



 **IL&FS INVESTSMART**

Q2FY08 Results Preview



Market

- ✓ After the strong growth seen in Q1FY08 of 9.3%, we expect the GDP growth in Q2FY08 to be on the lower side at around 8-8.5%. The lower estimates are on the back of the impact of higher interest rates and slow down in the off-take of commercial vehicles and industrials and the effect the monsoon has had in the infrastructure sector. We expect the Q2FY08 results to be a mixed bag with sectors like Automobiles, Auto Components, Textile exporters and IT services seeing a pressure on their margins, sectors like Cement, Metals (both ferrous & non-ferrous), and Telecom are expected to continue with the good performance that they have been showing. With no let up in consumption, the FMCG Sector, Retail/Entertainment should see a continued increase in demand and hence a better performance in sales, but the margins could be under pressure due to increase in commodity prices and increased supply.
- ✓ We continue to remain cautious on the growth in the IT services sector. Strong Rupee, and the slowdown in the US economy is likely to result in slowdown in the performance of IT companies. The pressure on IT companies focused in the telecom sector could be high. The sub prime woes could have a negative impact on the BPO companies.



Market

- ✓ The sensex has appreciated by 18% in Q2FY08 and 12% in the last one month. The Nifty has also given a 16.4% return in the quarter, with 15.2% return in the last one month. The pace of the rally in the market has been sharp and this is unlikely to keep the momentum.
- ✓ The Sensex currently at 17,800 is trading at almost 20X FY08 earnings. By no means is this a cheap valuation. The price earning multiples have been seeing an expansion over the last quarter. This, we believe is the result of an increased global liquidity flow along with a superior economic growth against its peers. We continue to believe the market will remain expensive as long as the liquidity flow continued to be there.



Economy

- ✓ The Indian economy grew by 9.3% YoY in Q1FY08; service and manufacturing sectors were the key growth drivers.
- ✓ Investment-driven growth; sharp increase in interest rates - average bank lending rates risen by 250 bps since April 2006; nevertheless, fixed investment/GDP ratio stood at a high of 31.3 % during Q1FY08.
- ✓ Vibrant corporate performance – gross profits higher by about 41.5% in FY07 as against 20.3% in FY06.
- ✓ Trade deficit for April-August 2007 increased to \$32.5bn, against \$19.9bn during the corresponding period last year; higher imports of capital goods and raw materials, including oil, drove this increase.
- ✓ Policy rate hikes announced to curb inflation and money supply. Headline inflation, based on WPI, eased from a peak of 6.7% YoY in March 2007 to 3.23% for the week ended September 15, 2007. We expect inflation to hover around 4.5- 5% during FY08. Domestic petroleum prices have not increased in tandem with international crude prices. Any efforts to increase the domestic petroleum prices and reduce subsidy could push up inflation. Money supply, at 20.4% YoY as on September 14, 2007, remains a threat.



Economy

- ✓ Bank credit slowed down at 23% YoY in August 2007 as against 30% in the beginning of FY07; sharp decline in growth rate of IIP to 7.1% YoY seen during in July 2007. Cumulative growth for April-July 2007-08 stood at 9.6% over the corresponding period of the pervious year.
- ✓ Large capital inflows; rising Rupee escalates worries for the IT sector.
- ✓ Considering the current economic scenario, we expect the Central Bank to take a serious re-look at the monetary and exchange rate policies.
- ✓ Though the volatility in exchange rate is market-determined, we believe that a growing economy like India needs Central Bank intervention through appropriate instruments.
- ✓ Given the above trends, we expect the economic growth to decelerate from 9.4% in FY07 to 8.5% during FY08.



Sector-wise summary table

Q2FY08 projections

(Rs mn)	Net Sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Auto	177,291	174,883	1.4%	170,260	4.1%	21,248	20,720	2.5%	20,552	3.4%	15,094	14,733	2.5%	14,871	1.5%
Banking	23,710	18,754	26.4%	22,222	6.7%	16,249	14,400	12.8%	17,190	-5.5%	7,968	8,268	-3.6%	7,939	0.4%
Cement	83,287	66,126	26.0%	87,388	-4.7%	29,492	19,818	48.8%	29,447	0.2%	19,193	12,198	57.3%	19,267	-0.4%
FMCG	48,844	42,508	14.9%	48,193	1.4%	7,143	6,004	19.0%	7,083	0.8%	6,216	5,193	19.7%	6,129	1.4%
Hotels	1,543	1,404	9.9%	1,567	-1.5%	709	656	8.0%	749	-5.4%	362	359	0.8%	452	-19.9%
Infrastructure	19,826	12,467	59.0%	15,975	24.1%	1,275	754	69.0%	1,433	-11.0%	605	359	68.4%	706	-14.3%
IT	202,125	165,454	22.2%	189,319	6.8%	47,095	41,396	13.8%	43,179	9.1%	40,614	34,675	17.1%	41,470	-2.1%
Logistics	4,904	4,565	7.4%	4,507	8.8%	600	566	5.9%	484	23.9%	431	452	-4.7%	407	5.8%
Metals	250,219	223,696	11.9%	224,640	11.4%	78,098	70,401	10.9%	70,639	10.6%	50,712	44,016	15.2%	42,999	-15.2%
Pharma	25,843	22,300	15.9%	24,320	6.3%	5,539	5,313	4.3%	5,059	9.5%	4,440	3,877	14.5%	3,681	20.6%
Telecom	129,914	78,582	65.3%	116,860	11.2%	54,120	30,302	78.6%	47,631	13.6%	32,937	16,113	104.4%	30,410	8.3%
Textiles	26,874	21,684	23.9%	22,877	17.5%	4,327	3,898	11.0%	3,541	22.2%	1,413	1,304	8.4%	1,138	24.2%



Recommendation summary

Our universe: Projections

Rs mn	Recommendation	FY07			FY08E			FY09E		
		Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Auto										
ANG Auto	Not Rated	1,145.4	289.0	227.1	1,506.2	291.0	253.0	2,056.6	364.0	339.0
Ashok Leyland	Accumulate	71,682.0	7,026.9	4,413.0	75,809.2	7,543.5	4,404.9	84,347.8	8,757.0	4,635.9
Bajaj Auto	Hold	95,204.1	14,169.7	12,371.0	99,964.3	13,395.2	11,587.9	111,960.0	15,338.5	13,623.3
Clutch Auto	Buy	2,355.0	402.4	215.2	3,004.5	502.5	228.2	4,097.0	689.8	341.9
Hero Honda	Hold	99,000.0	11,730.0	8,579.0	108,899.0	11,761.0	8,679.0	125,234.0	13,525.0	9,981.0
Maruti Suzuki	Accumulate	146,538.8	19,903.8	15,619.8	171,343.6	22,882.0	17,499.3	201,897.1	26,832.0	19,982.3
Tata Motors	Hold	275,352.0	32,287.0	18,367.0	290,838.0	31,895.0	17,558.0	341,165.0	38,067.0	19,549.0
TVS Motors	Sell	38,549.6	1,373.0	666.0	39,706.1	1,588.0	540.0	42,486.0	1,784.0	646.0
Banks										
Federal Bank	Hold	7,324.6	5,503.6	2,927.5	9,061.3	6,618.7	3,428.7	10,571.8	7,681.5	4,143.9
HDFC Bank	Reduce	37,095.6	28,049.9	11,414.4	46,775.3	27,439.9	12,817.4	57,960.1	28,031.2	11,971.6
OBC	Accumulate	16,912.5	12,966.2	8,267.4	18,710.7	13,681.0	8,322.0	20,036.9	14,089.4	10,705.3
South Indian Bank	Buy	3,675.1	2,439.5	969.8	4,561.9	3,207.5	1,169.1	5,556.0	3,997.4	1,550.4
UTI Bank	Hold	15,670.0	13,625.2	6,589.5	19,980.6	15,603.7	6,793.2	27,242.3	19,029.7	8,259.6
Cement										
ACC	Hold	58,034.8	16,232.2	12,318.4	69,890.7	20,658.2	14,617.0	76,114.3	19,907.4	13,611.7
Grasim	Hold	86,756.9	24,093.5	15,358.1	95,193.4	26,847.1	16,398.0	113,371.6	28,081.2	17,159.5
Gujarat Ambuja	Hold	62,682.9	22,075.0	15,776.6	59,186.9	22,492.6	15,497.9	59,193.8	21,198.4	13,798.4
India Cement	Not Rated	20,550.6	6,617.3	4,533.0	23,240.3	7,394.4	5,362.7	23,869.5	6,478.4	4,614.9
Madras Cement	Buy	15,741.5	5,557.7	3,080.2	18,164.7	6,594.1	4,056.4	22,202.3	7,366.9	4,497.7
Shree Cement	Buy	13,679.8	6,117.1	1,770.0	19,600.3	8,579.3	4,745.4	23,641.0	9,771.3	5,029.7
Ultra Tech Cemco	Accumulate	49,108.3	14,178.1	7,822.8	54,804.0	17,811.6	10,107.8	59,918.4	18,404.6	10,301.2



