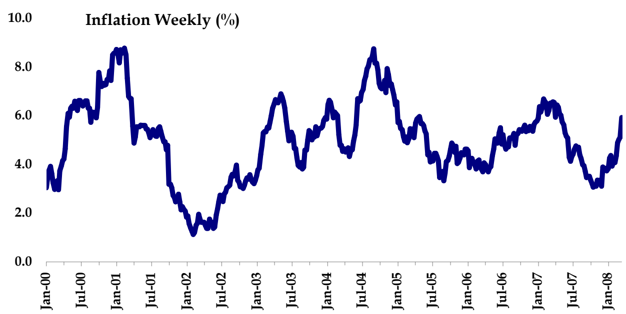
KHANDWALA SECURITIES LIMITED

India Strategy

March 24, 2008

India! By the Grace of God

Inflation running above six years' average and well above RBI target band:



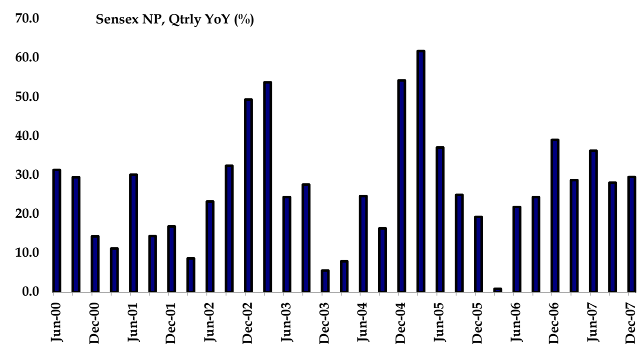
Source: Bloomberg

Interest rates firm at six year ago level, and not showing signs of tapering off:

Source: Bloomberg

Sensex companies' earnings seem entering a moderate growth phase of 18%+ in sales and 20-22% in net profit. **India, by the grace of God,** would still offer globally challenging companies growing higher than global rates at cheaper valuations.

Sharp reduction in US interest rates, higher than global growth and rising inflationary pressures in India are likely to encourage foreign capital inflows, albeit of short term nature, expecting the government will either push interest rates higher or allow currency appreciation.

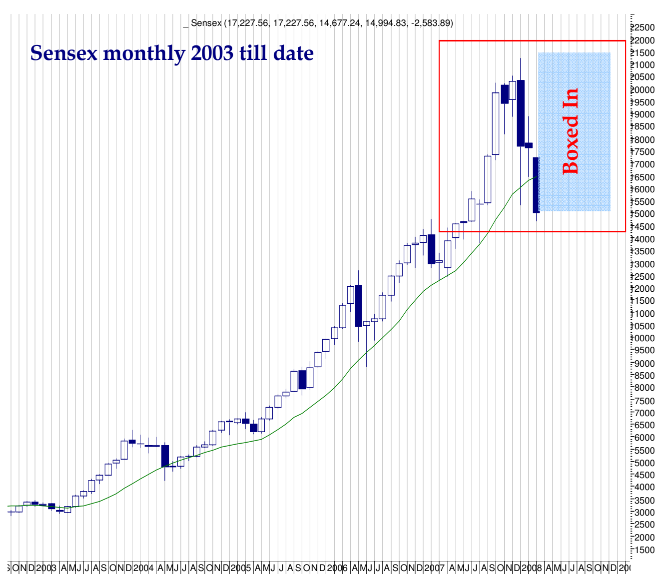


Source: CMIE

The changed macro scenario makes us believe that the Indian markets have reached a stage of consolidation. While the market is likely to remain in a broad trading range of Sensex between 14,200 and 22,000 over the next one year, and perhaps even longer, we suggest investors make the most of volatility in trading market.

From 14,215, we believe the Sensex to return over 30% in six-nine months. At 14,215, the Sensex would trade at 18 times TTM earnings and 14 times FY09 earnings.

The sectors that look promising to buy from value dynamics that are driven by India's domestic growth, include cement, steel, PSU Banks, automobiles, telecom and oil and gas. The sectors that could face some more pain and may remain underperformer over the next one/two quarters include real estate, non-ferrous metals, infrastructure, engineering and capital goods.



