investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Cadila Healthcare	21-Mar-06	297	**357**	425
Ceat	28-Nov-06	122	**130**	190
Lupin	06-Jan-06	403	**611**	670
India Cements	28-Sep-06	220	**239**	315
Indo Tech Trans	28-Nov-06	199	**257**	280

Pulse Track

Fiscal deficit broadly in line with estimates

Year-till-date fiscal deficit at 72.8% of budget estimates

For the first eight months of FY2007, the fiscal deficit has declined by 4.2% to Rs108,201 crore primarily due to a higher growth reported by the total receipts, which have grown by 26.8% compared with only a 14.9% growth in the total expenditure. The higher revenue growth was aided by the robust tax collections, which grew by 36% year on year (yoy), while the lower planned capital expenditure, which declined by 19.5% yoy, restricted the total expenditure growth. The April-November 2006 fiscal deficit stood at 72.8% of the budget estimates compared with 74.7% for the same period in the previous year.

Implied growth rate in total receipts remains low

As the tax revenues continue to grow at more than one and half times the full-year growth estimates, it leaves a very low implied year-on-year (y-o-y) growth of 7.4% for the remaining months of FY2007. Generally, in the month of March the tax collections are the highest as the majority of the direct tax collections happen in the second half of the year. The implied y-o-y growth for the total receipts for the remaining months of FY2007 stands at just 5.3%, which is indeed a great achievement considering that the budgeted receipts of Rs3,840 crore from the disinvestment programme of the central government still remains at bay.

Interest expenditure growth much higher than budgeted estimates

Although the situation on the fiscal deficit front looks comfortable, the year-till-date revenue deficit figure is lagging the overall decline targeted in the same. However, with higher tax flows in the second half, the situation may turn more favourable and move in line with the budgeted figures. The interest expenditure has grown by 16.4% yoy till date compared to the budget estimates of 6%. The higher interest outflow could also impact the budgeted revenue deficit target, which currently equals the whole year's budgeted target.

Fiscal deficit numbers are broadly in line with estimates

On the year-till-date expenditure front, the total expenditure stood at 59.7% of FY2007BE compared to 58.1% of FY2006 numbers. The change has been marginal, as lower planned capital expenditure (down 19.5% yoy) has offset the higher interest expenditure (up 16.4% yoy) on the non-planned side. The centre's April to November gross fiscal deficit stood at 72.8% of the budget estimates broadly in line with 74.7% recorded last year.

Advance tax numbers remain robust

Some advance data released indicates that the centre's net direct tax collections registered a 42.5% increase in the April 1-December 18 period to touch Rs133,461 crore. Corporate taxes were up by 51.2% at Rs83,614 crore and personal income tax recorded an increase of 26.6% at Rs46,114 crore. For the December 15 installment, the corporate advance tax stood at Rs20,082 crore, up 46.4% over the Rs13,722 crore collected for the December 15, 2005, installment. Hence we could expect robust tax collections for the December month in line with the past trends.

We have been mentioning that due to the robust tax collections, the government would exceed its budgeted target and the government has reconfirmed our belief when it recently increased its projected gross revenue target by Rs35,000 crore to Rs470,000 crore for FY2007. With the government sticking to its borrowing plan of Rs152,000 crore for FY2007 and a robust 9.1% H1FY2007 gross domestic product (GDP) growth, we feel the fiscal deficit target could be reined in at 3.8% of the GDP.

Government accounts (Rs crore)

Particulars	Nov-06	Nov-05	% yoy chg	YTD07	% yoy chg	YTDFY07 as % of FY07E	YTDFY07 as % of FY06E	Dec-Mar FY07 implied	% yog chg
Revenue receipt	24716	18794	31.5	221190	27.3	54.8	50.5	182275	7.1
Tax (net)	21296	13798	54.3	176956	36.0	54.1	48.2	150249	7.4
Non-tax	3420	4996	-31.5	44234	1.4	58.0	59.0	32026	5.8
Capital receipt	1453	989	46.9	7148	12.4	60.4	46.5	4692	-35.9
Recovery of loans	1453	989	46.9	7148	12.4	89.4	52.6	852	-85.2
Others			-			-	-	3840	143.0
Total receipts	26169	19783	32.3	228338	26.8	55.0	50.4	186967	5.3
Non-plan expenditure	31376	28347	10.7	245393	16.5	62.7	57.9	145870	-4.7
Revenue	29462	26702	10.3	230128	16.3	66.8	60.6	114302	-11.2
Interest	13793	12283	12.3	87943	16.4	62.9	57.3	51880	-7.7
Capital	1914	1645	16.4	15265	19.7	32.6	34.3	31568	29.5
Plan expenditure	15894	12317	29.0	91146	10.6	52.8	58.8	81582	41.3
Revenue	12438	8989	38.4	75545	19.9	52.5	56.3	68217	39.5
Capital	3456	3328	3.8	15601	-19.5	53.9	68.6	13365	50.9
Total expenditure	47270	40664	16.2	336539	14.9	59.7	58.1	227452	7.9
Fiscal surplus/(deficit)	**(21101)**	**(20881)**	**1.1**	**(108201)**	**-4.2**	**72.8**	**74.7**	**(40485)**	**21.3**
Revenue surplus/(deficit)	**(17184)**	**(16897)**	**1.7**	**(84483)**	**-3.1**	**99.7**	**92.1**	**(244)**	**-96.7**
Primary surplus/(deficit)	**(7308)**	**(8598)**	**-15.0**	**(20258)**	**-45.9**	**228.6**	**217.6**	**11395**	**-50.1**