Recommendation summary

Our universe: Projections

Rs mn	Recommendation	FY07			FY08E			FY09E		
		Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
FMCG										
Hindustan Unilever	Reduce	120,893.8	16,480.6	15,396.7	137,261.7	19,296.0	18,150.5	155,176.0	21,992.5	20,555.7
Dabur India	Reduce	22,337.3	3,497.4	2,830.4	26,067.7	4,149.4	3,321.6	29,984.3	4,790.6	3,884.2
Marico Ltd.	Buy	15,568.7	2,127.3	1,129.8	18,631.6	2,689.2	1,695.2	21,453.5	3,240.2	2,116.9
Godrej Consumer	Buy	9,517.1	1,796.9	1,440.4	11,272.7	2,293.4	1,762.8	12,993.0	2,748.1	2,186.7
Hotels										
HLVL	Hold	4,155.7	1,931.6	1,266.0	5,337.2	2,646.9	1,339.9	5,685.0	2,819.4	1,389.4
Taj GVK	Buy	2,427.6	1,148.2	650.2	2,654.8	1,238.7	679.3	3,602.4	1,717.2	947.9
Infrastructure										
Punj Lloyd	Not rated	51,265.8	4,102.8	1,969.3	79,719.5	7,084.4	3,363.1	114,682.1	11,452.2	5,767.3
Sadbhav Engineering	Buy	4,918.4	552.7	251.0	7,961.0	966.7	486.6	11,513.9	1,398.9	704.2
IT										
Allsec	Accumulate	1,133.0	325.0	281.0	1,230.0	294.0	254.0	1,721.0	441.0	373.0
HCL Tech	Buy	60,336.0	13,371.0	13,549.0	75,723.0	17,085.0	14,377.0	93,425.0	21,283.0	17,636.0
I-Flex	Reduce	20,381.0	3,586.0	2,768.0	26,557.0	5,221.0	3,925.0	34,715.0	7,043.0	5,390.0
Infosys	Reduce	138,931.0	43,911.0	38,561.0	164,833.0	50,186.0	45,951.0	198,108.0	60,330.0	53,150.0
KPIT	Buy	4,637.0	715.0	501.0	5,916.0	1,026.0	645.0	7,730.0	1,361.0	915.0
MicroTech	Buy	1,064.0	427.0	320.0	1,513.0	702.0	524.0	1,785.0	891.0	655.0
Mphasis	Accumulate	17,606.0	3,075.0	1,801.0	24,159.0	4,537.0	2,834.0	31,666.0	5,725.0	3,752.0
Patni	Reduce	26,112.0	4,935.0	2,652.0	27,383.0	5,313.0	4,466.0	31,534.0	6,132.0	4,819.0
R System	Accumulate	2,039.0	224.0	78.0	2,437.0	225.0	152.0	2,840.0	300.0	190.0
Sasken	Sell	4,751.0	741.0	427.0	5,626.0	753.0	341.0	7,117.0	1,281.0	671.0



Recommendation summary

Our universe: Projections

Rs mn	Recommendation	FY07			FY08E			FY09E		
		Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
IT										
Satyam	Accumulate	64,851.0	15,377.0	14,048.0	80,283.0	17,951.0	16,697.0	99,222.0	22,434.0	20,562.0
Subex	Accumulate	3,409.0	488.0	676.0	6,485.0	1,519.0	1,323.0	8,301.0	2,495.0	1,812.0
Tanla	Buy	2,218.0	1,105.0	931.0	3,965.0	1,796.0	1,508.0	5,013.0	2,220.0	1,848.0
TCS	Accumulate	186,334.0	50,630.0	41,315.0	226,519.0	61,316.0	50,627.0	274,757.0	74,658.0	58,802.0
Wipro	Reduce	149,431.0	29,882.0	29,169.0	186,948.0	32,438.0	31,583.0	229,718.0	40,318.0	39,036.0
Logistics										
AGLL	Accumulate	8,954.1	798.2	620.9	16,412.3	1,311.9	894.2	19,862.2	1,812.8	1,270.4
GDL	Hold	1,609.8	810.4	773.6	1,893.4	1,031.5	836.3	-	-	-
Metals										
Godawari Power	Buy	4,431.9	793.5	522.1	8,067.5	1,577.6	1,058.8	-	-	-
Hindalco	Accumulate	183,129.9	40,148.2	25,055.1	197,811.3	40,304.8	24,152.3	-	-	-
JSW Steel	Reduce	85,950.3	27,078.0	12,920.0	103,510.3	30,525.1	14,356.2	-	-	-
Malco	Accumulate	4,028.9	1,550.4	1,354.4	5,058.3	1,856.6	1,645.0	-	-	-
Monnet Ispat	Accumulate	6,991.3	1,927.8	1,465.4	13,450.3	3,187.6	2,539.6	-	-	-
Nalco	Reduce	59,424.0	35,342.5	23,805.1	53,308.2	27,984.8	18,864.3	-	-	-
SAIL	Accumulate	340,666.9	102,677.6	66,469.8	352,067.7	104,502.5	69,469.0	-	-	-
Sesa Goa	Reduce	22,178.0	9,603.5	6,511.3	24,094.4	10,475.9	7,207.4	-	-	-
Tata Steel	Reduce	175,520.1	69,732.6	42,222.0	192,903.5	77,340.6	49,342.4	-	-	-
Pharma										
Alembic	Buy	7,006.6	1,158.5	706.8	9,101.0	1,626.1	1,004.5	10,636.0	1,941.3	1,260.5
Cipla	Reduce	35,619.9	8,115.0	6,680.3	40,331.0	8,056.2	6,822.3	47,178.6	10,019.2	8,047.6
Glaxo	Hold	15,529.2	4,759.6	3,617.3	16,082.2	4,931.8	3,929.8	17,944.2	5,614.7	4,454.9
Glenmark	Buy	12,069.9	4,071.0	2,736.8	16,723.3	6,003.8	4,220.2	21,487.1	7,762.4	5,449.2
Lupin	Buy	20,137.1	3,031.0	3,086.4	25,216.4	3,669.9	3,170.2	28,962.9	4,277.4	3,249.0



Recommendation summary

Our universe: Projections

Rs mn	Recommendation	FY07			FY08E			FY09E		
		Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT	Net Sales	EBIDTA	PAT
Telecom										
Bharti Airtel	Buy	185,196.0	74,508.0	40,620.0	284,151.7	115,812.8	61,958.6	390,803.6	159,547.8	89,343.6
RCOM	Buy	144,683.0	57,206.0	31,632.0	211,364.0	88,139.0	48,497.0	297,743.0	128,923.0	79,175.0
Idea	Buy	44,129.0	15,102.0	5,033.0	70,134.0	24,071.0	10,834.0	96,047.0	33,801.0	17,385.0
Textiles										
Abhishek Industries	Reduce	8,166.6	1,794.1	409.4	9,890.3	1,966.4	503.6	12,222.2	2,282.3	661.2
Alok Industries	Buy	18,059.4	4,971.5	1,648.6	23,383.6	4,965.8	1,927.8	28,156.3	6,502.3	2,268.3
Arvind Mills	Not Rated	18,449.1	4,156.2	1,195.6	17,325.4	4,369.3	1,558.0	-	-	-
Celebrity Fashions	Buy	3,269.4	186.9	(48.5)	5,292.2	476.6	132.9	-	-	-
Gokaldas Exports	Buy	9,998.1	1,249.3	702.8	12,008.6	1,167.4	682.2	13,998.4	1,341.9	768.3
Page Industries	Not Rated	1,399.2	282.1	172.5	1,904.6	425.5	294.0	2,533.9	569.8	388.8
Vardhman Textiles	Buy	20,864.9	3,858.5	1,717.0	25,329.8	4,699.9	1,868.4	-	-	-
Weslpun India	Buy	9,792.2	1,631.1	522.0	12,818.8	2,268.9	671.2	17,444.7	3,227.6	1,100.4
Others										
Finolex Cables	Buy	10,329.8	1,197.8	689.9	13,706.8	1,655.8	974.5	16,444.8	2,035.6	1,230.9
Northgate Tech	Buy	2,945.8	597.3	570.4	4,918.1	1,093.2	930.1	6,413.9	1,492.6	1,283.9