Khandwala Securities Limited
Vikas Building, Green Street, Fort, Mumbai 400 023.
Tel No. +91 22 4076 7373 **Fax No.** +91 22 4076 7377

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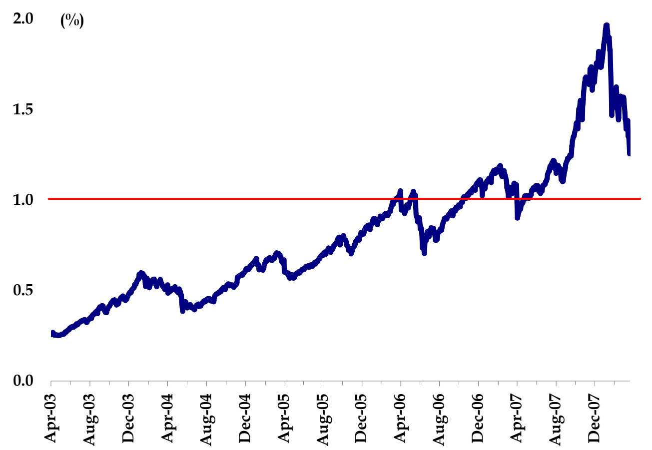
Indian Equities too compelling to ignore:

Country	Indices	Index	P/E			MktCap	GDP	MktCap/	*GDP*
		Curr.	Curr.	2008E	2009E	US$ Bn	US$ Bn	GDP	*Gwth %*
Brazil	Bovespa	61,933	14.58	11.50	9.38	1,449	1,068	1.36	*6.20*
China	Shanghai Comp.	3,762	30.99	20.80	16.96	3,427	2,668	1.28	*11.20*
Hong Kong	Hang Seng	21,867	13.42	13.80	12.15	1,995	190	10.50	*6.70*
India	**Sensex**	**14,995**	**19.34**	**17.50**	**14.60**	**1,187**	**906**	**1.31**	***8.40***
Japan	Nikkei	12,260	13.89	14.00	13.50	4,037	4,340	0.93	*2.00*
Mexico	BOLSA	29,516	13.29	14.60	12.50	400	839	0.48	*3.80*
Singapore	Straits Times	2,833	10.15	13.20	11.70	425	132	3.22	*5.40*
South Korea	Kospi	1,622	13.88	11.50	10.10	855	888	0.96	*5.50*
Taiwan	Taiwan Weighted	8,179	17.89	12.00	11.40	709	355	2.00	*6.40*
United Kingdom	FTSE	5,560	11.24	10.70	9.95	3,570	2,345	1.52	*2.90*
United States	DJIA	12,393	15.03	12.80	11.26	15,783	13,202	1.20	*2.50*

Source: Bloomberg, CSO, KSL Research; Indices as on March 18th 2008

Market Cap unlikely to fall below GDP:

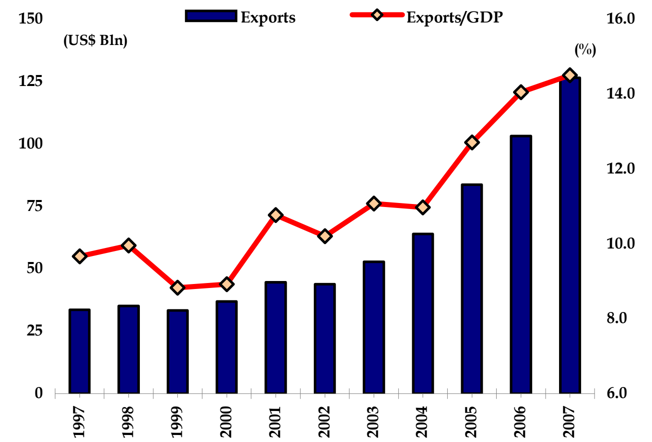
India is no longer a small-fish-in-a-small-pond. Indian companies, and equity markets, are now a-big-fish-in-bigger-ocean. The current 38.2% fibonacci corrective wave to our Sensex target of 14,215 is likely to bring India's market capitalization to GDP ratio to nearly 1.08. We do not see major erosion from this level and expect the market to a U-turn from thereon.