Source: Controller General of Accounts

Market Outlook

Setting sights on 16000

We expect the markets to reach 15500-16000 within the next twelve months. This appears a reasonable target given our expectation of a robust growth in corporate earnings, a positive Union Budget and benign global macro factors especially a possible rate cut by the US Federal Reserve (Fed) in mid-CY2007. With the global growth rate likely to moderate, inflationary pressures in the USA should ease in three to four months. India would continue to grow at a robust rate though and thus attract good foreign funds in line with the other emerging markets. This would lead to strong liquidity conditions and money supply will continue to grow at 19-20%. In this issue of Market Outlook, we have analysed the various positives and risks associated with our equity markets in the coming year. Our preferred sectors are those that are driven by domestic consumer demand and capital spending, and therefore are relatively insulated from a US slowdown. Thus sectors like automobiles, banking, capital goods and cement continue to remain our preferred bets.

Domestic economy: Three things to be bullish about

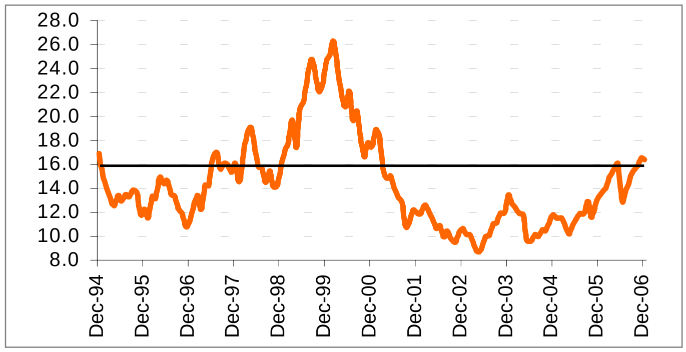
In FY2008 our gross domestic product (GDP) would hit the magic figure of one trillion dollars. The GDP growth has accelerated in the last few years. Let us look at the three factors we are bullish about:

- ***Improvement in savings rate***—this will increase the economic growth by 1.5% per annum. What is the price of growth? Well, if the earnings growth is higher by 1.5% for 15 years, we would pay 22% more today.
- ***Improved fiscal performance***—this will bring down the interest rates, improving India's credit rating.
- ***Higher oil and gas production***—this will increase the GDP and reduce the current account deficit. From FY2009-11 we will see increased production from Cairn India, and Oil and Natural Gas Corporation as well as from Reliance Industries' Krishna-Godavari basin and the NEC-25 fields. We estimate that by FY2010, domestic production would substitute about $20 billion of oil imports. This would provide a one-time 3-4% boost to the GDP. It would also reduce our current account deficit from an estimated 2% in FY2007 to 0.7% by FY2009. This in turn would be positive for the rupee and the interest rates.

Sensex target at 15500-16000

When we compare the Sensex' historic price/earnings (PE) multiples (as shown in the chart below), it appears that the Sensex has typically traded at 12-16x one-year forward earnings in the past. Thus the Sensex' current valuation of 16.4x looks to have fully factored in the FY2008 earnings estimates.

Sensex one-year forward PER



Source: BSE, Bloomberg, Sharekhan research

However, such a comparison with the past ignores a couple of factors. Firstly, as mentioned earlier, we believe the sustainable growth rate of the economy has risen in recent times—a 1.5% higher sustainable growth means 22% higher valuation. Secondly, many of the companies in the Sensex have in the last two to three years built valuable businesses that are not yet delivering earnings. For example, ICICI Bank and Bajaj Auto are market leaders in the private insurance business, and Reliance Industries has valuable oil and gas reserves. Though the market is recognising and paying for this embedded value, these new businesses are not yet contributing to the earnings of their companies. In fact, because these businesses are still at a nascent stage, they are actually making losses and taking away from the earnings of their respective companies instead of being earnings accretive.

Embedded value contributes around 1,300-1,400 points

The embedded market cap works out in the region of 8-10% (around 1,300-1,400 points) of the total market cap of these companies.

Our year-end target for the Sensex is based on 14x FY2009E Sensex' earnings plus the embedded value.

Embedded value for key Sensex stocks

Company	Shares outstanding (cr)	CMP (Rs)	MCAP (Rs cr)	EMB value (Rs)	EMB MCAP (Rs cr)
Bajaj Auto	10.1	2619	26451.9	1470.0	14847.0
ICICI Bank	89.3	890	79477.0	295.0	26343.5
HDFC	25.0	1625	40625.0	445.0	11125.0
Reliance	139.3	1270	176911.0	350.0	48755.0
Others	-	-	430686.0	1514.0	60180.5

