,777	57,170	71,994
YoY Change (%)	20.3	30.5	37.1	46.0	22.3	28.7	28.5	24.2	34.9	25.9
EBITDA	3,266	4,690	3,660	4,685	5,071	5,444	5,186	6,534	16,232	22,236
Margins (%)	24.4	32.8	27.0	29.4	31.0	29.5	29.7	33.0	28.4	30.9
Depreciation	597	582	585	771	621	633	650	717	2,543	2,621
Interest	194	147	144	41	40	-23	43	46	520	106
Other Income	333	122	217	580	284	283	180	228	1,315	975
PBT before EO Item	2,809	4,082	3,148	4,453	4,694	5,116	4,673	6,000	14,484	20,483
EO Income/(Expense)	91	1,466	1	153	200	0	0	0	1,711	200
PBT after EO Item	2,900	5,548	3,149	4,606	4,894	5,116	4,673	6,000	16,195	20,683
Tax	545	1,416	894	1,021	1,256	1,604	1,402	1,839	3,877	6,101
Rate (%)	18.8	25.5	28.4	22.2	25.7	31.3	30.0	30.7	23.9	29.5
Reported PAT	2,354	4,132	2,255	3,584	3,638	3,512	3,271	4,160	12,318	14,581
Adjusted PAT	2,280	3,040	2,254	3,466	3,489	3,512	3,271	4,160	11,017	14,441
Margins (%)	17.1	21.2	16.6	21.8	21.3	19.1	18.8	21.0	19.3	20.1
YoY Change (%)	37.8	124.4	164.7	280.4	53.0	15.5	45.1	20.0	161.8	31.1

E: MOSSt Estimates; Note: The quarterly results are not strictly comparable due to amalgamation of Tarmac (I) Ltd.

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Ambuja Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ACEM IN
	REUTERS CODE
S&P CNX: 5,021	GACM.BO

28 September 2007

Buy

Rs 144

Equity Shares (m)	1,520.7
52-Week Range	154/100
1,6,12 Rel. Perf. (%)	-9/6/-15
M.Cap. (Rs b)	218.7
M.Cap. (US\$ b)	5.5

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	48,479	13,401	8.8	114.7	16.3	6.3	47.4	43.3	4.2	11.6
12/07E	57,481	15,670	10.3	16.6	14.0	4.3	36.4	41.7	3.5	9.2
12/08E	64,524	17,313	11.4	10.5	12.6	3.4	29.9	37.0	3.0	7.7

- Ambuja Cement's 3QCY07 results are not comparable with the previous year due to merger of Ambuja Cements Eastern Ltd. All growth numbers are approximate.
- Ambuja Cement's 3QCY07 sales are expected to be at Rs13b (up ~14.6% YoY). Dispatches are expected to be 3.85mt (growth of ~5.1% YoY), whereas average realizations are expected to be at Rs3,366/ton (up ~9% YoY and 0.9% QoQ). Ambuja's volume growth would have been higher, but for disruption in operations due to flood at its Gujarat plant (~28% of total capacity). EBITDA margin is expected to expand 170bp YoY to 36.7%, driven by higher realizations, translating into EBITDA of Rs4.75b (~20% growth) and PAT of Rs3.5b (~17% growth).
- Holcim has further acquired 3.94% stake in Ambuja Cements from the original promoter group at Rs154/share. With this acquisition, Holcim has crossed the 5% p.a. limit for creeping acquisition, thereby triggering a mandatory open offer for 20% stake. Consequently, Holcim is making an open offer for 20% stake at Rs154/share.
- We expect earnings to grow 17% in CY07. Considering its reasonable valuation of 12.6x CY08E earnings and 7.7x CY08E EV/EBITDA, we maintain **Buy** with revised target price of Rs 148 (~8x CY08E EV/EBITDA).

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q^	1Q	2Q	3QE	4QE		
Sales Volume (m ton)	4.18	4.32	3.66	4.12	4.34	4.39	3.85	4.55	16.30	17.13
YoY Change (%)	NA	NA	NA	NA	3.8	1.7	5.1	10.4	NA	138.4
Realization (Rs/ton)	2,569	3,043	3,089	3,226	3,304	3,336	3,366	3,416	2,974	3,356
YoY Change (%)	NA	NA	NA	NA	28.6	9.6	9.0	5.9	NA	74.0
QoQ Change (%)	NA	NA	1.5	4.4	2.4	1.0	0.9	1.5		64.0
Net Sales	10,740	13,137	11,310	13,291	14,338	14,644	12,958	15,541	48,479	57,481
YoY Change (%)	NA	NA	NA	NA	33.5	11.5	14.6	16.9	24.0	315.3
EBITDA	3,700	5,156	3,962	4,791	5,631	5,551	4,750	6,206	17,608	22,137
Margins (%)	34.4	39.2	35.0	36.0	39.3	37.9	36.7	39.9	36.3	38.5
Depreciation	566	564	432	572	598	583	620	670	2,269	2,471
Interest	110	129	74	45	18	-211	10	15	377	-168
Other Income	213	-68	294	403	257	487	330	327	1,199	1,450
PBT before EO Item	3,236	4,395	3,749	4,576	5,271	5,665	4,450	5,848	16,160	21,284
Extraordinary Inc/(Exp)	358	0	0	0	2,408	5,649	0	0	0	8,057
PBT after EO Exp/(Inc)	3,594	4,395	3,749	4,576	7,679	11,314	4,450	5,848	16,160	29,341
Tax	-534	1,120	812	1,199	1,772	2,537	1,004	1,308	2,760	6,621
Rate (%)	-14.9	25.5	21.6	26.2	23.1	22.4	22.6	22.4	17.1	22.6
Reported Profit	4,128	3,275	2,938	3,378	5,907	8,778	3,446	4,540	13,401	22,720
Adj PAT	2,683	3,275	2,938	3,378	3,801	4,036	3,446	4,540	13,401	15,670
YoY Change (%)	NA	NA	NA	NA	41.7	23.2	17.3	34.4	NA	132.4

E: MOSt Estimates; ^Proforma results

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Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BJUT IN
	REUTERS CODE
S&P CNX: 5,021	BRLC.BO

28 September 2007

Buy

Rs337

Previous Recommendation: Buy

Equity Shares (m)	77.0
52-Week Range	375/180
1,6,12 Rel. Perf. (%)	5/50/-40
M.Cap. (Rs b)	25.9
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	15,669	3,262	42.4	37.9	7.9	3.9	49.0	46.9	1.5	4.9
3/08E	17,411	4,005	52.0	22.8	6.5	2.6	39.9	37.8	1.3	3.7
3/09E	19,308	4,288	55.7	7.1	6.0	1.9	31.4	33.1	1.0	2.9

- During 2QFY08, Birla Corp's revenues are expected to grow 14% YoY to Rs4.1b. Revenue growth will be driven by higher realizations in the cement division. Cement realizations are likely to be up by 13% YoY (flat QoQ) to Rs2,972/tonne, however sales volume will be muted at 1.28mt, growth of 2.4% YoY.
- Higher realizations will result in EBITDA margins expanding by 570bp YoY to 32.5%, translating into EBITDA growth of 38%. However, higher interest cost (up 100%) and higher tax provisioning (at 32.5% of PBT v/s 25.3% in 2QFY07) restrict PAT growth at 25% to Rs844m.
- We are revising our earnings estimate for FY08 by 1% to Rs52 and FY09 by 15% to Rs55.7, as a result of change in our cement pricing assumptions. Also, our price target is revised upward to Rs483 (~5x FY09E EV/EBITDA).
- At current prices, the stock is trading at 6x FY09E EPS and 2.9x FY09E EV/EBITDA. Its EV/tonne (at 7.5mt capacity) works out to US\$66/tonne, which is at a discount to comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are compelling. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cement Sales (m ton)	1.25	1.25	1.32	1.42	1.28	1.28	1.34	1.40	5.23	5.30
YoY Change (%)	-2.0	6.1	4.9	-5.4	2.9	2.4	1.6	-1.4	0.5	1.3
Cement Realization	2,568	2,621	2,795	2,923	2,972	2,972	3,022	3,072	2,734	3,011
YoY Change (%)	28.8	36.0	44.2	25.7	15.8	13.4	8.1	5.1	32.7	10.1
QoQ Change (%)	10.5	2.1	6.6	4.6	1.7	0.0	1.7	1.7		
Net Sales	3,489	3,647	4,093	4,441	4,093	4,165	4,410	4,744	15,669	17,411
YoY Change (%)	25.0	39.9	45.4	12.7	17.3	14.2	7.8	6.8	28.9	11.1
Total Expenditure	2,462	2,668	2,689	2,917	2,655	2,810	2,797	2,922	10,735	11,184
EBITDA	1,027	979	1,404	1,524	1,438	1,355	1,613	1,821	4,934	6,227
Margins (%)	29.4	26.8	34.3	34.3	35.1	32.5	36.6	38.4	31.5	35.8
Depreciation	97	96	96	108	103	112	115	125	397	455
Interest	43	31	35	76	50	62	64	66	185	242
Other Income	39	53	55	119	88	70	80	93	265	330
Profit before Tax	927	905	1,328	1,458	1,372	1,251	1,514	1,722	4,617	5,859
Tax	303	229	377	446	398	406	492	558	1,355	1,854
Rate (%)	32.7	25.3	28.4	30.6	29.0	32.5	32.5	32.4	29.3	31.7
Adjusted PAT	624	675	951	1,012	975	844	1,022	1,164	3,262	4,005
Margins (%)	17.9	18.5	23.2	22.8	23.8	20.3	23.2	24.5	20.8	23.0
YoY Change (%)	168.3	271.9	452.5	50.7	56.3	25.0	7.4	15.0	37.9	22.8

E: MOST Estimates

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Grasim Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GRASIM IN
	REUTERS CODE
S&P CNX: 5,021	GRAS.BO

28 September 2007

Buy

Rs3,513

Equity Shares (m)	91.7
52-Week Range	3,552/1,927
1,6,12 Rel. Perf. (%)	7/36/2
M.Cap. (Rs b)	322.1
M.Cap. (US\$ b)	8.1

Previous Recommendation: Buy

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	140,952	19,683	214.7	90.1	16.4	4.9	29.6	32.0	2.8	10.0
3/08E	167,200	27,355	298.3	39.0	11.8	3.6	30.2	34.8	2.4	7.4
3/09E	190,121	28,481	310.6	4.1	11.3	2.8	24.6	36.0	2.1	6.5

* Consolidated

- Grasim (standalone) is expected to post sales growth of 23% YoY to Rs24.7b in 2QFY08. Strong performance of cement and VSF division will drive Grasim's overall operating performance. Margins should expand 490bp to 31.4%, translating into PAT growth of 40.8% to Rs4.7b.
- The cement volumes are expected to grow by 8% YoY to 3.7mt, boosted by higher blending. With realizations expected to improve by 10.7% YoY to Rs3,123/tonne, the cement division's operating margins are expected to expand 430bp YoY to 35.5%.
- VSF volumes are likely to increase by 9.3% YoY and realizations are likely to move up by 17% YoY to Rs97,500/tonne, resulting in VSF operating margin improvement of 490bp YoY to 36%.
- While chemical business is expected to grow (~46% volume growth and 18pp expansion in margins to 30.4%) on the low base of last year, which was impacted by breakdown of captive power plant, sponge iron is expected to continue to benefit from higher scrap prices (~11.3% YoY higher realizations and 220bp expansion in margins to 6%).
- With two core business (cement and VSF) witnessing strong business upcycle, valuations at 11.3x PER FY09E and 6.5x FY09E EV/EBITDA (consolidated) appear reasonable. Maintain **Buy** on the stock, with revised target price of Rs3,995 (SOTP based).

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	18,917	20,108	22,794	24,938	24,448	24,689	25,620	27,704	86,757	102,461
YoY Change (%)	21.8	21.9	38.3	36.3	29.2	22.8	12.4	11.1	29.4	18.1
EBITDA	5,135	5,322	6,661	6,942	7,921	7,751	8,487	9,196	24,094	33,356
Margins (%)	27.1	26.5	29.2	27.8	32.4	31.4	33.1	33.2	27.8	32.6
Depreciation	741	756	807	876	850	910	915	1,034	3,179	3,709
Interest	238	241	240	366	285	300	320	468	1,118	1,373
Other Income	375	502	444	776	677	450	425	463	2,097	2,015
PBT before EO Items	4,532	4,827	6,058	6,476	7,464	6,991	7,677	8,157	21,893	30,289
Extraordinary Inc/(Exp)	0	0	0	371	0	0	0	0	371	0
PBT after EO Items	4,532	4,827	6,058	6,847	7,464	6,991	7,677	8,157	22,264	30,289
Tax	1,413	1,467	1,942	2,102	2,347	2,259	2,481	2,701	6,906	9,788
Rate (%)	31.2	30.4	32.1	30.7	31.4	32.3	32.3	33.1	31.0	32.3
Reported PAT	3,119	3,360	4,116	4,745	5,117	4,732	5,196	5,456	15,358	20,501
Adj. PAT	3,119	3,360	4,116	4,488	5,117	4,732	5,196	5,456	15,102	20,501
YoY Change (%)	51.7	79.1	154.3	72.7	64.0	40.8	26.2	21.6	73.1	35.7

E: Most Estimates; Quarterly results do not add-up to full year results due to restatement

India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ICEM IN
	REUTERS CODE
S&P CNX: 5,021	ICMN.BO

28 September 2007

Buy

Rs292

Previous Recommendation: Buy

Equity Shares (m)	260.4
52-Week Range	299/145
1,6,12 Rel. Perf. (%)	4/49/-6
M.Cap. (Rs b)	76.1
M.Cap. (US\$ b)	1.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	22,552	4,788	17.6	896.5	16.6	5.7	44.1	22.4	4.4	13.5
3/08E	30,873	7,101	26.2	48.3	11.2	3.8	42.4	29.4	3.2	8.3
3/09E	37,116	7,567	27.9	6.6	10.5	2.8	32.0	29.6	2.6	6.9

- India Cement's 2QFY08 results are not on like-to-like basis due to merger of Visaka Cements. India Cement (incl. Visaka) is expected to report 46% YoY sales growth to Rs7.5b, driven by 18% YoY (6.5% QoQ) higher realizations to Rs3,230/tonne and volume growth of 23.7% to 2.32mt.
- Higher realization would translate to EBITDA margin expansion of 580bp YoY to 39.2%, resulting in EBITDA being higher by 71% YoY to Rs3b. However, higher tax provisioning (at 22% of PBT v/s no tax in 2QFY07) would restrict PAT growth to 49% at Rs1.86b.
- We are revising our earnings estimate for FY08 by 13% to Rs26 and for FY09 by 25.7% to Rs27.9, as a result of change in our cement pricing assumptions. Also, our price target is revised upward to Rs338 (~7x FY09E EV/ EBITDA).
- Given its high leverage and relatively low cost timely capacity additions, ICL would be one of the biggest beneficiaries of any further price increase in southern India. Current valuations appear attractive at 10.5x FY09E EPS and 6.9x FY09E EV/EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.08	2.31	2.32	2.33	2.58	7.55	9.54
YoY Change (%)	-2.6	-1.6	3.2	4.8	24.5	23.7	34.2	24.1	1.0	448.8
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,230	3,290	3,350	2,704	3,230
YoY Change (%)	30.1	33.2	31.9	29.9	16.4	18.2	21.2	20.9	31.0	18.9
QoQ Change (%)	22.2	4.9	-0.6	2.0	9.5	6.5	1.9	1.8	31.0	19.5
Net Sales	4,852	5,164	4,724	5,758	7,012	7,538	7,678	8,646	20,497	30,873
YoY Change (%)	27.4	31.9	36.3	36.2	44.5	46.0	62.5	50.2	32.9	50.6
Total Expenditure	3,197	3,438	3,394	3,852	4,369	4,580	4,859	5,186	13,880	18,995
EBITDA	1,655	1,726	1,331	1,906	2,643	2,957	2,819	3,459	6,617	11,879
Margins (%)	34.1	33.4	28.2	33.1	37.7	39.2	36.7	40.0	32.3	38.5
Depreciation	192	193	198	194	275	280	350	409	777	1,314
Interest	389	364	347	331	314	330	345	377	1,430	1,366
Other Income	54	83	17	22	97	35	20	23	102	175
PBT	1,129	1,252	803	1,403	2,151	2,382	2,144	2,696	4,512	9,374
Tax	3	4	5	5	17	500	622	32	17	1,172
Deferred Tax	0	0	0	0	300	24	21	756	0	1,101
Rate (%)	0.2	0.3	0.6	0.4	14.8	22.0	30.0	29.2	0.4	24.3
Reported PAT	1,126	1,248	798	1,398	1,834	1,858	1,501	1,908	4,495	7,101
Adj PAT	1,126	1,248	798	1,398	1,834	1,858	1,501	1,908	4,495	7,101
YoY Change (%)	1,018.1	2,033.2	4,407.3	417.2	62.9	48.9	88.1	36.4	891.8	58.0
Margins (%)	23.2	24.2	16.9	24.3	26.2	24.7	19.5	22.1	21.9	23.0

E: M0St Estimates; * Excluding Visaka merger

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Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SRCM IN
	REUTERS CODE
S&P CNX: 5,021	SHCM.BO

28 September 2007

Buy

Rs 1,522

Previous Recommendation: Buy

Equity Shares (m)	34.8
52-Week Range	1,592/851
1,6,12 Rel. Perf. (%)	8/23/11
M.Cap. (Rs b)	53.0
M.Cap. (US\$ b)	1.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	13,680	1,588	45.6	898.7	33.4	11.7	42.3	17.6	4.3	9.9
3/08E	20,526	4,817	138.3	203.3	11.0	5.9	70.9	44.5	2.6	6.2
3/09E	25,658	5,867	168.4	21.8	9.0	3.6	49.7	43.9	1.8	4.4

- Sales in 2QFY08 are expected to grow 43% YoY to Rs4.5b driven by volume growth of 35% YoY to 1.5mt (boosted by new capacity), while realizations are expected to remain flat at Rs3,020/tonne.
- Flat realizations, along with higher cost would translate to a decline in EBITDA margin by 500bp YoY to 40.2%. However, higher depreciation (by 18% due to new plant) and higher interest (by 30%) would restrict PAT growth to 34% to Rs 1b.
- Shree Cement's new 2mt grinding unit and 1mt clinker unit has commenced operations in September 2007.
- We are revising our earnings estimate for FY09 by 9.8% to Rs 168.4, as a result of a change in our cement pricing assumptions. Also, our price target is revised upward to Rs 2,023 (~6x FY09E EV/EBITDA). The stock is trading at very attractive valuations of 9x FY09E EPS and 4.4x FY09E EV/EBITDA. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	1.16	1.11	1.30	1.28	1.41	1.50	1.75	2.04	4.94	6.70
YoY Change (%)	58.5	44.2	81.1	32.5	21.9	35.1	35.1	59.9	50.9	35.5
Realization (Rs/ton)	2,665	2,846	2,815	2,964	3,020	3,020	3,070	3,120	2,767	3,064
QoQ Change (%)	13.2	6.8	-1.1	5.3	1.9	0.0	1.7	1.6		-7.3
Net Sales	3,083	3,160	3,645	3,783	4,258	4,530	5,373	6,365	13,680	20,526
YoY Change (%)	116.3	103.3	152.7	66.9	38.1	43.4	47.4	68.3	104.4	50.0
EBITDA	1,375	1,427	1,601	1,513	1,823	1,823	2,291	2,778	5,922	8,715
Margins (%)	44.6	45.2	43.9	40.0	42.8	40.2	42.6	43.6	43.3	42.5
Depreciation	263	338	263	1,547	358	400	550	937	4,331	2,245
Interest	54	27	7	16	39	62	59	66	104	227
Other Income	30	43	47	91	126	80	85	109	212	400
PBT before EO Exp	1,088	1,104	1,379	41	1,552	1,441	1,767	1,883	1,699	6,644
Extra-Ord Expense	0	0	0	-201	0	0	0	0	-195	0
PBT	1,088	1,104	1,379	242	1,552	1,441	1,767	1,883	1,894	6,644
Tax	184	326	338	3	383	396	486	562	124	1,827
Rate (%)	16.9	29.6	24.5	1.3	24.7	27.5	27.5	29.8	6.6	27.5
Reported PAT	904	778	1,041	239	1,169	1,044	1,281	1,322	1,770	4,817
Adj PAT	904	778	1,041	40	1,169	1,044	1,281	1,322	1,587	4,817
YoY Change (%)	247.6	108.2	162.5	-93.0	29.3	34.3	23.1	3182.3	898.4	203.4
Margins (%)	29.3	24.6	28.6	1.1	27.5	23.1	23.8	20.8	11.6	23.5

E: M0St Estimates; Quarterly results do not add up with full year results as it provides addl. depn. and deferred tax at the end of the year

UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	UTCEM IN
	REUTERS CODE
S&P CNX: 5,021	ULTC.BO

28 September 2007

Buy

Rs 1,043

Equity Shares (m)	124.5
52-Week Range	1,205/662
1,6,12 Rel. Perf. (%)	-1/3/-22
M.Cap. (Rs b)	129.8
M.Cap. (US\$ b)	3.3

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	49,108	7,823	62.8	240.5	16.6	7.4	55.8	43.0	2.8	9.8
3/08E	57,245	10,942	87.9	39.9	11.9	4.7	48.2	44.5	2.5	7.4
3/089E	67,185	13,246	106.4	21.1	9.8	3.2	39.0	41.6	2.1	5.9

- Net sales expected to grow 17.8% YoY to Rs11.8b, driven by 8.7% YoY (~2% QoQ) higher realizations and 4.6% volume growth to 3.78mt.
- Exports (cement + clinker) are expected to decline by 12%, whereas domestic dispatches are expected to grow by 15%, indicating diversion of exports to domestic market. Also, clinker exports are expected to decline by 31%, suggesting shift in favor of cement.
- Higher realizations would drive 540bp EBITDA margin expansion to 30.7% and 43% YoY higher EBITDA at Rs3.6b, translating into 55% YoY growth in PAT to Rs2b.
- We are revising our earnings estimate for FY08 by 8.6% to Rs87.9 and FY09 by 24.3% to Rs106.4, as a result of change in our cement pricing assumptions. Also, our price target is revised upward to Rs 1,445 (~7.5x FY09E EV/ EBITDA).
- At 9.8x FY09E EPS and 5.9x FY09E EV/EBITDA, valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q*	2Q*	3Q*	4Q	1Q	2QE	3QE	4QE		
Sales (m ton)	4.45	3.61	4.49	5.04	4.46	3.78	4.65	5.24	17.67	18.13
YoY Change (%)	11.5	22.4	14.0	8.9	0.2	4.6	3.6	4.1	13.4	2.6
Realization (Rs/ton)	2,645	2,783	2,807	2,872	2,965	3,025	3,085	3,145	2,755	3,060
YoY Change (%)	33.0	28.3	40.3	25.4	12.1	8.7	9.9	9.5	30.1	11.1
QoQ Change (%)	15.5	5.2	0.9	2.3	3.2	2.0	2.0	1.9		
Net Sales	11,803	10,045	12,605	14,655	13,653	11,833	14,793	16,966	49,108	57,245
YoY Change (%)	48.8	57.0	59.8	38.2	15.7	17.8	17.4	15.8	48.8	16.6
Total Expenditure	8,057	7,501	8,802	10,570	9,317	8,204	9,675	10,871	34,930	38,068
EBITDA	3,746	2,545	3,802	4,085	4,335	3,629	5,118	6,095	14,178	19,177
Margins (%)	31.7	25.3	30.2	27.9	31.8	30.7	34.6	35.9	28.9	33.5
Depreciation	544	547	571	601	559	595	605	787	2,263	2,545
Interest	226	237	202	203	202	205	210	334	868	950
Other Income	134	119	167	195	269	115	120	146	615	650
PBT after EO Expense	3,110	1,879	3,196	3,476	3,844	2,944	4,423	5,120	11,662	16,331
Tax	1,002	605	1,072	1,161	1,250	972	1,460	1,708	3,839	5,389
Rate (%)	32.2	32.2	33.5	33.4	32.5	33.0	33.0	33.4	32.9	33.0
Reported PAT	2,108	1,274	2,125	2,315	2,594	1,972	2,963	3,412	7,823	10,942
Adj PAT	2,108	1,274	2,125	2,315	2,594	1,972	2,963	3,412	7,823	10,942
YoY Change (%)	251.3	-	790.8	75.3	23.0	54.8	39.5	47.4	240.5	39.9

E: MOST Estimates; Quarterly results do no add up to full year results due to recasting

Engineering

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
ABB	107
Alstom Projects	108
Bharat Electronics	109
BHEL	110
Crompton Greaves	111
Cummins India	112
Larsen & Toubro	113
Siemens	114
Suzlon Energy	115
Thermax	116

Strong order intake in 2QFY08; order book remains strong

The order book for most capital goods companies is showing impressive growth with increasing investments in the manufacturing sector, thrust on accelerated infrastructure development and continuation of power reforms. The order book for most of the companies like Siemens, ABB, Thermax, BHEL and L&T witnessed robust YoY growth rate as of June 2007.

During 2QFY08, the order intake continued to remain robust on account of significant project awards from the Indian Railways, industries (primarily, oil & gas) and power sector.

ORDER BACKLOG (RS B AND % YOY)

	JUN-06	JUN-07	% GR. YOY	MAR-06	MAR-07	% GR. YOY
Siemens	77.2	108.2	40	76.2	108.6	43
ABB	31.4	46.4	48	26.7	42.6	60
Thermax	24.5	35.0	43	22.1	36.7	66
L&T (E&C Div)	274.6	396.9	45	238.6	353.3	48
BHEL	393.0	624.0	59	376	550	46

Source: Company

PGCIL's recent fund raising to further boost spend on power T&D sector

Power Grid Corporation of India Ltd. (PGCIL), the central public sector entity, has recently completed its initial public offering to raise Rs29b to fund part of its capex. During the Eleventh Five Year Plan (FY08 - FY12), planned capex on inter-state and interregional transmission network stands at Rs700b, of which PGCIL's share stands at

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

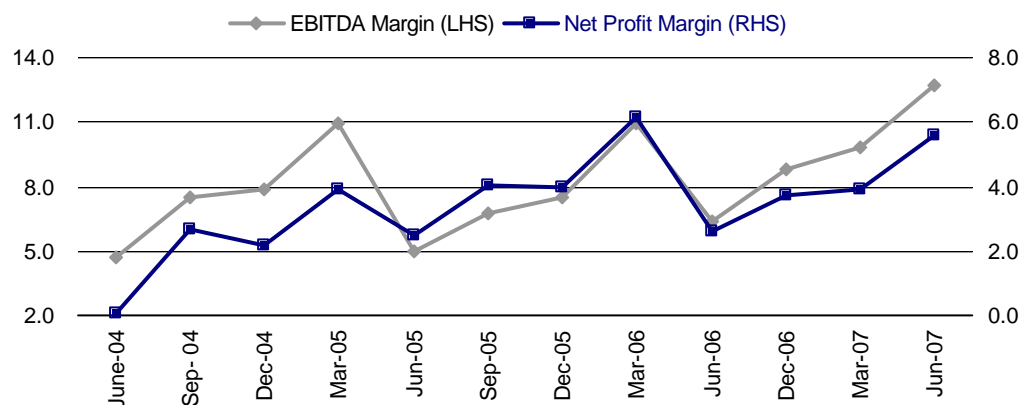
	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Engineering							
ABB	Neutral	14,667	37.0	1,650	49.2	1,157	40.9
Alstom Projects	Neutral	3,346	25.0	423	31.2	376	20.0
Bharat Electronics	Buy	9,177	10.0	2,134	14.4	1,653	11.5
BHEL	Neutral	45,524	36.3	6,487	42.2	4,720	31.1
Crompton Greaves	Neutral	10,538	27.9	975	32.5	526	36.0
Cummins India	Neutral	5,750	23.0	977	24.4	759	21.1
Larsen & Toubro	Neutral	47,820	28.0	4,834	57.9	3,009	64.4
Siemens	Neutral	22,934	52.9	1,738	39.7	1,779	30.1
Suzlon Energy	Neutral	32,348	55.0	3,946	9.6	2,043	-13.2
Thermax	Buy	5,546	15.0	1,063	40.2	713	22.4
Sector Aggregate		197,650	35.3	24,228	34.3	16,735	25.2

Rs550b. We believe that spend on the Power Transmission and Distribution sector will pick up from October-November 2007 onwards (3QFY07) and the momentum would continue in FY09 too. This would translate into a significant order intake for all engineering companies and pre-dominantly for ABB, Siemens, Crompton Greaves etc., which will further drive the order book for these companies.

Expect EBITDA margin to improve in 2QFY08

The EBITDA margin for the companies in the capital goods sector has witnessed strong improvement on back of favorable demand-supply scenario, long-term supply contracts for raw materials, flexibly priced work contracts and implementation of cost-cutting programs.

TREND IN EBITDA AND PAT MARGINS



Source: Motilal Oswal Securities

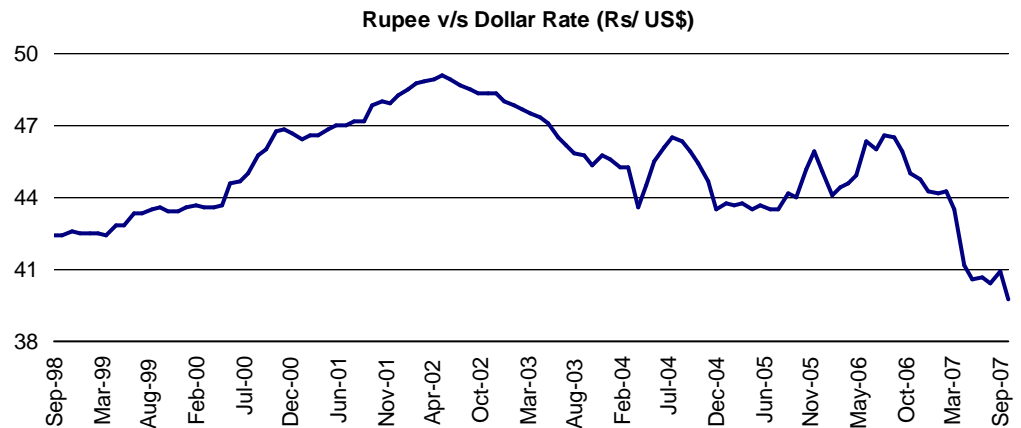
The engineering companies are now less prone to adverse commodity price movement for the domestic orders price variation clause is now part of most of the SEBs/ PGCIL contracts. This is visible in improvement in reported EBITDA margins for June 2007 by most of the engineering companies despite the recent spurt in non-ferrous metal and steel prices. Also, the operational efficiency, economies of scale, better sourcing and enrichment in product mix has added to improvement in EBITDA margins for the companies. For overseas orders too, the companies are able to cherry pick orders and are able to take some price hikes owing to robust demand scenario. The robust order book assures strong revenue visibility over the next few quarters, and the improving margin trend would enable companies to sustain their earnings growth.

Rupee appreciation may impact earnings marginally

Exports continue to remain a key thrust area for the Indian companies given the large emerging opportunities in Middle East and Africa for home grown players (viz. BHEL, L&T and Thermax), and with some MNCs (viz. ABB, Cummins, Siemens) being developed

as exclusive sourcing bases for their parents' global / regional requirements. Most of the MNC companies have already set up R&D centers in India, and hence the outsourcing opportunity seems to be a sustainable trend. This exposes Indian companies to recent rupee appreciation (which also impacts their profitability globally) .

RUPEE APPRECIATION OVER 2QFY08



Source: Motilal Oswal Securities

Also, the global acquisitions by some of the engineering companies have exposed them to the risk of rupee appreciation and which gets reflected through translation of financials of subsidiary companies on a consolidated basis. Companies like Suzlon (exports is estimated at 68% of its FY09 revenues). Crompton Greaves (25% of its FY09E revenues from exports), ABB, Siemens and L&T could see possible impact on their EBITDA margins in 2QFY08 due to rupee appreciation. The key instance of loss in EBITDA margin in 1QFY08 by engineering companies include: (1) Suzlon - 200bp loss, and (2) Siemens - 370bp (3QFY07).

Positive on underlying business momentum, valuations rich

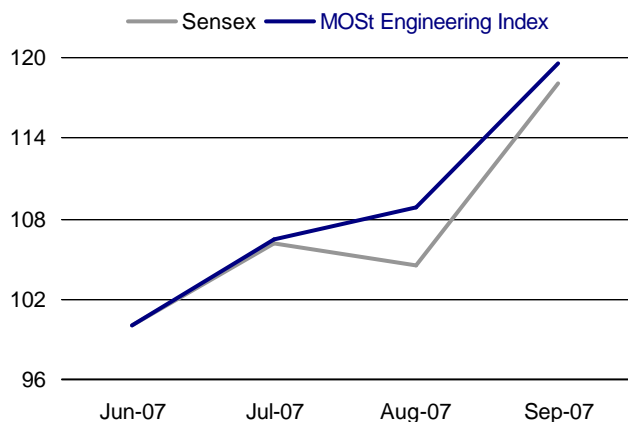
We continue to remain positive on business momentum for the capital goods sector. Earnings visibility is high for most of these companies, based on the current order-book-to-bill-ratio. The companies will now have to focus on efficient execution and timely delivery. We however believe that the current valuations are rich and factors the underlying growth for these companies.

Stock performance and valuations

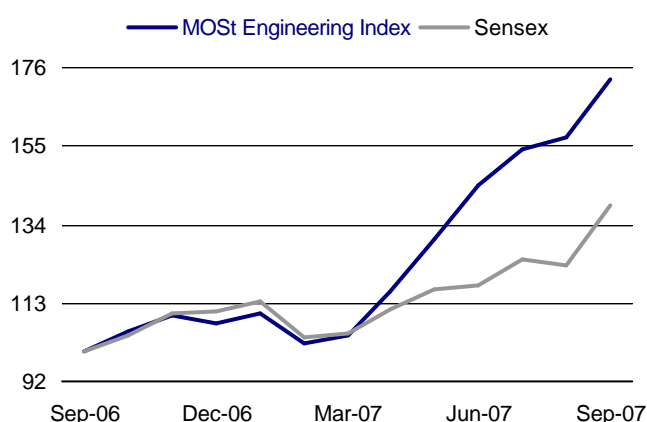
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Engineering						
ABB	25	121	6	82	3	48
Alstom Projects	2	148	-17	108	-20	75
Bharat Electron	1	64	-18	24	-21	-9
BHEL	37	71	17	31	15	-3
Crompton Greaves	34	94	15	54	12	21
Cummins India	27	99	7	60	5	26
Larsen & Toubro	31	122	11	82	9	49
Siemens	-3	28	-22	-12	-25	-46
Suzlon Energy	-2	15	-21	-24	-24	-58
Thermax	46	135	27	95	24	62

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Engineering														
ABB **	1,294	Neutral	16.1	23.8	30.8	80.5	54.3	42.0	55.8	35.4	27.0	36.7	49.5	53.0
Alstom Projects	830	Neutral	16.6	23.4	28.7	50.0	35.5	28.9	43.1	29.8	23.7	33.3	37.4	35.7
Bharat Electronics	1,840	Buy	89.2	102.3	120.1	20.6	18.0	15.3	11.4	9.9	8.1	32.5	29.4	27.5
BHEL	2,033	Neutral	48.8	63.2	81.1	41.7	32.2	25.1	25.5	19.6	16.0	28.8	29.6	30.0
Crompton Greaves	333	Neutral	6.6	9.8	14.4	50.5	33.9	23.2	36.0	25.2	19.2	32.6	36.8	37.7
Cummins India	435	Neutral	11.7	15.9	20.3	37.4	27.4	21.4	27.8	19.5	14.5	25.4	29.7	31.1
Larsen & Toubro	2,813	Neutral	63.9	84.4	106.8	44.0	33.3	26.3	43.0	29.5	23.8	26.1	28.9	28.9
Siemens *	1,352	Neutral	31.0	45.0	58.3	43.7	30.0	23.2	26.8	19.7	16.5	42.1	47.9	47.7
Suzlon Energy	1,447	Neutral	30.0	40.6	59.8	48.1	35.7	24.2	35.7	23.2	16.6	29.0	28.0	29.9
Thermax	750	Buy	16.1	23.6	32.5	46.5	31.8	23.0	29.4	21.3	15.1	39.7	41.2	43.9
Sector Aggregate						43.3	32.5	24.9	30.7	22.4	17.7	31.2	32.0	33.4

** Year end December, * Year end September

ABB

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ABB IN
	REUTERS CODE
S&P CNX: 5,021	ABB.BO

28 September 2007

Neutral

Rs 1,294

Equity Shares (m)	211.9
52-Week Range	1,345/580
1,6,12 Rel. Perf. (%)	1/48/82
M.Cap. (Rs b)	274.1
M.Cap. (US\$ b)	6.9

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	42,740	3,403	16.1	55.6	80.5	28.8	36.7	55.9	6.2	55.8
12/07E	60,897	5,052	23.8	48.5	54.3	25.2	49.5	77.2	4.4	35.4
12/08E	78,649	6,523	30.8	29.1	42.0	19.9	53.0	82.6	3.3	27.0

Pre-exceptionals

- For 3QCY07, we expect revenues to grow 37% YoY to Rs 14.7b, EBITDA by 49.2% YoY to Rs 1.7b and net profit by 40.9% YoY to Rs 1.2b.
- ABB India recently announced an order intake of Rs933m from KHD Humboldt Wedag GmbH, Germany, to provide a turnkey electrical and automation solution for a 5,000 tpd (tonnes per day) cement plant at Katrana in Jordan. During 2QCY07, the company recorded an order intake of Rs20b, up 38% YoY. The order backlog for the company as of June 2007 stood at a robust Rs46.3b, up 48% YoY.
- EBITDA margin improved 111bp YoY during 1HCY07 to 10.8% (v/s 9.6% in 1HCY06). The sustained momentum in order intake, rapid conversion of the existing strong order backlog and increased share of high-margin standard products and services should lead to further margin expansion.
- ABB India has announced a capacity and range expansion program, wherein it will establish a new low voltage distribution electrical unit in Haridwar and a vacuum interrupter plant in Nashik.
- We believe ABB's rich valuations already discount its buoyant growth prospects. The stock is trading at 54.3x CY07E and 42x CY08E earnings. We remain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales	8,029	9,742	10,706	14,263	13,124	14,009	14,667	19,097	42,740	60,897
Change (%)	32.1	47.9	50.6	44.7	63.5	43.8	37.0	33.9	44.2	42.5
EBITDA	695	1,020	1,106	1,947	1,282	1,638	1,650	2,918	4,767	7,488
Change (%)	87.1	68.8	35.7	39.9	84.6	60.6	49.2	49.9	49.8	57.1
As % of Sales	8.7	10.5	10.3	13.6	9.8	11.7	11.3	15.3	11.2	12.3
Depreciation	62	65	66	71	86	77	91	110	265	364
Interest	2	2	2	1	10	23	12	-5	7	40
Other Income	180	153	230	174	152	147	220	291	737	810
PBT	810	1,106	1,267	2,049	1,337	1,686	1,767	3,104	5,232	7,894
Tax	297	387	446	699	471	600	610	1,161	1,829	2,842
Effective Tax Rate (%)	36.7	35.0	35.2	34.1	35.2	35.6	34.5	37.4	35.0	36.0
Reputed PAT	513	719	821	1,350	866	1,086	1,157	1,943	3,403	5,052
Adj. PAT	513	719	821	1,350	866	1,079	1,157	1,943	3,403	5,052
Change (%)	86.5	64.9	55.1	42.6	68.9	50.0	40.9	44.0	55.6	48.5

E: MOST Estimates

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Alstom Projects

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ABBAP IN
	REUTERS CODE
S&P CNX: 5,021	ABBP.BO

Equity Shares (m)	67.0
52-Week Range	904/329
1,6,12 Rel. Perf. (%)	-3/77/108
M.Cap. (Rs b)	55.6
M.Cap. (US\$ b)	1.4

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs830

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	12,215	1,113	16.6	136.4	50.0	15.1	33.3	43.0	4.3	43.1
3/08E	15,992	1,566	23.4	40.8	35.5	11.8	37.4	46.7	3.3	29.8
3/09E	20,114	1,925	28.7	22.9	28.9	9.1	35.7	44.6	2.6	23.7

* Pre-exceptionals; Consolidated Numbers

- For 2QFY08, we expect revenue to grow 25% YoY to Rs3.5b, EBITDA to grow 31.2% YoY to Rs423m and the net profit to grow 20% YoY to Rs376m.
- The company received an order of Rs 10b (370MW) from the Gujarat State Electricity Corporation for construction of the first gas-based combined cycle power plant in India during 1QFY08. Also, a consortium comprising Alstom Projects, Alstom Transport S.A. (ATSA) and Sumitomo Corporation bagged an order of Rs2.8b for train control and signaling Delhi Metro Rail Corporation (DMRC)'s line 1 and 2 extensions. The share of Alstom in the project is Rs770m while Alstom S.A. would execute orders worth Rs 1.8b. The current order backlog of the company stands at over Rs30b.
- The transport division is also poised for buoyant order intake with the Railways increasing focus on safety measures and also due to plans by various states to set up metros in cities.
- At CMP of Rs830, the stock trades at a P/E of 35.5x FY08E and 28.9x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	2,237	2,677	2,977	4,306	2,413	3,346	3,870	6,362	12,215	15,992
Change (%)	24.6	18.3	2.7	72.3	7.9	25.0	30.0	47.8	29.2	30.9
EBITDA	90	322	242	534	246	423	349	753	1,209	1,771
Change (%)	119.5	177.6	139.6	198.3	173.3	31.2	44.4	40.9	167.3	46.4
As of % Sales	4.0	12.0	8.1	12.4	10.2	12.6	9.0	11.8	9.9	11.1
Depreciation	34	36	40	54	55	52	53	51	164	211
Interest	0	1	1	0	0	1	0	1	2	2
Other Income	68	102	169	9	87	100	150	63	350	400
PBT	124	387	370	489	278	470	446	764	1,393	1,958
Tax	8	74	67	127	103	94	89	105	279	392
Effective Tax Rate (%)	6.5	19.1	18.1	26.0	37.1	20.0	20.0	13.8	20.0	20.0
Reported PAT	116	313	303	362	175	376	357	658	1,114	1,566
Adj PAT	116	313	303	362	175	376	357	658	1,114	1,566
Change (%)	73.1	172.2	304.0	74.9	50.9	20.0	17.9	81.8	136.1	40.6

E: M0St Estimates; * Full year nos are consolidated

Bharat Electronics

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BHE IN
	REUTERS CODE
S&P CNX: 5,021	BAJE.BO

28 September 2007

Buy

Rs 1,840

Previous Recommendation: Buy

Equity Shares (m)	80.0
52-Week Range	1,950/1,083
1,6,12 Rel. Perf. (%)	-8/-11/24
M.Cap. (Rs b)	147.2
M.Cap. (US\$ b)	3.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	38,943	7,139	89.2	22.4	20.6	5.7	32.5	32.4	3.2	11.4
3/08E	43,110	8,187	102.3	14.7	18.0	4.6	29.4	29.3	2.7	9.9
3/09E	50,438	9,609	120.1	17.4	15.3	3.7	27.5	27.5	2.2	8.1

- ✦ For 2QFY08, we expect Bharat Electronics to report revenue of Rs9.2b, up 10% YoY, EBITDA of Rs2.1b, up 14.4% YoY, and net profit of Rs1.7b, up 11.5% YoY.
- ✦ BEL has guided for revenues of US\$1b in FY08 and US\$2b by FY12. The earlier revenue guidance was Rs50b in FY08 and Rs100b by FY12.
- ✦ Order backlog as of March 2007 stood at Rs90b (up 36% YoY). The book to bill ratio has increased to 2.3x during FY07 from 2x during FY06. Order intake during FY07 increased to Rs63b (up 64% YoY).
- ✦ BEL has signed MoUs with (1) Lockheed Martin to explore business opportunities for co-production of domestic aerospace and defense electronics needs; (2) Elbit Systems Electro Optics ELOP Ltd, Israel, for setting up a JV for development, production and marketing of Thermal Imaging Cameras and Forward Looking Infra Red (FLIRs) for the Indian and global markets; and (3) Northrop Grumman Corp to explore business opportunities for co-production in current and future aerospace and defense needs of India and international markets of Northrop Grumman.
- ✦ Though these are currently enabling MoUs, we believe the company would be able to leverage its competitive positioning with the JV partners over a longer period due to the offset clause.
- ✦ We expect the company to post earnings CAGR of 16% from FY07-09E. At CMP of Rs1,840, the stock is trading at a P/E of 18x FY08E and 15.3x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	4,831	8,343	8,638	17,342	4,044	9,177	9,502	20,246	38,943	42,969
Change (%)	0.8	0.7	27.5	10.1	-16.3	10.0	10.0	16.7	9.4	10.3
EBITDA	721	1,865	1,976	4,849	-46	2,134	2,338	6,386	9,411	10,813
Change (%)	-4.0	-9.1	36.6	16.2	-106.4	14.4	18.3	31.7	11.7	14.9
As of % Sales	14.9	22.4	22.9	28.0	-1.1	23.3	24.6	31.5	24.2	25.2
Depreciation	208	198	205	252	211	225	240	263	863	939
Interest	3	1	2	0	1	3	5	6	5	15
Other Income	384	508	407	574	656	525	550	450	1,874	2,182
PBT	894	2,175	2,177	5,171	398	2,431	2,643	6,567	10,416	12,040
Tax	291	692	696	1,599	135	778	846	2,094	3,278	3,853
Effective Tax Rate (%)	32.6	31.8	31.9	30.9	33.9	32.0	32.0	31.9	31.5	32.0
Reported PAT	603	1,483	1,482	3,572	263	1,653	1,798	4,473	7,139	8,187
Change (%)	6.5	1.1	52.7	27.2	-56.4	11.5	21.3	25.2	22.8	14.7
Adj PAT	603	1,483	1,482	3,572	263	1,653	1,798	4,473	7,139	8,187

E: MOSt Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BHEL IN
	REUTERS CODE
S&P CNX: 5,021	BHEL.BO

28 September 2007

Neutral

Rs2,033

Equity Shares (m)	489.5
52-Week Range	2,089/970
1,6,12 Rel. Perf. (%)	-3/44/31
M.Cap. (Rs b)	995.1
M.Cap. (US\$ b)	25.0

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	187,827	23,876	48.8	42.4	41.7	10.7	28.8	44.3	5.1	25.5
03/08E	239,064	30,930	63.2	29.5	32.2	8.5	29.6	44.2	4.0	19.6
03/09E	300,448	39,697	81.1	28.3	25.1	6.7	30.0	45.2	3.4	16.0

- For 2QFY08, we expect revenue to grow 36.3% YoY to Rs45.5b, EBITDA to grow 42.2% YoY to Rs6.5b and net profit to grow by 31.1% YoY to Rs4.7b.
- The order book for the company stood at Rs624b as of June 2007, up 59% YoY while the order intake for 1QFY08 was Rs109.7b. The power division contributed around 76% to the order intake at Rs83b. The current order backlog represents a book-to-bill ratio of ~3.6x on its FY07 revenue.
- BHEL has recently signed a memorandum of understanding (MoU) with NTPC for forming a joint venture company for carrying out Engineering Procurement and Construction (EPC) activities in the power sector on mutually-beneficial terms. As per the MoU, both NTPC and BHEL will have 50:50 equity participation in the new venture.
- The company has guided for revenue of US\$10b by FY12 both through organic or inorganic route, a revenue CAGR of 19%.
- BHEL is also seeking opportunities in nuclear energy production and is in talks with global nuclear players like Alstom, GE Energy, and Siemens for possible tie-ups. The tie up is intended for 700MW and 1,000MW technology.
- At the CMP of Rs2,033, the stock is trading at a P/E of 32.2x FY08E and 25.1x FY09E. Downgrade to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	26,564	33,412	43,397	69,197	32,339	45,524	60,664	96,631	172,375	235,158
Change (%)	37.2	33.1	30.5	25.5	21.7	36.3	39.8	39.6	29.7	36.4
EBITDA	3,182	4,563	9,292	15,872	3,107	6,487	12,739	21,313	32,909	43,646
Change (%)	85.5	23.7	54.1	32.8	-2.4	42.2	37.1	34.3	40.7	32.6
As a % Sales	12.0	13.7	21.4	22.9	9.6	14.3	21.0	22.1	19.1	18.6
Depreciation	639	667	662	762	689	800	825	886	2,730	3,200
Interest	131	136	120	47	22	175	200	328	433	725
Other Income	1,201	1,699	1,855	2,860	2,063	1,750	1,900	2,151	7,615	7,864
PBT	3,613	5,460	10,365	17,923	4,460	7,262	13,614	22,249	37,361	47,585
Tax	1,246	1,860	3,688	6,419	1,570	2,542	4,765	7,778	13,214	16,655
Effective Tax Rate (%)	34.5	34.1	35.6	35.8	35.2	35.0	35.0	35.0	35.4	35.0
Reported PAT	2,367	3,600	6,677	11,504	2,890	4,720	8,849	14,471	24,147	30,930
Change (%)	85.1	38.4	57.8	32.5	22.1	31.1	32.5	25.8	43.8	28.1
Adj. PAT	2,367	3,600	6,677	11,504	2,890	4,720	8,849	14,471	24,147	30,930
Change (%)	85.1	38.4	57.8	32.5	22.1	31.1	32.5	25.8	43.8	28.1

E: M0St Estimates; Other Income includes Operational Other Income

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Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CRG IN
	REUTERS CODE
S&P CNX: 5,021	CROM.BO

28 September 2007

Neutral

Rs333

Equity Shares (m)	366.6
52-Week Range	349/161
1,6,12 Rel. Perf. (%)	-7/40/54
M.Cap. (Rs b)	122.0
M.Cap. (US\$ b)	3.1

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	33,676	2,417	6.6	0.6	50.5	18.5	32.6	38.6	3.7	36.0
3/08E	43,326	3,603	9.8	49.0	33.9	14.2	36.8	43.7	2.8	25.2
3/09E	53,561	5,263	14.4	46.1	23.2	10.8	37.7	47.4	2.3	19.2

* Consolidated; pre-exceptionals

- For 2QFY08, we expect Crompton to report standalone revenue of Rs 10.5b, up 27.9% YoY, EBITDA of Rs 975m, up 32.5% YoY, and net profit of Rs 526m, up 36% YoY. As of June 2007, order book of Crompton (standalone) stood at Rs 21.4b, up 19% YoY, and the order book for Pauwels stood at Rs 27.3b.
- It has emerged as the successful bidder for distribution of power in Nagpur in the bids invited by Maharashtra State Electricity Board (MSEB) for the privatization of distribution circles for a period of 15 years effective from January 2008. It has committed a payment of Rs 26b (bid evaluation criterion) to MSEB over a 15-year period to get a fixed quantum of power from MSEB and is free to source any incremental requirements from the market. The company will be able to retain efficiency gains arising out of better management of circle including lower T&D losses (currently at 43%).
- The management has guided for revenue growth of 20-25% CAGR to FY10 for its standalone business and 15-18% CAGR, for Pauwels, to FY10. The company expects the standalone EBITDA margins to improve to ~11% in FY08 (v/s 10.2% in FY07). For Ganz, the management expects EBITDA margin of 5% (v/s loss in FY07) and breakeven at PBT level during FY08.
- We expect Crompton to report consolidated net profit of Rs 36b in FY08 (up 49% YoY) and Rs 5.3b in FY09 (up 46% YoY). At CMP of Rs 333, the stock trades at a P/E of 33.9x FY08E and 23.2x FY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	7,406	8,240	8,130	9,900	8,961	10,538	10,974	12,853	33,676	43,326
Change (%)	42.5	48.6	25.5	24.0	21.0	27.9	35.0	29.8	33.6	28.7
EBITDA	722	736	818	1,143	1,045	975	1,152	1,697	3,418	4,869
Change (%)	58.7	39.1	38.5	52.0	44.8	32.5	40.9	48.4	46.9	42.4
As of % Sales (Adj)	9.7	8.9	10.1	11.5	11.7	9.3	10.5	13.2	10.2	11.2
Depreciation	100	81	100	113	105	130	145	139	394	519
Interest	53	72	78	101	66	75	100	93	304	333
Other Income	49	94	72	133	126	65	85	70	349	346
PBT	618	677	713	1,063	1,000	835	992	1,535	3,070	4,363
Tax	254	270	258	363	313	309	367	582	1,146	1,571
Effective Tax Rate (%)	41.1	39.9	36.3	34.2	31.2	37.0	37.0	37.9	37.3	36.0
Reported PAT	364	407	454	699	688	526	625	953	1,924	2,792
Adj PAT	364	387	454	749	653	526	625	953	1,954	2,792
Change (%)	16.4	18.9	-17.0	0.1	79.6	36.0	37.6	27.3	1.0	42.9

E: Most Estimates

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Cummins India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	KKC IN
	REUTERS CODE
S&P CNX: 5,021	CUMM.BO

28 September 2007

Neutral

Rs435

Previous Recommendation: Neutral

Equity Shares (m)	198.0
52-Week Range	463/214
1,6,12 Rel. Perf. (%)	4/32/60
M.Cap. (Rs b)	86.2
M.Cap. (US\$ b)	2.2

YEAR END	NET SALES* (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	21,962	2,307	11.7	25.6	37.4	8.9	25.4	37.3	3.7	27.8
3/08E	27,263	3,147	15.9	36.4	27.4	7.5	29.7	43.7	3.0	19.5
3/09E	33,131	4,022	20.3	27.8	21.4	6.0	31.1	45.9	2.4	14.5

* Consolidated

- For 2QFY08, we expect revenue growth of 23% YoY to Rs 5.8b, EBITDA growth of 24.4% YoY to Rs 977m and net profit growth of 21.1% YoY to Rs 759m.
- Domestic sales are expected to grow ~13-15% on the back of strong demand for standby gensets from the services sector. Exports are expected to grow ~20%. The progress on new product launches is as per schedule.
- The Rs 150m facility being set up near Pune to assemble HP engines and generator sets will be fully operational by September-October 2007. The other capex plans of the company amount to Rs 200-250m for FY08.
- At the CMP of Rs 435, the stock trades at 27.4x FY08E and 21.4x FY09E consolidated earnings. We remain **Neutral** on the stock.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	3,914	4,674	4,770	5,049	5,423	5,750	5,771	6,097	18,408	23,041
Change (%)	19.3	30.8	22.4	30.2	38.5	23.0	21.0	20.7	25.8	25.2
EBITDA	619	786	719	823	740	977	952	1,059	2,947	3,729
Change (%)	41.0	86.2	22.3	41.2	19.5	24.4	32.5	28.6	45.0	26.5
As of % Sales	15.8	16.8	15.1	16.3	13.6	17.0	16.5	17.4	16.0	16.2
Interest	0	0	2	11	2	3	5	2	14	12
Depreciation	81	94	77	74	76	90	110	127	326	403
Other Income	163	195	260	236	232	200	270	299	853	1,000
PBT	700	886	899	975	894	1,084	1,107	1,228	3,460	4,314
Tax	192	259	270	318	253	325	332	383	1,040	1,294
Effective Tax Rate (%)	27.4	29.2	30.1	32.6	28.3	30.0	30.0	31.2	30.0	30.0
Reported PAT	508	627	629	657	640	759	775	845	2,421	3,020
Adj PAT	508	627	629	657	640	759	775	845	2,421	3,020
Change (%)	43.6	48.8	29.7	21.4	26.1	21.1	23.2	28.7	34.4	24.7

E: MOST Estimates

Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	LT IN
	REUTERS CODE
S&P CNX: 5,021	LART.BO

28 September 2007

Neutral

Rs2,813

Equity Shares (m)	283.3
52-Week Range	2,950/1,230
1,6,12 Rel. Perf. (%)	-6/45/82
M.Cap. (Rs b)	796.7
M.Cap. (US\$ b)	20.0

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT * (RS M)	EPS* (RS)	EPS GR. (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	176,846	18,310	63.9	75.5	44.0	13.8	26.1	28.2	4.4	43.0
3/08E	226,164	24,206	84.4	30.6	33.3	11.4	28.9	31.2	3.5	29.5
3/09E	285,499	30,628	106.8	26.5	26.3	9.3	28.9	29.6	2.8	23.8

* Consolidated; EPS is fully diluted

- For 2QFY08, we expect revenue of Rs47.8b, up 28% YoY, EBITDA of Rs4.8b, up 57.9% YoY, and net profit of Rs3b, up 64.4% YoY.
- L&T's order backlog as at end of June 2007 stood at Rs416.3b, up 45% YoY. The order book-to-bill ratio for the company has improved from 1.5x as of March 2006 to around 2.3x as of June 2007 (FY07 revenue).
- Key orders by L&T during 2QFY08 include: (1) a Rs12.1b order from Bhushan Steel Ltd. for turnkey construction of a 2.5m tpa blast furnace in consortium with Paul Wurth, Italy; (2) US\$70m (Rs3b) contract for construction of two ships from RollDock BV of the Netherlands; (3) Rs6.4b contract from SAIL India; (4) Rs2.7b orders from Indian Oil Corporation and Liaoning Huajin Chemical Corporation, China for their capacity expansion projects
- L&T plans to raise US\$700m through overseas route (GDR, FCCB, ADR etc.) to part-finance capital expenditure of around Rs45b in FY08 and FY09 and a capex of Rs15-20b will be utilized for setting up the shipyard.
- At CMP of Rs2,813, the stock trades at a P/E of 33.3x FY08E and 26.3x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	34,689	37,361	41,184	62,482	45,052	47,820	51,550	80,444	175,788	224,867
Change (%)	11.5	11.7	12.3	36.0	29.9	28.0	25.2	28.7	20.0	27.9
EBITDA	2,698	3,062	5,185	9,718	4,738	4,834	6,874	12,646	20,665	29,092
Change (%)	53.5	117.6	63.0	54.2	75.6	57.9	32.6	30.1	82.4	49.8
As of % Sales	9.2	8.9	11.8	14.9	10.2	9.8	12.9	15.3	11.3	12.5
Depreciation	309	336	357	698	424	510	520	827	1,700	2,281
Interest	158	106	12	63	157	225	315	243	339	940
Other Income	216	437	350	420	1,608	460	420	174	1,420	2,662
Reported PBT	2,448	3,057	5,166	9,377	5,764	4,559	6,459	11,750	20,046	28,533
Tax	877	1,046	1,727	2,371	1,995	1,550	2,067	3,562	6,019	9,174
Effective Tax Rate (%)	35.8	34.2	33.4	25.3	34.6	34.0	32.0	30.3	30.0	32.2
Reported Profit	1,571	2,011	3,440	7,006	3,769	3,009	4,392	8,189	14,027	19,359
Adjusted PAT	1,839	1,831	3,440	7,006	2,924	3,009	4,392	8,189	13,845	18,514
Change (%)	89.5	53.0	83.1	52.8	59.0	64.4	27.7	16.9	59.1	33.7

E: MOSI Estimates

Siemens

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SIEM IN
	REUTERS CODE
S&P CNX: 5,021	SIEM.BO

28 September 2007

Neutral

Rs 1,352

Equity Shares (m)	165.7
52-Week Range	1,485/968
1,6,12 Rel. Perf. (%)	-6/-9/-12
M.Cap. (Rs b)	224.0
M.Cap. (US\$ b)	5.6

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
9/07E	90,057	5,220	31.0	31.3	43.7	16.3	42.1	63.5	2.6	27.3
9/08E	125,994	7,592	45.0	45.4	30.0	12.9	47.9	72.2	1.9	20.0
9/09E	161,753	9,831	58.3	29.5	23.2	9.7	47.7	72.4	1.5	16.7

Consolidated

- For 4QFY07, we expect Siemens to report revenue of Rs 22.9b, up 52.9% YoY, EBITDA of Rs 1.7b (up 39.7% YoY), and net profit of Rs 1.8b, up 30.1% YoY.
- For FY07, we expect Siemens to report revenues of Rs 78.5b (up 73% YoY), EBITDA of Rs 5.6b (up 38.9% YoY) and net profit of Rs 4.5b (up 22.6% YoY). EBITDA margin for the company is expected to be 7.1% (v/s 8.9% in FY06) largely due to decline of 290bp in 2QFY07 and 250bp in 3QFY07.
- Other income, which is primarily dividend income from Siemens Information Services (SISL) – a 100% subsidiary of Siemens, has remained largely flat during 9MFY07 at Rs 504m. Historical trends indicate that the profits of SISL are distributed as dividends during 2Q and 4Q. We estimate Siemens to book other income of Rs 980m in 4QFY07.
- Siemens and BHEL have signed an MoU for the supply and installation of steam turbines for 800MW power projects in India, involving supercritical steam conditions.
- Given its diversified exposure to the Indian manufacturing industry, power, transport, healthcare, communication and IT segments, we believe Siemens will report steady growth in the coming years. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E SEPTEMBER	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Revenues	8,601	11,334	10,465	14,997	16,331	21,352	17,902	22,934	45,397	78,518
Change (%)	62.1	57.6	70.8	59.2	89.9	88.4	71.1	52.9	61.9	73.0
EBITDA	791	1,214	792	1,244	1,234	1,677	910	1,738	4,041	5,560
Change (%)	76.1	34.8	44.1	34.3	56.1	38.2	14.8	39.7	43.0	38.9
As % of Revenues	9.2	10.7	7.6	8.3	7.6	7.9	5.1	7.6	8.9	7.1
Depreciation	150	81	90	122	103	109	121	160	442	493
Interest Income	54	79	117	116	126	105	123	149	367	502
Other Income	9	419	24	637	152	57	295	980	1,089	1,483
PBT	705	1,630	844	1,875	1,409	1,730	1,207	2,706	5,055	7,053
Tax	215	452	279	508	426	650	389	927	1,454	2,391
Effective Tax Rate (%)	30.5	27.7	33.1	27.1	30.2	37.5	32.2	34.3	28.8	33.9
Reported PAT	490	1,178	565	1,367	984	1,081	818	1,779	3,601	4,662
Adjusted PAT	551	1,178	565	1,367	984	1,081	642	1,779	3,662	4,491
Change (%)	75.7	48.4	42.9	30.9	78.4	-8.3	13.6	30.1	43.8	22.6

E: MOSt Estimates

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Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SUEL IN
	REUTERS CODE
S&P CNX: 5,021	SUZL.BO

28 September 2007

Neutral

Rs 1,447

Equity Shares (m)	294.4
52-Week Range	1,569/932
1,6,12 Rel. Perf. (%)	1/16/-24
M.Cap. (Rs b)	426.0
M.Cap. (US\$ b)	10.7

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	79,858	8,655	30.0	13.9	48.1	12.8	29.0	21.0	5.7	34.9
3/08E	135,473	11,957	40.6	35.0	35.7	8.1	28.0	17.8	3.5	23.2
3/09E	195,706	17,621	59.8	47.4	24.2	6.6	29.9	19.6	2.5	16.6

* Consolidated

- For 2QFY08, we expect revenue of Rs32.4b, up 55% YoY, EBITDA of Rs4b, up 9.6% YoY, and net profit of Rs2b, down 13.8% YoY.
- The order backlog of the company stood at Rs135b comprising domestic market – Rs17.1b and international market – Rs117.9b. In terms of MW, the order backlog stood at 2,882MW as of June 2007 comprising domestic market – 315MW and international market – 2,567MW.
- Suzlon has made a Foreign Currency Convertible Bonds for an amount of US\$200m, which has a maturity of 5 years and 1 day, are convertible at a conversion price of Rs1,859.40 per share. The FCCBs are zero coupon bonds with a yield to maturity of 7.55%, calculated on a semi-annual basis, at the end of 5 years and 1 day if not converted into shares during the period. This is to fund the expansion plans announced by the company to increase its capacity for WTG and gearboxes.
- We expect Suzlon to report net profit CAGR of 43% over FY07-09E. The EPS for the company is estimated at Rs40.6/sh for FY08E and Rs59.8/sh for FY09E.
- At the CMP of Rs1,447, the stock trades at a P/E of 35.7x FY08E and 24.2x FY09E consolidated earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	10,689	20,870	19,139	29,159	19,446	32,348	32,536	51,142	79,857	135,473
Change (%)	243.6	85.8	117.3	91.0	81.9	55.0	70.0	75.4	107.9	69.6
EBITDA	1,858	3,600	2,546	4,954	1,398	3,946	4,392	10,846	12,958	20,583
Change (%)	181.0	42.6	69.8	24.9	-24.8	9.6	72.5	118.9	44.3	58.8
As of % Sales	17.4	17.3	13.3	17.0	7.2	12.2	13.5	21.2	16.2	15.2
Depreciation	347	428	343	600	585	675	800	908	1,718	2,968
Interest	366	547	638	972	1,079	1,015	1,250	1,488	2,523	4,832
Other Income	161	87	254	463	426	65	80	104	965	676
PBT	1,306	2,711	1,820	3,846	161	2,321	2,422	8,554	9,683	13,459
Tax	346	340	93	256	-40	279	291	972	1,035	1,502
Effective Tax Rate (%)	26.5	12.5	5.1	6.6	(24.6)	12.0	12.0	11.4	10.7	11.2
Reported PAT	960	2,371	1,727	3,590	200	2,043	2,132	7,582	8,648	11,957
Change (%)	115.2	14.7	28.9	-4.3	-79.2	-13.8	23.4	111.2	13.7	38.3
PAT (post Minority Interest)	953	2,354	1,744	3,590	189	2,043	2,132	7,582	8,640	11,957

E: MOST Estimates

Thermax

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TMX IN
	REUTERS CODE
S&P CNX: 5,021	THMX.BO

28 September 2007

Buy

Rs 750

Equity Shares (m)	119.2
52-Week Range	760/299
1,6,12 Rel. Perf. (%)	7/71/95
M.Cap. (Rs b)	89.3
M.Cap. (US\$ b)	2.2

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	19,945	1,919	16.1	87.2	46.5	15.3	39.7	57.0	4.4	29.4
3/08E	28,392	2,811	23.6	46.5	31.8	11.9	41.2	61.7	3.0	21.3
3/09E	37,171	3,877	32.5	37.9	23.0	8.8	43.0	64.5	2.2	15.1

* Consolidated

- For 2QFY08, we expect revenue of Rs5.6b, up 15% YoY, EBITDA of Rs1.1b and net profit of Rs713m, growth of 22.4% YoY. The management has guided for revenue growth of 40% YoY during FY08 and EBITDA margin to remain stable.
- The order backlog for the company stood at Rs27.7b as of June 2007 on a standalone basis and Rs31b on a consolidated basis.
- Thermax has planned an investment of Rs800m during FY08 for capacity expansion of the captive power segment, entry into higher range boilers and heat recovery systems and new range of absorption chillers. The first phase of expansion at Vadodara unit would commence production in 2Q and the capacity would be ramped up in 3Q and 4Q. The unit for absorption chillers at China is likely to be operational in 4QFY08.
- We expect Thermax to report net profit CAGR of 42% over FY07-09E. The EPS for the company is estimated at Rs23.6 for FY08E and Rs32.5 for FY09E.
- At the CMP of Rs750, the stock trades at a P/E of 31.8x FY08E and 23x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	3,226	4,823	5,499	8,044	6,581	5,546	6,379	9,886	21,368	28,392
Change (%)			53.0	68.9	104.0	15.0	16.0	22.9	44.0	32.9
EBITDA	383	758	760	887	680	1,063	1,015	1,263	2,429	4,021
Change (%)			63.2	25.1	77.9	40.2	33.5	42.3	21.5	65.6
As of % Sales	11.9	15.7	13.8	11.0	10.3	19.2	15.9	12.8	11.4	14.2
Depreciation	38	50	47	53	50	48	50	44	188	192
Interest	0	2	5	5	4	2	3	1	13	10
Other Income	65	88	83	272	85	65	90	95	732	335
Extra-ordinary Items	0	-231	0	41	98	0	0	0	-55	0
PBT	410	562	790	1,143	809	1,078	1,052	1,312	2,905	4,154
Tax	135	211	236	446	249	365	357	437	1,027	1,408
Effective Tax Rate (%)	32.8	37.6	9.8	39.0	30.8	33.9	33.9	33.3	35.4	33.9
Reported PAT	275	351	555	697	560	713	695	875	1,878	2,746
Adj PAT	275	582	555	656	462	713	695	875	1,933	2,746
Change (%)			83.5	53.6	67.9	22.4	25.4	33.4	49.7	42.0

E: M0St Estimates; *Nos include results of Thermax Babcock and Wilcox Ltd and Thermax Capital Ltd. and hence not comparable yoy

FMCG

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Asian Paints	123
Britannia Industries	124
Colgate Palmolive	125
Dabur India	126
GSK Consumer	127
Godrej Consumer Products	128
Hindustan Unilever	129
ITC	130
Marico	131
Nestle India	132
Tata Tea	133
United Spirits	134

The FMCG sector has started benefiting from the fourth consecutive year of more than 8% GDP growth, as the volume growth reported by most of the companies in the previous quarter was either in line or higher than estimates. The volume growth trend appears to be broadbased across products and segments. FMCG companies have taken selective price increases to ward off the impact of commodity inflation. Soda ash and LAB prices are up during the quarter while palm oil and wheat prices are steady. Sugar prices remained weak while milk prices have started softening. We expect another quarter of strong volume growth for FMCG companies. Ad spend could be the area to watch out for as most companies have resorted to a cut in ad spend, helping them boost margins.

HUL is expected to post yet another quarter of disappointing numbers in personal care although soaps and detergents are expected to report double-digit growth. Asian Paints will report sedate growth as Diwali sales will materialize in 3Q this year versus Q2 last year. United Spirits, Nestle, Dabur, Marico and GSK Consumer are expected to post strong sales growth momentum. We expect ITC cigarette sales volumes to shrink 4% while food products are likely to do well. Valuations seem to factor in improving fundamentals, still rising growth rates augur well for steady returns over the coming 12 months. We rate **United Spirits** and **ITC** as our preferred bet among large caps. **Asian Paints** and **Nestle** are our top mid-cap picks.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
FMCG							
Asian Paints	Buy	8,700	10.8	1,330	10.6	860	10.6
Britannia	Buy	7,100	29.2	625	117.0	425	78.6
Colgate	Neutral	3,625	13.3	650	16.5	591	16.9
Dabur	Neutral	6,710	18.9	1,190	22.3	930	27.9
Godrej Consumer	Neutral	2,800	20.8	475	19.8	371	19.7
GSK Consumer	Buy	3,400	12.8	610	15.5	406	12.1
Hind. Unilever	Neutral	34,340	12.0	4,550	12.9	4,420	15.4
ITC	Buy	33,500	16.0	10,850	11.5	7,820	15.1
Marico	Buy	4,650	23.0	700	15.6	426	39.2
Nestle	Buy	8,761	21.2	1,761	23.6	1,065	22.1
Tata Tea	Neutral	9,900	1.6	1,850	2.7	530	-50.5
United Spirits	Buy	7,300	15.5	1,850	36.4	860	52.7
Sector Aggregate		130,786	14.6	26,441	15.5	18,704	14.3

Good monsoons, higher farm output positive for FMCG demand

The monsoons have been normal for yet another year. The monsoons have been either normal or excess in 30 out of 36 subdivisions this year versus 26 last year. Further the deficient areas are mainly Punjab, Haryana, Delhi and western UP, which have well developed artificial irrigation facilities.