Recommendation summary

Our universe: Projections

	Price (Rs)	FY08E						FY09E					
		EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE	EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE
Auto													
ANG Auto	180	20.4	8.8	6.1	3.1	22.3%	37.0%	28.0	6.4	4.5	1.9	22.4%	35.0%
Ashok Leyland	46	3.3	13.8	8.7	2.9	18.0%	21.0%	3.5	13.1	8.1	2.5	15.0%	19.0%
Bajaj Auto	2,540	114.5	22.2	19.9	4.2	16.0%	20.8%	134.6	18.9	17.2	3.9	18.0%	20.8%
Clutch Auto	125	13.6	9.2	5.6	2.1	19.6%	27.0%	20.4	6.1	4.1	1.6	20.5%	30.6%
Hero Honda	745	43.5	17.1	12.5	5.1	26.5%	27.6%	50.0	14.9	10.8	4.4	24.8%	25.6%
Maruti Suzuki	1,000	60.6	16.5	5.7	3.2	31.6%	22.9%	69.1	14.5	5.7	2.6	29.6%	21.4%
Tata Motors	778	45.9	17.0	10.8	3.7	13.0%	21.6%	50.7	15.3	9.2	3.2	12.6%	21.3%
TVS Motors	70	2.3	30.5	12.5	2.5	5.0%	7.8%	2.7	25.9	11.0	2.2	6.0%	8.5%
Banks													
Federal Bank	372	39.7	9.4	-	1.8	1.2%	20.6%	47.4	7.8	-	1.5	1.2%	20.7%
HDFC Bank	1,439	38.5	37.4	-	6.4	1.2%	18.4%	32.4	44.4	-	5.7	0.9%	15.1%
OBC	242	33.2	7.3	-	1.0	1.0%	15.2%	42.7	5.7	-	0.9	1.2%	17.1%
South Indian Ban	163	12.9	12.6	-	1.3	0.8%	12.9%	17.1	9.5	-	1.2	0.9%	13.4%
UTI Bank	764	24.1	31.7	-	5.6	0.8%	18.8%	29.3	26.0	-	5.0	0.7%	20.2%
Cement													
ACC	1,197	77.8	15.4	10.9	5.4	40.9%	39.9%	72.5	16.5	10.9	4.4	33.7%	29.1%
Grasim	3,511	178.8	19.6	13.1	4.3	24.2%	23.9%	187.1	18.8	12.4	3.6	22.6%	21.0%
Gujarat Ambuja	144	11.5	12.5	8.4	5.0	43.7%	44.9%	10.2	14.1	8.8	4.2	34.3%	32.5%
India Cement	292	24.3	12.0	9.3	2.2	18.9%	20.3%	20.9	13.9	10.0	2.0	14.9%	14.9%
Madras Cement	4,212	335.8	12.5	8.2	4.7	36.0%	45.6%	372.3	11.3	7.0	3.4	32.4%	34.9%
Shree Cement	1,523	136.2	11.2	6.4	5.5	43.1%	64.5%	144.4	10.6	5.2	3.7	34.2%	41.8%
Ultra Tech Cemco	1,047	81.2	12.9	8.1	4.9	36.9%	45.7%	82.7	12.7	7.6	3.7	31.5%	33.1%



Recommendation summary

Our universe: Projections

	Price (Rs)	FY08E						FY09E					
		EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE	EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE
FMCG													
Hindustan Unilever	221	8.2	26.7	24.9	15.5	56.5%	58.0%	9.3	23.6	21.9	13.1	55.0%	55.4%
Dabur India	106	3.9	27.7	22.4	15.9	54.1%	66.6%	4.5	23.7	19.4	11.5	49.2%	56.4%
Marico Ltd.	61	2.8	21.9	14.3	9.9	31.7%	29.5%	3.5	17.5	11.6	7.2	35.3%	29.5%
Godrej Consumer	141	7.8	17.9	14.1	14.2	68.0%	79.1%	9.7	14.5	11.5	9.3	68.9%	64.4%
Hotels													
HLVL	51	3.2	16.0	6.2	1.5	8.2%	9.7%	3.3	15.3	6.3	1.4	8.1%	9.0%
Taj GVK	141	10.6	13.3	3.3	3.8	21.1%	27.8%	15.6	9.0	2.6	3.0	23.7%	29.0%
Infrastructure													
Punj Lloyd	310	11.6	26.6	13.6	3.8	11.5%	18.4%	19.2	16.0	8.8	2.9	13.3%	20.8%
Sadbhav Engineeri	689	44.6	15.4	8.9	3.8	29.7%	27.7%	64.6	10.6	6.3	2.8	33.0%	30.6%
IT													
Allsec	147	15.7	9.4	4.1	1.3	11.4%	14.3%	23.1	6.4	2.5	1.2	15.4%	18.5%
HCL Tech	305	18.8	16.2	10.9	4.0	25.1%	24.7%	23.3	13.1	8.3	3.4	26.7%	25.8%
I-Flex	1,890	47.6	39.7	26.6	6.5	17.7%	16.4%	66.6	28.4	18.8	5.5	20.8%	19.4%
Infosys	1,897	80.1	23.7	19.6	7.2	32.8%	34.8%	92.7	20.5	15.7	5.5	29.4%	30.5%
KPIT Cummins	120	8.5	14.1	9.7	4.0	23.3%	28.2%	12.0	10.0	6.5	3.0	28.3%	30.4%
MicroTech	232	45.0	5.2	3.4	1.6	34.0%	30.7%	56.2	4.1	2.1	1.2	33.1%	28.8%
Mphasis	286	13.6	21.0	12.8	5.3	28.6%	25.3%	18.0	15.9	9.9	4.3	29.7%	27.1%
Patni	470	31.9	14.7	9.4	2.5	17.6%	18.3%	34.4	13.6	7.4	2.1	17.0%	16.8%
R Systems	90	11.2	8.1	3.4	0.9	11.2%	11.2%	14.0	6.4	3.2	0.8	14.5%	12.7%
Sasken	333	12.0	27.8	11.9	2.2	6.3%	7.8%	23.6	14.2	6.7	2.0	15.7%	14.1%



Recommendation summary

Our universe: Projections

	Price (Rs)	FY08E						FY09E					
		EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE	EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE
IT													
Satyam	444	25.0	17.7	13.8	4.6	24.9%	26.1%	30.8	14.4	10.5	3.8	25.5%	26.2%
Subex	427	27.0	15.8	18.1	2.3	7.7%	14.7%	37.0	11.5	10.2	2.0	12.1%	17.3%
Tanla	605	30.2	20.0	14.5	4.9	26.6%	24.4%	37.0	16.4	11.0	3.9	26.1%	23.6%
TCS	1,057	51.7	20.4	15.9	9.5	49.5%	46.6%	60.1	17.6	12.5	6.8	42.8%	38.9%
Wipro	460	21.6	21.3	16.3	5.9	28.3%	27.8%	26.8	17.2	12.6	4.7	28.2%	27.6%
Logistics													
AGLL (CY)	913	44.1	20.7	14.7	3.8	20.2%	18.3%	62.7	14.5	10.5	3.0	23.2%	20.6%
GDL	135	7.1	18.9	20.7	2.3	12.0%	12.3%	-	-	-	-	-	-
Metals													
Godawari Power	233	42.6	5.5	3.2	1.9	23.9%	34.4%	-	-	-	-	-	-
Hindalco	172	21.3	8.1	5.3	1.3	21.9%	17.1%	-	-	-	-	-	-
JSW Steel	853	87.5	9.7	4.8	2.3	24.9%	24.9%	-	-	-	-	-	-
Malco	582	73.1	8.0	6.9	2.8	34.7%	34.6%	-	-	-	-	-	-
Monnet Ispat	409	47.1	8.7	8.0	2.1	16.2%	27.6%	-	-	-	-	-	-
Nalco	302	29.3	10.3	5.4	2.1	28.3%	21.8%	-	-	-	-	-	-
SAIL	207	16.8	12.3	7.0	3.5	36.8%	32.9%	-	-	-	-	-	-
Sesa Goa	2,524	183.1	13.8	8.6	4.6	52.9%	38.1%	-	-	-	-	-	-
Tata Steel	851	81.0	10.5	5.8	2.6	34.4%	27.7%	-	-	-	-	-	-
Pharma													
Alembic	82	7.3	11.3	8.5	2.4	17.2%	21.4%	9.1	9.0	6.9	2.0	18.1%	21.8%
Cipla	182	8.8	20.8	17.5	3.9	18.9%	19.6%	10.4	17.6	14.1	3.5	20.1%	19.6%
Glaxo	1,118	46.4	24.1	19.1	7.0	35.5%	29.2%	52.6	21.3	16.8	6.2	35.7%	29.3%
Glenmark	423	15.7	27.0	10.7	5.4	29.6%	40.3%	20.2	20.9	8.2	3.6	30.6%	34.5%
Lupin	588	39.5	14.9	15.7	5.1	17.2%	29.1%	40.4	14.5	13.4	4.2	17.3%	24.7%