Source: Bloomberg

Difficult to push back a running elephant:

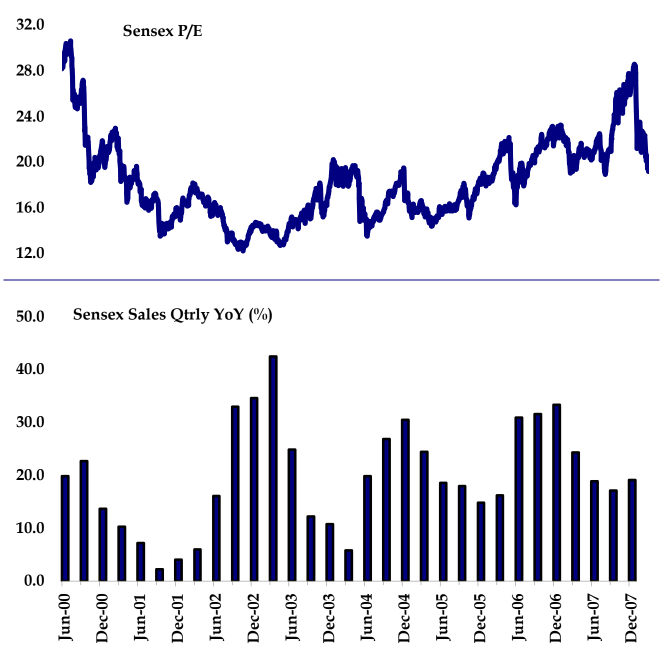
India's elephant economy largely derives growth from domestic consumption and relies less on exports, which contribute around 15% of the total GDP. Indian economic growth is unlikely to be derailed, over the next one-two years in any significant way, by the fears of global slowdown as a result of losses by global banks in sub-prime mortgage related businesses.



Source: Bloomberg

Risk chases returns:

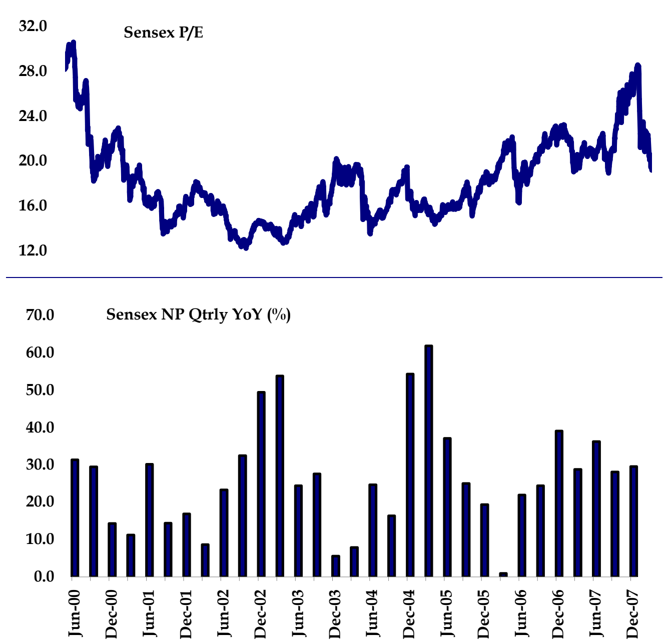
Investors taking equity risk chase growth. The Sensex P/E has reverted to its long term mean and reflects pessimistic view of the Sensex companies' profit growth. We expect Sensex companies turn out decent 18%+ sales growth over next one-two years, compared to 22.61% over last five years.



Source: CMIE

Consistent higher growth justifies higher P/E:

