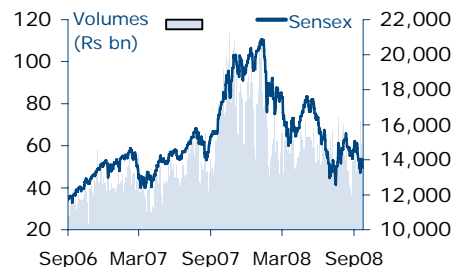


Market Front Page

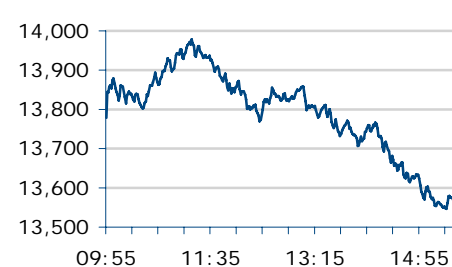
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	13,570	(3.0)	(33.1)	HDFC Bank	91.7	5.7	13.3
Nifty	4,127	(2.3)	(32.8)	Reliance	89.0	(1.8)	1.4
BSE Smallcap	6,093	(1.6)	(54.4)	Infosys	35.2	(4.8)	4.2
CNX Midcap	5,199	(1.5)	(43.5)	Satyam	17.6	(6.4)	21.7
Nasdaq	2,153	(1.2)	(18.8)	Wipro	9.9	(2.8)	16.1
DJIA	10,854	(1.5)	(18.2)	ICICI Bank	26.0	0.8	(0.8)
IBOV	49,593	(3.8)	(22.4)	SBI	65.5	(3.7)	(0.3)
FTSE	5,136	0.0	(20.5)	ITC	4.9	10.7	14.5
CAC	4,140	(2.0)	(26.3)	Tata Motors	9.0	(1.7)	5.0
Turnover	US\$m	% Chg	Commodities				
BSE	934	(11.0)	Latest	%Chg	%YTD		
NSE	2,320	(7.9)	Gold (US\$/ounce)	880	(1.4)	5.5	
Derivatives (NSE)	14,954	16.7	Crude (US\$/bl)	108	(10.8)	12.4	
FII F&O (US\$m)	Index	Stocks	Aluminium (US\$/MT)	2,510	(1.5)	4.2	
Net buying	(36)	(24)	Copper (US\$/MT)	6,980	(3.7)	4.6	
Open interest	8,833	5,110	Forex Rates	Closing	% Chg	%YTD	
Chg in open int.	22	(121)	Rs/US\$	45.7	0.3	16.0	
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/EUR	67.6	1.9	16.3
FII (22/9)	28	(1,502)	(8,760)	Rs/GBP	84.8	1.7	7.7
DII (23/9)	15	1,515	12,965	Bond Markets	Closing	ops	Chg
MF (22/9)	(73)	392	2,912	10 yr bond		8.4	(4.0)
				Interbank call		12.3	(170.0)

Charts Front Page

Sensex price volume



Sensex intraday



Corporate Front Page

- Punj Lloyd bags order worth US\$800m from Qatar Petroleum (FE)
- RIL** may acquire discovered oil and gas assets abroad (DNA)
- US Committee on Energy and Commerce has asked US Secretary of State to provide details of AIDS drug supplied by **Ranbaxy** (ET)
- Cipla** unveils Roche's generic version of anti-infection drug, Valganciclovir, in India (BS)
- Sun Pharma** gets US FDA nod to market generic Paraplatin Carboplatin injection (DNA)
- Reliance Power** plans to enter alternate energy segment, to set up a 100MW solar power plant (DNA)
- CESC** plans to invest Rs240bn over the next four years to boost power generation capacity (DNA)
- Akruti, DLF** and **Reliance ADAG** among others are eyeing commercial development of 45,371 sq meters of railway land in Mumbai (BL)
- Power ministry approves allocation of gas to the power sector from **RIL** KG D6 block (FE)
- HPCL** appeals to finance ministry for 10% interest-rate ceiling on borrowings from public sector banks by the company (FE)
- BPCL** in talks with Shell and LNG Petronet to source gas up to 2.5mmcmd as an alternative to KG basin (DNA)
- Etisalat buys 45% stake in **Swan Telecom** for US\$900m (ET)
- Maruti Suzuki** in talks with Haryana government to acquire land to expand its R&D operations in India (DNA)
- RNRL** plans to invest Rs120bn in cement and shipping business in the next three years (DNA)
- GSPC** arm plans to rope in IFC as an equity partner in the company (DNA)
- Videocon** starts major restructuring by scaling down manufacturing locations across the country, trimming work force and pruning its brand portfolio (ET)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Vijaya Bank	36	3.2	-57.9	Ranbaxy Labs Ltd	309	-11.0	-27.4
NALCO	398	2.8	-17.9	Deccan Chronicle	104	-10.6	-52.8
Orchid Chemicals	223	2.8	-22.0	BF Utilities	1517	-10.0	-32.2
Sesa Goa	127	2.7	-33.7	Rolta India	261	-9.1	-27.1
BPCL	345	2.3	-34.0	Moser Baer India	122	-8.5	-60.3

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Deccan Chronicle	104	556	767	196	291
Ranbaxy Labs Ltd	309	2,529	8,881	2,290	288
Max India	186	901	399	119	235
Titan Inds	1148	1,114	248	85	190
Bharat Elec.	873	1,528	123	42	190
Moser Baer India	122	450	12,729	4,548	180
Sesa Goa	127	2,181	50,795	18,505	174
Vijaya Bank	36	341	2,629	1,105	138
Sobha Developers	196	313	361	178	102
Wire And Wireless	19	92	3,791	1,963	93

FII - FII trades

Scrip	22/9/2008			23/9/2008		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Tata steel	2,415	497	0.2	363	487	-
Sbi	138	1,566	0.5	77	1,527	0.3
Union bank	200	157	3.5	200	151	2.5
Grasim	7	1,943	1.0	18	1,905	0.5
Pantaloon	-	-	-	2	338	16.0

Corporate Front Page

- **Tech Mahindra** and **TCS** eyes Flextronics units (ET)
- **Akruti** has formalized JV with Gujarat government and NCDEX to re-develop bus terminal and warehousing facilities, respectively (ET)
- **BPCL** venture to invest Rs22bn in bio-diesel project (BL)
- **Nagarjuna Construction** secures four new orders worth Rs4.13bn (BL)
- **Tata Elxsi** signs a MoU with subsidiary of Samtech Group, a Belgium-based company (BL)
- **Satyam Computer** opens development center in Pune SEZ (BL)
- **Alok Industries** spin-off its retail operations into a new subsidiary under the name of Alok India Retail Ltd (BL)
- **Sanwaria Agro** to form a SPV in Latin America to invest in corporate farming of soybean and other oil seeds (DNA)
- **Ion exchange** in talks with three South African companies for an acquisition (DNA)
- **Maruti Suzuki** in talks with taxi union in Mumbai to sell Omni as a replacement to ageing Premier Padminis (DNA)
- **Balaji Telefilms** plans to start Hindi entertainment channel (ET)
- Future Group to launch slew of consumer goods ranging from chocolates to toothpaste (BL)

Economy Front Page

- India GSM operators are likely to be charged Rs2.66bn per MHz of spectrum for all the 2G radio frequency they hold over 6.2MHz (ET)
- Employee Provident Fund Organization may withdraw Rs530bn invested in special deposit scheme if the finance ministry doesn't agree to raise interest rate for the scheme (ET)
- Chairman of India Tea Association says 2009 tea season to see short-fall in output (ET)
- Private companies were able to produce only around 15% of their annual target set in the current Five-Year Plan period (BS)
- Government revives plan to take FIIs out of FDI sector limits (BS)
- SEBI chairman says no move to ban short selling in India (BS)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
AMD Industries Ltd	Ashok Gupta	18/09/2008	Buy	700,000	17.4	12	3.7	14.8
AMD Industries Ltd	AMD Financial Services Ltd	18/09/2008	Sell	700,000	17.4	12	3.7	4.6
BSEL Infrastructure Realty Ltd	Kirit R Kanakiya	15/09/2008 - 18/09/2008	Buy	293,198	36.5	11	0.4	5.7
Gitanjali Gems Ltd	Mehul C Choksi	18/09/2008	Buy	80,001	206.5	17	0.1	39.2
Indiabulls Real Estate Ltd	Vipul Bansal	15/09/2008	Sell	165,100	239.0	39	0.1	0.1
Indus Fila Ltd	Kamal Kishor Finvest Private Ltd	17/09/2008	Sell	1,500,000	150.0	225	7.7	37.4
Modern Dairies Ltd	Chandigarh Finance P Ltd	24/07/2008	Buy	775,774	41.0	32	3.3	15.3
Rayban Sun Optics India Ltd	Ray Ban Indian Holdings Inc	18/09/2008	Buy	2,521,841	135.0	340	10.3	80.8
Satyam Computer Services Ltd	Srinivas	--	Sell	52,358	332.0	17	0.0	-

Deal Size worth more than Rs10m considered

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Arshiya Intl	Templeton M F Ac Franklin India High Growth Co Fund	23/09/2008	Sell	895,561	155.0	139
Moth Sumi Sy	Samvardhana Motherson Finance Ltd	23/09/2008	Buy	2,874,890	90.0	259
Moth Sumi Sy	Ganpati Auto Industries	23/09/2008	Sell	529,935	90.0	48
Moth Sumi Sy	Motherson	23/09/2008	Sell	2,344,955	90.0	211
Panacea Biot	Bnp Paribas Arbitrage	23/09/2008	Buy	493,777	226.0	112
Panacea Biot	Clsa Mauritius Ltd	23/09/2008	Buy	1,375,367	228.5	314
Panacea Biot	Merril Lynch Capital Markets Espana SA SV FCCB	23/09/2008	Sell	1,869,144	227.8	426
Ruchi Soya	Goldman Sachs Investments Mauritius I Ltd	23/09/2008	Buy	1,200,000	77.2	93
Ruchi Soya	Calyon	23/09/2008	Sell	1,200,000	77.2	93
Sasken Commu Techno Ltd	Wexford Capital Llc A/C Wexford Spectrum Investors LLC	23/09/2008	Buy	144,900	134.9	20



India Strategy - Charting India (Sep 2008)

24 September 2008

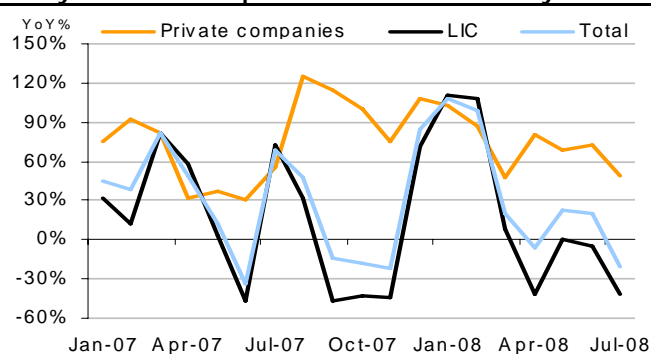
- The rural economy is emerging as one bright spot for India this year. The combination of higher prices (minimum support prices for key crops, ex-sugarcane, is up 14-40% YoY) and likely higher production (monsoon rainfall has been quite good) of agri crops, is driving up rural incomes. The positive rub-off of the farm-loan waiver is a further kicker to demand growth. Rural demand is less interest-rate-sensitive as well. We will likely see positive surprises in revenue growth of companies with large exposure to the rural segment. Companies like Hero Honda and Hindustan Unilever are the key beneficiaries of this demand.
- September would go down as the month in which equities, bonds, commodities and currencies hit historic high volatility levels, globally. Intra-day spikes and falls in prices of crude oil, precious metals, select equity indices, for example, were in the 10-30% range. EMs have underperformed developed markets by 10%pt YTD, with recent underperformance primarily led by Russia. Heightened risk aversion hit mid-small caps in India quite hard, with these indices underperforming Nifty by 7-8% points in the past month alone.
- Domestic liquidity conditions have tightened further. Overnight call money rates jumped to nearly 15% post the advance tax outflows on 15 September. This rise in short-term rates has further inverted the yield curve, with the 10-yr bond now 50bps below the 1-yr T-bill and 300bps below the call rate. Despite the rise in short-term rates, rupee depreciated and hit a 2-year low against the US\$. 2008 YTD, the rupee has depreciated 15-20% against the four key currencies. The rise in consumer price indices and fiscal deficit (up 23% YoY till July) remain as irritants to any plausible change in policy stance in the latter part of the year.
- For the past few months, we have seen sustained downgrades in consensus earnings and that trend remained unchanged in September. Earnings estimates for BSE100 have been further downgraded by 1% each for both FY09 and FY10, with Real Estate and Financials seeing the biggest downgrades. The expected softening in commodity prices, potential delays in RPL's commissioning and RIL's gas production, and a cyclical slowdown in investments remain as risk factors for market earnings in the near term.
- First year insurance premiums declined in July lead by a 42% decline. Even Ytd, first year insurance premium for LIC has grown just 11% as against 67% growth for private sector.

Sharp rise in MSPs to support rural demand

Crop	2008 Season (YoY%)
Paddy (common)	20.8
Jowar (hybrid)	40.0
Bajra (Pearl millet)	40.0
Maize	35.5
Moong	44.8
Cotton (F-414/H-777/J34)	38.9
Groundnut (in shell)	35.5
Soybean (Yellow)	32.4
Jute	18.5
Sugarcane	0.0

Source: CMIE, Govt of India

First year insurance premiums declined in July



Source: IRDA

Key charts

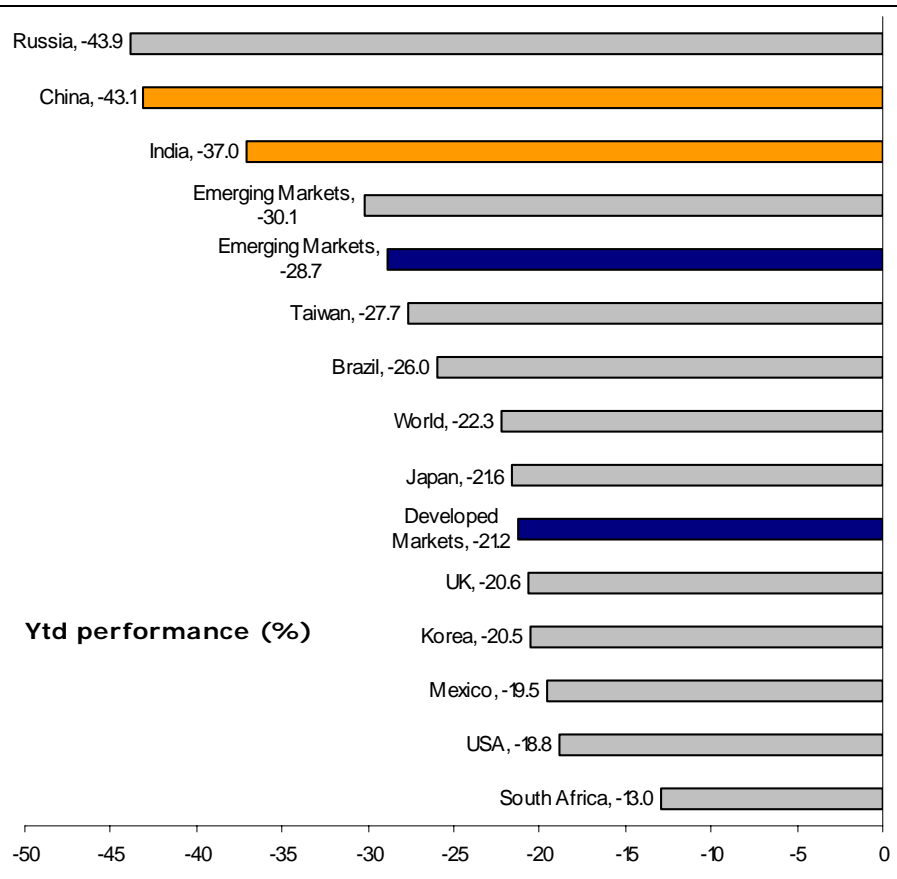
- Figure 47:** 30-40% increase in minimum support prices would spur rural consumption
- Figure 6:** LME base metal index is at the lowest in over two years
- Figure 16:** Sharp spike in intra-day volatility in both Indian and global equities
- Figure 18:** Yield curve inversion has deepened, suggesting deceleration in growth
- Figure 27:** Freight traffic growth of Railways decelerated sharply in August
- Figure 29:** Net employee addition for IT Services companies was lowest in at least 10qtrs in 1QFY09
- Figure 37:** M3 growth has picked up again after briefly falling below 20%
- Figure 41:** Rural CPI has ticked up above 10% - its highest level this decade
- Figure 69:** Delivery volumes on exchanges have seen sharp increase as domestic institutions supported market during recent fall
- Figure 73:** First-year insurance premiums declined on YoY basis in July as inflows for LIC dropped sharply

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Global equities – the tumble

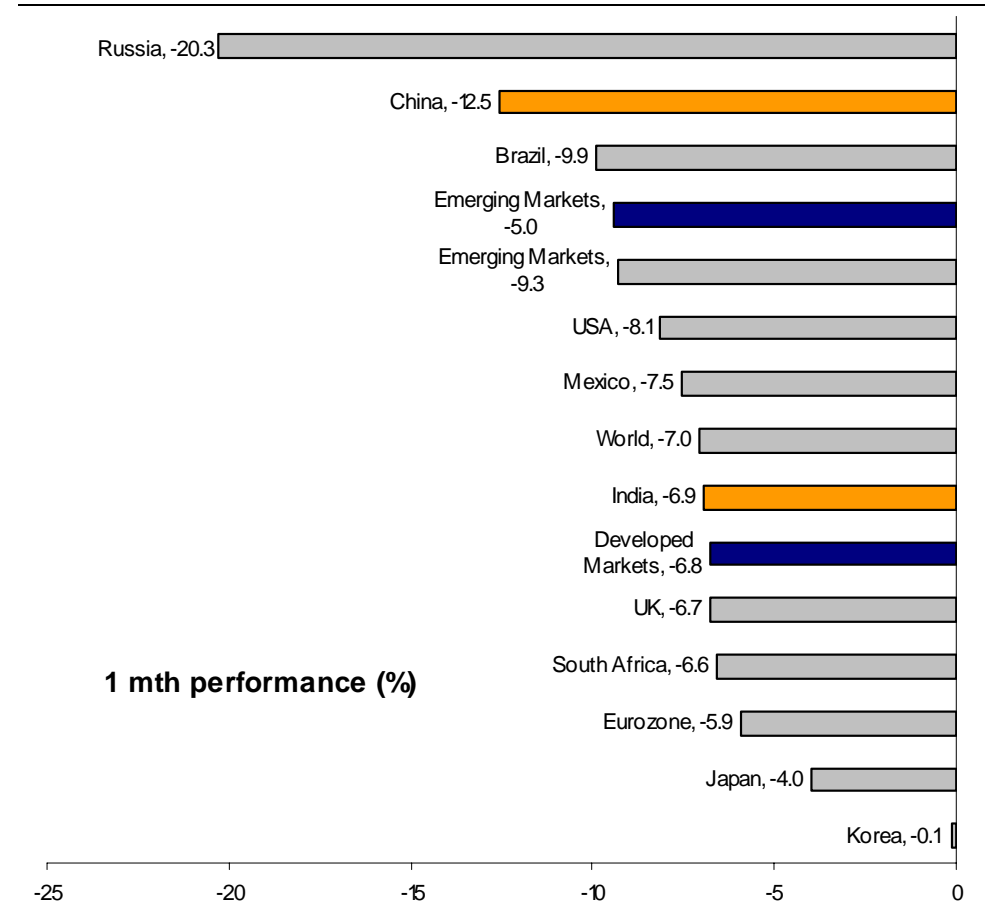
Figure 1: EM equities underperformance relative to DM equities has widened to over 10%pts Ytd now



Source: Bloomberg, MSCI, Updated as of CoB 23rd Sept 2008

- Despite all the problems in OECD markets, emerging markets have underperformed in 2008YTD, now mainly due to Russia and China. This will be the first year since 2000 that EM equities would underperform, should this trend persist till year-end.