GOOD MONSOONS - A POSITIVE FOR FMCG

	EXCESS	NORMAL	DEFICIENT	SCANTY
June- September 2007	13	17	6	0
June -September 2006	7	19	10	0

Source: Motilal Oswal Securities

Sowing for the kharif crop has been in full swing; the planted area being 100m hectares so far, an increase of 4.5%.

All the major crops have reported increased area under coverage. The cultivated area for paddy, pulses, oilseeds, groundnut and soybean is 5-10% higher indicating that the final area under cultivation would be higher for the current year. In addition, the minimum support price (MSP) for wheat has seen sharp increase during the current year, the trend for other crops in the forthcoming season is healthy. Pick-up in agri production and farm income will continue to fuel rural demand. Increase in farm production will improve the availability of and cool down inflation in commodity prices. The impact is already visible as the prices of some of the inputs like milk, sugar and molasses have softened. Increase in production and farm gate prices will boost disposable income and increase demand for consumer goods.

Growth accelerating; pricing power improving

FMCG sector continues to have staggered growth. We observe that categories like soaps, detergents, and oral care are witnessing single-digit volume growth. Skin care, Household products, Food products and Alcoholic beverages continues to maintain high double-digit growth. Although the sector as a whole has seen acceleration in growth rates in the past one year, products with higher innovation and low penetration have been the winners.

Distribution gains for categories like Personal care, Food products and Alcoholic beverages have been a major contributor to demand acceleration. We expect high double-digit volume growth for categories such as Personal care, Household products, Biscuits, Beer, Packed Juices, Noodles, Packed water and wines. Decorative paints and Spirits are likely to grow in mid-teens while Soaps and detergents are likely to grow in mid-to-high single digit levels. Pricing power is improving across segments, although companies appear to be playing the volumes game to derive growth. Pricing wars do not appear likely currently, but the leading players are cautious to effect price increases to pass on the cost increases to consumers.

Premium variants and new products to accelerate growth

Rising disposable income in the hands of consumers is resulting in a steady wave of consumer uptrading. All the product segments are witnessing strong growth in the premium segments, although on a low base. The trend is clearly visible in Processed foods, Personal care and Liquor. Entry level for young consumer has moved up in lifestyle goods and IMFL (Indian made foreign liquor). Rising proportion of young working population, influence of the media and modern trade are expected to fuel the demand for premium goods in the coming periods. We believe that despite limited demand for premium products, the low base and higher margins make it attractive for companies to venture into these segments. FMCG majors are busy entering new categories and segments where they are not present as of now. GCPL is test marketing its shampoo while ITC has entered the Personal care segment with the launch of Shampoo under the brand Fiama Di Wills. We expect new launches to accelerate ahead. Premium variants and new products will enable FMCG companies to further accelerate the growth rate.

NEW PRODUCTS AND VARIANT LAUNCHES

COMPANY	CATEGORY	BRAND	VARIANT
Nestle	Dairy	Nesvita, Milkmaid	Probiotic Dahi, Funshakes
	Confectionery	Polo, Tang Eez	Zero, Cinnamon flavor
Tata Tea	Tea	Tata Tea	Life
GCPL	Soaps and Shampoo	No 1	Premium Soap, Shampoo
ITC	Personal care	Fiama Di Wills	Shampoo in four variants
HUL	Personal care	Dove	Shampoos and skin care products
	Soaps	Hamam, Lifebuoy	Skin Scrub, Lifeguard

Source: Motilal Oswal Securities

Input prices indicate a mixed trend

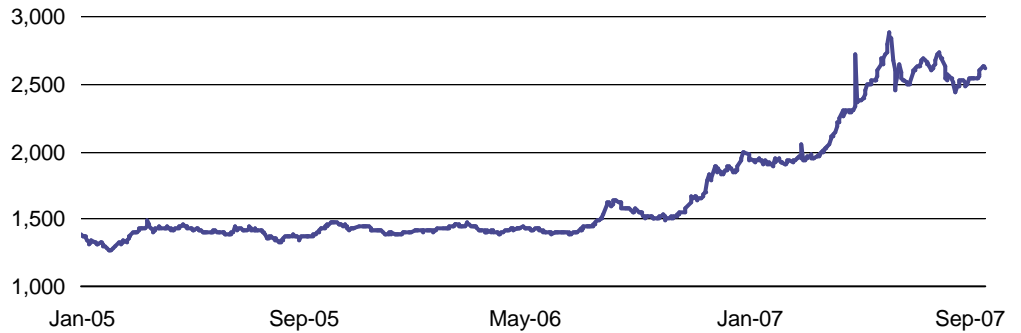
While prices of certain inputs like milk and sugar have been softening, palm oil prices are moving in a narrow range. Soda ash and LAB prices have firmed up in the past few months and strong crude price indicate that the firm trend should continue. Sugar production figures are expected to be strong which will ensure weak prices in the coming periods. We expect food products companies to benefit due to lower sugar and milk prices in the coming periods; Agri based commodity prices are expected to hold strong. Rising crude prices are expected to keep the prices of petroleum based input strong in the coming months.

IMPACT OF INPUT PRICE CHANGES

INPUT	PRICE TREND	IMPACT	COMPANIES
LAB	Up	Negative	HUL
Soda Ash	Up	Negative	HUL
Palm Oil	Up	Negative	HUL, Godrej Consumer
Sugar	Down	Positive	Nestle, GSK Consumer, ITC, Britannia
Wheat	Up	Negative	ITC, Britannia, Nestle
Milk	Down	Positive	GSK Consumer, Nestle
Molasses	Down	Positive	United Spirits, Radico

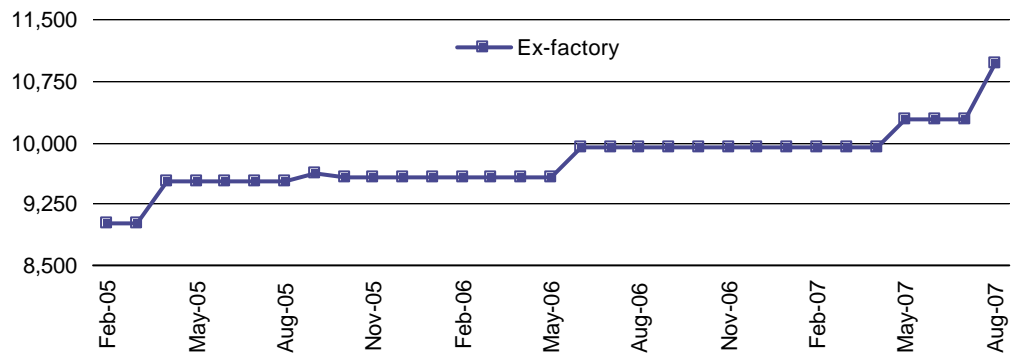
Source: Motilal Oswal Securities

TREND IN PALM OIL PRICES IN RINGGITS PER TONNE (1 MALAYSIAN RINGGIT = RS11.5)

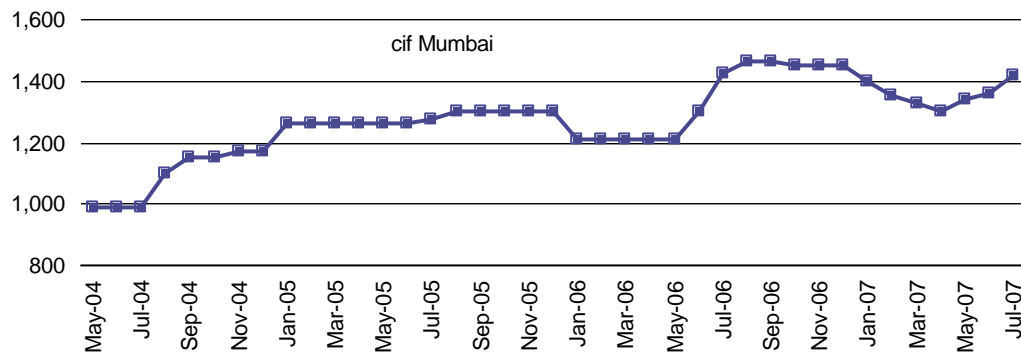


Source: Bloomberg

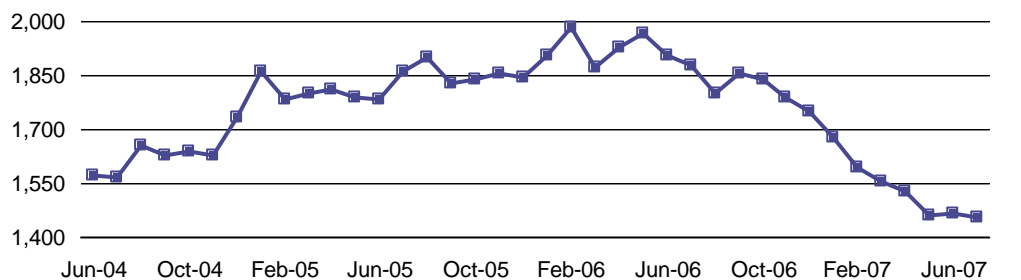
SODA ASH PRICES TREND (RS PER TONNE)



TREND IN LAB PRICES (RS/TON)



SUGAR PRICE TREND (RS PER QUINTAL)



Source: Cris Infac/ Motilal Oswal Securities

Favorable demographics and low product penetration indicate long term potential

Consumer demand is expected to remain strong due to growth in both farm incomes and job opportunities. Employment generation and salary levels have been rising due to strong economic growth with manpower shortages in Retail, IT/ITES, and construction sectors. Rising employment opportunities will likely result in a strong surge in consumer demand as 50% of the population currently is below the median age of 24 years?

The product penetration in most of the FMCG categories is very low. Some of the large categories such as Detergents, Washing Powder and Toilet Soaps have high penetration by Indian standards. But even in these categories, per capita spend is significantly lower than in most countries of Asia and South East Asia.

FMCG PRODUCTS PENETRATION (%)

	ALL INDIA	URBAN	RURAL
Deodorants	2.1	5.5	0.6
Instant Coffee	6.6	15.5	2.8
Skin Cream	22.0	31.5	17.8
Utensil Cleaner	28.0	59.9	14.6
Toothpastes	48.6	74.9	37.6
Shampoo	38.0	52.1	31.9
Washing Powder	86.1	90.7	84.1
Detergent Bar	88.6	91.4	87.4
Toilet Soap	91.5	97.4	88.9

Source: HLL Presentation/Motilal Oswal Securities

Low product penetration implies long-term growth potential in the FMCG sector. Categories which have penetration of less than 25% are expected to grow volumes by more than 15-20% per annum over the coming 8-10 years.

Top picks: United Spirits, ITC, Nestle and Asian Paints

We expect FMCG sector growth rates to show steady improvement although the same might not be reflected fully for all the companies in the sector. The companies which have a presence in large and high growth categories will grow ahead of the market and enjoy premium valuations. Similarly the product categories or segments having high entry barriers and strong market shares will have high visibility for growth. We in particular like companies having strong presence and a pipeline in Food products, Liquor and Personal Care. We believe demographics favor strong growth in lifestyle verticals like Alcoholic Beverages and Tobacco, which would enable companies in these segments to command a premium.

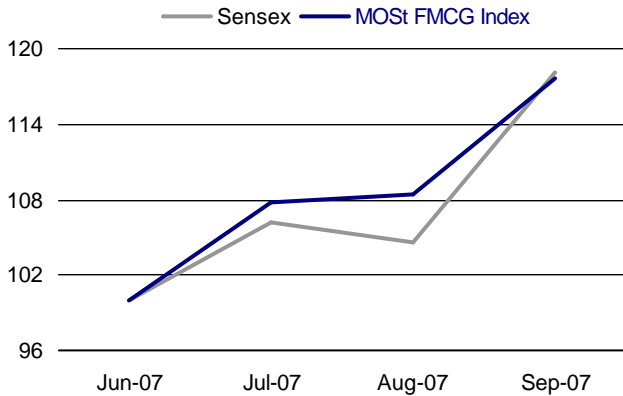
We recommend a selective approach for investment. We rate **United Spirits** and **ITC** as preferred picks among the large caps and **Asian Paints** and **Nestle** among the mid caps. We are also like the business model, wide product range and growth prospects of Dabur, except for the high valuations.

Stock performance and valuations

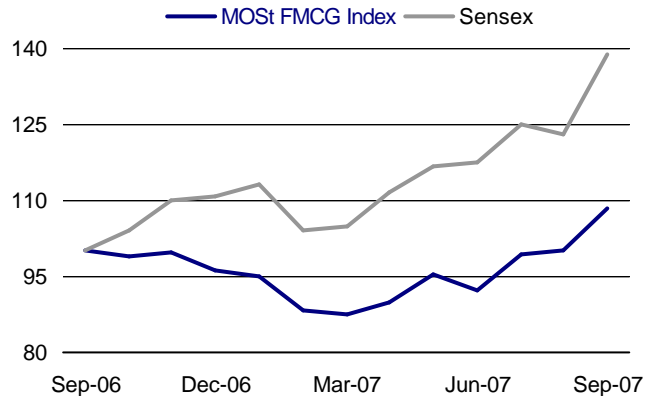
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
FMCG						
Asian Paints	18	48	-1	8	0	38
Britannia	-6	33	-25	-7	-23	23
Colgate	8	11	-11	-29	-10	1
Dabur	2	16	-17	-23	-16	6
Godrej Consumer	4	-20	-15	-60	-14	-30
GSK	11	23	-8	-16	-7	13
Hind. Unilever	16	-14	-3	-54	-2	-24
ITC	22	3	3	-37	4	-7
Marico	12	19	-8	-20	-6	9
Nestle	16	26	-4	-13	-2	16
Tata Tea	-4	9	-23	-31	-22	-1
United Spirits	42	185	23	145	24	175

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
	28.9.07													
FMCG														
Asian Paints	983	Buy	28.1	33.7	41.3	34.9	29.1	23.8	21.8	17.7	14.6	35.7	35.1	34.4
Britannia	1,457	Buy	47.3	77.9	90.4	30.8	18.7	16.1	23.8	11.0	9.2	17.9	25.3	23.6
Colgate	402	Neutral	14.2	18.1	21.5	28.3	22.2	18.7	25.0	20.3	16.8	70.1	136.3	272.9
Dabur	106	Neutral	3.3	4.0	5.0	32.3	26.4	21.1	26.2	20.7	17.0	58.8	53.7	51.1
Godrej Consumer	141	Neutral	5.9	7.1	8.3	23.8	20.0	17.0	18.1	15.7	13.5	123.8	145.8	167.0
GSK Consumer	639	Buy	30.2	34.5	39.1	21.2	18.5	16.4	13.1	10.9	9.4	22.9	22.7	22.2
Hind. Unilever	219	Neutral	7.0	8.1	9.2	31.4	26.9	23.9	27.7	23.7	20.5	56.5	61.5	64.5
ITC	190	Buy	7.2	8.2	9.6	26.4	23.3	19.7	17.1	14.9	12.3	25.9	25.7	26.6
Marico	61	Buy	2.0	2.6	3.2	29.9	23.4	18.8	18.2	14.7	12.1	74.9	66.6	58.0
Nestle	1,324	Buy	33.9	43.7	53.8	39.1	30.3	24.6	23.5	18.3	15.0	53.8	61.8	68.3
Tata Tea	802	Neutral	50.6	44.9	78.7	15.9	17.9	10.2	7.8	5.5	4.4	14.0	6.8	10.9
United Spirits	1,746	Buy	25.4	44.1	69.9	68.8	39.6	25.0	34.5	19.9	16.3	17.2	22.4	20.0
Sector Aggregate						30.2	25.4	20.9	20.5	17.0	14.1	31.3	30.8	32.1

Asian Paints

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	APNT IN
	REUTERS CODE
S&P CNX: 5,021	ASPN.BO

28 September 2007

Buy

Rs983

Equity Shares (m)	95.9
52-Week Range	1,000/530
1,6,12 Rel. Perf. (%)	-11/-2/8
M.Cap. (Rs b)	94.3
M.Cap. (US\$ b)	2.4

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	28,213	2,699	28.1	21.9	34.9	12.5	35.7	51.4	3.3	21.8
3/08E	32,727	3,237	33.7	19.9	29.1	10.2	35.1	50.9	2.7	17.7
3/09E	37,636	3,960	41.3	22.3	23.8	8.2	34.4	49.1	2.3	14.6

* Pre-exceptionals

- ✦ We expect Asian Paints to register 10.8% growth in 2QFY08 revenues to Rs8.7b. Volume growth is expected to remain subdued due to high base effect as festival season sales will get pushed to 3Q this year.
- ✦ The growth is expected to be maintained with decorative, industrial paints and powder coatings growing in tandem. EBITDA margins are expected to remain flat at 15.3% in 2QFY08 mainly due to relatively stable prices of key inputs. PAT at Rs860m would grow 10.6%.
- ✦ Asian Paints is expected to gain from rising consumerism on the one hand and huge infrastructure growth on the other. Strong brand, wide product range and marketing strength will enable the company maintain its stronghold in the decorative paints market, despite increasing competition.
- ✦ The stock is currently trading 29.1x FY08E earnings and 23.8x FY09E earnings. We expect valuation premium to sustain due to high growth visibility. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	6,034	7,849	7,060	7,270	7,402	8,700	8,500	8,125	28,213	32,727
Change (%)	18.2	26.8	12.9	28.8	22.7	10.8	20.4	11.8	21.7	16.0
Total Expenditure	5,095	6,646	6,049	6,205	6,240	7,370	7,150	6,894	23,995	27,654
EBITDA	939	1,203	1,010	1,065	1,162	1,330	1,350	1,231	4,218	5,073
Margin (%)	15.6	15.3	14.3	14.6	15.7	15.3	15.9	15.2	14.9	15.5
Change (%)	29.0	19.6	3.8	31.1	23.8	10.6	33.6	15.6	43.6	20
Interest	13	18	23	15	18	20	23	14	69	75
Depreciation	110	115	112	118	104	135	142	169	454	550
Other Income	64	101	108	132	88	120	125	133	405	466
Operational PBT	880	1,171	983	1,065	1,128	1,295	1,310	1,181	4,099	4,915
Non Recurring Items	0.4	-2	2	21	0	0	0	0	21	0
PBT	881	1,170	985	1,086	1,128	1,295	1,310	1,181	4,120	4,915
Tax	299	401	331	374	350	470	490	451	1,424	1,737
Deferred Tax	1	-7	0	0	36	-35	-25	-36	-24	-60.0
Effective Tax Rate (%)	34	33.7	33.7	34.5	34.2	33.6	35.5	35.1	34.0	34
PAT	580	776	653	711	742	860	845	766	2,720	3,237
Adjusted PAT	580	777	651	691	742	860	845	766	2,699	3,237
Change (%)	31.2	23.6	7.4	28.6	28.0	10.6	29.7	10.9	52	19.9

E: MOSt Estimates

Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BRIT IN
	REUTERS CODE
S&P CNX: 5,021	BRIT.BO

28 September 2007

Buy

Rs 1,457

Previous Recommendation: Buy

Equity Shares (m)	23.9
52-Week Range	1,780/1,030
1,6,12 Rel. Perf. (%)	-24/-17/-7
M.Cap. (Rs b)	34.8
M.Cap. (US\$ b)	0.9

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	21,993	1,076	47.3	-22.8	30.8	5.5	17.9	18.5	1.4	23.8
3/08E	28,873	1,861	77.9	64.7	18.7	4.6	25.3	32.9	1.0	11.0
3/09E	34,012	2,160	90.4	16.0	16.1	3.8	23.6	31.1	0.8	9.2

* Pre-exceptionals

- ✦ We expect Britannia to report revenues of Rs7.1b in 2QFY08, a growth of 29.2% YoY. Higher topline would be driven by price increases by way of reduction in pack sizes and extension of excise exemption to biscuits with MRP below Rs 100 per kg from Rs50 per kg earlier.
- ✦ EBITDA margins are expected to expand by 360bp YoY to 8.8% in 2QFY08 as input pressures would be offset by higher topline growth, reduction in pack size and lower excise duty incidence and sugar prices, despite rising cost of milk and wheat flour. Adjusted PAT for 2QFY08 would grow 78.6% to Rs425m.
- ✦ The company is getting aggressive in terms of new variants. Newly launched variants include *Goodday Jumbo*, *Nutri Choice Sugarout*, *Nutri Choice Digestive Biscuit* and *Treat Fruit Rolls*. In addition, the company has launched value-added variants under the *Tiger* brand at substantial premium to the base price.
- ✦ Britannia continues to face uncertainties regarding management issues between Danone and the Wadias. Acquisition of Danone's stake by Kraft Foods can re-rate the stock significantly. The stock is currently trading at 18.7x FY08E earnings, 16.1x FY09E earnings. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,828	5,497	5,673	5,992	5,769	7,100	7,450	8,554	21,993	28,873
YoY Change (%)	25.2	23.8	26.1	32.0	19.5	29.2	31.3	42.8	28.4	31.3
Total Exp	4,502	5,209	5,412	5,605	5,323	6,475	6,800	7,695	20,741	26,293
EBITDA	326	288	261	387	446	625	650	860	1,252	2,581
Margins (%)	6.8	5.2	4.6	6.5	7.7	8.8	8.7	10.1	5.7	8.9
Depreciation	57	64	65	66	69	70	75	68	253	282
Interest	7	16	23	8	5	12	9	4	54	30
Other Income	119	27	50	87	108	32	60	105	293	305
PBT	381	235	223	400	480	575	626	894	1,238	2,575
Tax	55	-3	22	34	88	150	165	241	108	644
Rate (%)	14.4	1.3	9.9	8.5	18.3	26.1	26.4	26.9	8.7	-25.0
PAT	326	238	201	366	392	425	461	653	1,130	1,931
YoY Change (%)	-8.7	-45.8	-48.5	59.8	20.2	78.6	129.4	78.5	-33.8	70.9
Extraordinary Expenses	-23	-26	-37	32	-31	-20	-22	3	-54	-70
Reported PAT	303	212	164	398	361	405	439	656	1,076	1,861

E: MOST Estimates

Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CLGT IN
	REUTERS CODE
S&P CNX: 5,021	COLG.BO

28 September 2007

Neutral

Rs402

Previous Recommendation: Neutral

Equity Shares (m)	136.0
52-Week Range	430/291
1,6,12 Rel. Perf. (%)	-10/-13/-29
M.Cap. (Rs b)	54.7
M.Cap. (US\$ b)	1.4

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	12,951	1,933	14.2	47.9	28.3	194.8	70.1	69.3	4.0	25.0
3/08E	14,777	2,462	18.1	27.4	22.2	67.8	136.3	133.5	3.7	20.3
3/09E	16,733	2,923	21.5	18.7	18.7	40.9	272.9	262.8	3.2	16.8

* Pre-exceptionals

- ✗ We expect Colgate to report a 13.3% YoY growth in 2QFY08 sales to 3.6b. We expect EBITDA margins to expand by 50bp to 17.9% in 2QFY08. PAT is expected to increase by 16.9% to Rs591m in 2QFY08.
- ✗ We expect double-digit volume growth in toothpaste volumes on the back of successful launches like *Citrus Blast* and *Colgate Active Salt* in the recent past. We expect Cibaca volumes to gain due to higher growth in the economy segment of the toothpaste market.
- ✗ Colgate had closed down the Sewri facility; the benefits of which have started flowing to the bottomline. We believe that the capacity ramp up at Baddi will ensure steady margin expansion in FY08 and FY09.
- ✗ Colgate continues to be a predominantly oral care company despite strong presence of its parent company in personal care and household products. We believe that high penetration in toothpaste segment limits the volume growth potential in the medium term. The stock is currently trading at 22.2x FY08E earnings and 18.7x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	3,096	3,200	3,223	3,433	3,507	3,625	3,700	3,946	12,951	14,777
YoY Change (%)	19.9	15.1	12.8	13.6	13.3	13.3	14.8	14.9	15.2	14.1
Total Exp	2,695	2,642	2,679	2,897	2,817	2,975	3,050	3,264	10,863	12,106
EBITDA	401	558	544	536	689	650	650	682	2,089	2,671
Margins (%)	12.9	17.4	16.9	15.6	19.7	17.9	17.6	17.3	16.1	18.1
Depreciation	37	36	44	37	44	44	45	45	153	179
Interest	2	2	3	3	3	2	1	0	10	6
Other Income	148	122	166	174	135	135	185	141	585	596
PBT	509	643	664	670	777	739	789	778	2,512	3,083
Tax	149	137	161	172	158	148	158	157	579	621
Rate (%)	29.2	21.4	24.2	25.6	20.3	20.0	20.0	20.1	23.0	20.1
Adjusted PAT	361	505	503	498	619	591	631	622	1,933	2,462
YoY Change (%)	1.6	63.7	-13.6	34.6	71.6	16.9	25.3	24.8	47.9	27.4
Extraordinary Expenses	0	274	0	-8	10	-10	-10	-10	331	-20
Reported PAT	361	232	503	506	609	601	641	632	1,602	2,482
YoY Change (%)	8.9	-24.9	20.6	36.7	68.8	159.3	27.3	24.8	16.4	55.0

E: MOSt Estimates

Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	DABUR IN
	REUTERS CODE
S&P CNX: 5,021	DABU.BO

28 September 2007

Neutral

Rs 106

Equity Shares (m)	862.9
52-Week Range	118/83
1,6,12 Rel. Perf. (%)	-10/-18/-23
M.Cap. (Rs b)	91.3
M.Cap. (US\$ b)	2.3

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	22,337	2,822	3.3	24.5	32.3	19.0	58.8	52.0	4.1	26.2
3/08E	26,428	3,457	4.0	22.1	26.4	14.2	53.7	58.8	3.3	20.7
3/09E	29,575	4,334	5.0	25.4	21.1	10.8	51.1	55.8	2.8	17.0

- ✦ Dabur is expected to report sales of Rs6.7b in 2QFY08, a growth of 18.9% YoY. EBITDA margins are expected to increase by 40bp to 17.7% YoY in 2QFY08 with the full impact of 4% price increase on its portfolio last year. Adjusted PAT before minority interest is expected to be Rs930m, 28% YoY growth in 2QFY08.
- ✦ Higher volume growth across segments like health supplements, oral care, house hold products, juices and international operations will be the key driver.
- ✦ New product pipeline continues to be attractive as Dabur is expected to launch new initiatives in personal care and skin care, which have been its weak areas. In addition, the company will launch new supplements targeted at children and ready-to-eat-foods.
- ✦ The company has announced its foray into the retail segment with specialty beauty and health stores. Dabur expects to commission its first store during the current year while breakeven is expected in the 4th year. We expect the venture to accelerate topline growth in the coming years. Our estimates do not factor in impact of retail operations.
- ✦ We believe that Dabur wide product range in niche segments makes it one of the best plays in the FMCG space. The stock is currently trading at 26.4x FY08E earnings, 21.1x FY09E earnings which factor in the high growth prospects. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,755	5,641	6,176	5,765	5,709	6,710	7,300	6,709	22,337	26,428
YoY Change (%)	14.7	20.7	14.9	20.1	20.1	18.9	18.2	16.4	19.7	18.3
Total Exp	4,116	4,668	5,172	4,884	4,917	5,520	6,080	5,636	18,840	22,152
EBITDA	639	973	1,004	881	792	1,190	1,220	1,074	3,497	4,276
Margins (%)	13.4	17.3	16.3	15.3	13.9	17.7	16.7	16.0	15.7	16.2
Depreciation	97	106	115	90	102	105	107	108	-408	421
Interest	41	55	31	28	47	45	36	9	-154	137
Other Income	53	38	33	71	77	45	44	89	259	255
PBT	554	851	891	834	721	1,085	1,121	1,046	3,195	3,973
Tax	80	123	115	54	100	155	150	111	-373	517
Rate (%)	14.5	14.5	12.9	6.5	13.9	14.3	13.4	10.6	11.7	13.0
PAT	474	727	776	780	621	930	971	935	2,822	3,457
YoY Change (%)	37	16	17	23	31	28	25	20	24.5	23
Minority Interest	9	-6	17	-11	1	0	0	0	8.7	0
Extraordinary Inc/(Exp)	0	65	0	0	0	0	0	0	0	0
Reported PAT	482	787	793	769	622	930	971	935	2,830	3,457

E: M0St Estimates

GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SKB IN
	REUTERS CODE
S&P CNX: 5,021	GLSM.BO

28 September 2007

Buy

Rs639

Previous Recommendation: Buy

Equity Shares (m)	45.4
52-Week Range	670/500
1,6,12 Rel. Perf. (%)	-10/-10/-16
M.Cap. (Rs b)	29.0
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	11,119	1,268	30.2	18.4	21.2	4.9	22.9	35.1	2.2	13.1
12/07E	12,628	1,451	34.5	14.4	18.5	4.2	22.7	35.9	1.8	10.9
12/08E	13,916	1,642	39.1	13.2	16.4	3.6	22.2	35.1	1.6	9.4

- ✦ We expect GSK Consumer to register sales of Rs3.4b in 3QCY07 against Rs3b in 3QCY06, a growth of 12.8% YoY. 3.5% price increase in *Horlicks* will be the key growth driver.
- ✦ EBITDA margins are expected to decline 160bp to 17.8% in 3QCY07 primarily due to higher prices of milk and wheat. Milk prices have reported a sharp decline in the past one month; we expect sustained low prices to boost margins in the coming quarters.
- ✦ GSK is expected to report PAT of Rs406m in 3QCY07 against Rs362m in 3QCY06, a growth of 12.1% YoY.
- ✦ The stock is currently trading at 18.5x CY07E earnings and 16.4x CY08E earnings. We maintain our **Buy** rating on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,769	2,680	3,015	2,647	3,265	3,156	3,400	2,807	11,119	12,628
YoY Change (%)	24.2	10.4	16.5	9.2	17.9	17.8	12.8	6.0	15.0	13.6
Total Exp	2,189	2,218	2,486	2,372	2,641	2,571	2,790	2,504	9,274	10,506
EBITDA	580	462	528	275	624	585	610	303	1,845	2,122
Margins (%)	20.9	17.2	19.5	10.4	19.1	18.5	17.9	10.8	16.6	16.8
Depreciation	104	105	109	108	108	109	107	107	427	431
Interest	8	9	10	8	11	11	9	4	35	35
Other Income	72	142	139	169	139	166	162	141	522	608
PBT	540	490	548	328	644	631	656	333	1,904	2,264
Tax	196	181	185	76	221	208	250	134	637	813
Rate (%)	36.2	37	33.8	23.2	34.3	33.0	38.1	40.2	33.5	35.9
PAT	345	309	362	252	423	423	406	199	1,267	1,451
YoY Change (%)	67.9	6.4	19.7	17.9	22.8	36.8	12.1	-21.0	18.4	14.5

E: M0St Estimates

Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GCPL IN
	REUTERS CODE
S&P CNX: 5,021	GOCP.BO

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 141

Equity Shares (m)	226.4
52-Week Range	193/129
1,6,12 Rel. Perf. (%)	-14/-38/-60
M.Cap. (Rs b)	32.0
M.Cap. (US\$ b)	0.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	9,532	1,342	5.9	12.5	23.8	29.5	123.8	90.8	3.4	18.1
3/08E	11,564	1,597	7.1	19.0	20.0	29.2	145.8	118.5	2.8	15.7
3/09E	13,017	1,880	8.3	17.8	17.0	28.4	167.0	125.8	2.4	13.5

- GCPL is expected to report revenue growth of 20% YoY to Rs 2.8b in 2QFY08. EBITDA margins are expected to be 17% versus 17.1% in 2QFY08, on account of higher input prices. We expect the company to report PAT of Rs 371m, a growth of 19.7% YoY.
- We expect soaps to grow in high double-digits led by a 5-6% price increase taken in the last quarter. Palm oil prices have been ruling steady at 2,500 ringgits/tonne; management has hinted at another price increase in the coming months.
- Hair color portfolio continues to suffer due to higher growth in cream based colors, which is not an area of strength of the company. We expect new initiatives in the premium segment by the company, which would determine the long-term growth rates.
- GCPL has test launched shampoo under the *No.1* brand. In addition the company has also launched *Erasmic* shaving gel from the Keyline brands stable. Launch of premium products in personal care and tie with SCA for feminine hygiene and baby diapers augurs well for long-term strategy.
- Margin pressure in soaps, higher depreciation (due to new soap facility at Katha), interest burden due to acquisitions and slow growth in high margin hair color business has been impacting growth. The stock is currently trading at 20x FY08E and 17x FY09E consolidated earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	2,376	2,318	2,380	2,424	2,863	2,800	2,950	2,951	9,532	11,564
YoY Change (%)	41.7	47.6	29.3	26.6	20.5	20.8	23.9	21.7	36.2	21.3
Total Exp	1,955	1,922	1,865	1,993	2,352	2,325	2,350	2,487	7,735	9,513
EBITDA	421	397	516	431	511	475	600	465	1,798	2,051
Margins (%)	17.7	17.1	21.7	17.8	17.9	17.0	20.3	15.7	18.9	17.7
Depreciation	31	31	36	45	44	40	42	62	142	188
Interest	18	26	33	20	35	19	12	4	96	70
Other Income	8	28	17	6	13	15	10	9	27	47
PBT	381	369	464	372	445	431	556	408	1,586	1,840
Tax	53	59	68	64	59	60	75	49	243	243
Rate (%)	13.9	15.9	14.6	17.3	13.1	13.9	13.5	12.1	15.3	13.2
PAT	328	310	396	308	386	371	481	358	1,343	1,597
YoY Change (%)	21.0	11.5	10.5	2.3	17.7	19.7	21.5	16.4	12.5	18.9
Extraordinary Expenses	13	0	0	86	0	0	0	0	99	0
Reported PAT	315	310	396	394	386	371	481	358	1,441	1,597

E: MOSSt Estimates

Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HUVR IN
	REUTERS CODE
S&P CNX: 5,021	HLL.BO

28 September 2007

Neutral

Equity Shares (m)	2,206.8
52-Week Range	262/166
1,6,12 Rel. Perf. (%)	-7/-23/-54
M.Cap. (Rs b)	484.1
M.Cap. (US\$ b)	12.2

Previous Recommendation: Neutral

Rs219

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	121,034	15,397	7.0	17.5	31.4	17.8	56.5	67.0	3.8	27.7
12/07E	136,539	17,978	8.1	16.8	26.9	16.6	61.5	74.2	3.3	23.7
12/08E	149,183	19,187	9.2	13.2	23.9	15.4	64.5	78.6	3.0	20.5

* Pre-exceptionals

- ✘ We expect HUL to report 12% YoY increase in sales for 3QCY07 to Rs34.3b. EBITDA margins are expected to expand by 10bp to 13.2% in 3QCY07. Adjusted PAT at Rs4.4b is expected to grow 15.4%.
- ✘ We expect soaps and detergents to maintain double-digit growth. Margins could come under pressure due to strong prices in LAB, soda ash and palm oil.
- ✘ Personal care is expected to post yet another quarter of single-digit sales growth. Lockout at Doom Dooma facility (accounts for 30% of production) will impact margins. Profitability will also get impacted by launch of Dove shampoos and skin care products.
- ✘ We expect Foods and Ice creams to maintain high double-digit growth (excluding modern foods). Coffee business is expected to maintain its growth momentum.
- ✘ We would watch out for the advertising spends during the quarter. Our CY07 estimates factor in flat ad spend to sales (10.5%) whereas ad spend (% of sales) has declined by 150bp in 2QCY07 and 60bp in 1HCY07.
- ✘ The stock is currently trading 26.9x CY07E earnings and 23.9x CY08E earnings. Lack of new initiatives in the foods segment and low growth in personal care are negative for the long-term prospects of the company. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales (incl service inc)	27,981	30,832	30,660	31,561	31,843	34,814	34,340	35,542	121,034	136,539
YoY Change (%)	11.6	8.7	12.2	6.1	13.8	12.9	12.0	12.6	9.4	12.8
Total Expenditure	24,675	26,686	26,631	26,561	28,224	29,695	29,790	29,833	104,553	117,541
EBITDA	3,306	4,146	4,029	5,000	3,620	5,120	4,550	5,709	16,481	18,999
YoY Change (%)	35.8	19.9	17.0	3.8	9.5	23.5	12.9	14.2	14.2	15.3
Margins (%)	11.8	13.4	13.1	15.8	11.4	14.7	13.2	16.1	13.6	13.9
Depreciation	339	301	320	342	329	333	335	355	1,302	1,352
Interest	21	34	34	18	51	110	25	13	107	200
Other Income	694	814	968	1,070	908	1,063	1,250	1,353	3,545	4,575
PBT	3,640	4,625	4,643	5,709	4,147	5,739	5,440	6,695	18,617	22,022
Tax	700	833	812	875	809	1,020	1,020	1,194	3,220	4,043
Rate (%)	19.2	18.0	-17.5	15.3	19.5	18.5	18.8	17.8	17.3	18.4
Adjusted PAT	2,940	3,793	3,830	4,834	3,339	4,719	4,420	5,501	15,397	17,978
YoY Change (%)	32.4	26.2	17.7	10.2	13.6	24.4	15.4	13.8	17.5	16.8
Extraordinary Inc/(Exp)	1,489	13	1,377	278	590	212	0	0	3,157	802
Reported Profit	4,429	3,806	5,208	5,112	3,929	4,931	4,420	5,501	18,554	18,780
YoY Change (%)	77.0	35.1	59.8	-1.9	-11.3	29.6	-15.1	7.6	31.8	1.2

E: MOSt Estimates

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ITC

Buy

Rs 190

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ITC IN
	REUTERS CODE
S&P CNX: 5,021	ITC.BO
Equity Shares (m)	3,762.2
52-Week Range	196/140
1,6,12 Rel. Perf. (%)	-2/-2/-37
M.Cap. (Rs b)	713.7
M.Cap. (US\$ b)	17.9

28 September 2007

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	123,693	27,000	7.2	18.4	26.4	6.8	25.9	35.4	5.5	17.1
3/08E	143,840	30,686	8.2	13.7	23.3	6.0	25.7	35.3	4.7	14.9
3/09E	175,298	36,260	9.6	18.5	19.7	5.2	26.6	36.5	3.7	12.3

* Pre-exceptionals

- ✦ We expect ITC to post 16% YoY growth in revenues in 2QFY08 to Rs 33.5b. EBITDA margins are expected to decline by 130bp YoY to 32.4% in 2QFY08, mainly due to the investment mode in New FMCG and Agri businesses. PAT is expected to increase by 15.1% to Rs 7.8b.
- ✦ We expect cigarette business to report 4% volume decline during the quarter as the inventory de-stocking in 2QFY08 will result in lower volumes; we believe that increase in inventory ahead of price increases in April had resulted in lower de-growth. Our FY08 estimates factor in 3% decline in cigarette volumes.
- ✦ Growth in paper and paperboard division will remain subdued since new capacity will be commissioned only in 2HFY08. Bingo and Sunfeast will continue to drive the growth in New FMCG businesses; we expect food products to post 60% growth in sales. ITC has entered the personal care segment with the launch of Fiana Di Wills' shampoo; we expect more product launches in the coming months.
- ✦ Agri products and rural retail are likely to remain in investment mode, with high double-digit sales growth but depressed margins. We expect Hotels to report 15% growth in sales and profits as the transition to Starwood brand has been completed.
- ✦ We expect growth rates to accelerate from FY09 due to recovery in cigarette businesses and returns from new investments in Paper, Hotels and New FMCG. The stock is currently trading at 23.3x FY08E earnings and 19.7x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	28,498	28,876	31,656	34,663	33,252	33,500	36,725	40,362	123,693	143,840
YoY Change (%)	25.7	32.3	23.8	24.5	16.7	16.0	16.0	16.4	26.3	16.3
Total Exp	18,792	19,149	20,828	25,360	21,977	22,650	24,600	29,732	84,129	98,959
EBITDA	9,706	9,727	10,828	9,303	11,276	10,850	12,125	10,630	39,564	44,881
Margins (%)	34.1	33.7	34.2	26.8	33.9	32.4	33.0	26.3	32.0	31.2
Depreciation	876	910	921	922	1,010	985	999	976	3,629	3,970
Interest	7	35	-9	-1	-8	25	30	33	33	80
Other Income	849	795	698	1,023	1,016	900	765	1,155	3,365	3,836
PBT	9,672	9,578	10,614	9,404	11,289	10,740	11,861	10,777	39,267	44,667
Tax	3,149	2,782	3,440	2,897	3,461	2,920	3,950	3,650	12,267	13,981
Rate (%)	32.6	29.0	32.4	30.8	30.7	27.2	33.3	33.9	31.2	31.3
Reported PAT	6,523	6,796	7,174	6,507	7,829	7,820	7,911	7,127	27,000	30,686
Adjusted PAT	6,523	6,796	7,174	6,507	7,829	7,820	7,911	7,127	27,000	30,686
YoY Change (%)	21.1	18.7	33.6	14.7	20.0	15.1	10.3	9.5	18.4	13.7

E: MOST Estimates

Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	MRCO IN
	REUTERS CODE
S&P CNX: 5,021	MRCO.BO
Equity Shares (m)	609.0
52-Week Range	68/49
1,6,12 Rel. Perf. (%)	-13/-31/-20
M.Cap. (Rs b)	37.0
M.Cap. (US\$ b)	0.9

28 September 2007

Buy

Rs61

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	15,569	1,195	2.0	13.1	29.9	23.2	74.9	41.7	2.5	18.2
3/08E	19,017	1,604	2.6	27.9	23.4	15.4	66.6	51.9	2.0	14.7
3/09E	21,824	1,989	3.2	24.0	18.8	10.8	58.0	60.0	1.7	12.1

- ✦ We expect Marico to report sales of Rs4.6b in 2QFY08 v/s Rs3.8b in 2QFY07, a growth of 23% YoY. EBITDA margins are expected to be 15.1% for 2QFY08 against 16% in 2QFY07. PAT is expected to be Rs426m in 2QFY08 against Rs306m in 2QFY07, a growth of 39.2% YoY.
- ✦ We expect Parachute, hair oils and Saffola to maintain double-digit growth. Growth will get a boost from acquisition of hair care companies in Egypt in FY07. High-margin hair care business in Egypt will cushion margin decline due to high copra prices to 90bp.
- ✦ Kaya Skin care is likely to be a significant growth driver even as Marico plans to set up 15-20 new Kaya stores this year. Marico plans to launch new kind of health care centre called Kaya Life which can delay the turnaround plans of this vertical.
- ✦ Marico has one of the most consistent growth and best product pipelines. The stock is currently trading at 23.4x FY08E earnings and 18.8x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	3,728	3,780	4,092	3,970	4,691	4,650	5,000	4,676	15,569	19,017
YoY Change (%)	37.7	37.5	36.2	33.4	25.8	23.0	22.2	17.8	36.6	22.1
Total Exp	3,165	3,174	3,541	3,558	4,031	3,950	4,350	4,059	13,438	16,390
EBITDA	563	605	551	412	660	700	650	617	2,131	2,627
Margins (%)	15.1	16.0	13.5	10.4	14.1	15.1	13.0	13.2	13.7	13.8
Depreciation	112	127	168	115	58	85	95	105	522	343
Interest	48	57	54	47	71	65	55	53	206	244
Other Income	11	1	3	87	7	16	17	31	102	71
PBT	414	422	332	337	539	566	517	490	1,505	2,112
Tax	111	116	55	28	136	140	125	106	310	508
Rate (%)	26.8	27.5	16.6	8.3	25.3	24.7	24.2	21.7	20.6	24.1
Adjusted PAT	303	306	277	309	402	426	392	384	1,195	1,604
YoY Change (%)	30.6	50.7	-22.8	23.0	32.9	39.2	41.5	24.0	52.0	34.2
Exceptional Items	0	-45	7	-28	0	0	0	0	-66	-
Reported PAT	303	261	284	281	402	426	392	384	1,129	1,604

E: Most Estimates

Nestle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NEST IN
	REUTERS CODE
S&P CNX: 5,021	NEST.BO
Equity Shares (m)	96.4
52-Week Range	1,387/876
1,6,12 Rel. Perf. (%)	-7/10/-13
M.Cap. (Rs b)	127.7
M.Cap. (US\$ b)	3.2

28 September 2007

Buy

Rs 1,324

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	28,161	3,269	33.9	-0.6	39.1	21.0	53.8	79.0	4.5	23.5
12/07E	34,723	4,213	43.7	28.9	30.3	18.7	61.8	91.5	3.6	18.3
12/08E	40,123	5,184	53.8	23.0	24.6	16.8	68.3	101.3	3.1	15.0

* excluding extraordinary items and provisions

- Nestle is expected to report net sales growth of 21.2% YoY in 3QCY07. Domestic revenues are expected to grow by 22.6% YoY while exports growth is assumed at 7%. EBITDA margins at 20.1% are expected to increase by 40bp YoY due to leverage benefits. Adjusted PAT is expected to increase 22.1% YoY to Rs 1,065m in 3QCY07.
- Noodles and Chocolates are expected to record high double-digit growth while milk products and nutrition is expected to grow at less than mid-teens. High volume growth will result in margin expansion despite high prices of wheat and milk.
- The new products launch continues to gain traction as the company launched *Nesvita Dahi*, *Polo Zero* and *Cinnamon* and *Tang Eez* candies. Growing pace of new launches infuses confidence in the future prospects of the company. Increasing focus on health and wellness in the product portfolio is expected to result in sustained volume growth in excess of mid-teens.
- We expect launch of high-margin value-added variants to boost profit margins in the coming years. We believe Nestle is on the verge of sharp increase in growth rates on a sustained basis. The stock is currently trading 30.3x CY07E earnings and 24.6x CY08E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales (incl Excise)	7,210	7,037	7,506	7,688	8,994	8,693	9,076	9,366	29,442	36,129
YoY Change (%)	10.0	7.8	12.4	15.1	24.7	23.5	20.9	21.8	11.4	22.7
Less: Excise	451	225	279	326	363	304	315	424	1,281	1,406
Net Sales	6,759	6,812	7,227	7,362	8,631	8,389	8,761	8,942	28,161	34,723
YoY Change (%)	10.2	10.6	15.7	18.2	27.7	23.2	21.2	21.5	13.7	23.3
Total Exp	5,421	5,530	5,802	6,160	6,843	6,694	7,000	7,311	22,776	27,848
EBITDA	1,338	1,282	1,425	1,202	1,788	1,695	1,761	1,631	5,385	6,875
Margins (%)	19.8	18.8	19.7	16.3	20.7	20.2	20.1	18.2	19.1	19.8
Depreciation	157	161	168	177	179	178	180	197	-663	734
Interest	0	2	0	1	2	4	1	-2	-4	5
Other income	50	44	47	73	70	32	45	101	206	247
PBT	1,231	1,163	1,303	1,096	1,677	1,544	1,625	1,537	4,924	6,383
Tax	499	421	431	303	563	507	560	541	1,654	2,170
Rate (%)	40.5	36.2	33.1	27.7	33.6	32.8	34.5	35.2	33.6	34.0
Adjusted PAT	732	742	872	793	1,114	1,037	1,065	997	3,270	4,213
YoY Change (%)	-14.2	-16.0	9.9	1.7	52.1	39.8	22.1	25.7	-0.7	28.9
Extraordinary Inc/(Exp)	154	-7	-42	-169	-30	-20	-70	-159	-119	-278
Reported PAT	886	735	830	624	1,085	1,018	995	838	3,151	3,935
YoY Change (%)	13.5	-11.2	11.3	-15.9	22.4	38.4	19.9	34.3	1.8	24.9

E: MOSt Estimates

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Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TT IN
	REUTERS CODE
S&P CNX: 5,021	TTTE.BO
Equity Shares (m)	59.0
52-Week Range	990/558
1,6,12 Rel. Perf. (%)	-9/-4/-31
M.Cap. (Rs b)	47.4
M.Cap. (US\$ b)	1.2

28 September 2007

Neutral

Rs802

Previous Recommendation: Neutral

	YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07A	40,446	2,985	50.6	2.3	15.9	2.2	14.0	9.9	1.4	7.8
	3/08E	40,073	2,651	44.9	-11.2	17.9	1.3	6.8	11.4	1.0	5.5
	3/09E	42,932	4,648	78.7	75.4	10.2	1.2	10.9	14.5	0.8	4.4

* Pre-exceptionals

- ✦ We expect Tata Tea to report sales of Rs9.9b in 2QFY08, a growth of 1.6% YoY. We have taken into account sale of north India plantations. Domestic branded business is expected to grow in mid-teens due to success of branded portfolio.
- ✦ EBITDA margins are expected to increase by 20bp to 18.7% in 2QFY08 due to higher contribution from *Eight O'Clock Coffee*, which has higher margins.
- ✦ However adjusted PAT will be lower on account of higher interest costs on funds borrowed for Glaceau acquisition. We expect adjusted PAT at Rs530m, a drop of 50.5% in 2QFY08.
- ✦ We expect Glaceau stake sale to get completed by November 2007. We expect the company to repay half of the debt, while the rest is likely to be retained for acquisitions. We expect the company to undertake acquisitions in the tea, coffee and water verticals.
- ✦ The stock is currently trading at 17.9x FY08E earnings and 10.2x FY09E earnings. The stock seems to be a good contrarian **buy** from a long term horizon despite its **Neutral** rating.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	7,989	9,740	11,126	11,591	10,188	9,900	10,200	9,785	40,446	40,073
YoY Change (%)	11.5	25.1	37.1	41.9	27.5	1.6	-8.3	-15.6	30.2	-0.9
Total Exp	6,412	7,938	9,120	9,658	8,523	8,050	8,335	7,860	33,129	32,767
EBITDA	1,577	1,801	2,005	1,933	1,666	1,850	1,865	1,926	7,317	7,306
Margins (%)	19.7	18.5	18.0	16.7	16.4	18.7	18.3	19.7	18.1	18.2
Depreciation	202	258	262	245	258	255	230	178	967	920
Interest	274	472	909	1,074	946	900	600	260	2,729	2,706
Other Income	75	210	68	-296	100	205	105	98	587	508
PBT	1,175	1,282	901	319	562	900	1,140	1,586	4,207	4,188
Tax	322	268	393	93	140	280	345	491	1,076	1,256
Rate (%)	27.4	20.9	43.6	29.2	25.0	31.1	30.3	31.0	25.6	30.0
PAT	853	1,014	508	226	421	620	795	1,095	3,131	2,932
YoY Change (%)	32.3	2.0	-36.1	-60.2	-50.6	-38.9	56.4	385.3	19.2	-6.4
Minority Interest/ Share of Associate	-34	57	-91	-79	-50	-90	-100	-41	-147	-281
Adjusted PAT	819	1,071	418	146	371	530	695	1,054	2,985	2,651
YoY Change (%)	31.0	3.8	-49.8	-72.8	-54.7	-50.5	66.4	620.2	2.3	-11.2
Extraordinary Gains	-18	870	754	374	86	0	13,325	0	1,449	13,325
Reported PAT	801	1,941	1,172	520	457	530	14,020	1,054	4,434	15,975
YoY Change (%)	-7.3	91.8	44.2	1.0	-43	-72.7	1,096	103	48.2	260.3

E: MOSt Estimates

United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	UNSP IN
	REUTERS CODE
S&P CNX: 5,021	UNSP.BO

28 September 2007

Buy

Rs 1,746

Previous Recommendation: Buy

Equity Shares (m)	94.5
52-Week Range	1,862/584
1,6,12 Rel. Perf. (%)	11/81/145
M.Cap. (Rs b)	164.9
M.Cap. (US\$ b)	4.1

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	27,119	2,318	25.4	517.0	68.8	13.2	17.2	15.8	5.6	34.5
3/08E	48,655	3,973	44.1	74.0	39.6	10.0	22.4	22.0	4.2	19.9
3/09E	59,703	6,290	69.9	58.3	25.0	7.0	20.0	26.0	3.6	16.3

FY08E & FY09E includes White & Mackay; * Excluding extraordinary items and provisions

- ✦ We expect United Spirits to register 15.5% growth in topline to Rs7.3b in 2QFY08. EBITDA margins are likely to improve by 380bp to 25.3% in 2QFY08; margins had increased 670bp in 1QFY08. We expect adjusted PAT to be at Rs860m in 2QFY08, a growth of 53%. Above estimates do not include numbers of White & Mackay.
- ✦ We expect strong growth in the deluxe segment to benefit the flagship brand, *McDowell No1*, which had grown by more than 35% during 1QFY08. In addition, premium brands like *Black Dog*, *Antiquity*, and vodka brands like *Romanov*, *White Mischief* and *Alcazar* are expected to grow strongly. Strong growth in high-margin brands and low prices of molasses and ENA (extra neutral alcohol) will be key margin driver for the company.
- ✦ Scotch prices continued to rule firm, which augurs well for the Whyte and Mackay numbers. We expect United Spirits to pay back debt taken in SPV to the tune of GBP200m from the sale of treasury stock after the merger of Shaw Wallace. We expect the Shaw Wallace merger and disposal of treasury to increase EPS by another 5-7% from our current estimates.
- ✦ We believe that United Spirits continues to be best net in the liquor space in India. The stock is trading at 39.6x FY08 and 25x FY09. We rate the stock our **top pick** in the consumer space.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales (incl Excise)	11,338	10,881	10,760	13,415	13,481	12,700	12,550	15,689	46,394	54,420
YoY Change (%)	113.4	124.4	73.0	115.7	18.9	16.7	16.6	17.0	29.2	17.3
Excise	4,788	4,561	3,026	6,900	5,824	5,400	3,500	6,778	19,275	21,502
YoY Change (%)	134	152	36	236.8	22	18.4	16	-2	9.0	11.6
Net Sales	6,549	6,321	7,734	6,515	7,657	7,300	9,050	8,911	27,119	32,918
Total Exp	5,540	4,964	6,460	5,771	5,963	5,450	7,150	7,487	22,736	26,050
EBITDA	1,009	1,357	1,274	744	1,694	1,850	1,900	1,424	4,384	6,868
Margins (%)	15.4	21.5	16.5	11.4	22.1	25.3	21.0	16.0	16.2	20.9
Depreciation	60	103	34	114	70	85	90	116	311	361
Interest	255	270	289	217	292	340	340	354	1,031	1,326
PBT from Operations	695	983	951	412	1,332	1,425	1,470	954	3,042	5,181
YoY Change (%)	375	1,048	308	339	92	45	55	131	219	70
Other Income	36	-7	143	360	49	15	165	370	530	599
PBT	731	976	1,094	772	1,380	1,440	1,635	1,324	3,572	5,780
Tax	279	413	325	236	505	580	510	494	1,254	2,089
Rate (%)	38.2	42.3	29.7	30.6	36.6	40.3	31.2	37.3	35.1	36.1
PAT	451	563	769	535	876	860	1,125	830	2,318	3,691
YoY Change (%)	335	900	350	202	94	53	46	55	179	59
Extraordinary Inc/(Exp)	0	0	2,657	0		0	0	0	2,657	0
Reported PAT	451	563	3,425	535	876	860	1,125	830	4,975	3,691

E: MOST Estimates

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Information Technology

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

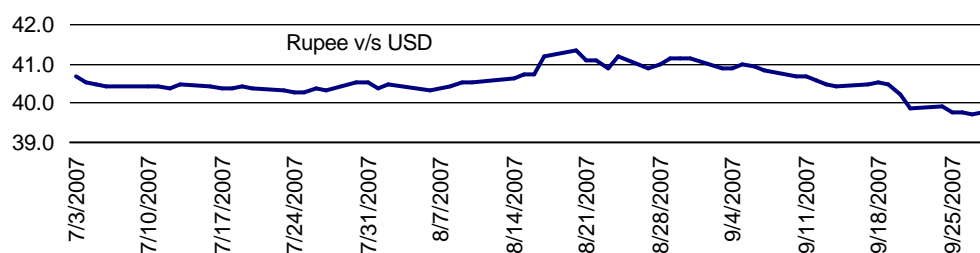
COMPANY NAME	PG.
Geometric Software	140
HCL Technologies	141
Hexaware Technologies	142
i-flex solutions	143
Infosys	144
Infotech Enterprises	145
KPIT Cummins	146
Mphasis	147
Patni Computer	148
Sasken Communication	149
Satyam Computer	150
TCS	151
Tech Mahindra	152
Wipro	153

With the rupee continuing to appreciate and supply remaining tight, margin pressures are expected to mount for the Indian IT services sector. Growing concerns over a possible economic slowdown in the US and its resultant impact on the sector have also added to the cautionary outlook on the sector. Comments on the same from top industry players are being keenly observed and would set the pace of growth for the rest of FY08.

Rupee to remain top concern for the sector

The rupee has appreciated by a further 2.9% against the US dollar over June-September 2007, with sharp appreciation over the 10 days post the announcement of Fed rate cut. The appreciation over last quarter's average, however, is lower at 0.8%, which is likely to result in lower impact on 2QFY08 numbers. However, this signals the trend of continued rupee appreciation over the next few quarters, which is likely to impact revenue realizations and margins for the sector.

THE RUPEE CONTINUES TO APPRECIATE V/S THE DOLLAR...



Source: OANDA

EXPECTED QUARTERLY PERFORMANCE SUMMARY (QOQ)

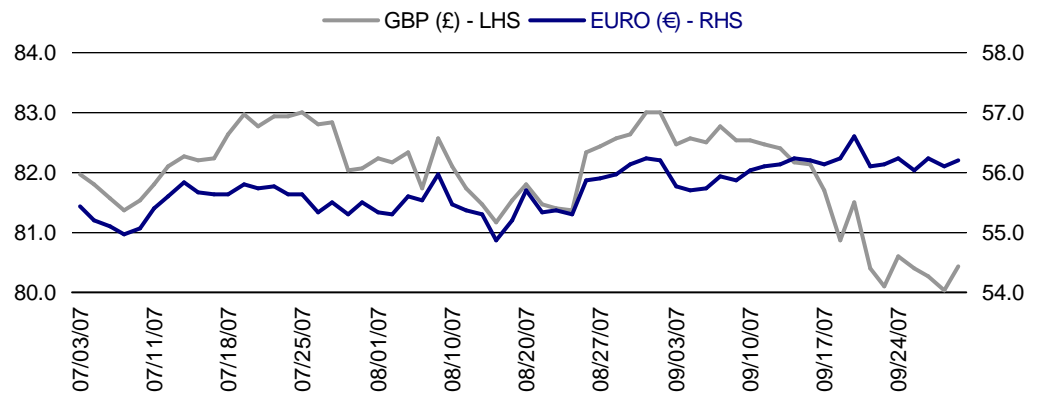
(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Information Technology							
Geometric Software	Neutral	1,209	7.1	126	60.7	53	-54.9
HCL Technologies	Buy	17,516	8.7	3,651	5.1	3,079	-36.7
Hexaware	Under Review	2,664	1.8	330	2.9	284	8.7
i-flex solutions	Neutral	5,786	8.8	944	29.6	731	76.1
Infosys	Buy	41,384	9.7	12,464	15.0	11,028	2.2
Infotech Enterpr	Buy	1,669	12.2	307	16.3	202	56.2
KPIT Cummins Inf	Buy	1,484	9.7	243	13.1	153	40.4
Mphasis	Buy	5,555	4.5	1,024	4.7	645	25.7
Patni Computer	Neutral	6,788	2.4	1,131	-7.1	901	-33.2
Sasken Comm	Buy	1,419	10.6	121	96.1	55	-14.6
Satyam Computer	Buy	19,577	7.0	3,934	-4.1	3,741	-1.1
TCS	Buy	56,354	8.3	14,527	9.5	11,920	0.5
Tech Mahindra	Under Review	9,262	5.7	1,991	3.0	1,652	-2.5
Wipro	Buy	46,939	12.2	10,001	12.3	8,400	18.2
Sector Aggregate		217,608	8.9	50,794	9.5	42,845	-0.5

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In addition to sharp appreciation against the US dollar, the rupee has appreciated against the British pound during the quarter by 1.7%. However, the rupee has depreciated by close to 2% against the Euro. Most Indian players have relatively lower Euro exposure (primary exposure in Europe is towards the pound), and hence the benefits are likely to be negligible.

...AND THE POUND



Source: OANDA

We expect an average impact of 20-25bp on operating margins due to rupee appreciation during the quarter. Most players have significantly increased their hedging positions post 4QFY07 in order to protect against rupee appreciation. We expect forex gains to continue to ease the decline in profitability for most players in 2QFY08.

We have assumed average realized Rs/US\$ rate of Rs40.5 for 2QFY08 and we believe that average realized rate for 2QFY08 will not be materially different from our estimate. However, we have assumed average realized Rs/US\$ rate of around Rs40 for FY08 v/s the current rate of around Rs39.7. Therefore, we believe that there could be downside risk to our estimates for FY08 and FY09 due to rupee appreciation.

Cost pressures show no signs of letting up

Most players completed their annual salary hike cycles in 1QFY08 (Wipro, Satyam will report hikes in 2QFY08), with average hikes of 3-5% onsite and 13-16% offshore. While some players (TCS, Satyam) have expressed hopes of lower salary hikes in FY09, others, such as Infosys, have categorically ruled out such a possibility. The demand for IT professionals continues to remain high, which would keep salary costs and attrition levels high over the near term. We do not foresee any sharp decline in salary hikes in FY09 in a robust demand scenario. Besides, campus hires joining in FY09 would be at 10% higher than the freshers in FY08, which rules out the possibility of <10% hikes in FY09.

Industry not worried about demand slowdown at present, global CIOs seem more willing to offshore in the event of US slowdown

Indian IT vendors are not witnessing any lead indicators of slowdown in IT spending due to fears of possible downturn in the US economy. RFP flows and contract renewals continue unabated at present across industry verticals for all vendors. Pricing scenario has also not thrown up any negative indicators that could point towards a demand slowdown. Industry reports predict that global CIOs would be more willing to offshore to lower cost destinations in the event of any slowdown in the US economy. We expect volume growth to remain strong for Indian IT services vendors in FY08 with robust order books for 2HFY08. Most industry players are waiting for the October budgeting cycle to discern any indications of IT budgets being impacted for CY08.

Valuation and view

Stock prices have corrected sharply and the sector has underperformed the Sensex over the quarter ended September. We expect continued rupee appreciation and increasing costs pressures to keep investor concerns high on the sector. Seasonal strong performance (in dollar terms) across the sector and any positive indications on CY08 IT budgets would only serve to act as short-term upsides, in our opinion. We continue to remain **Neutral** on the sector. **Infosys** and **TCS** are our top picks, given strong underlying volume growth backed by long-term initiatives to combat supply-side concerns.

KEY INDUSTRY METRICS

	FY07				FY08			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
Services Revenue (INR m)								
TCS (Consolidated)	41,443	44,822	48,605	51,464	52,029	56,354	60,226	63,326
Wipro (Global IT Business)	24,513	27,179	28,873	30,357	30,030	32,916	36,580	41,570
Infosys (Consolidated)	30,150	34,510	36,550	37,720	37,730	41,384	44,449	46,966
Satyam (Consolidated)	14,429	16,019	16,611	17,792	18,302	19,577	21,033	22,450
HCL Tech. (Consolidated)*	12,538	13,794	14,651	15,771	16,120	17,516	18,642	19,994
Net Profit (INR m)								
TCS (Consolidated)	8,626	9,915	11,047	11,198	11,563	11,920	12,406	13,111
Wipro (Consolidated)	6,120	6,963	7,450	7,914	7,105	8,400	9,327	10,100
Infosys (Consolidated)	8,000	9,290	9,830	10,190	10,280	11,028	11,594	12,380
Satyam (Consolidated)	3,541	3,198	3,372	3,936	3,783	3,741	4,281	4,797
HCL Tech. (Consolidated)	2,331	2,501	2,863	3,318	4,867	3,079	3,200	3,611
EBITDA Margin (%)								
TCS (Consolidated)	24.4	27.4	28.3	28.3	25.5	25.8	25.8	25.9
Wipro (Global IT Business)	27.6	26.8	27.4	26.9	26.1	25.8	26.0	25.3
Infosys (Consolidated)	29.5	32.1	32.7	31.7	28.7	30.1	30.6	31.1
Satyam (Consolidated)	24.6	22.6	24.7	23.1	22.4	20.1	22.0	23.2
HCL Tech. (Consolidated)	22.5	21.7	22.1	23.3	21.6	20.8	20.4	21.5
Volumes Growth (%)								
Wipro (Global IT Services only)	5.5	7.9	9.3	5.4	6.5	9.7	12.0	14.0
Infosys (Consolidated)	7.5	11.0	9.7	3.8	6.8	9.5	8.7	7.0
Satyam (Unconsolidated)	7.0	10.7	8.1	9.0	8.1	7.3	7.0	6.0
Recruitment								
Wipro (Global IT Services only)	2,841	5,328	3,489	1,041	2,719	4,302	6,294	8,261
Infosys (Consolidated)	5,694	7,741	3,282	2,809	3,730	10,457	2,694	3,676
Satyam (Unconsolidated)	1,123	4,025	2,746	2,350	2,006	3,129	2,304	2,063
Utilization Rates (%)								
Wipro (Global IT Services only)	71.8	68.9	66.5	68.2	74.5	73.0	73.0	73.0
Infosys (Consolidated)	71.1	67.5	67.5	67.9	70.5	71.1	71.25	73.5
Satyam (Uncon-offsh - trainees)	71.2	71.1	68.5	71.3	76.5	72.0	73.0	74.0
Billing Rates (US\$/employee p.a) Onsite								
Wipro - Global IT Ser Only	131,748	132,696	132,144	135,048	134,304	134,976	135,650	135,650
Infosys - Consolidated	133,157	134,968	137,063	140,395	141,888	141,888	141,888	141,888
Satyam - Unconsolidated	112,952	113,460	113,868	114,574	116,075	117,236	118,408	119,592
Billing Rates (US\$/employee p.a) Offshore								
Wipro - Global IT Ser Only	51,012	50,472	50,268	50,568	50,556	50,809	51,063	51,190
Infosys - Consolidated	49,172	50,249	50,896	50,942	51,288	51,288	51,288	51,288
Satyam - Unconsolidated	46,472	46,569	46,625	46,961	47,646	48,123	48,724	49,334
Billing Rates Onsite Change (%)								
Wipro - Global IT Ser Only	0.8	0.7	-0.4	2.2	-0.6	0.5	0.5	0.0
Infosys - Consolidated	1.2	1.4	1.6	2.4	1.1	0.0	0.0	0.0
Satyam - Unconsolidated	0.3	0.4	0.4	0.6	1.3	1.0	1.0	1.0
Billing Rate (Offshore) Change (%)								
Wipro - Global IT Ser Only	0.5	-1.1	-0.4	0.6	0.0	0.5	0.5	0.3
Infosys - Consolidated	2.8	2.2	1.3	0.1	0.7	0.0	0.0	0.0
Satyam - Unconsolidated	0.2	0.2	0.1	0.7	1.5	1.0	1.3	1.3

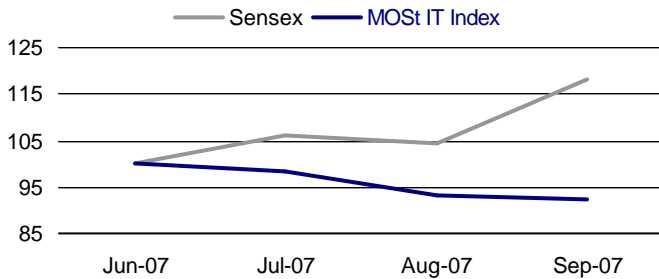
Note: *HCL Tech' s year end is June; # Offshore with trainees

Stock performance and valuations

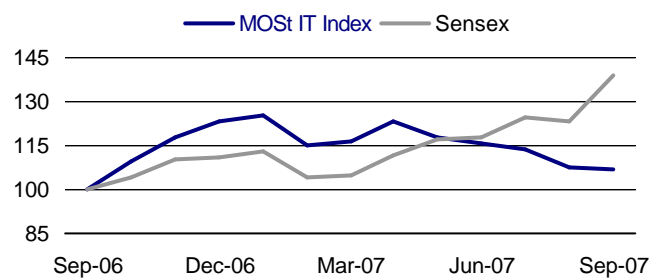
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Information Technology						
Geometric Software	-22	-11	-41	-51	-15	-16
HCL Technologies	-10	9	-29	-30	-3	5
Hexaware	-24	-21	-43	-61	-17	-26
i-flex solutions	-26	32	-45	-8	-18	28
Infosys	-2	2	-21	-37	6	-2
Infotech Enterpr	-32	29	-51	-11	-25	24
KPIT Cummins Inf	-14	52	-33	12	-7	47
Mphasis	-11	54	-30	14	-4	49
Patni Computer	-8	21	-27	-18	-1	17
Sasken Comm.Tech	-29	-16	-49	-55	-22	-20
Satyam Computer	-5	9	-25	-31	2	4
TCS	-7	4	-26	-36	0	-1
Tech Mahindra	-5	117	-24	78	2	113
Wipro	-11	-12	-30	-51	-4	-16

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Information Technology														
Geometric Software	97	Neutral	6.1	6.8	9.5	16.0	14.3	10.3	10.4	10.1	6.1	20.9	18.0	21.6
HCL Technologies	300	Buy	18.9	19.0	22.8	15.9	15.8	13.1	13.2	10.4	8.1	29.9	25.8	27.4
Hexaware	125	UR	9.4	9.2	11.4	13.3	13.6	10.9	10.1	9.5	7.3	22.7	15.3	16.6
i-flex solutions	1,890	Neutral	33.2	39.8	55.1	56.9	47.5	34.3	41.9	33.6	24.0	15.3	13.8	16.7
Infosys	1,897	Buy	68.4	80.5	97.9	27.7	23.6	19.4	23.0	19.2	14.6	42.3	34.9	32.5
Infotech Enterpr	267	Buy	17.7	18.7	27.0	15.1	14.3	9.9	10.2	8.2	5.6	31.5	24.9	28.2
KPIT Cummins Inf	120	Buy	6.8	8.2	11.7	17.8	14.7	10.3	13.5	9.2	6.6	29.7	26.5	27.7
Mphasis	286	Buy	7.3	12.4	15.2	39.1	23.0	18.8	22.5	11.4	8.5	27.4	43.4	38.5
Patni Computer	470	Neutral	25.8	30.6	34.2	18.2	15.4	13.7	10.6	10.2	7.9	16.8	17.4	16.9
Sasken Comm	334	Buy	15.5	13.6	21.8	21.5	24.6	15.3	14.2	14.8	8.6	11.0	8.8	13.0
Satyam Computer	444	Buy	21.5	24.8	30.1	20.7	17.9	14.7	16.8	13.8	10.6	27.9	25.8	25.3
TCS	1,057	Buy	41.7	50.8	62.2	25.4	20.8	17.0	20.3	17.2	13.7	64.9	57.6	48.3
Tech Mahindra	1,331	UR	46.4	58.7	78.9	28.7	22.7	16.9	21.7	17.0	11.9	66.2	47.4	37.3
Wipro	460	Buy	19.7	23.8	29.4	23.3	19.4	15.6	18.1	14.7	11.0	32.4	30.3	29.8
Sector Aggregate						24.9	20.9	16.8	19.7	16.3	12.5	32.4	29.8	28.8

Geometric Software

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GMSS IN
	REUTERS CODE
S&P CNX: 5,021	GEOM.BO
Equity Shares (m)	61.3
52-Week Range	145/94
1,6,12 Rel. Perf. (%)	-17/-36/-51
M.Cap. (Rs b)	6.0
M.Cap. (US\$ b)	0.2

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs97

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	3,831	374	6.1	53.4	16.0	2.8	20.9	16.2	1.8	10.5
3/08E	5,108	416	6.8	11.2	14.3	2.4	18.0	12.9	1.3	10.4
3/09E	6,934	581	9.5	39.6	10.3	2.1	21.6	16.7	0.9	6.2

* Including Modern Engineering

- ✂ We expect Geometric to report consolidated dollar revenue growth (including Modern Engineering) of 7% QoQ after a 1.4% decline in 1QFY08. Revenue from Modern Engineering should also show higher sequential growth following a weak 1QFY08.
- ✂ Consolidated EBITDA margins are likely to expand 280bp due to pick-up in services revenue, and improved utilization and pricing improvement. We also anticipate reduction in losses in Modern Engineering.
- ✂ Consolidated net profit, which was boosted by high forex gains in 1QFY08, is likely to decline sharply to Rs53m in 2QFY08, due to absence of high forex income during the quarter.
- ✂ Though the demand environment for Geometric continues to be robust (as reflected in the recent deals in both the PLM and engineering segments), we believe slower revenue ramp ups and slower turnaround in Modern Engineering would dampen both revenue and margin over the next few quarters.
- ✂ The stock is currently trading at 14.3x FY08E and 10.3x FY09E diluted EPS. We expect muted revenue and margin expectations to result in the stock underperforming the sector over the near-medium term. We maintain **Neutral**.
- ✂ **Key issues:** margins, integration of Modern Engineering

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07*	FY08E*
	1Q	2Q	3Q*	4Q*	1Q	2QE	3QE	4QE		
Revenues	721	800	1,067	1,243	1,129	1,209	1,362	1,407	3,831	5,108
Q-o-Q Change (%)	12.8	10.9	33.5	16.4	-9.1	7.1	12.6	3.3	71.4	33.3
Total Operating Exps	558	649	897	1,077	1,050	1,083	1,149	1,187	3,181	4,469
Operating Profit	163	151	170	166	79	126	213	220	650	639
Margins (%)	22.6	18.8	15.9	13.4	7.0	10.4	15.7	15.7	17.0	12.5
Other Income	-29	29	49	43	135	35	30	30	92	230
Interest	0	0	16	15	16	15	12	10	31	53
Depreciation	49	50	57	47	59	63	67	69	203	258
PBT bef. Extra-ordinary	85	130	146	146	139	83	165	171	507	558
Provision for Tax	10	14	22	26	3	11	21	22	68	57
Rate (%)	11.8	10.6	15.0	17.9	1.8	13.0	13.0	13.0	13.5	10.2
Minority Interest	11	15	19	19	20	20	22	23	64	85
Net Income bef. EO	63	101	105	101	117	53	121	126	374	416
Q-o-Q Change (%)	-40.6	59.0	4.5	-4.3	15.5	-54.9	130.1	4.5	66.5	11.2

E: Most Estimates; * Including Modern Engg.

