

December 15, 2006

FOR PRIVATE CIRCULATION

Equity

| | 14 Dec 06 | % Chg | | |
|-----------------------|-----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Indian Indices | | | | |
| Sensex | 13,487 | 2.3 | 0.5 | 12.6 |
| Nifty | 3,843 | 2.1 | (0.6) | 10.7 |
| Banking | 6,899 | 2.6 | 0.5 | 22.4 |
| IT | 3,553 | 2.7 | 4.0 | 21.0 |
| Healthcare | 3,677 | 2.2 | (3.3) | 2.1 |
| FMCG | 1,954 | 2.5 | (4.6) | (2.5) |
| PSU | 5,911 | 2.1 | (2.9) | 4.0 |
| CNX Midcap | 4,960 | 2.6 | (1.3) | 9.7 |
| World indices | | | | |
| Nasdaq | 2,453.9 | 0.9 | 0.5 | 9.8 |
| Nikkei | 16,829 | 0.8 | 4.2 | 6.7 |
| Hangseng | 18,919 | 1.1 | (0.2) | 10.6 |

Value traded (Rs cr)

| | 14 Dec 06 | % Chg - 1 Day | |
|-------------|-----------|---------------|--|
| Cash BSE | 3,563 | (13.9) | |
| Cash NSE | 8,087 | (16.1) | |
| Derivatives | 29,356 | (18.0) | |

Net inflows (Rs cr)

| | 13 Dec 06 | % Chg | MTD | YTD |
|-------------|-----------|---------|---------|--------|
| FII | (96.9) | (201.8) | (1,658) | 38,212 |
| Mutual Fund | (231.8) | 55.2 | (1,053) | 13,332 |

FII open interest (Rs cr)

| | 13 Dec 06 | % chg |
|-------------------|-----------|-------|
| FII Index Futures | 10,382.1 | - |
| FII Index Options | 5,869.2 | - |
| FII Stock Futures | 15,286.2 | - |
| FII Stock Options | 180.7 | - |

Advances/Declines (BSE)

| | 14 Dec 06 | A | B1 | B2 | Total | % Total |
|-----------|-----------|-----|-----|------|-------|---------|
| Advances | 195 | 599 | 668 | 1462 | 81 | |
| Declines | 18 | 62 | 227 | 307 | 17 | |
| Unchanged | 0 | 5 | 29 | 34 | 2 | |

Commodity

| | 14 Dec 06 | % Chg | | |
|--------------------------|-----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 62.5 | 1.9 | 7.3 | (1.1) |
| Gold (US\$/OZ) | 625.9 | (0.5) | 0.5 | 8.0 |
| Silver (US\$/OZ) | 13.8 | (0.2) | 6.8 | 27.6 |

Debt/forex market

| | 14 Dec 06 | 1 Day | 1 Mth | 3 Mths |
|-------------------|-----------|-------|-------|--------|
| 10 yr G-Sec yield | 7.68 | 7.59 | 7.52 | 7.84 |
| Re/US\$ | 44.67 | 44.79 | 45.18 | 46.14 |

Sensex



Source: Bloomberg

ECONOMY NEWS

- Buoyed by a 39% growth in receipts from the fringe benefit tax, the Finance Ministry is in no mood to do away with FBT by merging it with corporate tax. The Government may instead go in for making the FBT structure more robust in the forthcoming Budget. (ET)
- The shareholding pattern in all commodity exchanges will be frozen till the Government and Sebi come out with new ownership rules. The regulator has proposed that no single entity should hold more than 5% in a stock exchange. (ET)
- Banks may soon get a tax break for lending money to priority sectors. The small-scale industries ministry has asked the government to give I-T concessions to banks giving credit to SSIs. (ET)
- India's sovereign ratings could be upgraded to investment grade if current fiscal improvements continue, according to S&P. Officials said if current credit improvements continue, especially on the fiscal front, India could be rated as investment grade. (ET)
- Crude oil rose after Opec, which pumps about 40% of the world's oil, agreed to further reduce supplies from February 1. Opec has agreed to cut output by 5,00,000 barrels a day. (BL)