Figure 2: Equities across the board in the red over the past month

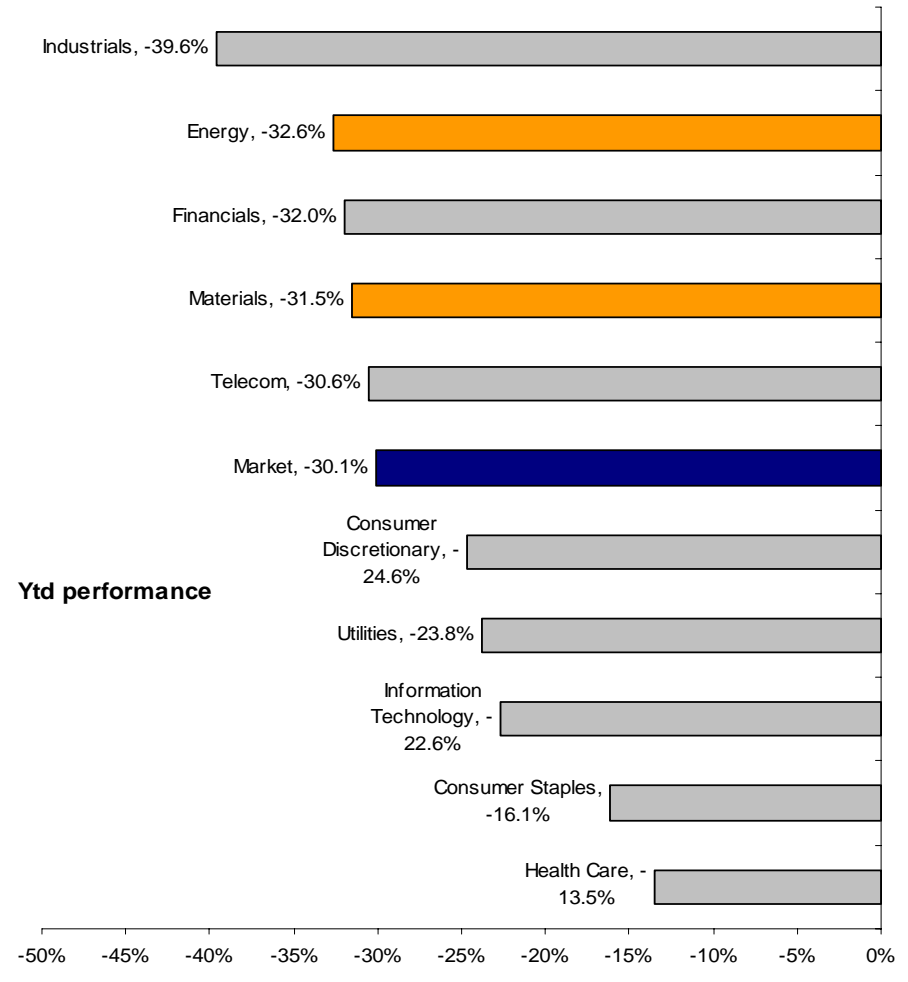


Source: Bloomberg, MSCI, Updated as of CoB 23rd Sept 2008

- India has outperformed EM equities over the past month.
- Russia, with a host of political and financial troubles, was the worst performing major market in the past month.

EM sector performance

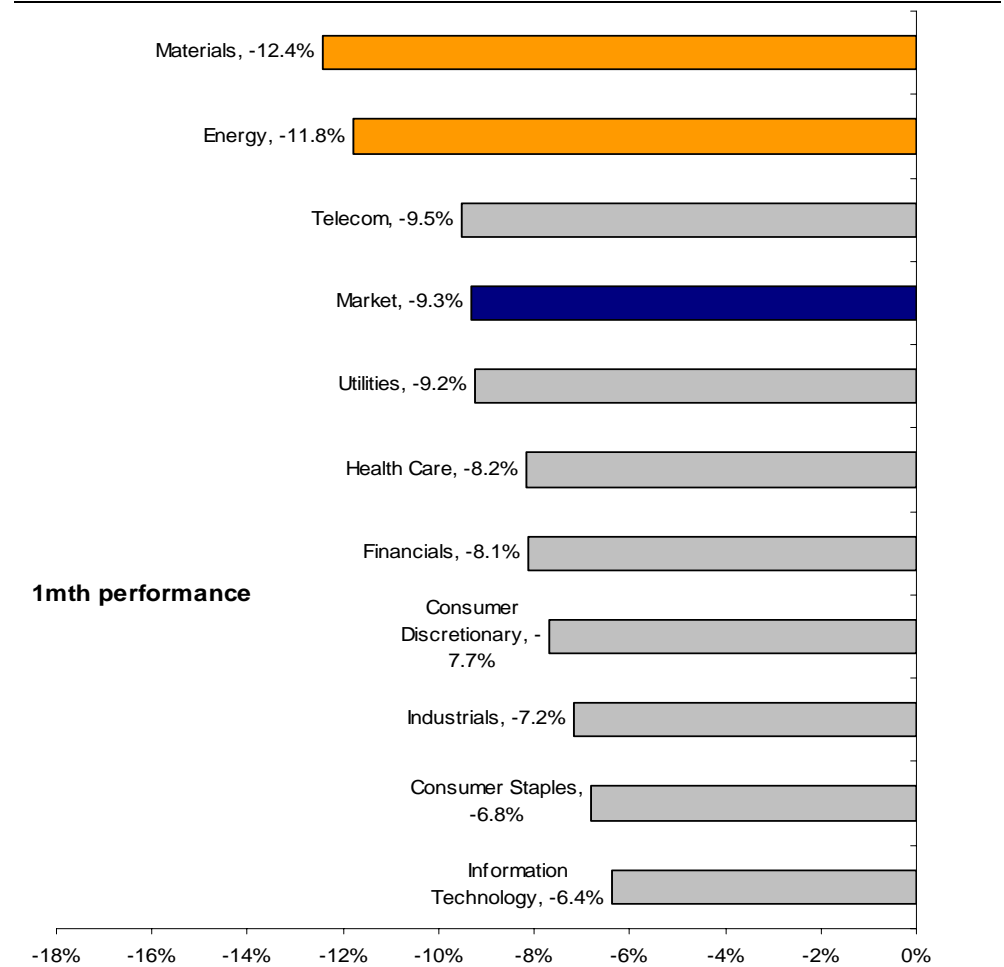
Figure 3: Industrials and Energy are the worst-performing sectors YTD



Source: Bloomberg, MSCI, Updated as of CoB 23rd Sept 2008

- After being amongst the best performing sectors in the first half of the year, energy and materials have corrected sharply and have now underperformed the market Ytd.

Figure 4: All sectors are in the red over the past month with materials and energy the worst performing sectors

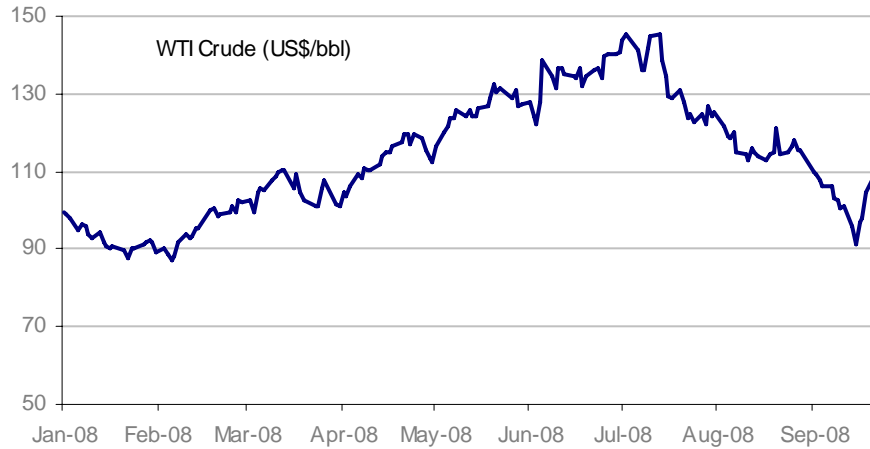


Source: Bloomberg, MSCI, Updated as of CoB 23rd Sept 2008

- Notwithstanding the recent turmoil in global financial markets, EM financials have actually outperformed the broader market over the past month

Global Commodities

Figure 5: Crude – now almost flat on the year



Source: Bloomberg. Updated as of CoB 22nd September 2008

- While it took crude 96 days to go from US\$100/bbl to US\$145/bbl, on the way down, the journey back to US\$100/bbl took just 51 days.

Figure 6: Base metals too have corrected sharply – down 28% from the top



Source: Bloomberg. Updated as of CoB 22nd September 2008

- LME base metal index is currently at its lowest in over two years.

Figure 7: Gold – big gainer in the carnage in the financial markets



Source: Bloomberg. Updated as of intra-day 23 September 2008

Figure 8: Commodity price performance

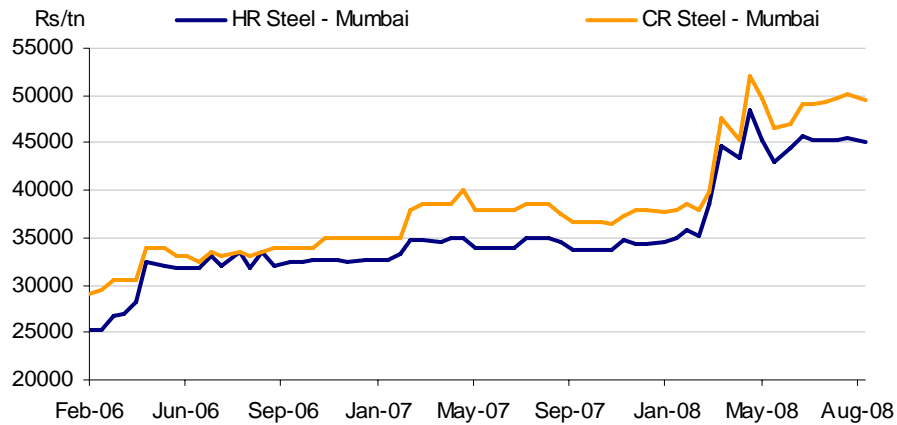
	Current price	1 mth chg	3 mth chg	6 mth chg	1 yr chg	Ytd chg
Aluminium (US\$/tonne)	2,495.3	-8.9	-19.3	-10.9	6.1	5.8
Coal (US\$/tonne)	141.0	-13.8	-12.4	8.9	108.1	57.5
Copper (US\$/tonne)	7,276.0	-6.3	-15.4	-8.7	-8.2	9.6
Corn (US\$/bushel)	5.1	-5.2	-24.0	9.8	55.1	20.8
Crude Oil (US\$/bbl)	109	-4.6	-19.0	6.0	30.7	13.5
Gold (US\$/t oz.)	890.6	8.2	0.8	-3.1	21.7	6.8
Lead (US\$/tonne)	1,977.5	5.3	6.4	-26.8	-42.4	-22.3
Nickel (US\$/tonne)	17,305.0	-16.9	-22.2	-39.0	-45.9	-33.5
Platinum (US\$/t oz.)	1,227.1	-14.5	-39.8	-33.9	-7.5	-19.6
Wheat US\$/bushel (60lb)	5.4	-24.7	-26.6	-42.0	-32.9	-32.8
Zinc (US\$/tonne)	1,812.3	0.1	-5.9	-19.0	-37.0	-23.0

Source: Bloomberg. Updated as of CoB 22nd September 2008

- Gold has been the best-performing major commodity over the past month with 8% return; Lead too has had a positive 5% return
- Coal continues to be amongst the best-performing commodities over the past year, with over 100% return; Lead and Nickel amongst the worst, with both down over 40%.

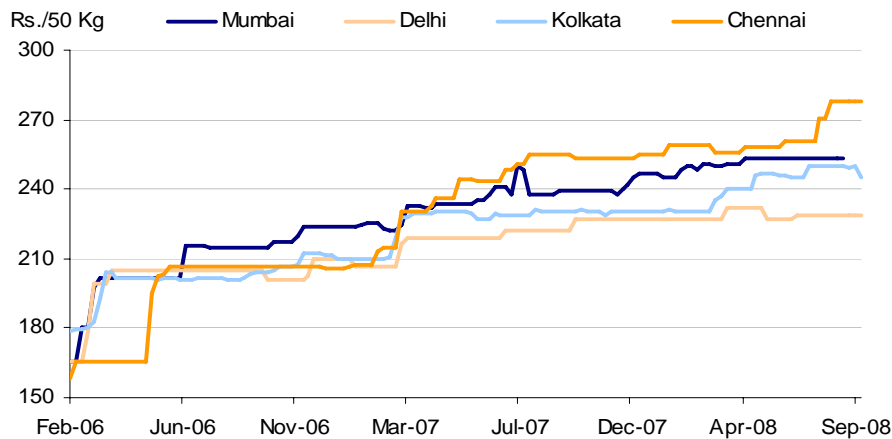
Domestic commodities

Figure 9: Steel prices have stabilised after rising sharply in Feb-Mar



Source: CMIE

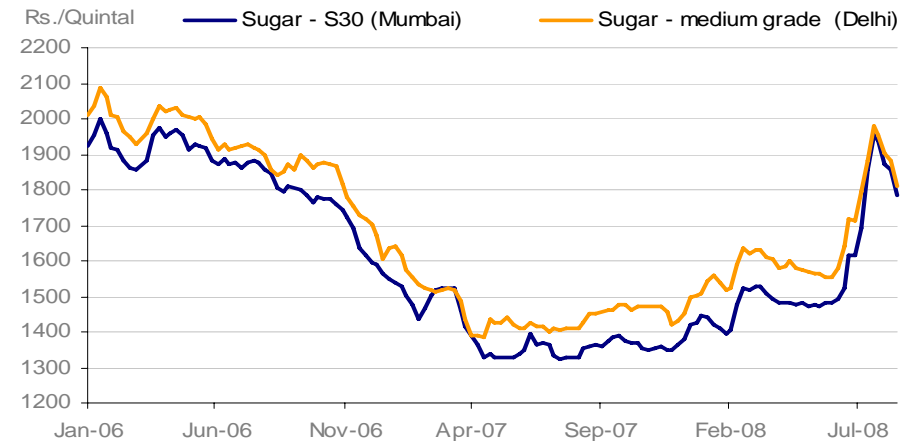
Figure 10: Cement prices have picked up in South but they have corrected in East



Source: CMIE

- Near-term pricing momentum in South is likely to remain positive. However, prices should start easing from 4QFY09 as new plants commissioned in the past three months stabilise in the next two quarters.

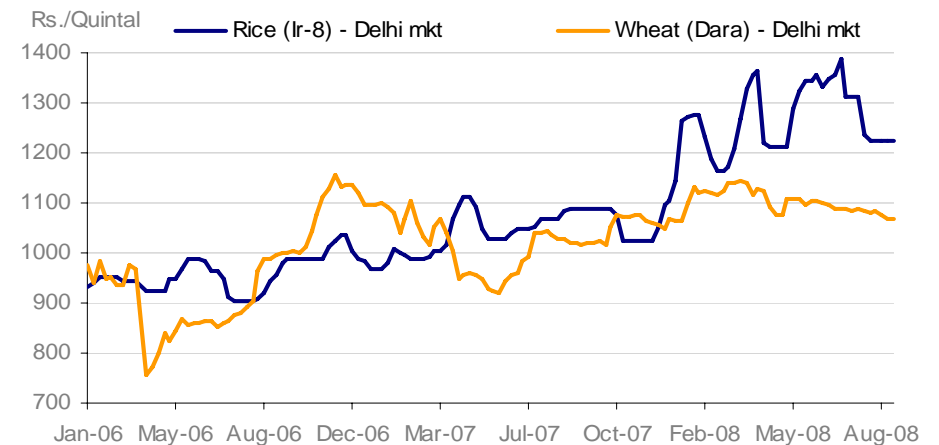
Figure 11: Sugar prices have fallen 10% from their recent peak in July



Source: CMIE

- However, sugar prices are still 20% above their February lows – the sugar component in WPI, though, has captured just 12% of this rise

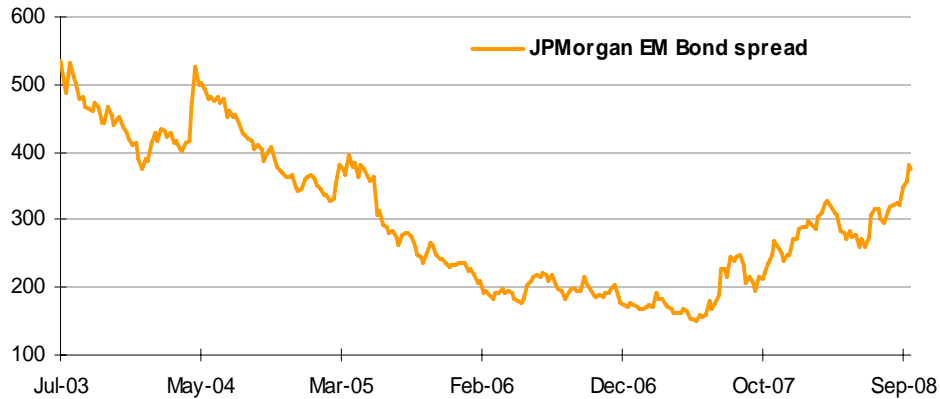
Figure 12: Rice prices, which had seen a sharp run-up, have corrected over 10%, wheat prices have also edged down...