Recommendation summary

Our universe: Projections

	Price (Rs)	FY08E						FY09E					
		EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE	EPS (Rs)	P/E (x)	EV/EBIDTA (x)	P/BV (x)	RoCE/ROA	RoE
Telecom													
Bharti Airtel	941	32.7	28.8	15.8	11.1	38.6%	38.7%	47.1	20.0	11.2	6.5	42.9%	38.6%
Idea	125	4.1	30.4	14.5	7.0	24.8%	25.6%	6.6	18.9	10.3	5.3	31.9%	31.8%
RCOM	586	23.0	25.5	14.3	5.3	24.2%	20.7%	37.5	15.6	9.7	4.1	30.3%	26.5%
Textiles													
Abhishek Industrie	21	2.6	8.0	6.7	0.9	7.9%	11.2%	3.4	6.1	5.5	0.8	9.3%	12.7%
Alok Industries	71	11.3	6.3	7.4	1.2	10.5%	18.3%	12.0	6.0	6.5	1.0	8.6%	16.5%
Arvind Mills	62	7.4	8.4	6.0	0.9	10.1%	10.6%	-	-	-	-	-	-
Celebrity Fashions	66	7.5	8.9	5.1	0.7	11.0%	7.8%	-	-	-	-	-	-
Gokaldas Exports	249	19.8	12.5	9.4	1.8	12.1%	14.0%	22.4	11.1	8.3	1.5	12.5%	13.8%
Page Industries	440	26.4	16.7	12.1	4.2	40.6%	40.1%	34.9	12.6	8.9	3.1	33.8%	28.5%
Vardhman Textiles	145	32.3	4.5	5.2	0.6	10.6%	14.1%	-	-	-	-	-	-
Weslpun India	68	9.2	7.4	6.6	0.8	8.9%	11.3%	14.3	4.8	4.7	0.6	10.3%	14.5%
Others													
Finolex Cables	75	6.4	11.7	7.7	1.8	13.0%	17.8%	8.0	9.3	6.1	1.6	14.9%	17.8%
Northgate Tech	708	28.0	25.3	19.2	6.8	30.3%	30.5%	38.6	18.4	13.8	5.1	31.4%	31.6%

Prices as on 28th September 2007



 **IL&FS INVESTSMART**

Sector-wise summary



Automobiles- Subdued volumes to impact top-line

Sector highlights

- ✓ The off-take of automobiles continued to show a weak trend in Q2FY08, with domestic sales falling by 4% YoY. The sales of M&HCVs and motorcycles continued to remain soft. The passenger car segment, however, maintained its growth momentum; successful new product launches and line extensions by major players enabled the sector to outperform the growth in other segments. Table 1 outlines the segment-wise growth for automobiles during July-Aug 2007.

Segment	#YoY (%)
PV	14.6
Two-wheelers (excl. motorcycles)	20.9
Motorcycles	(14.1)
Three-wheelers	(6.9)
CV	2.9
M&HCV	(7.7)
LCV	18.2

#Growth during July-August 2007

- ✓ Exports continued to be robust in July-August 2007, reporting an overall growth of 21.66%. This growth was led by motorcycle and M&HCV segments, whose exports grew by 37% and 34% respectively.
- ✓ We believe that the industry topline for Q2FY08 would remain subdued due to volume contraction, especially in the motorcycle and M&HCV segments. Product weariness and rising interest rates is likely to restrain the growth in these segments. Moreover, in our opinion, the higher base effect on the strong growth seen during the last fiscal would continue to impact the off-take of M&HCVs. Operating margins are likely to remain under pressure due to increasing input costs and intensifying competition, thus suppressing profits.



Automobiles- Subdued volumes to impact top-line

Company highlights

Bajaj Auto

- ✓ Product weariness and intensifying competition has impacted the performance of BAL's motorcycle business significantly. In September 2007, BAL commenced production of its new motorcycle, XCD, based on 125cc DTS-I platform; per month, the company intends to sell around 50,000 units of this product from November 2007 onwards. We expect this move to boost the company's performance in the second half of FY08.
- ✓ Intensifying competition from players like Piaggio and M&M would continue to keep BAL's three-wheeler segment under pressure; the segment's sales declined by 3% YoY during July-August FY08. We expect the segment's sales to remain under pressure over the next quarter.
- ✓ The benefits of BAL's increased focus on exports has started flowing in, with its export volumes growing by around 50% in July-August FY08; the company has a strong presence in South Asian countries. Going forward, the company's exports are likely to support its overall sales.



Automobiles- Subdued volumes to hit topline

Ashok Leyland (ALL)

- ✓ Sales of M&HCV goods carriers is expected to remain soft during Q2FY08, as the higher base effect on strong volume growth seen during previous fiscal would continue to impact the demand for M&HCVs.
- ✓ ALL is expected to do well in the M&HCV passenger carrier segment, as it has already received orders from various state transport corporations for the supply of buses.

Tata Motors

- ✓ Sales of M&HCV goods carriers are expected to improve in the second half of FY08, as softening of interest rates may lead to pick up in demand.
- ✓ We expect the sales of passenger cars to remain flat, as the company's key offerings, Indica and Indigo, are witnessing product weariness. These cars are also facing stiff competition from players like M&M, Maruti Suzuki India Limited (MSIL), and Chevrolet, whose new products have been well-received in the market.
- ✓ Tata Motors is expected to do well in the fast-growing LCV segment as its unique offering, ACE, is doing extremely well in the market. The company has recently launched a new passenger version of ACE.



Automobiles- Subdued volumes to hit topline

Hero Honda Motors Limited (HHML)

- ✓ Despite the demand slowdown, HHML is expected to perform better than its peers due to its new product offerings. The company's recent launches like Splendour NXG and new variants of Pleasure, Super Splendour, and Passion Plus, are doing well in the market.
- ✓ We expect HHML to gain market share in the more than 125cc motorcycle segment, while continuing its leadership in the less than 125cc segment.

Maruti Suzuki India Limited (MSIL)

- ✓ MSIL is likely to outperform the growth in the passenger car segment in Q2FY08, with an expected overall volume growth of 20%.
- ✓ The company's new product, SX4, has established itself in A3 segment. The company has improved its market share from 13% to 20% since the launch of SX4 in May 2007. We expect SX4 to continue clocking good numbers in the coming quarters, supported by its premium quality features and attractive price range.
- ✓ MSIL's models like Swift and Alto continue to garner good response in the market.
- ✓ We expect the company to grow at 16% CAGR over the next two years.



Automobiles- Subdued volumes to hit topline

TVS Motors (TVS)

- ✓ The slowdown in demand for two-wheelers is likely to impact TVS significantly, due to its large exposure to the highly price-sensitive and competitive economy segment. Consequently, TVS would continue to face margin pressure. Moreover, TVS' peers like BAL and Hero Honda Motors Limited (HHML) are offering discounts on their products like Platina, and CD100 and Dawn respectively. This is also likely to impact the sales of TVS Star, the company's key product in this segment.
- ✓ Recently, TVS announced the launch of seven new products. Despite this launches, we do not expect any significant improvement in TVS' market position in the motorcycle segment; this is because, these products would face stiff competition from the new products of BAL and HHML.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
ANG Auto	336	280	20.2%	316	6.3%	81	77	5.7%	77	5.7%	55	57	-4.9%	50	9.0%
Ashok Leyland	16,999	16,757	1.4%	16,211	4.9%	1,739	1,350	28.8%	1,743	-0.2%	926	954	-2.9%	882	5.0%
Bajaj Auto	22,100	24,360	-9.3%	21,091	4.8%	2,794	3,652	-23.5%	2,754	1.5%	2,303	3,176	-27.5%	2,265	1.7%
Clutch Auto	520	499	4.3%	452	15.2%	87	82	6.5%	76	14.3%	43	46	-6.9%	37	16.4%
Hero Honda	23,252	22,300	4.3%	24,480	-5.0%	2,755	2,835	-2.8%	2,635	4.6%	2,005	2,160	-7.2%	1,898	5.6%
Maruti Udyog	41,569	34,192	21.6%	39,308	5.8%	6,159	4,756	29.5%	5,748	7.2%	5,006	3,674	36.2%	4,996	0.2%
Tata Motors	64,500	65,717	-1.9%	60,568	6.5%	7,400	7,408	-0.1%	7,329	1.0%	4,695	4,417	6.3%	4,668	0.6%
TVS Motors	8,015	10,779	-25.6%	7,833	2.3%	233	560	-58.5%	191	21.6%	62	248	-75.2%	75	-18.4%



Banks - Lower Loan/Deposit Ratio

Sector highlights

- ✓ The banking sector reported C-D ratio of 69% for Q1FY08, resulting from a slower credit growth and a faster deposit growth. The cost of liabilities have increased sharply and this could result in margin contraction as there has been a pressure on yields.
- ✓ On an average, yields expanded by more than 70-80 bps. However, with the increase in deposits in Q2 resulting into higher liquidity for banks is likely to result in cut in deposit rates and consequently expansion of margins and loan growth in Q3FY08. We remain bullish on earning story of banking stocks due to strong liquidity and robust demand.

