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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Bharti	8-Jan-07	625	967	1,100
♦ ITC	12-Aug-04	69	221	241
♦ M&M	1-Apr-04	232	860	900
♦ SBI	19-Dec-03	476	2,421	2,680
♦ TCS	6-Mar-06	852	1,049	1,425

Pulse Track

♦ Export growth continues to be resilient

The trade deficit (TD) for November 2007 has increased to \$7.4 billion from \$5.5 billion in November 2006 and has marginally declined as compared with \$7.5 billion in October 2007. The oil bill has remained steady while growth in non-oil imports has recovered in the last two months. On a year-on-year basis, exports grew by 26.8% in dollar terms and by 11.5% in rupee terms. The resilient growth in exports continues which has been a real positive surprise so far. However, a lot of the export growth is likely to have been driven by the export of refined petroleum products excluding which the growth may remain subdued.

Non-oil imports recover after a blip in September

Imports in dollar terms increased by 29.3% yoy to \$19.8 billion in November 2007. Oil imports rose by 16.7%, while

non-oil imports increase by 35.3% reflecting a recovery in the demand for imported capital goods after a temporary blip in September 2007. In rupee terms, imports increased by 13.7% yoy.

Outlook

For the first eight months of FY2008, exports and imports have grown by 22.6% and 26.9% respectively. The export growth continues to be resilient and has so far not shown any significant moderation as was expected earlier. As expected, the blip in the non-oil imports during September 2007 turned out to be an aberration and growth rates have recovered which reiterates that investment demand still remains strong.

Merchandise trade data

US\$ bn	Nov-07	Nov-06	% yoy	Oct-07	% yoy	YTD FY08	YTD FY07	% yoy
Exports	12.4	9.8	26.8	13.3	35.6	98.8	80.6	22.6
Imports	19.8	15.3	29.3	20.8	24.2	151.1	119.1	26.9
Oil	5.8	5.0	16.7	6.1	14.6	43.4	39.1	10.8
Non-oil	14.0	10.4	35.3	14.7	28.8	106.5	80.0	33.1
Trade deficit	-7.4	-5.5	33.6	-7.5	8.1	52.3	38.5	35.8

The data for November 2007 is provisional. The data for the previous months has been revised wherever applicable

Source: DGCI&S

Sharekhan Special

Q3FY2008 IT earnings preview

The Q3 performance of frontline tech stocks is likely to be in line with street expectations with organic growth in revenues and earnings to be in the range of 5-7.5% on a sequential basis. Including the consolidation of results of Infocrossing (expected revenues of \$60 million), Wipro Technologies' (Wipro) revenue growth is estimated to be around 12.3% sequentially. With no surprises in Q3 performance, the focus would be on the commentary related to the demand environment and the possible fallout of sub-prime issue. However, going by the recent comments of some of the global majors post their results, we expect the companies to maintain their neutral stand on the issue. Any sign of weakness in the commentary would severely impact the sentiments towards tech stocks.

Unexpected appreciation against Pound Sterling

It has been the steep and sudden appreciation of the rupee against the US dollar (USD) that has played spoilsport in the last two quarters. Fortunately in Q3, the dollar was largely stable and remained in the Rs39-40/USD band through out the quarter. However, the unexpected appreciation of the rupee against the Pound Sterling would adversely impact the performance in Q3FY2008, since most companies do not hedge aggressively against the Pound Sterling. On the contrary the companies have been taking initiatives to increase the proportion of billing from Europe.

On the end-of-period basis, the rupee has appreciated by 2% against the Pound Sterling with marginal appreciation of 0.8% against the USD. On the brighter side, we expect the depreciation of rupee against the Euro to more or less nullify the adverse impact of rupee appreciation against the Pound Sterling.

INR vs	End of period rates		Average rates	
	30-Sep-07	31-Dec-07	30-Sep-07	31-Dec-07
US (\$)	39.7	39.4	40.5	39.5
% q-o-q chg		-0.8		-2.6
Euro	56.3	58.1	55.7	57.2
% q-o-q chg		3.2		2.6
Pound Sterling	80.3	78.7	81.9	80.8
% q-o-q chg		-2.0		-1.4

Margins divergence to continue

The operating margins of Infosys, TCS and Satyam Computer (Satyam) are estimated to improve sequentially with the impact of wage hikes already reflected in H1 and relative stability on the exchange-rate front. Satyam is likely to show a significant improvement due to the lower base effect (as the wage hike was effective from Q2).