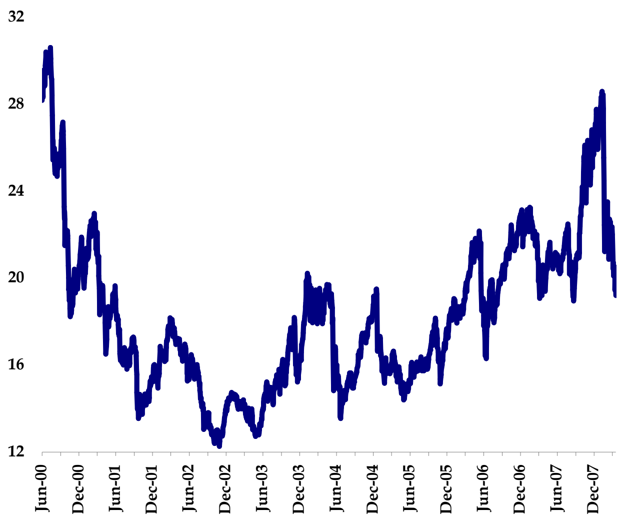
Valuations are likely to become very attractive even after assuming drop in net profit growth rate to 20-22% (from average 29.3% over last five years) and the investors' risk aversion, or Sensex P/E, reverting to five year mean level. Consistent, higher than global growth rate, over longer term, to sustain equity risk appetite and premium over average P/E.



Source: CMIE

Sensex P/E:

The current consolidation wave to our Sensex target level of around 14,215 is expected to bring the Sensex P/E ratio to around 18 and PEGR of 1 implying conservative earnings growth of 18% YoY by Sensex companies. We believe the growth momentum to remain in tact, which provides good opportunity to buy with one-two year horizon.

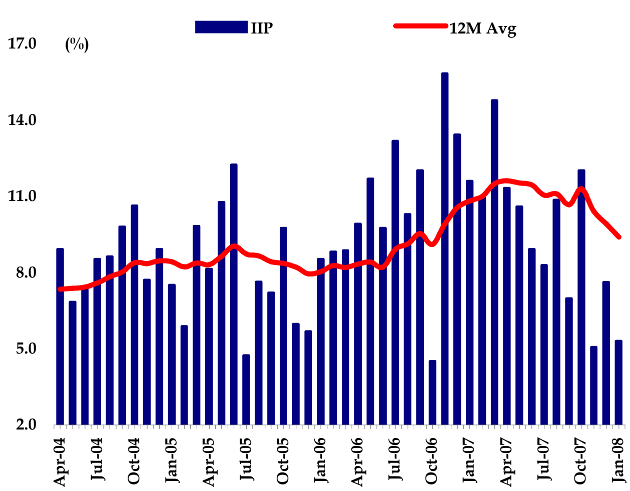


Source: CMIE

IIP:

High interest rates, impacting consumption and investment spending and high base effect took a toll on IIP over the last three months. We expect the overall annual figure for FY08 to remain robust around 9%-plus.

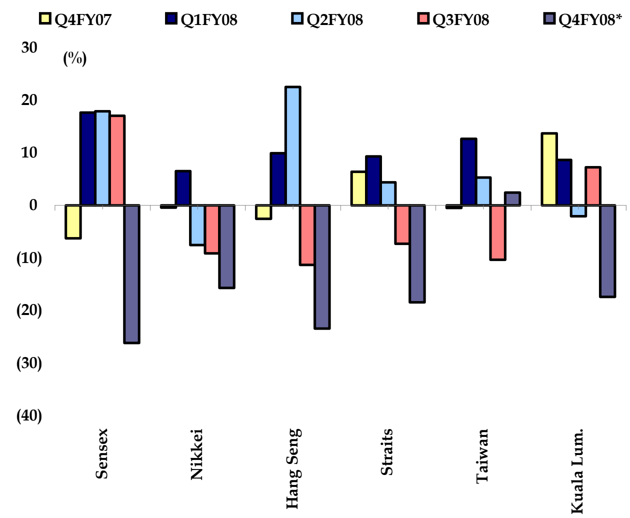
Consistent 9%-plus growth rate, over longer term, more desirable to sustain higher equity risk appetite.



Source: CSO; Khandwala Research

Indian market has over-corrected to peers:

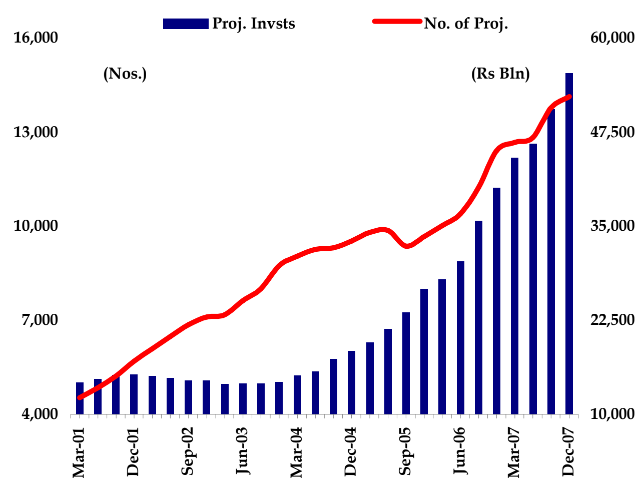
The Sensex has over-corrected compared to 12 major markets, including the emerging markets, during the year-to-date, mainly due to net outflows of portfolio capital by FIIs.