Company highlights

HDFC Bank

- ✓ High CASA of around 50% continue result in strong operating performance. Steep valuations, however, make the stock look expensive. At the CMP of Rs1396, the stock trades at 6.2x P/BV FY08E and 5.6x P/BV FY09E.
- ✓ We expect the growth to pick up in the festive season i.e. post October 2007. We expect the bank's C/D ratio to stand at 66% and 68% in FY08E and FY09E respectively.



Banks - Lower Loan/Deposit Ratio

Federal Bank- Positive on growth but no room for Investment

- ✓ Expansion in yields and full impact of rate hikes to be seen in the coming quarters. The bank has been skeptical on increasing its retail exposure as this move can lead to higher provisioning. We continue to remain positive on bank's performance and its improving asset quality. Cost to income ratio to remain at 62% in the coming years as the bank is not planning aggressive expansions.

Oriental Bank of Commerce - Low MTM to boost the bottom-line

- ✓ Flattish growth in operating profits translates into lower valuations. OBC has witnessed lower growth than its peers. Continues to have cheap valuations.
- ✓ Incremental C-D ratio to remain higher, but high employee cost to subdue operating profits.

South Indian Bank- High growth and good recovery in NPAs

- ✓ Despite the recent dilution of of 20 mn shares resulting in 28% dilution.
- ✓ Incremental C-D ratio to remain high at 79%; positive on the growth path.
- ✓ Considering the growth, valuations look attractive.
- ✓ At the CMP of Rs159, the stock trades at 1.29x FY08E BV and at 1.16x FY09E BV.



Banks - Lower Loan/Deposit Ratio

UTI Bank - Market Outperformer

- ✓ Augmentation of Tier-I capital will allow bank to maintain growth momentum. Expected to report 68% C-D ratio during FY08.
- ✓ Rising cost of funds owing to lower CASA.
- ✓ Steep valuations, with issuance of 14.13mn GDRs during the quarter, make valuations expensive.
- ✓ We continue to remain positive on the bank's growth path. Any slowdown in growth, however, could pressurise margins given the bank's high-cost deposits.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Federal Bank	2,052	1,675	22.5%	1,927	6.5%	1,842	1,390	32.5%	1,884	-2.3%	714	695	2.8%	669	6.7%
HDFC Bank	10,922	8,456	29.2%	10,422	4.8%	6,689	6,642	0.7%	7,837	-14.6%	3,127	2,629	18.9%	3,212	-2.7%
OBC	4,360	4,128	5.6%	4,431	-1.6%	3,103	3,141	-1.2%	3,251	-4.6%	1,878	3,108	-39.6%	2,004	-6.3%
SIB	1,258	844	49.1%	973	29.2%	792	482	64.2%	538	47.0%	315	417	-24.5%	304	3.6%
UTI Bank	5,118	3,652	40.2%	4,468	14.5%	3,824	2,745	39.3%	3,679	3.9%	1,935	1,420	36.3%	1,750	10.6%



Cement – Monsoon impacts volumes; price increase the sharpest in the South

Sector highlights

- ✓ Cement demand continued to grow at a robust pace, with dispatches growing 13.4% YoY during July-August-2007. With firm domestic prices, exports declined 44% during the above period. While cement prices increased marginally QoQ across the country despite the monsoon; the southern region witnessed an impressive Rs14.8 per bag rise. Unlike other regions, monsoon hits some states in the southern market during Q3 and hence the cement prices increased sharply during the current quarter. Cement prices were up Rs1.3/bag in North, Rs0.7/bag in East, Rs3.6/bag in West, Rs4.7/bag in Central region.
- ✓ During the quarter, Binani Cement commissioned its new 2.3mn tonnes clinker capacity.
- ✓ While all cement companies are expected to report robust growth on a YoY basis; on a QoQ basis, south based companies are expected to witness the sharpest improvement.

Company highlights

- ✓ **ACC:** Topline to remain subdued on back of fall in volumes during monsoon season. However, we expect the margins to go up on back of increase in cement prices.



Cement - Monsoon impacts volumes; price increase the sharpest in the South

Company highlights

- ✓ **Gujarat Ambuja:** Topline to decline QoQ on back of lower volumes in monsoon season. However, we expect marginal margins expansion on back of improved realisations.
- ✓ **Grasim:** Higher YoY cement, sponge iron and VSF prices to drive growth. However, performance of the chemical division is expected to be impacted due to lower caustic soda prices.
- ✓ **Madras Cements:** Sharp increase in cement prices in the southern region to drive profitability.
- ✓ **India Cements:** Sharp increase in cement prices in the southern region to drive profitability.
- ✓ **Shree Cements:** Ramping up of capacities will lead to higher volumes which in turn will boost topline. However, increase in depreciation and interest cost will partially offset the increase in profitability.
- ✓ **Ultratech Cement:** Sales volumes to be impacted due to monsoon. However, impact on profitability will be lower due to improved realizations.



Cement - Monsoon impacts volumes; price increase the sharpest in the South

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
ACC	17,332	13,735	26.2%	18,680	-7.2%	5,191	3,660	41.8%	5,444	-4.6%	3,249	2,247	44.6%	3,512	-7.5%
Grasim	23,784	20,108	18.3%	24,448	-2.7%	8,401	5,322	57.9%	7,921	6.1%	5,193	3,378	53.7%	5,117	1.5%
Gujarat Ambuja	12,926	9,841	31.3%	14,644	-11.7%	4,856	3,556	36.5%	5,453	-11.0%	3,575	2,447	46.1%	4,036	-11.4%
India Cement	7,468	5,164	44.6%	7,012	6.5%	3,037	1,726	76.0%	2,643	14.9%	2,099	1,173	78.9%	1,834	14.4%
Madras Cement	4,680	4,073	14.9%	4,694	-0.3%	1,914	1,583	20.9%	1,828	4.7%	1,434	901	59.2%	1,006	42.6%
Shree Cement	4,489	3,160	42.1%	4,258	5.4%	1,915	1,427	34.2%	1,823	5.0%	1,182	778	51.9%	1,169	1.1%
Ultra Tech Cemco	12,609	10,045	25.5%	13,653	-7.6%	4,178	2,545	64.2%	4,335	-3.6%	2,462	1,274	93.2%	2,594	-5.1%



FMCG - Steady growth to continue

Sector highlights

- ✓ FMCG companies revenues are expected to grow in the range of 13%-20% in Q2FY08. Increase crude oil and palm oil prices is likely to put pressure on margins for detergent and soap players. No major price increase was implemented by the players during the quarter.

Company highlights

- ✓ ITC is expected to see flat volumes growth for cigarettes. While other FMCG business would continue to make losses, we expect margins to improve on yoy as the losses in the FMCG businesses are reducing. Overall, we expect 15.1% revenue and 16.5% PAT growth during Q2FY08.
- ✓ We expect HUL's revenue growth to remain steady at 13.5%. Lower advertising and sales promotion expenses helped HUL to scale up the operating margins in the first half of H1CY07. Going forward however we expect the margins to come under some pressure on account of higher A&SP expenses and increasing raw material costs. We expect 17.9% growth in PAT for Q3CY07.



FMCG - Steady growth to continue

- ✓ **Marico** is expected to post a 19.7% growth in revenues while PAT is likely to increase by 50% on account of impressive topline growth and write back of intangibles. Parachute and Saffola are expected to continue posting strong growth of 12% and 18% respectively. While copra prices are stable, sunflower and Safflower oil prices are on an uptrend.
- ✓ **Godrej consumer** is expected to post a strong growth of 18.5% in revenues and 22.4% in profits in Q2FY08. We expect soap revenues to continue growing well ahead of the industry. Hair color sales are expected to recover and grow in the range of 15%-16%. GCPL's foray in shampoos will be closely watched as success in this category will provide a positive trigger for the company going forward.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Dabur India	6,634	5,641	17.6%	5,709	16.2%	1,155	973	18.6%	792	45.7%	930	792	17.4%	621	49.7%
Godrej consumer	2,874	2,427	18.5%	2,978	-3.5%	506	397	27.6%	511	-1.0%	379	310	22.4%	386	-1.8%
Hindustan Unilever	34,811	30,660	13.5%	34,814	0.0%	4,717	4,029	17.1%	5,120	-7.9%	4,515	3,830	17.9%	4,719	-4.3%
Marico	4,524	3,780	19.7%	4,691	-3.6%	765	605	26.4%	660	15.9%	392	261	50.0%	402	-2.6%



Hotels

Sector highlights

- ✓ The first 5 months of FY07 have seen a 9% growth in ARR, but a fall of 300 basis points in occupancy levels. On a net basis, in our estimates, the Revpar (Revenue Per Available Room) have increased by only 5% to Rs5,024 from Rs4,784. There seems to be a pressure on occupancy levels as more rooms are commissioned across the board.
- ✓ Marriott International plans to triple its hotel portfolio in India to 21 by 2010.
- ✓ Berggruen Hotels, owned by New-York based Berggruen Holdings, plans to put up 38 hotels in the next 5 years.
- ✓ The Oberoi Group is expected to invest about Rs9bn by 2011 to develop three properties in India.