HCL Technologies

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	HCLT IN
	REUTERS CODE
S&P CNX: 5,021	HCLT.BO

Equity Shares (m)	663.7
52-Week Range	366/267
1,6,12 Rel. Perf. (%)	-13/-30/-30
M.Cap. (Rs b)	199.0
M.Cap. (US\$ b)	5.0

28 September 2007

Buy

Rs300

Previous Recommendation: Buy

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
6/07A	60,336	12,543	18.9	72.8	16.3	4.0	29.9	33.2	2.9	13.2
6/08E	77,772	12,868	19.0	0.7	16.2	3.5	25.8	28.8	2.2	10.4
6/09E	100,874	15,735	22.8	19.9	13.1	3.2	27.4	30.9	1.7	8.1

* After ESOP charges

- ✦ We expect HCL Technologies to post 8.7% QoQ growth in consolidated dollar revenue, driven by strong volume growth across service lines.
- ✦ Software services are likely to grow 8.9% QoQ in dollar terms, backed by 7.5% volume growth QoQ. Infrastructure services and BPO should grow 11.6% QoQ and 6% QoQ, respectively in dollar terms.
- ✦ We expect consolidated EBITDA margins to decline 70bp primarily due to salary hikes during the quarter.
- ✦ The company booked forex gains to the extent of Rs2.5b in 4QFY07, which pushed up other income. In 1QFY08, we expect this to be muted; since the last quarter's other income included unrealized forex gains as well.
- ✦ Net profit is likely to decline 37% QoQ (after ESOP charges) in rupee terms due to lower other income versus the previous quarter.
- ✦ The stock trades at 16.2x FY08E and 13.1x FY09E earnings (after ESOP charges). We remain convinced of HCL Tech's ability to outperform in the large deal space, along with greater client mining and new deal wins. We reiterate **Buy**.
- ✦ **Key issues:** margins, BPO growth, attrition rate

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	13,794	14,651	15,771	16,120	17,516	18,642	19,994	21,621	60,336	77,772
Q-o-Q Change (%)	10.0	6.2	7.6	2.2	8.7	6.4	7.3	8.1	37.5	28.9
Direct Expenses	8,709	9,107	9,737	10,039	11,121	12,022	12,770	13,823	37,592	49,736
Sales, General & Admin. Exp.	2,098	2,303	2,366	2,607	2,744	2,811	2,925	3,086	9,374	11,566
Operating Profit	2,987	3,241	3,668	3,474	3,651	3,809	4,299	4,711	13,370	16,470
Margins (%)	21.7	22.1	23.3	21.6	20.8	20.4	21.5	21.8	22.2	21.2
Other Income	290	481	615	2,873	525	551	579	608	4,259	2,263
Depreciation	556	623	659	693	724	772	830	898	2,531	3,224
PBT bef. Extra-ordinary	2,721	3,099	3,624	5,654	3,452	3,588	4,048	4,421	15,098	15,509
Provision for Tax	219	206	283	777	362	377	425	464	1,485	1,628
Rate (%)	8.0	6.6	7.8	13.7	10.5	10.5	10.5	10.5	9.8	10.5
Share of Income from Eq. Investees	4	-7	-3	-3	-3	-3	-4	-4	-9	-14
Minority Interest	5	23	20	7	7	8	8	9	55	32
PAT bef. EO & ESOP Chrg.	2,501	2,863	3,318	4,867	3,079	3,200	3,611	3,945	13,549	13,835
Q-o-Q Change (%)	7.3	14.5	15.9	46.7	-36.7	3.9	12.8	9.2	75.2	2.1

E: MOST Estimates

Hexaware Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HEXW IN
	REUTERS CODE
S&P CNX: 5,021	HEXT.BO
Equity Shares (m)	133.2
52-Week Range	205/111
1,6,12 Rel. Perf. (%)	-14/-58/-61
M.Cap. (Rs b)	16.6
M.Cap. (US\$ b)	0.4

28 September 2007

Under Review

Previous Recommendation: Buy

Rs 125

Equity Shares (m)	133.2
52-Week Range	205/111
1,6,12 Rel. Perf. (%)	-14/-58/-61
M.Cap. (Rs b)	16.6
M.Cap. (US\$ b)	0.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	8,482	1,242	9.4	29.8	13.3	2.2	22.7	24.8	1.6	10.0
12/07E	10,674	1,223	9.2	-2.3	13.6	1.9	15.3	17.8	1.3	9.4
12/08E	12,792	1,514	11.4	23.8	10.9	1.7	16.6	19.3	1.0	7.3

Including Focus Frame

- ✂ We expect Hexaware to post dollar revenue growth of 2% QoQ (the company refrained from giving guidance), as it grapples with issues in two top clients and Focus Frame, which amount to about 25% of revenue. We expect 3QCY07 to be the weakest quarter (in dollar terms) in the year for Hexaware.
- ✂ Margins, which declined 270bp in 2QCY07 due to salary hikes (5% onsite, 17.5% offshore) and rupee appreciation are expected to stay flat during the quarter due to sluggish revenue growth and continued cost pressures.
- ✂ Net profit is expected to increase 8.7% QoQ to Rs284m due to decline in tax rates during the quarter.
- ✂ The stock is currently trading at 13.6x CY07E and 10.9x CY08E (fully diluted) earnings. We are disappointed by the prospects of slower volume growth over the next few quarters given the low revenue visibility at present. We are currently reviewing our recommendation on Hexaware Technologies.
- ✂ **Key issues:** margins, organic growth, attrition rate

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07*				CY06*	CY07E*
	1Q	2Q	3Q	4Q*	1Q	2Q	3QE	4QE		
Revenues	1,762	2,069	2,250	2,402	2,644	2,616	2,664	2,750	8,482	10,674
Q-o-Q Change (%)	1.2	17.4	8.7	6.8	10.1	-1.0	1.8	3.3	25.0	25.8
Direct Expenses	1,080	1,324	1,412	1,501	1,603	1,663	1,708	1,740	5,318	6,714
Sales, General & Admin. Exp.	388	434	477	544	645	633	626	633	1,842	2,536
Operating Profit	294	311	361	357	395	321	330	378	1,322	1,424
Margins (%)	16.7	15.0	16.0	14.9	15.0	12.3	12.4	13.8	15.6	13.3
Other Income	35	46	80	79	68	50	55	60	241	234
Depreciation	46	46	55	53	56	58	59	61	200	233
PBT bef. Extra-ordinary	282	311	385	384	407	313	326	378	1,363	1,424
Provision for Tax	22	13	39	46	55	52	42	51	120	201
Rate (%)	7.8	4.3	10.0	12.0	13.5	16.6	13.0	13.5	8.8	14.1
Net Income	260	298	347	338	352	261	284	327	1,242	1,224
Q-o-Q Change (%)	5.1	14.4	16.5	-2.7	4.3	-25.8	8.7	15.1	35.8	-1.5

E: MOST Estimates, * Including Focus Frame

i-flex solutions

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IFLEX IN
	REUTERS CODE
S&P CNX: 5,021	IFLX.BO
Equity Shares (m)	83.3
52-Week Range	2,630/1,414
1,6,12 Rel. Perf. (%)	-22/-41/-8
M.Cap. (Rs b)	157.4
M.Cap. (US\$ b)	4.0

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 1,890

Equity Shares (m)	83.3
52-Week Range	2,630/1,414
1,6,12 Rel. Perf. (%)	-22/-41/-8
M.Cap. (Rs b)	157.4
M.Cap. (US\$ b)	4.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	20,381	2,768	33.2	15.6	56.9	7.0	15.3	17.2	7.4	41.9
3/08E	24,164	3,316	39.8	19.8	47.5	6.1	13.8	16.0	6.2	34.1
3/09E	30,763	4,593	55.1	38.5	34.3	5.3	16.7	19.7	4.9	24.7

- ✦ We expect i-flex solutions to report revenue growth of 8.8% QoQ in rupee terms, driven by revival in license fee growth during the quarter.
- ✦ We expect products to grow 8.7% QoQ, boosted by 17.6% growth in license revenues. Services should grow 9% QoQ in rupee terms, while KPO is likely to grow slower at 5% QoQ.
- ✦ EBITDA margins should expand 260bp due to strong license fee growth and better services utilization during the quarter.
- ✦ We expect net profit to grow 76% QoQ to Rs731m.
- ✦ The stock currently trades at expansive valuations of 47.5x FY08E and 34.3x FY09E earnings. A possible buy back of remaining stake by Oracle remains the primary trigger to upsides in the stock. We maintain **Neutral**.
- ✦ **Key issues:** license revenue growth, growth in tank, service revenue

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	4,075	5,009	5,502	5,794	5,321	5,786	6,276	6,781	20,381	24,164
Q-o-Q Change (%)	-11.0	22.9	9.8	5.3	-8.2	8.8	8.5	8.0	37.4	18.6
Direct Expenses	2,605	2,735	3,092	3,208	3,287	3,466	3,541	3,717	11,640	14,011
Sales, General & Admin. Exp.	1,012	1,304	1,346	1,494	1,305	1,375	1,471	1,592	5,156	5,743
Operating Profit	458	970	1,064	1,093	729	944	1,264	1,473	3,586	4,410
Margins (%)	11.2	19.4	19.3	18.9	13.7	16.3	20.1	21.7	17.6	18.3
Other Income	200	124	-2	26	-10	160	168	176	349	494
Depreciation	160	166	260	247	242	255	270	292	833	1,060
Share of Associate Company Loss	-2	-2	-3	-2	3	-2	-2	-2	-9	-2
PBT	500	931	806	874	474	851	1,163	1,359	3,111	3,846
Provision for Tax	85	127	33	97	58	119	163	190	342	531
Rate (%)	17.1	13.6	4.1	11.1	12.3	14.0	14.0	14.0	11.0	13.8
PAT	415	804	773	777	415	731	1,000	1,168	2,768	3,315
Q-o-Q Change (%)	-64.5	93.9	-3.8	0.5	-46.5	76.1	36.8	16.8	26.4	19.8

E: MOST Estimates

Infosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	INFO IN
	REUTERS CODE
S&P CNX: 5,021	INFY.BO
Equity Shares (m)	563.5
52-Week Range	2,439/1,745
1,6,12 Rel. Perf. (%)	-15/-39/-37
M.Cap. (Rs b)	1,068.9
M.Cap. (US\$ b)	26.9

28 September 2007

Buy

Rs 1,897

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A*	138,930	37,250	68.4	53.3	27.7	9.5	42.3	46.4	7.2	22.8
3/08E	170,529	45,282	80.5	17.7	23.6	7.2	34.9	39.6	5.7	19.0
3/09E	219,545	56,209	97.9	21.5	19.4	5.6	32.5	37.3	4.3	14.5

* 1:1 bonus in FY07, accordingly ratios are adjusted, PAT figures are adjusted PAT

- ✦ We expect Infosys to report dollar revenue growth of 10.1% QoQ (v/s guided growth of 4.7-5.8%) backed by 9.5% growth in consolidated volumes. Rupee revenue growth is expected at 9.7% QoQ.
- ✦ We expect EBITDA margins to improve by 140bp to 30.1% during 2QFY08, driven by continued improvement in realizations, utilization rates and SG&A leverage. Rupee appreciation is expected to have lesser impact during 2QFY08.
- ✦ Net profit is expected to grow slower at 2.2% QoQ due to our expectation of lower other income of Rs 1.77b versus Rs 2.5b in 1QFY08.
- ✦ Infosys' outlook on demand scenario in light of recent developments in the US economy would be a key factor, since it would set the tone for expectations in terms IT budgets in CY08. While we expect of marginal upward revision in dollar guidance, we do not rule out the company building in further conservatism in its rupee guidance on expectations of further appreciation in the rupee.
- ✦ The stock currently trades at 23.6x FY08E and 19.4x FY09E earnings. We expect seasonal strong performance in 2Q/3Q and strong performance in 2HFY08. We remain positive on Infosys' business prospects and believe that it is best placed to tackle supply side pressures and rupee appreciation in a robust demand environment. Maintain **Buy**.
- ✦ **Key issues:** margins, other income, FY08 guidance

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	30,150	34,510	36,550	37,720	37,730	41,384	44,449	46,966	138,930	170,529
Q-o-Q Change (%)	14.9	14.5	5.9	3.2	0.0	9.7	7.4	5.7	45.9	22.7
Direct Expenses	16,660	18,330	19,380	20,210	21,690	23,168	24,585	25,814	74,580	95,258
Sales, General & Admin. Exp.	4,600	5,090	5,210	5,540	5,200	5,752	6,245	6,552	20,440	23,749
Operating Profit	8,890	11,090	11,960	11,970	10,840	12,464	13,618	14,600	43,910	51,522
Margins (%)	29.5	32.1	32.7	31.7	28.7	30.1	30.6	31.1	31.6	30.2
Other Income	1,250	660	590	1,200	2,530	1,771	1,321	1,334	3,700	6,956
Depreciation	1,060	1,220	1,410	1,450	1,440	1,573	1,689	1,785	5,140	6,486
PBT before EO	9,080	10,530	11,140	11,720	11,930	12,662	13,251	14,149	42,470	51,991
Provision for Tax	1,060	1,230	1,300	1,520	1,650	1,633	1,656	1,769	5,110	6,708
Rate (%)	11.7	11.7	11.7	13.0	13.8	12.9	12.5	12.5	12.0	12.9
PAT before Minority	8,020	9,300	9,840	10,200	10,280	11,028	11,594	12,381	37,360	45,283
Minority Interest	-80	-10	-10	-10	0	0	0	0	-110	-1
PAT before EO	7,940	9,290	9,830	10,190	10,280	11,028	11,594	12,380	37,250	45,282
Extra-ordinary Items	60	0	0	1,250	510	0	0	0	1,310	510
PAT after Minority and EO	8,000	9,290	9,830	11,440	10,790	11,028	11,594	12,380	38,560	45,792
Q-o-Q Change (%)	18.9	16.1	5.8	16.4	-5.7	2.2	5.1	6.8	56.9	18.8

E: MOST Estimates

Diviya Nagarajan (Dnagarajan@MotilalOswal.com); Tel: +91 22 3982 5428

Infotech Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	INFTC IN
	REUTERS CODE
S&P CNX: 5,021	INFE.BO

28 September 2007

Buy

Rs267

Previous Recommendation: Buy

Equity Shares (m)	46.2
52-Week Range	447/203
1,6,12 Rel. Perf. (%)	-20/-59/-11
M.Cap. (Rs b)	12.3
M.Cap. (US\$ b)	0.3

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	5,425	817	17.7	74.5	15.1	4.0	31.5	29.9	2.1	10.2
3/08E	7,103	861	18.7	5.5	14.3	3.2	24.9	23.2	1.6	8.2
3/09E	10,021	1,245	27.0	44.6	9.9	2.5	28.2	26.3	1.1	5.6

* 1:2 bonus and split of Rs10 share into 2 shares of Rs5 each in FY07, ratios accordingly adjusted

- ✦ We expect Infotech Enterprises to report revenue growth of 12.2% QoQ, driven by 15.2% QoQ growth in engineering services (ES)
- ✦ We expect Geospatial Services (GS) to grow slower at 7.2% QoQ.
- ✦ EBITDA margins are expected to improve by 65p due to improvement in price realization and better utilization rates during the quarter.
- ✦ IASI, the 49% subsidiary in Puerto Rico, reported low profit share of Rs 10m in 1QFY08. In 2QFY08, we expect profit share from IASI to return to Rs 14-15m, as guided by the management.
- ✦ 1QFY08 saw other income loss of Rs30m due to translation loss of Rs55.4m, which pulled down profits for the quarter. In 2QFY08, we expect positive other income of Rs15m, which would help push up profits to Rs202m, up 56% QoQ.
- ✦ The stock currently trades at 14.3x FY08E and 9.9x FY09E earnings. We maintain **Buy**.
- ✦ **Key issues:** margins, IASI profits, other income

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	1,170	1,313	1,430	1,512	1,488	1,669	1,856	2,090	5,425	7,103
Q-o-Q Change (%)	8.6	12.2	9.0	5.7	-1.6	12.2	11.2	12.6	49.7	30.9
Direct Expenses	569	621	656	744	820	906	994	1,111	2,589	3,832
Sales, General & Admin. Exp.	382	409	452	460	404	456	496	556	1,702	1,911
Operating Profit	219	284	323	308	264	307	366	423	1,134	1,361
Margins (%)	18.7	21.6	22.6	20.4	17.8	18.4	19.7	20.2	20.9	19.2
Other Income	43	5	0	19	-30	15	12	15	67	12
Depreciation	54	63	66	74	76	79	88	101	256	345
Interest	3	4	5	2	5	4	4	4	14	18
PBT bef. Extra-ordinary	206	222	252	251	153	239	286	332	931	1,010
Provision for Tax	42	49	52	44	34	50	60	70	187	214
Rate (%)	20.3	22.1	20.7	17.3	22.0	21.0	21.0	21.0	20.0	21.2
PAT bef. JV P/L	164	173	200	207	120	188	226	262	744	796
Q-o-Q Change (%)	34.0	5.2	15.8	3.7	-42.3	57.6	19.8	16.2	84.0	7.0
Share of Profit from JV (IASI)	14	30	-12	41	10	14	16	25	73	65
PAT bef. Extra-ordinary	178	203	188	249	130	202	242	287	817	861
Q-o-Q Change (%)	7.1	14.1	-7.4	32.6	-47.9	56.2	19.4	18.9	76.4	5.4

E: MOST Estimates

Diviya Nagarajan (Dnagarajan@MotilalOswal.com); Tel: +91 22 3982 5428

KPIT Cummins Infosystems

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NKIPT IN
	REUTERS CODE
S&P CNX: 5,021	KPIT.BO

28 September 2007

Buy

Rs 120

Previous Recommendation: Buy

Equity Shares (m)	74.8
52-Week Range	181/70
1,6,12 Rel. Perf. (%)	-15/-42/12
M.Cap. (Rs b)	9.0
M.Cap. (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	4,637	505	6.8	50.9	17.8	4.5	29.7	21.8	2.1	13.5
3/08E	6,035	628	8.2	21.0	14.7	3.3	25.8	21.4	1.5	9.2
3/09E	8,046	875	11.7	43.2	10.3	2.5	27.7	24.3	1.1	6.6

- ✦ We expect KPIT Cummins to report strong revenue growth of 9.7% QoQ driven by strong underlying volume growth.
- ✦ We anticipate increase in EBITDA margins during the quarter to be low at 40bp despite strong volume growth and improvement in realizations. This is due to lower rupee assumption during the quarter (Rs42 v/s Rs44 realized in 1QFY08).
- ✦ Net profit is expected to grow 40% QoQ to Rs 153m due to lower tax rates during the quarter (the last quarter had an effective tax rate of 23%).
- ✦ The stock currently trades at 14.7x FY08E and 10.3x FY09E earnings (diluted). We continue to remain positive about the growth prospects of KPIT Cummins and expect strong revenue growth from both Manufacturing and BFSI. We maintain **Buy**.
- ✦ **Key issues:** growth in non-star customers, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	1,023	1,140	1,171	1,303	1,353	1,484	1,524	1,674	4,637	6,035
Q-o-Q Change (%)	13.4	11.5	2.7	11.3	3.8	9.7	2.6	9.9	45.7	30.2
Direct Expenses	530	577	570	610	655	717	749	793	2,287	2,914
Sales, General & Admin. Exp.	340	384	423	488	483	525	524	596	1,635	2,128
Operating Profit	152	179	178	206	215	243	251	285	715	993
Margins (%)	14.9	15.7	15.2	15.8	15.9	16.3	16.5	17.0	15.4	16.5
Other Income	1	0	1	4	0	3	2	2	6	7
Depreciation	25	30	30	35	54	59	62	67	121	242
Interest	11	7	9	17	20	15	13	9	45	57
PBT bef. Extra-ordinary	117	141	140	157	141	171	178	210	555	701
Provision for Tax	13	18	4	17	33	17	18	21	52	88
Rate (%)	11.3	12.5	3.2	10.5	23.0	10.0	10.0	10.0	9.3	12.6
PAT bef. MI and EO	104	124	135	141	109	154	160	189	503	612
Minority Interest (MI)	0	0	-2	0	0	0	1	1	-2	2
PAT aft. MI and before EO	103	123	137	141	109	153	160	191	505	611
Q-o-Q Change (%)	0.7	19.3	11.1	2.4	-22.2	40.4	4.0	19.5	55.0	21.0

E: Most Estimates

Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	MPHL IN
	REUTERS CODE
S&P CNX: 5,021	MBFL.BO

Equity Shares (m)	164.1
52-Week Range	340/183
1,6,12 Rel. Perf. (%)	-15/-30/14
M.Cap. (Rs b)	46.9
M.Cap. (US\$ b)	1.2

28 September 2007

Buy

Rs286

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	11,958	1,199	7.3	-21.5	39.1	9.6	27.4	30.3	3.8	22.5
3/08E	22,771	2,594	12.4	70.3	23.0	8.3	43.4	47.3	2.7	14.4
3/09E	27,655	3,167	15.2	22.1	18.8	6.3	38.5	43.6	2.0	10.9

Does not include EDS India financials

- ✂ We expect Mphasis to report revenue growth of 4.5% in 2QFY08, backed by strong growth in EDS driven revenue.
- ✂ EBITDA margins are expected to remain flat at 18.4% during the quarter.
- ✂ Other income in 1QFY08 was negative Rs 147m. In 1QFY08, we expect other income to turn positive at Rs 10m.
- ✂ Tax rate was low at 2.4% in 1QFY08 due deferred tax credits. In 2QFY08, we expect tax rate to increase to 10% levels.
- ✂ Net profit is expected to grow 25.7% QoQ to Rs 645m.
- ✂ The stock is currently trading at 23x FY08E and 18.8x FY09E earnings. We maintain **Buy**.
- ✂ **Key issues:** revenue growth through EDS, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	2,607	2,919	3,060	3,373	5,316	5,555	5,833	6,066	11,958	22,771
Q-o-Q Change (%)	4.1	12.0	4.8	10.2	57.6	4.5	5.0	4.0	27.2	90.4
Direct Expenses	1,858	1,935	1,982	2,179	3,713	3,866	4,036	4,186	7,954	15,801
Sales, General & Admin. Exp.	434	499	489	547	626	665	698	726	1,969	2,715
Operating Profit	315	485	588	647	978	1,024	1,098	1,155	2,035	4,254
Margins (%)	12.1	16.6	19.2	19.2	18.4	18.4	18.8	19.0	17.0	18.7
Other Income	42	-56	-50	-6	-147	10	10	10	-69	-117
Depreciation	150	157	161	163	305	317	332	346	631	1,300
PBT bef. Extra-ordinary	207	273	378	478	526	717	776	819	1,335	2,837
Provision for Tax	55	39	20	22	13	72	78	82	136	244
Rate (%)	26.7	14.2	5.3	4.6	2.4	10.0	10.0	10.0	10.2	8.6
PAT bef. Extra-ordinary	152	234	358	456	513	645	698	737	1,199	2,593
Q-o-Q Change (%)	-56.8	54.0	52.9	27.4	12.7	25.7	8.2	5.5	-20.0	116.3

E: Most Estimates; *Consolidated with EDS (I)

Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	PATNI IN
	REUTERS CODE
S&P CNX: 5,021	PTNI.BO
Equity Shares (m)	138.6
52-Week Range	573/352
1,6,12 Rel. Perf. (%)	-17/-8/-18
M.Cap. (Rs b)	65.1
M.Cap. (US\$ b)	1.6

28 September 2007

Neutral

Rs470

Previous Recommendation: Neutral

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	26,112	3,572	25.8	18.8	18.2	2.9	16.8	21.2	2.0	10.5
12/07E	27,089	4,223	30.6	18.2	15.4	2.5	17.4	21.2	1.8	10.2
12/08E	32,768	4,731	34.2	12.0	13.7	2.2	16.9	20.6	1.4	7.9

* reflects adjusted PAT

- ✦ We expect revenue to increase 2.8% QoQ in dollar terms, translating into a growth of 2.4% QoQ in rupee terms in 3QCY07.
- ✦ Margins (EBIT) are expected to decline by 170bp in 3QCY07, as the company struggles to contain costs amidst high attrition and slower growth numbers.
- ✦ Other income is expected to be lower at Rs280m v/s Rs635m in 2QCY07 (forex gain of Rs348m in 2QCY07).
- ✦ We expect decline of 33.2% in net profit (in rupee terms) for the quarter. Net income (excl. forex gain/loss) is expected to decline 25% QoQ (in dollar terms).
- ✦ The stock trades at 15.4x CY07E and 13.7x CY08E earnings estimates. We maintain **Neutral**, as we remain unconvinced on Patni's organic growth prospects over the near term.
- ✦ **Key issues:** revenue growth, margins, attrition rate

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	5,776	6,561	6,971	6,805	6,724	6,628	6,788	6,949	26,112	27,089
Q-o-Q Change (%)	3.7	13.6	6.3	-2.4	-1.2	-1.4	2.4	2.4	29.0	3.7
Direct Expenses	3,593	4,273	4,344	4,215	4,204	4,303	4,481	4,648	16,424	17,636
Sales, General & Admin. Exp.	1,160	1,298	1,215	1,123	1,094	1,108	1,176	1,194	4,796	4,572
Operating Profit	1,022	990	1,413	1,467	1,427	1,217	1,131	1,106	4,893	4,881
Margins (%)	17.7	15.1	20.3	21.6	21.2	18.4	16.7	15.9	18.7	18.0
Other Income	11	187	77	172	268	635	280	155	446	1,337
Depreciation	193	205	202	239	234	252	292	299	839	1,077
PBT bef. Extra-ordinary	840	972	1,288	1,400	1,460	1,600	1,119	962	4,500	5,142
Provision for Tax	197	201	264	265	260	253	218	188	928	919
Rate (%)	23.5	20.7	20.5	18.9	17.8	15.8	19.5	19.5	20.6	17.9
Net Income before EO	642	770	1,024	1,135	1,200	1,348	901	774	3,572	4,223
Q-o-Q Change (%)	-2.8	19.9	32.9	10.9	5.8	12.3	-33.2	-14.0	30.6	18.2
Extra-ordinary items	0	917	0	0	0	0	0	0	917	0
Net Income after EO	642	-147	1,024	1,135	1,200	1,348	901	774	2,654	4,223
Q-o-Q Change (%)	-2.8	-122.9	-796.6	10.9	5.8	12.3	-33.2	-14.0	-3.0	59.1

E: MOSSt Estimates

Diviya Nagarajan (Dnagarajan@MotilalOswal.com); Tel: +91 22 3982 5428

Sasken Communication Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SACT IN
	REUTERS CODE
S&P CNX: 5,021	SKCT.BO

28 September 2007

Buy

Rs334

Previous Recommendation: Buy

Equity Shares (m)	28.5
52-Week Range	624/307
1,6,12 Rel. Perf. (%)	-10/-64/-55
M.Cap. (Rs b)	9.5
M.Cap. (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	4,772	443	15.5	46.3	21.5	2.3	11.0	10.7	2.1	14.2
3/08E	6,097	388	13.6	-12.7	24.6	2.1	8.8	8.1	1.6	14.8
3/09E	7,932	627	21.8	60.8	15.3	1.9	13.0	12.0	1.2	8.7

- ✦ We expect Sasken to report revenue growth of 10.6% QoQ in 2QFY08. We expect product revenues to grow 9.8% QoQ, driven by growth in royalty income. Services revenue is expected to grow 10.6% QoQ in rupee terms.
- ✦ EBITDA margins are expected to improve to 8.6% from 4.8% in 1QFY08 due to expected pick up in services growth, better margins in Botnia and SG&A leverage.
- ✦ Net profit should decline 14.6% QoQ to Rs55m due to lower other income.
- ✦ The stock is currently trading at 24.6x FY08E and 15.3x FY09E earnings. We continue to remain positive on both the products and services business and anticipate strong ramp in 2HFY08. We maintain **Buy**.
- ✦ **Key issues:** product royalty, services pick up, margins, attrition rate

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	932	1,176	1,310	1,354	1,284	1,419	1,606	1,787	4,772	6,096
Q-o-Q Change (%)	19.4	26.2	11.4	3.3	-5.2	10.6	13.1	11.3	54.9	27.7
Direct Expenses	641	751	877	902	937	997	1,078	1,151	3,171	4,163
Sales, General & Admin. Exp.	162	211	245	274	284	301	328	357	892	1,270
Operating Profit	128	214	189	177	62	121	200	280	708	663
Margins (%)	13.8	18.2	14.4	13.1	4.8	8.6	12.4	15.7	14.8	10.9
Other Income	7	12	31	47	106	35	35	35	97	211
Depreciation & Amortization	43	49	55	70	67	72	79	86	218	304
Interest	0	24	10	11	10	11	13	14	45	49
PBT bef. Extra-ordinary	93	153	154	144	90	73	143	215	544	521
Provision for Tax	5	33	35	27	26	18	36	54	101	134
Rate (%)	5.4	21.8	22.8	18.8	29.3	25.0	25.0	25.0	18.5	25.7
PAT bef. Extra-ordinary	88	119	119	117	64	55	107	161	443	387
Q-o-Q Change (%)	39.6	36.0	-0.5	-1.4	-45.5	-14.6	96.9	49.9	49.3	-12.7
Net Profit after EO	88	119	119	117	64	55	107	161	443	387
Q-o-Q Change (%)	39.6	36.0	-0.5	-1.4	-45.5	-14.6	96.9	49.9	93.3	-12.7

E: MOSSt Estimates

Satyam Computer

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SCS IN
	REUTERS CODE
S&P CNX: 5,021	SATY.BO
Equity Shares (m)	669.0
52-Week Range	525/396
1,6,12 Rel. Perf. (%)	-17/-37/-31
M.Cap. (Rs b)	296.7
M.Cap. (US\$ b)	7.5

28 September 2007

Buy

Rs444

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	64,851	14,047	21.5	41.7	20.7	5.0	27.9	30.3	4.0	16.8
3/08E	81,363	16,602	24.8	15.7	17.9	4.2	25.8	29.3	3.0	13.8
3/09E	104,368	20,305	30.1	21.3	14.7	3.4	25.3	29.7	2.2	10.6

* reflects adjusted PAT

- ✂ We expect Satyam to report consolidated dollar revenue growth of 7.6% QoQ in 2QFY08 (guided growth 5.5-6%). Standalone service revenue is expected to grow 7.4% QoQ in dollar terms, backed by 7% volume growth. In rupee terms, we expect consolidated revenue growth of 7% QoQ.
- ✂ EBITDA margins are expected to decline by 230bp, primarily due to salary hikes to the extent of 5% onsite and 16% offshore during the quarter.
- ✂ Net profit is expected to decline marginally by 1.1% due to the decline in margins.
- ✂ The stock is currently trading at 17.9x FY08E and 14.7x FY09E earnings. We continue to be impressed with Satyam's execution in terms of reduction in attrition rates and diversification into other service offerings such as engineering services and infrastructure management, which has improved its earnings visibility, significantly. We maintain **Buy**.
- ✂ **Key issues:** guidance, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	14,429	16,019	16,611	17,792	18,302	19,577	21,033	22,450	64,851	81,363
Q-o-Q Change (%)	9.8	11.0	3.7	7.1	2.9	7.0	7.4	6.7	35.3	25.5
Direct Expenses	8,316	9,827	9,674	10,763	11,062	12,416	13,050	13,669	38,579	50,197
Sales, General & Admin. Exp.	2,563	2,567	2,838	2,927	3,137	3,227	3,360	3,564	10,894	13,289
Operating Profit	3,550	3,625	4,100	4,102	4,103	3,934	4,623	5,218	15,377	17,877
Margins (%)	24.6	22.6	24.7	23.1	22.4	20.1	22.0	23.2	23.7	22.0
Other Income	745	282	102	704	632	782	732	747	1,833	2,893
Depreciation	362	375	394	354	387	401	421	438	1,484	1,647
Interest	26	27	32	74	33	39	42	45	159	159
PBT bef. Extra-ordinary	3,908	3,505	3,776	4,378	4,315	4,275	4,892	5,482	15,566	18,964
Provision for Tax	368	307	403	442	532	534	612	685	1,520	2,363
Rate (%)	9.4	8.8	10.7	10.1	12.3	12.5	12.5	12.5	9.8	12.5
Minority Interest	-1	0	0	0	0	0	0	0	-1	0
PAT bef. Extra-ordinary	3,541	3,198	3,372	3,936	3,783	3,741	4,281	4,797	14,047	16,602
Q-o-Q Change (%)	24.4	-9.7	5.4	16.7	-3.9	-1.1	14.4	12.1	43.0	18.2

E: MOST Estimates

Diviya Nagarajan (Dnagarajan@MotilalOswal.com); Tel: +91 22 3982 5428

Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TCS IN
	REUTERS CODE
S&P CNX: 5,021	TCS.BO
Equity Shares (m)	978.6
28-Week Range	1,399/978
1,6,12 Rel. Perf. (%)	-13/-46/-36
M.Cap. (Rs b)	1,034.1
M.Cap. (US\$ b)	26.0

28 September 2007

Buy

Rs 1,057

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A*	186,334	41,316	41.7	39.6	25.4	15.8	64.9	69.2	5.5	20.0
3/08E	231,935	49,000	50.1	20.1	21.1	10.3	57.6	62.5	4.3	16.8
3/09E	295,296	60,071	61.4	22.6	17.2	7.3	48.3	54.3	3.3	13.2

* 1:1 bonus in FY07, accordingly ratios are adjusted

- ✎ We expect TCS to report 8.4 % QoQ growth in dollar terms, with a rupee revenue growth of 8.3% QoQ.
- ✎ Margins are expected to improve by 30bp QoQ, driven primarily by better utilization rates.
- ✎ We expect net profit to grow slower at 3.1% QoQ to Rs11.9b due to our assumption of lower other income of Rs900m v/s Rs1.5b in 1QFY08.
- ✎ While TCS does not provide guidance, remarks on the perceived US slowdown and the implication on Indian IT services in general and TCS in particular would be closely watched for along with the 2QFY08 results announcements.
- ✎ The stock trades at 21.1x FY08E and 17.2x FY09E earnings. We expect TCS to witness strong volume growth in FY08, driven by sustained demand across multiple business lines. We maintain **Buy**.
- ✎ **Key issues:** volume growth, margins

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07*				FY08*				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	41,443	44,822	48,605	51,464	52,029	56,354	60,226	63,326	186,334	231,935
Q-o-Q Change (%)	11.3	8.2	8.4	5.9	1.1	8.3	6.9	5.1	40.6	24.5
Direct Expenses	22,989	23,880	26,294	27,177	28,221	30,585	32,682	34,392	100,339	125,880
Sales, General & Admin. Exp.	8,327	8,648	8,559	9,720	10,543	11,243	12,015	12,507	35,253	46,308
Operating Profit	10,128	12,294	13,753	14,568	13,265	14,527	15,529	16,427	50,742	59,747
Margins (%)	24.4	27.4	28.3	28.3	25.5	25.8	25.8	25.9	27.2	25.8
Other Income	668	77	300	235	1,516	900	600	600	1,280	3,616
Depreciation	863	958	1,080	1,395	1,265	1,409	1,491	1,551	4,296	5,716
PBT bef. Extra-ordinary	9,932	11,414	12,973	13,408	13,516	14,018	14,638	15,475	47,726	57,648
Provision for Tax	1,238	1,447	1,828	2,056	1,816	1,963	2,086	2,205	6,568	8,069
Rate (%)	12.5	12.7	14.1	15.3	13.4	14.0	14.3	14.3	13.8	14.0
Minority Interest	69	52	98	155	138	135	147	159	373	579
Net Income bef. EO	8,626	9,915	11,047	11,198	11,563	11,920	12,406	13,111	40,786	49,000
Q-o-Q Change (%)	8.5	14.9	11.4	1.4	3.3	3.1	4.1	5.7	39.6	20.1
PAT aft Extra-ordinary	8,626	9,915	11,047	11,728	11,856	11,920	12,406	13,111	41,316	49,000

E: MOST Estimates; * Consolidated numbers that include Tata Infotech

Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TECHM IN
	REUTERS CODE
S&P CNX: 5,021	TEML.BO
Equity Shares (m)	121.2
28-Week Range	2,050/609
1,6,12 Rel. Perf. (%)	-6/-41/78
M.Cap. (Rs b)	161.3
M.Cap. (US\$ b)	4.1

28 September 2007

Under Review

Previous Recommendation: Buy

Rs 1,331

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	29,290	6,124	46.4	105.2	28.7	17.4	66.2	65.2	5.5	21.7
3/08E	39,922	7,474	56.7	22.0	23.5	9.7	47.4	47.5	3.9	17.6
3/09E	54,571	10,409	78.9	39.3	16.9	6.2	37.3	37.3	2.8	11.9

EPS is diluted, includes BT deal

- ✂ We expect Tech Mahindra to report 5.7% QoQ revenue growth, with a corresponding dollar growth of 6.3% QoQ.
- ✂ We expect EBITDA margins to decline by 60bp during the quarter due to continued investments in the BT deal.
- ✂ Net profit is expected to decline by 2.5% QoQ due to rupee impact and margin erosion during the quarter.
- ✂ The stock trades at 23.5x FY08E and 16.9x FY09E consolidated (diluted) earnings. We believe that valuations are rich at current levels. We are currently reviewing our recommendation on Tech Mahindra.
- ✂ **Key issues:** BT deal ramp up, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenues	5,871	6,976	7,698	8,745	8,763	9,262	10,280	11,617	29,290	39,922
Q-o-Q Change (%)	39.4	18.8	10.3	13.6	0.2	5.7	11.0	13.0	135.7	36.3
Direct Cost	3,724	4,149	4,527	5,135	5,492	5,835	6,374	7,202	17,535	24,903
Other Operating Exps	840	1,058	1,098	1,392	1,338	1,436	1,568	1,754	4,388	6,095
Operating Profit	1,307	1,769	2,073	2,218	1,934	1,991	2,339	2,660	7,367	8,924
Margins (%)	22.3	25.4	26.9	25.4	22.1	21.5	22.8	22.9	25.2	22.4
Other Income	11	-57	-32	154	131	75	62	70	76	337
Interest	0	0	12	49	15	3	3	3	61	25
Depreciation	108	113	137	158	168	185	206	232	516	791
PBT bef. Extra-ordinary	1,210	1,599	1,892	2,165	1,882	1,878	2,191	2,494	6,866	8,445
Provision for Tax	144	169	224	204	183	225	263	299	741	971
Rate (%)	11.9	10.6	11.8	9.4	9.7	12.0	12.0	12.0	10.8	11.5
Net Income bef. EO	1,066	1,430	1,668	1,960	1,696	1,652	1,928	2,195	6,122	7,474
Q-o-Q Change (%)	19.7	34.2	16.6	17.5	-13.5	-2.5	16.7	13.8	160.1	22.1

E: MOST Estimates; does not include BT deal

Wipro

Buy

Rs460

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	WPRO IN
	REUTERS CODE
S&P CNX: 5,021	WIPR.BO

28 September 2007

Equity Shares (m)	1,463.4
52-Week Range	690/425
1,6,12 Rel. Perf. (%)	-18/-52/-51
M.Cap. (Rs b)	672.9
M.Cap. (US\$ b)	16.9

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	149,431	28,447	19.7	38.8	23.3	6.6	32.4	36.0	4.2	18.2
3/08E	202,096	34,931	23.8	20.4	19.4	5.2	30.3	34.1	3.1	14.8
3/09E	262,653	43,759	29.4	23.8	15.6	4.1	29.8	34.2	2.3	11.0

* reflects adjusted PAT

- ✂ We expect Wipro to report growth of 9.6% QoQ in Global IT business in rupee terms, with an underlying dollar growth of 10.1% QoQ (guided growth of 7%).
- ✂ Consolidated EBITDA margins are expected to stay flat QoQ due to announcement of salary hikes (to the extent of 12-13%) effective August. Global IT margins are expected to decline 160bp during the quarter.
- ✂ We expect consolidated net profit to grow by 18.2% QoQ due to impact of strong revenue growth during the quarter.
- ✂ The stock trades at 19.4x FY08E and 15.6x FY09E earnings – valuations appear attractive. Overall demand remains strong for Wipro and we expect the pace in the TEM space to pick up in 2HFY08. We maintain **Buy**.
- ✂ **Key issues:** technology services revenue, margins

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Global IT Services incl Spectramind	24,513	27,179	28,873	30,357	30,030	32,916	36,580	41,570	110,922	141,097
Other Businesses	6,800	7,959	10,763	12,988	11,802	14,023	16,463	18,711	38,510	61,000
Revenues	31,312	35,138	39,636	43,345	41,832	46,939	53,044	60,282	149,431	202,096
Q-o-Q Change (%) - Global IT	7.1	10.9	6.2	5.1	-1.1	9.6	11.1	13.6	37.4	27.2
Total Expenses	23,849	26,896	30,691	33,896	32,925	36,938	41,777	47,835	115,333	159,474
EBITDA	7,463	8,242	8,945	9,449	8,907	10,001	11,267	12,447	34,098	42,622
Margins (%)	23.8	23.5	22.6	21.8	21.3	21.3	21.2	20.6	22.8	21.1
Depreciation	941	1,058	1,096	1,105	1,270	1,318	1,421	1,607	4,199	5,615
EBIT	6,522	7,184	7,849	8,344	7,637	8,683	9,847	10,840	29,899	37,007
Margins (%)	20.8	20.4	19.8	19.2	18.3	18.5	18.6	18.0	20.0	18.3
Other Income	512	756	559	827	220	850	836	851	2,653	2,757
PBT	7,033	7,939	8,408	9,170	7,857	9,533	10,683	11,691	32,551	39,764
Provision for Tax	979	1,068	1,080	1,296	839	1,239	1,496	1,637	4,423	5,211
Rate (%)	13.9	13.5	12.8	14.1	10.7	13.0	14.0	14.0	13.6	13.1
Net Income before EO*	6,120	6,963	7,450	7,914	7,105	8,400	9,327	10,100	28,447	34,931
Q-o-Q Change (%)	2.4	13.8	7.0	6.2	-10.2	18.2	11.0	8.3	40.3	22.8

E: MOST Estimates; * after minority interest and share in earnings from affiliates

Infrastructure

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
BL Kashyap	158
Gammon India	159
GMR Infrastructure	160
Hindustan Construction	161
IVRCL	162
Jaiprakash Associates	163
Nagarjuna Construction	164
Patel Engineering	165

2QFY08: Performance to get impacted due to heavy monsoon

The July-September quarter historically has been the lean quarter for most of the construction companies due to monsoon period and slowdown in construction activity. During 2QFY08, we expect the construction companies in our universe to report a strong 20.5% YoY growth in revenue, 30.5% YoY growth in EBITDA and 17% growth in net profit. We expect EBITDA margin for the companies to expand 120bp to 14.9% as compared to 13.7% in 2QFY07. The strong order book-to-bill ratio and faster execution are the key growth drivers; new order intake from the NHDP program remains slow.

TABLE: TREND IN FINANCIAL PERFORMANCE (RS M)

	SEP-06	SEP-07	% YOY	JUN-07	% QOQ
Revenues	30,632	36,911	20.5	43,792	(15.7)
EBITDA	4,208	5,489	30.4	5,862	(6.4)
PAT	1,985	2,323	17.0	3,102	(25.1)

Source: Motilal Oswal Securities

Expect further momentum in order intake in 2HFY08

The order book for the construction companies as of June 2007 was up 18% YoY despite slowdown in project award from the roads sector by NHAI. In FY07, construction companies had seen their order book growing by just 15% largely due to delays in project award by NHAI. In FY05 and FY06, their order book had grown 142% and 69%, respectively due to increased spending by NHAI on roads and the Andhra Pradesh government on irrigation projects.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Infrastructure							
B.L.Kashyap	Neutral	2,560	50.0	272	49.3	154	44.6
Gammon India	Buy	5,795	20.0	523	25.2	245	24.7
GMR Infrastructure	Neutral	-	-	-	-	-	-
Hindustan Construction	Buy	5,534	30.0	546	38.4	19	-53.9
IVRCL Infra.	Buy	4,920	35.0	443	43.6	197	26.8
Jaiprakash Associates	Buy	8,932	16.0	2,569	29.7	1,131	25.7
Nagarjuna Construction	Buy	6,647	2.0	771	24.8	342	2.2
Patel Engineering	Buy	2,523	27.5	366	19.1	234	-6.4
Sector Aggregate		36,911	20.5	5,489	30.5	2,323	17.0

TREND IN ORDER INTAKE (RS M)

	ORDER BOOK		
	JUN-06	JUN-07	% YOY
Gammon	74,000	80,000	8
Hindustan Construction	91,430	93,810	3
IVRCL	66,866	95,000	42
Nagarjuna Construction	62,700	77,710	24
Patel Engineering	39,900	50,000	25
Total	334,896	396,520	18

Source: Company

However, the order intake for the construction companies is expected to be robust, as NHAH would award about 6,270 km of road projects on BOT basis by FY08. Pre-qualifications have been already invited for a large number of projects and financial bids for initial 8 packages on NHDP Phase V are to be submitted by end October 2007. This, we believe, would significantly increase the order intake for the construction companies in 2HFY08. The total order comprises 2,995 km of six-laning of the Golden Quadrilateral and the balance will be four-laning.

Besides this, there would be significant project awards from sectors like urban infrastructure, hydropower, railways, nuclear power, irrigation, etc, which would further drive the order intake for the construction companies during FY08.

Order book-to-bill ratio continues to be healthy

The order book-to-bill ratio for construction companies is robust despite the slower order intake, which provides strong revenue visibility. The order book-to-bill ratio for the companies based on FY07 revenue: Patel Engineering 4.4x, IVRCL 3.7x, Hindustan Construction 3.7x, Gammon 3.6x, and Nagarjuna 2.6x. The large order wins for Larsen & Toubro have helped its order book-to-bill ratio to move up from 1.5x in March 2006 to around 2.9x as at June 2007, indicating strong capex in hydrocarbon segment.

STRONG ORDER BOOK-TO-BILL RATIO

	ORDER BOOK	REVENUES	ORDER BOOK /
	JUN-07	TTM	REVENUES (X)
B L Kashyap	16,000	9,037	1.8
Gammon	80,000	22,138	3.6
Hindustan	93,810	25,445	3.7
IVRCL	95,000	25,563	3.7
Jaiprakash*	73,000	15,850	4.6
Larsen & Toubro*	396,900	138,700	2.9
Nagarjuna Construction	77,710	29,815	2.6
Patel Engineering	50,000	11,426	4.4

* E&C business

Source: Company

Value unlocking process has begun

The investments by the various companies into diverse businesses like BOT, real estate, IT, etc have started yielding results and are now emerging as sizable value creating opportunities.

- ✘ During 2QFY08, IVR Prime Urban successfully completed its initial public offering (IVRCL's stake at 62.4%) valued at Rs 15b. This translates into a value of Rs 12b for IVRCL, considering post issue stake of 62.4% and holding company discount of 20%.
- ✘ Similarly, Gammon Infrastructure has recently filed its draft red herring prospectus with SEBI for its IPO (16.55m equity shares).
- ✘ L&T too has announced plans to list its Infotech subsidiary, L&T Infotech, before March 2009. It also plans to list L&T IDPL, 78.4% subsidiary, in around two years, which could again unlock significant value for L&T.
- ✘ Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch at Phase 1 (1,739 acres) at Rs 2,450/sft for apartments and Rs 2,950/sft for villas. The company is contemplating a private equity of Rs 3-4b to fund its expansion plans, which could provide a sound valuation benchmark for Hindustan Construction.
- ✘ A similar opportunity exists for Jaiprakash Associates given a strong power BOT portfolio and Taj Expressway project. Patel Engineering too has formed a 100% subsidiary to develop its land bank of 500 acres, which again could be a value unlocking opportunity over a longer period of time.
- ✘ Nagarjuna Construction also plans IPO of NCC Urban Infrastructure (real estate) and NCC Infrastructure Holdings (BOT projects) over the next two years, which can unlock significant value for the company.

Robust FY08 guidance

The construction companies have guided for revenue growth of 25-30% with either stagnant or slight improvement in EBITDA margin. The outlook on order intake also remains strong, with a pick-up in project awards for roads, water supply and irrigation, power, etc.

- ✘ **Larsen & Toubro:** order intake growth of 30%, revenue growth of 25-30% and stable EBITDA margin
- ✘ **IVRCL Infrastructure:** revenue of Rs 33-35b, up 43-52%, EBITDA margin expansion of 25-50bp, order backlog Rs 80b as of March 2007
- ✘ **Nagarjuna Construction:** revenue of Rs 40b, up 40% and order backlog of Rs 91b as of March 2007, up 25%
- ✘ **Patel Engineering:** revenue growth of 25% on consolidated basis and EBITDA margin improvement of 25-50bp

We remain positive on the sector

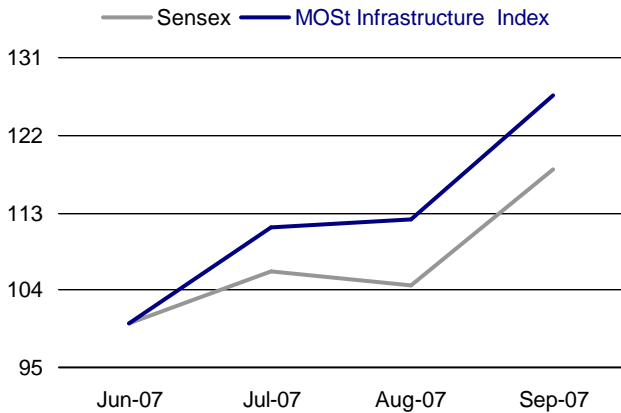
We remain positive on the construction sector, given the strong revenue visibility, significant growth opportunity in the target markets and value unlocking opportunity.

Stock performance and valuations

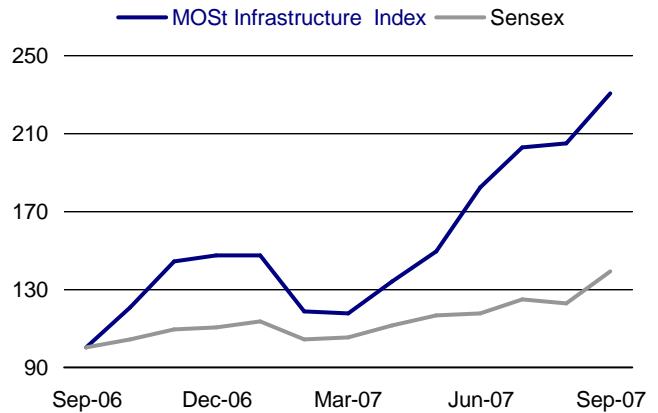
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Infrastructure						
B.L.Kashyap	51	137	32	97	20	1
Gammon India	15	34	-5	-5	-17	-101
GMR Infrastructure	23	285	4	246	-9	150
Hindustan Construction	15	35	-4	-4	-17	-100
IVRCL	21	69	2	29	-11	-67
Jaiprakash Associates	51	128	32	88	20	-7
Nagarjuna Construction	49	62	29	22	17	-74
Patel Engineering	12	41	-7	1	-19	-95

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Infrastructure														
B.L.Kashyap	2,418	Neutral	46.4	79.0	112.8	52.1	30.6	21.4	30.2	20.4	14.6	18.2	25.2	28.2
Gammon India	466	Buy	10.8	13.7	19.7	43.0	33.9	23.6	23.3	17.7	13.2	8.3	9.6	12.2
GMR Infrastructure	174	Neutral	1.1	1.0	1.2	165.1	180.1	147.1	58.1	49.7	31.5	10.1	8.6	9.6
Hindustan Construction	137	Buy	2.1	3.9	7.4	64.2	35.2	18.5	23.7	13.4	9.7	6.6	9.1	13.3
IVRCL Infra.	422	Buy	10.5	13.5	18.9	40.2	31.3	22.4	24.1	17.5	12.8	15.1	12.3	15.3
Jaiprakash Associates	1,092	Buy	19.7	22.8	30.1	55.3	47.9	36.3	34.0	23.8	19.7	15.6	13.2	12.3
Nagarjuna Construction	253	Buy	6.4	8.1	11.8	39.5	31.3	21.4	25.9	17.5	13.3	13.5	13.4	14.4
Patel Engineering	453	Buy	18.8	19.0	25.7	24.1	23.8	17.6	18.0	14.1	11.2	24.1	14.5	17.0
Sector Aggregate						67.2	52.9	37.9	34.7	25.5	19.1	12.4	12.0	13.2

BL Kashyap

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	KASH IN
	REUTERS CODE
S&P CNX: 5,021	BLKS.BO

28 September 2007

Neutral

Rs 2,418

Previous Recommendation: Neutral

Equity Shares (m)	10.3
52-Week Range	2,580/989
1,6,12 Rel. Perf. (%)	33/77/97
M.Cap. (Rs b)	24.8
M.Cap. (US\$ b)	0.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	8,080	556	46.4	73.7	52.1	8.7	18.2	26.7	3.1	29.2
3/08E	12,150	812	79.0	70.2	30.6	6.9	25.2	36.7	1.9	16.8
3/09E	17,618	1,159	112.8	42.7	21.4	5.4	28.2	41.0	1.3	11.6

- For 2QFY08, we expect BL Kashyap to report revenue of Rs 2.6b, up 50% YoY, EBITDA of Rs 272m, up 49.3% YoY, and net profit of Rs 154m, up 44.6% YoY.
- The company's order book stands at ~Rs 18b, 2.3x its FY07 revenue of Rs 7.7b. This would be executed over a period of 12-15 months ensuring strong near-term growth.
- The company has taken several initiatives to further leverage its execution skills, including formation of a wholly-owned subsidiary – Soulspace Projects – for undertaking joint or co-development of real estate projects. It is currently executing three projects of which two are in Pune and one is in Bikaner.
- We expect BL Kashyap to report a net profit CAGR of 44% over FY07-09. The stock trades at a P/E of 30.6x FY08E and 21.4x FY09E.
- We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	1,639	1,707	2,362	1,942	3,025	2,560	3,661	2,903	8,080	12,150
Change (%)	0.0	0.0	119.3	28.7	84.6	50.0	55.0	49.5	64.3	58.8
EBITDA	177	182	250	200	352	272	390	395	924	1,409
Change (%)	0.0	0.0	156.2	27.4	98.4	49.3	56.2	97.6	70.1	74.1
As of % Sales	10.8	10.7	10.6	10.3	11.6	10.6	10.6	13.6	11.4	11.6
Depreciation	23	24	26	27	31	40	50	53	99	173
Interest	7	12	12	11	34	12	15	-9	50	53
Other Income	9	16	23	9	102	13	14	-82	80	47
PBT	156	162	234	171	389	233	339	269	854	1,230
Tax	52	56	80	58	112	79	115	113	298	418
Effective Tax Rate (%)	33.4	34.3	34.3	33.9	28.7	33.9	33.9	41.8	34.9	34.0
Reported PAT	104	106	154	113	278	154	224	157	556	812
Adj PAT	104	106	154	113	278	154	224	157	556	812
Change (%)	0.0	-	185.5	21.1	167.4	44.6	45.5	38.8	73.7	70.2

E: MOSt Estimates

Gammon India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GMON IN
	REUTERS CODE
S&P CNX: 5,021	GAMM.BO

28 September 2007

Buy

Rs466

Previous Recommendation: Buy

Equity Shares (m)	86.7
52-Week Range	504/258
1,6,12 Rel. Perf. (%)	-6/21/-5
M.Cap. (Rs b)	40.4
M.Cap. (US\$ b)	1.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	18,647	957	10.8	12.5	43.0	3.6	8.3	11.6	2.3	23.3
3/08E	24,235	1,216	13.7	27.1	33.9	3.3	9.6	12.3	1.7	17.7
3/09E	31,286	1,743	19.7	43.3	23.6	2.9	12.2	15.5	1.4	13.2

- For 2QFY08, we expect Gammon to report revenue of Rs5.8b, up 20% YoY, EBITDA of Rs523m, up 25.2% YoY, and net profit of Rs245m, up 24.7% YoY.
- Gammon Infrastructure Projects Ltd (GIPL), a 82.5% subsidiary of the company, has submitted the Draft Red Herring Prospectus (DRHP) to the Securities Exchange Board of India (SEBI) for its initial public offer (IPO) of 16.55m equity shares.
- Gammon has entered into a franchisee, operation and management agreement with Wyndham Hotel Group International Inc (WYNDHAM) of USA to open a chain of budget hotels under the brands “Super-8” and “Days Inn” across India. It plans to roll out 38-40 hotels over the next 3-4 years at an estimated capex of Rs4b, to be funded entirely by Gammon.
- The company has signed an agreement with Macquarie through Gammon Infrastructure Projects Ltd (GIPL) to bid for Chennai airport maintenance project. The terms of the agreement envisage that Macquarie and Gammon would hold equal stakes in the project.
- The company has tied up with Siemens Transportation for design, commissioning and operation of airport-city rail link for a 30-year period in an expression of interest invited by Delhi Metro Rail Corporation.
- Gammon’s order backlog as of June 2007 stood at Rs80b, representing 3.8x FY07 revenue.
- The stock trades at reported P/E of 33.9x FY08E and 23.6x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	5,539	4,830	4,607	6,207	6,495	5,795	5,989	8,714	20,912	26,994
Change (%)	93.5	67.1	37.5	30.2	17.3	20.0	30.0	40.4	25.4	29.1
EBITDA	317	418	515	541	577	523	594	698	1,722	2,392
Change (%)	-6.9	-6.6	6.0	53.2	82.1	25.2	15.4	29.1	-10.9	38.9
As of % Sales	5.7	8.6	11.2	8.7	8.9	9.0	9.9	8.0	8.2	8.9
Depreciation	83	103	102	91	108	110	115	101	352	435
Interest	52	18	53	13	35	50	75	40	136	200
Other Income	3	1	7	118	11	3	2	2	197	18
Extra-ordinary income	27	0	0	0	0	0	0	0	27	0
PBT	211	297	366	556	444	366	406	559	1,458	1,775
Tax	25	36	50	875	159	121	138	142	1,030	559
Effective Tax Rate (%)	11.9	12.0	13.7	157.4	35.7	33.0	33.9	25.4	70.7	31.5
Reported PAT	186	262	316	-319	285	245	268	417	427	1,216
Adj PAT	122	197	242	367	271	245	268	417	946	1,202
Change (%)	-20.8	-20.6	15.5	34.1	122.2	24.7	11.0	13.5	-8.1	27.1

E: MOSt Estimates

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GMR Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GMRI IN
	REUTERS CODE
S&P CNX: 5,021	GMRI.BO
Equity Shares (m)	1,655.4
52-Week Range	201/43
1,6,12 Rel. Perf. (%)	-7/10/246
M.Cap. (Rs b)	288.0
M.Cap. (US\$ b)	7.2

28 September 2007

Neutral

Previous Recommendation: Buy

Rs 174

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	16,967	1,744	1.1	-8.5	165.1	16.6	10.1	5.7	18.6	58.1
3/08E	18,437	1,599	1.0	-8.3	180.1	15.4	8.6	5.5	6.6	17.1
3/09E	24,737	1,957	1.2	22.4	147.1	14.2	9.6	6.8	6.5	12.9

* Consolidated

- ✦ The GMR Infrastructure-led consortium has emerged as the successful bidder for the Sabiha Gocken airport in Italy. The concession (20 years including 30 months for construction) involves operation and maintenance of the existing airport and development of new greenfield international airport with a passenger handling capacity of 10m per annum.
- ✦ It has also signed an MoU with Tamil Nadu Industrial Development Corporation (TIDCO) for the development of a multi-product SEZ in Krishnagiri district, with land acquisition to be completed over a period of one year. SEZ will be spread around 3,300 acres and the project cost for developing the basic infrastructure is estimated around Rs23b. The total development cost including industrial and social infrastructure would be around Rs110b.
- ✦ The company has achieved significant progress in award of various concession contracts: (1) Floating an EoI for development of real estate on 45 acres of land at Delhi airport, (2) Advertising contract at Hyderabad airport awarded to Laqshya Media Pvt Ltd (Laqshya) for a period of seven years.
- ✦ We expect GMR to report net profit CAGR of 38% over FY07-10 on a consolidated basis. We expect its net profit after minority interest to grow from Rs1.7b in FY07 to Rs4.6b in FY10.
- ✦ We recommend **Neutral**.

Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HCC IN
	REUTERS CODE
S&P CNX: 5,021	HCNS.BO
Equity Shares (m)	274.3
52-Week Range	172/83
1,6,12 Rel. Perf. (%)	-12/17/-4
M.Cap. (Rs b)	37.5
M.Cap. (US\$ b)	0.9

28 September 2007

Buy

Rs 137

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	23,576	595	2.1	-35.3	64.2	3.9	6.1	6.6	2.1	22.5
3/08E	32,642	1,066	3.9	82.4	35.2	2.6	9.1	10.9	1.5	13.4
3/09E	44,425	2,027	7.4	90.2	18.5	2.3	13.3	14.1	1.2	9.7

- For 2QFY08, we expect HCC to report revenue of Rs5.5b, up 30% YoY, and net profit of Rs 19m, down 53.9% YoY.
- HCC's order backlog at the end of June 2007 was Rs97.2b (equivalent to 4x FY07 revenue) and is L1 in projects worth Rs25b (HCC's share Rs19.3b). Hydro projects accounted for 71% of the order intake during FY07. As of June 2007, share of power sector in order backlog increased to 46% (v/s 38% as of March 2006 and 14% as of March 2005).
- Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch at Phase 1 (1,739 acres) at Rs2,450/sft for apartments and Rs2,950/sft for villas. Full-scale launch of the project is expected on Dussera (22 October 2007).
- The company has achieved significant progress on other real estate projects: (1) commenced construction for IT park (2m sft), and (2) 1,500 acres of land tied up (100 acre acquired) for developing integrated townships in Thane, Pune and Nashik.
- During FY07-09, we expect HCC to report a revenue CAGR of 37% and a net profit CAGR of 85%. The stock trades at a P/E of 35.2x FY08E and 18.5x FY09E.
- We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales	5,806	4,257	5,407	8,476	7,306	5,534	7,948	11,855	23,945	32,642
Change (%)	25.9	40.9	18.6	10.3	25.8	30.0	47.0	39.9	20.5	36.3
EBITDA	461	395	664	877	791	546	881	1,370	2,396	3,588
Change (%)	12.8	53.3	36.6	29.9	71.5	38.4	32.7	56.3	31.0	49.7
As of % Sales (Adj)	7.9	9.3	11.1	9.1	10.8	9.9	10.2	10.5	9.3	10.4
Depreciation	161	186	206	244	228	250	260	268	797	1,006
Interest	74	158	175	212	322	270	210	193	620	995
Other Income	62	10	2	125	315	1	1	5	199	321
PBT	288	61	284	546	556	27	412	914	1,179	1,909
Tax	36	19	65	266	206	8	140	276	386	630
Effective Tax Rate (%)	12.6	31.5	22.8	48.7	37.1	30.0	33.9	30.2	32.8	33.0
Reported PAT	251	42	220	280	350	19	272	638	793	1,279
Adj PAT	201	42	144	160	150	19	272	638	547	1,066
Change (%)	-11.2	45.3	-36.5	-62.4	-25.6	-53.9	89.4	298.6	-33.1	94.9

E: MOST Estimates

IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IVRC IN
	REUTERS CODE
S&P CNX: 5,021	IVRC.BO
Equity Shares (m)	134.7
52-Week Range	460/240
1,6,12 Rel. Perf. (%)	-3/13/29
M.Cap. (Rs b)	56.9
M.Cap. (US\$ b)	1.4

28 September 2007

Buy

Rs422

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	23,059	1,415	10.5	20.8	40.2	4.1	15.1	13.8	2.4	24.1
3/08E	32,935	1,815	13.5	28.3	31.3	3.7	12.3	15.0	1.8	17.5
3/09E	46,915	2,540	18.9	40.0	22.4	3.2	15.3	19.0	1.4	12.8

- For 2QFY08, we expect IVRCL to report revenue of Rs4.9b, up 35% YoY, and net profit of Rs197m, up 26.8% YoY.
- The order backlog for the company stood at Rs95b as at June 2007, up from Rs81b as at March 2007, representing a book-to-bill ratio of 4.1x FY07 revenue of Rs23.1b.
- IVR Prime Urban Developers (a 62.4% subsidiary) has successfully completed its initial public offering recently. The company has a land bank of 3,300 acres (developable area of 60m sft+) in Hyderabad, Chennai, Bangalore, Pune and Noida to be developed over the next five years.
- The company achieved financial closure for the Chennai desalination project. The project involves setting up of a desalination plant for drinking water supply at a cost of Rs4.9b. The construction work on all its three road BOT projects has also started and the company has achieved a physical progress of 20% on these projects.
- The management has guided revenue of Rs33-35b in FY08 (up 43-52% YoY) and EBITDA margin improvement of 25-50bp. The company has also guided 50% revenue growth in FY08 for subsidiary Hindustan Dorr-Oliver.
- For FY07-09, we expect IVRCL to report CAGR of 42.6% in revenue and 34% in net profit. The lower growth in net profit would be largely due to the full tax provisioning in FY08 and FY09.
- The stock trades at a P/E of 31.3x FY08E and 22.4x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	4,266	3,644	5,223	9,923	6,773	4,920	7,051	14,191	23,059	32,935
Change (%)	41.9	42.0	27.9	68.0	58.8	35.0	35.0	43.0	54.2	42.8
EBITDA	407	308	556	1,073	600	443	705	1,629	2,301	3,377
Change (%)	73.3	46.5	61.8	92.3	47.5	43.6	26.8	51.8	71.4	46.7
As of % Sales	9.5	8.5	10.7	10.8	8.9	9.0	10.0	11.5	10.0	10.3
Depreciation	38	49	60	69	66	73	75	82	216	296
Interest	133	103	98	25	57	87	124	144	308	412
Other Income	17	55	18	2	10	15	22	30	74	77
PBT	253	211	416	981	488	298	528	1,432	1,851	2,746
Tax	42	56	94	249	108	101	179	543	436	931
Effective Tax Rate (%)	16.6	26.5	22.7	25.4	22.2	33.9	33.9	37.9	23.6	33.9
Reported PAT	211	155	321	732	380	197	349	890	1,415	1,815
Adj PAT	261	155	271	732	380	197	349	890	1,415	1,815
Change (%)	53.0	38.7	22.4	67.1	45.4	26.8	28.7	21.5	52.2	28.3

E: MOSt Estimates

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Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	JPA IN
	REUTERS CODE
S&P CNX: 5,021	JAIA.BO

28 September 2007

Buy

Rs 1,092

Previous Recommendation: Buy

Equity Shares (m)	251.1
52-Week Range	1,160/448
1,6,12 Rel. Perf. (%)	4/72/88
M.Cap. (Rs b)	274.2
M.Cap. (US\$ b)	6.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	34,639	4,330	19.7	55.4	55.3	8.3	15.6	10.8	8.1	34.0
3/08E	40,215	5,727	22.8	15.5	47.9	4.7	13.2	12.2	7.5	23.8
3/09E	53,694	7,556	30.1	31.9	36.3	4.3	12.3	12.8	5.8	19.7

* Fully diluted

- For 2QFY08, we expect Jaiprakash to report revenue of Rs8.9b, up 16% YoY, and net profit of Rs 1.1b, up 25.7% YoY.
- The company has started construction work on the Taj expressway and has recently invited expressions of interest for marketing of its initial 600 acres land at Noida, which it plans to launch shortly. The levelization of the expressway has been done on 2.5km of road length (total length of 166km) till now. The company has got the land for construction of 5.3km of road while land for another 25-30km of road construction would be allotted by October 2007.
- Jaiprakash would have an installed capacity of 25mtpa by FY11 (its proportionate share) – 3.5m ton in FY08, 7.7m ton in FY09, 5.6m ton in FY10 and 1.3m ton in FY11. It has recently emerged as the successful bidder for the Bokaro steel plant of SAIL to develop 1m ton cement plant. It also plans to bid for the Rourkela steel plant of SAIL, bids for which are likely to be invited soon.
- The company has sold 1.7m sft till June 2007 (v/s 1.5m sft in March 2007) and the average realization is in the range of Rs 7,400-7,500/sft (v/s Rs 6,500/sft in March 2007). It has repaid all its debt through customer advances.
- The company's engineering and construction order book as at the end of March 2007 stood at ~Rs 73b, ensuring revenue visibility till FY09. The stock trades at a P/E of 47.9x FY08E and 36.3x FY09E. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	8,950	7,700	8,910	8,860	9,270	8,932	10,247	11,767	34,420	40,215
Change (%)	9.5	14.6	11.8	3.6	3.6	16.0	15.0	32.8	9.6	16.8
EBITDA	2,130	1,980	2,310	2,630	2,390	2,569	2,978	4,708	9,040	12,645
Change (%)	37.4	42.4	38.3	70.8	12.2	29.7	28.9	79.0	46.3	39.9
As of % Sales	23.8	25.7	25.9	29.7	25.8	28.8	29.1	40.0	26.3	31.4
Depreciation	380	390	430	420	450	450	475	772	1,630	2,147
Interest	590	620	700	650	790	837	980	1,150	2,570	3,757
Other Income	250	380	400	300	780	430	450	169	1,360	1,829
PBT	1,410	1,350	1,580	1,860	1,930	1,712	1,973	2,955	6,200	8,570
Tax	490	450	560	550	530	580	669	1,063	2,050	2,842
Effective Tax Rate (%)	34.8	33.3	35.4	29.6	27.5	33.9	33.9	36.0	33.1	33.2
Reported PAT	920	900	1,020	1,310	1,400	1,131	1,304	1,892	4,150	5,727
Adj PAT	920	900	1,020	1,310	1,400	1,131	1,304	1,892	4,150	5,727
Change (%)	70.4	4.7	78.9	87.1	52.2	25.7	27.9	44.4	55.4	38.0

E: M0St Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com); Tel: +91 22 39825410/Nalin Bhatt (NalinBhatt@MotilalOswal.com); +91 22 39825429

Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NJCC IN
	REUTERS CODE
S&P CNX: 5,021	NGCN.BO

28 September 2007

Buy

Rs253

Previous Recommendation: Buy

Equity Shares (m)	240.3
52-Week Range	257/139
1,6,12 Rel. Perf. (%)	12/25/22
M.Cap. (Rs b)	60.8
M.Cap. (US\$ b)	1.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	28,711	1,335	6.4	26.1	39.5	5.1	13.5	14.9	2.2	22.9
3/08E	38,098	1,941	8.1	26.2	31.3	3.3	13.4	12.8	1.8	17.5
3/09E	52,780	2,839	11.8	46.2	21.4	2.9	14.4	14.0	1.4	13.3

- For 2QFY08, we expect Nagarjuna Construction (NCC) to report revenue of Rs6.7b, up 2% YoY, and net profit of Rs342m, up 2.2% YoY.
- As at end-June 2007, NCC's order book stood at Rs77.7b, which includes Rs6.5b from own road BOT projects and Rs2.3b from NCC Urban Infra (real estate subsidiary). Order book composition: roads 25%, buildings 24.5%, water 20%, irrigation/HEP 7%, electricals 6%, power 2%, oil/gas 5%, international 10.5%.
- NCC has struck its maiden order in the new foray into metals sector in consortium with Posco E&C of South Korea for Rs16b from SAIL for IISCO Steel Plant at Bumpur, West Bengal. Its share of the order stands at Rs11b.
- NCC Urban Infrastructure (80% subsidiary) has land bank of 530 acres (127 acres contributed by NCC and 140 acres from Ranchi and Vizag project). In Phase 1, the company has plans to develop 267 acres (development area of 13.4m sft) over a four-year period. On the remaining 263 acres, the company plans to start development over the next 12 months. It has also received LoI from Hyderabad Urban Development Authority (NCC Urban Infra 26%, Dishman 37% and ICICI Ventures 37%) for development of an integrated township over 400 acres of land. Nagarjuna has first right of refusal for the construction contract.
- For FY08, the management has guided revenue of Rs40b, up 40% YoY, and net profit margin of 5.5%-5.75% as against 5.3% during FY07. For NCC Urban Infrastructure, the management has guided revenue of Rs3b (development of 1.2m sft) for FY08, Rs8b (2.5m sft) for FY09 and Rs10b (4m sft) for FY10.
- The stock trades at a P/E of 31.3x FY08E and 21.4x FY09E. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	6,517	6,517	6,998	8,679	7,622	6,647	10,147	13,682	28,711	38,098
Change (%)	81.4	77.0	48.1	35.5	16.9	2.0	45.0	57.7	56.0	32.7
EBITDA	550	618	802	727	794	771	1,125	1,241	2,697	3,930
Change (%)	97.8	63.0	75.5	36.9	44.3	24.8	40.2	70.6	64.4	45.7
As of % Sales	8.4	9.5	11.5	8.4	10.4	11.6	11.1	9.1	9.4	10.3
Depreciation	58	69	76	96	104	108	115	121	299	448
Interest	57	96	185	166	145	190	210	204	504	750
Other Income	8	10	5	270	4	15	15	27	292	61
PBT	443	462	546	735	548	488	815	943	2,186	2,793
Tax	59	69	97	443	187	146	244	274	667	852
Effective Tax Rate (%)	13.3	14.9	17.8	60.2	34.2	30.0	30.0	29.	30.5	30.5
Reported PAT	384	393	449	293	360	342	570	669	1,519	1,941
Adj PAT	326	334	359	339	360	342	570	669	1,358	1,941
Change (%)	70.3	59.9	33.9	-3.1	10.4	2.2	59.1	97.6	30.7	43.0

E: M0St Estimates

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Patel Engineering

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	PEC IN
	REUTERS CODE
S&P CNX: 5,021	PENG.BO

28 September 2007

Buy

Rs453

Previous Recommendation: Buy

Equity Shares (m)	59.7
52-Week Range	490/293
1,6,12 Rel. Perf. (%)	-5/0/1
M.Cap. (Rs b)	27.0
M.Cap. (US\$ b)	0.7

YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	11,024	1,120	18.8	28.1	24.1	3.8	24.1	14.8	2.4	18.0
3/08E	14,302	1,134	19.0	1.2	23.8	3.6	14.5	14.9	2.0	14.1
3/09E	18,751	1,531	25.7	35.1	17.6	3.1	17.0	15.9	1.6	11.2

* Consolidated

- For 2QFY08, we expect Patel to report revenue of Rs2.5b, up 27.5% YoY, and net profit of Rs234m, down 6.4% YoY mainly due to the higher tax provision.
- Order book as at June 2007 stood at Rs50b (v/s Rs39.4b as at March 2006 and Rs48b as at December 2006). Order book composition: hydro 55%, irrigation 25%, and transportation and others 20%. This compares with (FY06 composition): hydro 40%, irrigation 38%, and transportation and others 22%. Thus, there is a shift in order book composition towards hydropower projects, which entails comparatively better margins (at 17-22%) v/s irrigation (10-15%) and transportation (5-8%).
- Patel Engineering has transferred development rights for its existing land bank of 500 acres (60m sft) to Patel Realty India (PRIL), a 100% subsidiary. The entire land bank is in the company's physical possession, and is unencumbered with proper title deeds registered. In Phase 1, the company is commencing construction of 0.75m sft commercial space in Jogeshwari (construction to start from October 2007) and 3-5m sft of commercial and residential development at Bangalore (construction to start from end FY08). In Phase 2, the company would take up development of another 5m sft at Bangalore and Chennai. Phase 3 will cover Hyderabad.
- The management has indicated that the existing order book could drive a 25% revenue CAGR over the next 2.5 years. Further, the company expects order intake of Rs20b+ during FY08, which could further add to the expected growth. Patel Engineering is pre-qualified to bid for projects worth Rs60b in the hydropower space and Rs40b in irrigation and transportation.
- The stock trades at a reported P/E of 23.8x FY08E and 17.6x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	2,900	1,979	2,184	3,962	3,301	2,523	2,839	5,640	11,024	14,302
Change (%)	52.8	40.6	28.7	31.5	13.8	27.5	30.0	42.3	37.5	29.7
EBITDA	318	307	419	456	358	366	554	706	1,500	1,984
Change (%)	54.2	38.7	15.9	69.2	12.6	19.1	32.1	54.9	41.7	32.2
As of % Sales	11.0	15.5	19.2	11.5	10.9	14.5	19.5	12.5	13.6	13.9
Depreciation	65	66	70	72	66	85	95	122	273	369
Interest	46	-13	24	52	27	35	40	33	109	135
Other Income	26	20	11	35	35	30	45	35	91	145
PBT	233	274	335	368	300	276	464	586	1,210	1,625
Tax	33	24	44	28	37	41	176	297	129	551
Effective Tax Rate (%)	14.2	8.7	13.0	7.7	12.2	15.0	37.9	50.8	10.6	33.9
Reported PAT	200	250	292	340	264	234	288	288	1,081	1,074
Adj PAT	200	250	292	340	264	234	288	288	1,081	1,074
Change (%)	76.9	98.2	16.4	59.9	32.1	-6.4	-1.3	-15.0	54.0	-0.6

E: MOST Estimates

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Media

BSE Sensex: 17,291

S&P CNX: 5,021

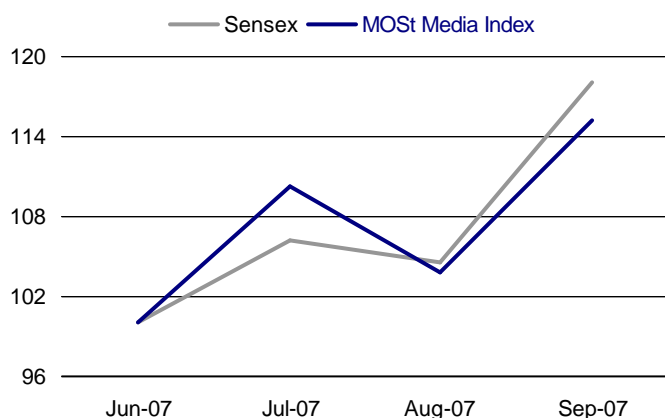
28 September 2007

Stock performance and valuations

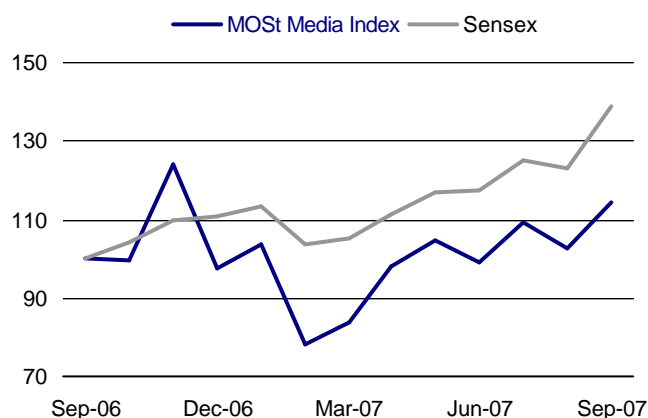
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Media						
Zee Entertainment	19	14	0	-25	0	-3

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Media														
Zee Entertainment	342	Neutral	5.5	8.1	11.7	62.7	42.4	29.3	47.1	27.5	19.4	13.4	17.4	17.2

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Media							
Zee Entertainment	Neutral	4,199	20.1	1,254	478.4	817	335.7

Zee Entertainment Enterprise

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	Z IN
	REUTERS CODE
S&P CNX: 5,021	ZEE.BO

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs342

Equity Shares (m)	433.5
52-Week Range	381/210
1,6,12 Rel. Perf. (%)	2/8/-25
M.Cap. (Rs b)	148.5
M.Cap. (US\$ b)	3.7

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	15,159	2,374	5.5	11.7	62.7	5.8	13.4	12.8	10.0	47.2
3/08E	17,909	3,516	8.1	48.1	42.4	5.2	17.4	19.6	8.3	27.6
3/09E	21,254	5,086	11.7	44.6	29.3	4.4	17.2	23.7	6.8	19.5

- ✗ We expect Zee Entertainment Enterprise (ZEEL) to report 7% QoQ growth in revenue on back of a higher advertising and subscription income.
- ✗ We believe ZEEL's advertising income would grow backed by improvement in the ratings of its flagship channel Zee TV. The gap between Zee TV and Star TV has reduced with Zee TV's share increasing from 23% to 28.5%, slightly behind Star Plus – 30.7% (August-September 2007). We expect 3.4% QoQ growth in advertising income.
- ✗ 1QFY08 witnessed a sequential decline in subscription revenue due to reduction in bouquet price offered to Tata Sky and slow roll out of CAS. However, with the increase in DTH subscriber base, we expect ZEEL's subscription revenue to post 11% sequential growth to Rs1,866m.
- ✗ Strong focus on content has improved overall rating for Zee TV and brought the advertising rates of GEC at par with Star Plus. Zee TV's music talent show 'Saregamapa Challenge' is the number one show with TRP of 6.2 and its other shows continue to maintain their TRP ratings.
- ✗ PAT is expected to grow by 6% QoQ to Rs817m, on higher advertising and subscription revenue.
- ✗ The stock is trading at 42.4x FY08E and 29.3x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Advertising Revenue	1,392	1,718	2,105	1,849	2,044	2,113	2,409	2,457	7,064	9,023
Subscription Revenue	1,327	1,474	1,956	1,849	1,681	1,866	2,094	2,345	6,606	7,985
Other Sales and Services	175	305	116	146	191	220	240	250	742	901
Net Sales	2,894	3,497	4,177	3,844	3,916	4,199	4,742	5,052	14,412	17,909
Change (%)			53.0	10.6	35.3	20.1	13.5	31.4	30.5	24.3
Prog, Transmission & Direct Exp	1,598	2,403	1,721	1,632	1,585	1,685	1,910	1,980	7,353	8,328
Staff Cost	244	240	232	292	375	380	435	450	1,008	1,381
Selling and Other Exp	391	638	867	969	759	880	950	1,100	2,864	2,821
EBITDA	662	217	1,357	951	1,197	1,254	1,447	1,522	3,187	5,380
Change (%)			186.3	111.9	80.9	478.4	6.6	60.0	28.8	68.8
As of % Sales	22.9	6.2	32.5	24.8	30.6	29.9	30.5	30.1	22.1	30.0
Depreciation	52	51	69	56	67	67	67	67	228	267
Interest	109	35	68	8	118	25	10	5	220	118
Other Income	147	152	155	177	213	175	170	165	630	723
PBT	648	282	1,375	1,064	1,225	1,337	1,540	1,615	3,369	5,718
Tax	109	74	417	365	412	435	508	533	964	1,887
Effective Tax Rate (%)	16.8	26.1	30.3	34.3	33.6	32.5	33.0	33.0	28.6	33.0
Reported PAT	539	209	958	699	813	902	1,032	1,082	2,405	3,831
Minority Interest	13	21	83	95	42	85	93	95	212	315
Adj PAT	526	188	875	604	771	817	939	987	2,193	3,516
Change (%)			166.9	12.8	46.6	335.7	7.3	63.5	8.3	60.3

E: MOST Estimates; Quarterly numbers doesnot match with full year due to recasting

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Metals

BSE Sensex: 17,291

S&P CNX: 5,021

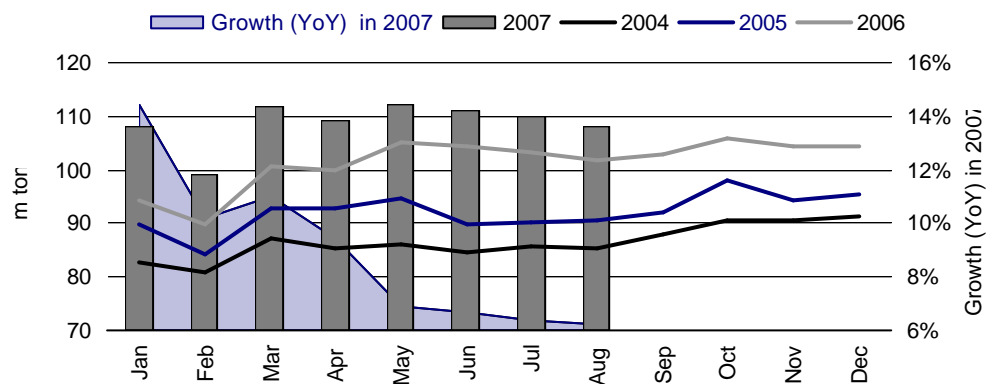
28 September 2007

COMPANY NAME	PG.
Hindalco	174
Hindustan Zinc	175
Jindal Steel	176
JSW Steel	177
Nalco	178
Sterlite Industries	179
SAIL	180
Tata Steel	181

Steel

Growth in crude steel production is moderating: Global crude steel output increased 8.8% to 869m tonnes during Jan-Aug 2007 driven by growth of 18.2% in China, 9.4% in India and 3.7% in rest of the world (ROW). Monthly crude steel production in China has been ranging between 40m-42m tonnes for the last six months (March-August 2007) and YoY growth rates have fallen from 26.4% in January 2007 to 13.3% in August 2007. China still is the largest contributor to the growth and accounts for 70% of 70m tonnes of YoY incremental crude steel production during January-August 2007.

GLOBAL MONTHLY CRUDE STEEL PRODUCTION



Source: IISI

Double-digit consumption growth in China continues: The consumption of finished steel in China continues to post double digit growth driven by continued momentum in fixed asset formation, industrial production, ship building, machinery building and infrastructure construction.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO		SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Metals							
Hindalco *	Neutral	47,958	3.5	7,825	-20.7	5,014	-22.8
Hindustan Zinc	Buy	19,160	-21.5	13,583	-26.8	9,562	-26.3
Jindal Steel & Power	Buy	12,476	58.0	4,813	56.0	2,289	45.6
JSW Steel	Buy	26,515	20.8	9,213	32.3	4,415	27.5
Nalco	Neutral	12,402	-14.0	6,069	-30.6	4,228	-28.9
SAIL	Buy	96,885	13.5	30,152	29.2	19,460	34.9
Sterlite Inds.	Buy	57,689	-14.1	19,559	-24.0	10,534	-9.6
Tata Steel	Buy	48,480	15.8	19,168	12.4	11,328	0.1
Sector Aggregate		321,565	3.9	110,382	-2.6	66,830	-1.5

* Standalone

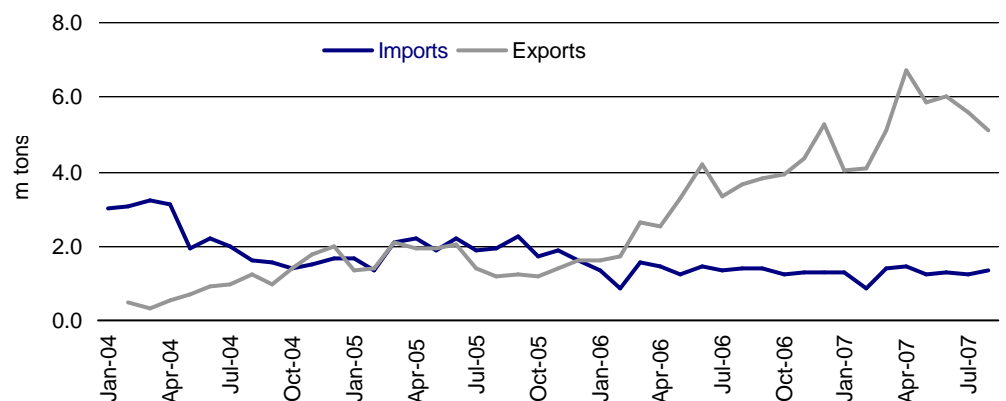
FINISHED STEEL CONSUMPTION IN CHINA

MONTH	PROD. (M TONS)	IMPORT (M TONS)	EXPORTS			APP. CONS.	YTD (%)
			(M TONS)	MOM (%)	YOY (%)		
Jan-07	40.4	1.5	4.4	-21.4	144	37.5	
Feb-07	38.6	1.2	4.4	0.0	132	35.4	15.0
Mar-07	47.0	1.6	5.4	22.7	93	43.2	15.6
Apr-07	46.3	1.6	7.2	33.3	167	40.7	13.9
May-07	47.5	1.4	6.2	-13.9	77	42.7	13.4
Jun-07	49.2	1.4	6.2	-0.6	40	44.4	13.8
Jul-07	47.7	1.4	5.9	-3.6	65	43.2	14.4
Aug-07	48.3	1.4	5.4	-9.4	38	44.3	15.2

Source: Industry

Chinese government continues to discourage exports by removing export rebates and imposing duties to avoid trade friction with partner countries, which has resulted in export volumes peaking.

FINISHED STEEL EXPORTS FROM CHINA HAVE PEAKED (M TONS)

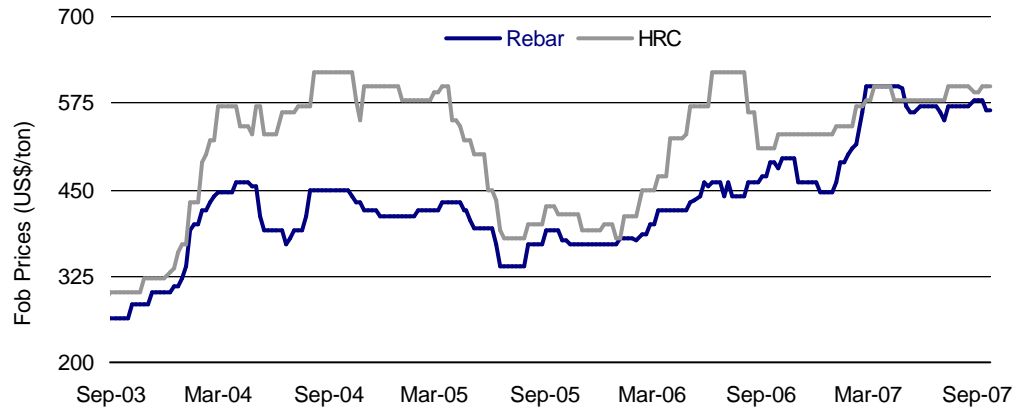


Source: Metal Bulletin

Chinese export prices of HRC after falling to a low of US\$510/tonne *f.o.b.* in the month of July have since increased to US\$600/tonne *f.o.b.* due to strong local demand and rising iron ore prices. Though there is a small correction of about US\$20/tonne in the third week of September 2007, the bullishness prevails, as China is expected to increase export duty on HRC and other steel products from 5% to 10%.

Global steel prices, which were trending down since May 2007, bottomed out towards the end of August 2007 due to continued strong demand in most parts of world with the exception of USA, firming prices of metallic' (steel scrap and iron ore) due to shortage and high ocean freight.

STEEL PRICES RULING FIRM

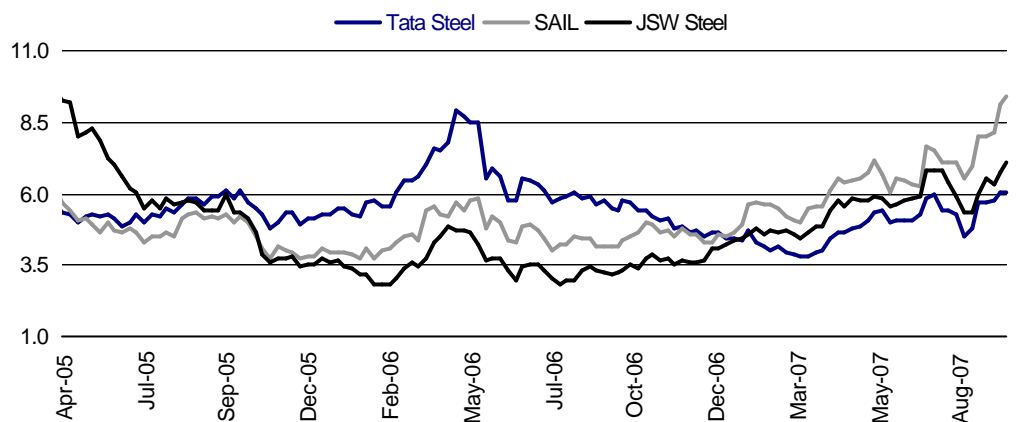


Source: Metal Bulletin (prices in CIS countries)

After offering price cuts for a couple of months in a sequence, Indian steel producers increased prices of HRC by Rs800-Rs900 per tonne in September 2007 to align with the rising landed cost of imports, as prices had started moving up globally. Import prices of HRC are continuing their uptrend and the new offers are reported at US\$670/tonne, which is higher by ~US\$50-60/tonne since the beginning of September 2007. Despite strengthening of the Indian rupee against the US dollar, the gap between domestic prices and landed costs of imports has widened by Rs 1,000-Rs 1,500 per tonne and there is a case of price hike at the beginning of October 2007. Indian producers have raised the prices of HRC and long products by Rs750/tonne w.e.f. 1 October 2007.

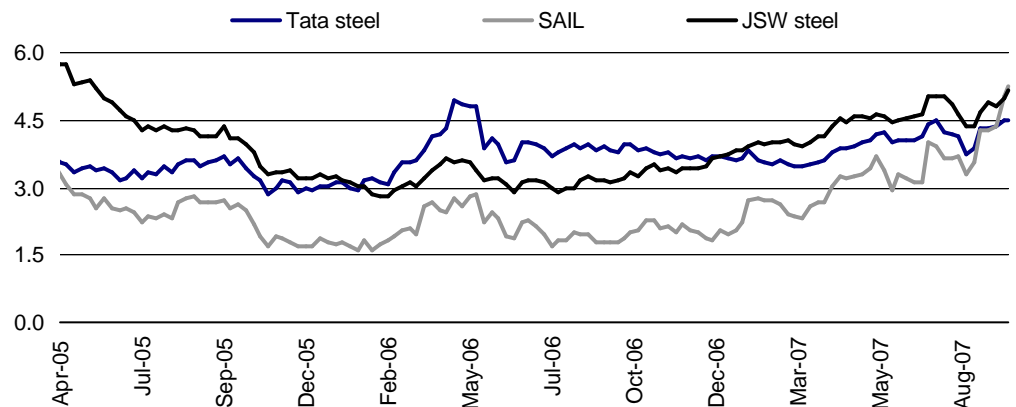
We expect SAIL, Tata Steel, JSW Steel and Jindal Steel & Power to post YoY growth in 2QFY08 earnings, which will be driven by strong prices and volume growth. We expect average realization for most players to be lower by ~2% QoQ due to the price trend.

1-YEAR FORWARD PE RATIO (X)



Source: Motilal Oswal Securities

1-YEAR FORWARD EV/EBITDA RATIO (X)



Source: Motilal Oswal Securities

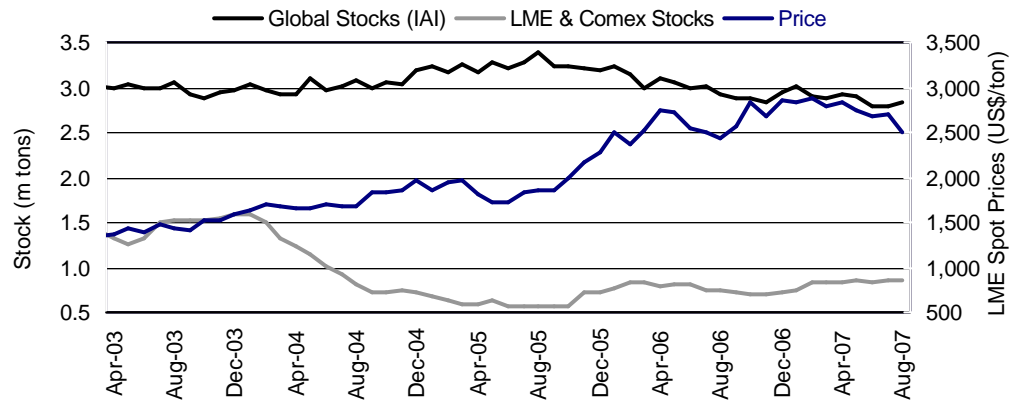
We maintain our positive view on integrated players, Tata Steel is best pick: We believe that companies like SAIL, JSW Steel and Jindal Steel & Power will continue to show strong operating performance on account of their captive raw material and high volume growth. Tata Steel too is expected to post growth in EBITDA of Indian operations and strong performance of Corus. We believe strong demand in most part of the world (except USA) and cost pressures from raw materials have been the key drivers behind the rally in steel prices. Iron ore prices have more than doubled to US\$155/tonne since the beginning of year. The spot prices of coking coal too are moving up. The actual impact of iron ore and coking coal cost pressure will be felt in 2008 when the annual contracts are negotiated and steel producers worldwide will try to pass this cost to the consumer as demand is strong. Therefore, we believe the re-rating of sector will continue.

The valuations of SAIL, JSW Steel and Jindal Steel & Power have run up significantly due to captive iron ore, proximity to mines and exposure to the domestic market. However, the PE and EV/EBITDA rating of Tata Steel has lagged far behind. Tata Steel has captive iron ore (~20%) and coking coal (~15%) on the current production of the consolidated entity, which will more than double in next five years, as its production in India would increase on completion of greenfield and brownfield projects. On start of coal mining in Mozambique, the coal security for Tata Steel will improve further. Tata Steel will have savings of interest costs after completion of rights issue of ~US\$2.5b and tax shield on placement of US\$6.1b debt on Corus in subsequent quarters. Tata Steel is our top pick.

Non-ferrous metals

Global stocks of aluminium are falling but inventory is rising at LME: Aluminium prices at LME have corrected from their peak by ~10% in last few months. Though the global stocks are falling, the inventories at LME are rising. Rising inventories at LME are explained by rising Contango premium which are used to fund the carrying cost. We believe the demand fundamentals are strong and remain positive on metal prices.

GLOBAL INVENTORIES AND PRICES OF ALUMINIUM



Source: IAI and LME

We remain Neutral on Nalco & Hindalco and positive on Sterlite & Hindustan Zinc: During 2QY08, zinc and aluminium prices have corrected substantially without significant change in demand and supply fundamentals. Though the copper prices continue to rule firm, there is continued pressure on TcRc margins. Indian base metal companies are a play on aluminium and zinc prices, alumina prices and copper TcRc margins. Therefore, the earnings growth for Hindalco, Nalco, Hindustan Zinc and Sterlite will remain muted ahead. This is further aggravated due to appreciation of Indian currency and reduction of import duty from 7.5% to 5% in the beginning of 2007. The demand fundamentals for base metals are strong, driven by continued economic growth in most parts of the world and zinc could witness supply side issues. We expect zinc prices to bounce back from the current level and hence maintain our positive outlook on Sterlite, which is a diversified play on three base metals and has embedded options.

QUARTERLY AVERAGE OF METAL PRICES (US\$/TON)

QUARTER	ZINC			ALUMINIUM			COPPER			LEAD			ALUMINA		
	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %
2QFY08	3,235	-12	-4	2,618	-7	3	7,600	0	0	3,073	41	157	348	-3	2
1QFY08	3,679	7	14	2,802	2	4	7,578	27	6	2,184	25	95	360	12	-38
4QFY07	3,441	-17	52	2,748	1	12	5,975	-16	23	1,751	10	43	322	34	-47
3QFY07	4,142	23	152	2,726	8	32	7,096	-7	72	1,587	33	57	240	-29	-55
2QFY07	3,359	4	155	2,531	-6	37	7,628	7	115	1,194	7	37	340	-42	-21
1QFY07	3,239	43	152	2,684	10	50	7,158	47	123	1,119	-9	18	583	-4	34
4QFY06	2,267	38	71	2,447	18	29	4,862	18	55	1,224	21	31	607	15	46
3QFY06	1,642	25	45	2,071	12	14	4,130	17	39	1,011	16	9	530	23	32
2QFY06	1,316	2	32	1,849	3	8	3,544	10	27	869	-8	0	432	0	29
1QFY06	1,287	-3	23	1,795	-5	6	3,213	3	19	949	1	22	434	5	-5

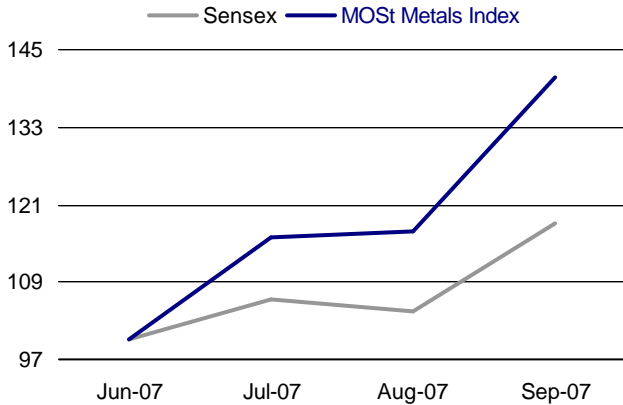
Source: LME and Metal Bulletin

Stock performance and valuations

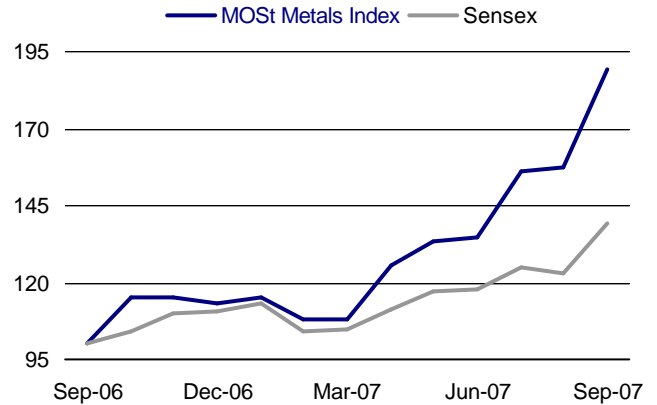
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Metals						
Hindalco	2	1	-17	-39	-39	-93
Hindustan Zinc	16	37	-3	-3	-24	-57
Jindal Steel & Power	54	211	35	172	13	118
JSW Steel	42	203	23	163	1	109
Nalco	16	40	-3	0	-25	-54
SAIL	58	175	38	135	17	81
Sterlite Inds.	30	72	11	33	-11	-21
Tata Steel	43	64	24	24	3	-30

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Metals														
Hindalco	172	Neutral	24.2	7.5	12.3	7.1	23.1	14.0	5.7	9.0	7.4	22.8	6.5	9.2
Hindustan Zinc	813	Buy	105.1	93.8	102.6	7.7	8.7	7.9	4.8	5.1	4.1	58.2	35.1	28.4
Jindal Steel & Power	5,183	Buy	228.3	305.5	357.3	22.7	17.0	14.5	14.0	9.7	7.6	28.3	27.9	27.3
JSW Steel	851	Buy	71.7	102.4	114.8	11.9	8.3	7.4	6.9	5.7	5.3	24.1	25.9	23.6
Nalco	302	Neutral	37.0	24.3	27.2	8.2	12.4	11.1	4.5	5.8	6.6	30.8	22.6	17.6
SAIL	207	Buy	14.6	20.4	21.8	14.1	10.1	9.5	7.9	5.6	5.4	34.8	34.6	28.6
Sterlite Inds.	748	Buy	80.6	59.4	63.4	9.3	12.6	11.8	5.6	4.9	4.0	45.3	19.1	17.3
Tata Steel	850	Buy	70.2	114.6	130.0	12.1	7.4	6.5	9.7	5.2	4.7	27.6	24.7	22.7
Sector Aggregate						12.0	9.9	9.0	6.9	5.8	5.2	34.1	24.4	21.9

Hindalco

Neutral

Rs 172

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HNDL IN
	REUTERS CODE
S&P CNX: 5,021	HALC.BO

28 September 2007

Equity Shares (m)	1,306.8
52-Week Range	193/125
1,6,12 Rel. Perf. (%)	-4/-2/-39
M.Cap. (Rs b)	224.8
M.Cap. (US\$ b)	5.6

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	199,548	28,006	24.2	77.5	7.1	1.6	22.8	18.8	1.2	5.2
3/08E	677,234	9,738	7.5	-69.2	23.1	1.5	6.5	6.2	0.7	9.0
3/09E	715,849	16,041	12.3	64.7	14.0	1.3	9.2	7.7	0.7	7.4

Consolidated

- For 2QFY08, we expect standalone PAT to decline 22.8% YoY to Rs5b due to 7% YoY lower aluminium prices on the LME, appreciation of currency, lower import duty and falling TcRc margins despite volume growth of 26% for copper and 2% for aluminium.
- Revision of our aluminium (from US\$2,750/tonne to US\$2,400/tonne) and the rupee (from 40Rs/US\$ to 39Rs/US\$) assumption has led to a decline in our EPS. Our EPS estimates have consequently taken a hit up to 25% for FY08E and 28% for FY09E.
- The stock is trading at EV/EBITDA of 9x FY08E and 7.4x FY09E. The company has investments in listed stock, which have market value of ~Rs50 per share. Novelis will take a few years before becoming earnings accretive. We remain **Neutral** on the stock.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	42,737	46,342	46,562	47,489	46,779	47,958	48,712	51,221	183,130	194,670
Change (YoY %)	93.6	74.2	62.0	29.8	9.5	3.5	4.6	7.9	60.7	6.3
Total Expenditure	33,403	36,478	36,109	36,340	37,936	40,133	41,973	44,163	142,330	164,204
EBITDA	9,334	9,864	10,453	11,149	8,843	7,825	6,740	7,058	40,800	30,466
Change (YoY %)	54.4	102.2	79.3	19.9	-5.3	-20.7	-35.5	-36.7	56.6	-25.3
As % of Net Sales	21.8	21.3	22.4	23.5	18.9	16.3	13.8	13.8	22.3	15.6
Interest	634	515	698	577	562	577	602	627	2,424	2,368
Depreciation	1,341	1,353	1,384	1,576	1,428	1,475	1,475	1,475	5,654	5,853
Other Income	776	1,108	584	1,233	1,246	1,200	700	700	3,701	3,846
PBT (before EO Item)	8,135	9,104	8,955	10,229	8,099	6,973	5,363	5,656	36,423	26,091
Extra-ordinary Income		-727		-650					-1,377	
PBT (after EO Item)	8,135	8,377	8,955	9,579	8,099	6,973	5,363	5,656	35,046	26,091
Total Tax	2,120	2,401	2,516	2,366	2,070	1,959	1,507	1,589	9,403	7,126
% Tax	26.1	28.7	28.1	24.7	25.6	28.1	28.1	28.1	26.8	27.3
Reported PAT	6,015	5,976	6,439	7,213	6,029	5,014	3,856	4,067	25,643	18,965
Adjusted PAT	6,015	6,495	6,439	7,702	6,029	5,014	3,856	4,067	26,651	18,965
Change (YoY %)	61.1	107.4	89.5	22.9	0.2	-22.8	-40.1	-47.2	61.2	-28.8

E: MOST Estimates

Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HZ IN
	REUTERS CODE
S&P CNX: 5,021	HZNC.BO

28 September 2007

Buy

Rs813

Equity Shares (m)	422.5
52-Week Range	1,021/545
1,6,12 Rel. Perf. (%)	1/12/-3
M.Cap. (Rs b)	343.3
M.Cap. (US\$ b)	8.6

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	85,600	44,420	105.1	201.7	7.7	4.5	58.2	74.8	3.6	4.8
3/08E	76,293	39,646	93.8	-10.7	8.7	3.0	35.1	43.1	3.6	5.1
3/09E	89,580	43,457	102.6	9.4	7.9	2.2	28.4	36.0	2.8	4.1

During 2QFY08, we expect net sales to decrease 21.5% YoY to Rs19.16 b, due to lower zinc prices on the LME, appreciation of Indian currency and lower import duty. Average zinc prices on the LME have declined 4% YoY to US\$3,235/tonne.

EBITDA is expected to decline 26.8% YoY and margin is likely to take a hit of 510bp to 70.9%.

Profit after tax is likely to decrease 26.3% YoY to Rs9.6 b.

The stock is trading at EV/EBITDA of 5.1x FY08E and 4.1x FY09E. We are positive on the stock. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	16,100	24,410	24,800	20,210	19,700	19,160	17,987	19,447	85,600	76,293
Change (YoY %)	205.5	269.8	171.9	13.9	22.4	-21.5	-27.5	-3.8	120.8	-10.9
Total Expenditure	3,660	5,850	5,730	6,210	5,340	5,577	5,559	6,149	21,530	22,625
EBITDA	12,440	18,560	19,070	14,000	14,360	13,583	12,428	13,298	64,070	53,669
Change (YoY %)	465.5	535.6	270.3	11.2	15.4	-26.8	-34.8	-5.0	178.3	-16.2
As % of Net Sales	77.3	76.0	76.9	69.3	72.9	70.9	69.1	68.4	74.8	70.3
Interest	270	100	-110	20	70	75	80	85	280	310
Depreciation	370	370	370	450	450	450	450	450	1,560	1,800
Other Income	470	460	640	740	2,700	800	860	905	2,310	5,265
PBT	12,270	18,550	19,450	14,270	16,540	13,858	12,758	13,668	64,540	56,824
Total Tax	3,530	5,570	6,100	4,920	4,690	4,296	3,955	4,237	20,120	17,178
% Tax	28.8	30.0	31.4	34.5	28.4	31.0	31.0	31.0	31.2	30.2
Reported PAT	8,740	12,980	13,350	9,350	11,850	9,562	8,803	9,431	44,420	39,646
Adjusted PAT	8,740	12,980	13,350	9,350	11,850	9,562	8,803	9,431	44,420	39,646
Change (YoY %)	502.8	562.2	305.8	16.6	35.6	-26.3	-34.1	0.9	201.7	-10.7

E: MOST Estimates

Jindal Steel & Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	JSP IN
	REUTERS CODE
S&P CNX: 5,021	JNSP.BO

28 September 2007

Buy

Equity Shares (m)	30.8
52-Week Range	5,849/1,603
1,6,12 Rel. Perf. (%)	24/85/172
M.Cap. (Rs b)	159.6
M.Cap. (US\$ b)	4.0

Previous Recommendation: Buy

Rs5,183

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	35,198	7,030	228.3	22.7	22.7	6.4	28.4	15.6	5.6	14.0
3/08E	51,731	9,408	305.5	33.8	17.0	4.7	27.9	21.1	3.7	9.7
3/09E	57,161	12,432	357.3	17.0	14.5	4.0	27.3	26.4	3.4	8.5

- For 2QFY08, we expect net sales to increase 58% YoY to Rs12.5b, driven by volume growth in steel business.
- EBITDA is likely to move up 56% YoY to Rs4.8b. Depreciation and interest expenses are likely to move up due to the impact of capex. Post-tax adjusted profit is likely to move up 45.6% to Rs.2.3b.
- We expect Jindal Steel & Power's standalone business to post EPS of Rs357.3 in FY09, factoring in the flat realization and strong volume growth at a CAGR of 72% to 2mtpa by FY09E. We expect Jindal Power Ltd. to contribute Rs126 to the EPS of company in FY09. The stock is trading at consolidated P/E of 10.7x FY09E. Current steel prices provide upside risk to our estimates. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	6,662	7,896	10,101	10,539	12,231	12,476	13,242	13,782	35,198	51,731
Change (YoY %)	5.8	27.1	61.6	56.5	83.6	58.0	31.1	30.8	35.9	47.0
Total Expenditure	3,413	4,812	6,327	6,622	7,440	7,663	8,339	8,679	21,174	32,120
EBITDA	3,249	3,085	3,773	3,917	4,792	4,813	4,903	5,103	14,024	19,611
Change (YoY %)	21.7	18.5	64.5	45.8	47.5	56.0	29.9	30.3	39.3	39.8
As % of Net Sales	48.8	39.1	37.4	37.2	39.2	38.6	37.0	37.0	39.8	37.9
Interest	558	330	363	250	621	568	591	616	1,501	2,395
Depreciation	621	642	919	1,183	1,115	1,109	1,101	1,101	3,365	4,425
Other Income	32	33	24	201	96	65	56	58	290	275
PBT (before EO Item)	2,103	2,145	2,516	2,685	3,152	3,202	3,267	3,445	9,448	13,066
Extra-ordinary Income					250				-	250
PBT (after EO Item)	2,103	2,145	2,516	2,685	3,402	3,202	3,267	3,445	9,448	13,316
Total Tax	572	573	617	657	901	913	932	983	2,419	3,728
% Tax	27.2	26.7	24.5	24.5	26.5	28.5	28.5	28.5	25.6	28.0
Reported PAT	1,531	1,572	1,899	2,028	2,501	2,289	2,335	2,463	7,030	9,588
Adjusted PAT	1,531	1,572	1,899	2,028	2,317	2,289	2,335	2,463	7,030	9,408
Change (YoY %)	1.9	8.0	50.1	34.6	51.4	45.6	23.0	21.4	22.7	33.8

E: MOST Estimates

JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	JSTL IN
	REUTERS CODE
S&P CNX: 5,021	JSTL.BO
Equity Shares (m)	172.0
52-Week Range	874/279
1,6,12 Rel. Perf. (%)	24/47/163
M.Cap. (Rs b)	146.4
M.Cap. (US\$ b)	3.7

28 September 2007

Buy

Rs851

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	85,944	12,339	71.7	90.5	11.9	2.7	23.0	21.0	2.1	6.6
3/08E	115,976	17,617	102.4	42.8	8.3	2.2	25.9	19.7	1.9	5.7
3/09E	133,675	19,714	114.6	11.9	7.4	1.8	23.6	18.7	1.8	5.3

Consolidated

- For 2QFY08 we expect net sales to increase 20.8% YoY to Rs26.5b, driven by 22% higher volumes, partially offset by 1% decline in realizations.
- EBITDA is expected to grow 26.6% YoY and margins to improve 300bp to 34.7% primarily due to cost savings. Profit after tax is likely to increase 27.5% YoY to Rs4.6b despite 38.7% rise in interest cost.
- We are estimating EPS of Rs102.4 and Rs114.6 for FY08E and FY09E respectively. The stock is trading at EV/EBITDA of 5.7x FY08E and 5.3x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales ('000 tons)	543	656	688	784	635	800	850	900	2,671	3,185
Change (YoY %)	21.5	15.7	33.1	33.0	16.9	22.0	23.5	14.8	26.1	19.2
Realization (Rs per ton)	28,902	33,454	33,452	31,869	34,500	33,144	32,488	32,437	32,063	33,039
Change (YoY %)	-16.1	23.1	13.9	18.6	19.4	-0.9	-2.9	1.8	9.9	3.0
Net Sales	15,694	21,946	23,015	24,985	21,907	26,515	27,615	29,193	85,640	105,230
Change (YoY %)	2.0	42.5	51.6	57.8	39.6	20.8	20.0	16.8	38.6	22.9
Total Expenditure	11,136	14,983	15,318	16,954	14,428	17,302	18,015	18,860	58,390	68,605
EBITDA	4,558	6,963	7,697	8,032	7,479	9,213	9,600	10,333	27,250	36,626
Change (YoY %)	-6.9	86.2	83.4	100.2	64.1	26.6	18.2	23.1	-40.2	34.4
As % of Net Sales	29.0	31.7	33.4	32.1	34.1	34.7	34.8	35.4	31.8	34.8
EBITDA (Rs per ton)	8,394	10,614	11,188	10,245	11,778	11,516	11,295	11,482	10,202	11,499
Interest	887	967	1,107	1,016	860	1,342	1,342	1,342	3,978	4,887
Depreciation	1,025	1,164	1,295	1,498	1,322	1,419	1,419	1,419	4,982	5,580
Other Income	16	84	64	245	215	185	185	185	409	768
PBT (before EO Item)	2,662	4,915	5,360	5,762	5,512	6,635	7,023	7,756	18,699	26,927
EO Items	0	0	0	447	620	0	0	0	447	620
PBT (after EO Item)	2,662	4,915	5,360	6,209	6,132	6,635	7,023	7,756	19,146	27,547
Total Tax	959	1,452	1,738	2,077	1,854	2,220	2,418	2,662	6,226	9,155
% Tax	36.0	29.5	32.4	33.4	30.2	33.5	34.4	34.3	32.5	33.2
Reported PAT	1,703	3,463	3,622	4,133	4,278	4,415	4,605	5,094	12,920	18,392
Preference Dividend									279	279
Adjusted PAT	1,703	3,463	3,622	3,835	3,845	4,415	4,605	5,094	12,339	17,699
Change (YoY %)	-15.0	225.8	151.4	148.0	125.8	27.5	27.2	32.8	-63.2	43.4

E: MOSt Estimates

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28 September 2007

177

Nalco

Neutral

Rs 302

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NACL IN
	REUTERS CODE
S&P CNX: 5,021	NALU.BO

28 September 2007

Previous Recommendation: Neutral

Equity Shares (m)	644.3
52-Week Range	318/193
1,6,12 Rel. Perf. (%)	-1/-4/0
M.Cap. (Rs b)	194.4
M.Cap. (US\$ b)	4.9

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	59,425	23,807	37.0	54.3	8.2	2.5	30.8	38.5	2.7	4.5
3/08E	46,499	15,660	24.3	-34.2	12.4	2.2	17.9	20.3	3.6	7.7
3/09E	49,146	17,543	27.2	12.0	11.1	2.0	17.6	20.6	3.3	6.6

- During 2QFY08, we expect net sales to decline 14% YoY to Rs12.4b. The revenue of the chemicals segment is expected to decline 40% YoY due to 36.4% lower alumina prices. The revenue of aluminium segment is expected to decline by 10.5% due to lower aluminum prices on the LME.
- EBITDA is expected to decline 30.6% YoY to Rs6.1b, primarily on account of weak LME metal prices. Profit after tax is likely to decline 28.9% YoY to Rs4.2b.
- We are revising our FY09 EPS estimates downward to Rs27.2 (earlier, Rs31.8) to factor lower aluminium prices on the LME of US\$2400/tonne (earlier, US\$2750/tonne).
- The stock is trading at a P/E of 11.1x FY09E. Capacity expansions to the tune of Rs41b will be factored in FY10. We are **Neutral** on the stock due to absence of volume growth to FY09 and weak earnings from the alumina segment.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	14,855	14,416	14,486	15,668	11,652	12,402	11,223	11,223	59,425	46,499
Change (YoY %)	51.8	37.7	9.3	1.9	-21.6	-14.0	-22.5	-28.4	21.6	-21.8
Total Expenditure	5,512	5,665	6,037	6,870	5,488	6,332	6,335	6,331	24,083	24,486
EBITDA	9,344	8,751	8,449	8,798	6,164	6,069	4,888	4,892	35,341	22,013
Change (YoY %)	90.9	90.7	27.2	-9.3	-34.0	-30.6	-42.1	-44.4	36.8	-37.7
As % of Net Sales	62.9	60.7	58.3	56.2	52.9	48.9	43.6	43.6	59.5	47.3
Depreciation	787	771	744	819	692	771	744	798	3,121	3,005
Other Income	834	1,014	978	1,199	1,310	1,100	1,125	1,175	4,025	4,710
PBT (before EO Item)	9,391	8,994	8,684	9,178	6,782	6,398	5,269	5,269	36,246	23,719
Tax	3,168	3,044	2,958	3,270	2,315	2,170	1,787	1,787	12,440	8,059
% Tax	33.7	33.8	34.1	35.6	34.1	33.9	33.9	33.9	34.3	34.0
Reported PAT	6,223	5,950	5,726	5,908	4,467	4,228	3,482	3,482	23,807	15,660
Change (YoY %)	121.8	110.2	45.7	-2.8	-28.2	-28.9	-39.2	-41.1	51.1	-34.2

E: MOSt Estimates

Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	STLT IN
	REUTERS CODE
S&P CNX: 5,021	STRL.BO

28 September 2007

Buy

Rs 748

Equity Shares (m)	708.7
52-Week Range	784/415
1,6,12 Rel. Perf. (%)	9/26/33
M.Cap. (Rs b)	530.4
M.Cap. (US\$ b)	13.3

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	243,868	45,005	80.6	34.1	9.3	4.3	45.8	47.6	1.7	4.4
3/08E	233,572	42,125	59.4	-26.2	12.6	2.4	19.3	23.1	1.7	4.9
3/09E	272,191	44,945	63.4	6.7	11.8	2.1	17.4	21.5	1.2	4.0

Consolidated

- For 2QFY08, we expect net sales to decrease 14.1% YoY to Rs58 b, due to fall in zinc and aluminum prices on the LME, appreciation of Indian currency, reduction in import duty and falling Tc/Rc margins in the copper business.
- EBITDA is expected to decline 24% YoY, and margin is likely to take a hit of 440bp to 33.9%.
- Profit after tax is likely to decrease 9.6% YoY to Rs 10.5 b.
- The stock is trading at EV/EBITDA of 4.9x FY08E and 4x FY09E. We are positive on the stock. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	46,030	67,180	68,143	62,516	61,391	57,689	56,516	57,976	243,868	233,572
Change (YoY %)	146.3	153.8	94.1	22.6	33.4	-14.1	-17.1	-7.3	86.1	-4.2
Total Expenditure	27,531	41,434	40,515	39,799	39,830	38,130	38,052	38,597	149,280	154,609
EBITDA	18,499	25,746	27,628	22,716	21,561	19,559	18,464	19,379	94,589	78,963
Change (YoY %)	379.1	392.4	215.7	19.3	16.6	-24.0	-33.2	-14.7	156.5	-16.5
As % of Net Sales	40.2	38.3	40.5	36.3	35.1	33.9	32.7	33.4	38.8	33.8
Interest	898	1,163	856	874	955	553	553	553	3,791	2,613
Depreciation	1,834	1,871	1,888	2,446	2,031	2,000	2,000	2,000	8,039	8,030
Other Income	1,355	1,112	1,864	2,485	3,501	3,440	3,440	3,440	6,817	13,820
PBT (before EO Item)	17,122	23,825	26,749	21,881	22,076	20,446	19,351	20,267	89,576	82,140
Extra-ordinary Exp.	-122	-1,362	-25	-63	0	0	0	0	-1,572	0
PBT (after EO Item)	17,000	22,463	26,724	21,818	22,076	20,446	19,351	20,267	88,004	82,140
Total Tax	4,790	6,862	7,763	4,702	5,247	5,936	5,618	5,884	24,118	22,684
% Tax	28.2	30.6	29.0	21.5	23.8	29.0	29.0	29.0	27.4	27.6
Reported PAT	12,209	15,600	18,960	17,117	16,829	14,511	13,733	14,383	63,887	59,456
Minority Interest	3,419	4,890	6,030	5,683	5,400	3,977	3,977	3,977	20,023	17,330
Adjusted PAT	8,878	11,656	12,948	11,483	11,429	10,534	9,756	10,406	45,005	42,125
Change (YoY %)	435.7	348.2	226.3	41.0	28.7	-9.6	-24.6	-9.4	247.6	266.9

E: Most Estimates

Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SAIL IN
	REUTERS CODE
S&P CNX: 5,021	SAIL.BO

28 September 2007

Buy

Rs 207

Previous Recommendation: Buy

Equity Shares (m)	4,130.4
52-Week Range	209/74
1,6,12 Rel. Perf. (%)	19/54/135
M.Cap. (Rs b)	855.2
M.Cap. (US\$ b)	21.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	342,025	60,481	14.6	50.4	14.1	5.0	35.2	43.7	2.3	7.9
3/08E	406,677	84,362	20.4	39.5	10.1	3.5	34.9	47.4	1.8	5.6
3/09E	418,603	89,898	21.8	6.6	9.5	2.7	28.8	39.5	1.7	5.4

- During 2QFY08, we expect net sales to increase 13.5% YoY to Rs96.9b driven by 4.5% growth in average realization and 8.6% growth in sales volume.
- EBITDA margin for the quarter is likely to expand 380bp YoY to 31.1%, driven mainly by higher realizations and lower coking coal costs.
- Post-tax adjusted profit is likely to increase 34.9% YoY to Rs19.46b.
- FY08 earnings will be driven by 12% YoY volume growth after leveraging fixed costs and lower coking coal prices (from US\$112/tonne in FY07 to US\$98/tonne in FY08). We expect EPS to increase 40% to Rs20.4 in FY08E. The stock is trading at EV/EBITDA of 5.6x FY08E and 5.4x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (m tons)	2.47	2.95	3.01	3.45	2.53	3.20	3.75	3.83	11.88	13.31
Change (YoY %)	31.0	5.1	8.6	-10.3	2.4	8.6	24.4	10.9	5.1	12.0
Realization (Rs per Ton)	27,766	28,976	28,325	29,763	31,777	30,277	30,277	30,277	28,788	30,562
Change (YoY %)	-7.2	12.5	24.1	24.2	14.4	4.5	6.9	1.7	13.0	6.2
Net Sales	68,583	85,391	85,371	102,681	80,395	96,885	113,537	115,860	342,025	406,677
Change (%)	21.6	18.3	34.8	11.4	17.2	13.5	33.0	12.8	18.8	18.9
EBITDA	17,803	23,333	26,226	31,566	23,829	30,152	38,744	38,181	98,928	130,906
Change (YoY %)	-10.8	18.9	91.1	108.2	33.8	29.2	47.7	21.0	44.5	32.3
As % of Net Sales	26.0	27.3	30.7	30.7	29.6	31.1	34.1	33.0	28.9	32.2
EBITDA (per ton)	7,208	7,918	8,701	9,149	9,418	9,422	10,332	9,978	8,327	9,838
Interest	937	924	906	555	796	550	650	800	3,321	2,796
Depreciation	2,959	3,035	3,299	2,822	3,012	3,156	3,419	3,682	12,115	13,269
Other Income	1,513	2,261	2,231	2,388	3,069	2,995	3,245	3,494	8,392	12,804
PBT (before EO Inc.)	15,421	21,635	24,252	30,577	23,090	29,441	37,920	37,194	91,884	127,644
EO Income (exp)	5,582		-1,910	-1,330					2,342	
PBT (after EO Inc.)	21,002	21,635	22,342	29,247	23,090	29,441	37,920	37,194	94,226	127,644
Total Tax	7,138	7,207	7,630	10,228	7,839	9,980	12,855	12,609	32,203	43,283
% Tax	34.0	33.3	34.2	35.0	33.9	33.9	33.9	33.9	34.2	33.9
Reported PAT	13,864	14,428	14,712	19,019	15,251	19,460	25,065	24,585	62,023	84,362
Adjusted PAT	10,179	14,428	15,969	19,884	15,251	19,460	25,065	24,585	60,481	84,362
Change (YoY %)	-9.6	28.0	133.3	80.2	49.8	34.9	57.0	23.6	50.7	39.5

E: Most Estimates; Quarterly results don't add up with full year results due to restating of past quarter results.

Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TATA IN
	REUTERS CODE
S&P CNX: 5,021	TISC.BO

28 September 2007

Buy

Rs 850

Equity Shares (m)	851.7
52-Week Range	868/399
1,6,12 Rel. Perf. (%)	25/59/24
M.Cap. (Rs b)	646.1
M.Cap. (US\$ b)	16.2

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	252,133	42,786	70.2	3.1	10.8	3.0	27.6	31.6	1.7	5.9
3/08E	1,276,020	97,633	114.6	63.2	6.6	1.6	24.7	17.1	0.8	4.9
3/09E	1,311,766	110,714	130.0	13.4	5.8	1.3	22.7	16.3	0.7	4.3

Consolidated

- For 2QFY08, we expect standalone net sales to increase 15.8% YoY to Rs48.48b, driven by 10.6% change in realization and 5.6% higher volumes. Standalone PAT is expected to remain flat as EBITDA gains will be offset by higher interest costs.
- Consolidated earnings of Tata Steel would significantly increase 125.4% YoY to Rs26.37b backed by strong performance of Corus. Corus' EBITDA is expected to increase to GBP386m i.e. a margin of 12.3%.
- We expect consolidated earnings per share to grow at a CAGR of 36.1% during FY07-FY09, driven by overall volume growth and margin expansion of Corus. Tata Steel will have savings of interest costs after completion of rights issue of ~US\$2.5b and a tax shield on placement of US\$6.1b debt on Corus in subsequent quarters, which will offset iron ore cost pressure. The stock is trading at EV/EBITDA of 4.9x FY08E and at 4.3x FY09E, which is at substantial discount to that of Indian peers. We reiterate **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Standalone Financials										
Sales (000 tons)	1,115	1,184	1,234	1,261	1,041	1,250	1,300	1,300	4,794	4,891
Realization (Rs per ton)	31,133	31,656	32,236	35,135	36,665	35,000	35,000	35,000	32,599	35,354
Net Sales	39,159	41,858	44,700	49,804	41,976	48,480	50,230	50,230	175,520	190,917
Change YoY (%)	13.0	8.3	21.4	20.6	7.2	15.8	12.4	0.9	15.9	8.8
EBITDA	15,813	17,048	17,836	19,035	16,992	19,168	19,745	19,745	69,733	75,650
% of Net Sales	40.4	40.7	39.9	38.2	40.5	39.5	39.3	39.3	39.7	39.6
EBITDA(Rs/tss)	12,871	13,236	13,398	13,977	15,204	14,403	14,294	14,295	13,387	14,338
Interest	293	478	520	448	800	1,223	1,494	1,524	1,739	5,040
Depreciation	1,951	1,957	1,991	2,294	2,112	2,211	2,245	2,240	8,193	8,808
Other Income	779	1,772	987	798	1,461	1,500	987	798	4,337	4,746
PBT (after EO Inc.)	14,164	15,943	15,820	16,690	19,025	16,876	16,636	16,421	62,617	68,958
Total Tax	4,630	4,928	5,183	5,655	6,804	5,783	5,701	5,628	20,395	23,916
% Tax	32.7	30.9	32.8	33.9	35.8	34.3	34.3	34.3	32.6	34.7
Reported PAT	9,534	11,015	10,638	11,035	12,221	11,093	10,935	10,793	42,222	45,042
Adjusted PAT	9,658	11,321	10,969	11,300	9,983	11,328	11,170	11,028	43,247	43,468
Change (YoY %)	2.3	6.3	41.9	48.6	3.4	0.1	1.8	-2.4	22.1	0.5
Consolidated Financials										
Net Sales	57,641	60,083	59,712	74,697	311,542	320,326	322,076	322,076	252,133	1,276,020
EBITDA	17,414	18,504	18,905	19,679	49,043	51,619	50,197	50,197	74,502	201,057
Adjusted PAT	10,318	11,696	10,872	9,894	20,308	26,368	25,709	25,567	42,782	97,633

E: M0St Estimates; tss=ton of steel sales; Exchange rate assumed GBP=1.98 USD, USD=41.0 INR

Sanjay Jain (SanjayJain@MotilalOswal.com);Tel:+9122 39825412/Ashutosh Somani (ashutosh.somani@motilalosal.com);Tel:+9122 39825425

Oil & Gas

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.	
BPCL	194	Refining margins up YoY, down QoQ; Petchem margins down YoY, up QoQ
Caim India	195	YoY comparative (v/s 2QFY07)
Chennai Petroleum	196	<ul style="list-style-type: none"> ✍ Benchmark Singapore refining complex margins up 35% at about US\$6.4/bbl in 2QFY08 (v/s US\$4.75/bbl in 2QFY07) ✍ Brent average up by 7% at US\$74.9/bbl v/s US\$70.1/bbl; Dubai crude up 6% at US\$69.7/bbl v/s US\$65.9/bbl. ✍ Lower petrochemical margins (spread over naphtha)
GAIL	197	Polymer margins down: PE down 3.7%; PP down 4.3%; Significant decline in polyester intermediates: PTA down 30.9%; and MEG down 10.1%; Integrated polyester margins also down: POY down 14.4%, PSF down 18.5%
HPCL	198	QoQ comparative (v/s 1QFY08)
IOC	199	<ul style="list-style-type: none"> ✍ Benchmark Singapore refining margins down 33% from US\$9.5/bbl in 1QFY08. ✍ Brent average up 9% from US\$68.7/bbl; Dubai average up 8% from US\$64.7/bbl.
Indraprastha Gas	200	<ul style="list-style-type: none"> ✍ Petrochemical margins (spread over naphtha) improve;
ONGC	201	Polymers up: PE up 7.8%; PP up 6.6%; Polyester intermediates: PTA slightly down 0.2% while MEG significantly up 14.4%; Integrated polyester: POY up 11.2% and PSF marginally down 0.4%.
Reliance	202	Factors to watch
		<ul style="list-style-type: none"> ✍ Fuel under-recovery – The fuel under-recovery amounts could burgeon if oil prices continue to remain high though rupee appreciation is having a tempering effect. With no fuel price hikes likely, the key data to watch out for is Oil Bond issue by the government and also the subsidy sharing mechanism. ✍ Refining margin trend – Refining margins continue to remain high on YoY basis, but have seen significant decline over 1QFY08. With oil prices continuing to remain high, and many countries (like China recently) not allowing hike in retail prices, the refining margins could be under pressure. ✍ Sale of oil bond holding – We have not factored in any sale of current Oil Bond holding. Any sale at a discount would impact profits of marketing companies.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Oil & Gas							
BPCL	Buy	293,397	1.8	19,940	16.4	11,825	-6.0
Caim India	Buy	2,925	-	2,131	-	572	-
Chennai Petroleum	Neutral	77,733	16.8	3,779	58.8	1,850	90.3
GAIL	Neutral	43,247	16.7	10,457	77.5	6,569	46.5
HPCL	Buy	260,895	-0.6	17,583	6.8	10,472	-14.3
Indraprastha Gas	Not Rated	1,706	10.7	730	13.1	394	13.3
IOC	Buy	627,751	8.7	54,843	35.9	33,129	8.6
ONGC	Buy	144,756	2.9	84,894	15.6	47,893	6.9
Reliance Inds.	Buy	309,998	-1.7	57,574	10.7	35,569	16.2
Sector Aggregate		1,759,483	4.1	249,802	19.9	147,703	8.2

Oil Prices: Scaling newer highs

2QFY08 highlights

- ✍ Brent up 7% YoY at US\$74.9/bbl (v/s US\$70.1/bbl in 2QFY07)
- ✍ Brent up 9% QoQ (v/s US\$68.7/bbl in 1QFY08)

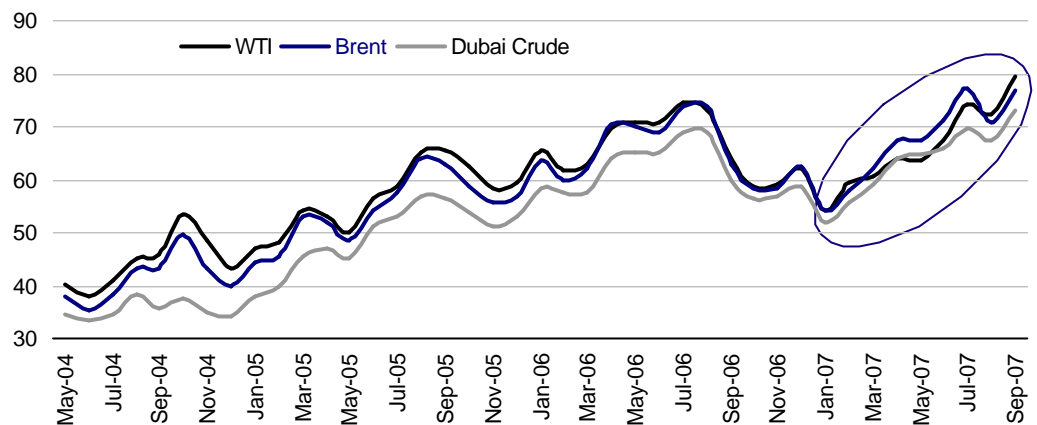
Oil prices continued to remain high and moved further up in 2QFY08 except some correction seen in August. The prices did not stop their upward movement despite OPEC's announcement of production increase by 500kbd at the Vienna meet. The production hike is effective from 1 November 2007 and will happen just after nearly 600kbd of UAE production capacity goes on a month's scheduled shutdown in October-end. Thus, the impact of increased production would be seen only December onwards.

The oil prices further rocketed to all time highs in the third week of September, as nearly 360kbd or over 1/4th of Gulf of Mexico capacity was shut down in anticipation of Hurricane Humberto. Weakening of US dollar - the key currency in which oil is traded - has further supported high oil price as producing countries try to maintain their cash flows. Falling oil inventories globally, especially in the US, has further put pressure on oil prices. The recent interest rate cut by the US Federal Reserve raised hopes of increased oil demand, which further caused the oil spike.

Though the prices have corrected in the past few days, as shut down Gulf of Mexico capacity returns to production, we do not expect a very significant decline in oil price in rest of the year. The structural weakness in terms of low spare capacity, most of which is controlled by OPEC nations, continues. OPEC countries seem to be testing the ever-higher levels of prices till demand slowdown does not precipitate. In addition, the geopolitical uncertainties especially on Iran's nuclear issue, Iraq and elsewhere continue.

Oil product demand continues to remain robust despite high oil prices. Though in its recent Oil Market Report, IEA has slightly revised demand downward in 2007, the oil demand for 2007 at 85.9mmb/d is 1.7% higher than 2006. For 2008, IEA expects demand of 88mmb/d - a growth of 2.4%.