*Source: Bloomberg; * - Q4 data up to 20th March 2008*

Project Investments:

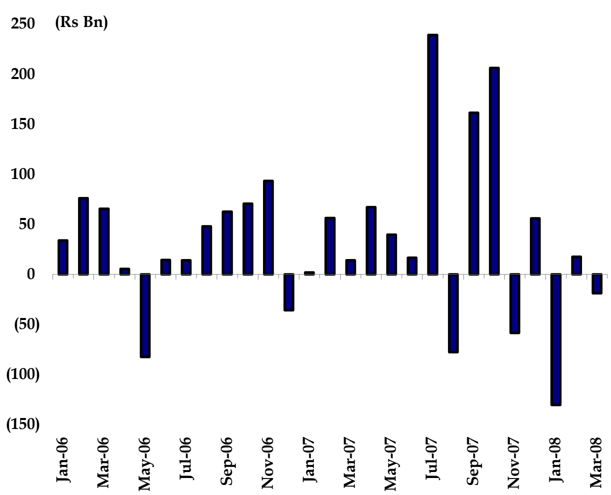
The project investments have shot up three-fold over the last three years. We expect moderation in new project investments but completion of existing projects underway would continue to provide earnings traction to Indian companies for one-two years.



Source: CMIE

Foreign Institutional Investors:

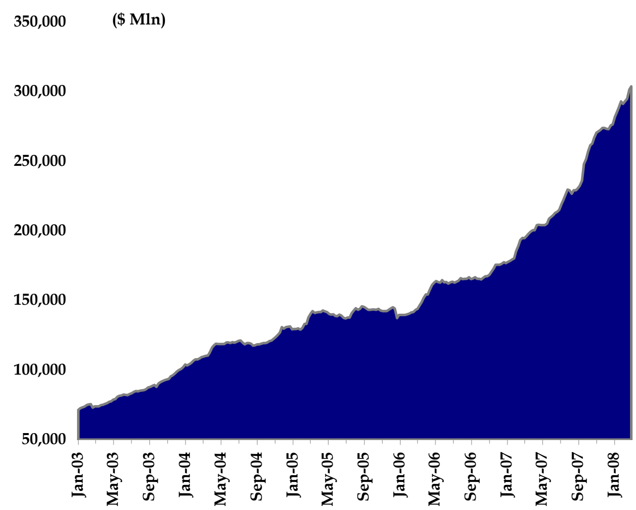
Cheap dollar policy of the US Fed has brought in record foreign portfolio inflows into Indian equities. These have become 'volatile' as well. We expect the liquidity from FIIs may remain subdued for the next one-two months before it returns which could break the inertia in Indian equities.



Source: SEBI, Khandwala Research

Forex Reserves:

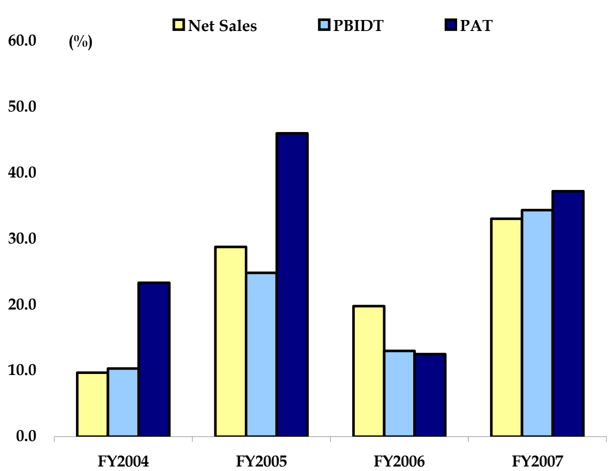
India's foreign exchange reserves keep surging as overseas investors bring in more FDI when FII inflows have slowed down over last three-four months. Huge reserves and strong currency are positives for a net-importing country.