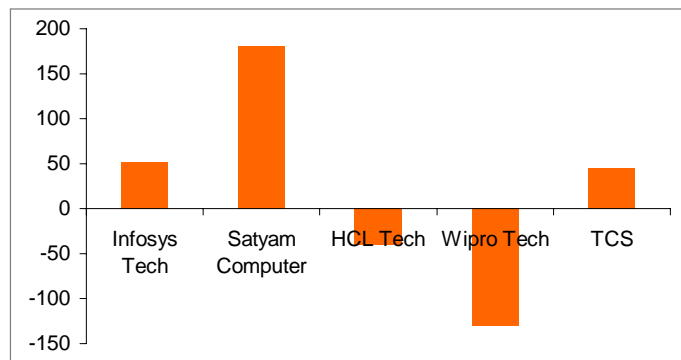
On the other hand, partial wage hikes affected by Wipro and HCL Technologies in Q3 would dent their margins. The

Quarterly estimates

(Rs crore)	Net sales			Net profit			EPS (Rs)	OPM (%)
	Q3FY08	% qoq	% yoy	Q3FY08	% qoq	% yoy		
Infosys Tech	4331.4	5.5	18.5	1172.8	6.6	19.3	20.50	31.8
Guidance	4238-4258						20.11	
Satyam Comp	2152.8	6.0	29.6	432.9	5.8	28.4	6.3	21.7
Guidance	2104.5-2114.5						6.18-6.21	
HCL Tech	1816.4	6.3	24.0	330.5	7.2	15.4	4.8	22.1
Wipro (cons)	5319.4	12.5	34.2	867.9	6.9	16.5	6.0	17.0
Wipro (Global IT)	3626.9	12.3	25.6					
Guidance (Global IT)	\$905 mln							
TCS	6012.2	6.6	23.7	1311.4	5.2	18.7	13.4	24.4

worst hit would be Wipro due to the impact of annual wage hike given to its offshore manpower during the quarter.

Margins, HCL Tech and Wipro dented by wage hikes



Implied growth for Q4 indicates a possible downward revision in Infosys

The implied growth of around 10% in earnings during Q4 suggests that there could be some downward revision in earnings estimates of Infosys in the post-results update. On the other hand, we are likely to revise upwards the estimates for TCS and Wipro (due to consolidation of Infocrossing).

Valuation

We continue to prefer HCL Technologies (given the company's strong results in the past three quarters, aggressive hedging strategy and reasonably attractive valuations) and Satyam (based on the distinct improvement in the company's operating metrics, relatively lower exposure to the BFSI vertical and strong growth momentum in its enterprise business). Moreover, Satyam is trading at around 20% discount to Infosys and TCS. Among the mid-cap tech companies, we prefer 3i Infotech (purely on valuation basis and due to the company's limited exposure to the US geography).

Valuation matrix

	EPS (Rs)			P/E		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Infosys	66.9	81.0	97.3	25.7	21.3	17.7
TCS	42.2	51.4	61.8	24.6	20.2	16.8
Wipro	20.4	22.6	26.8	25.0	22.6	19.0
Satyam	21.4	25.2	30.3	20.5	17.4	14.5
HCL Tech	18.4	18.5	23.8	17.2	17.1	13.3

The author doesn't hold any investment in any of the companies mentioned in the article.