CORPORATE NEWS

- **Reliance Life Sciences** will enter the mainstream pharmaceuticals business by making the main ingredients of medicines called APIs, finished formulations and subsequently new chemical entities. (ET)
- **BSNL** will offer broadband at a speed of up to 2 Mbps. At present, DoT is offering broadband at maximum speed of up to 1 Mbps to its residential subscribers. (ET)
- **Tata Steel** will invest Rs.4.5 bn in its Thai subsidiary Millennium Steel to set up an iron ore smelting plant that will make its production line in the country fully integrated. Millennium Steel, in which Tata Steel bought a 40% majority stake for about Rs.6 bn last year, has been renamed Tata Steel (Thailand). (ET)
- The Appellate Tribunal for Electricity has directed **Tata Power** to refund Rs.3.54 bn along with interest that **Reliance Energy** paid it earlier as standby charges for electricity supply in Maharashtra. (BS)
- **Bharti** group Chairman Sunil Bharti Mittal has asserted that the question of buying Hutchison's stake in its Indian joint venture **Hutchison Essar Ltd** would only arise after the Ruias had decided the future course of action. (BS)
- PNB has no plans to hike lending rates on industrial as well as home loans in the short to medium term, that is up to March 2007, but may go in for further deposit rate hike in the coming days in tune with industry trend. (BL)
- Taj Hotels could foray into Singapore with a marquee property across Raffles Boulevard. **Indian Hotels Company**, which operates the Taj brand, is in talks with local authorities to sew up a site on Beach Road next to Raffles. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

COMPANY UPDATE

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TATA MOTORS (Rs.848, FY08 PE: 16x, HOLD)

Tata Motors and Fiat Auto announced an agreement for the formation of a joint venture between the two companies pursuant to the memorandum of understanding (MoU) in July 2006. The agreement mainly calls for the creation and establishment of an industrial joint venture in India, located at the Fiat plant at Ranjangaon, in Maharashtra.

The Ranjangaon plant will have the capacity to produce in excess of 100,000 cars and 200,000 engines and transmissions yearly, at a steady state. It will manufacture vehicles for both the Indian as well as the overseas markets. Both Fiat and Tata vehicles will be manufactured at the same facility, which will be managed equally by the two partners. A first assembly line for Fiat cars at the Ranjangaon plant has already been commissioned for the Fiat Palio and Fiat Adventure models and trial runs have already commenced. The first batch of cars will roll out in early 2007.

Tata is already distributing Fiat branded cars through the Tata-Fiat dealer network according to the arrangement in place since March 2006. The Tata-Fiat dealer network will progressively rise to 100 outlets for the launch of the new models to cover the entire length and breadth of the country. Currently, 42 Tata-Fiat dealerships are already operational. Manufacturing of Tata cars in the joint venture will supplement the production capacities of the company's car plant in Pune to meet the growing demand and prepare for new Tata car models.

The engine manufacturing envisages the highly acclaimed Fiat 1.3 liter multi-jet diesel engine, the 1.4-liter and a new 1.2-liter gasoline engine, both of the 'Fire' family and Fiat transmissions. The aggregate investments in this industrial joint venture will be made in a phased manner and may exceed Rs.40 bn (over € 665 mn). The joint venture will start production of engines and new cars progressively from the beginning of 2008.

This strategic alliance with Fiat is a win-win situation as it enables the two companies to jointly present a wider range of product offerings to the Indian market. More importantly, it enables Tata Motors to access world-class power trains from Fiat for its next generation car offerings while enhancing the model line at its dealerships. Besides, Tata Motors would also be able to access the markets at a faster pace with a lower investment due to the existing facilities that are already present at the Fiat Plant. To put things into perspective, the Mahindra Renault greenfield plant announced last month is expected to commence production only by mid 2009.