Source: RBI; Bloomberg

S&P Nifty companies YoY growth:

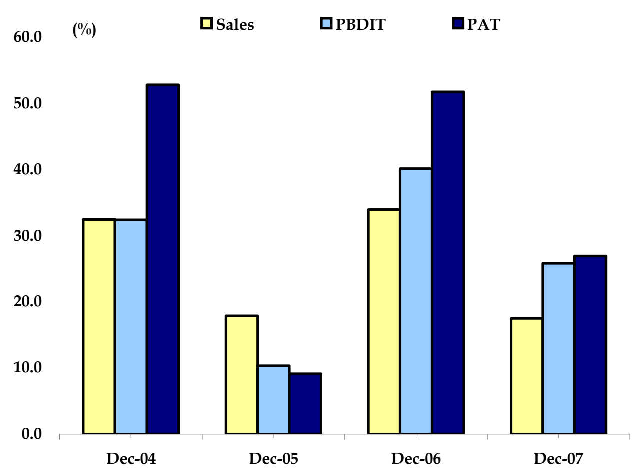
Indian corporates continue to show robust growth in Sales and Profits



Source: Capitaline

S&P Nifty companies YoY growth for 3Q:

Higher base effect and higher interest rates are leading to moderated growth in Sales and Profits

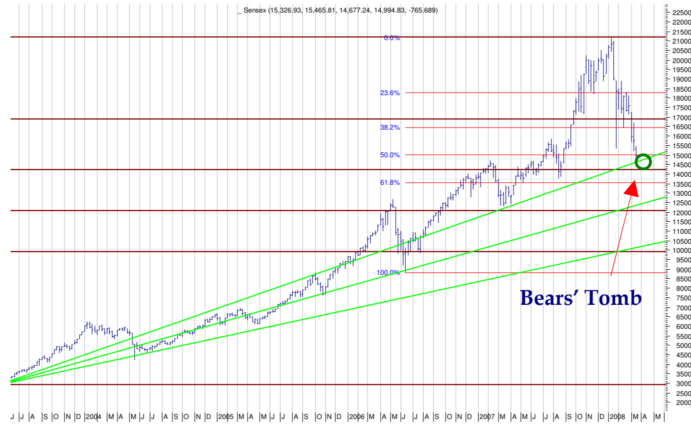


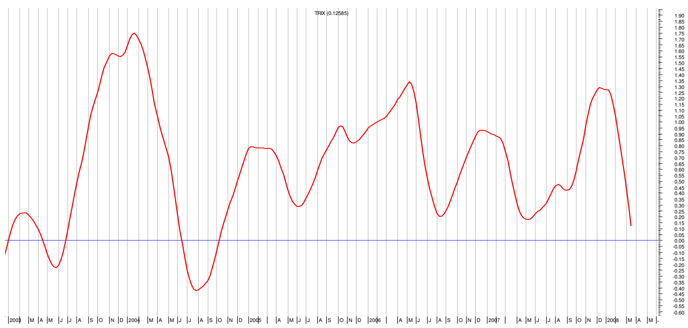
Source: Capitaline

Bears' Tomb in sight

The Sensex has corrected more than 30% from its all-time high of 21,207. In the tenth week after the peak, the Sensex has closed just below the 50% retracement of the last two years' gains. The second Fibonacci retracement level of 38.2% of the entire five years' bull market is placed around 14,215.

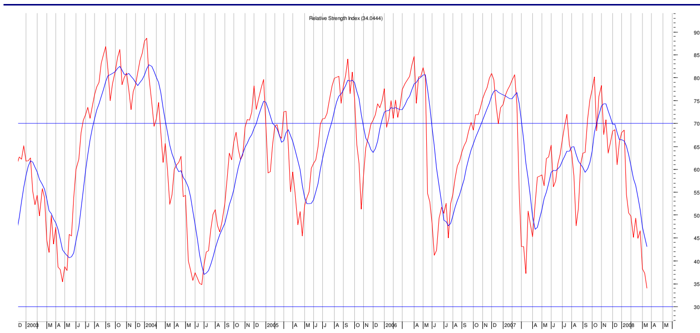
We expect the Sensex to bottom out around 14,215. The fight between the bulls and the bears is likely to intensify at current levels and reach a climax shortly with bulls conquering the turf and bears completely buried in their tomb.