India offers higher growth than its peers

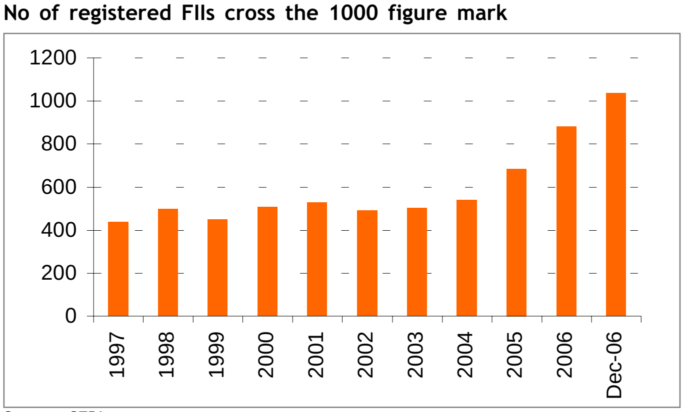
India continues to enjoy higher valuations than its peers due its domestic consumption led growth story as against China's export-oriented business model where the economy is more vulnerable to a global slowdown. Consensus earnings estimates for the emerging equity markets shows that India's earnings growth is expected to be among the highest. The number of registered foreign institutional investors (FIIs) has been on the rise consistently and as on December 2006 the number had crossed the 1,000 mark. Many new foreign investors are entering our markets, which reaffirms their belief in the India growth story.

India remains under-owned in major global portfolios and even a small increase in their portfolio allocation could result in a sustained inflow of foreign funds into our markets.

Emerging markets	CY07/FY08 PER (x)	EPS growth (%)
Indonesia	18.5	35.6
Mexico	12.8	33.5
India	**20.3**	**24.1**
Taiwan	18.8	10.8
Brazil	11.9	4.4
Malaysia	16.7	4.0
Hongkong	15.6	-6.5
Philippines	16.9	-6.5
Thailand	10.9	-14.0
Korea	14.4	-15.1

Source: Bloomberg

No of registered FIIs cross the 1000 figure mark

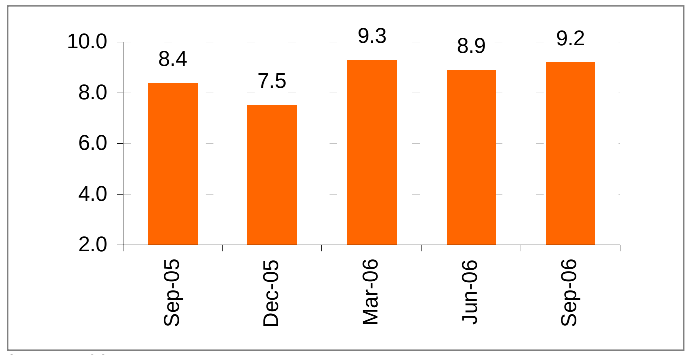


Source: SEBI

GDP growth remains on track

For H1FY2007 India's GDP grew by 9.1% year on year (yoy), the rate is expected to moderate going ahead. However the Indian GDP growth is expected to remain stable at ~8% despite a soft landing of the global economy. We are better positioned than most other export-oriented emerging market economies (EMEs), several factors like low trade to GDP ratio (at 33%), growing domestic consumption and improved demographics should keep our growth momentum intact. Unlike the other EMEs which are more export-oriented, we are dominated by domestic consumption and hence despite a global soft landing we may be better insulated than most other EMEs.

Robust GDP growth of over 9% for H1FY07



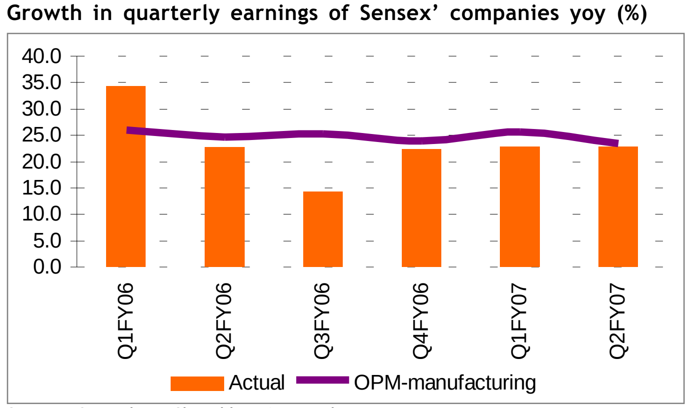
Source: MOSPI

Earnings growth remains the key driver

We have seen significant earnings upgrade in Q2FY2007 and expect corporate earnings growth to be one of the key drivers of the market going forward. The earnings of the Sensex companies have consistently grown at above 20% yoy and the same growth rate is expected going forward, as order backlogs, non-food credit growth, cement dispatches, automobile sales all show a healthy trend. Our outlook on margins remains stable for most Sensex companies.

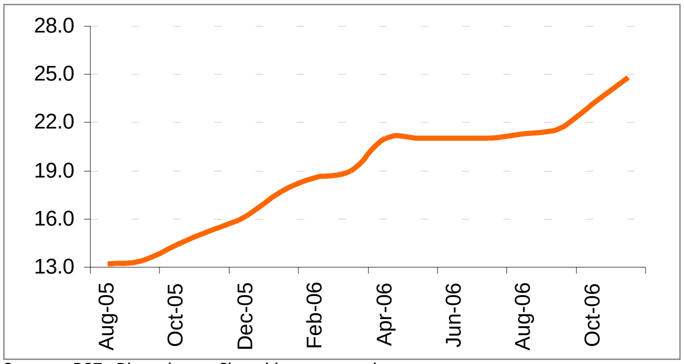
Reliance Industries' Q3FY2006 earnings without adjustment for a one-time charge grew by 14.3% but adjusting for the same the growth was 20.6%. Since a lower base effect would come into play in Q3FY2007, the year-on-year earnings growth for the Sensex companies should remain stable.