Source: CMIE

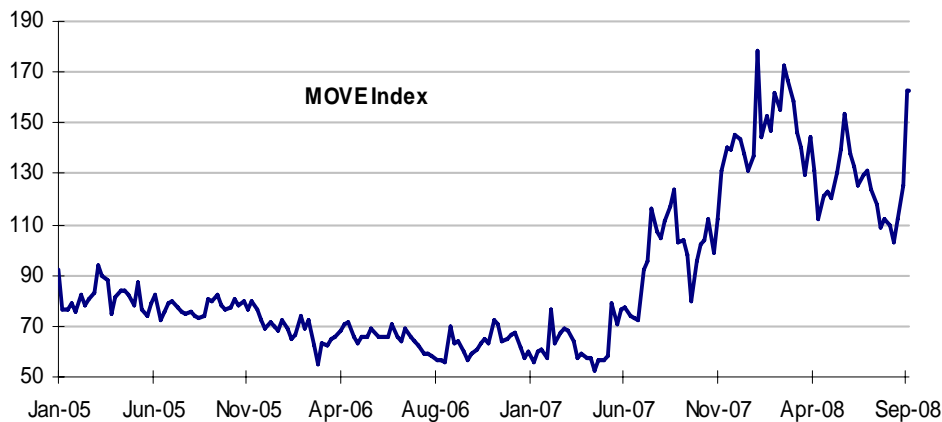
Volatility and risk spreads spike up

Figure 13: EM bond spreads have widened to around their highest since May 2005



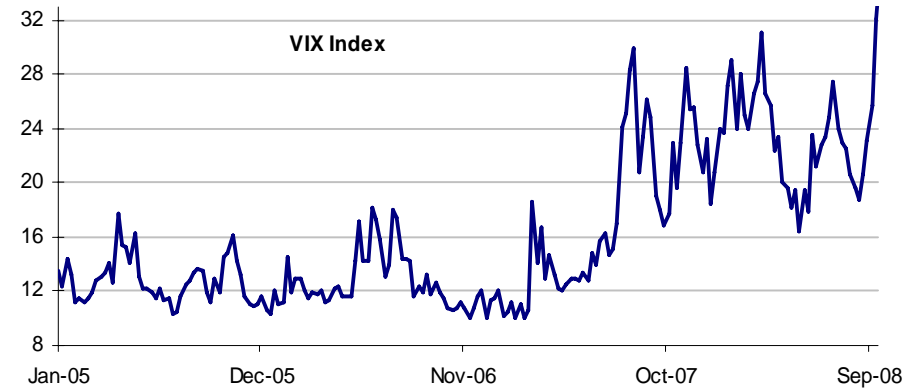
Source: Bloomberg. Updated till CoB 22nd September 2008

Figure 14: Implied volatility in US treasuries back near multi year highs



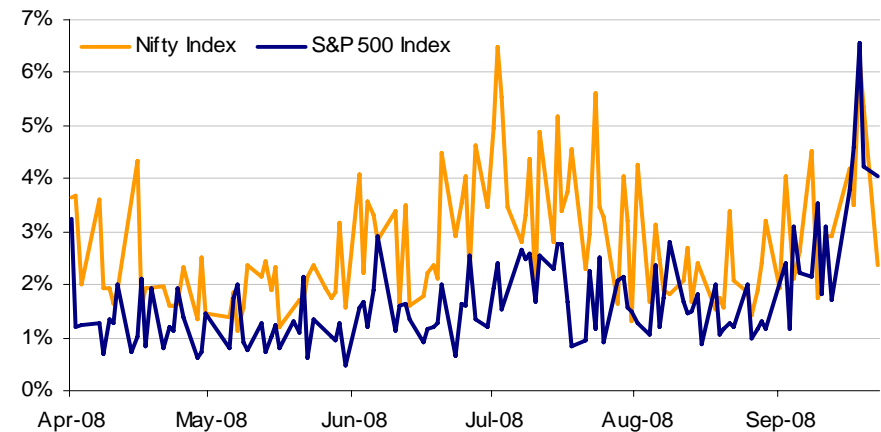
Source: Bloomberg. MOVE Index is a trademark of Merrill Lynch. Updated till CoB 22nd September 2008

Figure 15: VIX Index hits multi-year highs



Source: Bloomberg. Updated till CoB 22nd September 2008

Figure 16: Sharp spike in intraday volatility

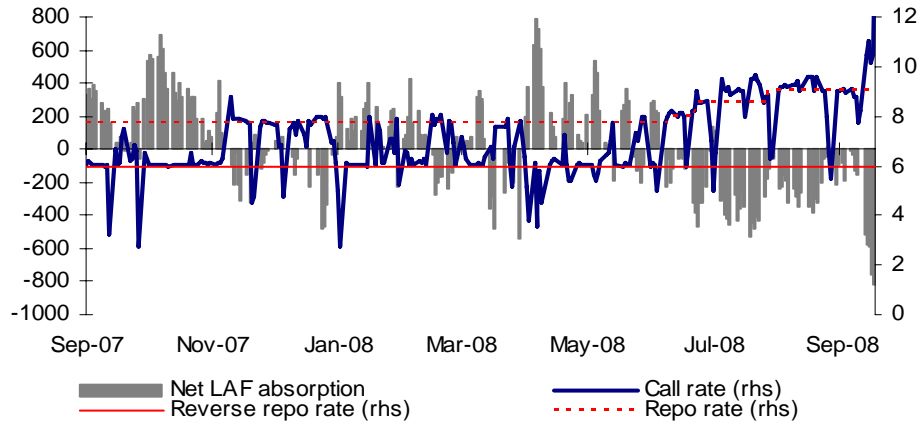


Source: Bloomberg, IIFL Research. Updated till CoB 22nd September 2008
 Calculated as intraday high minus intraday low divided by average of opening and closing level

- Intraday volatility reached as high as 6% with developed markets witnessing volatility levels typical of EMs, as shown above, intraday volatility for S&P500 was higher than that witnessed for Nifty

Money markets – liquidity squeeze continues

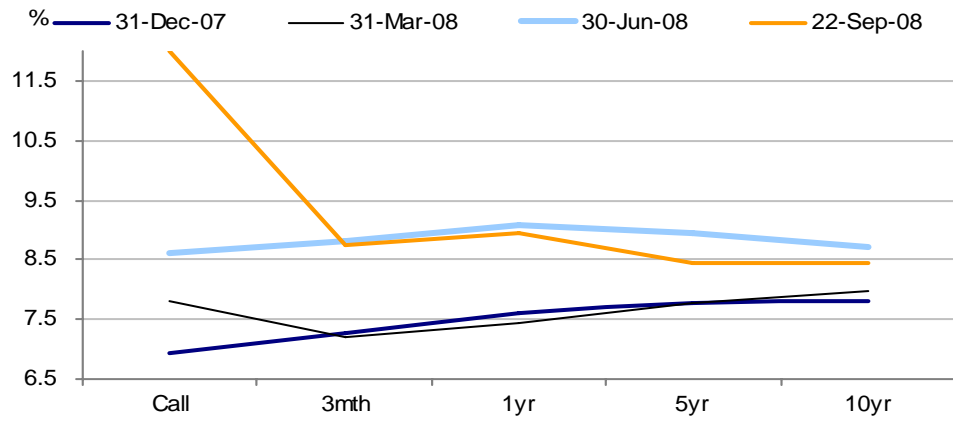
Figure 17: Liquidity continues to remain tight in money markets



Source: Bloomberg

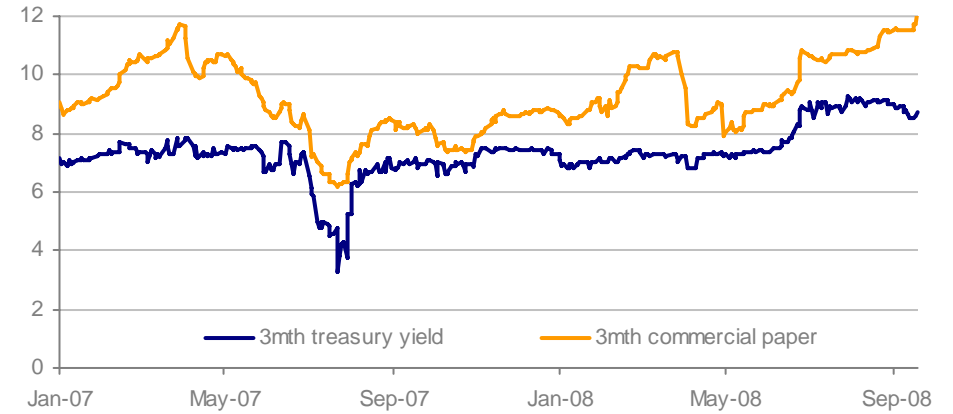
- With RBI in continuous liquidity infusion mode, advance tax outflows coupled with FII outflows have further strained liquidity pushing call rates above 10%

Figure 18: Yield curve has inversion has deepened with the decline in bond yields and spike in call rates



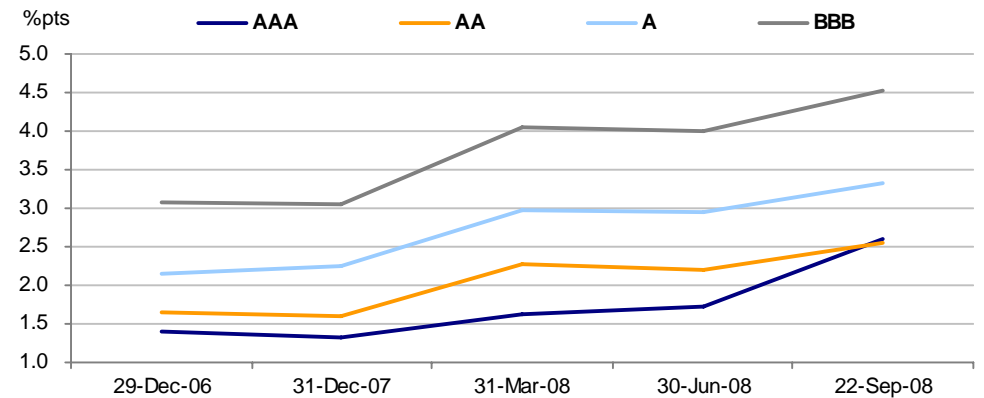
Source: Bloomberg

Figure 19: Short term borrowing costs for companies have risen further even as Treasury bill yields have come off



Source: Bloomberg

Figure 20: Domestic credit spreads have widened as well

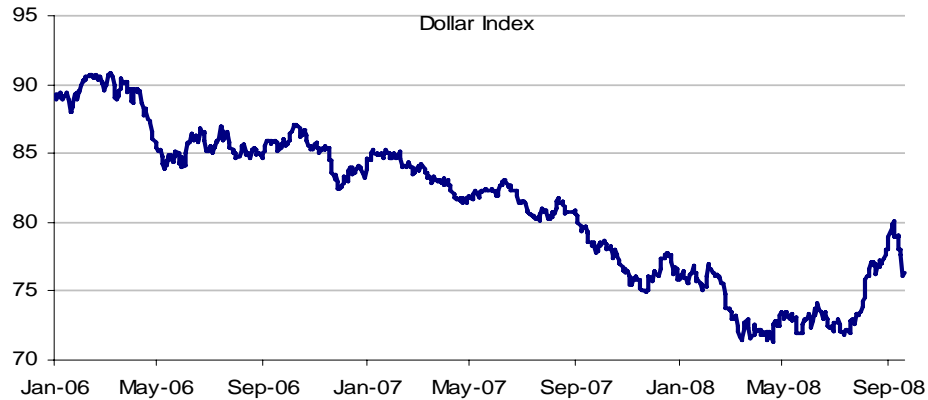


Source: Bloomberg

- Domestic bond spreads have widened over the past couple of months with AAA spreads widening 90bps since end June.

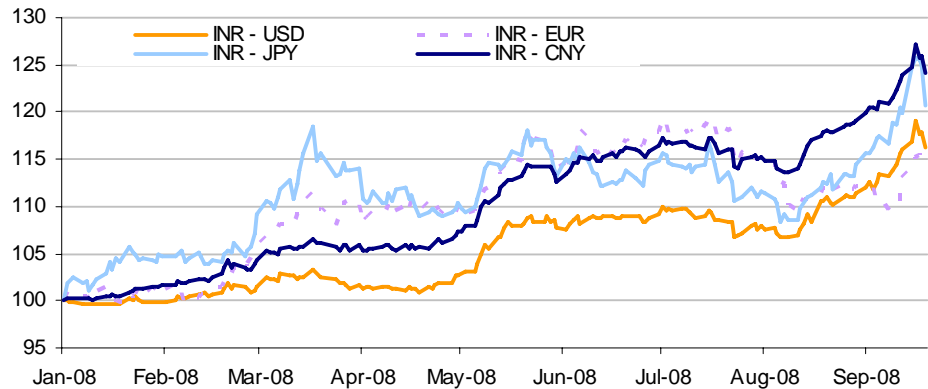
Currency Market – all about US\$

Figure 21: After steady depreciation dollar went up and then down



Source: Bloomberg

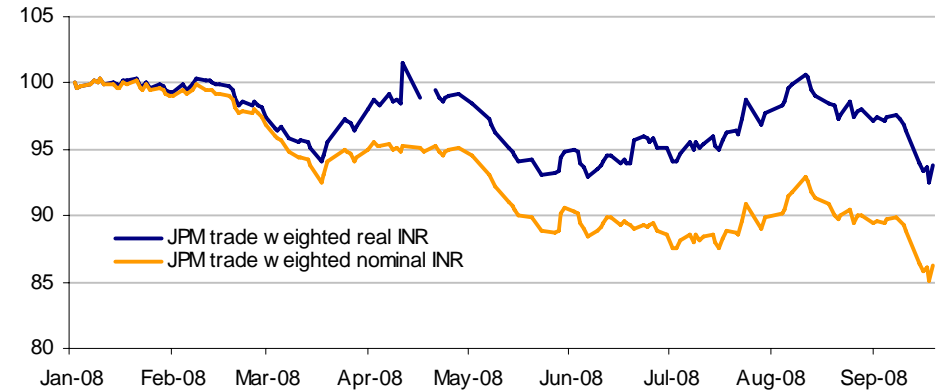
Figure 22: Ytd INR has depreciated 15-20% against the major currencies (USD, EUR, JPY, CNY)



Source: Bloomberg. Note: Currencies rebased to 100 at start of 2008

- The depreciation Ytd, has more than made up for INR's appreciation last year with INR touching multi-year lows recently

Figure 23: On a trade-weighted basis, Ytd INR has depreciated 15% in nominal terms

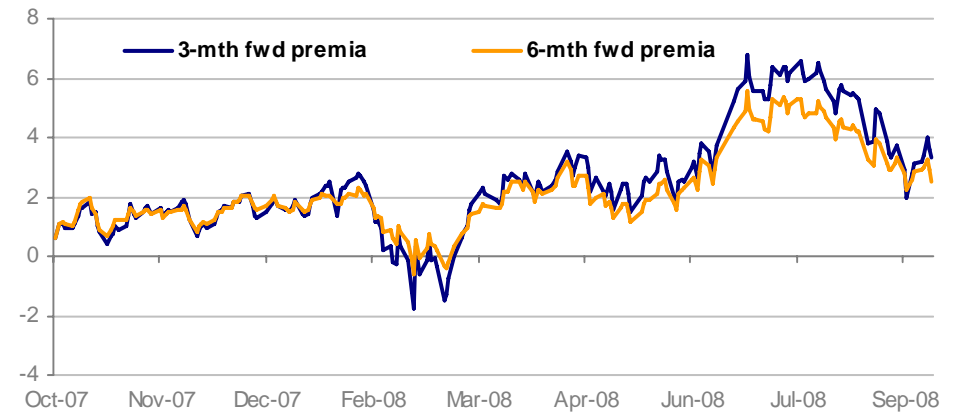


Source: Bloomberg

Note: Rebased to 100 at the start of 2008

- However, given the rise in inflation, the depreciation has been modest in real terms

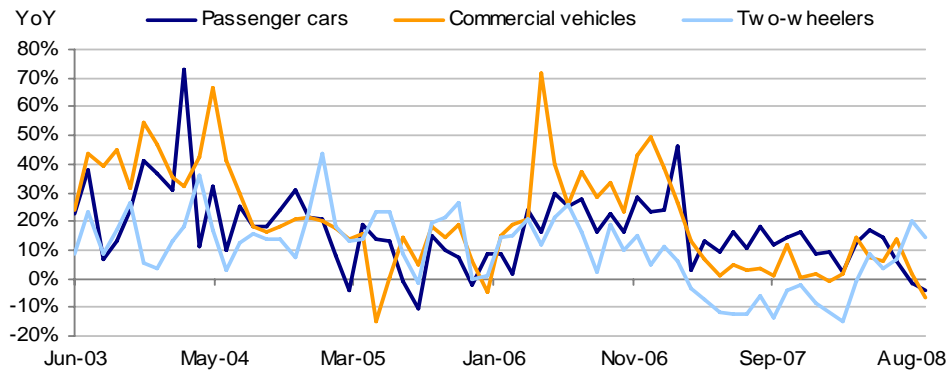
Figure 24: Fwd premia have declined as INR depreciated sharply