Business Outlook

The company has gone for selective price hikes in the last couple of months and the price hike should provide some respite on the margin front. Besides, the management also believes the input costs have flattened out and hence operating margins are likely to improve in the coming quarters. Overall, the margins are expected to be around 12% for the full year FY07E.

The management is confident the momentum in CV sales can be maintained in the current year. Their optimism is backed by the strong replacement demand expected in the CV industry. According to company estimates, out of around 3 mn trucks on the Indian roads close to 40% are above the 10-year mark and prove to be inefficient over long distances.

Besides, the freight rates that have shown significant improvement in the last 12 months have also sustained at the current levels ensuring higher returns for truck operators consequently improving the overall CV market growth. The healthy freight rates, buoyancy in IIP and strong GDP growth estimates make us confident of a sustained rise in CV volumes for FY07. However, adverse movement in interest rates and diesel prices could slow down the growth in CV sale volumes.

Summary table

| (Rs mn) | FY06 | FY07E | FY08E |
|--------------------|----------|----------|----------|
| Sales | 206,022 | 259,841 | 294,146 |
| Growth (%) | 18 | 26 | 13 |
| EBITDA | 27,950 | 33,327 | 39,105 |
| EBITDA margin (%) | 12.5 | 12.3 | 12.8 |
| Net profit | 15,797 | 17,804 | 21,242 |
| Net cash (debt) | (18,136) | (19,106) | (15,422) |
| EPS (Rs) (Diluted) | 37.8 | 44.2 | 52.7 |
| Growth (%) | 15 | 17 | 19 |
| ROE (%) | 32.7 | 28.8 | 27.8 |
| ROCE (%) | 27.3 | 28.2 | 28.5 |
| EV/Sales (x) | 1.55 | 1.22 | 1.07 |
| EV/EBITDA (x) | 12.4 | 9.9 | 8.4 |
| P/E (x) | 22.3 | 19.0 | 16.0 |
| P/BV (x) | 5.8 | 4.7 | 3.8 |

Source: Company & Kotak Securities - Private Client Research

Tata Motors is likely to spend approximately Rs.100 bn in the next three to four years to launch new products as well as expand capacity. It is looking to launch new models and platforms in the passenger cars, trucks and buses besides face-lift of existing models including the Indica replacement platform. However, the new products are scheduled to be launched only from the beginning of FY08 and would continue into FY09.

| New Products | |
|----------------------------|---------------------------|
| Commercial Vehicles | Passenger Vehicles |
| World Truck | New Indica Platform |
| New LCV | New UV Platform |
| Ace Plant | Small Car |
| Panel Van | |

Source: Company

Valuations

**We continue to maintain
HOLD on Tata Motors with a
price target of Rs.855**

We expect the company to sell 5,87,469 vehicles for FY07 and 6,56,686 vehicles for FY08 culminating in 29.3% growth for FY07 and 12% for FY08. Based on our volume estimates, we expect the company to record a turnover of Rs.259.8 bn for FY07 and Rs. 294.1 bn for FY08. Correspondingly, we expect Tata Motors to post net profits of Rs.17.8 bn and Rs.21.2 bn on a standalone basis. Our standalone EPS estimate stands at Rs.44.2 for FY07 and Rs.52.7 for FY08 on a fully diluted basis. Based on SOTP valuation for the stock, including the valuation for its subsidiaries and investments in Tata Steel, we arrive at a price target of Rs.855 and continue to maintain **HOLD** on the stock.