Growth in quarterly earnings of Sensex' companies yoy (%)



Source: Capitaline, Sharekhan Research

Sensex' earnings expected to grow by 24.8% yoy



Source: BSE, Bloomberg, Sharekhan research

FY2008 budget expectations

Cut in direct tax rates: The centre's net direct tax collections registered a 42.5% increase in the April 1-December 18 period to touch Rs133,461 crore. Corporate taxes were up by 51.2% at Rs83,614 crore and personal income tax recorded an increase of 26.6% at Rs46,114 crore. Tax collections have remained robust mainly due to the rising corporate earnings and personal income as well as better tax compliance. There is news in the market that the government may consider a cut in the corporate and personal tax rates. This would definitely be a positive for the markets.

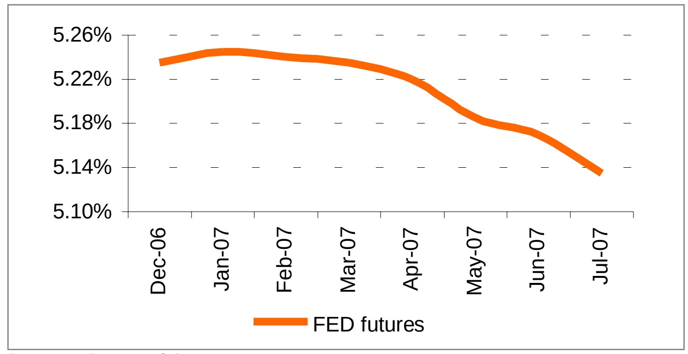
Further cut in excise duty for small cars: Another positive for the automobile companies could be in the form of another round of cut in the excise duties. The government's focus to make India a manufacturing hub of small cars makes such an announcement a distinct possibility.

Infrastructure investments in core sectors: The 11th Five-Year Plan has set an aggressive growth target (attain a 10% GDP growth by the end of the term) and drawn up investment plans for major infrastructure sectors. This would help the large-cap and mid-cap infrastructure companies in the medium to long term.

Benign US economic data to boost FII flows

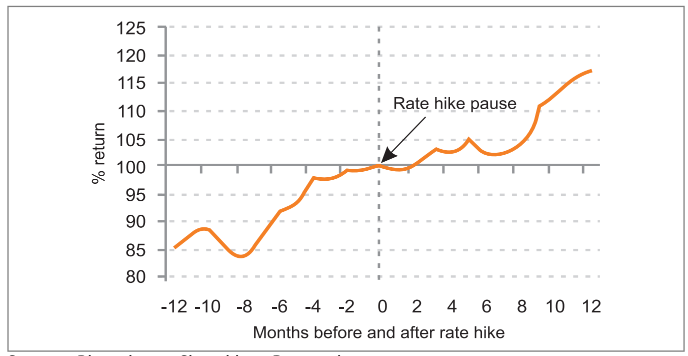
Recent US economic data indicates that growth indicators such as jobs added, consumer confidence and retail sales have stabilised and that the downturn in the housing sector is not widely affecting the rest of the economy. Even in the housing sector, a sharp decline in the housing starts should help reduce the inventory over the next two quarters. Meanwhile inflation measures in the USA have begun to ease. Thus, expectations have risen that instead of raising the interest rates the Fed may actually cut the rates towards mid-2007, as indicated by the Fed interest rate futures. This should be positive for fund flows to all the emerging markets including India. Also as we have shown in the following chart, historically the emerging markets have performed strongly 6-12 months after a pause effected by the US Fed, as there is greater clarity on how growth is shaping up by then.

Market expects Fed to cut rates



Source: US Dept of Commerce

Returns on the emerging market equities (%)



Source: Bloomberg, Sharekhan Research

Risks to watch out for

Primary market activities to gain momentum in 2007: A lot of primary equity issues have been deferred from CY2006 to CY2007. A large-scale issue pipeline in Indian equities or equity-related instruments, in the range of $10-12 billion, is scheduled over the next three to four months. Hence in the near term, the secondary market activities may remain a bit subdued.

US hard landing: The Fed has stopped raising the interest rates as it expects the economic growth to slow down. But the question is whether the US economy will witness a hard landing or a soft landing (ie the avoidance of both inflation and high interest rates as well as a recession as an economy slows its growth rate). If the fears of a recession in the USA increase, then the global equity markets could take a tumble.

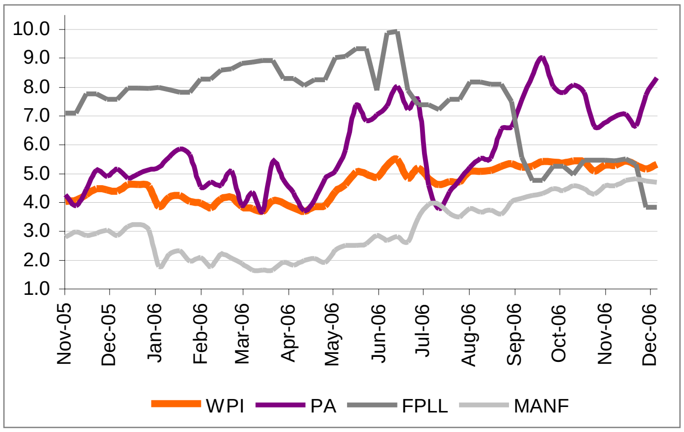
State elections could influence the reform process: With several state elections due in 2007, populist measures could take precedence over the reform process during the election season.