Source: CMIE

Industrial Activity Indicators - deceleration

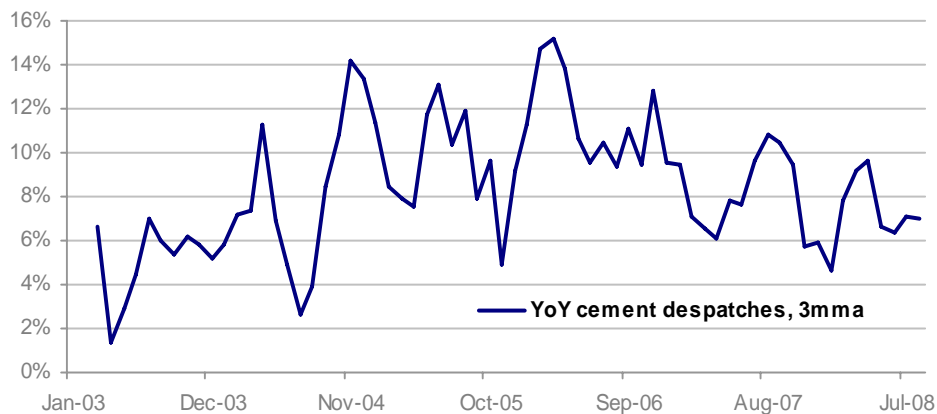
Figure 25: Passenger car and CV sales shrink in August



Source: Bloomberg

- Domestic passenger car sales have declined second month in a row while CV sales declined the most since April 2005. Two-wheeler sales though rose in double digits

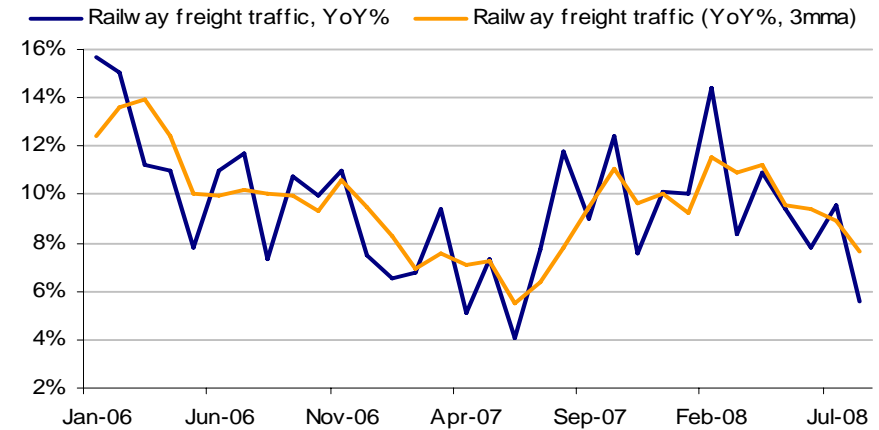
Figure 26: Cement despatches however are holding steady around 7%



Source: CMA India

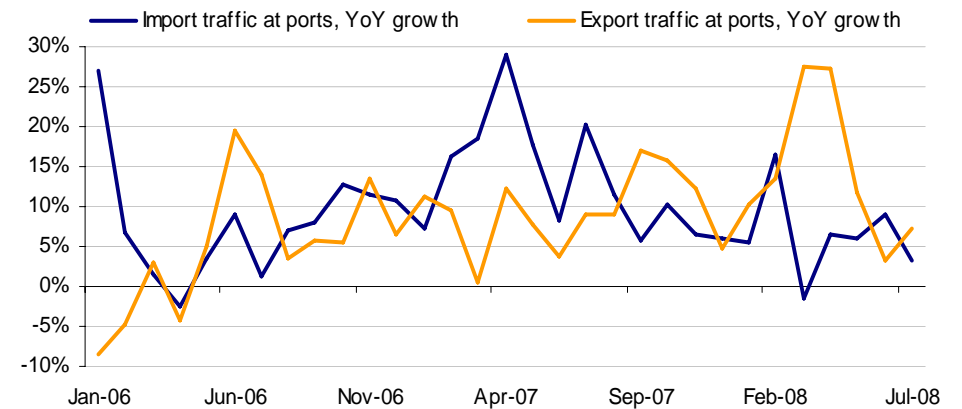
- Ytd (Apr-Aug), cement despatches have grown at 6.4% vs. 8.2% growth during FY08 – indicating modest deceleration

Figure 27: Freight traffic growth at railways decelerated sharply in August



Source: CMIE, Govt of India

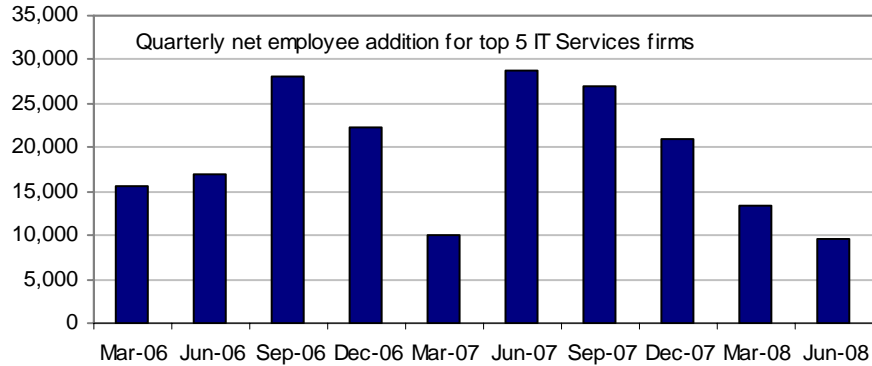
Figure 28: Import-Export traffic at ports has seen deceleration in past two months



Source: CMIE

Services Activity Indicators – mixed signals

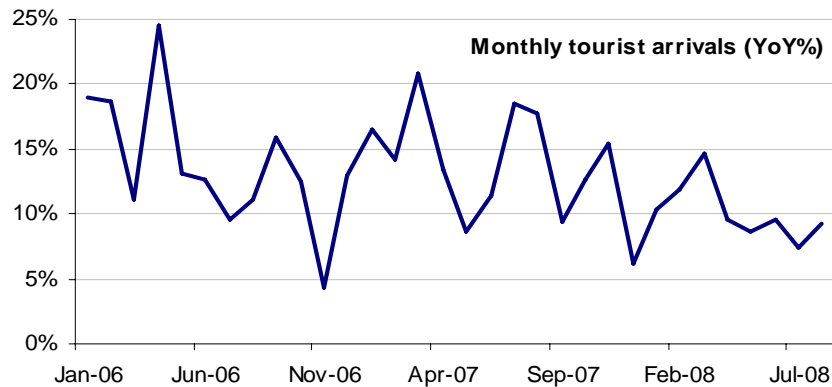
Figure 29: Employee addition for IT Services firms at 10-qtr low



Source: Company data, IIFL Research

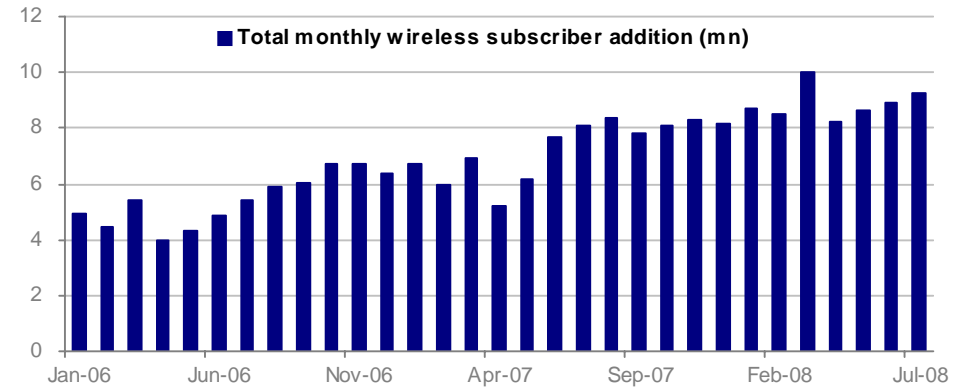
Note: Companies include Infosys, Wipro, Satyam, TCS and HCL Tech

Figure 30: Growth in overseas tourist arrivals has remained steady



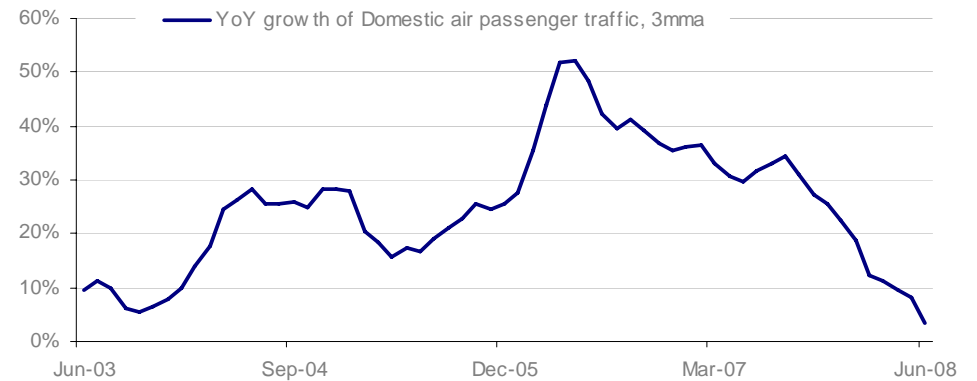
Source: CMIE

Figure 31: Mobile subscriber additions continues to remain robust



Source: TRAI

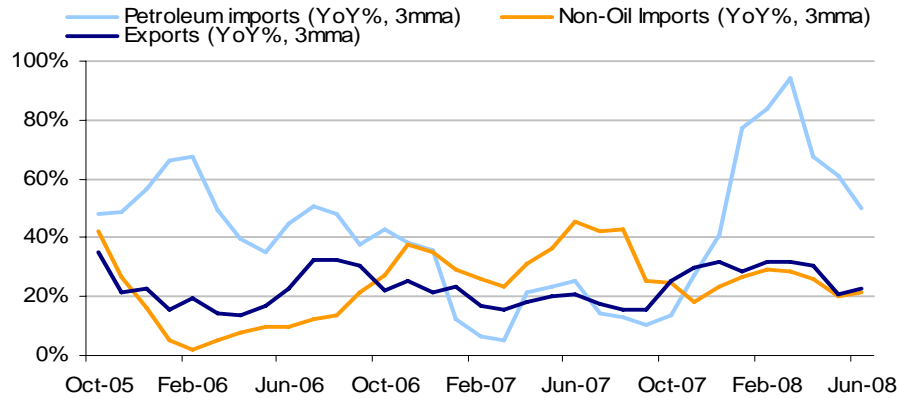
Figure 32: Domestic Air-passenger traffic growth has decelerated sharply as higher fares reduce affordability



Source: AAI

External Sector

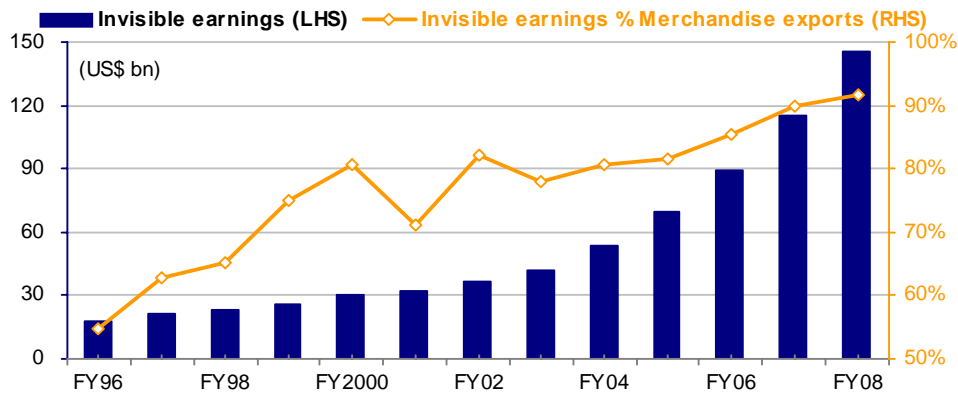
Figure 33: Merchandise exports are growing faster than non-oil merchandise imports



Source: RBI, IIFL Research

- The weakening of trade deficit is largely attributable to the surge in oil imports as non-oil merchandise imports have grown roughly in-line with merchandise exports

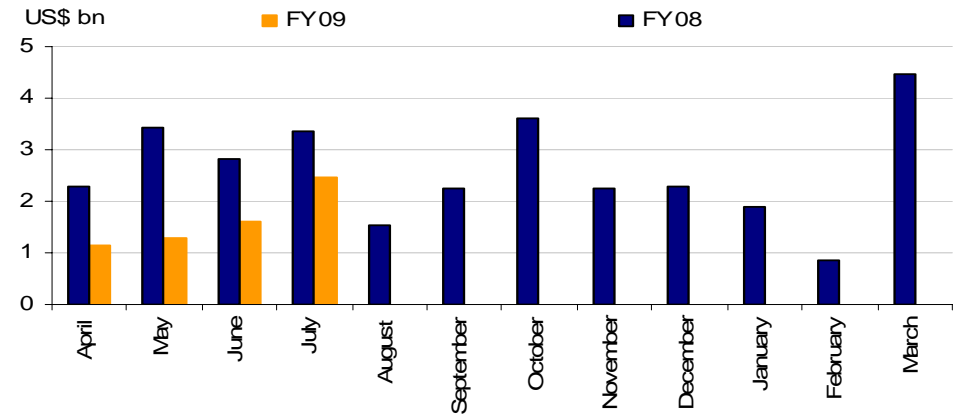
Figure 34: Invisibles are as important as merchandise exports in Current account



Source: RBI, IIFL Research

- In FY08, Invisible receipts (software, remittances but excl capital flows) totalled US\$145bn and accounted for 92% of Merchandise exports

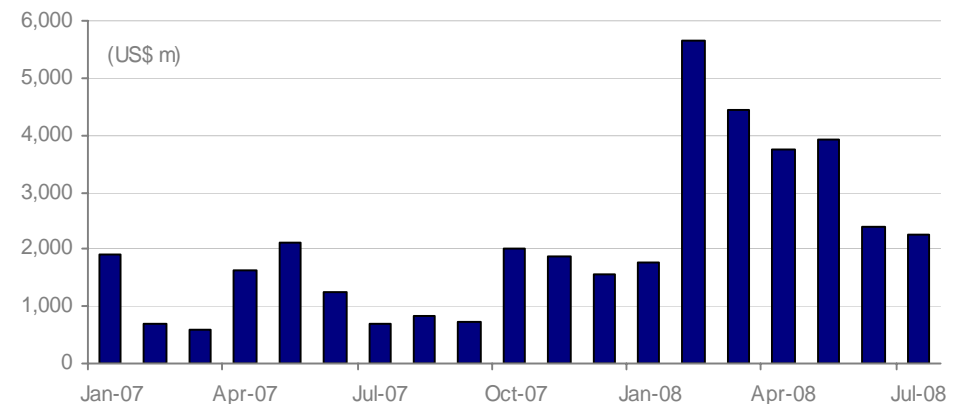
Figure 35: Debt capital flows (ECB + FCCB) have seen sharp deceleration



Source: RBI

- Apr-July 2008 quarter saw debt capital flows drop 45% YoY partly reflecting tight credit markets globally as well as RBI restrictions on ECB flows

Figure 36: FDI inflows have decelerated after rising sharply between Feb-May 2008

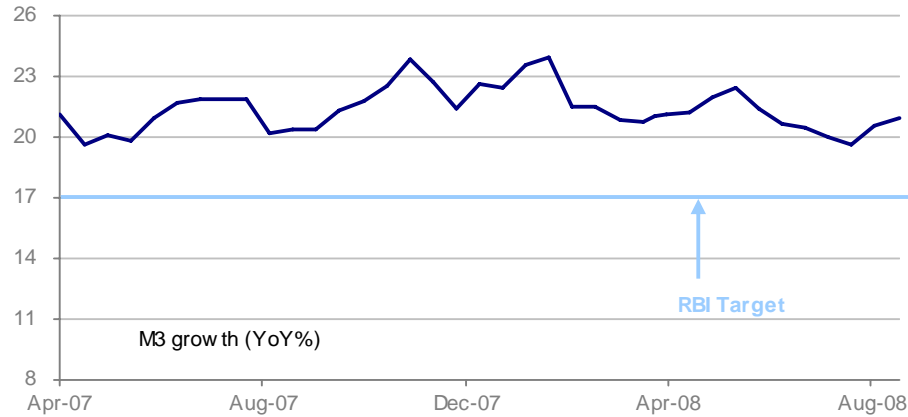


Source: RBI

- Construction and Real Estate accounted for a quarter of the FDI received during Apr-June 2008 (July breakdown not yet available)

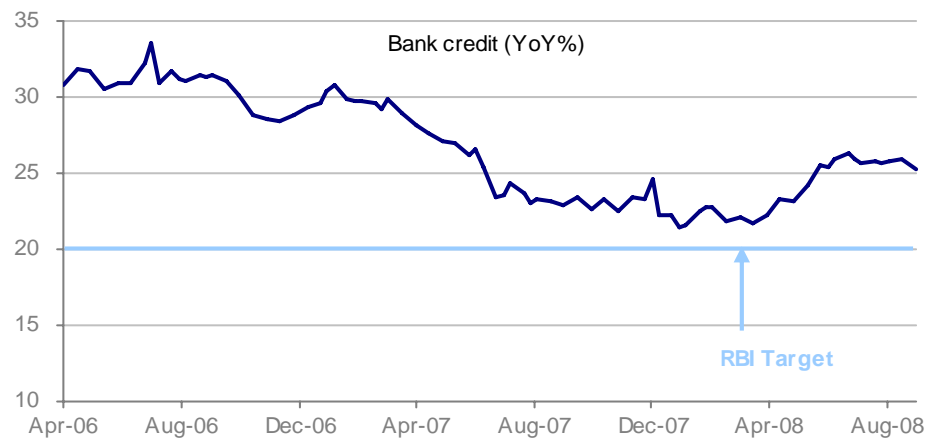
Monetary indicators – above RBI comfort zone