RISING OIL PRICES (US\$/BBL)



Oil prices have been on an upward trajectory since February 2007, except a brief correction in August

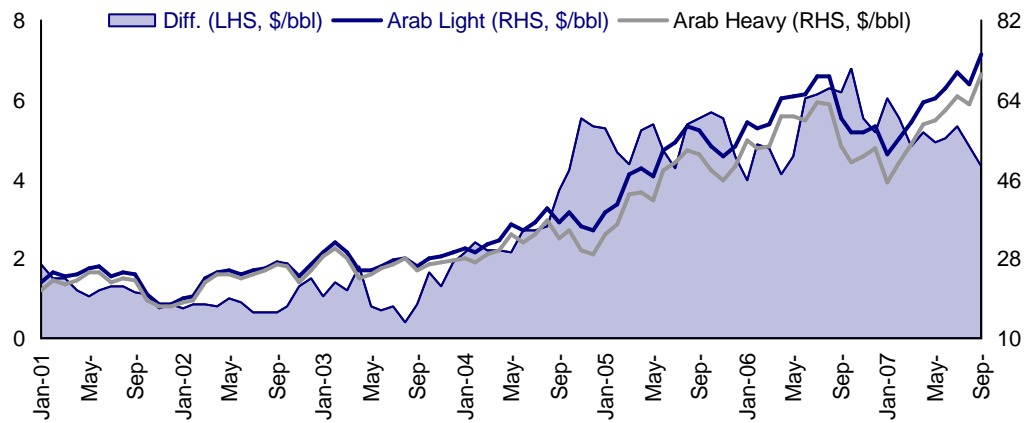
Source: Bloomberg/Motilal Oswal Securities

Declining light-heavy differentials

Light & heavy oil differentials, though declined YoY and QoQ, continue to remain high. Arab light & heavy differentials for 2QFY07 are estimated at US\$4.8/bbl, showing a decline of 4% over 1QFY08 (US\$5 /bbl), and a decline of 22% over 2QFY07 (US\$6.22/bbl).

ARAB LIGHT - HEAVY DIFFERENTIALS (US\$/BBL)

Light heavy differentials are on a decline since the beginning of the year

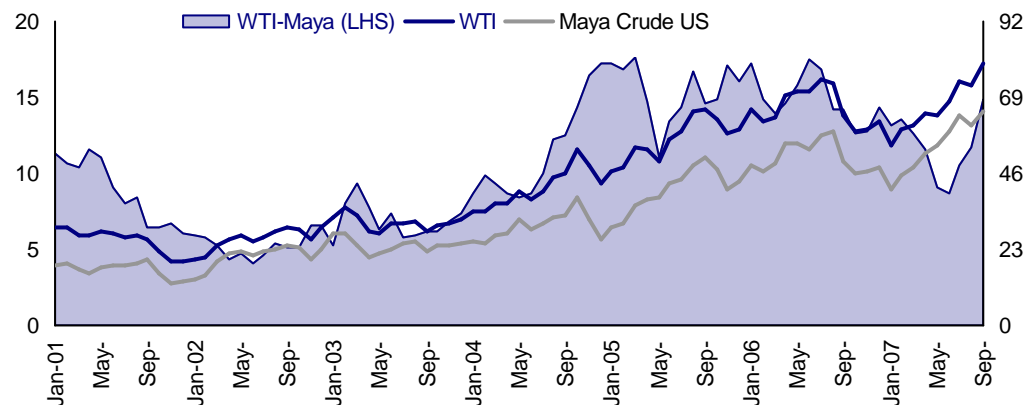


Source: Bloomberg/Motilal Oswal Securities

WTI-Maya (Sweet - Sour) spread has firmed up in recent months

As shown in the chart below, the WTI-Maya spread, which had declined significantly in 1QFY08 (largely due to large discounts in WTI) has moved up in 2QFY08. Average differential for 2QFY08 at US\$12.4/bbl is up 26% over 1QFY08 average of US\$9.8/bbl. However, YoY the differential is down by 18% compared to US\$15/bbl.

WTI - MAYA DIFFERENTIAL (US\$/BBL)



Source: Bloomberg/Motilal Oswal Securities

Refining margins: Significantly declined over 1Q, yet remain high YoY

2QFY08 highlights

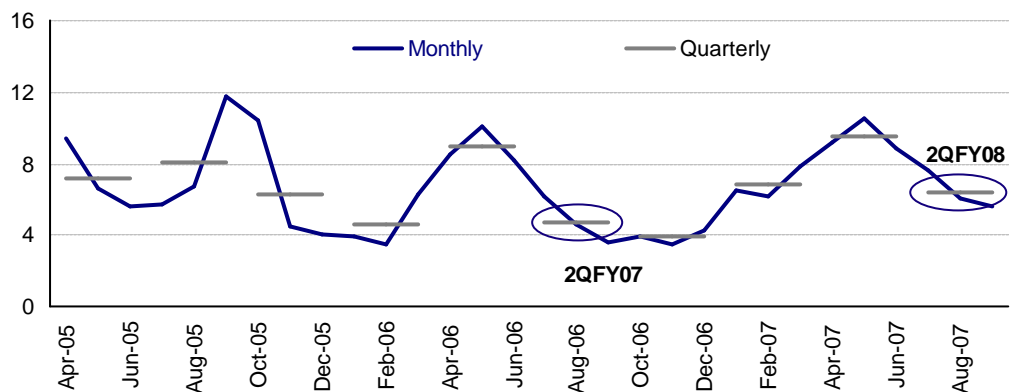
- ✍ Singapore refining complex margins up 35% at US\$6.4/bbl (v/s US\$4.75/bbl in 2QFY07)
- ✍ Down 33% QoQ (v/s US\$9.5/bbl in 1QFY08)

The Singapore benchmark margins have declined significantly (33%) from the record high levels of US\$9.5/bbl seen in 1QFY08. Some decline is attributable to seasonal weakness as driving season comes to end. The other key reason in our view was lower than expected hurricane activity on Gulf Coast, as all major refiners were fully geared up for hurricanes. Lower hurricane activity meant that downstream constraints that were being seen for quite some time eased.

The sudden spike in oil prices in recent weeks has also resulted in decline in refining margins, as pump prices have not moved up in tandem with oil prices. The recent decision of China not to hike the product prices in the current year would mean that margin could continue to be under pressure. However, despite the QoQ decline, the refining margins are nearly 35% higher than US\$4.75/bbl in 2QFY07.

Just like on oil supply side, structural problems continue to remain on refining side. With not enough capacity seen coming up to meet the increasing demand, refining systems are seeing high utilization of existing legacy assets leading to higher outages. Thus, we believe though average margins would remain high in the medium to short-term and there will continue to be large volatility in margins.

SINGAPORE REFINING MARGINS (US\$/BBL)



Source: Industry/Motilal Oswal Securities

Fuel under-recoveries: The difficult puzzle to solve

With crude oil price continuing to be high and forecasts of further rise in coming winter, we expect oil product under-recoveries to increase by 13% to Rs557b in FY08. The increase would have been much larger but for large appreciation in rupee in recent months.

UNDER-RECOVERIES (RS M)

	FY07	1QFY08	2QFY08E	FY08E
Petrol	20,270	15,530	12,589	57,673
Diesel	187,758	46,330	62,323	224,932
LPG	107,011	26,980	27,723	121,760
SKO	178,827	40,280	40,935	153,089
Total	493,866	129,120	143,571	557,453

Source: Industry/Motilal Oswal Securities

Retail price hike appears unlikely

Despite the increasing losses to oil market companies, no hike in retail prices seems to be forthcoming. Our estimates of current under-recoveries on retail petro products per unit are shown in the table below. However, due to the political compulsions of the coalition government, and the threat of early elections, the chances of any significant price hike in retail prices is remote, in our view.

UNDER-RECOVERIES BY FUEL (PER UNIT)

	1QFY08	2QFY08	FY08
Petrol (Rs/ltr)	4.7	3.8	4.3
Diesel (Rs/ltr)	3.4	4.9	4.1
LPG (Rs/Cyl)	175.6	172.8	181.3
SKO (Rs/ltr)	14.3	14.3	13.5

Source: Industry/Motilal Oswal Securities

Under-recovery sharing through oil bonds could be higher than 1/3rd again

The big mystery remains on sharing mechanism of the large under-recoveries among PSU oil marketing companies, PSU upstream companies and government in the form of oil bonds. Though ostensibly there is a 1/3rd formula for sharing the burden, this has not been adhered to in the recent past. For FY07, the final sharing ratio was oil bonds 49%, upstream 41.5% and balance 9.5% by OMCs.

How the exact subsidy sharing will pan out this year remains a puzzle. However, what is becoming clear is that the upstream sharing will be significantly lower as upstream players have made several petitions to government on large and inequitable burden forced over them in FY07. Also, with impending IPO of Oil India Ltd, we believe the government will find it difficult to put a burden higher than 1/3rd on them.

Recent media reports indicate the government is considering oil bonds issuance of Rs240b for FY08, out of which Rs120b will be issued before October 15. This oil bonds calculation seems to have been made on projected under-recovery of Rs549b (marginally lower than our estimate of Rs557b). If this was to be the case, then oil bond sharing for this year would be 44%, which means that 1/3rd formula will again not be applied. However, larger than 1/3rd issues of oil bonds is positive for the sector, especially for PSU OMCs, whose net burden would correspondingly reduce.

Sharing of under-recovery burden: Our estimates

For sharing of under-recovery burden, we assume that oil bonds issuance would be of Rs240b, out of which bonds for Rs120b will be issued to OMCs in 2QFY08 for the first

half. We also assume that upstream sharing will be limited to 1/3rd of total under-recoveries (this formula was applied in 1QFY08).

We estimate net under-recovery burden of OMCs at Rs131.6b, which is nearly 177% higher than last year's burden of Rs47.6b.

SHARING OF UNDER-RECOVERY BURDEN (RS M)

	FY07	SHARING (%)	1QFY08	2QFY08E	1HFY08E	FY08E	SHARING (%)
Oil Bonds	241,207	48.8	0	120,000	120,000	240,000	43.1
Upstream	205,069	41.5	43,040	47,857	90,897	185,818	33.3
OMC' s Sharing	47,590	9.6	86,080	-24,286	61,794	131,636	23.6
Total	493,866	100	129,120	143,571	272,691	557,453	100

Source: Industry/Motilal Oswal Securities

OMC's burden would be much higher if 1/3rd formula is resorted to

We were earlier estimating under-recovery sharing using 1/3rd mechanism. Based on this, oil bonds issuance will need to be Rs186b. If this scheme is applied, then we estimate subsidy burden for OMCs for the full year also at Rs186b, which would be nearly four times last year's subsidy burden.

IF ONE THIRD FORMULA IS APPLIED, OMCS WILL SUFFER MOST (RS M)

	FY07	SHARING (%)	1QFY08	2QFY08E	1HFY08E	FY08E	SHARING (%)
Oil Bonds	241,207	48.8	0	90,897	90,897	185,818	33.3
Upstream	205,069	41.5	43,040	47,857	90,897	185,818	33.3
OMC' s Sharing	47,590	9.6	86,080	4,817	90,897	185,818	33.3
Total	493,866	100.0	129,120	143,571	272,691	557,453	100.0

Source: Industry/Motilal Oswal Securities

Like in FY06-07, GoI did not issue any oil bonds in 1QFY08 as well. We believe that oil bonds will be issued in 2QFY08 (we expect bonds for 1Q will also be included in this tranche of disbursement). Despite no oil bond issuance in 1QFY08, all OMCs (except HPCL) had reported profits in 1QFY08 due to forex gains. If oil bonds are not issued soon, we expect all OMCs to report huge losses in 2QFY08.

Our estimate of net under-recoveries of OMCs

Despite factoring in Rs240b oil bonds issue (Rs120b in 1HFY08), the net under-recoveries of individual OMC will balloon up nearly 1.5-2x compared to FY07, as shown below:

OMC BURDEN WILL SIGNIFICANTLY INCREASE (RS M)

	FY07	1QFY08	2QFY08E	FY08E	YOY CHANGE	
					RS M	%
IOC	27,539	47,918	-13,449	73,072	45,533	165%
BPCL	10,355	19,624	-5,376	30,548	20,193	195%
HPCL	9,696	18,538	-5,461	28,015	18,319	189%
Total	47,590	86,080	-24,286	131,636	84,046	177%

Source: Industry/Motilal Oswal Securities

Overall upstream discounts could be marginally lower

As discussed above, the benefits of decline in crude prices in 2HFY08 were not passed on to upstream companies. Thus, upstream companies had to bear 42% of total under-recoveries. We do not expect upstream companies to bear such large burden sharing this year and their share could remain at 1/3rd of under-recoveries.

SHARING BY UPSTREAM COMPANIES (RS M)

	FY07	1QFY08	2QFY08E	FY08E	YOY CHANGE	
					RS M	%
ONGC	170,252	36,490	40,845	158,226	-12,025	-7
OIL	19,938	3,830	4,235	16,477	-3,461	-17
GAIL	14,880	2,720	2,777	11,115	-3,765	-25
Total	205,069	43,040	47,857	185,818	-19,251	-9

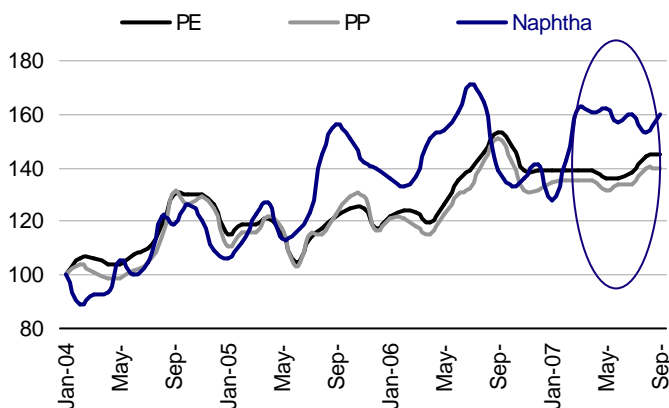
Source: Industry/Motilal Oswal Securities

Petrochemical: Firmed up margins over 1Q

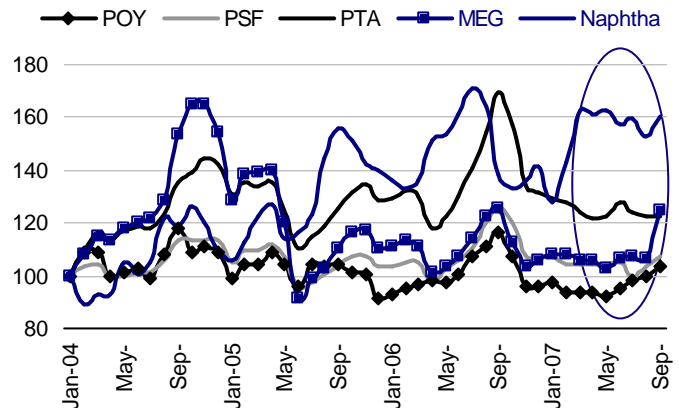
Prices of petrochemical products firmed up in 2QFY08 compared to 1QFY08. However, the prices of naphtha have declined by about 2%. In our view, this would result in improved margins across the petrochemical segment.

However, on a YoY basis, despite the recent price rise, margins remain lower than in 2QFY07. Thus, we would expect YoY decline in petrochemical margins.

RELATIVE PRICES - NAPHTHA VS POLYMERS



RELATIVE PERFORMANCE - NAPHTHA VS POLYESTER CHAIN



Source: Industry/Motilal Oswal Securities

The domestic spread of all key products declined significantly YoY, but margins improved compared to 1QFY08, as shown in the table below. The large YoY decline is seen in polyester chain.

KEY PRODUCT SPREADS (RS/KG)

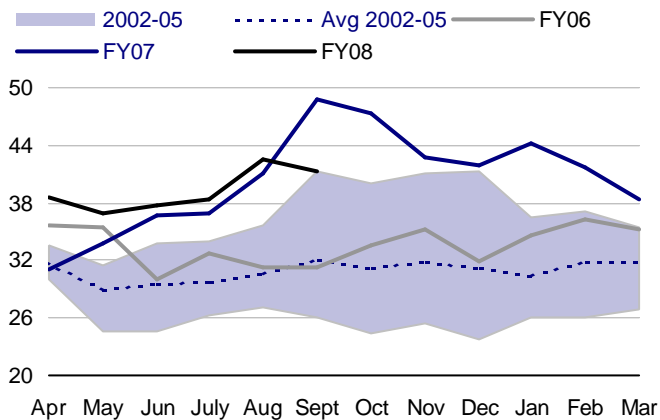
	2QFY08	1QFY08	CH QOQ (%)	2QFY07	CH YOY (%)
PE	40.7	37.7	7.8	42.2	-3.7
PP	40.8	38.2	6.6	42.6	-4.3
PTA	24.0	24.1	-0.2	34.8	-30.9
MEG	27.9	24.4	14.4	31.1	-10.1
POY integrated	49.3	44.3	11.2	57.6	-14.4
PSF integrated	44.3	44.5	-0.4	54.4	-18.5

* PE, PP, PTA and MEG spreads over naphtha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

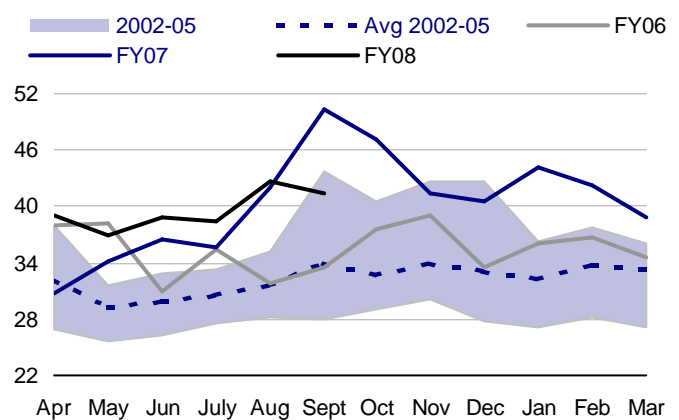
Source: Industry/ Motilal Oswal Securities

The polymer spreads continue to remain high over historical averages as shown below. However, we believe that the downturn in polymer chain is inevitable in view of excess capacities coming online in Middle East and China. However, as most capacity additions have now been delayed to 2009, from earlier expected 2008, we expect the downturn would now begin in mid-2008.

PE SPREAD OVER NAPHTHA (RS/KG)



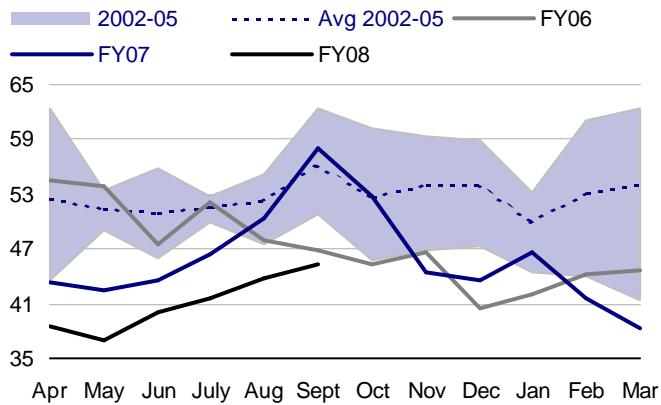
PP SPREAD OVER NAPHTHA (RS/KG)



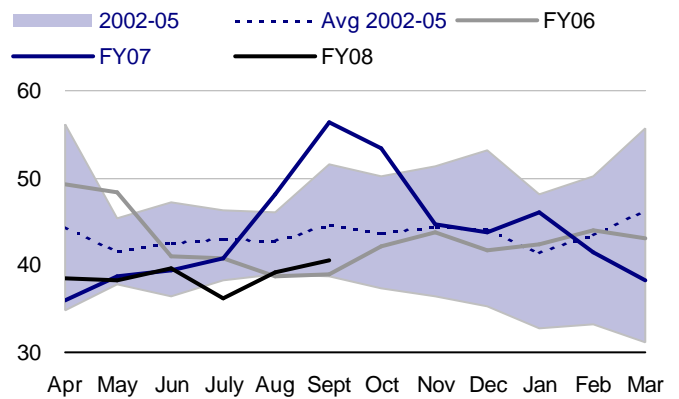
Source: Industry/ Motilal Oswal Securities

In the polyester chain, the trend of margin contraction was reversed in 1QFY08, with upward movement in cotton prices. With further firming up of the prices in 2QFY08, we expect some margin recovery to continue.

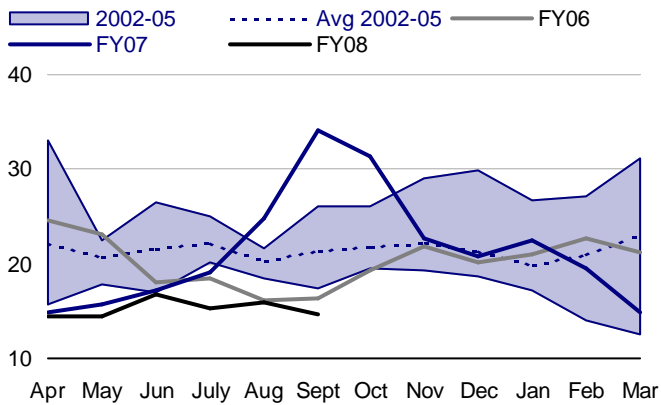
POY SPREAD OVER NAPHTHA (RS/KG)



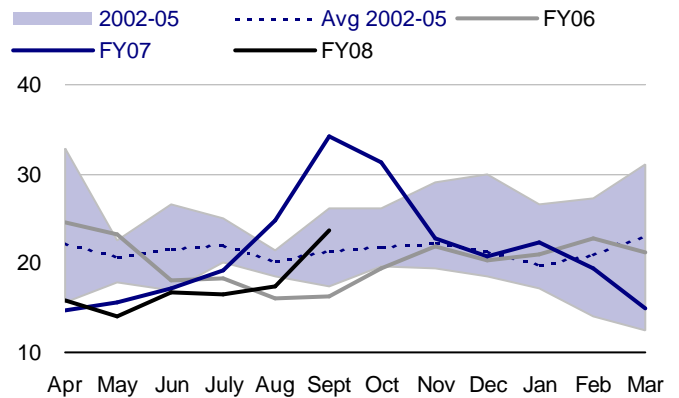
PSF SPREAD OVER NAPHTHA (RS/KG)



PTA SPREAD OVER NAPHTHA (RS/KG)



MEG SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/ Motilal Oswal Securities

Valuation and view

Reliance is our favorite in oil & gas. We believe that E&P is the new growth engine in RIL's successful strategy of backward integration. In our view, as its KG-D6 gas comes online in FY09, E&P will soon become the key growth driver. Apart from KG-D6, RIL has a large inventory of high potential blocks, in several of which it has reported exploration success. There remains large potential upside from these blocks, which is not quantifiable at this juncture.

RIL's refining margins have lately been scaling record highs. We expect refining margins to remain high, as the global demand for refined products is robust and not enough capacity is coming online. While margins in RIL's petrochemicals business have declined from the peak in 2QFY07, polymers continue to enjoy higher than historical average prices and margins. In polyesters, the trend of margin contraction was reversed in 1QFY08. However, high naphtha prices would continue to put pressure on overall petrochemical margins.

We believe that organized retailing in India offers huge growth opportunity and RIL would be able to make the most of this opportunity. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant.

The recent approval of gas pricing formula is a key positive. Near term upside could come from: (1) High court decision on litigation with RNRL and NTPC, (2) marketing tie-ups with potential gas buyers, (3) the updates on actual progress on KG-D6 field development and pipeline, (4) update on progress of RPL refinery completion, and (5) Progress on Retail front.

ONGC is our top pick among oil PSUs. Continued high oil price environment, increased production from ONGC as well as OVL, and recent exploration success leading to reserves accretion, give upside to ONGC stock price.

Tariff Commission had revised producer price of ONGC from Rs 3,200 to Rs 3,600/MSCM in 1QFY08. Adjusted for WPI increase, current producer price works out to Rs 3,710/MSCM, a rise of 16%. The implementation of the revised pricing had been delayed. Recent reports indicate that gas pricing will be revised from 3QFY08. Early implementation of revised pricing will be positive for ONGC.

The key concern remains high upstream discounts and lack of clarity on subsidy sharing mechanism going forward. To make subsidy sharing transparent and equitable ONGC has been proposing several suggestions to the government. Acceptance of these suggestions leading to lower subsidy burden over our estimates will provide upsides.

Maintain Buy on Oil marketing companies – BPCL, HPCL and IOC – Sustained high refining margins, increased throughput and capacity utilizations will mean that most players will show strong refining performance. These players are implementing several upgradation projects for their capacity, which will enable them to: (1) produce higher share of middle distillates, (2) produce Euro-III/IV compliant fuels and (3) process larger share of sour/heavy crudes. Completion of these projects, in time and within schedules, will be margin accretive in our view.

However, the big concern for OMC remains the huge under-recoveries on fuel marketing. With oil prices remaining high, the focus will remain on how the government plans to reimburse PSU OMCs for their losses.

We continue to maintain that markets are already factoring in the concerns related to subsidy issues, and OMC stocks remain inexpensive over long term. We have a **Buy** on oil marketing companies.

Neutral on GAIL: Last year GAIL's transmission tariffs were significantly reduced for both its HBJ and regional networks. However, the transmission volumes, which have

remained flat, would increase post recent commissioning of its pipelines connecting Dahej to Dhabol.

Prices of key petrochemicals are marginally up 3-4% QoQ, which would result in improved realization, as gas costs have remained same after last price hike in 1QFY07. Though petrochemicals margin remain robust now, we believe that margin decline is impending as large capacities come online in Middle East, which will put pressure on prices.

While any decline in subsidy sharing could be incrementally positive, we believe risk-reward remains unfavorable. We maintain **Neutral**.

Buy on Cairn India: GoI recently agreed to grant ROU for its planned pipeline, which is a key positive for Cairn India. The key pending issue is the inclusion of pipeline plans in Field Development plan. Resolution of this issue will enable monetization of Cairn's largest and most promising asset, Rajasthan block by 2H CY09. Though, there still remain several uncertainties on cess, pricing and crude offtake, we believe these will not hamper the initial oil delivery schedules.

The Rajasthan block RJ-ON-90/1, is Cairn's main asset accounting for 80% of its total reserves. Of the total current gross in-place resources of 3.6b boe, 2.2b boe are currently in development phase. There remains upside from area already being developed and more development area are being added.

Cairn also has large exploration acreage of about 94,800sq km in 12 other blocks, including 5 as operator. The most promising of these is ONGC operated (Cairn 10%) deep-water block KG-DWN-98/2. Cairn has successfully extended plateaus for both its operating assets at Ravva and Cambay, by successful infill development and further exploration and development drilling.

We recently initiated coverage on Cairn with a Buy. We maintain our rating.

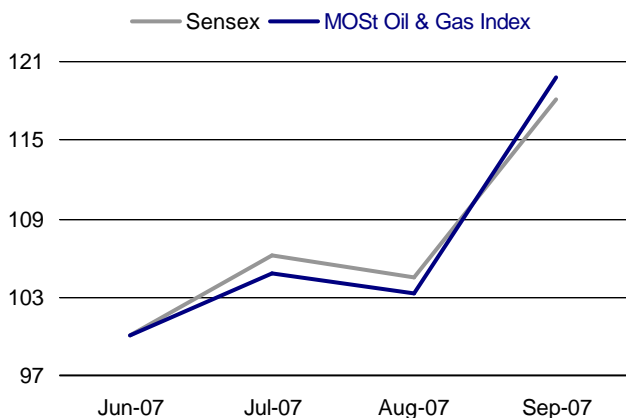
Neutral on Chennai Petro: We expect improved GRMs to contribute to YoY increase in profits. We maintain **Neutral** on the stock.

Stock performance and valuations

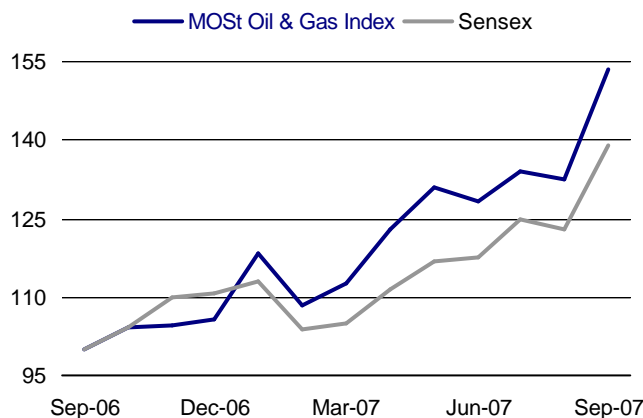
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Oil & Gas						
BPCL	6	-4	-14	-44	-14	-57
Caim India	25	-	6	-	5	-
Chennai Petroleum	3	36	-16	-4	-17	-17
GAIL	20	41	1	2	0	-12
HPCL	1	-6	-18	-46	-19	-59
Indraprastha Gas	8	11	-11	-28	-12	-42
IOC	5	-9	-14	-49	-14	-62
ONGC	6	22	-14	-18	-14	-31
Reliance	36	97	16	57	16	44

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Oil & Gas														
BPCL	356	Buy	59.2	57.4	57.3	6.0	6.2	6.2	5.7	5.5	5.5	18.8	16.4	14.8
Caim India	181	Buy	-	0.6	0.8		311.9	234.5		43.5	43.7		0.4	0.5
Chennai Petroleum	280	Neutral	37.9	54.6	51.8	7.4	5.1	5.4	5.2	4.0	4.1	21.4	25.1	20.2
GAIL	379	Neutral	24.2	30.7	32.4	15.6	12.3	11.7	10.7	7.9	7.3	22.8	19.9	18.5
HPCL	266	Buy	37.4	34.8	30.8	7.1	7.7	8.6	6.6	6.5	7.0	13.2	11.7	10.0
Indraprastha Gas	129	Not Rated	9.9	11.5	12.3	13.1	11.2	10.5	6.5	5.0	4.6	32.6	30.6	26.8
IOC	470	Buy	50.2	60.2	57.1	9.4	7.8	8.2	6.5	6.1	6.2	16.4	16.9	14.0
ONGC	958	Buy	83.1	99.1	90.7	11.5	9.7	10.6	5.9	5.1	5.3	32.5	32.3	25.6
Reliance Inds.	2,296	Buy	82.2	92.0	97.2	27.9	25.0	23.6	17.7	16.2	16.5	22.1	19.5	17.3
Sector Aggregate						15.6	13.5	13.6	9.2	8.2	8.5	22.6	22.0	18.5

BPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BPCL IN
	REUTERS CODE
S&P CNX: 5,021	BPCL.BO

28 September 2007

Buy

Rs356

Previous Recommendation: Buy

Equity Shares (m)	361.5
52-Week Range	448/287
1,6,12 Rel. Perf. (%)	2/-16/-44
M.Cap. (Rs b)	128.6
M.Cap. (US\$ b)	3.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	982,049	21,395	59.2	633.7	6.0	1.1	18.8	14.1	0.2	5.7
3/08E	970,793	20,757	57.4	-3.0	6.2	1.0	16.4	12.0	0.2	5.5
3/09E	847,711	20,696	57.3	-0.3	6.2	0.9	14.8	11.9	0.3	5.5

* Consolidated

- ✗ We expect BPCL's net profit at Rs11.8b in 2QFY08 as against Rs12.6b in 2QFY07. The lower profit estimates are primarily due to lower sharing of fuel under-recoveries in the form of oil bonds and upstream subsidies.
- ✗ Large fuel under-recoveries continue to undermine BPCL's profitability despite improved operating fundamentals. This warrants an immediate substantial price hike, but likelihood of such hike remains low in our view.
- ✗ We factor in oil bonds issue of Rs27.7b to BPCL in 1HFY08 v/s Rs 32b in 1HFY07. The government had not issued any oil bonds in 1QFY08 and 1QFY07. We expect BPCL to report losses if oil bonds are not issued in 2QFY08.
- ✗ We estimate reduced sharing in the form of discounts by upstream companies at Rs11b in 2QFY08 v/s Rs13.4b in the same period last year, which again will impact BPCL negatively.
- ✗ On the operating front, we expect improved performance in 2QFY08 with about 8% higher throughput (5.4mmt v/s 5mmt).
- ✗ The key data to watch out for are the extent of upstream discounts, oil bonds from the government and price hikes.
- ✗ BPCL currently trades at 6.2x FY08E consolidated earnings. We maintain **Buy** in view of the continuing strong refining fundamentals and attractive valuations. However, concerns remain on large fuel under-recoveries due to non-revision of prices and non-clarity on subsidy sharing mechanism.

QUARTERLY PERFORMANCE (MERGED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales	254,338	288,323	265,535	266,327	265,501	293,397	246,831	247,652	1,074,523	1,053,380
Change (%)	36.3	52.1	18.3	6.1	4.4	1.8	-7.0	-7.0	26.2	-2.0
Raw Material Consumed	105,979	120,207	98,250	97,597	111,518	123,488	106,492	109,163	422,033	450,660
Staff Cost	2,414	2,087	2,651	2,885	2,800	2,400	2,916	2,925	10,037	11,041
Finished Goods Purchase	105,801	118,179	126,491	113,433	113,551	108,841	99,105	96,128	463,904	417,625
Other Exp (incl Stock Adj)	42,753	30,712	31,251	39,674	35,572	38,727	33,840	34,109	144,390	142,248
EBITDA	-2,609	17,138	6,892	12,738	2,060	19,940	4,478	5,328	34,159	31,806
Change (%)	nm	1,302.5	nm	-33.5	nm	16.4	-35.0	-58.2	256.8	-6.9
% of Sales	-1.0	5.9	2.6	4.8	0.8	6.8	1.8	2.2	3.2	3.0
Depreciation	1,814	1,964	2,484	2,778	2,276	2,390	2,509	2,635	9,040	9,810
Interest	908	920	1,298	1,648	1,240	1,260	1,365	1,386	4,774	5,251
Other Income	1,091	2,207	1,487	2,547	4,341	1,600	1,600	1,600	7,332	9,141
PBT	-4,240	16,461	4,597	10,859	2,885	17,890	2,203	2,907	27,677	25,886
Tax	25	3,876	1,562	4,159	958	6,065	747	986	9,622	8,755
Rate (%)	-0.6	23.5	34.0	38.3	33.2	33.9	33.9	33.9	34.8	33.8
PAT	-4,265	12,585	3,035	6,700	1,927	11,825	1,456	1,922	18,055	17,131
Change (%)	nm	6,594.1	nm	-60.2	nm	-6.0	-52.0	-71.3	519.2	-5.1

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@motilaloswal.com) Tel: 39825432

Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CAIR IN
	REUTERS CODE
S&P CNX: 5,021	CAIL.BO
Equity Shares (m)	1,778.4
52-Week Range	188/111
1,6,12 Rel. Perf. (%)	7/11/-
M.Cap. (Rs b)	321.9
M.Cap. (US\$ b)	8.1

28 September 2007

Buy

Rs 181

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07E	10,378	1,032	0.6		311.9	1.1	0.4	1.6	30.2	43.5
12/08E	10,604	1,373	0.8	33.0	234.5	1.1	0.5	1.1	30.8	43.7
12/09E	16,686	3,306	1.9	140.8	97.4	1.1	1.1	2.2	20.7	26.9

- ✦ We expect Cairn to report net profit of Rs 572m in 3QCY07.
- ✦ Despite Rs 1.9b profit at EBITDA level in 2QCY07, it had reported a loss of Rs 714m, primarily due to the accounting loss of Rs 1.4b due to foreign exchange fluctuation (loss was on the deposits held in US dollars). Cairn is keeping a large portion of the balance IPO proceeds of about US\$600m in dollar deposits to fund primarily US\$ capex outflows over the next two years.
- ✦ We estimate Cairn's working interest oil and gas production at ~20,000bpd in 3QCY07 and average realization at US\$60/bbl against US\$50.5/bbl in 2QCY07.
- ✦ During the quarter, the government has agreed to grant Rights of Use for Cairn's proposed pipeline from its Rajasthan block to Salaya (Gujarat coast). This is a significant positive development for crude oil evacuation from the Rajasthan block. We expect the pipeline to be completed on time for its crude oil production plans.
- ✦ Cairn expects to commence production from Mangala field in Rajasthan Block in 2009. This will be followed by production from its Bhagyam, Aishwairya and other smaller fields, with peak plateau rate of 150,000bpd.
- ✦ Cairn currently trades at 97.4x FY09E and 11.6x FY10E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY07	CY08E
	1Q	2Q	3QE	4QE		
Net Sales	2,364	2,433	2,925	2,657	10,378	10,604
Change (%)						2.2
Inc/Dec in Stock	95	-157	0	0	-61	
Staff Cost	309	288	294	300	1,190	1,312
Other Administration Costs	153	66	110	110	439	481
Other Expenditure	473	341	390	400	1,604	1,338
EBITDA	1,334	1,895	2,131	1,847	7,207	7,473
% of Net Sales	56.4	77.9	72.9	69.5		70.5
Change (%)						3.7
Depreciation & Exploration Write-off	1,002	1,145	1,005	1,005	4,157	5,084
Interest	2	8	30	30	69	1,276
Other Income	500	351	400	450	1,701	1,021
Forex Fluctuations	-138	-1,406	-375	0	-1,919	0
PBT	692	-312	1,121	1,262	2,763	2,134
Tax	317	402	549	463	1,731	761
Rate (%)	45.8	-128.6	49.0	36.7	62.6	35.7
PAT	376	-714	572	799	1,032	1,373
Change (%)						33.0

E: M0St Estimates

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28 September 2007

195

Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	MRL IN
	REUTERS CODE
S&P CNX: 5,021	CHPC.BO

28 September 2007

Neutral

Rs280

Equity Shares (m)	149.0
52-Week Range	337/166
1,6,12 Rel. Perf. (%)	-4/24/-4
M.Cap. (Rs b)	41.7
M.Cap. (US\$ b)	1.0

Previous Recommendation: Neutral

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	246,533	5,653	37.9	17.5	7.4	1.6	21.4	18.8	0.3	5.2
3/08E	280,347	8,129	54.6	43.8	5.1	1.3	25.1	25.6	0.2	4.0
3/09E	255,590	7,715	51.8	-5.1	5.4	1.1	20.2	21.8	0.3	4.1

- ✦ We expect CPCL to record net profit of Rs 1.9b in 2QFY08 v/s Rs 1b in 2QFY07 and Rs 3.2b in 1QFY08.
- ✦ In 2QFY07, profits were impacted by discounts of Rs 1.2b for OMC under-recoveries. The scheme of refineries sharing subsidy burden was discontinued in 3QFY07, with retrospective effect, and the amount of US\$1.2b was refunded back to CPCL in 3QFY07.
- ✦ The refining fundamentals continue to remain strong. Though the benchmark Singapore GRMs for 2QFY08 at US\$6.4/bbl have come down from US\$9.50/bbl seen in 1QFY08, YoY margins are up 35% from US\$4.74/bbl in 2QFY07.
- ✦ However, appreciation of rupee by over 13% YoY will moderate the refining margin gains.
- ✦ The stock trades at 5.1x FY08E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	64,656	66,527	58,819	56,531	62,966	77,733	69,627	70,020	246,533	280,347
Change (%)	38.7	21.6	7.5	2.9	-2.6	16.8	18.4	23.9	16.8	13.7
Raw Materials Cons	58,804	63,338	55,551	53,791	54,367	59,705	53,654	53,654	231,484	221,378
Employee Costs	245	353	302	607	303	318	337	354	1,506	1,310
Other Exp (incl Stock Adj)	819	456	1,747	-1,886	2,383	13,932	12,497	12,568	1,137	41,380
EBITDA	4,789	2,380	1,218	4,019	5,914	3,779	3,139	3,446	12,407	16,278
% of Sales	7.4	3.6	2.1	7.1	9.4	4.9	4.5	4.9	5.0	5.8
Change (%)	10.8	-39.1	-7.2	194.3	23.5	58.8	157.7	-14.3	13.7	31.2
Depreciation	586	586	586	662	637	640	643	647	2,419	2,567
Interest	426	468	412	577	460	465	470	483	1,883	1,878
Other Income	69	146	152	338	83	125	131	138	705	477
PBT	3,845	1,473	373	3,118	4,900	2,799	2,157	2,454	8,809	12,310
Tax	1,300	500	129	1,227	1,668	949	731	832	3,156	4,180
Rate (%)	33.8	34.0	34.6	39.4	34.0	33.9	33.9	33.9	35.8	34.0
PAT	2,546	972	243	1,891	3,232	1,850	1,426	1,622	5,653	8,129
Change (%)	8.8	-50.5	14.4	434.3	26.9	90.3	485.5	-14.2	16.1	43.8

E: M0St Estimates

GAIL (India)

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GAIL IN
	REUTERS CODE
S&P CNX: 5,021	GAIL.BO

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs379

Equity Shares (m)	845.7
52-Week Range	389/243
1,6,12 Rel. Perf. (%)	8/8/2
M.Cap. (Rs b)	320.3
M.Cap. (US\$ b)	8.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	160,472	20,468	24.2	-11.4	15.6	2.8	22.8	20.3	2.0	10.7
3/08E	171,540	25,946	30.7	26.8	12.3	2.5	19.9	22.8	1.9	7.9
3/09E	181,832	27,372	32.4	5.5	11.7	2.2	18.5	22.2	1.8	7.3

- ✦ We expect GAIL to report net profit of Rs6.6b in 2QFY08, up 46%, v/s Rs4.5b in 2QFY07 and Rs6.8b in 1QFY08. GAIL's gas supplies and production volumes were severely affected in 2QFY07 due to floods in Gujarat.
- ✦ We also estimate lower subsidy sharing for 2QFY08 at Rs2.8b v/s 4.2b in 2QFY07 and Rs2.7b in 1QFY08.
- ✦ We estimate significantly improved performance in petrochemicals, largely due to increase in volume by ~50% to 105kt v/s 70kt in 2QFY07. In early September, GAIL has announced mechanical completion of its petchem capacity at Pata by 100kta to 410kta, which should result in increase throughput from 3QFY08.
- ✦ Prices of key petrochemicals are marginally up 3-4% QoQ, which would result in improved realisation, as gas costs have remained same after last price hike in 1QFY07. Though petrochemicals margins remain robust, we believe margin decline is impending as large capacities come online in the Middle East, which will put pressure on the prices.
- ✦ We estimate improved natural gas transmission volumes of 85mmcmd (up 21% YoY due to lower base due to floods last year) and commissioning of Dahej-Panvel-Dabhol pipeline in 1QFY08.
- ✦ The stock trades at 12.3x FY08E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	40,784	37,070	43,784	38,834	42,457	43,247	43,371	42,465	160,472	171,540
Change (%)	24.1	2.9	12.0	6.1	4.1	16.7	-0.9	9.4	11.0	6.9
Finished Gds Purchase	30,552	28,088	30,568	23,368	23,529	24,651	24,721	24,205	94,290	97,106
Raw Materials Cons	5,069	4,845	5,559	4,527	4,314	5,060	5,074	4,968	17,851	19,417
Employee Costs	551	905	651	816	688	840	847	867	2,923	3,242
Less: Internal Consumption*	-6,519	-6,513	-7,279	-	-	-	-	-	-	-
Other Exp (incl Stock Adj)	1,715	3,854	5,643	4,099	4,058	2,239	2,498	2,610	15,435	11,404
EBITDA	9,416	5,891	8,641	6,024	9,869	10,457	10,230	9,814	29,973	40,371
% of Net Sales	23.1	15.9	19.7	15.5	23.2	24.2	23.6	23.1	18.7	23.5
Change (%)	-0.7	-37.0	-5.2	-14.5	4.8	77.5	18.4	62.9	-14.3	34.7
Depreciation	1,408	1,436	1,439	1,471	1,407	1,688	1,688	1,688	5,754	6,472
Interest	288	291	271	221	204	262	284	295	1,071	1,045
Other Income	801	1,674	1,846	1,129	1,430	1,430	1,430	1,430	5,450	5,722
PBT	8,521	5,838	8,778	5,461	9,689	9,937	9,688	9,261	28,598	38,576
Tax	2,600	1,354	2,124	2,053	2,837	3,369	3,284	3,139	8,130	12,629
Rate (%)	30.5	23.2	24.2	37.6	29.3	33.9	33.9	33.9	28.4	32.7
PAT	5,921	4,484	6,655	3,408	6,852	6,569	6,404	6,122	20,468	25,946
Change (%)	22.5	-42.1	3.5	-16.7	15.7	46.5	-3.8	79.6	-11.4	26.8
EO: Tax Provision Written Back				3,399	0	0	0	0	3,399	
Reported PAT	5,921	4,484	6,655	6,807	6,852	6,569	6,404	6,122	23,867	25,946

E: MOST Estimates

HPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HPCL IN
	REUTERS CODE
S&P CNX: 5,021	HPCL.BO

28 September 2007

Buy

Rs266

Previous Recommendation: Buy

Equity Shares (m)	338.8
52-Week Range	337/223
1,6,12 Rel. Perf. (%)	0/-30/-46
M.Cap. (Rs b)	90.1
M.Cap. (US\$ b)	2.3

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	969,182	12,682	37.4	212.7	7.1	0.9	13.2	10.2	0.2	6.6
3/08E	948,798	11,780	34.8	-7.1	7.7	0.9	11.7	7.2	0.2	6.5
3/09E	832,182	10,451	30.8	-11.3	8.6	0.9	10.0	6.2	0.2	7.0

- ✦ We expect HPCL's net profit at Rs10.5b in 2QFY08 as against Rs12.2b in 2QFY07. The lower profit estimates are primarily due to lower sharing of fuel under-recoveries in the form of oil bonds and upstream subsidies.
- ✦ Large fuel under-recoveries continue to undermine HPCL's profitability despite improved operating fundamentals. This warrants an immediate substantial price hike, but likelihood of such hike remains low in our view.
- ✦ Our workings factor in estimated oil bonds issue of Rs25.5b to HPCL for 1HFY08 v/s Rs29.1b in 1HFY07. The government had not issued any oil bonds in 1QFY08 and 1QFY07; we expect bonds for 1QFY08 will also be issued in 2QFY08, as was the case in FY07.
- ✦ We estimate reduced sharing by upstream companies at Rs10b in 2QFY08 v/s Rs12.3b. For 1HFY08, we estimate net under-recoveries at Rs12.3b v/s Rs12.9b in 1HFY07.
- ✦ On the operating front, we expect improved performance in 2QFY08 with about 5% increased throughput at 4.35mnt.
- ✦ The key data to watch for is the extent of upstream discounts, oil bonds from the government and price hikes.
- ✦ HPCL trades at 7.7x FY08E earnings. We maintain **Buy** in view of the continuing strong refining fundamentals and attractive valuations. However, concerns remain on large fuel under-recoveries due to non-revision of prices and non-clarity on subsidy sharing mechanism.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	226,795	262,351	242,494	237,542	237,131	260,895	223,067	227,705	969,182	948,798
Change (%)	39	47	22	4.5	5	-1	-8.0	-4.1	26.0	-2.1
Raw Material Consumed	90,409	100,016	86,610	81,133	81,914	97,997	86,365	73,016	358,168	339,292
Staff Cost	1,657	2,202	1,930	1,619	1,805	2,092	2,104	2,000	7,407	8,000
Finished Goods Purchase	114,243	121,223	118,300	114,736	128,882	113,287	104,366	123,333	468,502	469,867
Other Exp, Levies and Stock Adj	25,652	22,447	33,714	29,804	25,816	29,936	26,813	26,062	111,617	108,627
EBITDA	-5,166	16,462	1,940	10,251	-1,285	17,583	3,420	3,294	23,487	23,011
% of Net Sales	-2.3	6.3	0.8	4.3	-0.5	6.7	1.5	1.4	2.4	2.4
Change (%)	nm	1,964	nm	-47.8	nm	7	76	-68	191.1	-2.0
Depreciation	1,701	1,742	1,733	1,864	1,798	1,915	1,873	1,997	7,040	7,583
Interest	596	983	1,046	1,527	1,334	1,425	1,400	1,350	4,152	5,509
Other Income	1,021	1,925	2,466	1,964.4	3,351	1,600	1,600	1,600	7,377	8,151
PBT	-6,442	15,663	1,627	8,824	-1,066	15,843	1,747	1,546	19,672	18,071
Tax	-366	3,443	584	3,329	-197	5,371	592	524	6,990	6,291
Rate (%)	6	22	36	37.7	18	34	34	34	35.5	35
PAT	-6,077	12,220	1,044	5,495	-869	10,472	1,155	1,022	12,682	11,780
Change (%)	nm	nm	nm	-72.7	nm	-14.3	10.7	-81.4	212.7	-7.1
EO - Tax Prov Write back	0	0	3,030	0	0	0	0	0	3,030	0
Reported PAT	-6,077	12,220	4,073	5,495	-869	10,472	1,155	1,022	15,712	11,780

E: MOSt Estimates

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Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IOC IN
	REUTERS CODE
S&P CNX: 5,021	IOC.BO
Equity Shares (m)	1,192.4
52-Week Range	585/370
1,6,12 Rel. Perf. (%)	7/-18/-49
M.Cap. (Rs b)	561.0
M.Cap. (US\$ b)	9.4

28 September 2007

Buy

Rs470

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	1,999,308	59,887	50.2	18.9	9.4	1.5	16.4	12.6	0.4	6.5
3/08E	2,449,973	71,723	60.2	19.8	7.8	1.3	16.9	12.5	0.3	6.1
3/09E	2,118,043	68,028	57.1	-5.2	8.2	1.2	14.0	11.1	0.4	6.2

Consolidated; Adj. for extra-ordinary items

- ✗ We expect IOC's net profit at Rs33.1b in 2QFY08 v/s Rs30.5b in 2QFY07. Profits in 2QFY07 were lower due to impact of GRM to the tune of US\$3.15 on account of inventory valuation.
- ✗ Similar to other PSU OMCs, large fuel under-recoveries continue to undermine IOC's profitability despite improved operating fundamentals.
- ✗ Our estimates factor in estimated oil bonds issue of Rs66.9b to IOC for 1HFY08 v/s actual issue of Rs 71.7b in 1HFY07. The government had not issued any oil bonds in 1QFY08 and 1QFY07; we expect bonds for 1QFY08 will also be issued in 2QFY08, as was the case in FY07.
- ✗ We estimate reduced sharing by upstream companies at Rs26.7b in 2QFY08 v/s Rs30.8b in 2QFY07.
- ✗ The key data to watch out for is the extent of upstream discounts, oil bonds from the government and price hikes.
- ✗ IOC trades at 7.8x FY08E consolidated earnings. We maintain **Buy** in view of continuing strong refining fundamental and attractive valuations. However, concerns remain on large fuel under-recoveries due to non-revision of prices and non-clarity on subsidy sharing mechanism.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07					FY08				FY07**	FY08E**
	1Q	2Q	3Q	4Q**	1Q**	1Q	2QE	3QE	4QE		
Net Sales	486,884	577,665	544,378	544,609	484,996	528,620	627,751	554,407	572,710	2,153,536	2,283,488
Change (%)	26.0	44.1	22.9	7.5	-68.2	8.6	8.7	1.8	5.2	24.0	6.0
Raw Material Consumed	200,298	249,671	233,701	201,929	200,627	230,738	232,440	217,046	216,766	885,598	896,991
Staff Cost	4,893	6,188	5,051	10,077	5,232	6,838	7,330	7,330	7,330	26,209	28,829
Finished Goods Purchase	262,155	271,402	260,067	246,665	264,627	253,246	308,727	285,419	302,550	1,040,288	1,149,942
Other Exp (incl Stock Adj)	27,983	10,045	27,647	35,497	27,392	23,611	24,410	25,487	28,043	101,172	101,551
EBITDA	-8,445	40,359	17,912	50,442	-12,882	14,187	54,843	19,125	18,020	100,269	106,175
% of Net Sales	-1.7	7.0	3.3	9.3	-2.7	2.7	8.7	3.4	3.1	4.7	4.6
Change (%)	-277.2	166.5	901.3	-3.3		nm	35.9	6.8	-64.3	35.7	5.9
Depreciation	5,750	6,650	6,770	7,169	5,894	6,748	7,312	7,025	6,882	26,339	27,967
Interest	3,344	3,619	3,831	4,261	3,385	3,374	3,911	3,900	4,200	15,055	15,385
Other Income	3,153	6,176	7,807	9,512	3,201	16,911	6,500	6,500	6,500	26,647	36,411
PBT	-14,387	36,267	15,117	48,525	-18,960	20,975	50,120	14,700	13,438	85,522	99,233
Tax	56	5,765	4,527	19,508	60	6,291	16,991	4,983	4,555	29,855	32,820
Rate (%)	-0.4	15.9	29.9	40.2	-0.3	30.0	33.9	33.9	33.9	34.9	33.1
PAT	-14,443	30,503	10,590	29,017	-19,020	14,684	33,129	9,717	8,882	55,667	66,412
Change (%)	nm	221.4	nm	-18.8	-	nm	8.6	-8.2	-69.4	24.9	19.3
Extraordinary Items	32,248	0	0	-12,920	32,238	0.0	0.0	0.0	0.0	19,328	0
PAT incl EO	17,805	30,503	10,590	16,097	13,218	14,684	33,129	9,717	8,882	74,995	66,412

E: M0St Estimates; ** 1QFY07, 4QFY07 and FY07 numbers restated for IBP's merger; FY08 includes IBP numbers

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Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IGL IN
	REUTERS CODE
S&P CNX: 5,021	IGAS.BO

28 September 2007

Not Rated

Rs 129

Equity Shares (m)	140.0
52-Week Range	130/89
1,6,12 Rel. Perf. (%)	-5/-4/-28
M.Cap. (Rs b)	18.1
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	6,141	1,380	9.9	29.7	13.1	3.9	32.5	43.2	2.7	6.5
3/08E	6,925	1,612	11.5	16.8	11.2	3.1	30.6	42.4	2.1	5.0
3/09E	7,520	1,728	12.3	7.2	10.5	2.6	26.8	37.2	2.0	4.6

- ✘ We expect IGL to report net profit of Rs394m in 2QFY08, up 13.3% YoY, led by volume growth at its current network.
- ✘ EBITDA margin is seen sustained at 42.8% in 2QFY08 v/s 41.9% in 2QFY07 and 42.5% in 1QFY08.
- ✘ IGL currently operates about 154 CNG stations and we expect these stations to maintain volume growth rate, as more vehicle conversions take place. Though the volumes from buses have peaked out; conversion of passenger vehicles and taxis led by regulatory norms will be the key growth driver for CNG.
- ✘ We expect CNG volumes to grow 8% QoQ to 125mmscm v/s 116.5mmscm in 1QFY08. In PNG, we expect volumes to grow 10% QoQ to 10.6mmscm v/s 9.6mmscm in 1QFY08.
- ✘ The company is currently implementing an Rs 1.7b expansion program for its fuel stations as well as PNG network, which would contribute to revenue in 2HFY08. This expansion would be in the current Delhi region as well as new areas in Ghaziabad and Greater Noida.
- ✘ IGL trades at 11.2x FY08E earnings. We do not have a rating on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	1,358	1,542	1,599	1,643	1,618	1,706	1,786	1,816	6,141	6,925
Change (%)	19.1	15.0	16.7	21.1	19.1	10.7	11.7	10.5	17.9	12.8
Raw Material Consumed	586	675	721	696	693	731	765	778	2,677	2,967
Staff Cost	31	36	36	38	36	37	40	41	141	154
Other Exp (incl Stock Adj)	199	186	188	198	202	208	214	218	771	842
EBITDA	541	645	654	711	687	730	766	779	2,552	2,962
% of Net Sales	39.9	41.9	40.9	43.3	42.5	42.8	42.9	42.9	41.6	42.8
Change (%)	23.8	20.1	12.4	22.5	27.0	13.1	17.2	9.4	19.4	16.1
Depreciation	150	150	150	149	156	163	165	169	598	653
Other Income	22	23	24	34	40	30	25	25	102	120
PBT	413	518	528	596	571	596	626	635	2,056	2,429
Tax	137	170	173	196	187	202	212	215	676	817
Rate (%)	33.1	32.9	32.8	32.8	32.8	33.9	33.9	33.9	32.9	33.0
PAT	276	348	355	401	384	394	414	419	1,380	1,612
Change (%)	36.5	28.7	21.0	34.6	39.0	13.3	16.7	4.7	29.7	16.8

E: MOSI Estimates

ONGC

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ONGC IN
	REUTERS CODE
S&P CNX: 5,021	ONGC.BO

28 September 2007

Buy

Rs958

Previous Recommendation: Buy

Equity Shares (m)	2,138.9
52-Week Range	1,000/728
1,6,12 Rel. Perf. (%)	2/-24/-18
M.Cap. (Rs b)	2,048.8
M.Cap. (US\$ b)	51.5

YEAR END	NET SALES (RS B)	PAT (RS B)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	822.5	177.7	83.1	15.4	11.5	3.4	32.5	38.3	2.5	5.9
3/08E	902.1	212.0	99.1	19.3	9.7	2.9	32.3	37.3	2.2	5.1
3/09E	851.7	194.1	90.7	-8.5	10.6	2.6	25.6	29.1	2.3	5.3

Consolidated

- ✗ We expect net profit at Rs47.9b in 2QFY08 v/s Rs41.7b in 2QFY07. Increase in profits is primarily due to higher oil price realization and lower discounts to OMCs, compensated by about 13% appreciation in rupee.
- ✗ Bonny light prices increased 8.3% YoY to US\$77.4/bbl v/s US\$71.4/bbl in 2QFY07. However, 13% YoY appreciation in rupee will mean that the gross rupee realization will be lowered by about 5%.
- ✗ Despite higher oil prices in FY08, we estimate burden sharing to be lower due to rupee appreciation as well as only 1/3rd upstream sharing. Upstream sharing was much higher at 41.5% in the same period last year. We estimate ONGC's discount at Rs39.9b in 2QFY08 v/s Rs50.3b in 2QFY07 and Rs35.6b in 1QFY08.
- ✗ Uncertainty on under-recovery burden sharing, its quantum and timing remain a concern.
- ✗ The implementation of revised gas pricing as per Tariff Commission seems to have been delayed, and notification has not been issued yet. Tariff commission had increased gas pricing for ONGC by 16% in 1QFY07. Further delay in revised pricing will be negative for ONGC.
- ✗ ONGC trades at 9.7x FY08E consolidated earnings. We maintain **Buy** in view of continued higher oil prices, impending improved gas pricing and significant growth pipeline from ONGC as well as OVL.

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	146.0	140.7	155.6	124.0	136.9	144.8	140.0	142.0	566.3	563.6
Change (%)	34.3	11.0	24.8	4.2	-6.3	2.9	-10.1	14.5	18.2	-0.5
Raw Material and Purchases	17.5	17.0	15.4	13.4	13.6	15.2	14.7	14.9	63.3	58.4
Statutory Levies	31.1	29.8	30.6	28.4	29.0	30.3	29.1	28.3	119.9	116.7
Employee Costs	3.0	3.2	5.0	6.0	2.5	2.8	3.1	3.7	17.2	12.1
Other Exp (incl Stock Adj)	13.3	17.2	15.5	22.4	12.6	11.6	11.6	11.6	68.5	47.3
EBITDA	81.1	73.4	89.1	53.7	79.2	84.9	81.5	83.5	297.3	329.2
% of Net Sales	55.5	52.2	57.2	43.3	57.9	58.6	58.2	58.8	52.5	58.4
Change (%)	32.8	2.6	21.0	-20.1	-2.3	15.6	-8.5	55.5	8.7	10.7
Depreciation	22.3	18.5	25.6	28.6	17.5	18.2	18.8	19.7	95.0	74.3
Interest	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.2
Other Income	4.2	9.4	7.0	16.0	8.4	6.2	6.2	6.2	36.6	27.0
PBT	63.0	64.3	70.5	41.0	70.0	72.8	68.9	70.0	238.8	281.6
Tax	21.8	19.5	23.8	15.2	23.9	24.9	23.5	23.9	80.3	96.3
Rate (%)	34.6	30.4	33.8	37.0	34.2	34.2	34.2	34.2	33.6	34.2
PAT	41.2	44.8	46.7	25.8	46.1	47.9	45.3	46.0	158.5	185.3
Change (%)	24.1	8.2	20.0	5.7	11.9	6.9	-2.9	78.2	14.9	16.9
Reported PAT	41.2	41.7	46.7	26.8	46.1	47.9	45.3	46.0	156.4	185.3

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@motilalosal.com) Tel: 39825432

Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	RIL IN
	REUTERS CODE
S&P CNX: 5,021	RELI.BO

28 September 2007

Buy

Previous Recommendation: Buy

Rs 2,296

Equity Shares (m)	1,453.3
52-Week Range	2,426/1,138
1,6,12 Rel. Perf. (%)	6/36/57
M.Cap. (Rs b)	3,337.1
M.Cap. (US\$ b)	83.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	1,116.9	119.4	82.2	26.3	27.9	4.9	22.1	18.9	3.2	17.7
3/08E	1,175.1	133.7	92.0	11.9	25.0	4.2	19.5	17.0	3.0	16.2
3/09E	1,091.7	152.9	97.2	5.7	23.6	3.4	17.3	15.1	3.4	16.5

Includes IPCL from FY07

- ✗ We expect net profit of Rs35.6b v/s Rs30.6b (RIL+IPCL), up 16% YoY, and Rs36b for 1QFY08, down 1% QoQ.
- ✗ Post the approval of merger scheme with IPCL, we expect RIL to report numbers only for the merged entity. RIL's stand-alone reported profit was Rs27b in 2QFY07 and Rs32.6b in 1QFY08.
- ✗ Though average Singapore refining margins in 1QFY08 at US\$6.4/bbl have declined significantly compared to 1QFY07 (US\$9.5/bbl), the margins are 35% higher than US\$4.75/bbl in 2QFY07. We expect RIL to report GRMs of US\$12.2/bbl v/s US\$9.1/bbl in 2QFY07 and US\$15.4/bbl in 1QFY08.
- ✗ The QoQ decline in refining margins will be to a large extent compensated by continued recovery in petrochemical chain. On the polymer front, the prices continue to remain firm and saw 4% QoQ increase. Similarly, on polyester front, the prices continue to firm up backed by recovery in cotton prices.
- ✗ Apart from core business, RIL's share performance will be driven largely by more updates on E&P front both on its exploration success, reserve accretion as well as progress on KG-D6 development. Value will also be driven by progress on RPL refinery and Reliance Retail.
- ✗ The stock trades at a P/E of 23.6x FY09E and 12.2x FY10E. We maintain **Buy**.

QUARTERLY PERFORMANCE (RIL INCLUDES IPCL)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07*	FY07A AUDITED	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Net Sales	275,400	315,220	295,280	289,020	308,290	309,998	283,989	272,853	1,174,920	1,116,930	1,175,130
Change (%)	54.9	52.2	62.5	17.8	11.9	-1.7	-3.8	-5.6	44.7	37.5	5.2
Raw Material Consumed	191,960	231,050	210,120	201,470	220,700	232,112	209,563	193,563	834,600	780,380	855,938
Staff Cost	4,570	4,050	4,120	8,193	4,950	4,648	4,648	4,648	20,933	20,940	18,895
Other Expenses	30,910	28,100	27,140	30,230	25,160	15,663	17,023	22,260	116,380	115,150	80,106
EBITDA	47,960	52,020	53,900	49,127	57,480	57,574	52,755	52,382	203,007	200,460	220,191
% of Net Sales	17.4	16.5	18.3	17.0	18.6	18.6	18.6	19.2	17.3	17.9	18.7
Change (%)	NM	NM	NM	NM	19.8	10.7	-2.1	6.6	42.0	40.2	9.8
Depreciation	10,390	11,530	12,060	11,700	10,920	12,706	13,255	13,156	45,680	48,150	50,038
Interest	3,170	3,150	3,250	3,070	3,140	3,462	3,462	3,462	12,640	11,890	13,525
Other Income	1,060	1,400	1,160	1,350	2,020	1,448	1,448	1,448	4,970	4,780	6,363
PBT	35,460	38,740	39,750	35,707	45,440	42,854	37,486	37,211	149,657	145,200	162,991
Tax	7,410	8,140	7,710	6,060	9,440	7,285	6,373	6,241	29,320	25,770	29,338
Rate (%)	20.9	21.0	19.4	17.0	20.8	17.0	17.0	16.8	19.6	17.7	18.0
Adjusted PAT	28,050	30,600	32,040	29,647	36,000	35,569	31,114	30,971	120,337	119,430	133,653
Change (%)	NM	NM	NM	NM	28.3	16.2	-2.9	4.5	32.7	31.7	11.9
Extra-ordinary Items	0	0	0	-937	0	0	0	0	-937	0	0
Reported PAT	28,050	30,600	32,040	28,710	36,000	35,569	31,114	30,971	119,400	119,430	133,653

E: MOST Estimates; * For all 4 quarters of FY07 and 1QFY08, we have added RIL & IPCL's reported numbers line by line; RIL has published audited nos. for merged RIL+IPCL for FY07.

Pharmaceuticals

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Aurobindo Pharma	211
Aventis Pharma	212
Biocon	213
Cadila Healthcare	214
Cipla	215
Dishman Pharma	216
Divi's Laboratories	217
Dr Reddy's Labs.	218
GSK Pharma	219
Jubilant Organosys	220
Lupin	221
Nicholas Piramal	222
Pfizer	223
Ranbaxy Labs.	224
Shasun Chemicals	225
Sun Pharmaceuticals	226
Wockhardt	227

Higher base, stronger rupee to drag down bottom-line growth

MOST Pharma Universe sales growth for 2QFY08 is likely to be tempered to 6.5% YoY, mainly due to higher base effect resulting from one-time opportunities last year and rupee appreciation. The big-3 generics companies (by sales) are likely to report 13% de-growth in topline mainly due to 38% sales decline for Dr Reddy's Labs due to absence of authorized generic revenues (which contributed Rs7.8b to 2QFY07 sales). Other Indian companies are expected to record 28.4% topline growth, led mainly by commercialization of their product pipeline and consolidation of acquired companies.

We expect MNC Pharma to report topline growth of just 4.1% (mainly due to the divestment of consumer healthcare business for Pfizer and animal healthcare business for GSK Pharma). Overall EBITDA margins for MOST Pharma Universe are expected to decline by 87bp YoY, as the big-3 generic companies report 343bp margin decline on the high base of last year. Other Indian companies would witness margin expansion of 74bp. EBITDA margins for the MNC players are expected to improve by 50bp to 29.2% led mainly by a 715bp expansion for Pfizer (on low base of last year).

Overall, we expect MOST Pharma Universe's PAT to grow just 2.2% YoY, with MNC Pharma reporting growth of 4.4% YoY and other Indian Pharma group's PAT growing by 26.4%. The big-3 generic companies are expected to record 24% PAT de-growth

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO	SALES		EBITDA		NET PROFIT		
	SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)	
Pharmaceuticals							
Aurobindo Pharma	Sell	5,897	22.9	1,002	45.1	711	30.0
Aventis Pharma	Buy	2,700	11.0	676	-1.6	496	-7.8
Biocon	Buy	2,923	17.4	796	20.8	539	18.8
Cadila Health	Buy	6,160	29.7	1,279	17.3	824	16.9
Cipla	Neutral	9,967	11.2	1,615	-29.0	1,187	-34.2
Dishman Pharma	Buy	1,815	55.2	349	42.0	216	28.5
Divis Labs	Neutral	2,100	30.1	772	77.6	600	91.9
Dr Reddy's Labs	Buy	12,391	-38.2	2,168	-48.6	1,472	-47.4
GSK Pharma	Buy	4,147	4.4	1,331	3.7	1,004	1.3
Jubilant Organosys	Buy	6,117	31.3	1,105	37.9	848	55.9
Lupin	Neutral	6,502	33.1	1,298	70.2	966	86.3
Nicholas Piramal	Buy	6,983	6.7	1,068	-6.2	585	-10.7
Pfizer	Neutral	1,651	-6.4	415	30.8	335	46.6
Ranbaxy Labs	Buy	16,795	4.4	2,855	5.9	2,038	29.7
Shasun Chemicals	Buy	1,074	4.3	121	-27.1	31	-60.0
Sun Pharma	Buy	6,260	19.7	2,121	24.2	2,089	12.1
Wockhardt	Neutral	7,518	71.8	1,612	66.0	782	23.0
Sector Aggregate		100,999	6.5	20,585	2.2	14,721	2.2

mainly due to a 47% decline in PAT for Dr Reddy's and a 34% decline for Cipla. PAT for Ranbaxy and Sun Pharma would be boosted due to the translation gains on FCCB loans arising from currency appreciation. Top-line performance of MNCs is likely to be impacted by company-specific factors – divestment of animal healthcare business for GSK and proposed divestment of consumer healthcare business for Pfizer.

Pressure on global healthcare budgets and ageing population will ensure buoyant demand for generics

Globally, governments are under constant pressure to lower healthcare costs and to increase access to medicines. This is likely to result in more favorable legislation for generics globally, although it may result in lower generics prices in some markets. Generics will continue to see robust demand across markets, led by macroeconomic factors such as ageing population, pressure on global healthcare budgets, increasing penetration of generic drugs (particularly in some EU and semi-regulated markets) and patent expiries.

Patent expiries to drive generics growth in regulated markets

We expect US\$45b-US\$50b worth of products to go off-patent in the US alone by 2010. At an average of 97% price discount, this is likely to result in a potential market worth US\$1.5b for generics players over the next three years. Western Europe will witness patent expiries worth about US\$6b in the same period. Many countries (e.g. Japan) are likely to encourage generics to reduce their healthcare costs. All this will ensure that generics volumes continue to expand further.

US generics prices already at 97-99% discount, further declines insignificant

Prices for patent-expired products in the US are already at 97-99% discount to the innovator's price. While we do not expect any significant improvement in the competitive landscape in the short-to-medium term, we believe that further price declines may not be very significant. Price deflation commenced in CY04 and we are already into the fourth year of successive price decline.

Low penetration to drive double-digit growth in many European markets

We believe that the generics penetration in several European markets is extremely low. Barring Germany and the UK, generics penetration in most of the regulated markets in Europe (France, Spain, Italy, Belgium) is in single digits. Japan, the second largest pharmaceutical market, also has a generics penetration of merely 5%. This implies that as more drugs go off-patent in these markets and as respective governments enact favorable legislation, generics penetration in these markets is likely to improve significantly. The larger Indian generics players have already entered these markets (either via the inorganic route or via partnerships), which should augur well for these companies in the long term.

RoW markets offer an attractive opportunity with higher margins

The size of the semi-regulated markets is expected to increase from US\$40b in 2005 to US\$50b-US\$60b by 2009. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generics markets, thus, resulting in better margins compared with the US generics market (GPM of about 60-70% compared with about 40-50% for the US). Indian generics companies have already established a reasonable presence in some of these markets (like Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (like China, Australia, New Zealand).