Election calendar	Probable election month
Assembly elections in Manipur	March 2007
Assembly elections in Uttaranchal	March 2007
Assembly elections in Punjab	March 2007
Assembly elections in Uttar Pradesh	**Mar - May 2007**
Assembly elections in Goa	May - June 2007
Assembly elections in Gujarat	December 2007

Inflation remains a concern

India's inflation rate for the week ended December 16, 2006 stood at 5.43% against 5.32% a week ago and 4.62% a year ago. Inflation has increased due to a rise in the prices of food items in the primary article segment. The central bank's inflation target for FY2007 remains 5-5.5% and at the current levels inflation seems a bit high for comfort. However, if we factor in the cut in the petrol and diesel prices, then the lagged effect of the same would help in reducing the inflation rate in future. Again, the seasonal decline in the prices of agricultural produce after the harvest season and a large-scale import of food grains should arrest the increase in the prices of the primary articles and moderate the inflation growth. Another factor to note is the lower base effect going forward which could make the inflation numbers look high, but we feel the decline in the food prices and lower oil prices should more than offset the lower base effect and inflation should remain within the target zone of the Reserve Bank of India (RBI).

Inflation to hover within target range of RBI



Source: Office of the Economic Advisor

El Nino could affect the Indian monsoon

El Nino (a Spanish word meaning "Baby Christ", named after its time of origination which is around Christmas) is characterised by abnormal warming of surface waters in the central and eastern Pacific Ocean, coupled with changes in the atmosphere that affect weather patterns across much of the Pacific basin. In the past, in majority of the *El Nino* years, the rainfall turned out to be below normal. Earlier expectations were that the nascent *El Nino* would die out early in 2007, ensuring a safe passage for the southwest monsoon that would follow in six months. However, the latest updates from the US National Oceanographic and Atmospheric Administration seem to suggest otherwise. These state that based on the recent trends and forecasts, *El Nino* conditions should intensify during the next three months and may continue through April-June 2007, casting a shadow over the next year's Indian monsoon. Since our agricultural sector is largely dependent on the monsoon rainfall, weather forecasts become crucial. Hence we need to watch the development on this front going forward. Although the agriculture sector remains important, accounting for about 25% of the GDP and employing about 70% of the population, yet its share in the GDP's growth is declining. Also, linkages between farm output and industrial activity are becoming weaker though rural spending would be affected by any slowdown in the agricultural growth.

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

Aban Offshore

Emerging Star

Stock Update

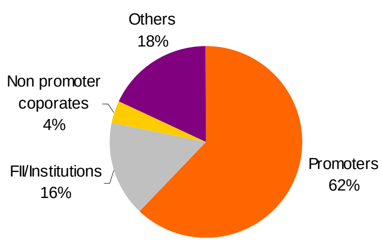
Unlocking of value

Buy; CMP: Rs1,636

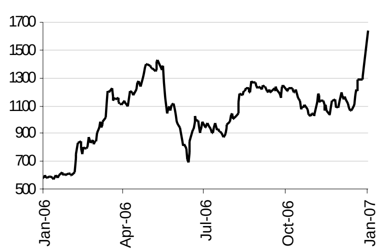
Company details

Price target:	Rs2,090
Market cap:	Rs6,544 cr
52 week high/low:	Rs1,658/496
NSE volume: (No of shares)	49,381
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float: (No of shares)	1.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	45.7	31.0	66.0	182.6
Relative to Sensex	44.7	17.0	26.3	90.5

Key points

- Aban Offshore (AOL) will make an open offer for an additional 60% stake in Sinvest at an estimated cost of $800 million. To fund the same, it has tied up for debt of $625 million at the subsidiary level and is making a private placement of $150 million in Aban Singapore Pte (ASPL).
- The private placement pegs the equity value of ASPL at $1.45 billion, which is much ahead of the market expectations. Consequently, the implied value of AOL's stake in ASPL works out to around Rs1,426 per share. The open offer is also positive in terms of gaining a controlling stake in Sinvest that would provide AOL access to the strong cash inflows generated by Sinvest.
- The target price is revised to Rs2,090 to factor in the higher-than-expected value of ASPL. The stand-alone business is valued at Rs664 per share, which is 12x FY2009 estimated earnings (discounted by 12% for one year).

Open offer for Sinvest

Aban Offshore (AOL) has announced its intentions to make a mandatory open offer to acquire a 100% stake in Sinvest ASA, through its wholly-owned subsidiary Aban Singapore Pte Ltd (ASPL). The acquisition of the additional 60% stake is estimated to cost around $800 million.

To fund the same, the company has tied up for debt of $625 million ($100 million in ASPL and $525 million in Aban International Norway [AIN]—a newly formed subsidiary of ASPL). The rest would come from the proposed private placement of convertible notes worth $150 million in ASPL and a possible issuance of convertible redeemable preference shares of AOL.