Figure 37: Money supply growth has picked up after briefly falling below 20%



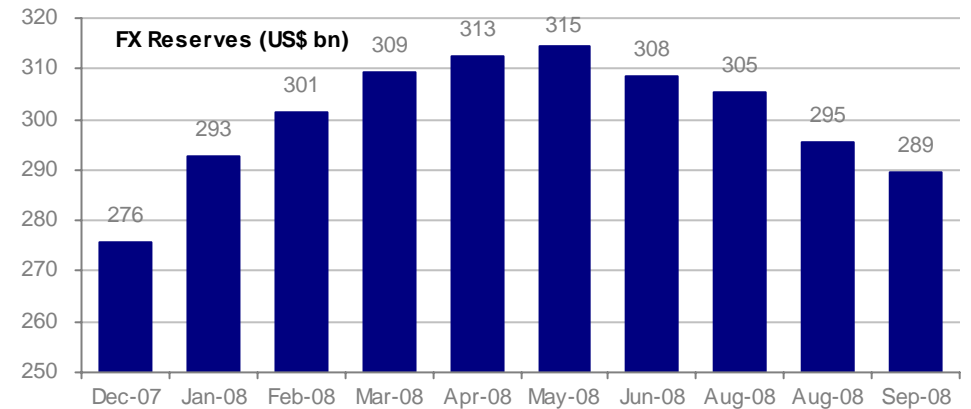
Source: Bloomberg

Figure 38: Credit growth - still way above RBI target



Source: Bloomberg

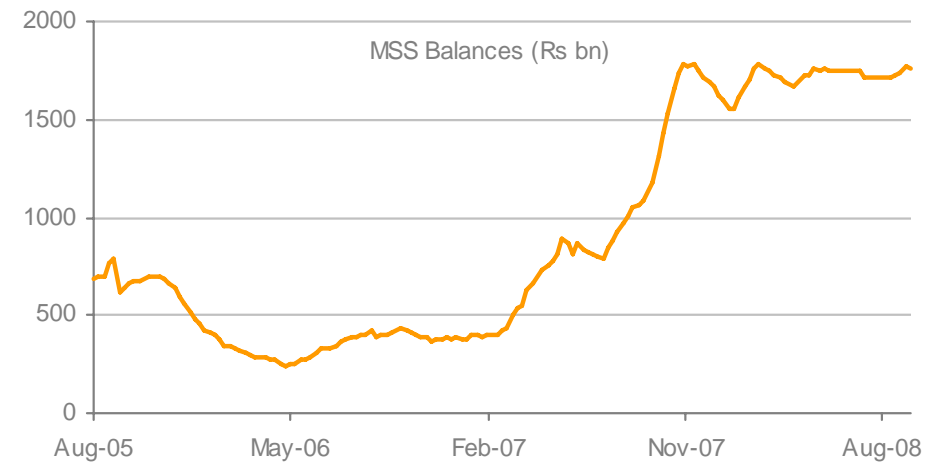
Figure 39: FX reserves have declined over US\$25bn from their highs in May



Source: RBI

- However, YTD FX reserves are still up US\$13bn

Figure 40: US\$9bn of FII outflows, however MSS balance remains at all time high

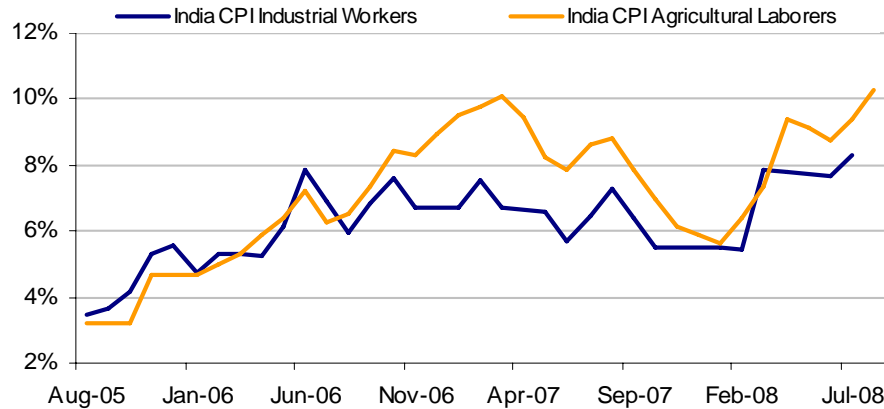


Source: Bloomberg

- MSS balances continue at their all time high (~US\$40bn or over 3% of GDP)

Inflation – CPI becomes the worry

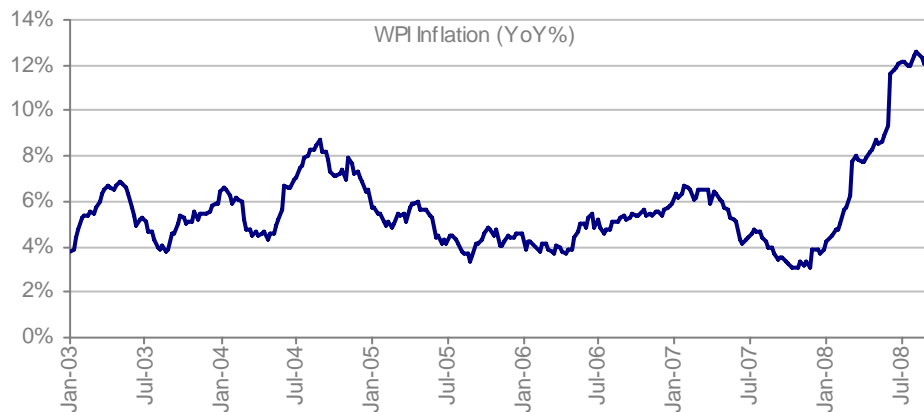
Figure 41: Rural CPI (Agri labourers and Rural labourers) rose above 10% in July



Source: Bloomberg, Govt of India

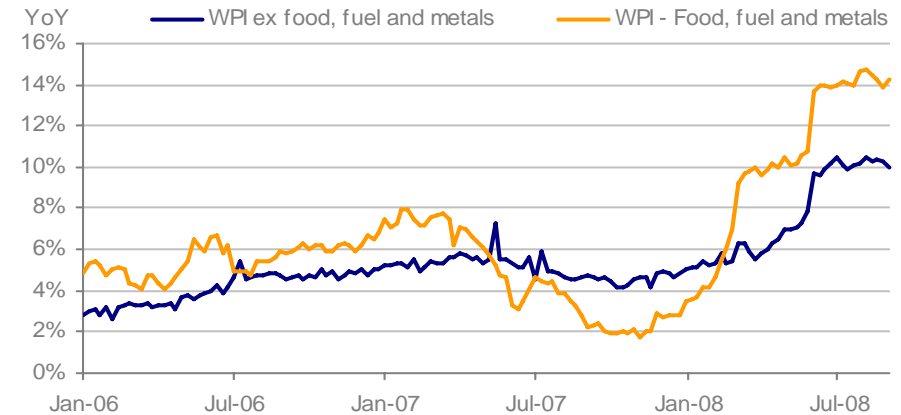
- Rural CPI rose to 10.3% (~90bps rise) in August to its highest level this decade. August data for the more widely tracked CPI – Industrial Workers (already at over a decade high) would be available end of the month and would be keenly watched to see if similar trend is witnessed there.

Figure 42: Headline WPI inflation rate has stabilised around 12-12.5% level



Source: Bloomberg

Figure 43: Commodity prices not entirely to blame for rising inflation



Source: Bloomberg

- WPI ex food, fuel and metals is also running above 10% - highlighting that rise in inflation cannot be attributed solely to high commodity prices

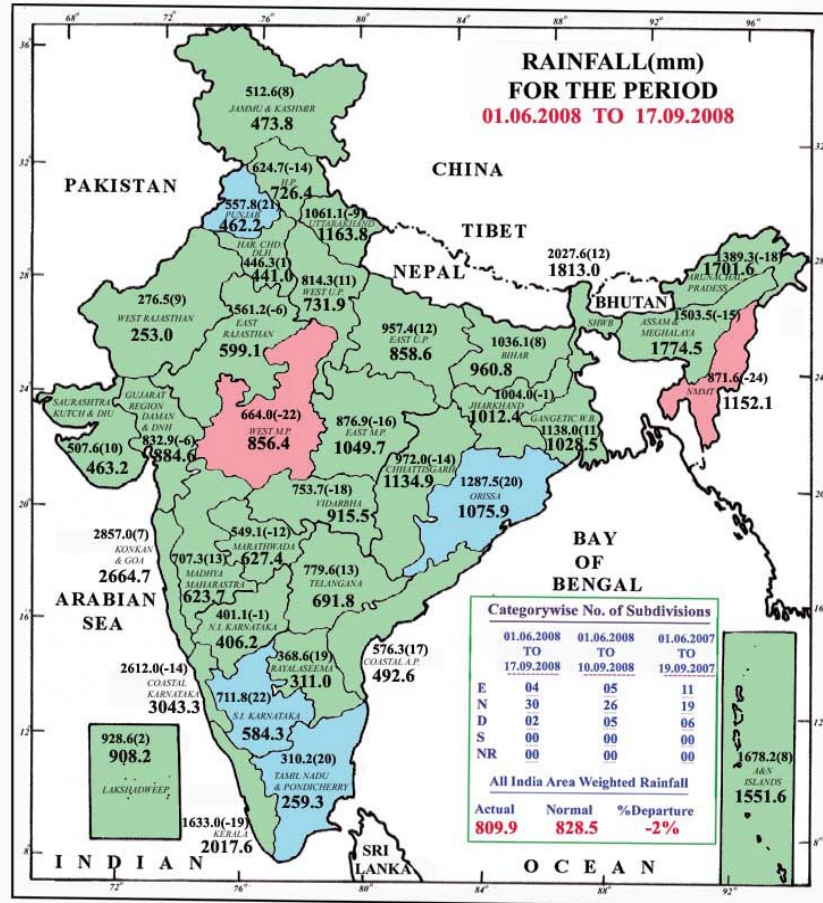
Figure 44: Since late May, increase in textile prices (10.5%) has been almost 2.5x the rise in WPI Index (4.3%)



Source: Bloomberg

Monsoons – almost normal...

Figure 45: Monsoons give South and West a miss



LEGEND : ■ EXCESS (E) +20% OR MORE ■ NORMAL (N) +19% TO -19% ■ DEFICIENT (D) -20% TO -59%
■ SCANTY (S) -60% TO -99% ■ NO RAIN (NR) -100% * * NO DATA

Source: Indian Meteorological Department

Note: Figures in bold denote normal rainfall in mm, non-bold figures represents actual rainfall and figures in parenthesis represent excess/deficit rainfall so far

Figure 46: Kharif sowing for Rice has been good so far

Kharif season sowing (mn hectare)	Area sown till 18th September		Growth (YoY%)
	2008 season	2007 season	
Rice (Paddy)	37.4	36.2	3.2%
Total coarse cereals (Bajra, Jowar etc)	19.8	21.1	-6.4%
Groundnut	5.2	5.4	-3.7%
Soybean	9.6	8.8	9.3%
Total oilseeds	17.9	17.5	2.5%
Total pulses	10.3	12.3	-16.4%
Cotton	9.1	9.3	-2.1%
Sugarcane	4.4	5.3	-16.8%
Jute	0.7	0.8	-10.8%

Source: Ministry of Agriculture

Figure 47: Sharp increase in Minimum support price (Rs/quintal)

Crop	MSP: 2007-08	MSP: 2008-09	Change (YoY%)
Paddy (common)	745	900	20.8
Jowar (hybrid)	600	840	40.0
Bajra (Pearl millet)	600	840	40.0
Maize	620	840	35.5
Moong	1740	2520	44.8
Cotton (F-414/H-777/J34)	1800	2500	38.9
Groundnut (in shell)	1550	2100	35.5
Soybean (Yellow)	1050	1390	32.4
Jute	1055	1250	18.5
Sugarcane	81.2	81.2	0.0

Source: CMIE

- After giving early jitters, spatial distribution of monsoon has improved significantly with just 2 meteorological regions receiving deficient rainfall so far from 14 regions in mid July.
- Sowing of rice (the chief monsoon crop) has progressed well with area sown 3% higher this year vs. last. However Coarse grains, Pulses, Sugarcane and Jute have seen a sharp decline in area sown
- Govt has hiked the minimum support price (price at which it buys grain from farmers) for most crops (except Sugarcane which is flat and Jute which is up 18.5%) by over 20%YoY

Government finances

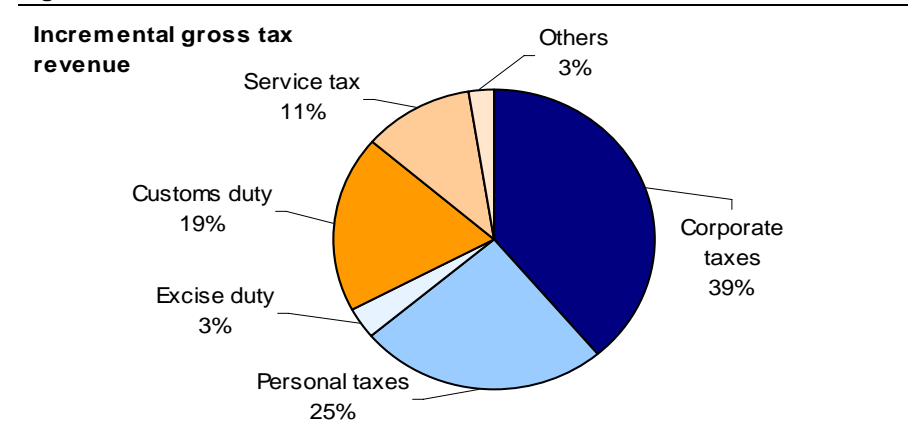
Figure 48: Summarised Central government finances (Apr-July)

Rs bn	Apr-July		YoY%
	FY08	FY09	
Revenue receipts	953	1179	23.7%
- Tax revenue	799	1013	26.7%
- Non tax revenue	154	166	8.0%
Non-debt capital receipts	34	9	-74.1%
Total receipts	987	1187	20.4%
Non-Plan expenditure	1327	1587	19.6%
- Revenue	1281	1534	19.8%
- Capital (*)	46	53	14.2%
Plan Expenditure	598	760	27.1%
- Revenue	496	647	30.4%
- Capital	102	114	11.2%
Total Expenditure	1925	2347	21.9%
- Revenue	1777	2181	22.7%
- Capital	148	166	12.1%
Revenue deficit	824	1002	21.6%
Fiscal deficit	939	1160	23.5%

Source: Controller general of accounts. (*) Excludes Rs355bn towards acquisition of stake in SBI from RBI which was fiscal deficit neutral

- Fiscal deficit was up 23.5% YoY during Apr-July, in spite of the significant buoyancy in tax revenues due to a faster 27% growth in plan revenue expenditure with Plan revenue expenditure growing at 30%
- Corporate and Personal tax collections have grown 42% each during Apr-July FY09 driving 27% growth in overall tax revenues.
- However with the growth momentum decelerating, corporate and personal tax collections will most likely slow in 2H.
- With buoyancy in direct tax collections unlikely to sustain through rest of the year, tax revenue forgone via customs and excise duty cuts on petroleum products may not be made up (Rs220bn)

Figure 49: Direct taxes constitute over 60% of incremental tax revenues



Source: Controller general of Accounts

Figure 50: State govt finances have also slipped in FY08 – FY09 budgeted to be better

Aggregate State deficit indicators (% GDP)	Revenue deficit	Fiscal deficit
FY03	2.3	4.1
FY04	2.3	4.4
FY05	1.2	3.4
FY06	0.2	2.5
FY07	-0.6	1.9
FY08 RE	-0.5	2.3
FY09 BE	-0.6	2.1

Source: RBI, Data from FY07 is provisional and based on budgets of 27 state governments

- State government's fiscal deficit rose 0.4%pt in FY08, but it is budgeted to improve in FY09 – a key risk factor would be the implementation of the VI pay commission which could add a few bps to aggregate fiscal deficit (though its impact would be far lower than the Vth pay commission which had almost crippled state finances)

Earnings growth – downside risks remain

Figure 51: BSE 100 consensus sectoral earnings growth

	Profit growth	
	FY09	FY10
Consumer Discretionary	6.7%	20.2%
Consumer Staples	14.7%	17.7%
Energy	26.9%	37.9%
Financials	7.8%	21.7%
Health Care	11.7%	20.3%
Industrials	15.9%	30.0%
Information Technology	24.6%	16.2%
Materials	17.7%	7.8%
Telecommunication Services	20.1%	20.8%
Utilities	13.0%	17.9%
Aggregate	16.4%	21.4%

Source: Bloomberg

Note: All numbers are on consolidated basis except for Financials. For Reliance Industries and Tata Steel we have considered FY08 IIFL actual.

Figure 52: Consensus Index Earnings estimates

	SENSEX			NIFTY		
	FY08	FY09	FY10	FY08	FY09	FY10
Index EPS	838	967	1158	257	302	365
Growth (%)		15%	20%		18%	21%
Index ex Oil and Gas EPS	681	771	900	245	290	349
Growth (%)		13%	17%		18%	21%
Index ex Financials EPS	672	799	952	232	278	336
Growth (%)		19%	19%		20%	21%
Index ex Oil & Financials EPS	514	603	695	221	266	320
Growth (%)		17%	15%		20%	20%

Source: Bloomberg, IIFL Research

Note: All numbers are on consolidated basis except for Financials. For Reliance Industries and Tata Steel we have considered FY08 IIFL actual.