Consolidation to gain further steam ahead, risks of extended payback remain

Intense price competition in the traditional generics market of the US and UK has forced most generics players to expand geographically and also focus on backward integration. This has led to a big consolidation wave in the global generics industry with large players such as Teva and Sandoz successfully polarizing the market in their favor (via big-ticket acquisitions). While acquisitions are imperative to gain scale, we believe that current valuations for generics assets are extremely demanding, implying that inorganic growth for Indian players is likely to arise at the cost of extended paybacks of 8-10 years.

Cost structures are being re-aligned/de-risked

To counter the pricing pressure in regulated markets, Indian generics companies have embarked on a cost control cum de-risking drive. Costs are being reduced by focusing on conducting in-house bioequivalence studies, controlling SG&A costs and adopting a pragmatic approach towards patent challenges (leading to out-of-court settlements, thus capping litigation costs). Ranbaxy is a typical example of this approach. Dr Reddy's Labs has de-risked its R&D and fixed costs by resorting to external funding and partnering with private equity investors. Sun Pharma has demerged its NCE/NDDS research. Nicholas Piramal is in the process of de-risking its NCE/NDDS research by demerging this unit into a separate company with the potential of attracting partners at a future date.

Which generics models will succeed?

In our opinion, the winning business model will include a combination of:

1. Vertical integration
2. Low cost of manufacture
3. Geographically diversified presence
4. Wide product basket
5. Strong balance sheet

The table below indicates the status of Indian players vis-à-vis each of the above parameters:

PARAMETER	PRE-REQUISITE	STATUS OF INDIAN PLAYERS
Vertical Integration	Complete integration from manufacturing of intermediates to formulations	Most Indian players are vertically integrated
Manufacturing locations	Access to low-cost manufacturing base like India	Most Indian players have a strong manufacturing base in India
Geographical Diversification	Right mix of regulated and semi-regulated markets	Ranbaxy & Cipla have a fairly diversified geographical portfolio
Product Basket	Wide product basket including various dosage forms with some niche products & FTFs	The top four generic Indian players have large product baskets. Other Indian companies in the process of widening their portfolios
Financial Health	Strong balance sheet to manage litigation risks, acquisitions etc.	Amongst the leading players only Sun Pharma has the balance sheet strength to fund large acquisitions without significantly diluting equity capital

Source: Motilal Oswal Securities

US pricing pressure, costly acquisitions – already discounted in current valuations

While valuations for Ranbaxy and Dr Reddy's reflect extreme pessimism led by intense generics, pricing pressure and expensive acquisitions made by these companies, those for Sun Pharma reflect the consistency of performance over the past seven years and the conservative stance of its management.

Sensitivity to US revenues likely to reduce in future for Ranbaxy and Dr Reddy's

We believe that markets are currently discounting the 97-99% price erosion in the US generics markets despite the fact that the sensitivity to US generics revenues is likely to decline (particularly for Ranbaxy and Dr Reddy's) in the coming years, as initiatives in other markets (which enjoy better margins) start contributing to revenues and profits.

Outsourcing opportunity gaining traction

More MNCs are visiting India for CRAMS tie-ups. We believe that India offers a unique combination of skilled labor (at low costs), international regulatory compliance, IPR protection, presence across CRAMS value chain and good quality. Most of the CRAMS players are expecting a ramp-up in their contract manufacturing revenues.

Large pharmaceutical companies like Pfizer, Merck (USA), AstraZeneca, etc., have undertaken a restructuring of their manufacturing operations and are likely to focus on outsourcing to reduce costs. We believe that India could be significant beneficiary of the increased outsourcing.

Indian CRAMS players are also looking at acquisitions

Most of the Indian CRAMS players are looking at acquisitions to acquire more customer relationships and contracts as well as get access to critical technologies. Nicholas Piramal has already announced two acquisitions (Avecia and Pfizer's UK unit at Morpeth) while Shasun has acquired Rhodia's custom manufacturing unit in UK. Dishman Pharma has acquired Carbogen-AMCIS in Switzerland while Jubilant Organosys has acquired Hollister in the US.

Most of the acquired companies were divested by their existing owners (mostly large pharmaceutical/chemicals companies) as a part of their strategy of divesting non-core assets. It is pertinent to note that most of these companies had invested significant resources some years back to establish their presence in the CRAMS space. Failure/withdrawal of some large molecules, intense generics competition and low R&D productivity (at the customer's end) has adversely impacted most of the CRAMS players in Europe and USA over the past three years. This coupled with high fixed costs forced the owners to divest these assets, which have been purchased by Indian CRAMS players at very reasonable valuations (0.5-1x sales).

Topline growth is imperative for turnaround of acquired CRAMS companies

Although Indian CRAMS players have acquired these assets at very reasonable valuations (0.5-1x sales), high fixed costs mandate that a turnaround is not feasible without topline growth. It is also important to note that most of these CRAMS assets were divested post restructuring (by their existing owners) implying that there may not be any significant room to cut costs further.

Turnaround may be achieved faster than anticipated

We are positively surprised by the increased business traction in the acquired CRAMS companies. Increased order-flow coupled with a positive outsourcing stance (by the innovator pharmaceutical companies) is helping CRAMS players to gain increased traction in the custom manufacturing business. Carbogen-AMCIS, Avecia and Shasun's UK units are all witnessing better topline growth. We believe that this is likely to shorten the turnaround time for these companies (mainly for Avecia and Shasun).

New Pharma Policy: uncertainty continues

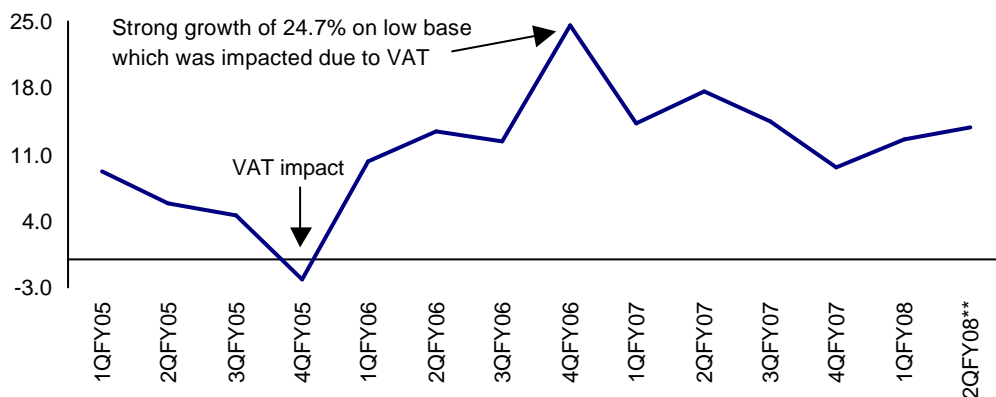
The outlook on the New Pharmaceutical Policy continues to be uncertain, as the government is yet to announce the final policy. We believe that there are still differences between the government and the pharmaceutical industry which need to be ironed out. Major differences concern the span and extent of price control on pharmaceutical products. Media reports suggest that the government is not fully satisfied with the price cuts implemented by the pharmaceutical industry in the generic-generics segment.

The new policy proposes to significantly increase the span of control by bringing in additional 354 drugs under price control. This could severely impact the profitability of the domestic formulations business. Industry has taken strong objection to the proposed policy and we believe that the policy is unlikely to be implemented in the current form. Given the strong opposition from industry, the government has formed a Group of Ministers (GoM), which would give final recommendations to the government regarding the new pharmaceutical policy. However, the uncertainty related to this will remain until the government finally notifies the new pharmaceutical policy.

Domestic market – showing double-digit growth

The domestic formulations industry has maintained its double-digit growth trajectory at 13.4% (on MAT basis) for August 2007. While the growth has been primarily driven by higher volumes, we also note that the industry is witnessing a positive price contribution (about 1-2%).

TREND IN DOMESTIC MARKET GROWTH



** Upto August 2007

Source: CRISINFAC/ORG IMS

Outlook

Generics

We believe that the worst is over for Indian generics companies and expect gradual improvement in their performance over the next two years. CY05-CY06 were the worst years for generics mainly due to:

- ✘ Increased competition due to aggressive filings from Indian companies and entry of new players
- ✘ Innovators have adopted an aggressive stance including price cuts (on branded products), introduction of authorized generics, patent de-listing, and defending IPRs vigorously.
- ✘ Twin impact of intense competition and very few new launches due to lesser number of patent expiries.

✍ What has changed?

- ✍ CY07-CY09 to witness patent expiry worth over US\$30b leading to more new launches – takes care of one of key impediments for generics
- ✍ Pricing to remain intensely competitive due to entry of more players and government pressures – however, significant price deterioration unlikely as generic prices are already at 1-3% of innovator price
- ✍ Expect more consolidation as generics gain scale and expand geographical reach
- ✍ Indian generics companies have initiated cost-cutting measures (including R&D hive-off)
- ✍ Generics and innovators adopting a more pragmatic stance on patent litigations leading to out-of-court settlements.
- ✍ Governments worldwide trying to reduce healthcare costs – expect regulation to remain favorable

Our top picks in the generics space are **Ranbaxy** and **Sun Pharma**.

MNC Pharma

We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime post 2005. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create 'option value' in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. Our top picks among MNCs are **Aventis** and **GSK Pharma**.

CRAMS

We also believe that the Indian contract-manufacturing segment will see secular growth (given India's advantages) with the financial impact visible from FY09 onwards. We remain favorably inclined towards CRAMS players like **Nicholas Piramal** and **Shasun Chemicals**.

TREND IN GROWTH / PROFITABILITY OF DIFFERENT SEGMENTS OF THE INDUSTRY (JULY-SEPTEMBER QUARTER)

INQUIRE PHARMA UNIVERSE	YOY GROWTH (%)			EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SALES	EBITDA	ADJ PAT	SEP' 07	SEP' 06	CHG (BP)	SEP' 07	SEP' 06	CHG (BP)
AGGREGATES									
MNC Pharma (Aventis, GSK Pharma, Pfizer)	4.1	5.9	4.4	28.5	28.0	50	21.6	21.5	7
Indian Big-3 (Cipla, DRL, Ranbaxy) *	-13.2	-27.8	-23.9	17.0	20.4	-343	12.0	13.7	-169
Other Indian Pharma	28.4	32.9	26.4	21.6	20.9	74	15.4	15.6	-24
Sector Aggregate	6.5	2.2	2.2	20.4	21.3	-87	14.6	15.2	-62

* ranked according to revenues

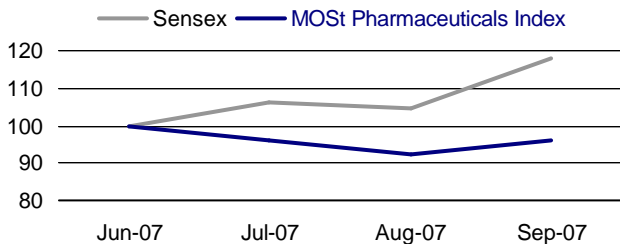
Source: Motilal Oswal Securities

Stock performance and valuations

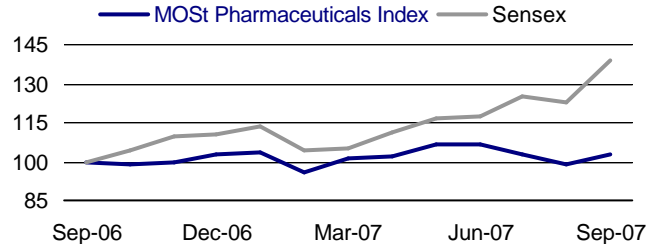
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Pharmaceuticals						
Aurobindo Pharma	-24	-4	-43	-43	-20	-7
Aventis Pharma	-19	-27	-38	-67	-15	-31
Biocon	6	26	-13	-13	9	23
Cadila Health	-17	-4	-36	-43	-14	-7
Cipla	-10	-31	-29	-71	-7	-34
Dishman Pharma	-5	50	-24	10	-2	46
Divis Labs	4	187	-16	147	7	184
Dr Reddy's Labs	-1	-10	-20	-50	2	-13
GSK Pharma	-14	-10	-34	-49	-11	-13
Jubilant Organosys	1	53	-19	13	4	50
Lupin	-19	27	-38	-13	-16	24
Nicholas Piramal	-2	21	-21	-19	1	18
Pfizer	-13	-22	-33	-62	-10	-26
Ranbaxy Labs	25	1	6	-39	28	-2
Shasun Chemicals	-39	9	-58	-31	-36	5
Sun Pharma	-5	5	-24	-35	-2	1
Wockhardt	9	5	-10	-35	12	1

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Pharmaceuticals														
Aurobindo Pharma	602	Sell	29.4	45.5	53.7	20.5	13.2	11.2	15.6	9.3	7.8	22.7	26.3	23.9
Aventis Pharma	1,166	Buy	73.5	72.3	89.1	15.9	16.1	13.1	10.4	10.4	7.7	28.6	24.0	24.8
Biocon	473	Buy	20.0	24.1	28.5	23.7	19.6	16.6	17.0	13.8	11.2	18.7	15.4	16.0
Cadila Health	311	Buy	18.7	21.3	26.3	16.7	14.6	11.8	11.7	9.3	7.6	30.0	27.6	27.5
Cipla	182	Neutral	8.6	7.2	9.1	21.2	25.3	20.1	17.5	18.6	15.8	20.7	15.2	16.7
Dishman Pharma	291	Buy	11.0	13.8	16.8	26.5	21.1	17.4	26.0	18.3	14.7	35.4	30.6	28.7
Divis Labs	1,217	Neutral	29.7	41.1	50.7	40.9	29.6	24.0	32.5	23.8	19.2	43.5	40.9	37.0
Dr Reddy's Labs	649	Buy	55.5	36.5	41.6	11.7	17.8	15.6	7.9	13.3	11.4	22.4	13.3	13.6
GSK Pharma	1,112	Buy	42.7	42.9	46.7	26.0	25.9	23.8	17.3	17.3	15.4	30.3	23.2	22.1
Jubilant Organosys	312	Buy	12.4	21.1	19.1	25.2	14.8	16.3	16.5	11.9	9.5	26.4	33.6	22.6
Lupin	586	Neutral	35.0	36.6	39.2	16.8	16.0	14.9	17.8	12.0	11.5	41.3	32.1	27.3
Nicholas Piramal	281	Buy	11.0	13.1	16.2	25.6	21.5	17.4	19.5	14.8	12.1	23.1	23.2	23.8
Pfizer	715	Neutral	40.5	45.0	40.1	17.6	15.9	17.9	11.1	9.0	10.4	27.5	18.6	15.2
Ranbaxy Labs	434	Buy	13.4	19.5	19.8	32.3	22.3	22.0	21.0	19.3	14.2	20.9	26.2	23.5
Shasun Chemicals	90	Buy	-0.6	9.2	12.6	-142.7	9.9	7.2	7.9	8.6	5.9	19.8	13.7	17.4
Sun Pharma	966	Buy	37.9	41.6	51.0	25.5	23.2	18.9	27.0	18.4	14.6	35.9	22.8	20.3
Wockhardt	417	Neutral	22.3	23.9	27.4	18.7	17.4	15.2	13.9	10.8	9.1	28.3	24.0	22.6
Sector Aggregate						21.1	19.4	17.0	16.6	15.0	12.4	25.6	21.7	20.6

Aurobindo Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ARBP IN
	REUTERS CODE
S&P CNX: 5,021	ARBN.BO

28 September 2007

Sell

Rs602

Previous Recommendation: Sell

Equity Shares (m)	53.3
52-Week Range	820/536
1,6,12 Rel. Perf. (%)	-15/-42/-43
M.Cap. (Rs b)	32.1
M.Cap. (US\$ b)	0.8

YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/SALES	EVI/EBITDA
3/07A	21,229	2,010	29.4	262.0	20.5	3.6	22.7	8.3	2.2	15.6
3/08E	26,921	3,112	45.5	54.8	13.2	2.7	26.3	12.2	1.6	9.3
3/09E	31,101	3,678	53.7	18.2	11.2	2.1	23.9	12.4	1.4	7.8

* Consolidated results

- ✦ We expect sales to grow 23% YoY to Rs5.9b on account of improved traction in Pen-G based business, incremental contribution from USA, and higher ARV sales. EBITDA margins would expand 260bp to 17% due to improvement in market and product mix.
- ✦ Prices of Pen-G and related downstream products have increased in the past few quarters due to closure of some Pen-G facilities in China. We expect Aurobindo to benefit from the price increase due to access to captive Pen-G at its China unit.
- ✦ While the company has aggressively ramped up its filings in the regulated markets, we believe that being a late entrant it would have to play the price game to gain market share. Aurobindo is currently in an investment mode as far as some of the European markets are concerned. Recovery in the Pen-G cycle should benefit the company's legacy business in the short-term. The stock is currently valued at 13.2x FY08E and 11.2x FY09E earnings. We maintain **Sell**.
- ✦ Our quarterly estimates are standalone, while annual estimates are on a consolidated basis.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,141	4,800	5,284	5,572	4,800	5,897	6,322	7,298	19,797	24,317
YoY Change (%)	47.6	50.2	29.2	20.3	15.9	22.9	19.7	31.0	34.5	22.8
Total Expenditure	3,483	4,109	4,499	4,920	4,260	4,894	5,216	5,812	17,011	20,183
EBITDA	659	691	785	652	539	1,002	1,106	1,486	2,786	4,134
Margins (%)	15.9	14.4	14.9	11.7	11.2	17.0	17.5	20.4	14.1	17.0
Depreciation	143	150	163	263	174	185	200	232	718	791
Interest	70	202	197	30	158	160	170	133	187	621
Other Income	60	267	263	152	444	150	60	-23	431	631
PBT	506	606	688	511	651	807	796	1,098	2,312	3,353
Tax	7	48	52	-68	73	97	96	152	39	410
Deferred Tax	137	12	44	-234	-8	0	0	0	-41	-8
Rate (%)	28.5	9.8	14.0	-58.9	10.0	12.0	12.0	13.9	-0.1	12.0
PAT	362	546	601	781	586	711	701	945	2,291	2,950
Adjusted PAT	362	546	592	781	586	711	701	945	2,263	2,950
YoY Change (%)	1,701.5	1,401.1	126.0	108.1	61.8	30.0	18.4	21.0	226.2	30.4
Margins (%)	8.7	11.4	11.2	14.0	12.2	12.0	11.1	13.0	11.4	12.1

E: MOST Estimates

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Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HOEC IN
	REUTERS CODE
S&P CNX: 5,021	HOEC.BO

28 September 2007

Buy

Rs 1,166

Previous Recommendation: Buy

Equity Shares (m)	23.0
52-Week Range	1,886/1,152
1,6,12 Rel. Perf. (%)	-21/-37/-67
M.Cap. (Rs b)	26.9
M.Cap. (US\$ b)	0.7

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/06A	8,821	1,693	73.5	3.2	15.9	4.5	28.6	42.0	2.6	10.4
12/07E	9,480	1,664	72.3	-1.7	16.1	3.9	24.0	36.3	2.3	10.4
12/08E	10,655	2,052	89.1	23.3	13.1	3.3	24.8	37.6	1.9	7.7

* Standalone results

- ✚ We expect sales to grow 11% YoY to Rs2.7b, aided by higher growth of 12.7% in the domestic portfolio while exports are likely to grow 6.5% (on a low base of 3QCY06). Its parent has commenced sourcing more products from Aventis Pharma and has identified it as a global sourcing base for some of its patent-expired products like Paracetamol.
- ✚ EBITDA margins are likely to decline 321bp YoY to 25.1% due to higher contribution from mature brands like *Combiflam* and higher expenses related to increasing penetration in non-urban areas.
- ✚ PAT is expected to record 7.8% de-growth due to lower EBITDA margins and reduced other income. Higher tax rates are also likely to adversely impact the bottom-line.
- ✚ We believe that Aventis Pharma will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline, with a total of 125 products under development, of which 25 are in Phase-III. It plans to file 40 NDAs by CY10. We continue to remain positive on the company's long-term prospects. We believe that at 13.1x CY08E earnings, valuations are not demanding. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	2,005	2,228	2,431	2,176	2,129	2,302	2,700	2,349	8,840	9,480
YoY Change (%)	16.2	4.4	8.8	11.2	6.2	3.3	11.0	8.0	9.4	7.2
Total Expenditure	1,513	1,609	1,744	1,749	1,635	1,857	2,023	1,859	6,633	7,375
EBITDA	492	619	687	427	494	445	676	490	2,207	2,105
Margins (%)	24.5	27.8	28.3	19.6	23.2	19.3	25.1	20.9	25.0	22.2
Depreciation	43	42	43	51	45	47	47	56	179	195
Interest	0	1	0	1	0	0	0	0	2	0
Other Income	96	90	156	111	200	182	123	110	471	615
PBT	545	666	800	486	649	580	753	544	2,497	2,526
Tax	176	227	262	139	216	207	257	182	804	862
Effective tax Rate (%)	32.3	34.1	32.8	28.6	33.3	35.7	34.1	33.4	32.2	34.1
Reported PAT	369	439	538	347	433	373	496	363	1,693	1,664
Adj PAT	369	439	538	347	433	373	496	363	1,693	1,664
YoY Change (%)	56.4	28.4	8.2	-7.7	17.3	-15.0	-7.8	4.5	16.7	-1.7
Margins (%)	18.4	19.7	22.1	15.9	20.3	16.2	18.4	15.4	19.2	17.6

E: MOSt Estimates

Biocon

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BIOS IN
	REUTERS CODE
S&P CNX: 5,021	BION.BO

28 September 2007

Buy

Rs473

Previous Recommendation: Buy

Equity Shares (m)	100.0
52-Week Range	532/342
1,6,12 Rel. Perf. (%)	-6/-33/-13
M.Cap. (Rs b)	47.3
M.Cap. (US\$ b)	1.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	9,863	2,002	20.0	15.1	23.7	4.4	18.7	17.0	4.9	17.0
3/08E	11,603	2,410	24.1	20.4	19.6	3.0	15.4	13.7	3.9	13.8
3/09E	13,268	2,855	28.5	18.4	16.6	2.7	16.0	14.9	3.4	11.2

- ✦ We expect Biocon's 2QFY08 sales to grow 17.4% YoY to Rs2.9b, led by statins supplies to the US and continued momentum in contract research services.
- ✦ EBITDA margins are likely to expand 80bp YoY to 27.2% due to contribution from statins sales for US markets and continuing traction in contract research services. Margin expansion is, however, likely to be tempered due to currency appreciation.
- ✦ Higher depreciation (up 27% YoY) and higher interest cost (up 62% YoY) on account of commencement of new facility is likely to restrict PAT growth at 18.8% YoY to Rs539m.
- ✦ Biocon has recently proposed divestment of its enzymes business to Novozymes for US\$115m. Since the sale is expected to be effective from 3QFY08, our estimates include the revenues from the enzymes business.
- ✦ While some of Biocon's initiatives look promising, as of now, they offer poor visibility. The stock currently trades at 19.6x FY08E and 16.6x FY09E earnings. Launch of bio-generics in regulated markets remains the key long-term trigger; however, clarity on the regulatory pathway is still awaited from the US FDA. In the interim, Biocon's initiatives in the Insulin space are likely to be key growth drivers. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	2,120	2,490	2,470	2,782	2,710	2,923	2,946	3,023	9,862	11,603
YoY Change (%)	21.9	24.2	24.0	29.8	27.8	17.4	19.3	8.7	25.1	17.6
Total Expenditure	1,577	1,831	1,693	1,925	1,945	2,127	2,114	2,164	7,022	8,351
EBITDA	544	659	777	857	765	796	832	859	2,840	3,252
Margins (%)	25.6	26.5	31.5	30.8	28.2	27.2	28.2	28.4	28.8	28.0
Depreciation	109.7	177.5	182.8	195.3	216.4	225.0	230.0	245.0	665.3	916.4
Interest	16.7	21.6	21.6	34.5	27.5	35.0	40.0	43.5	94.5	146.0
Other Income	13.6	8.6	2.8	11.9	9.9	10.0	12.0	243.1	31.9	275.0
PBT	431	469	576	639	531	546	574	814	2,112	2,464
Tax	42	22	36	65	15	28	29	53	165	124
Rate (%)	9.8	4.8	6.2	10.2	2.8	5.1	5.1	6.5	7.8	5.1
Minority Interest	-5	-7	-20	-33	-14	-20	-20	-16	-63	-70
PAT	394	453	560	607	530	539	565	777	2,010	2,410
YoY Change (%)	1.8	4.1	27.7	26.9	34.5	18.8	0.8	27.9	15.5	19.9
Margins (%)	18.6	18.2	22.7	21.8	19.6	18.4	19.2	25.7	20.4	20.8

E: M0St Estimates

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Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CDH IN
	REUTERS CODE
S&P CNX: 5,021	CADI.BO

28 September 2007

Buy

Rs311

Previous Recommendation: Buy

Equity Shares (m)	125.6
52-Week Range	412/292
1,6,12 Rel. Perf. (%)	-14/-38/-43
M.Cap. (Rs b)	39.1
M.Cap. (US\$ b)	1.0

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	18,288	2,343	18.7	43.5	16.7	4.5	29.9	24.1	2.3	12.0
3/08E	23,228	2,678	21.3	14.3	14.6	3.6	27.6	23.6	1.8	9.7
3/09E	27,328	3,309	26.3	23.5	11.8	2.9	27.5	24.1	1.5	8.0

- Cadila's 2QFY08 topline is expected to grow by 29.7% YoY to Rs6.2b, driven by 46% growth in exports and 22% growth in domestic business. Growth in the domestic formulations business is likely to recover to double-digits post the restructuring undertaken in FY07.
- EBITDA margins would decline 220bp to 20.8%, mainly due to higher material and staff costs and currency appreciation. This coupled with higher interest cost (up 76% YoY) would restrict PAT growth at 17% to Rs824m.
- Cadila recently acquired Nikkho in Brazil for US\$26m (~1x sales and 8-9x EBITDA) giving it access to the branded generics market in Brazil. Nikkho currently has a portfolio of about 22 products across 13 brands and has a strong pipeline of products pending launch.
- The stock trades at 14.6x FY08E and 11.8x FY09E consolidated earnings. Higher growth in the international business, turnaround in French operations, steady supplies to Altana coupled with a de-risked business model augur well for the company. Early loss of patent protection for Pantoprazole remains a key risk. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	4,458	4,748	4,724	4,357	5,722	6,160	5,916	5,431	18,288	23,228
YoY Change (%)	19.5	27.3	27.8	25.9	28.4	29.7	25.2	24.6	23.2	27.0
Total Expenditure	3,560	3,658	3,901	3,646	4,610	4,881	4,811	4,525	14,767	18,826
EBITDA	898	1,090	823	711	1,112	1,279	1,105	906	3,521	4,402
Margins (%)	20.1	23.0	17.4	16.3	19.4	20.8	18.7	16.7	19.3	19.0
Depreciation	197	213	212	200	239	250	250	284	823	1,023
Interest	69	54	49	52	73	95	95	113	223	376
Other Income	49	3	0	15	94	3	30	0	264	40
PBT before EO Income	681	826	562	474	894	937	790	510	2,739	3,043
EO Exp/(Inc)	0	0	-196	0	0	0	0	0	0	0
PBT after EO Income	681	826	758	474	894	937	790	510	2,739	3,043
Tax	76	100	98	50	121	112	95	37	324	365
Rate (%)	11.2	12.1	12.9	10.5	13.5	12.0	12.0	7.3	11.8	12.0
Minority Int/Adj on Consol	21	21	1	35	34	0	0	0	77	0
Reported PAT	584	705	659	389	739	824	695	473	2,338	2,678
Adj PAT	584	705	488	389	739	824	695	473	2,338	2,678
YoY Change (%)	47.2	38.8	18.4	13.0	26.5	16.9	42.4	21.5	40.7	14.6
Margins (%)	13.1	14.8	10.3	8.9	12.9	13.4	11.8	8.7	12.8	11.5

E: M0St Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Cipla

Neutral

Rs 182

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CIPLA IN
	REUTERS CODE
S&P CNX: 5,021	CIPL.BO

28 September 2007

Equity Shares (m)	777.3
52-Week Range	275/160
1,6,12 Rel. Perf. (%)	-9/-57/-71
M.Cap. (Rs b)	141.8
M.Cap. (US\$ b)	3.6

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/SALES	EVI/EBITDA
03/07A	35,618	6,679	8.6	5.9	21.2	4.4	20.7	23.7	4.0	17.5
03/08E	40,062	5,596	7.2	-16.1	25.3	3.9	15.2	17.2	3.6	18.6
03/09E	45,989	7,059	9.1	25.9	20.1	3.3	16.7	18.0	3.1	15.8

- ✗ Cipla's 2QFY08 revenues are likely to grow 11% YoY to Rs9.9b, with both the domestic portfolio and exports growing by about 11% each. The company had booked Sertraline sales in the US in 2QFY07, leading to a higher base.
- ✗ EBITDA margins are expected to decline by 920bp to 16.2% mainly due to lower sales to regulated markets and currency appreciation. Higher material costs (up 28% YoY) and staff costs (up 25% YoY) are also likely to impact EBITDA margins.
- ✗ PAT is expected to de-grow by 34% to Rs1.1b due to the significant margin erosion and higher depreciation of new facilities which are currently not fully utilized.
- ✗ Cipla has one of the strongest generics pipelines, with tie-ups for 108 products for the US (across 10 partners). The company is spending significant amount (about Rs19b) in expanding manufacturing facilities in the FY05-09 period. While we remain positive on Cipla's business prospects in the long-term, we expect the stock price performance to remain muted in the short-term in-line with the company's muted guidance. At 25.3x FY08E and 20.1x FY09E EPS, we maintain our **Neutral** recommendation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	8,636	8,961	8,805	9,319	9,018	9,967	10,367	10,710	35,618	40,062
YoY Change (%)	30.3	33.4	12.8	7.0	4.4	11.2	17.7	14.9	19.0	12.5
Total Expenditure	6,347	6,685	6,613	7,860	7,411	8,351	7,943	8,698	27,505	32,404
EBITDA	2,289	2,276	2,193	1,459	1,607	1,615	2,424	2,012	8,114	7,658
Margins (%)	26.5	25.4	24.9	15.7	17.8	16.2	23.4	18.8	22.8	19.1
Depreciation	260	245	275	254	303	310	320	440	1,034	1,372
Interest	28	16	13	13	8	22	20	119	70	169
Other Income	220	190	261	397	185	200	250	243	1,068	878
Profit before Tax	2,220	2,205	2,166	1,590	1,482	1,483	2,334	1,696	8,078	6,995
Tax	516	403	322	159	284	297	467	352	1,400	1,399
Rate (%)	23.2	18.3	14.9	10.0	19.2	20.0	20.0	20.7	17.3	20.0
Reported PAT	1,704	1,803	1,844	1,431	1,198	1,187	1,867	1,344	6,679	5,596
YoY Change (%)	53.0	47.0	5.2	-25.0	-29.7	-34.2	1.3	-6.0	9.9	-16.2
Margins (%)	19.7	20.1	20.9	15.4	13.3	11.9	18.0	12.6	18.8	14.0

E: M0St Estimates

Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	DISH IN
	REUTERS CODE
S&P CNX: 5,021	DISH.BO

28 September 2007

Buy

Rs291

Previous Recommendation: Buy

Equity Shares (m)	81.6
52-Week Range	350/188
1,6,12 Rel. Perf. (%)	-12/3/10
M.Cap. (Rs b)	23.8
M.Cap. (US\$ b)	0.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
03/07A	5,750	893	11.0	94.1	26.5	6.6	35.4	15.6	5.0	26.0
03/08E	8,035	1,121	13.8	25.6	21.1	5.1	30.6	15.0	3.7	18.3
03/09E	9,735	1,364	16.8	21.6	17.4	3.9	28.7	15.5	3.0	14.7

- ✦ Dishman's 2QFY08 revenues are expected to grow 55% YoY to Rs 1.8b, led by continued momentum in CRAMS business and consolidation of Carbogen-AMCIS acquisition.
- ✦ EBITDA margins are expected to decline by 200bp to 19.2% due to currency appreciation and consolidation of Carbogen-AMCIS acquisition.
- ✦ Interest cost is likely to be significantly higher (Rs 60m compared to Rs 38m for 2QFY07) due to increased borrowings to part-fund the Carbogen-AMCIS acquisition and capacity expansion. PAT should grow 28.5% YoY to Rs 216m led by increased CRAMS revenues and consolidation of Carbogen-AMCIS acquisition.
- ✦ We believe that Dishman would be one of the key beneficiaries of the increased pharmaceutical outsourcing from India. Expansion of customer base (to reduce dependence on Solvay) and ability to offer the complete range of services across the CRAMS value chain should benefit the company in the long-term. The stock currently trades at 21.1x FY08E and 17.4x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	822	1,170	1,736	2,057	1,680	1,815	2,115	2,424	5,786	8,034
YoY Change (%)	34.7	71.0	180.3	139.1	104.2	55.2	21.8	17.8	108.5	38.9
Total Expenditure	620	924	1,248	1,842	1,406	1,466	1,675	1,865	4,634	6,412
EBITDA	202	246	488	215	274	349	440	558	1,151	1,622
Margins (%)	24.6	21.0	28.1	10.5	16.3	19.2	20.8	23.0	19.9	20.2
Depreciation	34	41	156	31	89	90	90	95	263	364
Interest	9	38	72	44	61	60	65	58	162	245
Other Income	34	42	34	123	107	30	30	13	233	180
PBT after EO Income	193	209	294	264	230	229	315	418	960	1,193
Tax	8	39	43	-77	4	11	16	29	13	60
Deferred Tax	0	2	7	9	12	2	3	-6	19	12
Rate (%)	4.3	19.6	17.1	-25.5	7.0	6.0	6.0	5.5	3.3	6.0
Reported PAT	185	168	244	331	214	216	296	396	928	1,122
YoY Change (%)	96.4	23.4	25.8	630.8	15.7	28.5	21.2	19.5	97.6	20.9
Margins (%)	22.5	14.3	14.1	16.1	12.7	11.9	14.0	16.3	16.0	14.0

E: MOST Estimates

Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	DIVI IN
	REUTERS CODE
S&P CNX: 5,021	DIVI.BO
Equity Shares (m)	64.6
52-Week Range	1,436/421
1,6,12 Rel. Perf. (%)	-8/72/147
M.Cap. (Rs b)	78.6
M.Cap. (US\$ b)	2.0

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 1,217

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
	03/07E	7,244	1,919	29.7	172.1	40.9	14.5	43.5	40.0	11.0	32.5
	03/08E	8,934	2,653	41.1	38.2	29.6	10.4	40.9	39.5	8.9	23.8
	03/09E	10,610	3,273	50.7	23.4	24.0	7.7	37.0	37.3	7.4	19.2

- ✦ We expect Divi's 2QFY08 revenues to grow 30% YoY to Rs2.1b, led by continued momentum in both the generics and custom chemical synthesis (CCS) business.
- ✦ EBITDA margins should improve 980bp YoY to 36.8% led mainly by higher CCS revenues.
- ✦ Commissioning of new SEZ facilities would lead to higher depreciation (up 109% YoY) and interest costs (up 565% YoY). Currency appreciation is also likely to have some adverse impact on operational performance. However, lower tax provisioning (at 12% of PBT v/s 25.7% in 2QFY07) due to higher contribution from the new SEZ is likely temper the adverse impact, resulting in PAT growth of 92% YoY to Rs600m.
- ✦ We believe that Divi's would be one of the key beneficiaries of increased pharmaceutical outsourcing from India. Established relationships with the top 20 innovator pharmaceutical companies should help the company in procuring more outsourcing business as well as in spreading the business risk across customers. We believe that low cost of operations is a significant driver for Divi's profitability. The stock is currently valued at 29.6x FY08E and 24x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Op Revenue	1,608	1,614	1,496	2,526	2,281	2,100	2,144	2,410	7,244	8,934
YoY Change (%)	148.8	98.3	38.6	98.7	41.8	30.1	43.3	-4.6	90.1	23.3
Total Expenditure	1,148	1,179	1,071	1,387	1,438	1,327	1,356	1,458	4,784	5,580
EBITDA	461	435	425	1,139	843	772	788	952	2,460	3,355
Margins (%)	28.6	26.9	28.4	45.1	36.9	36.8	36.7	39.5	34.0	37.5
Depreciation	43	42	59	80	86	87	90	96	223	359
Interest	21	6	38	41	34	43	42	49	106	167
Other Income	44	34	25	34	34	40	45	67	136	186
PBT	441	421	353	1,052	757	682	701	874	2,267	3,014
Tax	167	114	-1	56	49	82	84	147	336	362
Deferred Tax	6	-6	27	-14	36	0	0	-36	14	0
Rate (%)	39.4	25.7	7.3	4.0	11.1	12.0	12.0	12.7	15.4	12.0
Adj PAT	267	313	327	1,010	673	600	617	763	1,917	2,653
YoY Change (%)	109.6	96.2	73.2	341.1	151.6	91.9	88.5	-24.5	172.1	38.3
Margins (%)	16.6	19.4	21.9	40.0	29.5	28.6	28.8	31.6	26.5	29.7

E: MOST Estimates

Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	DR IN
	REUTERS CODE
S&P CNX: 5,021	REDY.BO

28 September 2007

Buy

Rs649

Equity Shares (m)	167.9
52-Week Range	840/603
1,6,12 Rel. Perf. (%)	-14/-41/-50
M.Cap. (Rs b)	109.0
M.Cap. (US\$ b)	2.7

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
03/07A	65,095	9,323	55.5	521.1	11.7	2.6	22.4	14.3	1.8	7.9
03/08E*	48,942	6,130	36.5	-34.2	17.8	2.4	13.3	9.7	2.3	13.3
03/09E*	56,202	6,979	41.6	13.8	15.6	2.1	13.6	10.4	2.0	11.4

*Excludes one-time upsides from authorized generics and FTF opportunities

- ✎ We expect DRL's 2QFY08 sales to de-grow 38.2% YoY to Rs 12.39b, mainly due to absence of authorized generic revenues (which contributed Rs 7.8b to 2QFY07 sales). Excluding this one-time impact, revenues are likely to record just 1.3% growth mainly due to pressure on German operations and currency appreciation.
- ✎ Overall gross margins are expected to improve by 1,060bp (to 52%) due to lower base of 2QFY07 (resulting from the authorized generics sales). However, EBITDA margins are likely to decline by 360bp to 17.5% due to higher R&D and SG&A expenses. Lower tax rate (13% of PBT v/s 21% of PBT for 2QFY07) is likely to temper the adverse impact, resulting in a PAT decline of 47.4% YoY to Rs 1.47b.
- ✎ The stock trades at 17.8x FY08E and 15.6x FY09E consolidated earnings. We believe that while current valuations reflect the intense pricing pressure in regulated generics markets (including Germany), they are not discounting the improvement in Dr Reddy's core business and the growth traction in the semi-regulated markets (which enjoy better margins compared to the US generics markets). We reiterate **Buy**.

GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY07#				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Sales	14,049	20,039	15,434	15,573	12,018	12,391	12,466	12,067	65,095	48,942
YoY Change (%)	151.3	247.1	161.7	124.7	-14.5	-38.2	-19.2	-22.5	168.2	-24.8
EBITDA	2,210	4,220	2,464	5,470	2,132	2,168	2,182	2,083	14,361	8,565
Margins (%)	15.7	21.1	16.0	35.1	17.7	17.5	17.5	17.3	22.1	17.5
Depreciation & Amortization	388	402	330	2,221	351	330	350	319	3,341	1,350
Other Income	-216	-287	-281	264	231	-147	-160	-173	-520	-249
Profit before Tax	1,606	3,531	1,853	3,513	2,012	1,692	1,671	1,591	10,500	6,966
Tax	208	737	-27	260	181	220	217	218	1,177	836
Rate (%)	13.0	20.9	-1.5	7.4	9.0	13.0	13.0	13.7	11.2	12.0
Reported PAT	1,398	2,794	1,880	3,253	1,831	1,472	1,454	1,373	9,323	6,130
Minority Interest	0	-4	0	-1	3	0	0	-3	-4	0
EO (Exp)/Inc	42	0	0	0	0	0	0	0	42	0
Adjusted PAT	1,356	2,798	1,880	3,254	1,828	1,472	1,454	1,376	9,285	6,130
YoY Change (%)	255.0	215.4	407.6	-	34.8	-47.4	-22.7	-57.7	576.6	-34.0
Margins (%)	9.7	14.0	12.2	20.9	15.2	11.9	11.7	11.4	14.3	12.5

E: MOSt Estimates; # includes one-time upsides

GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GLXO IN
	REUTERS CODE
S&P CNX: 5,021	GLAX.BO

28 September 2007

Buy

Rs1,112

Previous Recommendation: Buy

Equity Shares (m)	84.7
52-Week Range	1,340/1,049
1,6,12 Rel. Perf. (%)	-18/-33/-49
M.Cap. (Rs b)	94.2
M.Cap. (US\$ b)	2.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
12/06A	15,384	3,617	42.7	18.1	26.0	7.9	30.3	46.4	5.4	17.3
12/07E	15,359	3,631	42.9	0.4	25.9	6.0	23.2	36.3	5.3	17.3
12/08E	16,895	3,959	46.7	9.0	23.8	5.3	22.1	33.9	4.6	15.4

- ✦ We expect GSK Pharma's 3QCY07 net sales to grow just 4.4% YoY to Rs4.1b due to the divestment of animal healthcare business in July 2006.
- ✦ However, EBITDA margins are expected to remain flat at 32.1% despite the divestment of the animal healthcare business (which enjoyed relatively lower margins) due to the proposed sale of the fine chemicals business. PAT should grow 1.3% YoY to Rs 1b.
- ✦ GSK is focused on strengthening its presence in the lifestyle disease segment of CVS, CNS, diabetes etc, by licensing products and evaluating brand acquisitions in the domestic market.
- ✦ The company is one of the best plays on the IPR regime. Our estimates for CY08 take into account the additional marketing and promotional expenditure linked to launch of patented products in CY08 and divestment of the fine chemicals division. Valuations at 25.9x CY07E and 23.8x CY08E earnings do not fully reflect the strong parentage, cash-rich operations and the 'option value' created from product patent regime in the long-term. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,254	4,041	3,970	3,119	4,203	3,915	4,147	3,094	15,384	15,359
YoY Change (%)	54.0	-13.1	-3.9	-1.8	-1.2	-3.1	4.4	-0.8	4.6	-0.2
Total Expenditure	2,843	2,789	2,688	2,305	2,753	2,692	2,816	2,414	10,617	10,675
EBITDA	1,411	1,252	1,283	814	1,450	1,223	1,331	679	4,767	4,684
Margins (%)	33.2	31.0	32.3	26.1	34.5	31.2	32.1	22.0	31.0	30.5
Depreciation	38	39	41	41	37	37	45	53	159	171
Other Income	222	183	254	299	272	312	282	310	965	1,177
PBT before EO Expense	1,596	1,396	1,496	1,072	1,686	1,498	1,568	922	5,560	5,674
Tax	567	475	499	348	563	502	564	330	1,889	2,001
Deferred Tax	-6	10	6	43	10	32	0	0	53	42
Rate (%)	35.2	34.8	33.8	36.4	34.0	35.6	36.0	35.8	34.9	36.0
Adjusted PAT	1,034	911	991	682	1,113	964	1,004	592	3,617	3,631
YoY Change (%)	88.9	-13.6	4.4	33.0	7.6	5.9	1.3	-13.2	18.1	0.4
Margins (%)	24.3	22.5	25.0	21.9	26.5	24.6	24.2	19.1	23.5	23.6
Extra-Ord Expense	22	0	-1,864	4	0	0	0	0	-1,838	0
Reported PAT	1,012	911	2,854	678	1,113	964	1,004	592	5,455	3,631

E: MOSt Estimates

Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	JOL IN
	REUTERS CODE
S&P CNX: 5,021	JUBO.BO

28 September 2007

Buy

Rs312

Previous Recommendation: Buy

Equity Shares (m)	144.0
52-Week Range	332/195
1,6,12 Rel. Perf. (%)	-8/-11/13
M.Cap. (Rs b)	44.9
M.Cap. (US\$ b)	1.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	18,097	2,280	12.4	44.0	25.2	5.0	26.4	15.4	2.9	16.5
03/08E	25,069	3,883	21.1	70.3	14.8	3.2	33.6	17.1	2.1	11.9
03/09E	29,807	3,525	19.1	-9.2	16.3	2.6	22.6	13.5	1.7	9.5

- Jubilant's 2QFY08 sales are expected to grow 31.3% YoY to Rs6.1b, driven by robust growth in CRAMS business and consolidation of the Hollister acquisition, resulting in Pharma & Life Sciences business growing 53% YoY to Rs3.7b.
- EBITDA margins would expand 90bp YoY to 18.1%, reflecting improving business mix in favor of Pharma & Life Science business (at 62% of sales v/s 53% in 1QFY07) as well as the favorable impact of lower molasses prices.
- Also, higher other income (up 72% YoY) due to interest income on unutilized FCCB proceeds and forex gains, and lower tax rate (at 17.4% of PBT v/s 28.4% of PBT for 2QFY07), would boost PAT by 56% YoY to Rs848m.
- Despite the currency appreciation, EBITDA margins are expected to be stable at 17.7%, with the growing share of Pharma & Life Sciences business and easing raw material prices. This, along with healthy growth in revenues, would lead to a 24% CAGR in fully diluted earnings over FY07-09. Valuations of 14.8x FY08E and 16.3x FY09E earnings do not reflect the higher growth potential of the CRAMS business and upsides from acquisitions. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,112	4,659	4,693	4,633	5,400	6,117	6,780	6,772	18,097	25,069
YoY Change (%)	25.9	40.5	10.8	9.6	31.3	31.3	44.5	46.2	20.7	38.5
Total Expenditure	3,367	3,858	3,795	3,836	4,448	5,012	5,517	5,658	14,902	20,635
EBITDA	745	801	898	797	952	1,105	1,262	1,115	3,195	4,434
Margins (%)	18.1	17.2	19.1	17.2	17.6	18.1	18.6	16.5	17.7	17.7
Depreciation	146	153	158	166	194	230	230	241	623	895
Interest	55	37	49	54	84	90	110	276	195	560
Other Income	44	145	168	173	996	250	150	324	576	1,720
PBT after EO Expense	588	756	859	750	1,670	1,035	1,072	921	2,953	4,698
Tax	139	215	236	122	273	180	170	223	712	705
Rate (%)	23.6	28.4	27.5	16.3	16.3	17.4	15.9	24.2	24.1	18.0
PAT	449	541	623	628	1,397	855	902	698	2,241	3,852
Minority Interest	-12	-3	-14	-10	-32	7	8	-13	-39	-30
Adjusted PAT	461	544	637	638	1,429	848	895	711	2,280	3,882
YoY Change (%)	116.4	118.5	74.0	32.4	210.0	55.9	40.5	11.4	75.8	70.3
Margins (%)	11.2	11.7	13.6	13.8	26.5	13.9	13.2	10.5	12.6	15.5

E: Most Estimates

Lupin

Neutral

Rs586

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	LPC IN
	REUTERS CODE
S&P CNX: 5,021	LUPN.BO

28 September 2007

Previous Recommendation: Neutral

Equity Shares (m)	80.3
52-Week Range	755/460
1,6,12 Rel. Perf. (%)	-18/-34/-13
M.Cap. (Rs b)	47.1
M.Cap. (US\$ b)	1.2

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
03/07A	20,057	3,086	35.0	63.1	16.8	5.4	41.3	27.1	2.6	17.8
03/08E	25,939	3,231	36.6	4.7	16.0	4.1	32.1	23.5	2.0	12.0
03/09E	28,467	3,460	39.2	7.1	14.9	3.4	27.3	21.3	1.8	11.5

* Consolidated

- ✘ Lupin's quarterly results are standalone, while annual numbers are consolidated.
- ✘ We expect 2QFY08 revenues to grow by 33% YoY to Rs6.5b, driven by continued momentum in the domestic formulations business and formulations exports (both regulated and unregulated markets). Our estimates include US\$10m upside from supply of Cefdinir in the US market – a product currently experiencing low generic competition.
- ✘ EBITDA margins should expand 440bp YoY to 20% due to higher margin sales of Cefdinir and better product and market mix, resulting in PAT growth of 86% YoY to Rs966m. It should be noted that Cefdinir is a short-term opportunity and competition is likely to intensify in the coming quarters.
- ✘ We expect 19% sales and 22% EPS CAGR over FY07-09. While we remain positive about Lupin's growth prospects (particularly in regulated markets), we believe that FY09 performance is likely to be adversely impacted due to expected competition for Cefdinir and reversal of the Pen-G cycle. The stock trades at 16x FY08E and 14.9x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	5,044	4,886	5,054	5,318	5,757	6,502	6,515	7,166	20,137	25,939
YoY Change (%)	-	-	-	-	14.1	33.1	28.9	34.7	18.8	28.8
Total Expenditure	4,395	4,123	4,154	4,542	4,936	5,203	5,425	6,102	17,215	21,666
EBITDA	649	763	901	776	821	1,298	1,090	1,064	2,922	4,273
Margins (%)	12.9	15.6	17.8	14.6	14.3	20.0	16.7	14.8	14.5	16.5
Depreciation	107	112	121	126	127	135	140	147	466	550
Interest	92	93	89	98	89	106	103	121	372	419
Other Income	217	171	99	1,338	159	150	170	256	1,991	735
PBT	667	728	789	1,890	764	1,207	1,017	1,051	4,075	4,039
Tax	131	210	169	479	206	241	203	157	988	808
Rate (%)	19.6	28.8	21.4	25.3	26.9	20.0	20.0	15.0	24.3	20.0
Reported PAT	536	518	620	1,411	558	966	813	894	3,086	3,231
Extra-Ordinary Exp/(Inc)	0	0	0	-759	0	0	0	0	-759	0
Minority Interest	1	0	0	0	0	0	0	0	1	0
Recurring PAT	536	518	620	652	559	966	813	894	2,327	3,231
YoY Change (%)	-	-	-	-	4.4	86.3	31.2	37.0	34.5	38.9
Margins (%)	10.6	10.6	12.3	12.3	9.7	14.9	12.5	12.5	11.6	12.5

E: MOST Estimates

Nicholas Piramal

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NP IN
	REUTERS CODE
S&P CNX: 5,021	NICH.BO

Equity Shares (m)	209.0
52-Week Range	321/195
1,6,12 Rel. Perf. (%)	-7/-19/-19
M.Cap. (Rs b)	58.8
M.Cap. (US\$ b)	1.5

28 September 2007

Buy

Rs281

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	24,202	2,319	11.0	85.4	25.6	5.6	23.1	19.8	2.7	19.5
03/08E	28,104	2,739	13.1	19.4	21.5	4.5	23.2	19.2	2.3	14.8
03/09E	31,181	3,386	16.2	23.6	17.4	3.8	23.8	20.8	2.0	12.1

- ✘ We expect revenues to grow by 6.7% to Rs7b in 2QFY08, driven by 9% growth in India revenues (including CRAMS exports from India). Global sales should grow 3% YoY.
- ✘ EBITDA margins are expected to decline by 210bp YoY to 15.3% due to higher costs at Morpeth and currency appreciation v/s both the US\$ and the UK£.
- ✘ Lower EBITDA margins and higher interest cost (up 44% YoY) are likely to impact the company's performance for the quarter. However, lower tax rate (at 15% of PBT v/s 20.2% in 2QFY07) is likely to mitigate this impact, resulting in PAT decline of 10.7% YoY to Rs585m. Our estimates do not take into account the proposed demerger of the company's NCE Research.
- ✘ Increasing visibility in CRAMS, turnaround at Avecia and higher growth in the domestic portfolio would act as catalysts for the stock. Long-term value unlocking for investors could happen through out-licensing of some of the NCE molecules. Valuations at 21.5x FY08E and 17.4x FY09E earnings do not fully reflect these triggers. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	5,226	6,547	6,495	6,452	6,081	6,983	7,591	7,449	24,719	28,104
YoY Change (%)	31.2	79.3	61.3	52.9	16.4	6.7	16.9	15.4	55.0	13.7
Total Expenditure	4,348	5,409	5,525	5,603	5,240	5,915	6,375	6,210	20,885	23,740
EBITDA	877	1,139	971	849	841	1,068	1,216	1,239	3,835	4,364
Margins (%)	16.8	17.4	14.9	13.2	13.8	15.3	16.0	16.6	15.5	15.5
Depreciation	228	244	222	158	249	270	285	310	818	1,114
Interest	46	76	88	96	111	110	95	66	305	382
Other Income	0	2	2	54	20	0	103	231	58	354
PBT before EO Expense	604	820	663	649	500	688	939	1,094	2,770	3,222
Extra-Ord Expense	0	-76	-2	12	3	0	0	0	43	3
PBT after EO Expense	604	896	665	638	497	688	939	1,094	2,727	3,219
Tax	13	172	59	-2	18	53	72	103	231	246
Deferred Tax	51	9	51	36	45	51	69	72	158	237
Rate (%)	10.7	20.2	16.5	5.3	12.7	15.0	15.0	16.1	14.3	15.0
PAT	539	715	556	604	434	585	798	918	2,338	2,735
Less: Minority Interest	1	0	0	0	0	0	0	0	1	0
Reported PAT	539	715	556	604	434	585	798	918	2,337	2,735
Adj PAT	539	655	554	615	437	585	798	918	2,374	2,738
YoY Change (%)	11.9	22.8	129.9	318.8	-18.8	-10.7	44.1	49.3	87.0	15.4

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Pfizer

Neutral

Rs715

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	PFIZ IN
	REUTERS CODE
S&P CNX: 5,021	PFIZ.BO

28 September 2007

Previous Recommendation: Neutral

Equity Shares (m)	29.8
52-Week Range	965/661
1,6,12 Rel. Perf. (%)	-10/-44/-62
M.Cap. (Rs b)	21.4
M.Cap. (US\$ b)	0.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
11/06A	6,859	1,210	40.5	46.3	17.6	4.9	27.5	43.6	2.7	11.1
11/07E	6,757	1,344	45.0	11.1	15.9	3.0	18.6	28.7	2.3	9.0
11/08E	6,113	1,195	40.1	-11.0	17.9	2.7	15.2	23.2	2.4	10.4

- ✘ Pfizer's revenues for 4QFY07 (year-end November 2007) are likely to de-grow 6.4% YoY to Rs1.65b due to de-growth in the consumer healthcare business, Codeine short-supply for *Corex* (a key product accounting for almost 20% of revenues), and sale and discontinuation of certain products like *Protinex*, *Abdec* and *Pyridium*.
- ✘ However, EBITDA margins are likely to expand 700bp YoY to 25.1% led by a 38% reduction in other expenses.
- ✘ Pfizer (USA) has decided to divest its consumer healthcare business to Johnson & Johnson, which will result in divestment of its domestic consumer healthcare business in favor of Johnson & Johnson. We estimate that the divestment would result in loss of sales of Rs1-1.2b and reduction in PAT by Rs260m (EPS of Rs9/share) on annualized basis. The management is yet to take a final decision on the mode of divestment in India.
- ✘ Valuations at 17.9x FY08E (after adjusting for divestment of the consumer healthcare division in FY08E) adequately reflect Pfizer's business fundamentals. However, we note that that company would have cash of about Rs6.2b on its books (including the proceeds from the recently divested Chandigarh facility) and may receive an additional Rs2b from the divestment of the consumer healthcare business. We maintain **Neutral**.

QUARTERLY PERFORMANCE (INCLUDING PHARMACIA)

(RS MILLION)

Y/E NOVEMBER	FY06				FY07				FY06	FY07E
	1Q	2Q	3Q	4QE	1Q	2Q	3Q	4Q		
Net Revenues	1,535	1,729	1,856	1,765	1,603	1,703	1,800	1,651	6,859	6,757
YoY Change (%)	11.0	21.7	9.5	0.7	4.4	-1.5	-3.0	-6.4	9.7	-1.5
Total Expenditure	1,104	1,302	1,378	1,447	1,176	1,295	1,327	1,236	5,206	5,034
EBITDA	431	426	478	317	427	408	474	415	1,652	1,723
Margins (%)	28.1	24.7	25.7	18.0	26.6	24.0	26.3	25.1	24.1	25.5
Depreciation	31	32	37	31	27	30	23	30	131	110
Interest	0	0	0	1	0	0	0	0	1	0
Other Income	45	51	54	64	67	118	130	127	333	442
PBT before EO Items	445	445	496	350	467	496	580	512	1,854	2,054
EO Expense/(Income)	58	-60	58	58	26	-2,711	96	100	234	-2,490
PBT after EO items	387	505	437	292	441	3,207	484	412	1,620	4,544
Tax	139	146	157	121	158	629	176	103	563	1,067
Rate (%)	35.9	28.9	35.8	41.6	35.9	19.6	36.3	45.0	34.7	25.3
Reported PAT	248	359	281	170	283	2,578	308	227	1,057	3,396
YoY Change (%)	84.0	132.0	28.6	-2.0	14.1	618.2	9.8	33.4	55.2	221.2
PAT adj. for Excep Items	290	291	323	228	305	324	379	335	1,210	1,344
YoY Change (%)	71.4	52.5	26.9	16.3	5.2	11.6	17.2	46.6	46.3	11.1
Margins (%)	18.9	16.8	17.4	12.9	19.0	19.1	21.1	20.3	17.6	19.9

E: MOST Estimates; FY08 estimates adjusted for consumer healthcare divestment. Historic numbers include consumer healthcare

Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	RBXY IN
	REUTERS CODE
S&P CNX: 5,021	RANB.BO

28 September 2007

Buy

Rs434

Previous Recommendation: Buy

Equity Shares (m)	372.7
52-Week Range	445/306
1,6,12 Rel. Perf. (%)	3/-6/-39
M.Cap. (Rs b)	161.9
M.Cap. (US\$ b)	4.1

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
12/06A	61,337	5,374	13.4	148.3	32.3	6.3	20.9	11.8	3.2	21.0
12/07E*	66,745	7,782	19.5	44.8	22.3	5.5	26.2	11.1	2.9	19.3
12/08E*	79,109	7,906	19.8	1.6	22.0	4.8	23.5	14.1	2.4	14.2

* Excludes upsides from FTF products

- ✗ We expect Ranbaxy to report 4.4% YoY growth in revenue to Rs16.8b in 3QCY07 due to higher base of 3QCY06 (including Simvastatin exclusivity revenues) and currency appreciation. In fact, in US\$-terms, revenue is likely to grow 15.5% YoY, driven primarily by higher growth in semi-regulated markets (including Romania) and a recovery in the US portfolio (led by new launches).
- ✗ Despite loss of Simvastatin exclusivity, EBITDA margins are likely to remain flat at 17% due to higher traction in semi-regulated markets, which yield higher margins.
- ✗ Impact of higher depreciation (up 25% YoY) and higher interest cost (up 12% YoY) is likely to be compensated by translation forex gains on FCCBs due to currency appreciation, resulting in PAT growth of 30% YoY to Rs2b.
- ✗ We believe that the worst is over for Ranbaxy and expect a gradual improvement in performance beginning CY07. We believe that Ranbaxy's current stock price is not factoring in the potential leverage arising out of a strong product pipeline, the profitable growth from semi-regulated markets, value unlocking from its Para-IV pipeline and the incremental upsides from a potential de-merger of NCE/NDDS research (incremental EPS of Rs2/share). The stock trades at 22.3x CY07E and 22x CY08E earnings (excluding patent challenges). An appreciating currency and possibility of expensive acquisitions remain as key risks. Our estimates do not include upsides from FTF opportunities. We reiterate **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY06#				CY07				CY06#	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Income	12,922	14,562	16,087	17,769	15,821	16,853	16,795	17,276	61,349	66,745
YoY Change (%)	9.2	6.9	18.4	24.3	22.4	15.7	4.4	-2.8	15.5	8.8
EBITDA	1,423	2,648	2,697	2,665	1,908	2,265	2,855	2,943	8,740	9,971
Margins (%)	11.0	18.2	16.8	15.0	12.1	13.4	17.0	17.0	14.2	14.9
Depreciation	427	457	496	531	557	565	619	639	1,843	2,379
Interest	257	277	299	247	313	351	334	338	1,036	1,336
Other Income	114	-355	106	484	604	2,051	595	271	649	3,521
PBT before EO Expense	853	1,559	2,008	2,371	1,642	3,400	2,497	2,238	6,510	9,777
Extra-Ord Expense	0	0	226	0	0	0	0	0	0	0
PBT after EO Expense	853	1,559	1,782	2,371	1,642	3,400	2,497	2,238	6,510	9,777
Tax	135	336	378	512	355	738	450	413	1,357	1,955
Rate (%)	15.8	21.6	21.2	21.6	21.6	21.7	18.0	18.5	20.8	20.0
Reported PAT	718	1,223	1,404	1,859	1,287	2,662	2,048	1,825	5,153	7,822
Minority Interest	4	12	11	26	11	27	10	-8	50	40
Adj PAT after Minority Int.	714	1,211	1,571	1,833	1,276	2,635	2,038	1,833	5,103	7,782
YoY Change (%)	0.8	19.5	753.8	513.7	78.7	117.6	29.7	0.0	135.8	52.5
Margins (%)	5.5	8.3	9.8	10.3	8.1	15.6	12.1	10.6	8.3	11.7

E: MOSSt Estimates; # includes upsides from FTF products. Quarterly figures do not add up to annual numbers due to impact of forex gains

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Shasun Chemicals

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SSCD IN
	REUTERS CODE
S&P CNX: 5,021	SHAS.BO

28 September 2007

Buy

Rs90

Equity Shares (m)	48.1
52-Week Range	157/83
1,6,12 Rel. Perf. (%)	-15/-43/-31
M.Cap. (Rs b)	4.4
M.Cap. (US\$ b)	0.1

Previous Recommendation: Buy

YEAR END*	NET SALES* (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
03/07A	7,722	-30	-0.6	N.A.	-	2.1	19.8	15.3	1.3	7.9
03/08E	8,866	442	9.2	N.A.	9.9	2.0	13.7	12.4	1.2	8.6
03/09E	10,203	605	12.6	37.1	7.2	1.7	17.4	15.4	1.0	5.9

* Consolidated

- ✘ We expect Shasun (standalone) to report 4% YoY growth in revenue to Rs1b in 2QFY08, despite strong growth in CRAMS. We believe that currency appreciation and lower Nizatidine supplies are likely to impact top-line growth for the company. Our quarterly estimates do not include financials of Rhodia's custom manufacturing business, which Shasun acquired in January 2006. This business is likely to record 4% de-growth in revenue to Rs959m for the quarter mainly due to currency appreciation.
- ✘ Standalone EBITDA margins are expected to decline by almost 500bp to 11.2% due to higher material and other expenditure, and currency appreciation. Also, higher tax provisioning (at 17.5% of PBT v/s 13.1% in 2QFY07) would result in a 60% de-growth in PAT to Rs31m. We expect Rhodia operations to record Rs31m loss for the quarter.
- ✘ Shasun's operations are likely to undergo gradual transformation, led by higher revenue from CRAMS and commercialization of the company's generics pipeline. Though the decline in Nizatidine supplies and the recent currency appreciation is likely to negatively impact Shasun's standalone earnings for FY08 (we estimate EPS de-growth of 23%), we believe that its CRAMS initiatives (both in UK and India) could bring in long-term benefits. At 9.9x FY08E and 7.2x FY09E consolidated EPS, we believe valuations are attractive and partly discount the de-growth in India operations. While the short-term stock price performance is likely to be muted (due to the pressure on standalone business), we believe that the company's CRAMS pipeline has good long-term potential. Any further appreciation of the rupee and pound v/s the dollar remains a key risk. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	955	1,030	982	1,081	921	1,074	1,214	1,460	4,047	4,669
YoY Change (%)	27.3	22.0	-1.1	9.0	-3.6	4.3	23.7	35.1	13.1	15.4
Total Expenditure	809	864	805	902	883	953	971	1,217	3,380	4,023
EBITDA	146	166	176	179	38	121	243	244	667	645
Margins (%)	15.3	16.1	18.0	16.5	4.2	11.2	20.0	16.7	16.5	13.8
Depreciation	67	66	67	51	69	75	79	85	251	308
Interest	11	15	16	12	15	19	24	26	54	84
Other Income	3	5	12	29	65	11	11	13	42	100
PBT	71	89	105	145	19	38	151	146	404	354
Tax	15	14	1	-9	3	7	26	3	22	39
Deferred Tax	-6	-3	3	4	-1	0	0	24	-2	23
Rate (%)	13.2	13.1	4.0	-3.2	14.4	17.5	17.5	17.9	5.1	17.5
PAT	62	78	100	150	17	31	124	120	383	292
YoY Change (%)	44.8	25.5	-22.2	13.7	-73.1	-60.0	24.0	-19.8	4.9	-23.7
Margins (%)	6.5	7.5	10.2	13.8	1.8	2.9	10.2	8.2	9.5	6.3

E: MOSt Estimates

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Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SUNP IN
	REUTERS CODE
S&P CNX: 5,021	SUN.BO

28 September 2007

Buy

Rs966

Equity Shares (m)	193.4
52-Week Range	1,196/886
1,6,12 Rel. Perf. (%)	-10/-37/-35
M.Cap. (Rs b)	186.7
M.Cap. (US\$ b)	4.7

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	20,792	7,842	37.9	36.8	25.5	6.7	35.9	22.7	8.7	27.0
03/08E	25,035	8,608	41.6	9.8	23.2	4.2	22.8	22.6	6.3	18.4
03/09E	29,995	10,565	51.0	22.7	18.9	3.5	20.3	22.5	5.0	14.6

- ✦ We expect 19.7% YoY growth in revenue to Rs6.3b, driven by 22% YoY growth in international sales and 16% growth in domestic sales.
- ✦ EBITDA margins are likely to expand 120bp YoY to 33.9% due to lower R&D expenses (due to demerger of NCE Research). Other income is expected to increase by 22% YoY partly due to translation forex gains on FCCBs. However, higher tax outgo (tax rate of 4.5% of PBT v/s tax write-back for 2QFY07) is likely to temper PAT growth to 12.1% to Rs2.1b.
- ✦ The demerged R&D entity, SPARC is currently working on 4 NCE and 12 NDDS products, with earliest launch expected in 2009 for one of the NDDS products.
- ✦ The company's ability to sustain high growth at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. While valuations at 23.2x FY08E and 18.9x FY09E EPS (excl. Taro acquisition) appear rich, they do not fully factor in the ramp-up in US and expected value unlocking by leveraging acquired companies (Taro, Able Labs & Valeant). Stock performance in the short-term may remain muted till further clarity on Taro acquisition emerges. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Revenues	4,987	5,229	5,263	5,313	6,153	6,260	6,335	6,287	20,792	25,035
YoY Change (%)	31.8	27.2	24.2	33.5	23.4	19.7	20.4	18.3	30.4	20.4
EBITDA	1,811	1,708	1,733	1,545	2,148	2,121	2,139	2,099	6,798	8,508
Margins (%)	36.3	32.7	32.9	29.1	34.9	33.9	33.8	33.4	32.7	34.0
Depreciation	202	204	212	201	226	235	244	254	818	958
Net Other Income	274	402	636	942	606	490	505	523	2,253	2,123
PBT	1,883	1,906	2,157	2,286	2,528	2,376	2,400	2,369	8,233	9,673
Tax	2	-22	-29	-18	98	107	108	122	-67	435
Rate (%)	0.1	-1.1	-1.3	-0.8	3.9	4.5	4.5	5.2	-0.8	4.5
Profit after Tax	1,882	1,928	2,186	2,304	2,430	2,270	2,292	2,246	8,300	9,238
Share of Minority Partner	115	64	198	183	158	180	185	106	559	629
Adj Net Profit	1,767	1,864	1,989	2,121	2,272	2,090	2,107	2,140	7,741	8,608
YoY Change (%)	29.9	26.1	35.8	48.4	28.6	12.1	5.9	0.9	35.0	11.2
Margins (%)	35.4	35.6	37.8	39.9	36.9	33.4	33.3	34.0	37.2	34.4

E: MOSt Estimates; Quarterly results have been recasted and hence do not tally with full year results

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Wockhardt

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	WOCK IN
	REUTERS CODE
S&P CNX: 5,021	WCKH.BO

28 September 2007

Neutral

Rs417

Equity Shares (m)	109.4
52-Week Range	450/324
1,6,12 Rel. Perf. (%)	-3/-29/-35
M.Cap. (Rs b)	45.6
M.Cap. (US\$ b)	1.1

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
12/06A	17,290	2,665	22.3	3.7	18.7	4.3	28.3	15.0	3.2	13.9
12/07E	26,749	2,852	23.9	7.0	17.4	3.5	24.0	15.6	2.3	10.8
12/08E	32,534	3,275	27.4	14.9	15.2	2.9	22.6	16.1	1.9	9.1

* Fully diluted EPS

- We expect Wockhardt's 3QCY07 revenue to grow 72% YoY to Rs7.5b, driven by higher growth in domestic business and consolidation of Pinewood, Dumex and Negma acquisitions. Growth in domestic business is likely to be higher due to increased traction in existing business as well as consolidation of acquired brands (*Farex* and *Protinex*).
- EBITDA margins are expected to decline 80bp YoY to 21.4% due to higher raw material and staff costs as well as due to the impact of currency appreciation. While the company has commenced capitalizing part of its R&D expenses beginning 3QCY06, we continue to expense R&D costs fully. Higher depreciation (linked to commissioning of new biotech facilities) and higher interest costs (linked to acquisitions) will restrict adjusted PAT growth at 23% YoY to Rs782m.
- We believe that Wockhardt still has to display the ability to fully leverage its assets (particularly the biotech facilities) and scale up substantially in regulated markets for a further re-rating in its valuation multiples. Wockhardt is valued at 17.4x CY07E and 15.2x CY08E fully diluted earnings, which we believe is a fair reflection of the gradual progress, which the company is making in its key markets. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY06				CY07				CY06	CY07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	3,515	4,127	4,377	5,265	5,228	6,303	7,518	7,701	17,291	26,749
YoY Change (%)	13.5	9.5	21.8	43.9	48.7	52.7	71.8	46.3	22.4	54.7
Total Expenditure	2,826	3,230	3,406	4,043	4,069	4,781	5,906	6,169	13,288	20,925
EBITDA	689	897	971	1,222	1,159	1,522	1,612	1,533	4,003	5,823
Margins (%)	19.6	21.7	22.2	23.2	22.2	24.1	21.4	19.9	23.2	21.8
Depreciation	137	140	141	212	181	172	240	285	621	878
Interest	-77	-6	-5	115	129	85	225	305	26	744
Other Income	33	18	61	78	22	25	50	53	190	150
PBT before EO Items	662	781	896	973	871	1,290	1,197	995	3,546	4,351
EO Income	-604	0	0	0	0	0	0	0	-604	0
PBT after EO Items	58	781	896	973	871	1,290	1,197	995	2,942	4,351
Tax	95	147	156	101	208	266	323	334	529	1,131
Rate (%)	163.8	18.8	17.4	10.4	23.9	20.6	27.0	33.6	18.0	26.0
Reported PAT	-37	634	740	872	663	1,024	874	661	2,413	3,220
R&D Capitalized	0	0	170	164	180	170	150	100	570	600
Adjusted PAT	543	634	636	771	552	870	782	600	2,558	2,852
YoY Change (%)	30.2	-18.3	-2.4	5.7	1.8	37.2	23.0	-22.2	-0.5	11.5
Margins (%)	-1.1	15.4	16.9	16.6	12.7	16.2	11.6	8.6	14.0	12.0

E: M0St Estimates; Quarterly numbers don't add up to annual numbers due to re-classification

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Retailing

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Pantaloon Retail	233
Shopper' s Stop	234
Titan Industries	235

The retailing landscape continued to be in the limelight during the quarter, as more and more global companies announced plans to enter the specialty retail format. Reliance launched their first Hypermart in Ahmedabad and all the major retailers continued to get good consumer response to the new stores launched. Conversion rates seem to be strong and rising for segments such as fresh food and neighborhood stores. Organized retail emerged as a major launch pad for the consumer and luxury companies to launch their products in India. Political opposition to the organized retail reached new highs as UP banned the new stores of Reliance Fresh and Spencer' s due to backlash from traders. Rising lease rentals of real estate and manpower costs are hurting the profitability of the sector. Long term outlook continues to be encouraging; **Pantaloon Retail is** our top pick.