Company highlights

Hotel Leela

- ✓ We expect sales to grow by 21% YoY to Rs997mn in Q2FY08E from Rs825mn in Q2FY07, mainly on account of inventory addition of 105 rooms in Bangalore in Q4FY07.
- ✓ Net profit is expected to be Rs225mn from Rs208mn in Q2FY07.
- ✓ ARR (average room rates) and occupancy levels at Bangalore have declined in the last one year.



Hotels

Taj GVK

- ✓ We expect sales to fall by 5.8% YoY to Rs546mn in Q2FY08E from Rs579mn in Q2FY07.
- ✓ Net profit is expected to be Rs137mn from Rs151mn in Q2FY07.
- ✓ Hyderabad has experienced cooling down in ARR on account of supply in 3 star and 4Star category and we expect the trend to continue.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Hotel Leela	997	825	20.9%	1,002	-0.5%	459	388	18.3%	490	-6.4%	225	208	8.3%	302	-25.3%
Taj GVK	546	579	-5.8%	565	-3.4%	251	269	-6.8%	259	-3.4%	137	151	-9.5%	151	-9.3%



Information Technology

Sector highlights

- ✓ Further rupee appreciation, of more than 1.5% on an average, to have a negative impact on revenues.
- ✓ Higher forex gains expected as companies had increased their forward cover at the end of Q1FY08.
- ✓ Salary hikes to impact profitability of Wipro and Satyam.
- ✓ Higher net additions of employees expected in Q2FY08, as most entry level employees join in Q2FY08.
- ✓ Negative impact on margins due to lower utilisation levels arising from addition of entry level employees. However, this impact to be negated due to lower visa costs and lower per capita employee costs as salary hikes already done in Q1FY08 (except for Satyam and Wipro).

Company highlights

- ✓ **TCS:** Volume-driven growth; EBITDA margin likely to be higher by 90bps on account of benefits accruing due to economies of scale; lower forex gains in Q2FY08 and higher tax to impact net profits, as there was a tax write-back of Rs252.8mn in Q1FY08.
- ✓ **Infosys:** Volume-led growth; EBITDA margin likely to be higher by 130bps on account of lower visa costs and benefits from economies of scale; lower forex gains in Q2FY08 and higher tax to impact net profits, as there was a tax write-back of Rs510mn in Q1FY08.



Information Technology

Company highlights

- ✓ **Wipro:** Revenues to increase 6.2% sequentially on account of a 6.5% increase in global IT business and a 5.6% increase in infotech business. Operating margins to decline by 120bps on account of salary hikes in the global IT business; lower forex losses to boost net profits.
- ✓ **Satyam:** Volume-driven revenue growth. EBITDA margins to fall by 180bps due to salary hikes in Q2FY08. Lower forex losses in Q2FY08, however, to lead to a sequential increase of 0.3% in net profits.
- ✓ **HCL Tec:** Revenues expected to increase 7.2% sequentially; EBITDA margins to increase by 100bps on account of benefits from economies of scale; lower forex gains to lead to a 31.8% sequential drop in net profits (forex gains of Rs 2.5 bn in Q4FY07)
- ✓ **Patni:** Muted growth to continue; expected revenue growth of 3.7%; higher SG&A expenses to impact EBITDA margins by 40bps; lower forex gains to lead to a 32.4% sequential fall in net profits (forex gains of Rs 348 mn in Q2CY07)
- ✓ **I-Flex:** Higher product license fees to result in a 29% sequential increase in products revenues and an 18.2% increase in consolidated revenues; EBITDA margins to expand by 430bps on account of higher license fees.
- ✓ **Mphasis:** Higher traction from EDS expected to result in a 10.2% sequential increase in revenues; company to add 2,000 employees in Q2FY08; lower forex losses to result in a 35.5% sequential increase in net profits (forex losses of Rs 179 mn in Q1FY08).



Information Technology

Company highlights

- ✓ **Sasken:** Higher expected royalty revenues to lead to a 7.5% sequential increase in products revenues; however, continued sluggishness in the services business to lead to only a 3.6% sequential increase in overall revenues; EBITDA margins to expand by 190bps on account of higher products revenues and thereby lower losses in the products business; lower exchange gains in Q1FY08 to result in a 64.7% decrease in net profits.
- ✓ **Subex:** Increased traction in the products business to result in a 20.4% sequential increase in products revenues; company expected to turn EBITDA positive in Q2FY08; lower forex gains in Q2FY08 expected to impact net profits.
- ✓ **KPIT Cummins:** Volume growth to drive sequential revenue growth of 2.6%; EBITDA margins to fall by 40bps on account of higher employee addition.
- ✓ **R Systems:** Sequential revenue growth expected at 3.7%. EBITDA margins likely to increase to 10.5%, supported by lower losses in Ecnnet and benefits from economies of scale.
- ✓ **Allsec:** Volume growth to drive 13.1% sequential growth in revenues. EBITDA margins to expand by 190 bps.
- ✓ **Micro Tech:** Expected higher sales of security products and Lost Mobile tracking systems to lead to a 6.3% and a 19.2% sequential growth in revenues and profits respectively.
- ✓ **Tanla Solutions:** Expected to report an 8.0% sequential increase in revenues on account of an 8.2% growth in aggregator business and a 12.9% growth in offshore development services. Expect marginal revenues from India to start flowing in Q2Fy08; higher contribution from offshore services and benefits from economies of scale to expand EBITDA margins by 130bps.



Information Technology

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
TCS	55,230	44,822	23.2%	52,028	6.2%	14,566	12,294	18.5%	13,264	9.8%	11,862	9,915	19.6%	11,855	0.1%
Infosys	40,142	34,510	16.3%	37,730	6.4%	12,060	11,090	8.7%	10,840	11.3%	10,897	9,290	17.3%	10,790	1.0%
Wipro	44,428	35,138	26.4%	41,832	6.2%	7,582	7,184	5.5%	7,636	-0.7%	7,483	6,963	7.5%	7,104	5.3%
Satyam	19,487	16,019	21.6%	18,302	6.5%	4,019	3,625	10.9%	4,103	-2.0%	3,794	3,198	18.6%	3,783	0.3%
HCL Tech	17,276	13,794	25.2%	16,120	7.2%	3,899	2,987	30.5%	3,475	12.2%	3,097	2,300	34.7%	4,670	-33.7%
Patni	6,876	6,971	-1.4%	6,628	3.7%	1,248	1,432	-12.8%	1,227	1.7%	911	1,024	-11.0%	1,348	-32.4%
I-Flex	6,288	5,009	25.5%	5,321	18.2%	1,152	970	18.8%	729	58.0%	850	804	5.7%	484	75.6%
Mphasis	5,858	4,263	37.4%	5,316	10.2%	1,072	728	47.3%	978	9.6%	695	366	90.2%	513	35.5%
Tanla	966	474	103.8%	895	7.9%	440	250	76.0%	396	11.1%	366	197	85.7%	333	9.8%
Subex	1,585	1,031	53.7%	1,317	20.3%	417	166	151.2%	(25)		288	170	69.4%	216	33.3%
Sasken	1,330	1,175	13.2%	1,284	3.6%	128	220	-42.1%	99	28.8%	23	119	-81.1%	64	-64.8%
KPIT	1,388	1,140	21.8%	1,353	2.6%	215	179	20.1%	215	0.0%	125	124	1.0%	127	-1.7%
R Systems	611	543	12.5%	589	3.7%	64	76	-16.1%	45	43.4%	44	58	-23.8%	32	37.6%
Allsec	293	308	-4.9%	259	13.1%	65	89	-27.1%	52	23.9%	54	74	-27.4%	46	17.7%
MicroTech	367	257	42.8%	345	6.4%	169	106	59.2%	145	16.1%	126	74	70.2%	105	19.2%



Infrastructure/Real Estate

Sector highlights

- ✓ Top line growth to remain strong YoY as order book position remains healthy.
- ✓ Sales and EBITDA margin expected fall QoQ on a seasonally weak quarter as monsoon slows down construction activity.
- ✓ Withdrawal of Sec 80IA benefits to affect some of the companies that have started following the more conservative interpretation of the clarification provided in the budget.

Company highlights

- ✓ **Punj Lloyd:** The company received 4 major contracts totaling Rs20.7bn which is higher than the Rs6.8bn of order booked in Q1FY08. EBITDA margins are expected to be higher on account of improvement in margins of SEC on new overseas contracts received leading to an impressive 61% PAT growth despite higher taxes.
- ✓ **Sadbhav Engineering:** Rising order book to translate into strong YoY growth. However, QoQ performance will be impacted due to monsoon season and a resultant slowdown in construction activity.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Punj Lloyd	18,719	11,971	56.4%	14,180	32.0%	1,142	697	63.7%	1,214	-6.0%	538	334	61.2%	595	-9.5%
Sadbhav Engineering	1,107	496	123.0%	1,796	-38.4%	133	57	134.5%	219	-39.1%	67	25	163.7%	111	-39.8%



Logistics - CFS/ICD business continues to fall, but core logistics still strong

Sector highlights

- ✓ The total container traffic handled at JNPT was 3.3mn TEUs for FY07 as against 2.66mn TEUs in FY06.
- ✓ Oversupply in both the CFS and ICD businesses has resulted in lower realizations per TEU in Mumbai, but Chennai has seen a sharp increase in throughput.