Figure 53: Consensus earnings downgrades continue (BSE100 FY09 and FY10 EPS upgrade/downgrades over past one month)

Sector	FY09	FY10
Autos	-2.3%	-1.3%
Capital Goods	-2.0%	-1.7%
Cement	-0.2%	-0.9%
Consumer Staples	-0.1%	0.0%
Energy	-0.8%	-1.7%
Financials	-3.6%	-3.0%
Metals	2.6%	-0.2%
Pharma	-1.0%	-1.5%
Real Estate	-3.1%	-11.2%
IT Services	0.1%	0.3%
Telecommunication Services	-0.6%	-1.3%
Utilities	1.1%	3.4%
Others	1.1%	1.2%
Aggregate	-0.8%	-1.4%

Source: Bloomberg, IIFL Research

Updated as of 22nd Sept, 2008

- Real Estate and Financials saw the biggest earnings downgrades over the past month
- Utilities and IT Services saw earnings for both FY09 and FY10 over the past month
- Energy sector is expected to see the strongest earnings growth in FY09 and FY10 – largely led by RPL and RIL. Consequently, a structural downward shift in global demand for petroleum products, bodes ill for the index earnings.

Valuations

Figure 54: BSE 100 Consensuses – Sector Valuations

Nifty sectors	P/E		
	FY08	FY09	FY10
Consumer Discretionary	12.8	12.0	10.0
Consumer Staples	25.5	22.2	18.9
Energy	18.2	14.4	10.4
Financials	16.2	15.1	12.4
Health Care	21.2	19.0	15.8
Industrials	25.7	22.2	17.0
Information Technology	17.7	14.2	12.2
Materials	7.9	6.7	6.2
Telecommunication Services	19.4	16.2	13.4
Utilities	21.6	19.1	16.2
Aggregate	16.7	14.3	11.8

Source: Bloomberg
Updated as of CoB 19th Sept 2008

Figure 55: Nifty now below its long term average on trailing PE basis



Source: Bloomberg. Updated as of CoB 19th September, 2008

- After having traded at over 2SD above its average in early January, Nifty has de-rated and now trades at 17.3x - below its average of 17.9x (since 1999).

Figure 56: Bottom-up Consensus Index Valuations

Index	SENSEX			NIFTY		
	FY08	FY09	FY10	FY08	FY09	FY10
Index PE	16.8	14.5	12.1	16.5	14.1	11.6
Index ex Oil and Gas PE	16.5	14.6	12.5	16.2	13.7	11.3
Index ex Financials PE	16.3	13.7	11.5	16.7	14.0	11.6
Index ex Oil & Financials PE	15.9	13.5	11.7	16.3	13.5	11.2

Source: Bloomberg. Updated as of CoB 19th Sept 2008

Figure 57: Midcaps at 34% disc. to large caps – 2x Avg 2-yr discount of 16%



Source: NSE. Updated as of CoB 19th September, 2008

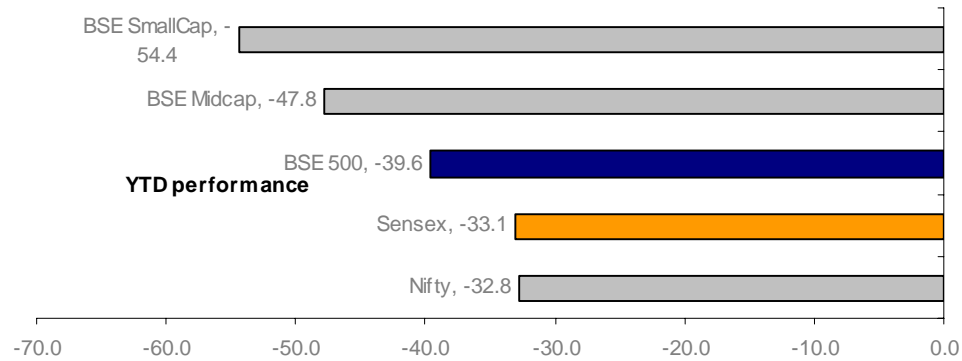
Figure 58: Regional valuations – India's valuation premium has expanded

	Consensus fwd PE	Premium to MSCI EM (x)
India	13.4	1.5
China	10.2	1.2
Korea	9.0	1.0
Taiwan	10.8	1.2
Russia	5.0	0.6
Turkey	7.0	0.8
South Africa	8.2	0.9
Brazil	7.9	0.9
Mexico	10.4	1.2

Source: Bloomberg. Fwd EPS as on August 31, 2008 and Sept 19th Index levels, On MSCI basis

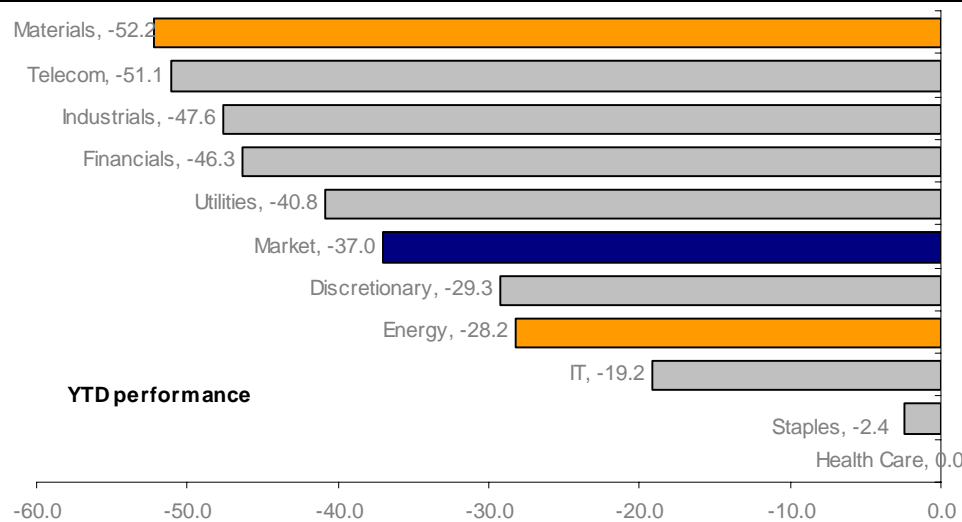
Market performance

Figure 59: Small caps are now down over 50% Ytd, midcaps not far behind



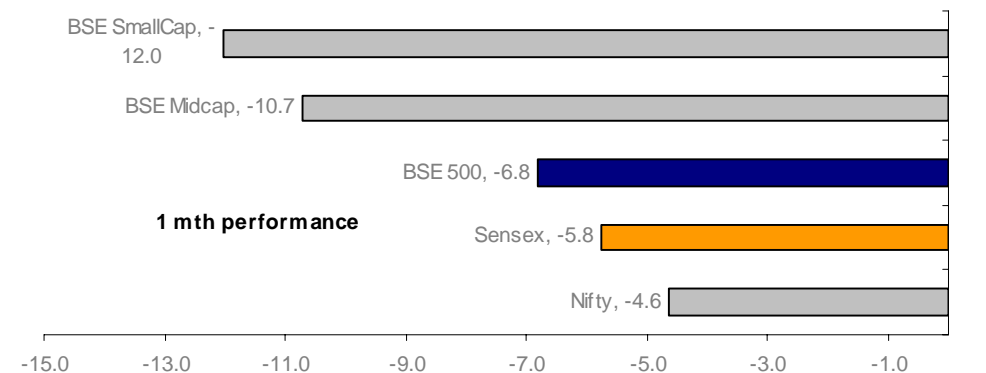
Source: Bloomberg, On MSCI basis, Updated as of CoB 23rd Sept 2008

Figure 60: Ytd, Materials is the worst performing sector – down over 50%



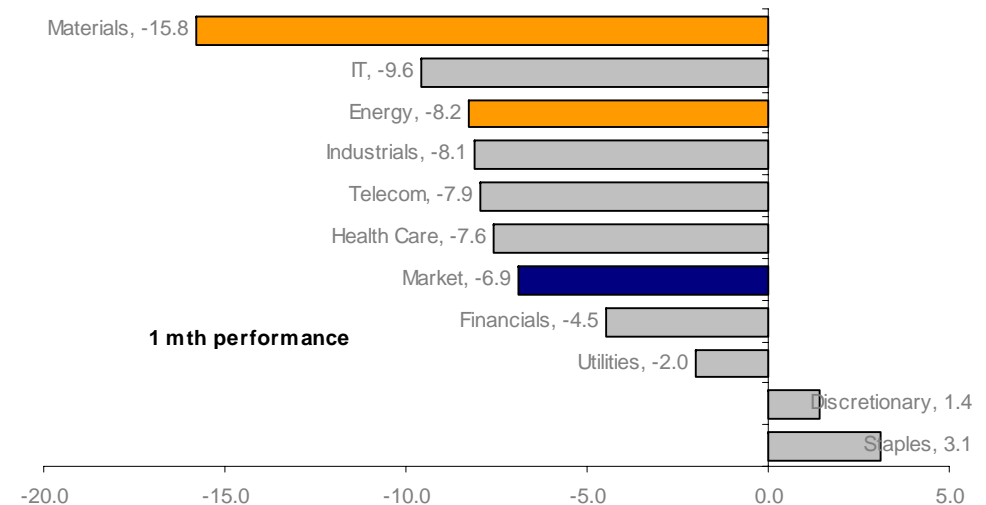
Source: Bloomberg, On MSCI basis, Updated as of CoB 23rd Sept 2008

Figure 61: Large caps have outperformed small caps over the past month



Source: Bloomberg, On MSCI basis, Updated as of CoB 23rd Sept 2008

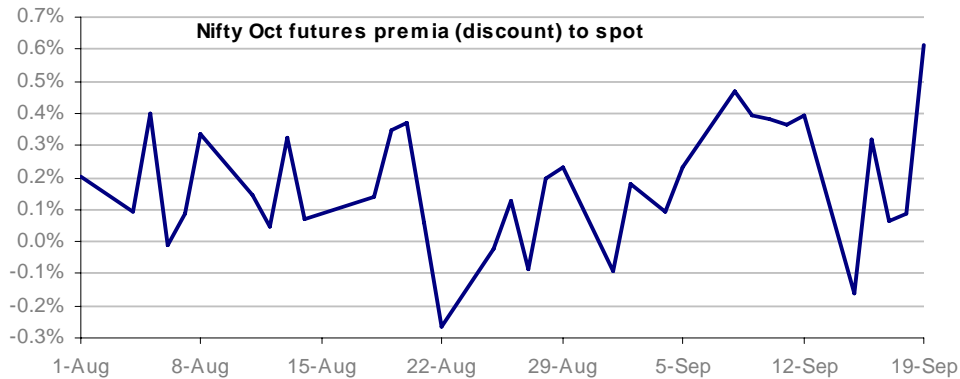
Figure 62: Staples and Discretionary – positive returns over past month



Source: Bloomberg, On MSCI basis, Updated as of CoB 23rd Sept 2008. MSCI India Telecom does not include Bharti

Derivatives markets

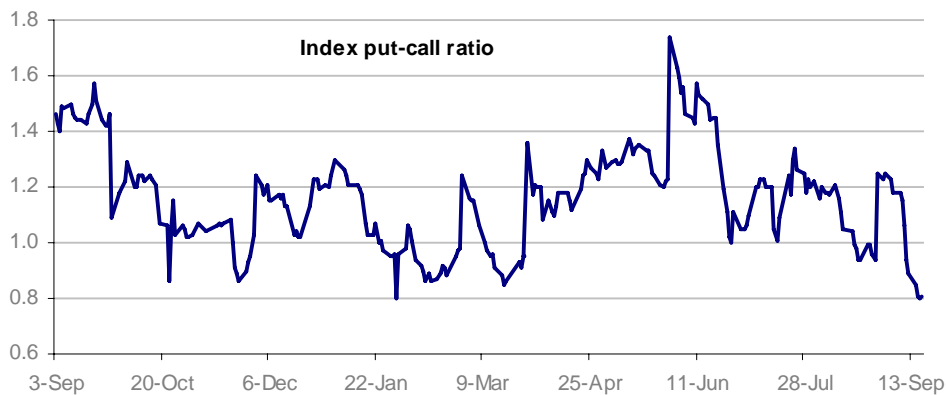
Figure 63: Nifty futures traded at premium for most of September



Source: Bloomberg. Updated as of CoB 19th September 2008

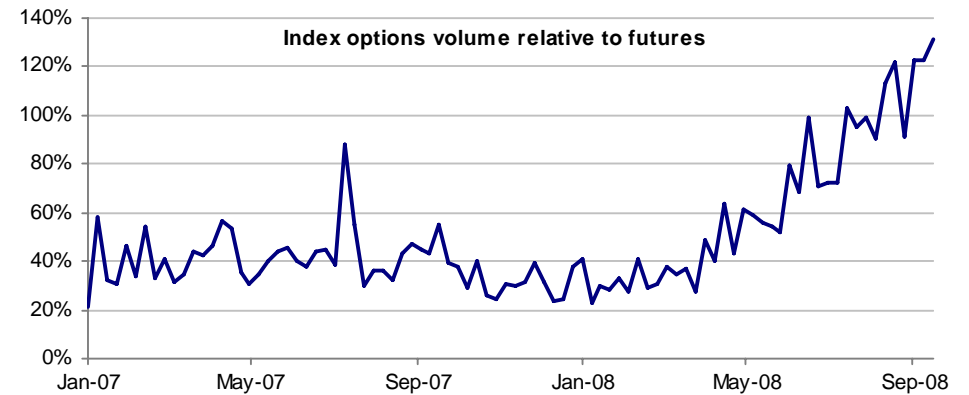
- Nifty futures have traded at premium throughout this correction phase unlike earlier periods when they used to trade at steep discount

Figure 64: Put call ratio has slipped to ~0.9, a four month low



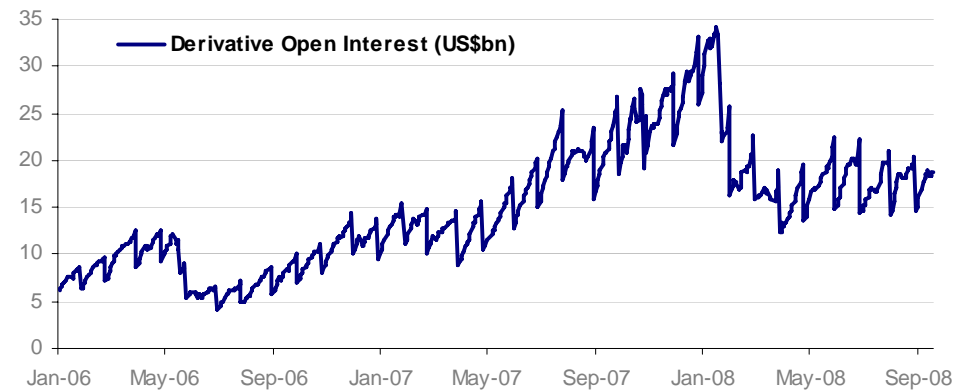
Source: Bloomberg. Updated as of CoB 19th September 2008

Figure 65: Derivatives action is increasingly concentrated in options vis-à-vis futures



Source: Bloomberg. Updated as of CoB 19th September 2008

Figure 66: Derivatives open interest has stabilised between US\$15-20bn



Source: Bloomberg. Updated as of CoB 19th September 2008

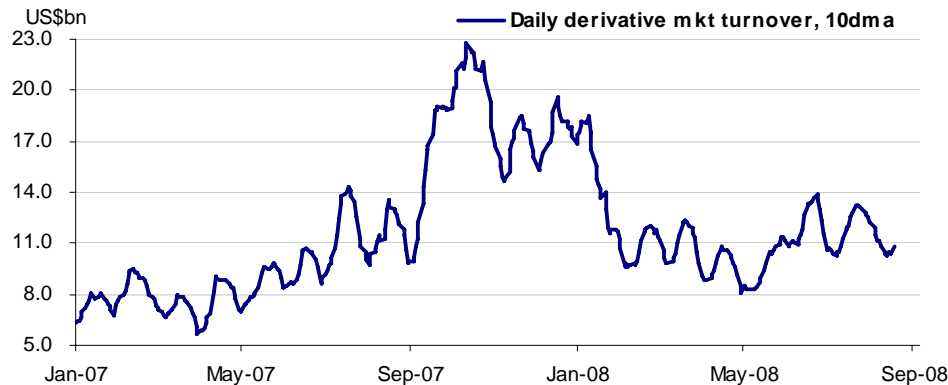
Market activity decelerates further

Figure 67: Cash volumes have further declined over the past 2-3 weeks



Source: Bloomberg

Figure 68: Similarly derivatives volumes have further declined



Source: Bloomberg

Figure 69: Delivery volumes though have picked up sharply indicating strong institutional activity – partly this is due to large inter note transfers



Source: Bloomberg

Figure 70: BSE200 - Top 10 and Bottom 10 stocks performance over past month

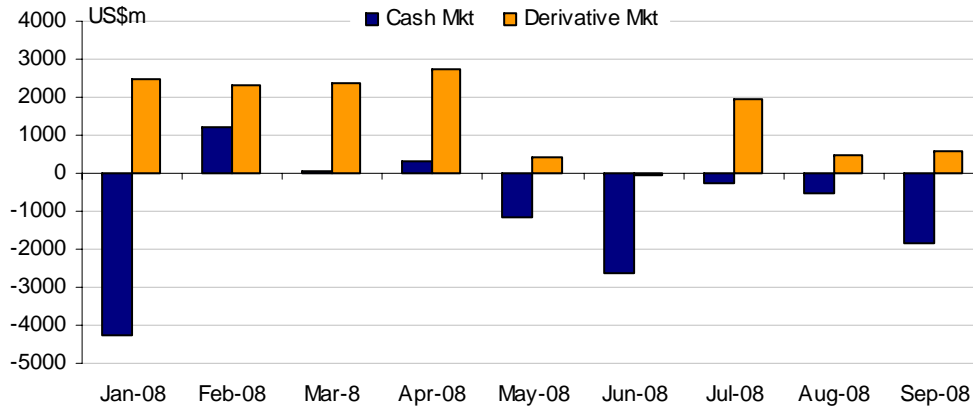
Company	%	Company	%
Bank Of Baroda	25.6	Gujarat Mineral Dev Corp Ltd	-42.0
Indian Bank	20.3	Gujarat NRE Coke Ltd	-38.5
EIH Limited	19.1	NMDC Limited	-37.5
Maruti Suzuki India Ltd	19.0	Indiabulls Securities Ltd	-35.3
Moser Baer India Ltd	18.7	Sesa Goa Ltd	-34.6
Indian Overseas Bank	18.2	BF Utilities Ltd	-34.2
Union Bank Of India	14.9	NIIT Limited	-32.0
Great Offshore Ltd	14.2	Ranbaxy Laboratories Ltd	-29.4
Punjab National Bank	12.6	Bajaj Finserv Ltd	-29.4
Bajaj Auto Limited	11.6	Indiabulls Real Estate Ltd	-29.1