TRIX 13 weeks

The triple smoothed 13-week TRIX indicator, which lags price action, is near equilibrium and suggest the Sensex likely to bottom out in the next couple of weeks. Since this indicator is designed to filter out recent price action, it moves up after the price has already bottomed out.



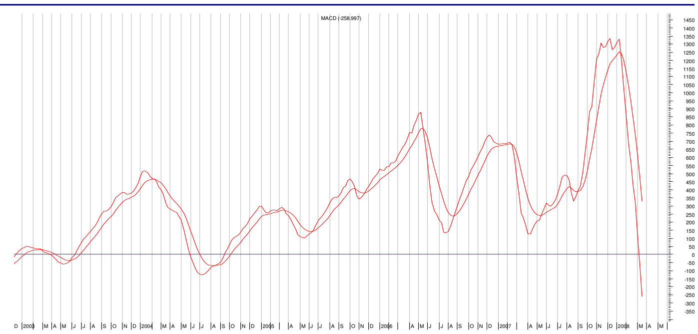
Sensex: RSI Weekly

The RSI studies on weekly charts show the Sensex is nearing oversold zone.

The RSI is near historical oversold levels, over five years, which has coincided with major upmove in following months.

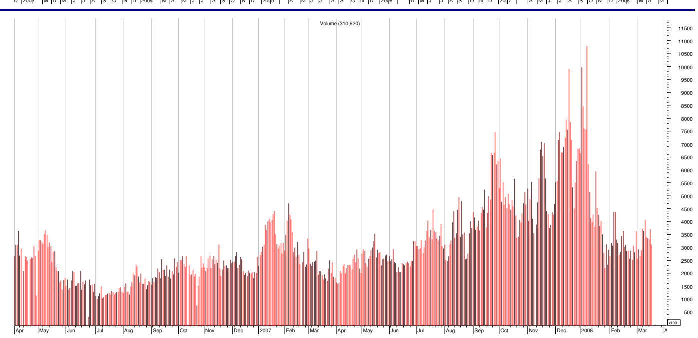
Sensex: MACD Weekly

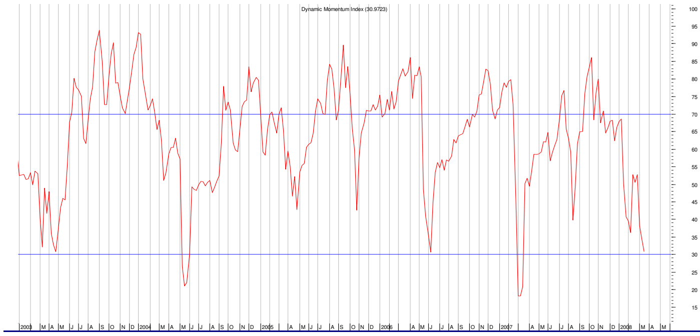
The momentum indicator, MACD on weekly charts indicate the Sensex is nearing oversold zone and is poised for an upmove in the next 2-3 weeks.



Volumes Daily 2 years

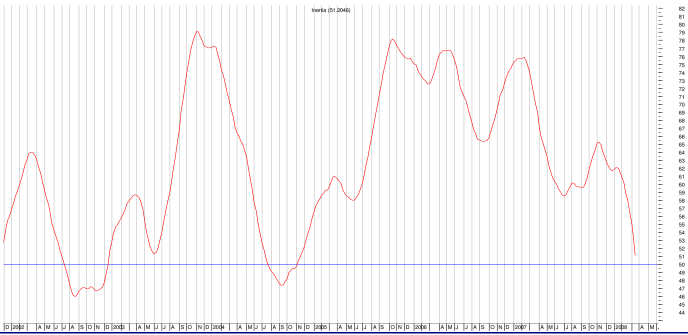
The volumes study again suggest bottom in sight as the volumes have dried up over the last two months with fall in prices. We expect volumes to drop further over the next couple of weeks when prices are expected to bottom out.