Company highlights

Gateway Distriparks:

- ✓ Net sales expected to grow at 44.7% including the Snowman cold chain business, to Rs552mn in Q2FY08E.
- ✓ Realizations per TEU at Mumbai CFS which had peaked last year continue to face pressure on account of tough competition.
- ✓ We expect net profits of Rs190mn in Q2FY08E as against Rs211mn in Q2FY07.



Logistics - CFS/ICD business continues to fall, but core logistics still strong

Company highlights

Allcargo Global Logistics

- ✓ On a consolidated basis we expect net sales of Rs4352mn in Q3CY07.
- ✓ Net profits estimated at Rs241mn in Q3CY07.
- ✓ The company has begun operations at Chennai and Mundra CFSs which would drive growth in volumes.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Allcargo	4,352	4,184	4.0%	4,024	8.1%	348	347	0.3%	264	32.0%	241	240	0.3%	220	9.4%
GDL	552	382	44.7%	483	14.2%	252	219	14.7%	220	14.2%	190	211	-10.3%	187	1.6%



Metals - QoQ metal prices lower due to rupee appreciation, lower base metal prices

Sector highlights

- ✓ During Q2FY08, average international HR coil prices remained flat after increasing sharply in Q1FY08. However, given the appreciation in rupee against dollar, landed HR coil prices were lower by 2.1% QoQ. Domestic steel prices too were lower by 2.4% QoQ.
- ✓ LME aluminium prices continued to decline during Q2FY08 falling 7.3% QoQ during the quarter. This coupled with rupee appreciation against the dollar has led to a further decline in domestic aluminium prices. Alumina prices however continued to recover during the quarter.
- ✓ While copper prices have increased 2% QoQ on the LME, TC/RC margin remained under pressure during the quarter, which will have a bearing on operating margin of custom smelters.

Company highlights

- ✓ **Hindalco:** Decline in aluminium prices QoQ coupled with rupee appreciation to impact profitability of the aluminium division. Copper division profitability too will be affected given the pressure on TC/RC margin.
- ✓ **Nalco:** Impact of lower aluminium price coupled with appreciating rupee to be offset by an improvement in alumina prices.



Metals - QoQ metal prices lower due to rupee appreciation, lower base metal prices

Company highlights

- ✓ **SAIL:** Marginally higher QoQ volumes coupled with lower contractual coking coal prices to drive growth.
- ✓ **Tata Steel:** Higher YoY steel prices to drive growth during the quarter.
- ✓ **JSW Steel:** Higher production and increase in share of value-add products to drive growth.
- ✓ **Jindal Steel and Power:** Commissioning of the 1mn tonne plate mill to lead to higher volumes and better blended realisations.
- ✓ **Monnet Ispat and power:** Operationalisation of expanded capacity and firm sponge iron prices are likely to lead to higher profitability.
- ✓ **Malco:** Lower aluminium prices, rupee appreciation and rising input costs to impact profitability.
- ✓ **Sesa Goa:** Monsoon to have an impact on iron ore mining leading to lower volumes. Benefits due to higher iron ore prices and coke prices to be offset by the levy of export duty.
- ✓ **Godawari Power & Ispat:** Firm sponge iron and billet prices to drive growth. Benefits of partial operationalisation of Phase-2 capacity expansions likely to be offset by the planned shutdown in sponge iron kiln leading to flat QoQ volumes growth.



Metals - QoQ metal prices lower due to rupee appreciation, lower base metal prices

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Godawari Power	1,731	1,004	72.5%	1,702	1.7%	350	210	66.7%	344	1.7%	203	151	34.8%	209	-2.9%
Hindalco	48,926	46,342	5.6%	46,779	4.6%	8,404	9,864	-14.8%	8,843	-5.0%	5,691	5,976	-4.8%	6,029	-5.6%
Jindal Steel & Pow	12,666	7,896	60.4%	12,231	3.6%	4,970	3,085	61.1%	4,792	3.7%	2,632	1,572	67.4%	2,501	5.2%
JSW Steel	24,977	21,946	13.8%	21,907	14.0%	8,292	6,963	19.1%	7,038	17.8%	4,301	3,463	24.2%	3,789	13.5%
Malco	1,088	1,238	-12.1%	1,111	-2.0%	297	485	-38.8%	350	-15.1%	320	491	-34.8%	366	-12.5%
Monnet Ispat	2,627	1,343	95.6%	2,345	12.0%	707	369	91.4%	619	14.1%	534	270	97.7%	460	16.0%
Nalco	11,923	14,416	-17.3%	11,652	2.3%	6,343	8,751	-27.5%	6,164	2.9%	4,480	5,950	-24.7%	4,467	0.3%
SAIL	96,378	85,391	12.9%	80,395	19.9%	28,939	23,333	24.0%	23,829	21.4%	20,048	14,428	39.0%	15,251	31.5%
Sesa Goa	2,482	2,262	9.7%	4,542	-45.4%	313	293	6.9%	1,669	-81.3%	238	257	-7.1%	1,189	-79.9%
Tata Steel	47,421	41,858	13.3%	41,976	13.0%	19,484	17,048	14.3%	16,992	14.7%	12,264	11,458	7.0%	8,737	40.4%



Pharma

Sector highlights

- ✓ Patent expiries would drive generics growth in regulated markets.
- ✓ Low penetration level should drive double digit growth in many European markets.
- ✓ Consolidation would gain further steam.
- ✓ Counter pricing pressure in regulated markets by de-risking / re-aligning businesses.
- ✓ Due to high incidence of acquisition multiple in generics space, paybacks for inorganic initiatives to extend for long periods.
- ✓ Indian companies better placed to leverage acquisitions, given the possibility of shifting manufacturing back to India over a long term.
- ✓ Companies that are vertically integrated, geographically diversified, wide product basket, robust balance sheet and having low of manufacturing would benefit in the longer term.



Pharma

Company highlights

- ✓ **Glenmark:** Increased US formulation exports likely to expand EBITDA margins by 150 bps due to launch of drugs such as Carvedilol and Terbinafine, in Q2FY08E and benefits accruing from lower tax provisions. Key Risk- Suspension of NCE (GRC 3886) in clinical trials.
- ✓ **Lupin:** Topline growth of 28.7% YoY due to launch of Amlodipine tablets in the US market and Lisinopril tablets in UK market in 2QFY08E. EBITDA margins to expand by 124bps; lower tax provisioning at 22% of PBT (vis-à-vis 28.8% in 2QFY07) expected to boost PAT growth to 73.9%.
- ✓ **Glaxo:** Topline to decline by 7.3% YOY due to absence of sales of Animal Health business and Fine Chemicals business. EBITDA margins to decline by 290bps YoY; this is likely to translate into a decline in profitability by 9.9% YoY.
- ✓ **Cipla:** Q2FY08E revenues are expected to grow by 12.5% YoY to Rs10.1bn based on 15.4% growth in exports business. While formulation exports are expected to grow at 20% YoY, API exports are expected to grow at 3% YoY and domestic business is expected to grow by 12.5% YoY. Operating margin to decline by 440bps YoY on account of depreciating dollar and higher contribution of low margin AIDS business, resulting into a marginal PAT growth of 0.8% YoY.



Pharma

Company highlights

- ✓ **Alembic:** Net sales are expected to grow at 29.3% YoY due to strong growth from the domestic market, launch of line extensions in the domestic markets and full effect of Dabur's non-oncology business. EBITDA margins would decrease by 170bps YoY due to launch of Dabur's non-oncology products; lower tax provisioning at 13.1% of PBT resulting in PAT growth of 72.1% YoY to Rs280.3mn.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Alembic	2,637	2,039	29.3%	1,705	54.7%	461	391	18.1%	291	58.8%	280	163	72.1%	170	64.5%
Cipla	10,083	8,961	12.5%	9,018	11.8%	2,117	2,276	-7.0%	1,607	31.8%	1,817	1,803	0.8%	1,198	51.7%
Glaxo	3,699	3,992	-7.3%	3,956	-6.5%	1,079	1,283	-15.9%	1,223	-11.8%	893	991	-9.9%	964	-7.4%
Glenmark	3,196	2,469	29.4%	3,514	-9.0%	825	601	37.2%	1,025	-19.5%	549	402	36.5%	572	-4.0%
Lupin	6,228	4,839	28.7%	6,128	1.6%	1,057	763	38.6%	913	15.8%	902	518	73.9%	777	16.1%



Telecom - Subscriber-driven growth the key driver

Sector highlights

- ✓ Acceleration in India's subscriber base, in excess of 7mn monthly additions, continues to drive growth.
- ✓ Geographical expansion will remain key driver for mobile subscriber growth.
- ✓ Timely availability of spectrum is a concern for the companies.