Source: Bloomberg. As of 19th Sept 2008

- PSU banks were amongst the best performing stocks over the past month

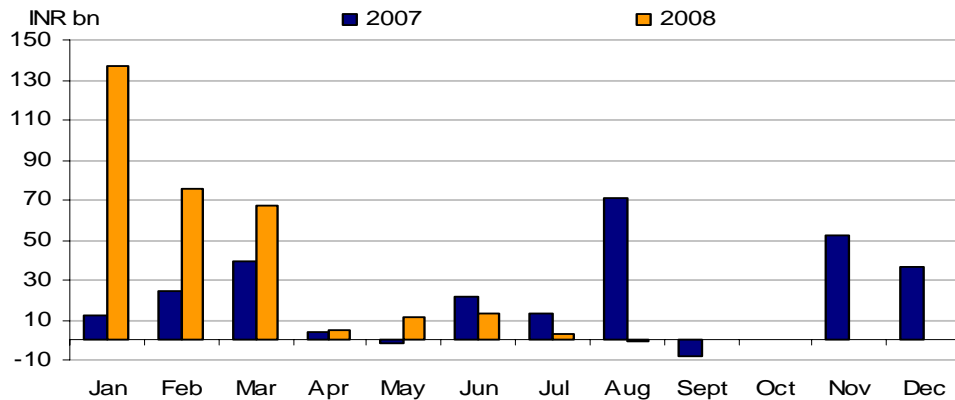
Liquidity/Fund flows

Figure 71: FIIs have sold US\$2bn in cash market, thus far in September



Source: Bloomberg. Updated as of CoB 19th September 2008

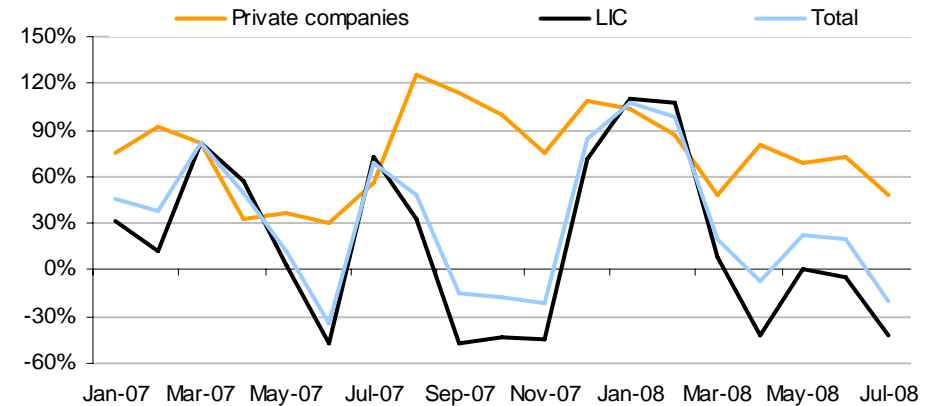
Figure 72: Domestic equity MFs saw first monthly outflows of the year in Aug



Source: AMFI

Note: Includes 'growth/equity' and 'ELSS' schemes of Mutual Funds

Figure 73: First year insurance premiums dipped YoY in July



Source: IRDA

- After having sold US\$2.5bn of stock in June, FII selling had abated in July and August (cumulative net selling of under US\$1bn). However September has seen sharp rise in FII selling, all over again.
- However, FIIs have been net buyers in derivatives market in July, Aug as well as till date in September. This can be a bit misleading though, as all options bought (either put or calls) including strike price, gets classified as a buy.
- Domestic equity MF saw outflows for the first month this year – though in absolute terms the outflow of Rs0.6bn was modest.
- First year insurance premiums declined YoY in July as first year insurance premiums for LIC declined 42% YoY, even private sector insurance companies grew just 49% - their slowest growth rate in over a year. Ytd (Jan-July), first year insurance premiums have grown 28% with LIC growing just 11% while private sector growing a robust 67%
- From an incremental fund flow perspective however domestic insurance companies easily outbid domestic mutual funds as well as foreign institutions. As against net FII selling of US\$4bn during Apr-July 2008, domestic insurance companies were net buyers of US\$6bn whereas domestic mutual funds were net buyers of just over US\$1bn during that period.

Maruti Suzuki - REDUCE

Auto

24 Sep 2008

Management meeting update: Still worried

Maruti's management sounded very cautious on the future outlook. Management acknowledged that 2QFY09 results will be poor and said single-digit margins could not be ruled out. The company is counting heavily on the launch of the *A-Star*. Management expects margins to remain under pressure as volume growth will be driven by new product launches, which tend to have lower margins. **REDUCE.**

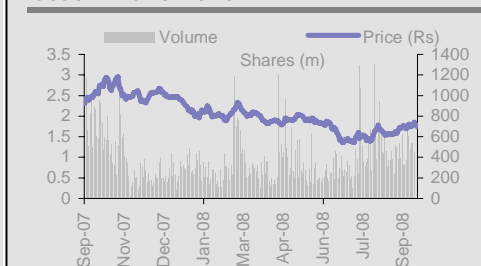
- **Demand environment remains challenging:** Availability and terms of credit have deteriorated significantly in the last few months. High inflation and low consumer confidence are also dragging down demand growth. Maruti's domestic volumes declined by 10% in August. Management expects September to be marginally better; it is banking heavily on October (festive season) volumes. If they don't come through, FY09 will be a very disappointing year for the company.
- **Competition intensifying:** New model launches and aggressive discount schemes by competitors have had a big impact on Maruti's volumes. *Alto* is facing increasing competition from Chevrolet's aggressively-priced *Spark*, whereas Hyundai's *i10* has caused a slowdown for *WagonR*. We expect Tata Motors's *Indica Vista* to provide tough competition to the diesel *Swift*. As a result, pricing power is very low. Maruti's management acknowledged that it has been very difficult to pass on any price increases; in fact, the company has had to offer increased discounts to shore up volumes.
- **New product launches will constrain margins:** For the last two years, volume growth in the Indian passenger car market has been primarily driven by new model launches. Because of the upfront tooling costs and higher royalty payments, new models typically have lower margins. With the launch of the *A-Star* and the *Splash*, the product mix will turn even more towards new product launches, further weighing down margins—though the recent decline in commodity prices will help alleviate cost pressures.

CMP	Rs701
12-mth Target price (Rs)	615 (-12%)
Market cap (US\$ m)	4,428
Bloomberg	MSIL IN
<hr/>	
52Wk High/Low (Rs)	1252/475
Diluted o/s shares (m)	289
Daily volume (US\$ m)	16.0
Dividend yield FY09ii (%)	0.9
Free float (%)	45.8
Shareholding pattern (%)	
Promoters	54.2
FII's	14.8
Domestic MFs/Insurance cos	24.0
Others	7.0

Price performance (%)

	1M	3M	1Y
Maruti Suzuki	11.0	3.6	-28.5
Rel. to Sensex	16.8	7.4	-9.1
Tata Motors	-4.9	-15.9	-45.6
Mahindra & Mahindra	0.2	1.9	-29.8

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	146,539	179,362	200,931	229,701	257,880
EBITDA Margins (%)	13.6	12.8	10.9	11.0	11.3
Pre-Exceptional PAT (Rs m)	15,620	17,308	17,110	19,596	21,989
Reported PAT (Rs m)	15,620	17,308	17,110	19,596	21,989
EPS (Rs)	54.0	59.9	59.2	67.8	76.1
Growth (%)	31.4	10.8	-1.1	14.5	12.2
PER (x)	13.0	11.7	11.8	10.3	9.2
ROE (%)	22.8	20.6	17.2	16.8	16.1
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
EV/EBITDA (x)	9.7	9.1	9.4	7.8	6.2
Price/Book (x)	3.0	2.4	2.0	1.7	1.5

Price as at close of business on 17 September 2008

- **Some margins levers still available:** Management indicated that localisation at the company's end has reached ~90% and there is little scope for improvement. So going forward, the focus will be on improving localisation levels at vendors, who still import some of their components. Also, the company has set up a plant to manufacture K series engines with an initial capacity of 250,000 engines a year. Management expects this initiative to result in savings of Rs2,000-2,500 per car. Initially, these engines will be fitted on the *A-Star*. However, the K series engine is the only Maruti engine compliant with Bharat Stage IV norms, so gradually, other vehicles will also be fitted with these engines. The company plans to expand capacity by 250,000 each year for the next three years.

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Punj Lloyd - ADD

Construction

24 Sep 2008

Wins US\$800m pipeline contract

Punj Lloyd (PUNJ IN) has won a US\$800m (Rs36.4bn) contract to build a 211km pipeline and associated infrastructure for Qatar Petroleum.

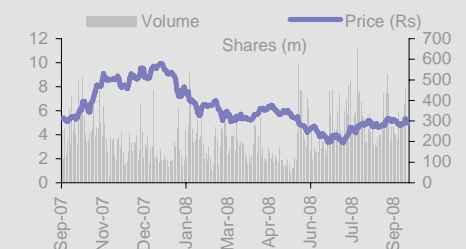
- The project adds 18% to end-July order book of Rs201.6bn. The current order book stands at Rs240.1bn (order book as at end-1QFY09 plus new projects won in 2QFY09). This translates into a book-to-bill ratio of 2.7x
- Pipeline projects are areas of key competency for Punj; the company has won large contracts in domestic and overseas markets. However, this project is Punj's largest so far. The largest pipeline contract won before this project was Rs13.3bn pipeline contract from Sirte Oil Company, Libya.
- The project would transport 2,000mmscfd of gas from Ras Laffan through a 36-inch diameter pipeline scheduled to be completed in 32 months.
- Margins on the project are likely to be above company average, given the company's competency in this sector and Punj's existing mobilisation for pipeline projects in Qatar.
- Management had been guiding for large project wins over the last couple of quarters. Project wins of this size are creditable even for much larger E&C companies like Larsen & Toubro. Such wins would help increase attractiveness of Punj's offerings in the Middle East and North African geographies.
- Though the large project win is certainly creditable and significantly improves visibility to our FY09-10 estimates, upside risks to our FY09-10 revenue estimates are limited, as our numbers factor in order inflows of Rs121bn in FY09 and Rs200bn in FY10.
- At CMP of Rs288, Punj is trading at a PE of 16x on FY09ii and 13.5x on FY10ii. Adjusting for Pipavav and other investments, the stock is trading at a PE of 14.7x on FY09ii and 12.7x on FY10ii.

CMP	Rs288
12-mth Target price (Rs)	317 (10%)
Market cap (US\$ m)	2,023
Bloomberg	PUNJ IN
52Wk High/Low (Rs)	656/183
Diluted o/s shares (m)	322
Daily volume (US\$ m)	30.0
Dividend yield FY08ii (%)	0.1
Free float (%)	55.5
Shareholding pattern (%)	
Promoters	44.5
FII	20.8
Domestic MF/Insurance	16.4
Others	18.4

Price performance (%)

	1M	3M	1Y
Punj Lloyd	5.8	27.4	-8.0
Rel. to Sensex	11.5	32.4	10.1
L&T	-2.8	5.6	-9.2
Nagarjuna	-7.8	-28.5	-53.7
IVRCL Infra	-21.5	-23.4	-39.5

Stock movement



Financial summary

Y/e 31 Mar	FY06A	FY07A	FY08A	FY09ii	FY10ii
Revenue (Rs m)	16,846	51,266	77,529	115,272	131,993
EBITDA margin (%)	11.3	7.3	8.3	9.5	9.8
Pre-exceptional PAT (Rs m)	538	1,969	3,210	5,767	6,850
Reported PAT (Rs m)	555	1,969	3,581	5,910	6,850
Recurring EPS (Rs)	1.7	6.1	10.0	17.9	21.3
Growth (%)		266.2	63.0	79.7	18.8
PER (x)	172.1	47.0	28.8	16.0	13.5
ROE (%)	6.6	16.4	16.0	17.8	16.8
Net debt/equity (x)	0.4	0.5	0.3	0.2	0.1
EV/EBITDA (x)	41.7	21.9	15.1	9.0	7.5
Price/Book (x)	6.7	5.9	3.2	2.5	2.1

Price as on 23 Sep 2008

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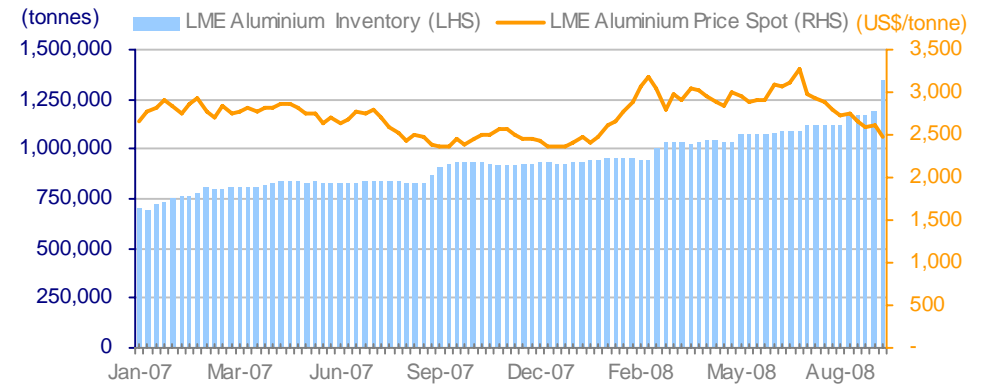
Weakness all around

The weakness seen in commodities in the past two months continued last week as well. While non-ferrous metals corrected on fears of slowing demand, the sharp correction in scrap prices points to an impending downward trend in steel prices. Coking coal is the only steel-making raw material that is still holding up, as supply of high-grade coking coal trails demand. We believe the uncertain global environment and slowdown in demand will continue to weigh on commodities for some time.

Aluminium: prices drop on falling demand

- LME inventories of aluminium surged by 13% in the week ended 19 September to 1.34k tonnes, **their highest level since March 2004**.
- Prices corrected steeply during the week (to US\$2,484/tonne from US\$2,650/tonne). Forward prices also corrected, but are above spot prices.
- We believe that increase in inventory levels and price corrections are due to demand slowdown in the US and Europe, the major aluminium-consuming geographies, and the US dollar's strength against the euro. With demand expected to remain weak in the last quarter as well, we expect further weakening.
- Demand growth in China's building and construction sector has also slowed down, with high inventories. The much-awaited demand pick-up after the Olympics has also not materialised. CRU estimates that the recent fall has pulled prices below the marginal cost support levels for Chinese smelters, with some of them operating at break-even point or even turned loss-making. We believe that if the price weakness persists, some of the marginal smelters may be forced to shut down.

Figure 1: Aluminium inventories at multi-year high, prices correct sharply

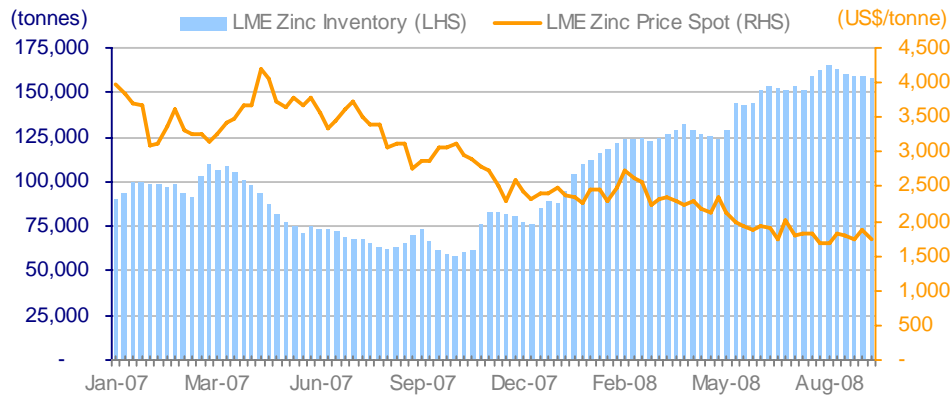


Source: Bloomberg, IIFL Research

Zinc: slowdown concerns weigh prices down

- LME zinc inventory declined slightly, from 159k tonnes to 157k tonnes during the week.
- Spot prices corrected sharply, by US\$115/tonne (6.2%) to US\$1,752/tonne during the week. Forward prices also corrected, but are above spot prices, which we believe is more due to sentiment than fundamentals, as news of production cuts pours in from mines.
- Zinc demand has been weak across geographies, with a widely-expected post-Olympics demand push in China failing to materialise and industrial and construction activity slowing down in the US. Furthermore, galvanising is a major driver of zinc consumption and with reports of slackening steel demand, a further drop in zinc demand cannot be ruled out.

Figure 2: Zinc price at a 3-year low

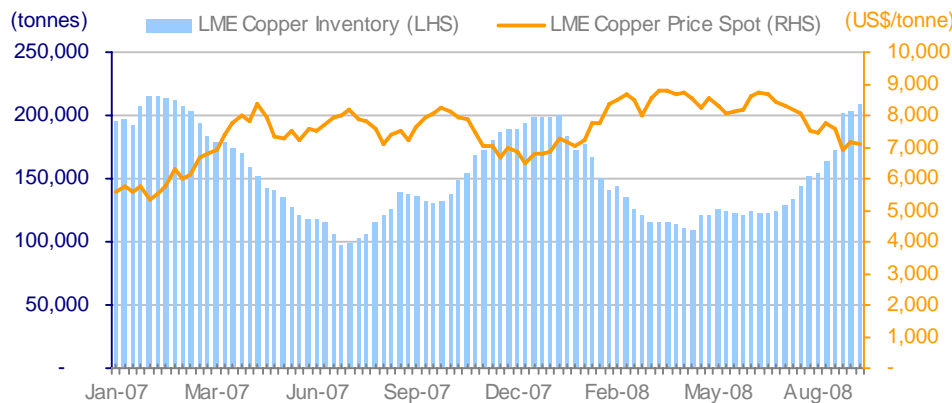


Source: Bloomberg, IIFL Research

Copper: LME inventory rises further

- LME copper inventory rose 3% during the week to 209k tonnes. **Stocks have increased by 36% in the past one month** and are now at their **highest level since February 2008**.
- Spot prices corrected by US\$85/tonne (1%) during the week to US\$7,085/tonne. Forward prices continue to be lower than spot prices, pointing to the possibility of a further drop in prices.