Bulk deals

| Trade details of bulk deals | | | | | |
|-----------------------------|--------------|---------------------------|--------------|-----------------------|--------------------|
| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. Price (Rs) |
| 14-Dec | Aarvee Den E | Bsma Limited | S | 614,621 | 65.00 |
| 14-Dec | BF Utilities | Koyana Investment and Tra | S | 850,000 | 3,250.26 |
| 14-Dec | BF Utilities | Kunal Trading And Investm | S | 1,000,000 | 3,250.06 |
| 14-Dec | Bihar Tubes | NC Jain | S | 16,769 | 102.96 |
| 14-Dec | Bombay Paint | Rafcy Danny | S | 9,660 | 53.48 |
| 14-Dec | Bombay Paint | DannyJoseph | S | 8,887 | 55.21 |
| 14-Dec | BSL Limited | Abhyudya Trading Limited | S | 50,636 | 23.37 |
| 14-Dec | Dynamatic Te | Kotak Mahindra UK Ltd Ac | S | 34,496 | 1,230.21 |
| 14-Dec | Easter Silk | Fidelity Funds Mauritius | B | 123,738 | 310.00 |
| 14-Dec | Easter Silk | Neeta Hemant Ashar | S | 62,500 | 310.20 |
| 14-Dec | Easter Silk | Millennium Enterprises | S | 50,000 | 310.44 |
| 14-Dec | Gayatri Proj | Citigroup Global Mkt Maur | B | 78,806 | 301.39 |
| 14-Dec | Ishit Drug I | Savita Rajesh Agarwal | S | 19,603 | 13.26 |
| 14-Dec | Karuturi.Com | P F H Entertainment | B | 50,000 | 173.40 |
| 14-Dec | Multipl.Hold | Shri Vallabh Investment | B | 3,500 | 38.00 |
| 14-Dec | Pantaloon In | Ajay Multiproject Ltd | B | 47,068 | 376.22 |
| 14-Dec | Pantaloon In | Raashi Investments | B | 50,000 | 375.15 |
| 14-Dec | Paramo Commu | ITF Mauritius Dr | S | 230,000 | 210.09 |
| 14-Dec | Pearl Polym | M.R.K Overseas P Ltd | B | 147,500 | 23.01 |
| 14-Dec | Pearl Polym | Pearl Int. Tours and Trav | S | 148,000 | 23.01 |
| 14-Dec | Rana Sugars | Lotus Global Investments | S | 450,000 | 24.00 |
| 14-Dec | Rock Hard Pe | Mohmadhusen Menon | B | 50,284 | 7.96 |
| 14-Dec | Sanguine Md | Choudhary Ekta Satish | S | 30,000 | 42.51 |
| 14-Dec | Sanguine Md | Shilpa Milind Desai | S | 54,387 | 42.91 |
| 14-Dec | Sujana Univ | Mavi Investment Fund | S | 525,000 | 23.28 |
| 14-Dec | UTV Software | Decent Financial Services | B | 185,000 | 271.51 |
| 14-Dec | UTV Software | Indo Distillation Company | S | 150,000 | 271.50 |

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

| | Price (Rs) | % change | Index points | Volume (mn) |
|-------------------|------------|----------|--------------|-------------|
| Gainers | | | | |
| ICICI Bank | 870 | 4.8 | 7.1 | 1.6 |
| Reliance Com | 448 | 3.5 | 6.2 | 7.2 |
| Reliance Ind | 1,259 | 1.7 | 5.9 | 3.0 |
| Losers | | | | |
| SAIL | 80 | (1.7) | (1.2) | 7.8 |
| Hero Honda Motors | 712 | (0.9) | (0.3) | 0.5 |
| GlaxoSmithkline | 1,116 | (1.1) | (0.2) | 0.1 |

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

| Date | Event |
|--------|---|
| 15-Dec | Aurobindo Pharma to consider merger of 2 units; DCB holds press conference; Zicom holds press conference for opening of its showroom; SpiceJet to hold press conference |
| 18-Dec | LVP holds press conference for its investments in India |
| 20-Dec | GAIL India to announce interim dividend; MRF to announce earnings and dividend; Hindustan Petroleum Corp to announce interim dividend; Four Soft to consider fund raising plans; Tantia Constructions to consider funds raising plans |
| 22-Dec | Indian Oil Corp to announce interim dividend |
| 23-Dec | ONGC to announce interim dividend |

Source: Bloomberg

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