Company highlights

Bharti Airtel

- ✓ Subscriber driven EPS growth story.
- ✓ Bharti continue to spearheads subscriber growth in the sector.
- ✓ Net addition of 2.1mn subscriber in August 2007.

Idea Cellular

- ✓ An Aditya Birla group company, Idea went public in March 2007.
- ✓ A lot depends on expanding in to new geographies successfully.
- ✓ A mid-sized company, but valuations are at par with larger peers.



Telecom

Company highlights

Reliance Communication Ventures Ltd. (RCOM)

- ✓ Subscriber driven EPS growth story, similar to that of Bharti.
- ✓ Value unlocking through de-merger of tower business.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Bharti Airtel	63,251	43,322	46.0%	59,047	7.1%	27,528	16,776	64.1%	24,358	13.0%	16,583	9,089	82.5%	15,117	9.7%
Idea	16,413	-	-	14,776	11.1%	5,637	-	-	5,131	9.9%	3,194	-	-	3,085	3.5%
RCOM	50,250	35,260	42.5%	43,037	16.8%	20,954	13,526	54.9%	18,142	15.5%	13,160	7,024	87.4%	12,208	7.8%



Textiles - Strong Rupee affect growth, margins

Sector highlights

- ✓ India's total apparel exports to the U.S. declined by 0.6% during Jan – Jul 2007; India's market share declined among the total U.S. apparel imports, from 5.3% (Jan-Jul 2006) to 4.9% (Jan-Jul 2007).
- ✓ Cotton apparel exports to the U.S. declined by 2.35% during Jan-July 2007.
- ✓ A strong rupee continues to affect overall apparel exports volumes to the US and has also impacted margins in the export business. However, some players have been able to mitigate the impact of the same by improving the client and product mix and improving product turnaround times.

Company highlights

- ✓ **Abhishek Ind:** Delay in ramping up utilization rates and lower margins to hit bottom-line.
- ✓ **Alok Industries:** Completion of Phase II & III of expansions to drive strong revenue growth; higher capital charges to slow down profit growth.
- ✓ **Celebrity Fashions:** Strong rupee and lower utilization levels would continue to impact margins; current order bookings indicate better growth ahead.



Textiles

Company highlights

- ✓ **Gokaldas Exports:** Leveraging on its consistent capacity and client additions; Margins expected to be hit due to rupee appreciation.
- ✓ **Page Industries :** Focus in increasing market reach and new premium product introductions to drive growth.
- ✓ **Mahavir Spinning:** Moderate growth expected with increase in capacity utilizations of its fabric division.
- ✓ **Welspun India:** Rising utilization rates in home textile segment to drive strong topline growth.
- ✓ **Arvind Mills:** Volumes in denim fabric segment continues to be affected. Branded apparel growth in the domestic markets to contribute to bottom-line growth.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Abhishek Ind	2,522	2,038	23.8%	2,238	12.7%	416	473	-12.1%	329	26.4%	105	132	-20.3%	86	21.8%
Alok Ind	4,554	4,172	9.2%	4,189	8.7%	1,075	968	11.1%	1,016	5.8%	348	326	6.7%	550	-36.7%
Arvind Mills	5,576	3,932	41.8%	5,103	9.3%	836	813	2.9%	721	16.0%	133	55	139.4%	58	128.3%
Celebrity Fashions	1,087	685	-	805	35.1%	16	(12)	-	3	400.8%	(45)	(58)	-	(58)	-23.5%
Gokaldas Exports	3,252	2,810	15.7%	2,619	24.2%	281	316	-11.0%	209	34.5%	147	208	-29.4%	99	48.0%
Page Industries	483	n.a.	-	n.a.	-	106	n.a.	-	n.a.	-	71	n.a.	-	n.a.	-
Vardhman Textiles	6,048	5,283	14.5%	5,276	14.6%	1,010	917	10.1%	896	12.7%	425	457	-7.0%	311	37.0%
Welspun India	3,352	2,764	21.3%	2,647	26.6%	587	423	38.8%	367	60.0%	229	183	24.9%	92	148.2%



Others

Company highlights

- ✓ **Finolex Cables:** Demand for electrical cable is likely to remain strong in the backdrop of development in residential and commercial real estate. We expect margin recovery to continue for the quarter on sequential basis.
- ✓ **Northgate Tech:** Presence in a high-growth online advertisement industry. Future depends on expanding in newer geography successfully.

Q2FY08 projections

(Rs mn)	Net sales					EBIDTA					PAT				
	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q	Sep-07	Sep-06	Y-o-Y	Jun-07	Q-o-Q
Finolex Cables	3,700	2,761	34.0%	3,024	22.4%	444	396	12.2%	189	135.4%	254.42	215	18.3%	318	-20.0%
Northgate Tech	1,292	637	102.9%	1,176	9.9%	258	149	73.1%	206	25.5%	219.61	132	66.5%	184	19.5%



Institutional Equity

Name of the Analyst		Email	Tel. No.
Research			
Sreesankar R	Head of Research/ Strategy/ Shipping/ Retail/ Economy	<i>sreesankar@investsmartindia.com</i>	67069914
Ashish Aggarwal	IT	<i>ashish.aggarwal@investsmartindia.com</i>	67069925
Jayesh Sundar	Textiles/ Chemicals/ Paper/ Fertilizers/ Power	<i>jayesh.sundar@investsmartindia.com</i>	67069944
Milind Bhangale	Pharma	<i>milind.bhangale@investsmartindia.com</i>	67069907
Vishal Mishra	Metals/ Cement	<i>vishal.mishra@investsmartindia.com</i>	67069943
Sameer Deshmukh	FMCG	<i>sameer.deshmukh@investsmartindia.com</i>	67069946
Mahesh Bendre	Capital Goods/ Power	<i>mahesh.bendre@investsmartindia.com</i>	67069917
Dipesh Sohani	Automobiles & Auto components	<i>dipesh.sohani@investsmartindia.com</i>	67069933
Devang Patel	Infrastructure/ Real Estate	<i>devang.patel@investsmartindia.com</i>	67069927
Sidharth Agrawal	Sugar/ Hotels/ Logistics	<i>sidharth.agrawal@investsmartindia.com</i>	67069940
Mukesh Kumar	Midcap	<i>mukesh.kumar@investsmartindia.com</i>	67069926
Vishal Shah	Banking	<i>vishal.shah@investsmartindia.com</i>	67069918
Sreejith Narayanan	Economist	<i>sreejith.narayanan@investsmartindia.com</i>	67069922
Rachana Kumari	Media	<i>rachna.k@investsmartindia.com</i>	67069941
Anukool Modak	Research Associate	<i>anukool.modak@investsmartindia.com</i>	67069915
Sanket Dalvi	Research Associate	<i>sanket.dalvi@investsmartindia.com</i>	67069900
Naveen Baid	Research Associate	<i>naveen.baid@investsmartindia.com</i>	67069940
Akhil Jain	Research Associate	<i>akhil.jain@investsmartindia.com</i>	67069932
Ankita Bajpai	Editor	<i>ankita.bajpai@investsmartindia.com</i>	67069915
Charudatt Vartak	Production	<i>charudatt.vartak@investsmartindia.com</i>	67069923
Sales			
Amola Jhaveri		<i>amola.jhaveri@investsmartindia.com</i>	67069912
Dharmen Shah		<i>shah.dharmen@investsmartindia.com</i>	67069919
Jayant Pai		<i>jayant.pai@investsmartindia.com</i>	67069906
Mrinal Tiwari		<i>mrinal.tiwari@investsmartindia.com</i>	67069962
Geetha Nair	Sales support	<i>geetha.nair@investsmartindia.com</i>	67069947
Dealing			
Anish Marfatia		<i>anish.marfatia@investsmartindia.com</i>	67069909
Anmol S. Shanbhag		<i>anmol.shanbhag@investsmartindia.com</i>	67069903
Firdaus Ragina		<i>firdaus.ragina@investsmartindia.com</i>	67069905
Khozem Jabalpurwala		<i>khozem.jabalpurwala@investsmartindia.com</i>	67069902
Mohan Joshi		<i>mohan.joshi@investsmartindia.com</i>	67069910
Nipul Kenia		<i>nipul.kenia@investsmartindia.com</i>	67069911
Derivatives			
Abhijit Dalal		<i>abhijit.dalal@investsmartindia.com</i>	67069923
Manish Raval		<i>manish.raval@investsmartindia.com</i>	67069960
Parag Joshi		<i>parag.joshi@investsmartindia.com</i>	67069965
Viral Bhagat		<i>viral.bhagat@investsmartindia.com</i>	67069961



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