Automobiles

Sector Update

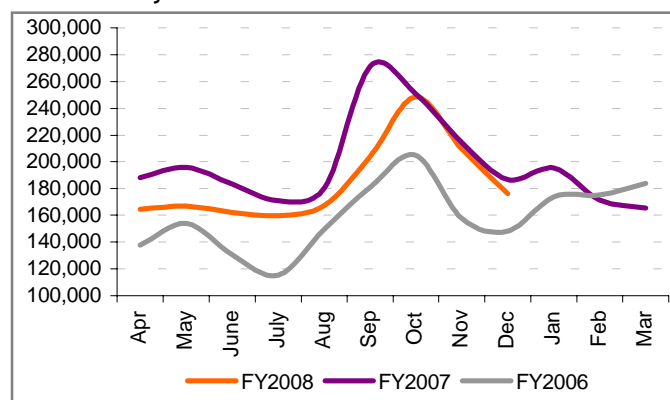
Recovery from January onwards

Sales of automobile majors for December 2007 were slightly below our expectations. In December automobile sales normally slow down as vehicles sold in December are counted as 2007 models whereas vehicles sold in January become 2008 models, thereby significantly impacting the resale value of the vehicle. Further, the companies also undertake maintenance shutdown in December and reduce production during the month and try to get rid of the old stock. However, sales are expected to pick up from January onwards coupled with higher production.

BAL

- For December 2007, Bajaj Auto Ltd's (BAL) motorcycle sales at 176,441 units declined by 5.7% year on year (yoy) and 15.9% month on month (mom).
- Apart from *XCD* and *Platina*, sales of other motorcycle brands have been impacted by the year-end phenomenon and continuing slowdown in the segment due to credit squeeze.
- The 125cc *XCD DTS-Si* is facing a capacity constraint. However, higher capacity of upto 75,000 units per month will be added from January 2008 onwards at Waluj and Pantnagar plants. Consequently, motorcycle sales are expected to show positive year-on-year (y-o-y) growth in the next two months.
- Exports continued its strong growth at 29% to 50,702 units.

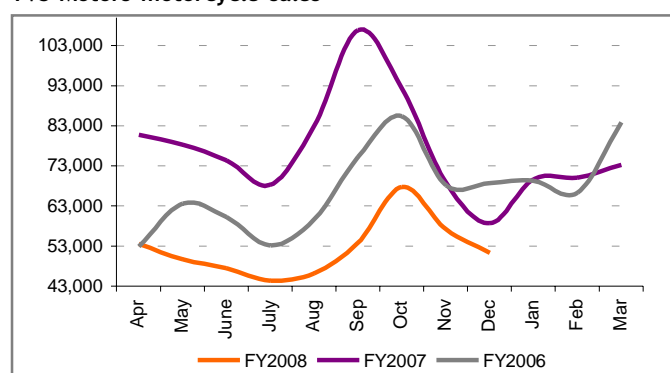
BAL's motorcycle sales



TVS Motors

- TVS Motors' motorcycle sales for December declined by 12.7% to 51,293 vehicles.
- The moped and scooter sales grew by 4.2%.
- The company has begun the national launch of its new motorcycle *Flame* and plans to unveil a new electric scooter called *Teenz Electric*.

TVS Motors motorcycle sales



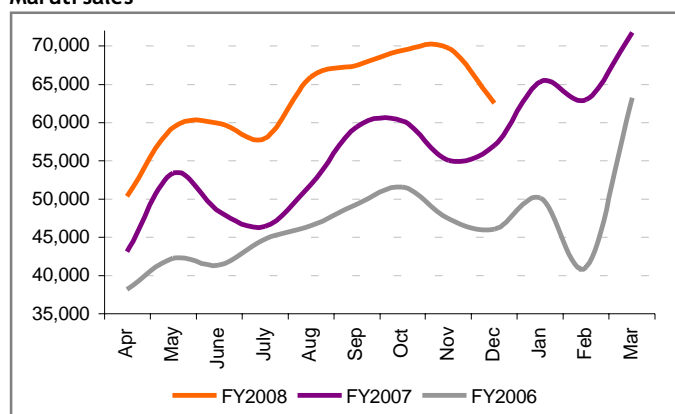
Sales for December 2007

Particulars	Dec-07	Dec-06	% yoy	% mom	YTD-08	YTD-07	% yoy
Bajaj Auto							
Motorcycles	176,441	187,063	-5.7	-15.9	1,660,182	1,843,654	-10
Total two-wheelers	177,249	187,179	-5.3	-16.2	1,678,491	1,858,641	-10
Three-wheelers	22,221	27,749	-20	-8.2	220,636	237,198	-7
Grand total	199,470	214,928	-7	-15.4	1,899,127	2,095,839	-9
TVS Motors							
Motorcycle	51,293	58,756	-12.7	-10.2	471,226	711,785	-33.8
Others	46,283	44,432	4.2	-16.8	511,991	446,965	14.5
Total	97,576	103,188	-5.4	-13.5	885,641	1,055,562	-16.1