Food and Grocery attracting attention, face backlash

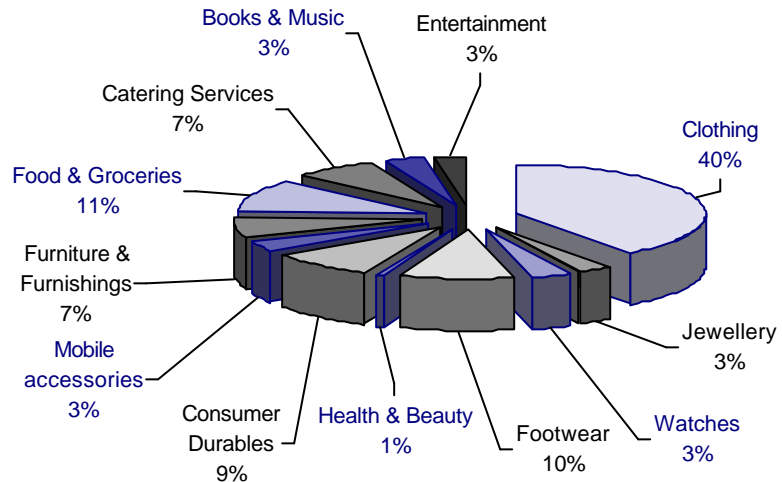
According to Technopak, the current size of Indian retail sector in US\$300b, which is estimated to increase to US\$427b by 2010 and US\$637b by 2015. The retail spend is expected to increase at a rate of 13% CAGR in the coming years which augurs well for the retail sector. As per F&R Research, the share of food and grocery in the total household spend is 63%. As less than 1% of the total Food and Grocery is retailed through organized stores, organized retail has a low share of the total retail consumer spend. The grocery segment is witnessing plenty of action with players like ITC, Bharti, Pantaloon, RPG group, Subiksha, Heritage Foods, and Vishal Retail expanding in this vertical. The initiatives include setting up of cold chains, contract farming, logistics and direct sourcing. In addition to the large format food stores, neighborhood and convenience stores concept is fast catching up with Indian retailers. We expect these companies to set up at least 10,000 convenience stores in the coming years, in addition to hypermarkets.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Retailing							
Pantaloon Retail	Buy	11,850	96.4	715	72.1	172	6.0
Shopper's Stop	Neutral	2,700	34.1	205	26.6	89	11.1
Titan Industries	Neutral	7,300	39.4	700	28.3	440	28.5
Sector Aggregate		21,850	64.5	1,620	44.3	701	19.9

MODERN RETAIL PIE



Source: India Retail Report 2007

These stores have started facing a lot of ire from the trading community due to the scale of operations and low prices these offer to the consumers. After opposition to the stores of Reliance and Spencer's in UP, the state has imposed a ban on such stores, with an eye to re-evaluate the entire reform process in contract farming. We believe that such instances can impact the growth plans of large retailers like Reliance, Subiksha and Spencer's in the short term.

Retailers maintain huge expansion plans

Reliance Retail launched its first Hypermart in Ahmedabad. The hypermart being one of the largest stores in this format attracted tremendous initial response. Bharti finalized its agreement with Walmart for starting the retail operations. Trent also seems to be in a catching up mode with expected ramp up in its Star Bazaar and tie-up with Benetton for Sisley branded garments. Shopper's Stop and Pantaloon have huge expansion plans across segments like Fashion, Airports, Hypermart and other specialty verticals.

Rising lease rentals and manpower costs – Lease rentals have been on the rise for sometime now, and with the additional service tax been imposed on lease rents, we expect lease rentals to move up further. Industry action reveals that the impact on the retailers would be partial as the 'lessee' might absorb it at certain places and might get Modvat benefit. Retailers have plans to move court, as leasing of property is not a service. Lease rentals have risen by 15-40% in the past one year due to which many of the leading retailers have slowed down their plans to book fresh real estate at these prices. Quality human resource to suit the retail organizations is a key issue, as companies are facing higher attrition rates at the shop floor and at senior management levels. Salaries at higher levels are rapidly increasing. We estimate the increase in manpower costs at more than

25%. While companies like Shopper's Stop have been able to neutralize the impact of wage increase by strong 'same sales' growth, Pantaloon Retail has started feeling the impact of wage increases due to delay in completion of properties and faster recruitment of people due to aggressive store opening plans. We expect lease rentals and manpower costs to continue to impact profit margins ahead.

Increasing importance of a strong supply chain management

In the wake of rising competition, it is becoming difficult for players to increase end prices. In such a scenario, the player who is able to integrate backwards and squeeze higher margins will be the winner given the wafer thin margins in the food and grocery business. Multi-level supply chain leads to higher wastage and increased costs and commissions. Also, the movement of goods across different states and regions, sometimes arising out of differential taxes leads to high wastage due to inadequate transportation and cold storage facilities. Crisil research estimates that the final retail price paid by the consumer is 2.6 times the price paid to the farmer. Thus, a good supply chain and logistics gains further importance. Reliance, through Reliance Logistics and Pantaloon, through Future Logistics plan to expand their distribution network via rail, road, cold chains and warehouses in order to cut costs and enhance efficiencies in the business. The Bharti-Walmart joint venture is already on look out for land to set up warehouses.

Specialty retail segment up to see more action

Specialty retail segment is witnessing a great deal of activity. This segment is expected to benefit from FDI in single brand retail outlets. A number of MNCs are planning to open their single brand outlets which include categories like luxury goods, garments, personal accessories, watches etc. In addition, some specialty segments like garments and jewelry are witnessing rising interest from domestic jewelry majors to expand retail operations. Titan Industries has expanded into eye wear retail with the launch of Titan Eye+ stores. Rajesh Exports and Gitanjali Gems are in the fray to increase their retail presence. LVMH has plans to open 25 exclusive stores to market its luxury brands in India. Other players like Raymond, Bata, Koutons, Liberty, Samsung etc. have substantial expansion plans. Growing pressure from large retailers for higher margins and the need to target the premium-end consumer in the right kind of ambience is driving brand owners to open their specialty stores. Although specialty stores are unlikely to account for a very substantial part of sales, they are likely to be used for launch of premium products and brand re-positioning strategies. We expect heightened level of activity in the specialty retailing segment in the coming 1-2 years, which will intensify competition in certain segments of specialty retail.

Positive on the sector; Pantaloon top pick

We believe that the existing retailers will continue to grow topline and attract footfalls due to low penetration. But the same does not hold good for the profit margins in the medium term. It is due to rising lease rentals and manpower costs. We expect specialty stores to

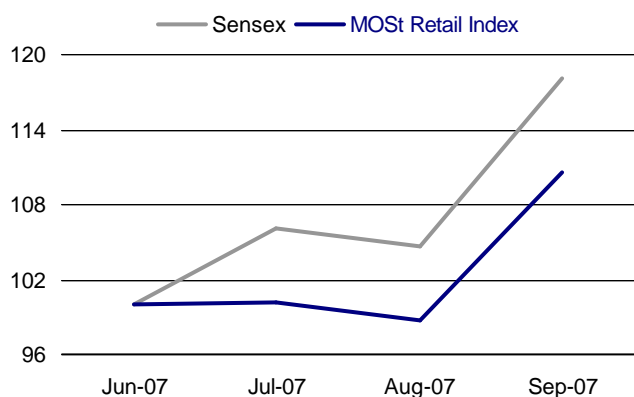
flourish due to committed customers and strong brand recall. We believe competition to intensify due to entry of strong players such as Reliance, Bharti and the A.V. Birla group. We believe that scale of operations would be a key to survival in the long term. We expect the sector to enjoy premium valuations due to huge growth potential. We maintain a positive view on the sector with **Pantaloon Retail** our top pick.

Stock performance and valuations

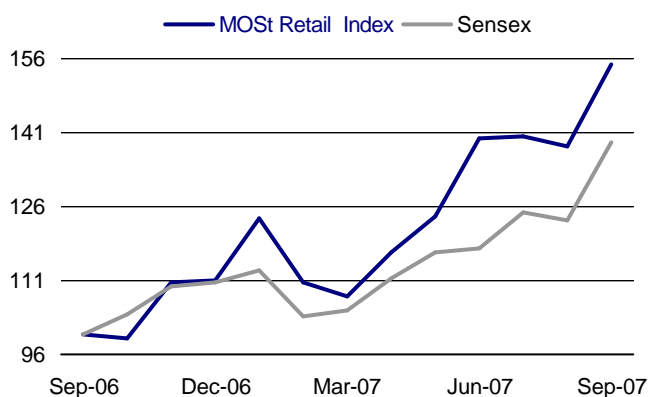
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Retailing						
Pantaloon Retail	8	48	-11	9	-1	-11
Shopper's Stop	-1	3	-21	-37	-11	-56
Titan Industries	10	86	-10	46	0	27

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Retailing														
Pantaloon Retail	540	Buy	4.2	7.6	12.4	129.7	70.8	43.4	42.2	26.9	18.4	5.0	8.5	11.2
Shopper's Stop	581	Neutral	9.8	12.0	16.7	59.0	48.6	34.9	29.6	21.4	15.8	11.7	13.2	16.7
Titan Industries	1,469	Neutral	26.6	36.1	53.8	55.3	40.7	27.3	30.7	23.5	16.7	35.4	35.4	37.9
Sector Aggregate						76.5	51.5	33.4	35.6	24.9	17.5	11.5	15.1	18.3

Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	PF IN
	REUTERS CODE
S&P CNX: 5,021	PART.BO
Equity Shares (m)	146.7
52-Week Range	580/344
1,6,12 Rel. Perf. (%)	-5/0/9
M.Cap. (Rs b)	79.2
M.Cap. (US\$ b)	2.0

28 September 2007

Buy

Rs540

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/07A	32,367	611	4.2	-12.8	129.7	6.5	5.0	7.0	2.6	39.7
06/08E	55,889	1,132	7.6	83.2	70.8	6.1	8.5	9.9	1.6	25.2
06/09E	86,065	1,888	12.4	63.0	43.4	4.9	11.2	12.1	1.1	17.3

* Diluted equity after rights issue

- Pantaloon's revenues are expected to grow 96.4% YoY in 1QFY08 with value retailing driving growth during the quarter.
- EBITDA margins are expected to decline by 90bp to 6% YoY, PAT is expected at Rs172m, a growth of 6%. August sale in Big Bazaar is likely to impact gross margins.
- Pantaloon is expected to witness acceleration in stores opening in the coming few months as the company is expected to end the quarter with stores addition of 1.5m sq ft. Management expects to end FY07 with retail space of 11m sq ft.
- Pantaloon has started unlocking value in subsidiaries. The company has sold 25% stake in Future Bazaar for \$20m. The company is likely to launch IPO of Future Capital and Future Ventures, which will unlock value for the shareholders. The Future Generali Insurance is likely to launch products in another couple of months.
- Excluding the value of the subsidiaries, the stock is currently trading at 26x FY09E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	6,034	7,527	8,610	10,196	11,850	13,400	14,200	16,439	32,367	55,889
YoY Change (%)	65.4	59.5	89.1	77.3	96.4	78.0	64.9	61.2	73.3	72.7
Total Exp	5,618	6,957	8,008	9,629	11,135	12,510	13,250	15,455	30,211	52,350
EBITDA	415	570	603	568	715	890	950	984	2,156	3,539
Margins (%)	6.9	7.6	7.0	5.6	6.0	6.6	6.7	6.0	6.7	6.3
Depreciation	67	82	93	126	135	145	150	155	369	585
Interest	125	207	229	337	340	335	325	323	898	1,323
Other Income	17	5	9	0	18	15	15	16	32	64
PBT	241	286	290	105	258	425	490	522	921	1,695
Tax	79	94	103	36	86	142	170	178	311	576
Rate (%)	32.7	33.0	35.5	34.0	33.3	33.4	34.7	34.2	33.7	34.0
Adjusted PAT	162	191	187	69	172	283	320	344	611	1,119
YoY Change (%)	19.6	3.1	15.3	-56.2	6.0	47.8	71.0	396.0	-4.8	83.2
Exceptional Income	224	249	0	117	0	0	0	0	589	13
Reported PAT	386	440	187	187	172	283	320	344	1,200	1,132

E: MOST Estimates

Shopper's Stop

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	SHOP IN
	REUTERS CODE
S&P CNX: 5,021	SHOP.BO
Equity Shares (m)	34.8
52-Week Range	777/474
1,6,12 Rel. Perf. (%)	-2/-39/-37
M.Cap. (Rs b)	20.3
M.Cap. (US\$ b)	0.5

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs581

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	8,280	343	9.8	39.8	59.0	6.9	11.7	14.6	2.4	29.4
03/08E	12,319	416	12.0	21.4	48.6	6.4	13.2	16.9	1.7	21.4
03/09E	17,010	580	16.7	39.3	34.9	5.8	16.7	19.0	1.3	15.8

- Shopper's Stop is expected to report revenues of Rs2.7b in 2QFY08, an increase of 34.1%, driven by strong 'same store sales' growth in existing stores. EBITDA margins are expected at 7.6% for 2QFY08, a decline of 40bp. Adjusted PAT at Rs89m is expected to increase by 11.2% during 2QFY08 on a YoY basis.
- We expect profit margins to remain under pressure due to increase in staff costs and lease rentals, as the company is expected to open six Shopper's Stop stores during the current year.
- Shopper's Stop has acquired 19% stake in Hypercity Retail and we expect the company to increase stake to 51% in another 12 months. The company is expected to raise capital from the market in the current year to fund the various expansion plans in the coming 2-3 years.
- The stock is currently trading at 48.6x FY08E EPS and 34.9x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	1,720	2,013	2,398	2,149	2,188	2,700	3,600	3,831	8,280	12,319
YoY Change (%)	35.0	32.9	24.6	31.5	27.2	34.1	50.1	78.3	30.5	48.8
Total Exp	1,600	1,852	2,150	1,997	2,050	2,495	3,250	3,554	7,599	11,349
EBITDA	119	162	248	152	138	205	350	277	681	970
Margins (%)	6.9	8.0	10.3	7.1	6.3	7.6	9.7	7.2	8.2	7.9
Depreciation	41	55	43	50	93	75	75	61	189	305
Interest	9	11	11	-4	12	16	20	23	-41	71
Other Income	25	31	37	11	5	15	15	21	36	56
PBT	95	126	231	117	38	129	270	213	569	651
Tax	41	46	90	49	19	40	90	86	226	234
Rate (%)	43.0	36.4	38.8	42.4	48.6	31.0	33.3	40.1	39.7	36.0
PAT	54	80	142	67	20	89	180	128	343	416
YoY Change (%)	95.8	148.0	21.0	9.7	-63.5	11.1	27.1	89.8	44.0	21.4
Minority Interest Exceptionals	0	0	0	-101	0	0	0	0	-101	0
Reported PAT	54	80	142	-34	20	89	180	128	242	416

E: Most Estimates

Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TTAN IN
	REUTERS CODE
S&P CNX: 5,021	TITN.BO
Equity Shares (m)	42.3
52-Week Range	1,538/660
1,6,12 Rel. Perf. (%)	8/47/46
M.Cap. (Rs b)	62.1
M.Cap. (US\$ b)	1.6

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 1,469

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	03/07A	20,902	1,158	26.6	20.1	55.3	27.1	35.4	29.7	3.1	30.7
	03/08E	28,536	1,602	36.1	35.9	40.7	19.0	35.4	32.7	2.2	23.5
	03/09E	36,215	2,388	53.8	49.0	27.3	9.9	37.9	44.0	1.7	16.7

- ✦ We expect Titan to register 39.4% growth in revenues to Rs7.3b in 2QFY08. Jewelry and Precision components are expected to be major growth drivers.
- ✦ EBITDA margins are likely to dip by 80bps to 9.6% in 2QFY08 due to rising store operating expenses and overheads on new *Titan* and *Gold Plus* stores. In addition, the deteriorating sales mix will limit margin expansion.
- ✦ Watch business is expected to report good double-digit growth due to sales promotion schemes during the quarter. The expansion plan of new stores of The World of Titan and Fastrack is on track with expected addition of 80 company run stores by 1QFY09. The company has recently tied-up with the Movado Group, owners of the Hugo Boss brand, for exclusive distribution rights for Hugo Boss watch in India. We expect it be margin accretive due to rising retail presence and healthy gross margins in premium watches.
- ✦ We are positive on the Titan Eye+ venture due to lack of any organized retailers in this category. Initial response has been encouraging during the pilot period of the project.
- ✦ We expect adjusted PAT to grow by 28.5% to Rs440m.
- ✦ The stock is currently trading at 40.7x FY08E and 27.3x FY09E. Although we are positive on the long term prospects, the current stock price factors in the expected growth potential. Despite robust business model and strong visibility of earnings, we maintain **Neutral** rating due to high valuations.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	4,410	5,235	5,291	5,966	6,575	7,300	7,200	7,461	20,902	28,536
YoY Change (%)	54.1	47.9	42.9	41.0	49.1	39.4	36.1	25.1	45.5	36.5
Total Exp	4,245	4,690	4,711	5,273	6,206	6,600	6,450	6,598	18,918	25,854
EBITDA	165	546	581	693	369	700	750	864	1,984	2,682
Margins (%)	3.7	10.4	11.0	11.6	5.6	9.6	10.4	11.6	9.5	9.4
Depreciation	49	66	70	72	72	75	85	86	256	319
Interest	49	43	47	66	48	50	55	53	204	206
Other Income	14	5	9	4	5	10	11	11	32	38
PBT	81	442	473	560	254	585	621	735	1,556	2,195
Tax	12	100	177	85	127	145	200	120	398	593
Rate (%)	14.4	22.6	37.4	15.1	50.2	24.8	32.2	16.4	25.6	27.0
PAT	70	342	296	475	126	440	421	615	1,158	1,602
YoY Change (%)	-7.4	-7.1	122.9	13.5	81.6	28.5	42.2	29.3	20.3	38.3
Extraordinary Items	29	21	17	172	0	15	15	15	242	45
Reported PAT	41	322	279	303	126	425	406	600	916	1,557

E: MOSt Estimates

Telecom

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Bharti Airtel	241
Idea Cellular	242
Reliance Communication	243

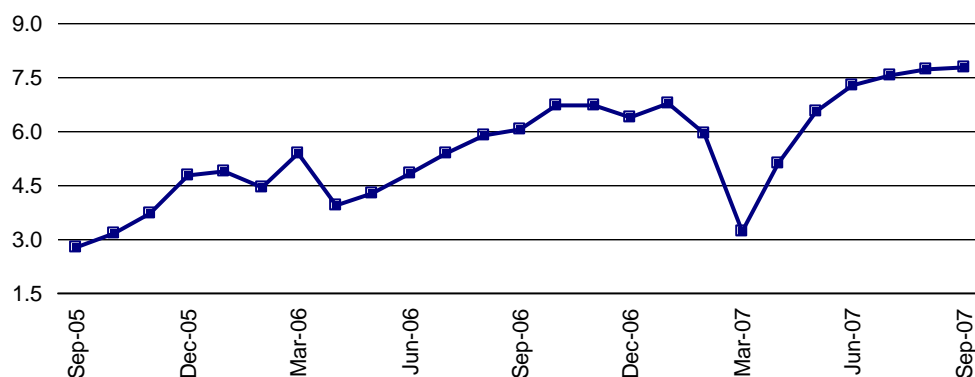
The wireless industry continued its momentum of strong subscriber additions. We expect the industry to add 23.2m subscribers in the quarter ended September 2007 compared with 19m subscribers added in the quarter ended June 2007. Subscriber additions continue to be driven by the A and B circles.

STRONG MARKET SHARE (%)

	MAR-07	APR-07	MAY-07	JUN-07	JUL-07
Market Share					
Metros	19.4	19.1	18.9	18.7	18.6
A-Circle	35.5	35.7	35.7	35.7	35.8
B-Circle	35.4	35.5	35.6	35.9	36.1
C-Circle	9.6	9.7	9.7	9.7	9.6
Incremental Market Share					
Metros	-7.1	8.1	13.9	14.6	14.8
A-Circle	31.2	41.7	35.2	34.3	38.6
B-Circle	46.8	37.2	39.6	42.4	39.9
C-Circle	29.1	13.1	11.3	8.7	6.7

Source: Company/Motilal Oswal Securities

MOM NET ADDITIONS



Source: Company/Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Telecom							
Bharti Airtel	Buy	64,994	49.2	27,168	59.6	15,173	62.5
Idea Cellular	Neutral	16,604	-	5,479	-	2,171	-
Reliance Comm	Buy	48,458	37.4	20,345	50.4	11,313	61.1
Sector Aggregate		113,452	43.9	47,512	55.5	26,487	61.9

TRAI recommends wide ranging reforms for the Industry

TRAI has recommended wide ranging reforms for the wireless sector addressing critical issues like cap on number of players, spectrum allocation and pricing, M&A norms, combination of technologies, and rural roll-out obligations. These measures will lead to optimum utilization of scarce spectrum, encourage competition, increase affordability for the end customer. Summary of key recommendations:

- ✍ **No cap on total operators per circle:** There would be no cap on the number of operators in any service area, which would encourage new players and thus increase competition.
- ✍ **Spectrum allocation criteria:** The criteria for additional spectrum beyond the first tranche of 2*4.4 Mhz (GSM) and 2*2.5Mhz(CDMA) is based on the numbers of subscribers. TRAI as an interim measure has increased this subscriber criteria as follows:

GSM - OPERATORS (M SUBSCRIBERS)

Recommended	2 * 6.2 Mhz	2 * 8 Mhz	2 * 10 Mhz	2 * 12.4 Mhz	2 * 15 Mhz
Delhi/ Mumbai	0.5	1.5	2.0	3.0	5.0
Chennai / Kolkatta	0.5	1.5	2.0	3.0	5.0
A Circle	0.8	3.0	5.0	8.0	10.0
B Circle	0.8	3.0	5.0	8.0	10.0
C Circle	0.6	2.0	4.0	6.0	8.0
Earlier Norms	2 * 6.2 Mhz	2 * 8 Mhz	2 * 10 Mhz	2 * 12.4 Mhz	2 * 15 Mhz
Delhi/ Mumbai	0.3	0.6	1.0	1.6	2.1
Chennai / Kolkatta	0.2	0.4	0.6	1.0	1.3
A Circle	0.4	0.8	1.4	2.0	2.6
B Circle	0.3	0.6	1.0	1.6	2.1
C Circle	0.2	0.4	0.6	0.9	1.2

CDMA - OPERATORS (M SUBSCRIBERS)

Recommended	2 * 3.75 Mhz	2 * 5 Mhz	2 * 6.25 Mhz	2 * 7.5 Mhz
Delhi/ Mumbai	0.5	1.5	2.0	3.0
Chennai / Kolkatta	0.5	1.5	2.0	3.0
A Circle	0.8	3.0	5.0	8.0
B Circle	0.8	3.0	5.0	8.0
C Circle	0.6	2.0	4.0	6.0
Earlier Norms	2 * 3.75 Mhz	2 * 5 Mhz	2 * 6.25 Mhz	2 * 7.5 Mhz
Delhi/ Mumbai	0.5	2.0	3.0	5.0
Chennai / Kolkatta	0.5	2.0	3.0	5.0
A Circle	0.8	5.0	8.0	10.0
B Circle	0.8	5.0	8.0	10.0
C Circle	0.6	4.0	6.0	8.0

- ✍ **Spectrum beyond 10 Mhz :** Operators requiring spectrum beyond 10 Mhz in the existing 2G bands (800, 900 and 1,800 Mhz) will be charged one time fees for each Mhz or part there of as follows:

SERVICE AREAS	RS M/MHZ
Mumbai, Delhi and A Circles	160
Chennai, Kolkata and B Circles	80
C Circles	30

Source: Motilal Oswal Securities

- ✘ **Annual spectrum charge:** Operators using spectrum beyond 2*8 Mhz would be liable to pay an additional spectrum charge of 1% of adjusted gross revenue (AGR). The proposed spectrum charges structure is as follows:

SPECTRUM CHARGE AS A % OF AGR			
	CURRENT (%)	PROPOSED (%)	INCREASE (%)
Upto 2*4.4 Mhz	2	2	0
Upto 2*6.2 Mhz	3	3	0
Upto 2*8 Mhz	4	4	0
Upto 2*10 Mhz	4	5	1
Upto 2*12.5 Mhz	5	6	1
Upto 2*15 Mhz	6	7	1
Beyond 2*15 Mhz	-	8	-

Source: Motilal Oswal Securities

- ✘ **Spectrum in new bands:** Any spectrum beyond the existing 2G bands of 800 Mhz, 900 Mhz and 1,800 Mhz will be allocated based on auction system to ensure optimum utilization of new spectrum.
- ✘ **Intra-circle merger:** Market share of the merged entity would not exceed 40% either in terms of subscriber base or in terms of revenue. No merger would be allowed if the number of operators in a particular circle reduces below four operators. Removal of cap on the total spectrum per operator per circle for the merged entity.
- ✘ **Acquisition of competing operators:** Currently an operator cannot have more than 10% equity in its competing operator in a particular circle. TRAI has permitted acquisition of 10% equity of target operator by an automatic route and up to 20% equity on a case to case basis.
- ✘ **Combination of technologies:** TRAI has recommended an existing operator can use alternate technology subject to payment of an up-front fee equal to the entry fee for a UAS licence in that circle and charging of regulatory levies on a combined basis.
- ✘ **Roll-out Obligations:** While maintaining the current roll-out obligations for the operators, the non-fulfillment of the same would result in no additional spectrum being allocated as well as no M & A activity until completion of the obligations. Earlier, non-fulfillment of roll-out obligations could result in cancellation of the licence.
- ✘ **Reduction in USO fees:** Operators successfully completing roll-out obligations in any circle (excluding metros) would be charged a lesser Universal Service Obligation (USO) fee at 3% against 5% earlier.

We are not very enthused by the increase in spectrum charges proposed by TRAI, which would further increase costs for the industry despite India having one of the highest regulatory costs globally. While the increase in spectrum charges would impact only the larger operators (using spectrum beyond 8 Mhz and 10 Mhz), we believe marginal players in a particular circle tend to under-utilise spectrum, given the lack of scale benefits, lower-end technology and lack of infrastructure.

SUMMARY OF SPECTRUM ALLOCATED AS OF JUNE 2007

CIRCLE	GSM									CDMA					
	BHARTI	RCOM	HUTCH	BSNL	IDEA	SPICE	AIRCELL	MTNL	BPL DISHNET	RCOM	TATA	MTNL	BSNL	HFCL	SHYAM
Delhi	10		10		8			8		5	5	3.75			
Mumbai	9.2		10					8	10	5	5	2.5			
Chennai	8.6		8	8			8.6			5	3.75		2.5		
Kolkatta	8	6.2	9.8	6.2					4.4	5	3.75		2.5		
Maharashtra	6.2		6.2	8	10					5	5		2.5		
Gujarat	6.2		9.8	7.4	6.2					3.75	3.75		2.5		
Andhra Pradesh	8.8		6.2	8	8					5	5		2.5		
Karnataka	10		8	8		6.2				5	3.75		2.5		
Tamil Nadu	6.2		6.2	8			10			5	2.5		2.5		
Kerela	6.2		6.2	8	8					5	3.75		2.5		
Punjab	8		6.2	6.2		8				3.75	3.75		2.5	2.5	
Haryana	6.2		6.2	6.2	6.2					3.75	3.75		2.5		
U P (West)	6.2		6.2	8	8					5	3.75		2.5		
U P (East)	6.2		8	9.6	6.2					5	3.75		2.5		
Rajasthan	6.2		6.2	8	6.2					3.75	3.75		2.5		2.5
Madhya Pradesh	6.2	6.2		6.2	8					5	5		2.5		
West Bengal	4.4	6.2	4.4	6.2					4.4	3.75	2.5		2.5		
Himachal Pradesh	6.2	6.2		6.2	4.4				4.4	2.5	2.5		2.5		
Bihar	8	8		6.2						4.4	5	3.75	2.5		
Orissa	8	6.2		6.2						4.4	3.75	2.5	2.5		
Assam	6.2	6.2		6.2						4.4			2.5		
North East	4.4	4.4		6.2						4.4			2.5		
Jammu & Kashmir	6.2			8					4.4	2.5			2.5		

Source: Motilal Oswal Securities

Based on data of spectrum allocated as of June 2007 the operators liable to pay 1% additional annual spectrum charges having crossed 8 Mhz threshold would be Bharti (5 circles), Rcom (5 circles), Hutch (4 circles), Idea (1 circle) and BSNL (16 circles). Also operators nearing the threshold of 10 Mhz and likely to apply for additional spectrum would be liable to pay up-front one-time spectrum fees as stated above, which we believe would have a marginal impact on the financials of such operators. We do not see significant impact on the EBITDA margins of the operators. We estimate an impact of 0.34% for Bharti and 0.1% for Rcom based on IQFY08 AGR data released by TRAI. Since most of the operators have aggressively expanded coverage, we expect large operators like Bharti and Rcom to fulfill their roll-out obligations, which would entitle them to a saving of 2% of AGR (in the form of USO fees). If the recommendations are implemented in totality, we expect the impact to be neutral to positive on the margins of the telecom operators.

Valuation and view

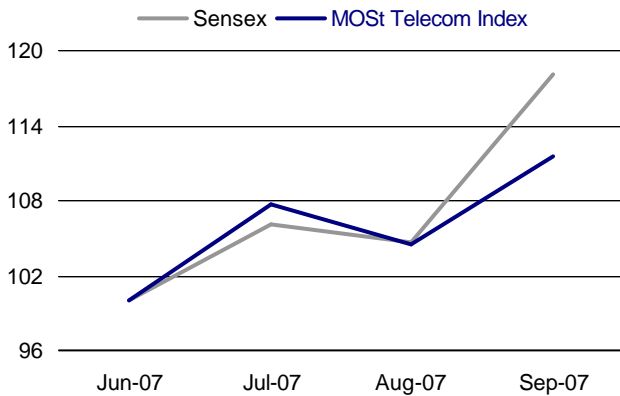
Momentum in subscriber additions continues to be strong, driven by falling handset costs, attractive tariffs offered by different service providers and deeper penetration. Though subscriber additions have been strong during the quarter, the focus is likely to be on ARPU, as the incremental additions are coming from the lower base of the pyramid. Considering expected strong growth momentum in the wireless subscribers base over FY08E-FY10E, we continue to remain positive on Bharti and Reliance Communication.

Stock performance and valuations

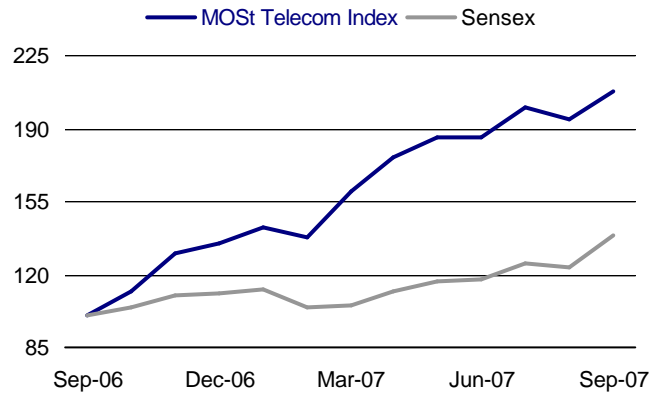
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Telecom						
Bharti Airtel	12	100	-7	60	0	-9
Reliance Communi	15	72	-4	33	3	-36
Idea Cellular	5	-	-14	-	-7	-

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Telecommunication														
Bharti Airtel	941	Buy	22.5	34.0	44.5	41.9	27.7	21.2	24.6	16.2	11.8	37.4	38.4	34.8
Reliance Comm	586	Buy	15.6	22.6	29.0	37.5	26.0	20.2	22.7	14.9	11.4	18.2	18.3	19.4
Idea Cellular	125	Neutral	1.9	3.8	5.3	65.5	32.7	23.6	24.0	15.7	11.3	19.8	19.8	22.8
Sector Aggregate						41.8	27.7	21.2	23.8	15.6	11.6	19.6	22.7	22.9

Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BHARTI IN
	REUTERS CODE
S&P CNX: 5,021	BRTI.BO

28 September 2007

Buy

Rs 941

Equity Shares (m)	1,897.0
52-Week Range	985/455
1,6,12 Rel. Perf. (%)	-8/-10/60
M.Cap. (Rs b)	1,785.5
M.Cap. (US\$ b)	44.9

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	185,199	42,571	22.5	88.6	41.9	13.2	37.4	29.0	9.9	24.7
3/08E	269,195	64,420	34.0	51.2	27.7	8.9	38.4	33.0	6.8	16.3
3/09E	358,466	84,362	44.5	31.0	21.2	6.3	34.8	34.1	5.0	11.8

- ✦ We expect overall revenue of Bharti Airtel to grow 10 % QoQ, driven by growth in mobility revenue.
- ✦ Overall EBITDA margin is expected to increase 36bp to 41.80 % on the back of higher mobility margins.
- ✦ Mobility revenue is expected to grow 11% QoQ, while ARPU is expected to decline 2.6% to Rs 380. EBITDA margin for mobile telephony business are expected to increase 40bp QoQ, primarily due to opex leverage. 1QFY08 loss of revenue (Rs 700m) on accounting of life time scheme is not likely to recur.
- ✦ We expect 90bp margin decline in long distance business due to pressure on net retentions. Enterprise business margins are also likely to decline by 45bp to 42 % owing to intense competition.
- ✦ Net profit for the company is expected to be flat sequentially due to one-time forex gains in 1QFY08, adjusting for which we expect the profits to grow 12% QoQ.
- ✦ The stock trades at 27.7x FY08E and 21.2x FY09E earnings. We expect Bharti to consolidate its leadership in the mobility market, while continuing to invest aggressively. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	38,564	43,572	49,130	53,933	59,047	64,994	71,220	73,933	185,199	269,195
YoY Growth (%)	53.2	60.8	62.4	58.1	53.1	49.2	45.0	37.1	58.8	45.4
QoQ Growth (%)	13.0	13.0	12.8	9.8	9.5	10.1	9.6	3.8		
Access & Interconnect Charges	6,612	7,190	8,242	9,335	9,071	10,009	10,968	11,408	31,379	41,456
Net Revenue	31,952	36,382	40,888	44,598	49,976	54,985	60,252	62,525	153,820	227,739
Total Operating Expenses	16,930	19,357	20,834	22,190	25,509	27,818	30,091	31,019	79,311	114,437
EBITDA	15,022	17,025	20,054	22,408	24,467	27,168	30,162	31,506	74,509	113,302
Margin (%)	39.0	39.1	40.8	41.5	41.4	41.8	42.4	42.6	40.2	42.1
Net Finance Costs	1,691	587	-1,317	477	-1,752	1,150	1,050	1,134	1,438	1,582
Cash Profit from Operations	13,331	16,438	21,371	21,931	26,219	26,018	29,112	30,372	73,071	111,720
Depreciation & Amortisation	4,972	5,926	7,072	7,239	8,120	8,500	9,500	9,678	25,209	35,797
Profit before Tax	8,600	10,782	14,410	15,068	18,901	18,068	19,762	20,842	48,860	77,573
Income Tax Expense / (Income)	952	1,378	2,139	1,353	3,594	2,710	2,964	3,143	5,822	12,412
Profit / (Loss) to Minority Shareholders	96	66	121	184	191	184	190	176	467	741
Reported Net Profit / (Loss)	7,552	9,338	12,150	13,531	15,116	15,173	16,608	17,523	42,571	64,420
QoQ Growth (%)	10.7	23.7	30.1	11.4	11.7	0.4	9.5	5.5	88.5	51.3
Margin (%)	19.6	21.4	24.7	25.1	25.6	23.3	23.3	23.7	23.0	23.9

E: MOST Estimates; Financials as per US GAAP

Idea Cellular

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	IDEA IN
	REUTERS CODE
S&P CNX: 5,021	IDEA.BO

28 September 2007

Neutral

Rs 125

Equity Shares (m)	2,635.4
52-Week Range	136/84
1,6,12 Rel. Perf. (%)	-9/4/-
M.Cap. (Rs b)	329.8
M.Cap. (US\$ b)	8.3

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	43,664	5,032	1.9	103.7	65.5	8.3	19.8	13.3	8.0	24.0
3/08E	70,558	8,844	3.8	100.1	32.7	6.6	19.8	15.0	5.2	15.7
3/09E	99,646	12,911	5.3	38.8	23.6	5.2	22.8	17.6	3.7	11.3

- ✘ We expect revenue to grow 12.4% QoQ, driven by strong subscriber additions. We expect Idea to add 2.5m subscribers in 2QFY08.
- ✘ We expect ARPU to decline by 2%, while MOUs are expected to increase by 2%. Traffic is likely to grow by 17% QoQ to 20.2b minutes.
- ✘ EBITDA margins is likely to be muted at 33%, due to losses from new circles.
- ✘ With part-deployment of IPO proceeds over 2QFY08, we do not expect a large other income (as was the case in 1QFY08).
- ✘ Net profit is expected to decline 30% QoQ, due to lower other income.
- ✘ The stock trades at 32.7x FY08E and 23.6x FY09E earnings. We remain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	9,002			13,084	14,773	16,604	18,459	20,722	43,664	70,558
YoY Growth (%)					64.1	0.0	0.0	0.0	47.2	61.6
QoQ Growth (%)						12.9	12.4	11.2	12.3	
Access & Interconnect Charges	1,514			2,203	2,396	2,740	3,046	3,461	7,287	11,642
Net Revenue	7,489			10,882	12,377	13,865	15,413	17,262	36,377	58,916
Total Operating Expenses	4,469			6,519	7,249	8,385	9,340	10,728	21,740	35,702
EBITDA	3,020			4,363	5,128	5,479	6,073	6,534	14,637	23,214
Margin (%)	33.5			33.3	34.7	33.0	32.9	31.5	33.5	32.9
Net Finance Costs	721			975	143	1,250	1,250	1,288	3,291	3,932
Cash Profit from Operations	2,299			3,388	4,984	4,229	4,823	5,245	11,345	19,282
Non-Operating Income					4	125	125	247	465	500
Depreciation & Amortisation	1,456			1,761	1,887	2,150	2,600	2,921	6,718	9,558
Profit before Tax	863			1,953	3,101	2,204	2,348	2,571	5,092	10,224
Income Tax Expense / (Income)	4			19	16	33	35	69	60	153
Net Profit / (Loss)	859			1,934	3,085	2,171	2,313	2,501	5,032	10,071
QoQ Growth (%)					59.5	-29.6	6.5	8.2	103.7	100.1
Margin (%)	9.5			14.8	20.9	13.1	12.5	12.1	11.5	14.3

E: Most Estimates

Reliance Communication

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	RCOM IN
	REUTERS CODE
S&P CNX: 5,021	RLCM.BO
Equity Shares (m)	2,044.6
52-Week Range	611/334
1,6,12 Rel. Perf. (%)	-3/6/33
M.Cap. (Rs b)	1,197.4
M.Cap. (US\$ b)	30.1

28 September 2007

Buy

Rs 586

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	144,682	31,637	15.6	563.6	37.5	5.2	18.2	10.6	8.5	21.4
3/08E	206,584	46,138	22.6	44.5	26.0	4.3	18.3	12.1	6.0	14.0
3/09E	262,155	59,270	29.0	28.5	20.2	3.6	19.4	15.0	4.6	10.7

- ✘ We expect overall revenue of RCom to grow 12.6% QoQ, driven by growth in mobility and global revenue. We expect RCom to add 4.5m subscribers in 2QFY08.
- ✘ Overall EBITDA margin is expected to decrease by 20bp to 42%. ARPU is likely to fall by 3% to Rs364, EBITDA margin for wireless business is expected to decline by 10bp QoQ.
- ✘ We expect stable margins in long distance business despite pressure on retention, as proportion of data revenue is expected to increase. We expect broadband business margins to stabilise around 45%.
- ✘ Net profit is expected to decline 7% sequentially, since 1QFY08 had one-time forex gains on account of rupee appreciation. Adjusting for forex fluctuations, we expect the profits to grow 4% QoQ.
- ✘ The stock trades at 26x FY08E and 20.2x FY09E earnings. We Recommend **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenue	32,501	35,260	37,553	39,369	43,037	48,458	53,909	61,179	144,682	206,584
YoY Growth (%)	42.4	39.8	25.6	32.5	32.4	37.4	43.6	55.4	34.4	42.8
QoQ Growth (%)	9.4	8.5	6.5	4.8	9.3	12.6	11.2	13.5		
Total Operating Expenses	20,439	21,734	22,281	23,018	24,895	28,113	30,852	35,035	87,472	118,895
EBITDA	12,062	13,525	15,271	16,352	18,142	20,345	23,057	26,144	57,210	87,687
Margin (%)	37.1	38.4	40.7	41.5	42.2	42.0	42.8	42.7	39.5	42.4
Net Finance Costs	999	56	-657	-391	-1,274	750	750	1,405	7	1,631
Cash Profit from Operations	11,063	13,469	15,928	16,743	19,416	19,595	22,307	24,739	57,203	86,057
Depreciation & Amortisation	5,514	6,237	6,524	6,378	6,192	7,430	9,659	10,705	24,653	33,985
Profit before Tax	5,549	7,233	9,404	10,365	13,224	12,165	12,648	14,034	32,550	52,073
Income Tax Expense / (Income)	272	59	130	149	1,031	852	885	1,137	611	3,905
Reported Net Profit / (Loss)	5,127	7,023	9,244	10,243	12,208	11,313	11,763	12,897	31,637	48,167
QoQ Growth (%)	27.3	37.0	31.6	10.8	19.2	-7.3	4.0	9.6	612.7	52.2
Margin (%)	15.8	19.9	24.6	26.0	28.4	23.3	21.8	21.1	21.9	23.3

E: Most Estimates; Financials as per US GAAP

Textiles

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
Alok Industries	250
Arvind Mills	251
Gokaldas Exports	252
Himatsingka Seide	253
Raymond	254
Vardhman Textiles	255
Welspun India	256

India one of the major gainers post quota

As per the US Department of Commerce, low cost manufacturing countries have emerged as a major beneficiary in the post quota era, while developed countries have been the key losers. India, which was not even among the top five exporters to US until FY00, has emerged as the third largest apparel exporter to US in CY06 - a market share of 5.3%. The major losers since FY00 have been Mexico, Hong Kong and Dominican Republic, while the major gainers post quota abolishment have been China, India, Indonesia and Bangladesh.

MARKET SHARE OF TOP 5 APPAREL SUPPLIERS TO US DURING CY00-CY06 (%)

	FIRST	SECOND	THIRD	FOURTH	FIFTH
2000	Mexico (14.7%)	China (11.3%)	Hong Kong (7.1%)	Dominican Republic (4.1%)	Honduras (3.8%)
2001	Mexico (13.8%)	China (11.9%)	Hong Kong (6.7%)	Honduras (3.8%)	India (3.6%)
2002	China (13%)	Mexico (13%)	Hong Kong (6.2%)	India (4.0%)	Honduras (4.0%)
2003	China (15.6%)	Mexico (11.2%)	Hong Kong (5.4%)	India (4.0%)	Honduras (3.7%)
2004	China (18.1%)	Mexico (10.1%)	Hong Kong (5.3%)	India (4.2%)	Honduras (3.7%)
2005	China (25.7%)	Mexico (8.7%)	India (5.1%)	Hong Kong (4.5%)	Indonesia (3.7%)
2006	China (29.1%)	Mexico (7.4%)	India (5.3%)	Indonesia (4.4%)	Bangladesh (3.5%)

Losers: Dominican Republic, Honduras, Hong Kong and Mexico; Gainers: China, India, Indonesia and Bangladesh

Source: US Department of Commerce, Office of Textile and Apparel (OTEXA)

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Textiles							
Alok Ind	Neutral	4,591	10.1	1,097	13.4	302	-7.3
Arvind Mills	Neutral	5,346	36.0	727	-15.3	53	-47.7
Gokaldas Exports	Neutral	2,871	2.2	238	-24.6	111	-46.5
Himatsingka Seide	Neutral	728	55.0	192	20.9	141	-13.3
Raymond	Neutral	4,769	33.0	630	-1.8	131	-76.4
Vardhman Textiles	Buy	5,702	7.9	1,004	9.4	348	-17.7
Welspun Ind	Neutral	2,892	4.6	506	19.7	179	87.9
Sector Aggregate		26,901	16.9	4,394	2.6	1,266	-32.4

Rupee appreciation – a severe blow for the industry

2QFY08 results of most textiles companies would reflect the negative impact of close to ~9% appreciation in the rupee against the US dollar. Companies such as Welspun, Alok and Gokaldas, where exports constitute a large portion of the turnover, would face the maximum brunt of the appreciating rupee.

Competitiveness of Indian players to be impacted

The growth in Indian textile exports, post quota abolishment, has been lagging the growth witnessed by neighboring countries such as Pakistan, Bangladesh, Sri Lanka etc. We believe that competitiveness of the Indian textile industry will be impacted further by the sharp rupee appreciation.

Trade shift to developing countries slower than anticipated

World textile trade was expected to shift from the artificially protected developed countries to the low-cost developing countries in the post quota era. Though the initial trade data in the post-quota period confirms the above prognosis, the pace of trade shift has been substantially slower than anticipated. Key reasons: (1) tariff differentials; (2) preferential agreements; (3) re-imposition of quotas on China by the US and EU and (4) transition time required by large buyers. Going forward, though tariff differentials and preferential agreements may continue to be a deterrent to growth, we expect trade shifts to accelerate as a result of aggressive outsourcing ramp-up by global retailers from key sourcing countries such as India.

Removal of trade restrictions on China poses additional threat

Removal of the restrictions on Chinese textile exports by the EU and US, CY07 and CY08 onwards, is likely to pose increased threat to the Indian textile industry going forward. We expect pressure on Indian textile exports to increase substantially from CY07 itself, due to the higher quota availability for China from both the EU and the US. Further, with the complete removal of textile export restrictions on China by the EU and US post CY08, pricing pressure too is likely to increase for India.

RESTRICTION ON CHINA BY EU-25: GROWTH RATES IN KEY CATEGORIES (%)

	CY05	CY06	CY07
Jersey and Pullovers	8	10	10
Men' s and Boy's Bottomwear	8	10	10
Women and Girl' s Shirt/Blouses	8	10	10
T-Shirts and Vests	10	10	10
Women's and Girl's Dresses	10	10	10

Source: Industry/CRISIL Research

RESTRICTION ON CHINA BY USA: GROWTH RATES IN KEY CATEGORIES (%)

	2006	2007	2008
Growth Rate Cap			
Men' and Boys' Cotton Knit Shirts	10	12.5	15
Men' and Boys' MMF Knit Shirts	10	12.5	15
Women' and Girls' Cotton Knit Shirts/Blouses	10	12.5	15
Women' and Girls' MMF Knit Shirts/Blouses	10	12.5	15
Men' s and Boys' Cotton Woven Shirts	10	12.5	15
Men' s and Boys' MMF Woven Shirts	10	12.5	15
Men' s and Boys' Cotton Bottom-wear	10	12.5	15
Women's and Girls' Cotton Bottom-wear	10	12.5	15
Cotton Bras	10	12.5	15
MMF Bras	10	12.5	15
Cotton Underwear	10	12.5	15
MMF Underwear	10	12.5	15
Sweaters	10	12.5	15

Source: Industry/CRISIL Research

However, inspite of increased competition from China, we expect Indian textile exports to continue to do well in select high-value-added cotton-based categories, where it already enjoys a leadership position in the US and EU.

INDIA' S MARKET SHARE IN US FOR KEY CATEGORIES

APPAREL CATEGORY	MARKET SHARE (%)
Women's/Girls' Cotton Woven Shirts/Blouses	27.8
Cotton Skirts	21.9
Cotton Dresses	15.0
Men' s/Boys' Cotton Shirts, Woven	11.3
Women's/Girls' Woven MMF Shirts/Blouses	10.2
MMF Skirts	10
MMF Dresses	7.1

Source: OTEXA/CRISIL Research

INDIA' S MARKET SHARE IN EU MARKET FOR KEY CATEGORIES

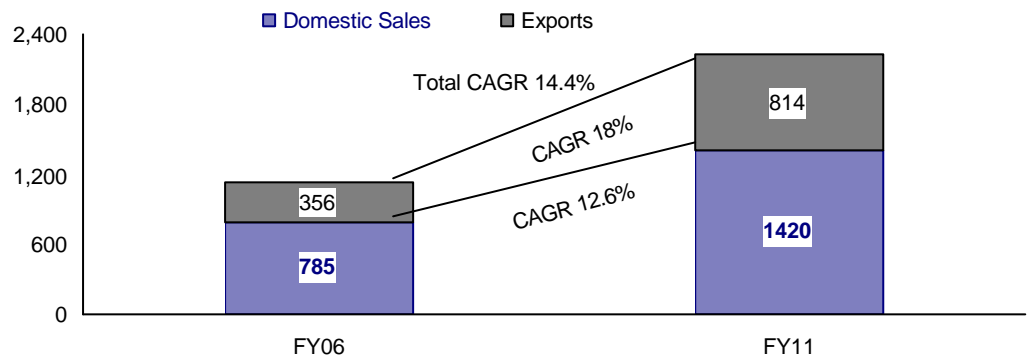
APPAREL CATEGORY	MARKET SHARE (%)
Women's/Girls' Woven Dresses	16.2
Women's/Girls' Woven Blouses/Shirts	15.9
Women's/Girls' Knitted Dresses	15.1
Woven Skirts	13.9
Women's/Girls' Knitted Blouses/Shirts	9.9

Source: Eurostat, CRISIL Research

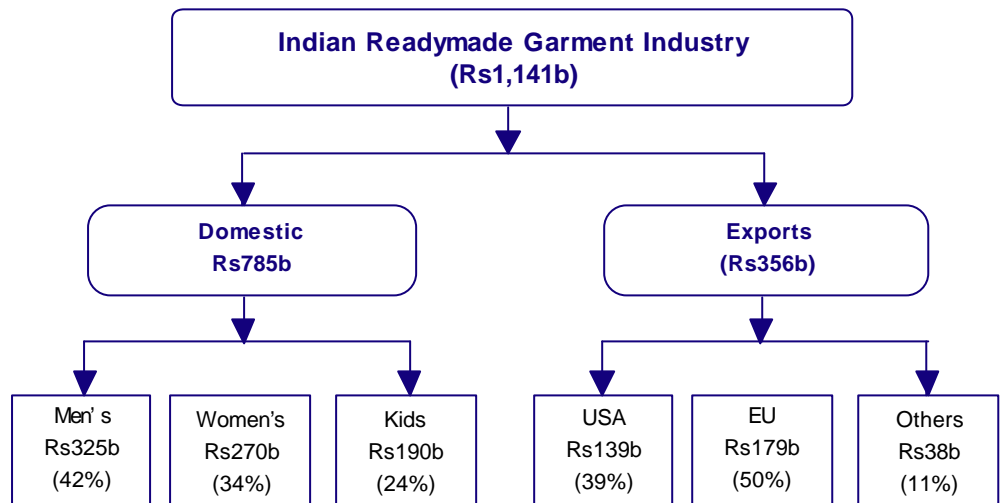
Domestic RMG market to emerge as a big opportunity

CRISIL estimates overall readymade garment (RMG) market size to grow at a CAGR of 14.4%, over FY06-FY11 to US\$50.4b from around US\$25.8b in FY06. CRISIL estimates the domestic RMG market to grow at a CAGR of 12.6% to US\$32b by FY11 from around US\$17.7b in FY06. This growth will primarily be led by increasing income levels and a shift in consumption pattern from tailored to readymade garments. We believe with the consolidation of retail industry in India, the domestic RMG market would present a big opportunity for the Indian garment manufacturers.

RMG MARKET: AN OUTLOOK (RS B)



OVERVIEW OF INDIAN RMG MARKET (FY06)

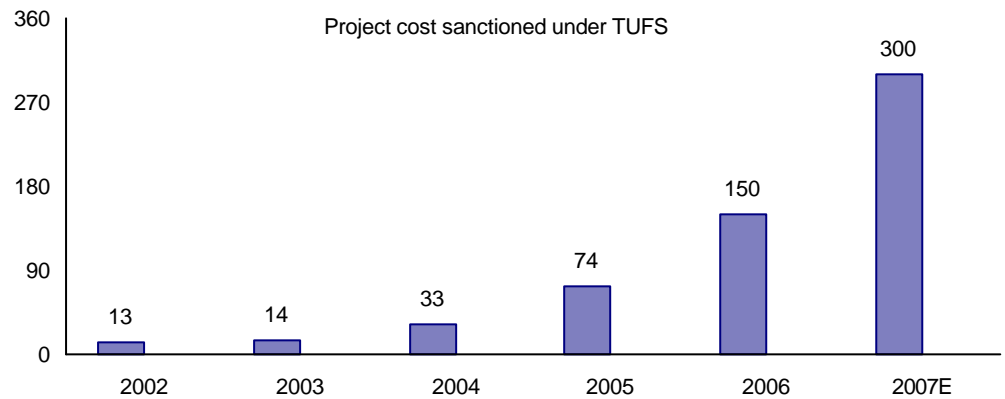


Source: CRISIL

TUF sanctions witness a sharp jump

Sanctions under the Textile Upgradation Fund (TUF) scheme witnessed an unprecedented increase over the last few years, owing to large capex initiatives by a majority of the textile players. Total sanctions under the TUF scheme stood at around Rs584b between FY02-FY07. Sanctions under this scheme increased by almost 2x in FY07 to Rs300b compared with Rs150b in FY06. Availability of easy and cheap finance has enabled the Indian textile industry to modernize and create a credible scale for itself. As a result, a majority of the Indian textile industry players today have access to the latest technology and machinery and can offer critical scale to global buyers.

INVESTMENTS SANCTIONED UNDER TUF (RS B)



Source: Company/ Motilal Oswal Securities

TUF scheme extended by 5 years

A prominent measure in the Union Budget 2007-2008 was extension of the TUF scheme to the Eleventh Five Year Plan. Though extension of the TUF scheme by five years is a long term positive for textiles, in the medium-to-short term, it is likely to compound the prevailing problem of overcapacity due to the continued availability of subsidized funds. Further, attractiveness of the TUF scheme has also reduced considerably for large organized players, due to the increased interest rate scenario. While the effective interest cost for textile companies after TUF subsidy was 3%-4% earlier, it would increase to 7%-8% going forward due to the prevailing high interest rates.

Neutral on sector; Vardhman Textiles top pick

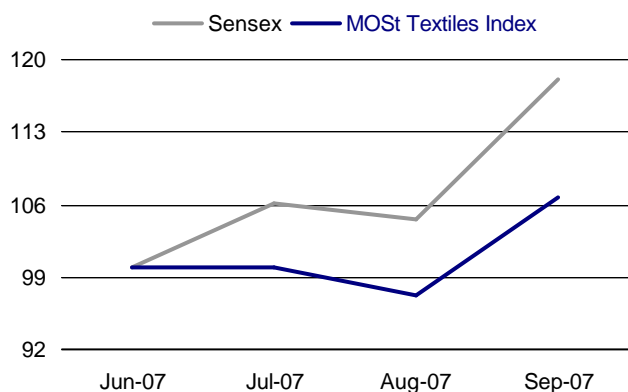
We believe the textile industry is today on a much stronger footing. Most of the companies have expanded and modernized their capacities to reach critical size. Consequently, due to their modern plants and global capacities, they have also managed to forge strategic relationships with large international institutional buyers. This has allowed them to move from a transition-based model to one that is based on strategic vendor-based relationships. At the same time, their financials are extremely healthy, as they have resorted to substantial withdrawals from the subsidized TUF scheme. Further, there is no immediate concern of large dilutions, as most companies have already completed a substantial portion of their capex plans. We continue to maintain our **Neutral** rating on **Alok, Arvind, Gokaldas, Himatsingka Seide, Raymond** and **Welspun**. We remain bullish on **Vardhman Textiles** and rate it as our top pick in the textile industry.

Stock performance and valuations

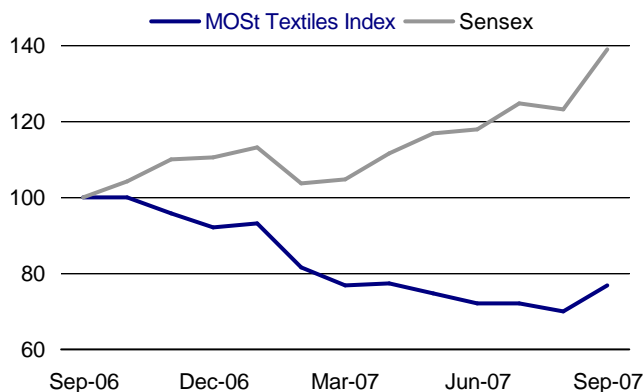
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Textiles						
Alok Ind	28	9	9	-31	20	31
Arvind Mills	44	-6	25	-45	36	16
Gokaldas Exports	6	-21	-13	-61	-2	1
Himatsingka Seide	-15	-24	-34	-64	-23	-2
Raymond	6	-26	-14	-66	-3	-4
Vardhman Textiles	-10	-46	-29	-85	-18	-24
Welspun Ind	6	-32	-13	-72	-2	-10

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Textiles														
Alok Ind	71	Neutral	8.3	9.2	10.3	8.5	7.7	6.9	9.4	9.1	8.9	16.5	13.2	13.2
Arvind Mills	62	Neutral	0.8	1.6	4.0	73.7	39.8	15.5	10.2	10.3	8.6	1.1	2.0	5.0
Gokaldas Exports	248	Neutral	20.4	18.7	25.6	12.1	13.2	9.7	8.9	9.2	7.3	18.9	15.1	17.9
Himatsingka Seide	101	Neutral	5.6	6.2	11.4	18.1	16.3	8.9	18.9	10.8	6.5	9.3	9.8	16.4
Raymond	324	Neutral	15.5	18.1	27.6	21.0	17.9	11.8	9.0	7.0	5.5	10.5	7.7	10.9
Vardhman Textiles	147	Buy	26.8	22.3	28.0	5.5	6.6	5.3	6.9	8.4	7.0	16.6	12.2	13.7
Welspun Ind	67	Neutral	6.8	9.0	12.8	9.9	7.5	5.2	10.8	8.7	6.6	8.8	10.8	13.9
Sector Aggregate						13.3	12.1	8.6	9.3	8.8	7.4	8.9	8.9	11.3

Alok Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	ALOK IN
	REUTERS CODE
S&P CNX: 5,021	ALOK.BO

28 September 2007

Neutral

Equity Shares (m)	199.1
52-Week Range	78/50
1,6,12 Rel. Perf. (%)	-6/-8/-31
M.Cap. (Rs b)	12.6
M.Cap. (US\$ b)	0.3

Previous Recommendation: Neutral

Rs 71

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	18,290	1,419	8.3	32.7	7.6	1.0	16.5	6.5	2.0	8.6
3/08E	22,397	1,828	9.2	28.9	6.9	0.9	13.2	7.0	2.1	8.8
3/09E	27,334	2,049	10.3	12.1	6.2	0.8	13.2	7.1	2.1	8.7

*Fully Diluted EPS

- For 2QFY08, we expect Alok to post revenue of Rs4.6b, up 10% YoY, aided by higher capacities across all textile segments.
- EBITDA margin is likely to increase 70bp YoY to 23.9% led by higher sales from value added segments. However, PAT is likely to decline by around 7.3% YoY to Rs302m on account of higher depreciation and interest cost.
- Alok's performance during 2QFY08 is negatively impacted due to a fire at the company's Silvassa factory, which has 70 texturizing machines. However, the company does not expect any major impact on its overall operations.
- During 1QFY08, Alok announced several new initiatives, which include foray into real estate business and increased focus on the retail business.
- Alok is planning to expand in the retail segment and has an aggressive plan to open close to 150 retail stores by FY08. Alok is also planning a textile SEZ at Vapi, for which it has already managed to acquire the land and has received the necessary approvals.
- We estimate Alok's total debt in FY08 to be around Rs40b, implying a debt/equity ratio of 2.3x, which we believe is a high risk in the current rising interest scenario.
- Alok trades at a P/E of 6.9x FY08E EPS and 6.2x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	3,579	4,172	4,799	5,741	4,189	4,591	6,047	7,569	18,290	22,397
Change (%)	19.6	20.8	31.0	40.8	17.1	10.1	26.0	31.8	28.9	22.4
Total Expenditure	2,772	3,204	3,726	4,420	3,173	3,494	4,596	5,724	14,123	16,988
EBITDA	806	968	1,073	1,321	1,016	1,097	1,451	1,845	4,168	5,409
Change (%)	37.1	36.7	32.5	50.8	26.0	13.4	35.2	39.7	40.7	29.8
As % of Sales	22.5	23.2	22.4	23.0	24.2	23.9	24.0	24.4	22.8	24.2
Depreciation	246	280	325	354	358	391	407	474	1,205	1,630
Interest	170	213	242	269	270	316	329	402	893	1,318
Other Income	-4	-16	32	19	2	36	38	75	32	151
Non Recurring Expense	0	0	0	334	396	0	0	0	334	396
PBT	386	459	539	1,051	785	426	752	1,044	2,435	3,007
Tax	117	132	168	265	235	123	220	300	682	879
Effective Tax Rate (%)	28.2	28.9	31.2	25.2	30.0	29.0	29.2	28.7	28.0	30.0
Reputed PAT	269	326	371	787	550	302	532	744	1,753	2,129
Change (%)	31.0	28.1	25.7	139.4	104.3	-7.3	43.7	-5.4	61.8	21.4
Adj. PAT	269	326	371	452	285	302	532	744	1,419	1,828
Change (%)	31.0	28.1	25.7	30.4	5.9	-7.3	43.7	64.4	30.9	28.9

E: MOSt Estimates

Siddharth Bothra (Sbothra@MotilalOswal.com); Tel: +91 22 39825407

Arvind Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ARVND IN
	REUTERS CODE
S&P CNX: 5,021	ARMI.BO
Equity Shares (m)	209.4
52-Week Range	73/42
1,6,12 Rel. Perf. (%)	19/4/-45
M.Cap. (Rs b)	13.0
M.Cap. (US\$ b)	0.3

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 62

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	18,449	1,196	0.8	-6.0	53.8	0.6	1.1	8.2	1.5	9.0
3/08E	22,092	325	1.6	84.9	29.1	0.6	2.0	5.5	1.3	9.1
3/09E	25,166	836	4.0	157.1	11.3	0.6	5.0	7.0	1.1	7.6

- For 2QFY08, we expect Arvind to record revenue growth of 36% YoY to Rs 5.3b, primarily driven by higher garment sales.
- EBITDA margin is likely to decline 823bp YoY to 13.6% v/s 21.8% in 2QFY07.
- During 2QFY08, though denim situation improved in the international markets, the domestic market continued to be plagued by a huge overcapacity situation. We do not expect domestic demand-supply equilibrium in the denim sector to emerge in the near-to-medium term. Hence, we expect pressure on denim margins.
- Arvind is currently working on restructuring plans, which could include relocating a part of its commodity grade denim capacity to other countries and increasing its focus on branded apparel and garment manufacturing.
- Arvind plans to aggressively expand its garment manufacturing capacity from 13m pieces pa in FY07 to around 42.2m pieces pa by FY09 to de-risk itself from denim. The stock trades at 29.1x FY08E and 11.3x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	4,208	3,932	4,479	4,831	5,103	5,346	5,523	6,119	18,449	22,092
Change (%)	0.1	-8.1	14.8	35.0	21.3	36.0	23.3	26.7	15.6	19.7
Total Expenditure	3,376	3,074	3,769	4,159	4,382	4,619	4,766	5,297	14,378	19,064
EBITDA	832	859	710	672	721	727	757	822	3,051	3,028
Change (%)	-27.6	-19.1	-22.7	-22.1	-13.3	-15.3	6.6	22.2	-23.6	-0.8
As % of Sales	19.8	21.8	15.8	13.9	14.1	13.6	13.7	13.4	16.5	13.7
Depreciation	404	383	347	302	355	324	324	293	1,434	1,295
Interest	373	378	399	407	438	389	405	325	1,579	1,558
Other Income	53	6	27	81	52	42	44	38	163	175
Non Recurring Expense	-56	-46	1,068	15	83	0	0	0	1,020	83
PBT	52	58	1,058	58	63	56	72	241	1,220	432
Tax	6	2	10	4	5	3	5	12	24	24
Effective Tax Rate (%)	11.3	3.8	1.0	7.2	5.0	5.0	7.0	8.2	2.0	5.7
Reported PAT	46	55	1,048	54	58	53	67	229	1,196	408
Adj. PAT	103	101	-20	39	-24	53	67	229	176	325
Change (%)	-77.2	-72.8	-108.5	-81.6	-123.9	-47.7	-436.1	480.5	-86.2	84.9

E: M0St Estimates, * Restated Quarterly Numbers

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Gokaldas Exports

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GOKL IN
	REUTERS CODE
S&P CNX: 5,021	GOKL.BO

28 September 2007

Neutral

Rs 248

Previous Recommendation: Buy

Equity Shares (m)	34.4
52-Week Range	342/186
1,6,12 Rel. Perf. (%)	-18/-27/-61
M.Cap. (Rs b)	8.5
M.Cap. (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	10,344	703	17.7	15.6	12.1	2.1	18.9	15.7	1.0	8.9
3/08E	11,963	644	18.7	-8.3	13.2	1.9	15.1	12.9	0.9	9.2
3/09E	13,674	880	25.6	36.5	9.7	1.6	17.9	15.3	0.8	7.3

- ✘ We expect revenue to increase 2.2% in 2QFY08 to Rs2.9b, primarily aided by increase in volumes. Revenue growth would have been higher but for the sharp rupee appreciation by ~9-10%. Almost 94% of revenue is derived from exports.
- ✘ We expect EBITDA margin to decline 295bp YoY to 8.3% as a result of the sharp rupee appreciation against the US dollar.
- ✘ We expect PAT to decline 47% YoY to Rs111m v/s Rs208m in 2QFY07.
- ✘ During 2QFY08, the promoters of Gokaldas sold 50.1% stake in the company to Blackstone FP Capital Partners (Mauritius) at a price of Rs275/share. Post this transaction, Blackstone would make an open offer for another 20% of the equity capital from existing shareholders, implying a total investment of US\$165m.
- ✘ We are lowering our profit estimates for FY08 by 13.7% to Rs644m to account for the sharp rupee appreciation.
- ✘ We expect the company to register revenue CAGR of 15% and profit CAGR of 12% over FY07-FY09. The stock trades at 13.2x FY08E and 9.7x FY09E earnings and is close to our one-year target price of Rs260. We downgrade the stock to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	2,216	2,810	2,553	2,766	2,619	2,871	3,051	3,423	10,344	11,963
Change (%)	23.8	13.7	16.4	15.7	8.2	2.2	19.5	23.8	17.0	15.7
Total Expenditure	1,991	2,494	2,263	2,398	2,410	2,633	2,715	3,015	9,146	10,773
EBITDA	225	316	290	367	209	238	336	408	1,198	1,190
Change (%)	26	19	21	33	-7	-25	16	11	25	-0.7
As % of Sales	10.2	11.2	11.4	13.3	8.0	8.3	11.0	11.9	11.6	10.0
Depreciation	52	60	68	70	72	76	76	80	250	306
Interest	46	54	55	65	71	62	62	63	220	259
Other Income	22	16	12	1	51	23	24	-7	51	90
PBT	150	218	179	234	116	122	221	257	780	716
Tax	14	10	1	52	11	11	20	30	77	72
Effective Tax Rate (%)	9.7	4.4	10.2	22.4	8.0	9.0	9.0	11.7	9.9	10.0
Reputed PAT	135	208	178	181	105	111	201	227	703	644
Change (%)	16.3	12.4	13.4	20.6	-22.1	-46.5	13.0	24.9	15.4	-8.3

E: MOSt Estimates

Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	HSS IN
	REUTERS CODE
S&P CNX: 5,021	HMSD.BO

28 September 2007

Neutral

Equity Shares (m)	97.4
52-Week Range	150/98
1,6,12 Rel. Perf. (%)	-28/-47/-64
M.Cap. (Rs b)	9.9
M.Cap. (US\$ b)	0.3

Previous Recommendation: Neutral

Rs 101

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS * (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	1,742	546	5.6	12.3	20.5	1.8	9.3	7.4	6.0	21.6
3/08E	3,626	606	6.2	11.0	18.5	1.8	9.8	9.1	3.0	12.4
3/09E	6,355	1,109	11.4	82.9	10.1	1.6	16.4	15.5	1.8	7.3