ASPL benchmark valuation ahead of expectations

The management has raised $150 million from the divestment of a 10.37% stake in the diluted equity capital of ASPL. This sets the equity value of ASPL at $1.45

Key financials Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	51.6	84.7	98.4	232.4
Shares in issue (cr)	0.7	3.7	3.7	3.7
EPS (Rs)	14.0	20.5	21.6	55.0
% y-o-y growth	*9.1*	*46.7*	*5.1*	*154.9*
PER (x)	112.9	77.0	73.2	28.7
Book value (Rs)	60.0	116.9	239.4	292.4
P/BV (Rs)	26.3	13.5	6.6	5.4
EV/EBIDTA (x)	42.1	23.7	23.1	11.4
Dividend yield (%)	0.1	0.1	0.1	0.1
RoCE (%)	15.5	15.8	11.1	19.8
RoNW (%)	25.9	26.0	14.2	21.8

billion--much ahead of the market expectations. Consequently, the implied value of AOL's stake (89.63% of the diluted equity) in ASPL works out to $1.3 billion (or Rs1,426 per share). Going forward, a possible public offer of ASPL is likely to further unlock the value for the shareholders and act as another re-rating trigger for the stock.

Value of subsidiary

Value of Aban Singapore ($ million)*	1446
Value of Aban Offshore stake ($ million)	1296
Value of Aban Offshore stake (Rs crore)	5705
Number of shares (cr)	4.0
Value/share (Rs)	1426

* Implied valuation based on the private placement of 10.37% stake at $150 million.

Other tangible benefits

The open offer has positive implications for AOL in terms of gaining a controlling stake in Sinvest that essentially means that AOL would get access to the strong cash flows generated by Sinvest. The free cash generated by Sinvest could than be utilised to service the huge debt (taken to fund the acquisition) at the subsidiary level.

Second, the acquisition is earnings accretive for AOL on a consolidated basis. Even after accounting for the additional debt of $625 million, the acquisition of the additional 60% stake in the open offer is estimated to result in incremental profits of $43 million in 2008 and $54 million in 2009.

Earning accretive

(in USD million)	FY2008	FY2009
Net estimated earnings of Sinvest	190	210
Incremental share of net earnings for the additional stake*	102	113
Interest on additional debt ($625 million approx)	59	59
Incremental contribution to consolidated net earnings	43	54
Incremental EPS (Rs)	47.1	57.6
Impact on valuations (Rs per share)	565	617

* Assuming 100% stake of Sinvest is acquired in the open offer

Revision of target price

To factor in the higher-than-expected value of ASPL, the target price is revised to Rs2,090. The stand-alone business is valued at Rs664 per share, which is 12x FY2009 estimated earnings (discounted by 12% for one year). The target multiple of 12x is at a slight premium to the industry leader Transocean due to the relatively higher estimated growth in earnings over the next few years and AOL's ability to successful scale up its asset base (total of 28 assets, including the control of 24 offshore oil rigs [six under construction] as compared to less than five a couple of years ago).

Sum-of-the-parts valuations

Value of AOL's stake in ASPL (Rs/share) (A)	1426
Stand-alone entity	
EPS of stand-alone entity (FY2009)	62
Target multiple (12x)	744
Value/share -stand-alone (discounted by 12%) (B)	664
Consolidated value/share (A + B)	**2090**

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

Automobiles

Sector Update

Good growth despite year-end

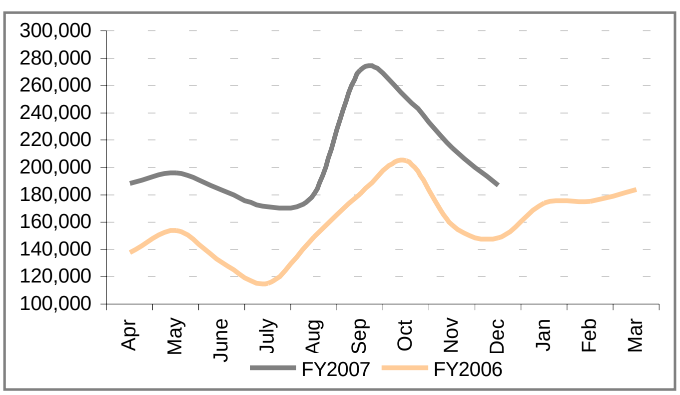
Bajaj Auto

- Bajaj Auto has reported encouraging sales numbers for the month of December 2006. This month is generally a lean month being the last month of the year.
- The motorcycle sales of the company grew by 26% year on year (yoy) and touched 187,063 units.
- The total two-wheeler sales rose by 20% yoy to 1,873,179 units.
- The company has reported a strong 50% growth in the three-wheeler segment.
- The export sales touched 39,385 units, marking a growth of 113% yoy. The outlook on exports remains bullish with huge potential for growth in some of the export markets, such as the South-East Asian and Latin American markets.
- The company is expanding its motorcycle capacity to 300,000 units/month by April 2007.
- Bajaj *Kristal DTS-i*, the ungeared scooter on its new hi-tech scooter platform, will be launched in January 2007.