Maruti

- ♦ Maruti sales grew by 9.7% in December 2007.
- ♦ The sales growth in December at 9.7% was low as the company achieved its highest-ever sales in November 2007. Consequently the opening stock available for sale in December was low. The availability of stock for sale in December was also affected due to the maintenance shutdown during the month.
- ♦ *Maruti 800* has been witnessing recovery in sales for the last two months mainly due to a countrywide campaign launched for the promotion of the product.
- ♦ The A2 segment comprising *Alto*, *Zen Estilo*, *Wagon R* and *Swift* grew by only 2.9%. *Alto* had achieved its highest ever sales in November 2007.
- ♦ The A3 segment continues to perform well on the back of the strong sales of *SX4*.
- ♦ Exports at 4,114 vehicles grew by 75.4%.

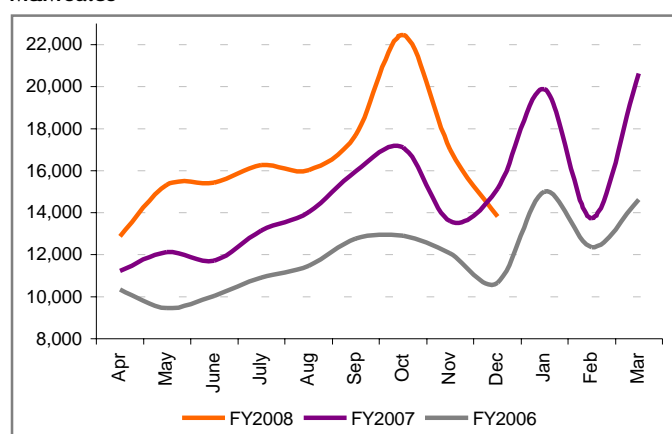
Maruti sales



Mahindra and Mahindra

- ♦ Mahindra and Mahindra's automobile sales declined by 12% in December. Sales of utility vehicles (UVs) and three-wheelers declined, however light commercial vehicles (LCVs) witnessed a growth.
- ♦ UV sales declined by 12%, whereas *Scorpio* sales declined by 22%.
- ♦ Decline in sales during the month can also be attributed to the company's strategy of not offering any discounts or promotions during the month.
- ♦ Tractor sales grew by 3% as export sales grew by 32%, whereas domestic sales remained flat.

M&M sales



Sales for December 2007

Particulars	Dec-07	Dec-06	% yoy	% mom	YTD-08	YTD-07	% yoy
Maruti							
A1 - M-800	7,190	7,289	-1.4	27.2	51,985	60,128	-13.5
A2 - Zen Estilo, Alto, Swift, Wagon R	39,575	38,461	2.9	-16.9	367,395	305,658	20.2
A3 - Esteem, Baleno, Sx4	3,291	2,127	54.7	-22.7	36,902	22,870	61.4
C - Omni, Versa	8,034	6,523	23.2	9.6	65,559	58,758	11.6
Total passenger cars	58,090	54,400	6.8	-10.5	521,841	447,414	16.6
MUV	311	240	29.6	-6.0	2,792	2,316	20.6
Domestic	58,401	54,640	6.9	-10.4	524,633	449,730	16.7
Export	4,114	2,345	75.4	-8.2	37,990	25,082	51.5
Total sales	62,515	56,985	9.7	-10.3	562,623	474,812	18.5
Mahindra and Mahindra							
Utility vehicles	9,909	11,276	-12	-21.7	105,762	87,977	20
Scorpio	2,476	3,160	-22	-9.5	29,331	26,673	10
Uvs-w/o Scorpio	7,433	8,116	-8	-0.2	76,431	61,304	25
LCVs	802	724	11	-1.2	7,905	6,086	30
Three-wheelers	2,052	2,559	-20	-27.0	25,150	23,877	5
Total automotive	12,763	14,557	-12.3	-21.6	138,816	117,998	17.6
Exports	1,049	575	82	41.9	8,085	6,044	34
Tractors	6,962	6,759	3	-13.7	75,736	79,053	-4

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
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Canara Bank
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