* Consolidated

- For 2QFY08, we expect Himatsingka to report revenue growth of 55% YoY to Rs728m on the back of higher contribution from yarn and better utilization rates.
- We expect EBITDA margin to drop 744bp YoY to 26.4% on the back of lower margins in the bed linen business.
- PAT is likely to drop 13.3% YoY to Rs141m.
- Its foray into the bed linen segment is progressing as planned, with the 20m plant having commenced production in February 2007. The plant is located at the Hassan special economic zone (SEZ), Karnataka. The bed linen plant can post revenue of around Rs4b once it is fully operational.
- We expect the company to post EPS of Rs6.2 for FY08 and Rs11.4 for FY09. The stock is trading at a P/E of 18.5x FY08E and 10.1x FY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	378	470	463	432	831	728	828	924	1,509	1,427
Change (%)	10.5	23.5	13.5	14.0	120.1	55.0	78.9	114.0	8.4	-5.5
Total Expenditure	252	311	321	374	735	536	615	570	991	963
EBITDA	126	159	142	58	96	192	212	353	518	464
Change (%)	-4.9	7.8	7.4	-45.3	-23.4	20.9	49.9	508.8	-6.0	-10.4
As % of Sales	33.3	33.8	30.6	13.4	11.6	26.4	25.7	38.2	34.3	32.5
Depreciation	35	37	37	31	55	61	73	116	138	140
Interest	1	1	2	1	26	14	15	5	11	4
Other Income	62	69	68	71	62	42	44	27	143	271
PBT	151	190	171	98	78	159	168	259	512	589
Tax	7.0	27.0	20.8	8.5	14.1	17.8	19.3	25.0	28.6	63.3
Effective Tax Rate (%)	4.6	14.2	12.2	8.7	18.0	11.2	11.5	11.8	5.6	10.7
Reported PAT	144	163	150	89	64	141	148	234	483	526
Adj. PAT	144	163	150	89	64	141	148	234	483	526
Change (%)	27.8	22.7	25.5	-24.8	-55.6	-13.3	-1.1	162.9	9.1	8.9

E: MOST Estimates

Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	RW IN
	REUTERS CODE
S&P CNX: 5,021	RYMD.BO

28 September 2007

Neutral

Rs 324

Equity Shares (m)	61.4
52-Week Range	478/251
1,6,12 Rel. Perf. (%)	10/-38/-66
M.Cap. (Rs b)	19.9
M.Cap. (US\$ b)	0.5

Previous Recommendation: Neutral

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	20,407	949	15.5	-27.4	21.0	1.4	10.5	8.4	1.2	9.8
3/08E	22,265	1,114	18.1	17.4	17.9	1.4	7.7	9.2	1.1	7.6
3/09E	24,934	1,692	27.6	51.9	11.8	1.3	10.9	11.6	0.9	6.0

* Consolidated

- From 2QFY08, Raymond will be declaring consolidated results, which are not comparable to the standalone quarterly of the previous quarters.
- We expect Raymond to report consolidated revenue of Rs 4.8b in 2QY08 compared to standalone revenue of Rs 3.6b in 2QFY07.
- EBITDA for 2QFY08 is likely to be around Rs 630m v/s standalone EBITDA of Rs 641m in 2QFY07.
- Raymond's denim JV is facing cost pressure at its plants in the US and Romania and is operating at low utilization rates of ~70%.
- Raymond expects to aggressively roll out 40-50 flagship stores in FY08. We feel these stores are unlikely to breakeven in the medium term, due to the high rentals. Management has given a guidance of 20%-25% CAGR for its branded apparel business over the next two to three years.
- We are lowering our consolidated revenue estimates for FY08 and FY09 by 4% and 3% respectively to Rs 22b and Rs 24.9b respectively. We are also lowering our PAT estimates for FY08 and FY09 by 14% and 7% respectively.
- The stock trades at 17.9x FY08E and 11.8x FY09E earnings. It has an EV/EBITDA of 7.6x FY08E and 6x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08 *				FY07*	FY08E*
	1Q*	2Q#	3Q#	4Q#	1Q	2QE	3QE	4QE		
Net Sales	3,688	3,586	2,973	3,477	4,609	4,676	5,566	7,655	20,407	22,265
Change (%)		2.6	-13.9	-9.5	25.0	30.4	87.3	120.1	54.0	9.1
Total Expenditure	3,361	2,945	2,483	3,040	4,378	4,058	4,692	6,267	17,934	19,125
EBITDA	327	641	489	437	231	617	874	1,388	2,473	3,140
Change (%)	2.8	16.4	-17.0	-17.7	-29.4	-3.7	78.6	217.3	24.3	27.0
As % of Sales	8.9	17.9	16.5	12.6	5.0	13.2	15.7	18.1	12.1	14.1
Depreciation	210	146	134	165	340	346	346	352	1,257	1,384
Interest	84	93	72	78	216	184	192	175	502	766
Other Income	196	160	268	94	375	83	83	10	780	550
Extra-ordinary Income	-14	859	43	-29	-36	0	0	0	451	-36
PBT	215	1,421	552	259	14	170	419	871	1,945	1,503
Tax	46	6	165	153	22	48	119	249	549	446
Effective Tax Rate (%)	24.0	0.5	29.9	58.9	157.1	28.0	28.5	28.6	28.2	29.7
Reported PAT	135	1,415	387	107	-8	122	299	622	1,396	1,057
Adj. PAT after MI	149	556	344	136	28	122	299	622	949	1,114
Change (%)	-20.6	66.4	31.6	-61.0	-81.2	-78.0	-12.8	358.0	-13.8	17.4

E: MOST Estimates, * Consolidated, # Standalone

Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	VTEX IN
	REUTERS CODE
S&P CNX: 5,021	MHSP.BO

28 September 2007

Buy

Rs 147

Equity Shares (m)	64.1
52-Week Range	345/132
1,6,12 Rel. Perf. (%)	-12/-59/-85
M.Cap. (Rs b)	9.4
M.Cap. (US\$ b)	0.2

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	20,876	1,717	26.8	-12.5	5.5	0.9	16.6	9.3	1.2	6.9
3/08E	23,759	1,429	22.3	-16.8	6.6	0.8	12.2	7.8	1.5	8.4
3/09E	29,817	1,792	28.0	25.4	5.3	0.7	13.7	8.0	1.3	7.0

Vardhman Textiles has issued a bonus of 1:2

- For 2QFY08, Vardhman is likely to report revenue growth of 7.9% to around Rs5.7b. We expect EBITDA margin to improve 24bp to 17.6% v/s 17.4% in 2QFY07, on the back of improved performance in the fabric business.
- Adjusted PAT is likely to register 17.7% YoY decline to Rs348m v/s Rs423m in 2QFY07.
- We expect Vardhman's EBITDA margin to improve marginally in 2QFY08, due to increase in yarn prices by 2-3% and better performance from the fabric business.
- The company is currently implementing an ambitious Rs 16b capex plan, which would double its fabric capacity and increase spinning capacity by nearly 50%.
- We expect Vardhman Textiles' sales and earnings to witness CAGR of 20% and 2% respectively over FY07- FY09.
- The stock trades at 6.6x FY08E and 5.3x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	4,755	5,283	5,438	5,400	5,276	5,702	6,177	6,604	20,876	23,759
Change (%)	12.7	15.0	6.1	9.1	10.9	7.9	13.6	22.3	10.5	13.8
Total Expenditure	133	4,366	4,470	4,632	4,380	4,699	5,035	5,470	17,388	19,582
EBITDA	836	917	968	768	896	1,004	1,143	1,135	3,488	4,177
Change (%)	6.8	7.5	1.0	-8.2	7.2	9.4	18.0	47.8	1.7	19.7
As % of Sales	17.6	17.4	17.8	14.2	17.0	17.6	18.5	18.8	16.7	17.6
Depreciation	286	301	290	317	346	374	413	426	1,194	1,559
Interest	110	99	87	81	165	237	247	338	377	988
Other Income	62	37	77	129	66	72	75	87	340	300
Extra-ordinary Income	0	35	0	1	0	0	0	0	35	0
PBT	501	590	668	500	451	465	558	458	2,292	1,931
Tax	126	132	152	131	134	117	146	105	541	502
Effective Tax Rate (%)	25.2	22.4	22.8	26.2	23.7	25.1	26.2	27.7	23.6	26.0
Reported PAT	375	458	516	369	317	348	412	353	1,752	1,429
Adj. PAT	375	423	516	369	317	348	412	353	1,717	1,429
Change (%)	29.4	5.9	0.5	-24.9	-15.5	-17.7	-20.2	-4.4	1.4	-16.8

E: MOSSt Estimates

Welspun India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	WLSP IN
	REUTERS CODE
S&P CNX: 5,021	WLSP.BO
Equity Shares (m)	76.8
52-Week Range	105/50
1,6,12 Rel. Perf. (%)	4/-39/-72
M.Cap. (Rs b)	5.1
M.Cap. (US\$ b)	0.1

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs 67

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	9,736	521	6.8	25.3	9.9	0.8	8.8	5.4	1.7	10.8
3/08E	11,569	688	9.0	32	7.5	0.8	10.8	6.3	1.5	8.7
3/09E	13,191	982	12.8	42.8	5.2	0.7	13.9	8.4	1.4	6.6

- For 2QFY08, we expect Welspun to post revenue growth of 4.6% YoY to Rs2.8b.
- EBITDA margin is likely to improve 221bp YoY to 17.5%, as a result of better utilization in the bed linen segment.
- PAT is likely to increase by 88% YoY to Rs179m in 2QFY08.
- During 2QFY08, utilization rates for the bed linen plant improved to around 70-75%.
- Going forward, margins in the bed linen segment are likely to improve on the back of increased capacity utilization rates.
- We expect Welspun's revenues and earnings to witness 16% and 37% CAGR (FY07-FY09) respectively. Welspun trades at a P/E of 7.5x FY08E and 5.2x FY09E earnings. We are **Neutral** on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	1,989	2,764	2,554	2,485	2,647	2,892	2,892	3,137	9,736	11,569
Change (%)	38.1	78.7	65.4	21.1	33.1	4.6	13.2	26.3	47.9	18.8
Total Expenditure	1,576	2,342	2,110	2,133	2,281	2,386	2,366	2,541	8,213	9,573
EBITDA	413	423	444	352	367	506	526	597	1,523	1,996
Change (%)	31.5	32.2	16.7	11.9	-11.2	19.7	18.6	69.8	14.6	31.1
As % of Sales	20.8	15.3	17.4	14.2	13.8	17.5	18.2	19.0	15.6	17.3
Depreciation	144	157	166	183	195	187	195	236	651	812
Interest	112	122	129	123	155	120	125	100	478	500
Other Income	52	40	75	165	124	72	75	29	429	300
Extra-ordinary Income	-90	88	0	0	-	-	-	-	-2	-
PBT	119	272	224	210	141	271	282	342	823	1,036
Tax	43	89	65	107	48	92	95	113	304	348
Effective Tax Rate (%)	36.2	32.6	28.8	51.0	33.9	33.9	33.6	33.0	36.9	33.6
Reputed PAT	76	183	159	103	92	179	187	229	519	688
Adj. PAT	166	95	159	103	92	179	187	229	521	688
Change (%)	53.7	-24.6	115.4	-3.8	-44.4	87.9	17.4	122.3	25.4	32.0

E: MOST Estimates

Utilities

BSE Sensex: 17,291

S&P CNX: 5,021

28 September 2007

COMPANY NAME	PG.
CESC	261
NTPC	262
Neyveli Lignite	263
PTC India	264
Reliance Energy	265
Tata Power	266

11th plan capacity addition: order award on track, execution is the key

The 11th plan envisages capacity addition of 78,577MW v/s Tenth Plan target of 41,110MW and an achievement of 21,280MW. Of the 11th Five Year Plan target of 78,577MW, 52,000MW is under various stages of construction and a large part of balance capacity would be awarded by mid FY09. This is primarily due to the target of NTPC to award its targeted balance capacity for the 11th Plan (14,120 MW) before end-FY09. The capacity addition has been slower during the 10th Plan mainly due to the delay in award of the projects leading to bunching up of capacity addition towards the end of the plan period. The award of orders for the 11th Plan appears to be on track, as 66% of the total capacity addition planned is already awarded.

However, execution of the project remains the key to achievement of the capacity addition target for the 11th Plan. The 10th Plan shows a slippage of ~10,000MW due to bunching up of orders leading to delay in project execution. Thus, given that the award of orders for the 11th Plan is largely on track, timely execution of the project would remain key to achievement of the target capacity addition. The achievement in capacity addition until August 2007, though not truly reflective of overall plan achievement, stands at a mere 27.4% of the capacity addition target to August 2007. Until August 2007, the capacity addition for the 11th Plan stood at 2,265MW v/s the target capacity addition of 8,269MW.

TARGET CAPACITY ADDITION V/S ACTUAL (YTD AUG-07)

SCHEMES	TARGET FY08	APRIL, 07-AUGUST 2007		DEVIATION (+) / (-)
		TARGET	ACHIEVEMENT	
Central	6,560.0	2,820.0	915.0	(1,905.0)
State	7,188.2	4,359.0	1,350.0	(3,009.0)
Pvt.	3,037.0	1,090.0	-	(1,090.0)
Total	16,785.2	8,269.0	2,265.0	(6,004.0)

Source: CEA

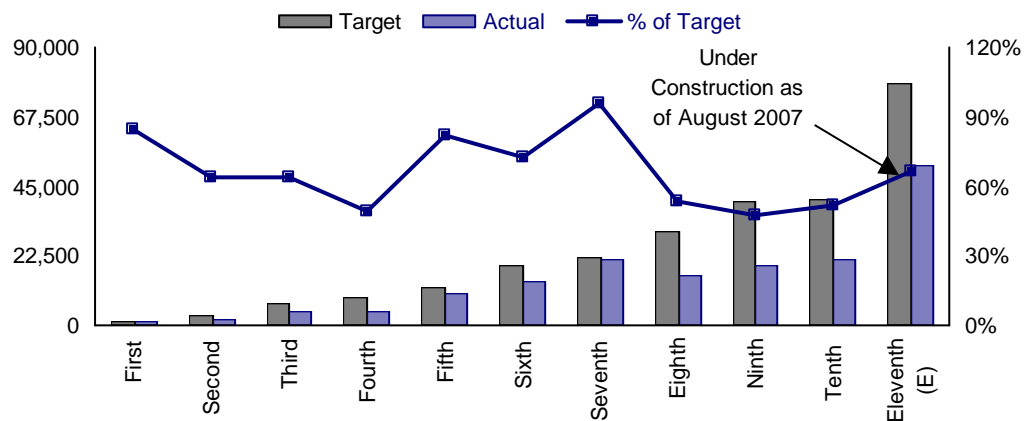
EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		SEP.07	CHG. (%)	SEP.07	CHG. (%)	SEP.07	CHG. (%)
Utilities							
CESC	Neutral	6,953	3.0	1,442	3.0	741	7.4
Neyveli Lignite Corp.	Buy	6,809	12.0	2,928	36.6	1,631	-0.5
NTPC	Neutral	75,679	11.1	21,721	18.0	15,417	7.0
PTC India	Buy	18,235	38.7	111	16.7	97	11.9
Reliance Energy	Buy	16,610	18.0	2,907	63.8	2,286	22.6
Tata Power	Buy	13,289	10.7	2,724	9.2	1,271	-24.4
Sector Aggregate		137,574	14.5	31,834	21.0	21,443	5.3

The lower achievement of the capacity addition in the Eighth, Ninth and Tenth Five-Year Plans calls for accelerated capacity addition in the Eleventh Plan to cater to the buoyant economic growth.

TREND IN CAPACITY ADDITIONS IN THE FIVE YEAR PLANS (MW)



Source: MoP, CEA

UMPPs: many more to come

Progress on the ultra mega power project has been satisfactory though the award of the projects has been delayed a bit. The recent award of the Sasan project, after being in controversy for a while, to Reliance Power, shows commitment of the Central government to the UMPPs. The Mundra project, in turn, has also achieved considerable progress as Tata Power has tied up for coal (50% of its requirement) through its stake in Bumi Resources and has already placed orders for boilers and generators to Doosan and Toshiba Corporation respectively.

The Ministry of Power (MoP) has announced a total of 10 UMPPs and another two projects are likely to be awarded before March 2008, which includes Krishnapatnam in Andhra Pradesh and Tilaiya project in Jharkhand. The project award has been delayed due to land acquisition and other administrative issues at the state level and it is likely that the bid for the project will be invited soon.

STATUS OF ULTRA MEGA POWER PROJECTS (UMPP)

STATUS OF UMPP	LOCATION	FUEL	STATUS
Sasan	Madhya Pradesh	Pithead	Awarded to Reliance Power
Mundra	Gujarat	Imported Coal	Awarded to Tata Power
Expected award by March 2008 { Krishnapatnam	Andhra Pradesh	Imported Coal	Price bids to be invited soon
Tilaiya Project	Jharkhand	Pithead	RFQs to be invited
Tadri	Karnataka	Imported Coal	State Govt clearance pending
Girye	Maharashtra	Imported Coal	State Govt clearance pending
Jharsuguda	Orissa	Pithead	Land and Water issues
Cheyur	Tamil Nadu	Imported Coal	Site selection awaited
Akaltara	Chhattisgarh	Pithead	Discuss with state govt on
Marakkanam	Tamil Nadu	Imported Coal	Recently announced

Source: Company/Motilal Oswal Securities

Nuclear power – target of 40,000MW by 2020

The Indo-US nuclear deal, if it goes through, can harness significant nuclear power potential for India. The target set by the government of 20,000MW by FY20 will double if the co-operation agreement on the nuclear deal with the US goes through. This would mean a tenfold increase in the nuclear power capacity to 40,000MW from the current level of 4,120MW.

The Department of Atomic energy (DAE) has already initiated the measures to enhance the nuclear power capacity addition in India irrespective of the deal. DAE has been working on the feasibility report to install 6,800MW of nuclear power projects in India at an investment of Rs 340b. The sites cleared by the government are: Kudankulam in Tamil Nadu, Kakrapar in Gujarat, Rawatbhata in Rajasthan and Jaitapur in Maharashtra. We expect the contract award over the next 18-24 months.

Public sector undertakings are showing a keen interest to participate in the development of nuclear power plant and the board of NTPC has recently approved a proposal to enable the company enter the nuclear power generation business. The company envisages generating 2,000MW from nuclear power by end-2017.

CAPACITY ADDITION: NUCLEAR POWER IN INDIA (MW)

PROJECTS	CAP (MW)	TIMELINE
Operational	4,120	
Under Construction	2,660	By end FY08
Kakrapara units 5/6	1,400	FY11
Kudankulam units 3/4	2,000	FY12
Rajasthan units 7/8	1,400	FY12
Jaitapur units 1/2	2,000	FY12
Kudankulam units 5/8	4,000	FY11-FY20
Jaitapur units 1/2	2,000	FY11-FY20
Site not identified (PWRH)	4,200	FY13-FY20
Kalpakkam (FBR)	2,000	FY13-FY20
Site to be identified for US Tech	4,000	FY09-FY20
Planned	12,000	By FY20
Total	41,730	

Source: NPCIL

Valuation and view

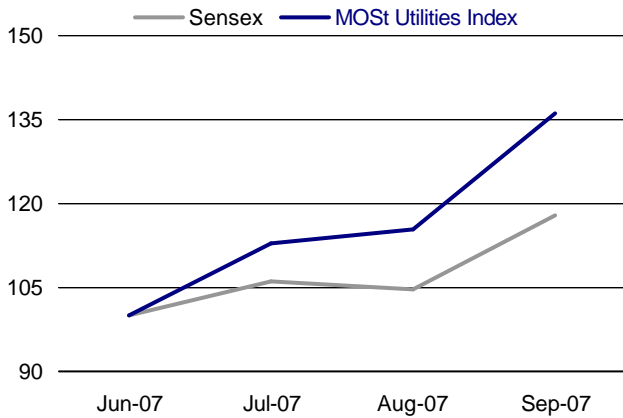
For 2QFY08, we expect utilities to report steady performance in terms of revenues and profitability. The slower pace of reforms, under achievement of the target capacity addition and attracting private sector investments in generation and privatization of distribution represent key challenges for the Indian power sector. However, the reforms are on track, albeit at a slower rate, which is reflected in UMPP projects, various initiatives by the government to ensure the fuel linkages, etc. We remain positive on the sector.

Stock performance and valuations

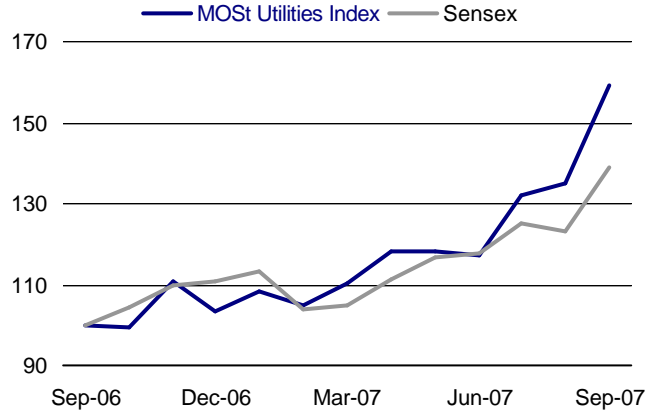
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Utilities						
CESC	34	63	15	23	-3	1
Neyveli Lignite Corporation	74	65	55	26	36	3
NTPC	28	52	9	12	-10	-11
PTC India	44	61	25	21	6	-2
Reliance Energy	108	151	88	112	70	89
Tata Power	28	54	8	14	-10	-8

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.9.07	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Utilities														
CESC	487	Neutral	20.6	23.8	25.6	23.6	20.4	19.0	11.6	12.4	12.0	17.0	13.5	12.8
Neyveli Lignite Corp.	105	Buy	4.3	4.1	4.3	24.6	25.4	24.7	14.1	12.9	12.9	8.8	8.2	8.1
NTPC	193	Neutral	8.0	9.4	9.9	24.3	20.6	19.6	15.5	12.8	12.6	14.0	15.1	14.5
PTC India	91	Buy	2.3	2.9	3.4	39.1	31.1	26.8	47.3	30.9	24.3	13.8	15.9	16.8
Reliance Energy	1,206	Buy	34.1	40.9	44.6	35.3	29.4	27.0	46.6	16.9	17.9	10.2	12.4	12.4
Tata Power	855	Buy	29.2	31.6	32.2	29.3	27.0	26.5	17.8	16.2	15.1	9.4	8.6	8.4
Sector Aggregate						25.3	22.1	20.9	16.6	13.3	13.1	12.7	13.2	12.8

CESC

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CESC IN
	REUTERS CODE
S&P CNX: 5,021	CESC.BO
Equity Shares (m)	115.3
52-Week Range	523/277
1,6,12 Rel. Perf. (%)	-7/5/23
M.Cap. (Rs b)	56.2
M.Cap. (US\$ b)	1.4

28 September 2007

Neutral

Previous Recommendation: Neutral

Rs487

	YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS* GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07A	24,843	3,007	20.6	-4.3	23.6	2.4	13.5	12.2	2.7	11.6
	3/08E	26,840	2,748	23.8	15.5	20.4	2.9	13.5	11.2	2.5	12.4
	3/09E	28,567	2,950	25.6	7.4	19.0	2.6	12.8	11.3	2.5	12.0

* fully diluted; excluding Spencer

- For 2QFY08 we expect CESC to post Rs7b as revenue and net profit of Rs741m, up 7.4% YoY.
- CESC is expanding capacity at Budge Budge by 250MW, targeted to be completed by end-FY09. It has announced the setting up of pit head-based power plants: Jharkhand (2,000MW), Orissa (2,000MW) and Haldia (1,000MW) through the SPV route. On the distribution front, the company has indicated its interest in participating in the SEB privatization process.
- Spencer plans to reach 350+ retail outlets (v/s 264 as of March 2007) under various formats (Spencers, Music World, Books and Beyond and RPG Cellucom) in FY08 and company will invest Rs12b in the Spencer format to facilitate expansion plans. For FY07 the company reported revenue of Rs5.4b and net loss of Rs450m.
- CESC Properties will now develop the proposed retail mall project (0.4m sq ft) in Kolkata and has terminated its joint development agreement with the Godrej group. Construction is expected to commence from October 2007 and the company expects to complete the project by March 2009. The company has also discontinued operations at its Mulajore plant (43 acres) and plans to develop an IT park, residential complex and allied zone. The development plan has been completed.
- We expect CESC to report net profit of Rs2.7b in FY08 (up 15.5% YoY) and Rs3b in FY09 (up 7.4% YoY), excluding Spencer. At the CMP of Rs487, the stock is trading at a P/E of 23.6x FY07, 20.4x FY08E and 19x FY09E. We recommend **Neutral** given no upside based on SOTP-based target price of Rs454.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	6,740	6,750	5,930	5,470	7,170	6,953	6,227	6,491	24,890	26,840
Change (%)	0.0	0.4	2.6	-6.3	6.4	3.0	5.0	18.7	-0.8	7.8
EBITDA	1,360	1,400	1,250	1,170	1,300	1,442	1,344	1,345	5,180	5,431
Change (%)	-9.9	-9.1	-6.0	-18.8	-4.4	3.0	7.6	14.9	-11.0	4.9
As of % Sales	20.2	20.7	21.1	21.4	18.1	20.7	21.6	20.7	20.8	20.2
Depreciation	410	410	410	410	410	415	430	440	1,640	1,695
Interest	540	420	370	360	390	385	375	425	1,690	1,575
Other Income	210	220	220	290	290	200	225	356	940	1,071
PBT	620	790	690	690	930	842	764	836	2,790	3,233
Tax	70	100	80	80	110	101	92	100	390	485
Effective Tax Rate (%)	11.3	12.7	11.6	11.6	11.8	12.0	12.0	12.0	14.0	15.0
Reported PAT	550	690	610	610	820	741	673	736	2,400	2,748
Adjusted PAT	550	690	610	610	697	741	673	736	2,400	2,748
Change (%)	34.1	21.1	64.9	38.6	26.7	7.4	10.3	20.6	34.1	14.5

E: M0St Estimates; Note: Excluding Spencer

National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE SENSEX: 17,291	NTPC IN
	REUTERS CODE
S&P CNX: 5,021	NTPC.BO

28 September 2007

Neutral

Rs 193

Previous Recommendation: Neutral

Equity Shares (m)	8,245.5
52-Week Range	201/125
1,6,12 Rel. Perf. (%)	0/1/12
M.Cap. (Rs b)	1,595.0
M.Cap. (US\$ b)	40.1

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	326,317	65,681	8.0	23.6	24.3	3.3	13.9	17.6	5.2	15.5
3/08E	351,995	77,387	9.4	18.5	20.6	3.0	15.1	18.1	4.6	12.8
3/09E	395,175	81,519	9.9	5.3	19.6	2.7	14.5	18.3	0.3	12.6

* Pre-exceptional earnings

- ✦ We expect NTPC to report revenue of Rs 75.7b (up 11.1% YoY) and net profit of Rs 15.4b (up 7% YoY) in 2QFY08.
- ✦ NTPC has recently signed a memorandum of understanding (MoU) with BHEL for forming a joint venture company for carrying out engineering procurement and construction (EPC) activities in the power sector on mutually-beneficial terms. As per the MoU, both NTPC and BHEL will have 50:50 equity participation in the new venture.
- ✦ It has received in-principle approval for allocation of a Chhati Bariatu South coal block in Jharkhand from the GoI. The reserves of Chhati Bariatu South is estimated at 354m tonnes.
- ✦ During 1QFY08, the company has commissioned the 500MW unit of Sipat Super Thermal Power Project and 500MW of Kahalgaon Thermal power project. The installed capacity as of June 2007 stands at 28,404MW. The management has indicated that expected capacity addition during FY08 is 2,500MW (Kahalgaon 1,000 MW, Sipat 1,000 MW and Bhilai JV 500 MW) and 2,580MW (Sipat 1,320 MW, Barh 660 MW and Koldam hydro power 600 MW) during FY09.
- ✦ We expect NTPC to report net profit of Rs 77.4b in FY08 (up 18.5% YoY) and Rs 81.5b in FY09 (up 9.9% YoY). At the CMP of Rs 193, NTPC trades at a P/E of 24.3x FY07, 20.6x FY08E and 19.6x FY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	71,536	68,138	81,468	88,603	89,697	75,679	89,407	97,212	326,317	351,995
Change (%)	18.1	15.0	18.6	21.5	25.4	11.1	9.7	9.7	24.8	13.6
EBITDA	19,960	18,408	22,595	23,397	26,945	21,721	25,419	32,936	100,932	107,021
Change (%)	29.4	41.9	24.2	33.1	35.0	18.0	12.5	40.8	57.3	6.0
As of % Sales	27.9	27.0	27.7	26.4	30.0	28.7	28.4	33.9	30.9	30.4
Depreciation	4,755	4,780	5,138	6,081	4,914	6,214	7,193	10,734	20,754	29,055
Interest	5,238	4,630	2,807	5,919	278	5,556	4,912	7,784	18,594	18,530
Other Income	6,369	6,505	7,752	6,864	7,181	6,538	6,977	7,609	27,490	28,305
PBT	16,336	15,503	22,402	18,261	28,934	16,489	20,291	22,028	89,074	86,241
Tax	808	764	1,369	914	5,235	1,072	1,319	1,229	20,427	8,855
Effective Tax Rate (%)	4.9	4.9	6.1	5.0	18.1	6.5	6.5	5.6	22.9	10.3
Reported PAT	15,528	14,739	21,033	17,347	23,699	15,417	18,972	20,799	68,647	77,387
Adj. PAT (Pre Exceptional)	15,318	14,410	17,415	18,539	17,648	15,417	18,972	20,799	65,681	72,836
Change (%)	25.4	24.8	37.4	18.4	15.2	7.0	8.9	12.2	23.6	10.9

E: MOST Estimates

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Neyveli Lignite Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	NLC IN
	REUTERS CODE
S&P CNX: 5,021	NELG.BO

28 September 2007

Buy

Rs 105

Equity Shares (m)	1,677.7
52-Week Range	114/49
1,6,12 Rel. Perf. (%)	25/75/26
M.Cap. (Rs b)	176.5
M.Cap. (US\$ b)	4.0

Previous Recommendation: Buy

YEAR END *	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	24,425	7,168	4.3	-8.0	24.6	2.1	8.8	10.1	5.8	14.1
3/08E	24,583	6,948	4.1	-3.1	25.4	2.0	8.2	9.2	6.2	12.9
3/09E	26,020	7,144	4.3	2.8	24.7	2.0	8.1	8.4	6.4	12.9

* Pre-exceptional earnings

- For 2QFY08 we expect Neyveli Lignite to post net profit of Rs 1.6b, down 0.5% YoY.
- It plans to expand its lignite mining capacity to 61.9m tpa (from 24m tpa) and the power generation capacity to 11,990MW (from 2490MW) at present.
- Update on ongoing expansion plans:** a) Mine-II Expansion (10.5m tpa to 15.0m tpa) linked to thermal power Stn-I Expansion (1,470-1,970MW), commissioning by June 2009; b) Barsingsar Mine Project of 2.1m tpa and 250MW generation capacity to be commissioned by June 2009
- New projects:** Coal-based power plant at Tuticorin (1,000 MW) in JV with Tamil Nadu Electricity Board (TNEB) has received approval from the Public Investment Board (PIB) and is awaiting sanction by Government of India (GoI). The project is expected to be commissioned within 48 months from the date of approval by GoI.
- Project under feasibility study stage:** a) Jayamkondam mine project of 9m tpa with 1,000MW power generating capacity b) Barsingsar thermal power project extension (250MW) linked with mine (2.1m tpa) at Bithnok & Hadla in Rajasthan c) power project of 500MW linked to lignite mine of 4.2m tpa at Riri in Rajasthan d) coal-based thermal power plant at Orissa (4x500MW) with coal supply from Mahanadi Coalfields Ltd. (MCL) e) Gujarat Power Project (1,000MW) linked to lignite mine of 8m tpa in JV with Gujarat Power Corporation Ltd f) Mine-III of 8m tpa and thermal power project with 1,000MW at Neyveli.
- It has significant cash and cash equivalents up to Rs58b as of March 2007, which will facilitate scalability. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	6,397	6,079	5,102	3,502	7,776	6,809	5,868	4,131	24,425	24,583
Change (%)	-24.4	-15.4	-10.5	-4.7	21.6	12.0	15.0	17.9	11.1	0.6
EBITDA	3,085	2,143	1,894	511	3,855	2,928	2,640	2,292	10,129	11,715
Change (%)	-38.3	-36.2	-12.7	292.7	24.9	36.6	39.4	348.5	32.6	15.7
As of % Sales	48.2	35.3	37.1	14.6	49.6	43.0	45.0	55.5	41.5	47.7
Depreciation	1,070	1,064	1,045	1,295	1,148	1,223	1,201	1,327	4,250	4,900
Interest	134	121	120	58	19	170	180	367	556	736
Other Income	1,213	1,260	1,326	2,172	1,484	900	1,000	978	4,989	4,362
PBT	3,095	2,218	2,055	1,330	4,172	2,434	2,259	1,576	10,313	10,441
Tax	856	580	529	1,114	1,358	803	766	565	3,145	3,492
Effective Tax Rate (%)	27.7	26.1	25.7	83.8	32.6	33.0	33.9	35.9	30.5	33.5
Reported PAT	2,238	1,639	1,527	215	2,813	1,631	1,493	1,011	7,168	6,948
Adj. PAT (Pre Exceptionals)	2,238	1,639	1,527	3,562	2,813	1,631	1,493	1,011	7,168	6,948
Change (%)	-24.9	-26.5	9.8	199.5	25.7	-0.5	-2.2	-71.6	-8.0	-3.1

E: MOST Estimates

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PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	PWTC IN
	REUTERS CODE
S&P CNX: 5,021	PTCI.BO
Equity Shares (m)	150.0
52-Week Range	107/46
1,6,12 Rel. Perf. (%)	7/20/21
M.Cap. (Rs b)	13.7
M.Cap. (US\$ b)	0.3

28 September 2007

Buy

Rs91

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	36,307	353	2.3	-13.7	39.1	5.2	13.8	17.7	0.4	47.3
3/08E	58,529	441	2.9	25.6	31.1	4.7	15.9	17.0	0.2	30.9
3/09E	76,412	513	3.4	16.3	26.8	4.3	16.8	17.7	0.2	24.3

* Pre-exceptional

- For 2QFY08, we expect PTC to report revenue of Rs18.2b, up 38.7% YoY and net profit of Rs97m, up 11.9% YoY. EBITDA for the quarter is estimated at Rs111m, up 16.7% YoY with increasing contribution from medium term and long term contracts.
- PTC India and Financial Technologies have received approval from the central electricity regulatory commission to set up India's first national level power exchange, Indian Energy Exchange Ltd. (IEX) for trading electricity. PTC has 26% stake in the in the company.
- As of June 2007, the company has signed power purchase agreements (PPA) for 7,984MW and MoUs for 16,703MW of power capacity on a long term basis. PTC has also entered into a back-to-back power sale agreement for 5,287MW.
- PTC is witnessing a substantial change in its business model – short-term trading, which currently accounts for 80% of the traded volumes, which will decline to 35% in FY08. PTC has decided to set up a SPV to subscribe to the equity capital of electricity generation projects. It intends to take 10-11% stakes in power projects for 100% assured offtake.
- PTC's FY07 traded volumes of 9.6BUs is expected to increase to 15.4BUs in FY08. This would be driven by the commissioning of the Tala project in Bhutan (1,020MW) and part of the greenfield projects where PTC has signed long-term PPAs. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Power Traded (MUs)	2,625	3,268	2,211	1,445	3,544	5,065	3,869	2,929	9,549	15,407
Sales	10,421	13,147	8,074	6,025	11,586	18,235	13,929	14,778	37,667	58,529
Change (%)	138.3	52.5	-23.4	-20.2	11.2	38.7	72.5	145.3	21.2	55.4
EBITDA	88	95	82	53	58	111	120	166	318	456
Change (%)	8.0	-32.7	-55.3	-42.6	-34.0	16.7	45.9	216.2	-36.3	43.3
As of % Sales	1.3	0.7	1.0	0.9	0.5	0.6	0.9	1.1	0.8	0.8
Depreciation	8	8	8	9	7	9	11	15	33	42
Interest	3	7	7	2	3	8	9	27	20	48
Other Income	79	39	44	32	97	40	45	40	193	222
Extraordinary Income/(Expense)	-1	0	0	0	0	0	0	0	0	0
PBT	155	119	111	73	144	134	145	164	459	588
Tax	35	32	25	15	25	38	41	44	106	147
Effective Tax Rate (%)	22.3	27.1	22.2	20.5	17.4	28.0	28.0	26.6	23.2	25.0
Reported PAT	120	86	86	58	119	97	104	120	352	441
Adjusted PAT	120	86	86	58	119	97	104	120	352	441
Change (%)	6.3	-11.2	-32.7	-16.5	-0.8	11.9	21.2	106.5	-13.7	25.1

E: MOST Estimates

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Reliance Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	RELE IN
	REUTERS CODE
S&P CNX: 5,021	RLEN.BO

28 September 2007

Buy

Rs 1,206

Equity Shares (m)	228.6
52-Week Range	1,220/448
1,6,12 Rel. Perf. (%)	41/116/112
M.Cap. (Rs b)	275.5
M.Cap. (US\$ b)	6.9

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	56,930	8,015	34.1	23.2	35.3	3.2	10.2	8.7	3.9	46.6
3/08E	69,710	9,612	40.9	19.9	29.4	2.9	12.4	11.4	3.0	16.9
3/09E	77,553	10,465	44.6	8.9	27.0	2.6	12.4	11.4	2.6	17.9

* Consolidated, pre-exceptionals, fully diluted

- For 2QFY08, we expect Reliance Energy to report net profit of Rs 2.3b, up 22.6% YoY.
- Reliance Energy is currently working on generation projects of 14,960MW, which are in various stages of development. During FY08, 2,100MW of power projects being implemented by Reliance Energy Generation (50% stake by Reliance Energy) will achieve financial closure and enter the construction phase. These include: 600MW of Rosa Power Project (Phase I), 1,200 MW Coastal Maharashtra Project (Phase I) and 300MW captive power project in Nagpur.
- The order backlog for the EPC division stood at Rs 55b as of June 2007, up from Rs 33.6b as of March 2006. The company has also submitted bids for the (1) 1,200MW Malwa project on EPC basis (Rs 40b), (2) T&D projects of Rs 7b (erection of five 400/220kV substation, transmission line work from PGCIL), (3) rural electrification projects Rs 10b. Also, it has recently emerged as the LI for the 1,200 MW Purulia project of Damodar Valley Corporation.
- The company has also made inroads into the Real Estate sector. It is developing 75 acre of land (11m sq.ft.) in Hyderabad in consortium wherein RELE will have 63% stake. The total project cost is Rs 65b and would be developed in three phases. The first phase covering ~5.5m sq.ft would get over in next 4-5 years while the Phase 2 & 3 will be over in another 3-4 years time. The project also involves construction of tallest building (11 Florey).
- Recently, the board of Reliance Energy approved the initial public offering of its 50% subsidiary, Reliance Power Limited (RPL). RPL is executing the 4,000 MW Sasan project besides other Coal, Gas and Hydro based projects.
- We believe the stock is largely a play on the future growth opportunities rather than on existing assured return businesses. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	11,549	14,076	15,337	16,143	16,240	16,610	18,404	18,455	56,930	69,710
Change (%)	21.6	35.0	55.2	55.5	40.6	18.0	20.0	14.3	41.6	22.4
EBITDA	1,334	1,775	827	598	376	2,907	3,313	5,855	4,804	12,451
Change (%)	-17.4	-12.8	-53.9	-68.5	-71.8	63.8	300.6	878.8	-34.5	159.1
As of % Sales	11.6	12.6	5.4	3.7	2.3	17.5	18.0	31.7	8.4	17.9
Depreciation	619	635	612	535	581	630	704	870	2,401	2,785
Interest	459	671	551	823	693	755	620	538	2,503	2,606
Other Income	1,711	1,761	2,867	2,754	3,599	1,409	1,434	951	8,823	7,393
PBT	1,967	2,230	2,531	1,994	2,701	2,931	3,423	5,398	8,724	14,453
Tax (incl contingencies)	201	366	522	-380	485	645	753	1,220	709	3,103
Effective Tax Rate (%)	10.2	16.4	20.6	-19.1	18.0	22.0	22.0	22.6	8.1	21.5
Reported PAT	1,766	1,864	2,009	2,374	2,216	2,286	2,670	4,179	8,015	11,350
PAT (Pre Exceptionals)	1,666	1,864	2,009	1,848	1,357	2,286	2,670	3,300	7,388	9,612
Change (%)	12.7	16.8	22.0	40.1	-18.5	22.6	32.9	76.0	23.2	41.6

E: M0St Estimates; Quarterly numbers are on standalone basis

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Tata Power

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	TPWR IN
	REUTERS CODE
S&P CNX: 5,021	TTPW.BO

28 September 2007

Buy

Rs 855

Equity Shares (m)	197.9
52-Week Range	960/483
1,6,12 Rel. Perf. (%)	9/35/14
M.Cap. (Rs b)	169.3
M.Cap. (US\$ b)	4.3

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	51,095	6,215	29.2	36.6	29.3	2.9	9.4	8.2	3.8	19.6
3/08E	53,085	6,727	31.6	8.2	27.0	2.7	8.6	8.4	3.6	17.2
3/09E	56,053	6,853	32.2	1.9	26.5	2.6	8.4	8.7	3.5	15.8

* Consolidated , pre-exceptionals, fully diluted

- ✎ For 2QFY08 Tata Power is expected to report net profit of Rs 1.3b, down 24.4% YoY.
- ✎ Tata Power Company has signed an EPC contract for supply of 5x 800MW steam turbine generators with Toshiba Corporation for its Mundra Ultra Mega Power Project. It has earlier awarded the boiler EPC contract to Doosan Heavy Industries, which represents 45% of the total project cost. It has also completed acquisition of 30% stake in PT Kaltim Prima Coal and PT Arutmin Indonesia and other companies owned by PT Bumi Resources Tbk. The acquisition was funded through a bridge loan of US\$950m with tenure of one year. The company has earlier signed an offtake agreement with Bumi resources for purchase of 10.1m tonnes of coal per annum. This represents significant progress on Mundra power project' s front.
- ✎ Besides this, the company has outlined extensive expansion plans which include: (1) Maithon power project (1,000MW, 74% stake): 50% of the land acquisition has been completed and coal linkages are in place; EPC contract award likely by end FY08 (2) Coastal Maharashtra (2,400MW): Plans to invite the EPC bids by September 2007; land acquisition completed (3) Trombay unit 8 (250MW): Scheduled completion by September 2008, (4) Jojbera Expansion (120MW): Scheduled commissioning by September 2008, (5) Haldia unit (120MW): Scheduled commissioning by March 2008, (6) Wind power: 50MW commissioned during March 2007; balance 50MW by September 2007, (7) 100MW Diesel gensets: scheduled commissioning September 2008.
- ✎ At the CMP of Rs 855, the stock is trading at a P/E of 27x FY08E and 26.5x FY09E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Total Operating Income	13,766	12,008	12,005	9,474	15,115	13,289	13,526	11,156	47,153	53,085
Change (%)	25.3	13.1	-2.5	-19.1	9.8	10.7	12.7	17.8	3.3	12.6
EBITDA	2,581	2,495	2,108	51	2,903	2,724	2,671	2,791	7,234	11,090
Change (%)	7.1	3.8	7.1	-96.8	12.5	9.2	26.8	5,426.8	-13.4	53.3
As of % Sales	18.7	20.8	17.6	0.5	19.2	20.5	19.8	25.0	15.3	20.9
Depreciation	760	731	735	693	714	798	1,029	1,205	2,919	3,746
Interest	524	388	510	473	594	375	325	383	1,895	1,677
Other Income	410	783	460	1,787	685	265	350	528	3,440	1,828
PBT	1,706	2,160	1,322	672	2,279	1,816	1,668	1,732	5,860	7,494
Tax	488	137	-1,477	-255	377	545	500	451	-1,108	1,873
Effective Tax Rate (%)	28.6	6.3	-111.7	-38.0	16.5	30.0	30.0	26.1	-18.9	25.0
Reported PAT	1,218	2,023	2,799	927	1,902	1,271	1,167	1,280	6,968	5,621
Adjusted PAT	1,130	1,682	1,205	638	1,844	1,271	1,167	1,280	4,655	5,563
Change (%)	3.1	33.8	26.0	-39.3	63.2	-24.4	-3.1	100.6	6.8	19.5

E: MOST Estimates; Quarterly numbers are on standalone basis

Ashapura Minechem

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	ASMN IN
	REUTERS CODE
S&P CNX: 5,021	ASHM.BO

28 September 2007

Buy

Rs457

Equity Shares (m)	39.1
52-Week Range	465/192
1,6,12 Rel. Perf. (%)	3/83/86
M.Cap. (Rs b)	17.9
M.Cap. (US\$ b)	0.4

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	12,724	1,302	33.3	37.0	13.7	4.4	47.4	45.4	1.5	9.5
3/08E	17,530	2,246	57.4	72.3	8.0	2.9	44.4	39.3	1.2	6.7
3/09E	20,266	2,950	75.3	31.3	6.1	2.1	39.9	33.0	1.1	5.6

- Ashapura continues to benefit from buoyant demand for bauxite from alumina refineries in coastal China. Meanwhile, we believe the company is focused on building its business model – (1) adding minerals to its portfolio, (2) adding value to existing minerals, and (3) spreading geographically.
- We expect 2QFY08 sales at Rs3.5b, up 38% YoY. The key driver will be bauxite volumes. We expect bauxite volume of 1.4m tonnes. This is lower than 1.56m tonnes in 1QFY08 to factor in lower mining activity due to monsoons. We have maintained prices at US\$45 per tonne, but have lowered our dollar assumption from Rs40.5 to Rs40.
- We expect EBITDA margin of 16.6%, up 300bp over 1QFY08, which saw an adverse forex hit on debtors realized during the quarter. Expected EBITDA is Rs575, up 77.7% YoY.
- Beginning this quarter, we expect tax benefits to kick in on account of EOU status to its bauxite processing units. We expect PAT of Rs412m, up 92% YoY.
- The stock trades at an attractive EV/EBITDA of 6.7x FY08E and 5.6x FY09E. The full impact of its new projects – kaolin in Kerala, barites in Nigeria, mineral complex in Belgium – should be felt in FY09. We have rolled over our sum-of-the-parts valuation to FY09E basis, and raise our target price from Rs436 to Rs530 (cum 1:1 bonus). We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Income	4,614	2,510	2,157	3,444	4,270	3,459	4,592	5,250	12,724	17,530
Change (%)	89.0	37.3	20.9	38.3	-7.5	37.8	112.9	52.4	48.9	37.8
Total Expenses	4,123	2,186	1,621	2,791	3,687	2,884	3,757	4,196	10,721	14,484
EBITDA	491	324	537	653	583	575	835	1,054	2,004	3,046
Change (%)	97.7	17.8	44.1	84.8	18.7	77.7	55.5	61.6	60.5	52.0
EBITDA Margin (%)	10.6	12.9	24.9	18.9	13.6	16.6	18.2	20.1	15.7	17.4
Depreciation	16	17	17	23	21	30	35	34	73	124
Interest	31	22	31	31	32	35	46	52	115	175
Other Income	2	5	15	25	9	5	12	17	46	35
PBT	446	290	503	623	539	515	766	985	1,862	2,783
Tax	98	75	168	207	154	103	122	157	549	536
Tax/PBT (%)	22.0	26.0	33.5	33.2	28.6	20.0	16.0	15.9	29.5	19.3
Prior Period Items	0	0	0	-7	-2	0	0	0	-7	0
Share from Associate	0	0	0	-3	-4	0	0	0	-3	0
Minority Interest	0	0	0	0	0	0	0	-1	-1	-1
Consolidated PAT	348	214	334	406	379	412	643	827	1,302	2,246
Adjusted PAT	348	214	334	406	379	412	643	827	1,302	2,246
Change (%)	108.8	19.5	46.2	87.6	8.9	92.3	92.4	103.9	66.2	72.5
PAT Margin (%)	7.5	8.5	15.5	11.8	8.9	11.9	14.0	15.8	10.2	12.8

E: MOST Estimates

Shrinath Mithanathaya (ShrinathM@MotilalOswal.com); Tel: +91 22 3982 5421

Blue Star

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BLSTR IN
	REUTERS CODE
S&P CNX: 5,021	BLUS.BO

28 September 2007

Buy

Rs317

Equity Shares (m)	89.9
52-Week Range	332/133
1,6,12 Rel. Perf. (%)	-14/22/94
M.Cap. (Rs b)	28.5
M.Cap. (US\$ b)	0.7

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	16,013	712	7.9	45.6	40.1	13.4	36.9	36.1	1.8	25.1
3/08E	22,418	1,142	12.7	60.5	25.0	10.1	46.1	47.9	1.4	15.7
3/09E	29,143	1,572	17.5	37.6	18.1	7.6	47.6	55.5	1.1	11.3

- Blue Star is a market leader in central air-conditioning and commercial refrigeration. It continues to benefit from the 4 mega-trends of IT/Telecom, retail & entertainment, SEZs and cold chain. The emerging segments of central AC demand are hospitals, hotels, airports, power plants, etc.
- Blue Star's order book at the end of 1QFY08 was Rs9.8b, up 43% YoY. Accordingly, we expect 2QFY08 revenue growth of 40% YoY.
- We expect EBITDA margins to be 30bp higher at 9%, reflecting benefits of scale, and full impact of excise concessions at its room AC plant in Himachal Pradesh.
- Factoring in normal increase in interest and depreciation, we expect PAT of Rs280m, up 52% YoY.
- For full year FY08, we maintain our estimates – revenue of Rs22.4b, up 40% YoY and PAT of Rs1.14b, up 60.5% YoY.
- The stock trades at a P/E of 25x FY08E and 18.1x FY09E. We believe Blue Star will continue to enjoy premium valuations, given its high-quality growth. We maintain **Buy** with a target of Rs350 (20x FY09E).

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	3,123	3,759	3,701	5,429	4,623	5,263	5,182	7,351	16,013	22,418
Change (%)	35.8	33.0	40.4	36.4	48.0	40.0	40.0	35.4	36.3	40.0
Total Expenses	2,965	3,431	3,463	4,985	4,243	4,791	4,819	6,685	14,844	20,538
EBITDA	158	328	238	445	379	471	363	666	1,169	1,880
Change (%)	36.1	67.5	52.2	11.7	139.4	43.6	52.5	49.8	34.9	60.8
EBITDA Margin (%)	5.1	8.7	6.4	8.2	8.2	9.0	7.0	9.1	7.3	8.4
Depreciation	43	46	58	62	50	62	65	83	209	260
Interest	20	24	22	30	22	34	31	28	95	115
Other Income	5	8	4	44	1	8	4	47	61	60
PBT	100	266	163	397	308	383	271	603	926	1,565
Tax	27	82	48	57	85	104	73	166	214	423
Tax/PBT (%)	27.1	30.9	29.2	14.4	27.5	27.0	27.0	27.5	23.1	27.0
Reported PAT	73	184	115	340	223	280	198	437	712	1,142
Adjusted PAT	73	184	115	340	223	280	198	437	712	1,142
Change (%)	44.6	58.8	66.4	34.0	205.8	52.1	71.9	28.6	45.6	60.5
PAT Margin (%)	2.3	4.9	3.1	6.3	4.8	5.3	3.8	5.9	4.4	5.1

E: MOST Estimates

Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	BRFL IN
	REUTERS CODE
S&P CNX: 5,021	BRFL.BO

28 September 2007

Buy

Rs 239

Equity Shares (m)	63.0
52-Week Range	280/150
1,6,12 Rel. Perf. (%)	-3/20/5
M.Cap. (Rs b)	15.1
M.Cap. (US\$ b)	0.4

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	4,894	544	8.6	133.8	27.7	3.1	17.1	15.3	3.3	17.8
3/08E	9,341	900	13.0	50.8	18.3	2.4	15.5	12.5	2.8	14.6
3/09E	13,463	1,357	19.6	50.8	12.2	2.1	18.4	12.3	2.3	10.9

- ✦ We expect Bombay Rayon to clock EPS CAGR of 45% over the next five years, on the back of (1) ramp up of its new integrated garment unit near Bangalore, (2) its recent acquisition of Leela Scottish Lace, and (3) its mega expansion plan in Maharashtra in FY09, taking the total capacity to 45m garments (60m including Leela Lace) and 265m meters of fabric.
- ✦ In 2QFY08, we expect a high 114% YoY growth in sales, 117% growth in EBITDA and 84% growth in PAT. PAT growth would be lower than EBITDA growth due to higher depreciation and interest on the Bangalore unit.
- ✦ Following the 50bp cut in Fed rate, we have changed our US dollar value assumption from Rs40.5 earlier to Rs40 in FY08, Rs39 in FY09 and Rs38 in FY10. As a result, we have lowered our EPS estimate for FY08 by 1%, for FY09 by 4% and for FY10 by 5%.
- ✦ We value Leela Lace at Rs48 per share (10x FY09E). Adjusted for this, Bombay Rayon is currently trading at an attractive 10x FY09E. We maintain **Buy** with an SOTP-based target of Rs284.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Income	812	1,033	1,316	1,733	2,013	2,213	2,434	2,681	4,894	9,341
Change (%)	87.3	142.1	139.6	198.6	147.8	114.3	85.0	54.7	145.9	90.9
Total Expenses	659	833	1,042	1,440	1,617	1,780	1,958	2,163	3,974	7,518
EBITDA	153	200	275	293	396	433	476	518	920	1,824
Change (%)	134.4	199.5	213.7	153.6	158.1	117.1	73.6	77.2	174.6	98.3
EBITDA Margin (%)	18.9	19.3	20.9	16.9	19.7	19.6	19.6	19.3	18.8	19.5
Depreciation	13	15	35	42	65	70	70	70	105	274
Interest	20	31	43	36	54	70	77	85	130	286
Other Income	3	13	11	44	40	13	13	13	71	80
PBT	123	167	208	258	317	307	343	377	756	1,344
Tax	43	56	71	42	97	103	116	128	212	443
Tax/PBT (%)	34.9	33.5	33.9	16.4	30.4	33.5	33.9	33.9	28.0	33.0
PAT	80	111	138	216	221	204	227	249	544	900
Adjusted PAT	80	111	138	216	221	204	227	249	544	900
Change (%)	69.1	162.6	145.3	498.6	174.6	84.1	64.8	15.6	199.3	65.5
PAT Margin (%)	9.9	10.7	10.5	12.4	11.0	9.2	9.3	9.3	11.1	9.6

E: MOSt Estimates

Container Corporation of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	CCRI IN
	REUTERS CODE
S&P CNX: 5,021	CCRI.BO
Equity Shares (m)	65.0
52-Week Range	2,444/1,662
1,6,12 Rel. Perf. (%)	-15/-22/-15
M.Cap. (Rs b)	136.5
M.Cap. (US\$ b)	3.4

28 September 2007

Buy

Rs2,101

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	30,562	6,652	102.4	32.3	20.5	5.2	28.4	36.6	4.1	13.6
3/08E	38,176	8,139	125.2	22.3	16.8	4.2	27.6	36.1	3.1	10.7
3/09E	46,442	9,784	150.5	20.2	14.0	3.3	26.5	34.8	2.4	8.5

- During 2QFY08, we expect revenue to grow 25% YoY to Rs9.6b, EBITDA to grow 23.1% YoY to Rs3.1b, and net profit to grow 19.3% YoY to Rs2.3b.
- Container Corporation is known to be in talks with Reliance Industries, which would enable Reliance to access several infrastructure facilities of Concor including a network of 60 terminals across India. The MoU in this respect is likely to be signed shortly.
- Concor has signed an MoU with Transport Corporation of India Limited (TCIL) to provide door-to-door logistics and warehousing services for all categories of customers. Synergies would flow, as TCIL is currently the largest road network operator in India.
- In the last quarter, the company entered into a joint working agreement with Secunderabad-based logistics major Seaways group to provide end-to-end logistics for exports from Punjab region to Chittagong, Bangladesh.
- We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales	7,213	7,693	7,472	8,081	7,759	9,617	9,489	11,311	30,460	38,176
Change (%)	33.9	31.3	17.5	18.7	7.6	25.0	27.0	40.0	24.8	25.3
EBITDA	2,160	2,522	2,224	2,202	2,281	3,105	2,654	3,060	9,109	11,100
Change (%)	39.1	44.0	26.0	12.0	5.6	23.1	19.3	38.9	29.5	21.9
OPM (%)	30.0	32.8	29.8	27.3	29.4	32.3	28.0	27.0	29.9	29.1
Depreciation	223	232	242	223	258	270	300	323	919	1,152
Interest	0	0	0	0	0	0	0	2	0	2
Other Income	163	169	205	148	351	200	250	149	684	949
Extra-ordinary Items	-	-	1	1	-	-	-	-	-	-
PBT	2,100	2,458	2,187	2,128	2,374	3,035	2,604	2,883	8,874	10,896
Tax	437	563	530	434	503	774	664	816	1,965	2,757
Effective Tax Rate (%)	20.8	22.9	24.2	20.4	21.2	25.5	25.5	28.3	22.1	25.3
Reported PAT	1,663	1,895	1,657	1,692	1,871	2,261	1,940	2,067	6,909	8,139
Change (%)	54.8	55.2	21.1	24.3	12.5	19.3	17.1	22.1	37.5	17.8
Adjusted PAT	1,663	1,895	1,657	1,693	1,871	2,261	1,940	2,067	6,909	8,139
Change (%)	54.8	55.2	21.1	24.3	12.5	19.3	17.1	22.1	37.4	17.8

E: MOSSt Estimates

Everest Kanto Cylinders

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	EKCL IN
	REUTERS CODE
S&P CNX: 5,021	EKCL.BO

28 September 2007

Buy

Rs 234

Previous Recommendation: Buy

Equity Shares (m)	97.6
52-Week Range	240/91
1,6,12 Rel. Perf. (%)	-6/9/107
M.Cap. (Rs b)	22.8
M.Cap. (US\$ b)	0.6

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	4,251	718	7.4	95.5	31.8	7.6	31.7	34.4	5.1	20.1
3/08E	5,666	985	9.6	30.6	24.4	4.8	24.7	26.5	4.1	16.3
3/09E	8,430	1,434	14.0	45.5	16.7	3.9	25.8	26.5	2.8	11.4

- Everest Kanto is expanding capacities timely to ride the booming global demand for CNG cylinders, including India and China. FY08 will see the benefit of ramp up at its new units at Gandhidham (estimated at 80% capacity of 340,000 cylinders, against 30% in FY07) and Dubai (100,000 cylinders, 30% capacity utilization in 2HFY08).
- We have estimated 2QFY08 sales growth of 30%, in line with that of 1QFY08. We have estimated EBITDA margin at 26.4%, 130bp lower than 1QFY08 to factor in potential forex translation losses of its Dubai operations.
- We expect effective tax rate to be slightly higher than 1QFY08, as share of Indian operations is higher (mainly from Gandhidham). Our PAT estimate for the quarter is Rs229m, up 68% YoY.
- For full year FY08, we maintain our estimates – revenue of Rs5.7b, up 33% YoY and PAT of Rs985m, up 37% YoY.
- The stock trades at a P/E of 24.4x FY08E and 16.7x FY09E. We believe Everest Kanto's high growth with healthy RoE will help the stock sustain rich valuations. We maintain **Buy** with a target of Rs279 (20x FY09E).

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Income	796	1,001	1,118	1,336	1,113	1,301	1,487	1,765	4,251	5,666
Change (%)	97.6	74.4	93.8	66.7	39.9	30.0	33.0	32.1	80.5	33.3
Total Expenses	575	738	800	994	805	958	1,100	1,303	3,106	4,165
EBITDA	221	263	318	343	309	344	387	463	1,145	1,501
Change (%)	116.7	60.6	98.9	110.3	39.6	30.7	21.5	35.0	94.5	31.2
EBITDA Margin (%)	27.8	26.3	28.5	25.6	27.7	26.4	26.0	26.2	26.9	26.5
Depreciation	42	44	48	43	43	50	62	85	178	239
Interest	9	17	12	16	16	21	24	30	53	91
Other Income	6	6	12	15	9	9	9	3	40	30
PBT	176	208	270	299	259	282	310	351	953	1,201
Tax	62	72	66	36	36	54	59	68	236	216
Tax/PBT (%)	35.0	34.6	24.5	12.1	14.0	19.0	19.0	19.3	24.7	18.0
PAT	115	136	204	263	223	229	251	283	718	985
Adjusted PAT	115	136	204	263	223	229	251	283	718	985
Change (%)	144.6	45.9	133.4	144.6	94.0	68.0	23.1	7.7	114.2	37.3
PAT Margin (%)	14.4	13.6	18.2	19.7	20.0	17.6	16.9	16.0	16.9	17.4

E: MOST Estimates

Great Offshore

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GOFF IN
	REUTERS CODE
S&P CNX: 5,021	GOFS.BO

28 September 2007

Buy

Rs817

Previous Recommendation: Buy

Equity Shares (m)	38.1
52-Week Range	905/502
1,6,12 Rel. Perf. (%)	-11/10/-
M.Cap. (Rs b)	31.1
M.Cap. (US\$ b)	0.8

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	5,822	1,452	38.1	49.6	21.5	5.0	23.5	14.1	6.5	14.5
3/08E	6,886	1,827	47.9	25.8	17.0	4.1	26.5	12.6	5.6	10.9
3/09E	7,754	2,932	73.6	53.6	11.1	2.9	26.1	14.3	5.1	8.7

- ✦ We expect 2QFY08 to remain muted for Great Offshore due to dry-docking of its drill barge *Badrinath* for most of the quarter. However, we expect profitability to be better than 1QFY08, as much of the US\$9m dry-docking charge was incurred in 1QFY08. (*Badrinath* has been re-commissioned in end-September at a sharply higher day rate of US\$80,500 compared to US\$30,000 earlier.)
- ✦ During the quarter, the ownership issue was settled with Vijay Sheth acquiring ~14% stake held by other family members. Management autonomy coupled with a strong balance sheet, we believe, has set the stage for Great Offshore seeking to acquire offshore assets.
- ✦ As part funding, the company has issued Rs 1.5b worth of 10% preference shares to Exim Bank convertible at Rs 875 per share. Further, it has also obtained shareholders' approval for an FCCB of US\$50m.
- ✦ The preference dividend in FY08 and the expected conversion to equity in FY09 has caused us to lower our FY08E EPS by 9% to Rs 47.9 (Rs 52.8 earlier), and FY09E EPS by 5% to Rs 73.6 (Rs 77.8 earlier).
- ✦ The stock trades at a P/E of 17x FY08E and 11.1x FY09E. Our DCF-based target price is Rs 911. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08 #				FY07#	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Operating Income	1,122	1,271	1,483	1,493	1,450	1,338	2,056	2,042	5,822	6,886
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.9	18.3
Total Expenses	543	646	761	812	1,090	727	786	732	3,194	3,336
EBITDA	579	624	722	681	360	611	1,269	1,310	2,628	3,551
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	62.5	35.1
EBITDA Margin (%)	51.6	49.1	48.7	45.6	24.8	45.7	61.7	64.2	45.1	51.6
Depreciation	137	147	193	220	236	250	275	277	709	1,038
Interest	58	73	95	133	136	135	135	135	361	542
Other Income	36	9	6	27	83	32	32	32	79	178
Extraordinary Inc/ (Exp)	0	0	0	0	207	0	0	0	0	0
PBT	421	414	439	354	277	257	890	930	1,638	2,148
Tax	70	26	64	54	-4	15	62	72	186	145
Tax/PBT (%)	16.6	6.3	14.5	15.4	-1.6	6.0	7.0	7.7	11.3	6.8
Reported PAT	351	388	375	299	282	242	828	858	1,452	2,002
Adjusted PAT	351	388	375	299	74	242	828	682	1,452	1,827
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.6	25.8
PAT Margin (%)	31.3	30.5	25.3	20.0	5.1	18.1	40.3	33.4	24.9	26.5

E: MOST Estimates; * Standalone; # Consolidated

Greaves Cotton

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	GRV IN
	REUTERS CODE
S&P CNX: 5,021	GRVL.BO
Equity Shares (m)	48.8
52-Week Range	420/276
1,6,12 Rel. Perf. (%)	-11/-34/-40
M.Cap. (Rs b)	15.5
M.Cap. (US\$ b)	0.4

28 September 2007

Buy

Rs317

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
6/07A	11,009	1,216	24.9	63.3	12.7	5.3	48.0	48.5	1.2	9.4
6/08E	14,246	1,301	26.6	7.0	11.9	4.0	38.3	50.8	0.9	7.3
6/09E	18,332	1,723	35.3	32.5	9.0	3.0	38.5	54.3	0.7	5.2

- ✦ We expect Greaves' sales to grow 14% YoY in 1QFY08 due to the following:
 - ✦ Three-wheeler engine sales down 5% YoY [in 1QFY08, the three-wheeler market is down 5% YoY due to: (1) higher interest rates; and (2) part-cannibalization by *Tata Ace*]
 - ✦ Non-auto engines sales up 17% YoY led by 30% growth in genset engines
 - ✦ Infrastructure equipment sales in the hyper growth mode, up 65% YoY
- ✦ EBITDA margin is expected to drop 360bp YoY to 12.1%. Given high operating leverage in auto engines, we have factored in a sharp 530bp drop in engines EBIT margin to 13%. Infrastructure equipment margins should remain healthy due to economies of scale and strong rupee, lowering cost of imported components.
- ✦ Expected PAT is Rs207m, down 15.5% YoY.
- ✦ Greaves has lined up new products both in the engines and infrastructure equipment segments. We believe the full benefit of this will be felt from 2QFY08.
- ✦ The stock currently trades at 11.9x FY08E and 9x FY09E earnings. We maintain **Buy** with a target of Rs423 (12x FY09E).

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07 *				FY08E *				FY07#	FY08E#
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	2,520	2,871	2,892	2,523	2,879	3,709	3,774	3,351	11,009	14,246
Change (%)	32.6	38.3	36.7	12.5	14.1	29.1	30.4	32.7	31.9	29.4
Total Expenses	2,125	2,397	2,414	2,250	2,529	3,136	3,194	2,850	9,377	12,165
EBITDA	395	474	478	273	349	573	580	501	1,631	2,081
Change (%)	33.5	39.8	54.0	-14.9	-11.6	20.9	21.2	83.1	22.2	27.6
EBITDA Margin (%)	15.7	16.5	16.5	10.8	12.1	15.5	15.4	14.9	14.8	14.6
Depreciation	37	39	42	42	50	55	60	60	176	255
Interest	32	51	41	32	39	47	48	53	158	192
Other Income	21	28	26	58	36	47	48	42	143	183
PBT	348	412	421	257	296	518	520	430	1,440	1,817
Tax	102	114	82	-84	89	155	156	129	224	516
Tax/PBT (%)	29.4	27.6	19.5	-32.6	30.0	30.0	30.0	30.0	15.6	28.4
Reported PAT	246	298	339	341	207	363	364	301	1,216	1,301
Adjusted PAT	246	298	339	341	207	363	364	301	1,216	1,301
Change (%)	66.4	66.3	59.3	53.1	-15.5	21.6	7.3	-11.6	63.3	7.0
PAT Margin (%)	9.7	10.4	11.7	13.5	7.2	9.8	9.6	9.0	11.0	9.1

E: MOST Estimates; * Standalone; # Consolidated

United Phosphorus

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,291	UNTP IN
	REUTERS CODE
S&P CNX: 5,021	UNPO.BO

28 September 2007

Buy

Rs396

Equity Shares (m)	187.5
52-Week Range	407/233
1,6,12 Rel. Perf. (%)	8/-10/26
M.Cap. (Rs b)	74.3
M.Cap. (US\$ b)	1.9

Previous Recommendation: Buy

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	24,710	2,884	14.3	33.4	27.7	5.0	20.8	13.9	3.5	14.6
3/08E	36,893	3,719	18.4	28.9	21.5	4.2	22.9	16.1	2.3	10.7
3/09E	41,913	5,394	26.7	45.0	14.8	3.3	26.9	20.7	1.9	8.1

Excluding Advanta & Cerexagri

- United Phosphorus (UPL) is expected to report 71% YoY growth in consolidated revenues to Rs8.9b, driven primarily by acquisition of Cerexagri and five products since August 2006, although numbers may not be strictly comparable. While domestic business is expected to grow by 18%, exports should grow by 105% on account of Cerexagri consolidation.
- EBITDA margins are expected to decline by 450bp to 21.5%, on account of Cerexagri consolidation. Also, higher depreciation (up 35% YoY) and higher depreciation (up 100%), will restrict PAT growth at 25.8% YoY to Rs825m. However, after accounting for Rs110m of share of profits of Advanta, reported PAT would grow 42.6% YoY to Rs935m.
- The company plans to raise funds via preferential allotment of warrants to promoters (~31.1m shares) and also through equity issue to the institutions to the extent of US\$500m. While these two combined might result in equity dilution of 35-40%, any sizeable acquisitions for which these funds are raised might neutralize the impact of equity dilution.
- Current valuations at 21.5x FY08E and 14.8x FY09E consolidated EPS do not fully reflect strong business fundamentals and any upsides from potential acquisitions. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Gross Revenues	4,804	5,169	4,840	9,897	8,450	8,861	8,106	11,476	24,709	36,893
YoY Change (%)	17.9	18.0	25.8	73.1	75.9	71.4	67.5	15.9	37.1	49.3
Total Expenditure	3,589	3,824	3,671	7,743	6,754	6,956	6,526	8,852	18,827	29,087
EBITDA	1,215	1,345	1,169	2,154	1,697	1,905	1,581	2,623	5,883	7,806
Margins (%)	25.3	26.0	24.1	21.8	20.1	21.5	19.5	22.9	23.8	21.2
Depreciation	360	370	409	517	505	500	505	514	1,656	2,023
Interest	241	219	183	403	320	440	445	445	1,046	1,650
PBT before EO Expense	614	755	577	1,234	872	965	631	1,664	3,181	4,132
Extra-Ord Expense	0	0	0	76	0	0	0	0	76	0
PBT after EO Expense	614	755	577	1,158	872	965	631	1,664	3,105	4,132
Tax	22	4	47	79	139	140	240	205	153	537
Deferred Tax	51	94	174	52	0	0	0	0	372	186
Rate (%)	12.0	13.1	38.2	11.4	15.9	14.5	38.0	12.3	16.9	17.5
Reported PAT	541	656	357	1,026	733	825	391	1,460	2,580	3,409
Income from Associate Co	0	0	0	242	4	110	70	125	242	310
Adjusted PAT	541	656	357	1,335	738	935	461	1,585	2,885	3,719
YoY Change (%)	40.8	39.1	54.2	20.2	36.5	42.6	29.2	18.7	32.4	28.9
Margins (%)	11.3	12.7	7.4	13.5	8.7	10.6	5.7	13.8	11.7	10.1

E: M0St Estimates; *Excludes Cerexagri' s restructuring cost

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N O T E S



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