Bajaj Auto sales

Volume (units)	Dec-06	% yoy	% mom	YTD-07
Motorcycles	187,063	26	-13	34
Total two-wheelers	**187,179**	**20**	**-13**	**25**
Three-wheelers	27,749	50	-6	32
Total	**214,928**	**23**	**-12**	**26**

Bajaj Auto (Motorcycles)



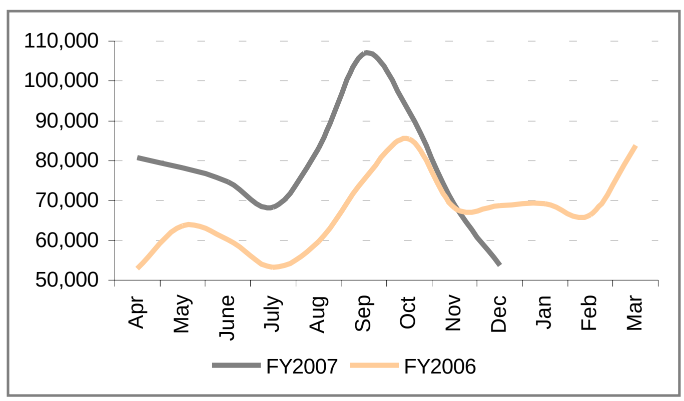
TVS Motors

- TVS Motors has reported disappointing sales numbers for the month of December 2006. The sales in December were impacted to some extent by the impending implementation of the value-added tax (VAT) in Tamil Nadu with effect from January 1, 2007.
- The overall two-wheeler sales rose by 17% to 103,188 units.
- The company reported a decline of 22% in its motorcycle sales for December 2006. This can be mainly attributed to the aggressive pricing pressures and attractive sales incentives being offered by the company's competitors.
- On the export front, TVS Motor Company exported 7,088 units recording a growth of 17%.

TVS Motors sales

Volume (units)	Dec-06	% yoy	% mom	YTD-07
Motorcycles	53,756	-21.8	-22.0	20.4
Scooters	16,616	3.5	-23.7	2.2
Mopeds	32,816	45.0	19.4	20.6
Total	**103,188**	**-3.9**	**-12.7**	**16.9**

TVS Motors (Motorcycles)



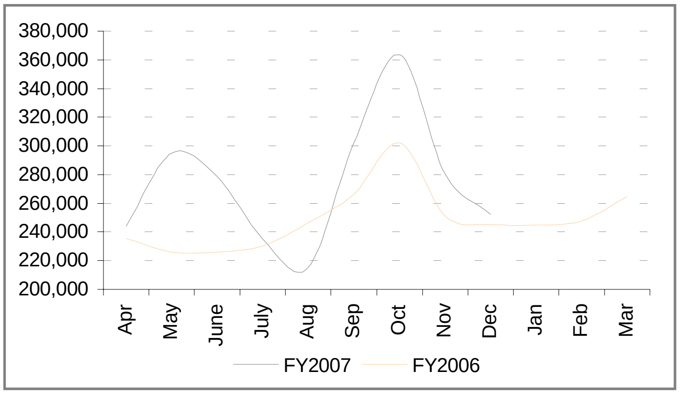
Hero Honda

- Hero Honda reported a lower-than-expected growth in its two-wheeler sales in December.
- The sales in the domestic market stood at 245,141 units during December while exports stood at 7,321 units.
- The sales growth remained modest despite the launch of *CBZ Extreme*, a premium segment bike.

Hero Honda sales

Volume (units)	Dec-06	% yoy	% mom	YTD-07
Motorcycles	252,462	3	-9.9	11.3

Hero Honda



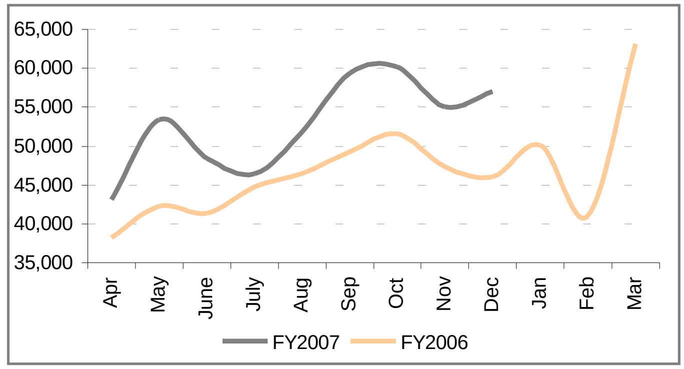
Maruti Udyog

- Maruti has reported strong sales numbers for the month of December 2006 at 56,985 vehicles, a growth of 24% yoy. The domestic sales grew by 26%, whereas the export sales declined by 17% yoy.
- The A1 segment, comprising of *Maruti 800*, reported flat sales on a year-on-year (y-o-y) basis and a growth of 20.7% month on month.
- The A2 segment comprising of *Alto*, *WagonR* and *Swift* grew by 35.6%. The recent launch *Zen Estilo* has earned a good response.
- The A3 segment comprising of *Baleno* and *Esteem* witnessed a decline in sales as the company has decided to stop the production of *Baleno* and replace it with a premium sedan.
- The multi utility vehicle (MUV) segment reported a decline of 55% yoy.
- The prices will be increased in January 2007 to offset mateial cost presures. The Government of India has approved the sale of its residual 10.3% stake in the company.