Figure 3: Copper inventories increase, prices slump

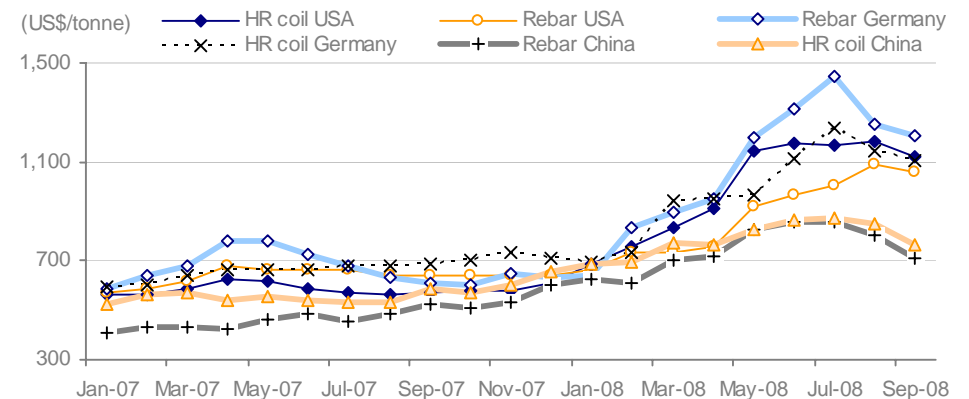


Source: Bloomberg, IIFL Research,

Steel: off the peak

- After correcting by US\$50-200/tonne across geographies in the past one month, steel prices remained flat during the week under review.
- The demand outlook for steel across regions is negative, with the US, Europe and China reporting sluggish construction activity.
- While the price outlook for Europe and North America is cautious to negative, prices in China are likely to hold up thanks to a demand bounce-back after the Olympics and cost support from raw material price hikes and shortage of coal and coking coal.
- Scrap prices, which are a leading indicator of steel prices, continued their downward trend during the week. Going forward, the downward pressure on prices is likely to persist.
- Industry sources have ruled out major price cuts from here in the near term, but are hinting at efforts to manage production to avoid oversupply.

Figure 4: Steel prices coming off highs across geographies

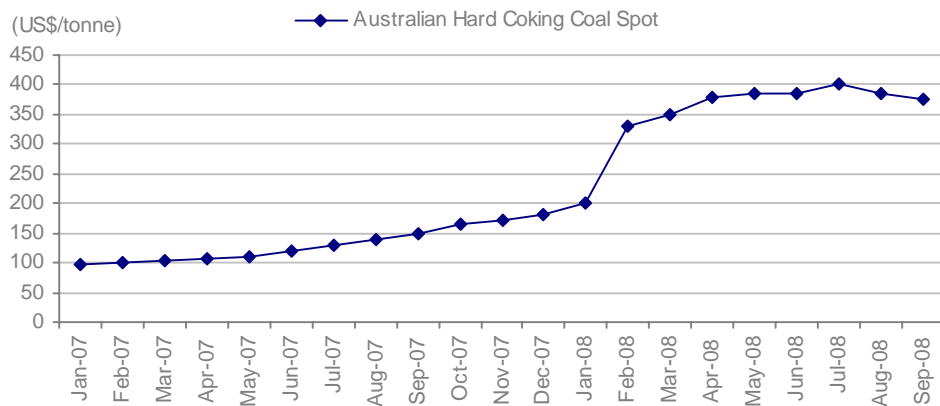


Source: CRU, IIFL Research

Coking coal: tight supplies provide price support

- Coking coal supplies are holding up for now, thanks to extremely tight supply of high-grade coking coal from Australia and Canada.
- CRU estimates that coking coal supplies from the US are mainly of high-quality thermal coal diverted from the thermal coal market, and thus is of little help in easing the tight supply situation.
- Although the current demand-supply situation supports coal prices, any further deterioration in steel demand might prompt producers to cut production to prevent a supply glut. This could adversely affect coking coal demand and prices.
- Results of ongoing negotiations between US coal suppliers and domestic customers for CY09 are expected to be settled by the first week of October, and will be a good indicator of the direction of prices.

Figure 5: Coking coal - prices holding up on tight supplies

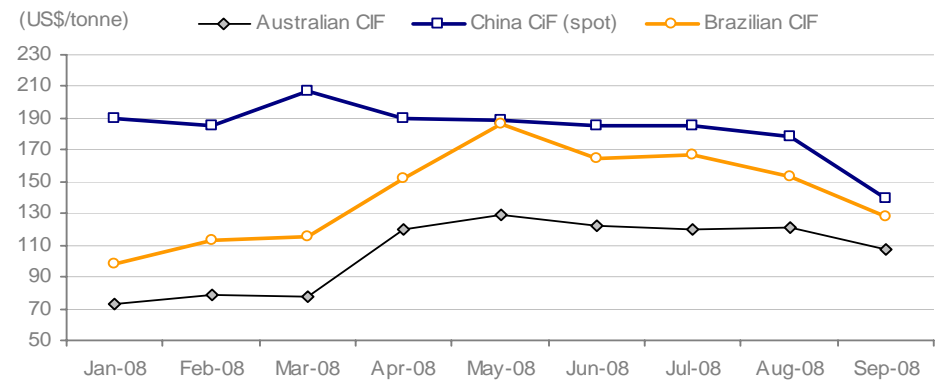


Source: CRU, IIFL Research

Iron ore: expect further correction

- Iron-ore prices fell sharply (from US\$178/tonne China CIF spot in August to US\$140/tonne in September for 63.5% fines) on a sharp deceleration in demand growth. The steep drop in freight rates (freights to China from both Brazil and Australia are now 50% of their May 2008 levels) has also contributed to the price decline.
- On the other hand, ore supply has been rising rapidly because of strong export growth in Australia, India, Brazil and South Africa, as also an increase in Chinese domestic production.
- Hot-metal production in China grew by just 7.5% during Jan-Jul 2008, compared to 13.5% in CY07 and 22.6% in CY06. With demand remaining weak, sharp increases in production are unlikely, and this would put further pressure on the demand-supply balance.
- With steel producers hinting at managing production, iron-ore producers may undergo further erosion of pricing power and a negative movement in iron-ore prices is likely.

Figure 6: Demand concerns and dropping freight rates driving prices down



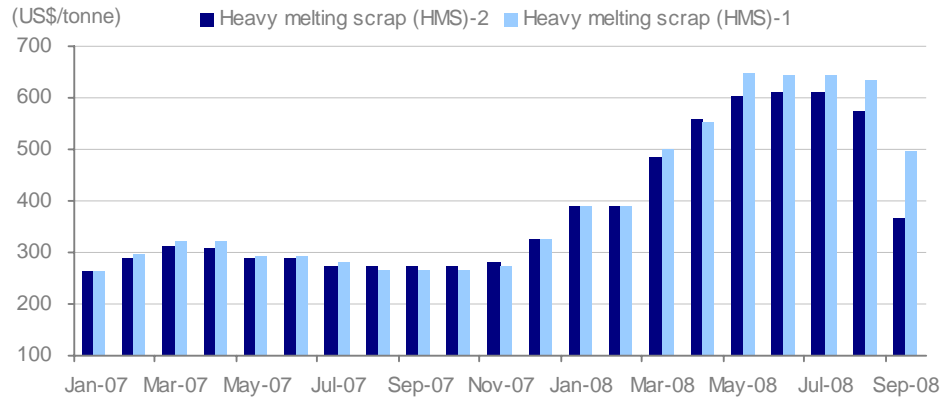
Source: CRU, IIFL Research

Scrap: warning alarm sounded

- Prices of heavy melting scrap-1 (HMS-1) dropped 13% to US\$308/tonne, while those of heavy melting scrap -2 (HMS-2) dropped 17% to US\$263/tonne during the week.

- Price of HMS-1 has halved and that of HMS-2 has fallen by a third in just a fortnight. As scrap prices are a leading indicator of steel prices, a further correction in steel prices is likely.

Figure 7: Sharp correction in scrap prices



Source: Bloomberg, IIFL Research

Figure 8: Steel companies' valuation

	Price		Market cap	Reco.	EPS (Rs)		PER (x)		EV/EBIDTA (x)	
	Rs	Rs m			FY09ii	FY10ii	FY09ii	FY10ii	FY09ii	FY10ii
JSW Steel	573	107,239	Add	106.0	129.1	5.4	4.4	4.3	4.1	
SAIL	142	586,723	Add	21.0	20.4	6.8	7.0	3.5	3.9	
Tata Steel	470	343,557	Add	108.8	101.6	4.3	4.6	4.5	4.2	

Source: Bloomberg, IIFL Research *Price as at the close of business on 23 September 2008

Figure 9: Non-ferrous companies' valuations

	Price		Market cap	Reco.	EPS (Rs)		PER (x)		EV/EBIDTA (x)	
	Rs	Rs m			FY09ii	FY10ii	FY09ii	FY10ii	FY09ii	FY10ii
Sterlite	449	318,363	Add	64.0	70.1	7.0	6.4	3.1	2.4	
Hindustan Zinc	494	208,878	Buy	80.7	85.2	6.1	5.8	2.8	2.1	
NALCO	398	256,564	Reduce	35.5	33.8	11.2	11.8	7.5	6.9	
HINDALCO	108	190,089	Reduce	17.7	14.9	6.1	7.3	4.4	4.8	

Source: Bloomberg, IIFL Research *Price as at the close of business on 23 September 2008

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Management meeting update: Going strong

Our meeting with Hero Honda's management reinforced our positive view on the stock. Retail volumes continue to be robust and the company expects to increase its volumes by 10% in FY09. Management expects the decline in commodity prices to start showing in margins in 2HFY09. The capacity expansion and increased vendorisation at Haridwar will support further margin expansion. Management also indicated that pricing power could be coming back to the company. ADD.

- Robust growth in retail volumes:** HH's despatch volumes increased by ~20% YoY the period April-August 2008. During this period, retail volume growth was also strong at 16% YoY. Management indicated that rural demand in particular was better than expected. The company now expects volumes to increase by 10% to 3.65m vehicles. We have built in 8% growth for FY09 and will wait for the festive season retail volume numbers, post which we may need to revise our numbers upwards.
- NBFCs are bridging the financing gap:** Sales of two-wheelers have been hit by the withdrawal of financing by leading banks. To compensate, HH is tying up with regional NBFCs. The company already has tie-ups with the Shriram group and Fullerton, and is looking for more partners. Last month, HH sold 14,000 vehicles through Shriram Group, which is particularly strong in South India. It also said 2,000 vehicles through Fullerton. HH expects robust growth in sales through these financiers, despite the high interest rates of 23-24%.
- Minor delay in expansion at Haridwar plant:** The company is currently assembling 2,000 vehicles per day and had planned to expand this capacity to 4,000 vehicles per day by December. This ramp-up has had to be postponed to March 2009 because of delays in arrival of some plant machinery.

CMP	Rs828
12-mth Target price (Rs)	920 (11%)
Market cap (US\$ m)	3,620
Bloomberg	HH IN

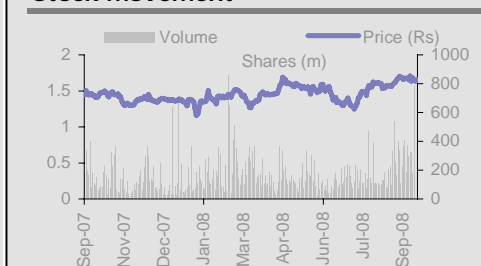
52Wk High/Low (Rs)	890/550
Diluted o/s shares (m)	200
Daily volume (US\$ m)	6.9
Dividend yield FY09ii (%)	2.9
Free float (%)	45.0

Shareholding pattern (%)	
Promoters	55.0
FII's	24.3
Domestic MFs/Insurance cos	11.8
Others	8.9

Price performance (%)

	1M	3M	1Y
Hero Honda	3.4	12.4	12.2
Rel. to Sensex	9.1	17.5	30.3
Bajaj Auto	13.9	20.6	-
TVS Motors	-0.5	0.9	-54.6

Stock movement



Financial summary

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	99,000	103,318	120,129	134,280	146,908
EBITDA Margins (%)	11.8	13.1	13.4	13.8	14.0
Pre-Exceptional PAT (Rs m)	8,579	9,679	12,450	14,112	15,969
Reported PAT (Rs m)	8,579	9,679	12,450	14,112	15,969
EPS (Rs)	43.0	48.5	62.3	70.7	80.0
Growth (%)	-11.7	12.8	28.6	13.4	13.2
PER (x)	19.3	17.1	13.3	11.7	10.4
ROE (%)	34.7	32.4	33.7	30.9	28.4
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
EV/EBITDA (x)	14.2	12.3	10.1	8.5	7.4
Price/Book (x)	6.7	5.5	4.5	3.6	2.9

Price as at close of business on 17 September 2008

Consequently, instead of producing the earlier targeted 740,000 vehicles in FY09, the company will now produce only 600,000 vehicles from the Haridwar plant. As a result, the tax rate will be between 23-24% instead of the company's previous projection of 22%.

- **Signs of return in pricing power:** The company has raised prices twice in FY09 so far. It expects October to be a big month, after which it will review its pricing strategy. With a near 57-58% market share and reduced competitive intensity, pricing power is gradually coming back to HH, though the company says it has not yet tested it as the focus remains on building volumes. The company also expects to retain all the tax benefits at its Haridwar plant.
- **Correction in commodity prices could result in better margins in 2H FY09:** Domestic aluminium prices have dropped by Rs4,000/tonne in the past 15 days. Steel prices too have fallen by Rs3,000/tonne in the past month. HH, which buys most of its requirements in the spot market, should benefit from this decline in metal prices. Management expects benefits of this decline to be visible in the second half of FY09.
- **Special dividend likely for silver-jubilee year:** The company has Rs20bn-25bn in cash on book. This being the company's silver-jubilee year, it might pay a special dividend. If that happens, it will substantially boost its ROE. If the company declares a dividend of Rs50/share amounting to an outflow of Rs10bn, ROE could potentially improve by 10ppt to 45%. Management indicated that a part of the cash is being used to discount supplier bills; against its stipulated credit period of 45 days, HH is paying in 15 days and getting a cash discount on supplies.

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Events calendar – September 2008

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1 Jul Imports ↑ 48% July Exports ↑ 31%	2	3	4 WPI for 23 Aug — 12.3%	5	6
8	9	10 SAIL	11 WPI for 30 Aug — 12.1%	12 July IIP ↑ 7.1%	13
15	16	17	18 WPI for 6 Sep	19	20
22	23	24	25 WPI for 13 Sep	26	27
29 Idea Cellular	30 1QFY09 BoP				HDFC – 17 Oct Bajaj Fin – 22 Oct Bajaj Auto – 23 Oct Bajaj holding – 23 Oct

Black: Quarterly results, Blue: Economic data, Orange: AGM

Events

Oct-08	<ul style="list-style-type: none"> • JSW – Capacity expansion to 6.8mtpa • HSM modernization – 2.5mtpa to 3.2mtpa • Bar and Rod mill 1.5mtpa • Concor - Container traffic data for month of September at major ports • Tata Motors - Launch of the eagerly awaited Nano. • Tata Motors - Rights issue of Rs52bn in two tranches 1) Rights issue in ratio of 1:6 at Rs340 per share 2) Rights issue in ratio of 1:6 at Rs305 per share, differential shares with lower voting rights and higher dividend • Maruti - A-star launch
Nov-08	<ul style="list-style-type: none"> • US Presidential elections
Dec 08	<ul style="list-style-type: none"> • Sun Pharma - Israeli supreme court decision on enforceability of special tender offer rule in Taro acquisition • Nalco – Phased commissioning of 2nd phase expansion • Increase alumina capacity from 1.57mtpa to 2.1mtpa • Increase aluminium capacity from 345ktpa to 460ktpa • Increase power capacity from 960MW to 1200MW • Lakshmi Energy and Foods 2nd 15MW power plant to begin commercial production.
Oct-Dec 08	<ul style="list-style-type: none"> • Jubilant Organosys - generic sestamibi approval by US FDA
Nov-Dec 08	<ul style="list-style-type: none"> • Dr Reddy's Labs - Imitrex authorized generic launch in US
Oct-Dec 08	<ul style="list-style-type: none"> • Indus Tower expected to get towers from three shareholders Bharti, Vodafone and Idea • 3G auctions expected to be held • Grasim's Shambupura 4.5mtpa cement plant to start commercial prod. • Commercial production from RIL KG D-6 starts • Commercialisation of RPL refinery • Unitech - Dilution of stake in its telecom subsidiary • Madras Cements 2mtpa cement plant at Ariyalur to start Prod.

Jan-Mar 09	<ul style="list-style-type: none"> • RCOM expected to launch GSM services nationwide • Grasim's Kotputli 4.4 mtpa expansion to commence prod.
Apr-Jun 09	<ul style="list-style-type: none"> • India's national elections
Oct-Mar 09	<ul style="list-style-type: none"> • DLF - Buy back of shares- upto Rs 11bn & cap price at Rs600/share • DLF - Capital raising by DAL • Sobha - Right issue upto Rs3.5bn • Sintex - Announcement of new international acquisition in composite segment • Arshiya International - Capital raising to fund its FTWZ & Rail business • Puravankara Projects - Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project
Oct-Dec 09	<ul style="list-style-type: none"> • BHEL Capacity goes up from 10 GW to 15 GW



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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