Maruti Udyog sales

Volume (units)	Dec-06	% yoy	% mom	YTD-07
A1 - (M800)	7,289	0.5	20.7	-6.0
A2- (Alto/Wagon R/ Zen/Swift)	38,461	35.6	3.8	26.1
A3- (Baleno/ Esteem)	2,127	-13.5	-105.4	-
C- (Omni/ Versa)	6,523	40.6	-8.8	21.2
Total cars	**54,400**	**27.4**	**3.9**	**18.4**
MUV- (Gypsy/Vitara)	240	-55.1	0.4	-23
Total domestic sales	**54,640**	**26.33**	**3.9**	**18.1**
Exports	2,345	-17	-5	-5.9
Total	**56,985**	**24**	**3.5**	**17**

Maruti Udyog



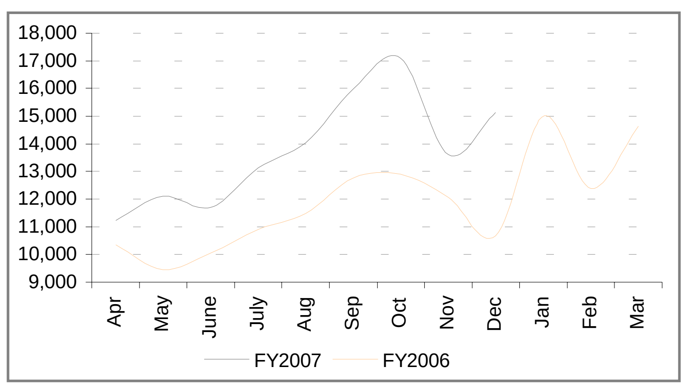
Mahindra and Mahindra

- The utility vehicle (UV) division has reported a growth of 29.5%. *Scorpio* grew by 22.4% and UVs other than *Scorpio* grew at a faster rate of 39%.
- The three-wheeler segment continued to perform well recording a phenomenal growth rate of 64.1% yoy.
- The exports during the month reported a growth of 11%.
- The sales of tractors increased 20.8% yoy.

Mahindra and Mahindra sales

Volume (units)	Dec-06	% yoy	% mom	YTD-07
Utility vehicles	11,274	29.5	10.0	8.2
Scorpio	3,152	22.4	21.1	15.5
UVs w/o Scorpio	8,122	39	6.2	6
LCVs	724	56.4	5.8	45.9
Three-wheelers	2,559	64.1	15.1	56.2
Automotive domestic	**14,557**	**39**	**10.6**	**16**
Exports	575	11	29.8	47
Tractors	6,759	20.8	-15.4	24.7

Mahindra and Mahindra (Automotive sector)



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

Sharekhan Stock Ideas

Evergreen

- HDFC Bank
- Infosys Technologies
- Reliance Industries
- Tata Consultancy Services

Apple Green

- Aditya Birla Nuvo
- ACC
- Apollo Tyres
- Bajaj Auto
- Balrampur Chini Mills
- Bank of Baroda
- Bank of India
- Bharat Bijlee
- Bharat Electronics
- Bharat Heavy Electricals
- Canara Bank
- Corporation Bank
- Crompton Greaves
- Elder Pharmaceuticals
- Grasim Industries
- Hindustan Lever
- Hyderabad Industries
- ICICI Bank
- Indian Hotels Company
- ITC
- Mahindra & Mahindra
- Marico
- Maruti Udyog
- Lupin
- Nicholas Piramal India
- Omax Autos
- Ranbaxy Laboratories
- Satyam Computer Services
- SKF India
- State Bank of India
- Sundaram Clayton
- Tata Motors
- Tata Tea
- Unichem Laboratories
- Wipro

Cannonball

- Allahabad Bank
- Andhra Bank
- Cipla
- Gateway Distriparks
- International Combustion (India)
- JK Cement
- Madras Cement
- Shree Cement
- Transport Corporation of India

Emerging Star

- 3i Infotech
- Aban Offshore
- Alphageo India
- Cadila Healthcare
- KSB Pumps
- Marksans Pharma
- Navneet Publications (India)
- New Delhi Television
- Nucleus Software Exports
- Orchid Chemicals & Pharmaceuticals
- ORG Informatics
- Solectron Centum Electronics
- Tata Elxsi
- Television Eighteen India
- Thermax
- TVS Motor Company
- UTI Bank

Ugly Duckling

- Ahmednagar Forgings
- Ashok Leyland
- BASF India
- Ceat
- Deepak Fertilisers & Petrochemicals Corporation
- Fem Care Pharma
- Genus Overseas Electronics
- HCL Technologies
- ICI India
- India Cements
- Indo Tech Transformers
- Jaiprakash Associates
- JM Financial
- KEI Industries
- NIIT Technologies
- Punjab National Bank
- Ratnamani Metals and Tubes
- Sanghvi Movers
- Saregama India
- Selan Exploration Technology
- South East Asia Marine Engineering & Construction
- Subros
- Sun Pharmaceutical Industries
- Surya Pharmaceuticals
- UltraTech Cement
- Union Bank of India
- Universal Cables
- Wockhardt

Vulture's Pick

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- Orient Paper and Industries
- WS Industries India

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