Dynamic Momentum Index weekly

The dynamic momentum index, on weekly charts, is near historic support level, and indicates support in sight in the near term.

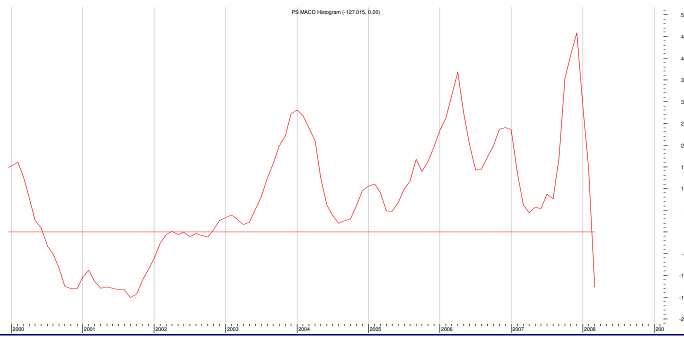


Sensex: Inertia Weekly

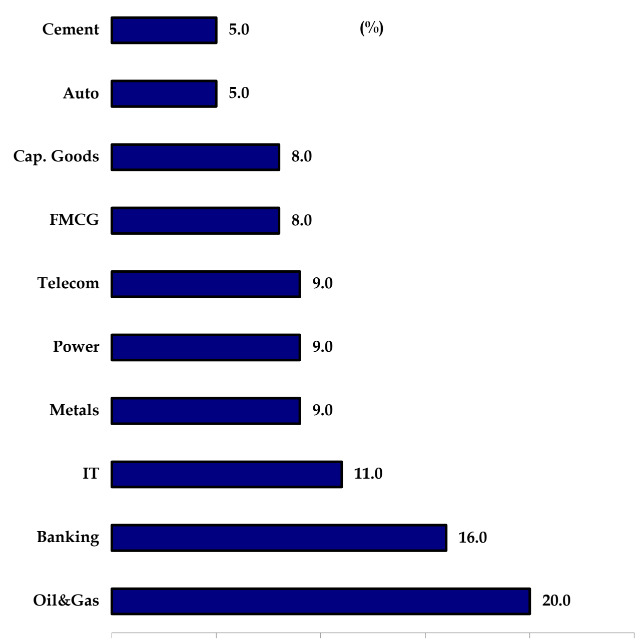
The inertia study, on weekly charts too, shows the Sensex nearing equilibrium indicating build-up of a major upmove in the coming weeks.

Sensex: MACD Histogram Monthly

The MACD Histogram studies on monthly charts also show the Sensex is in an oversold zone.

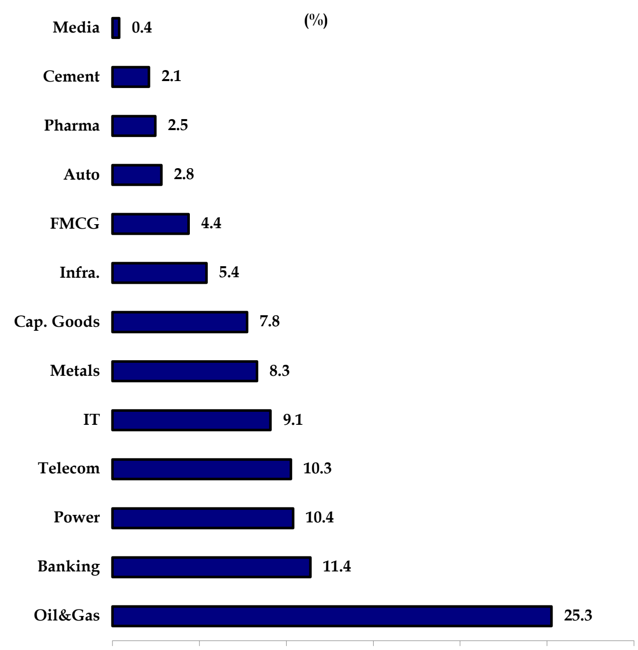


KSL Model Portfolio - sector allocations:



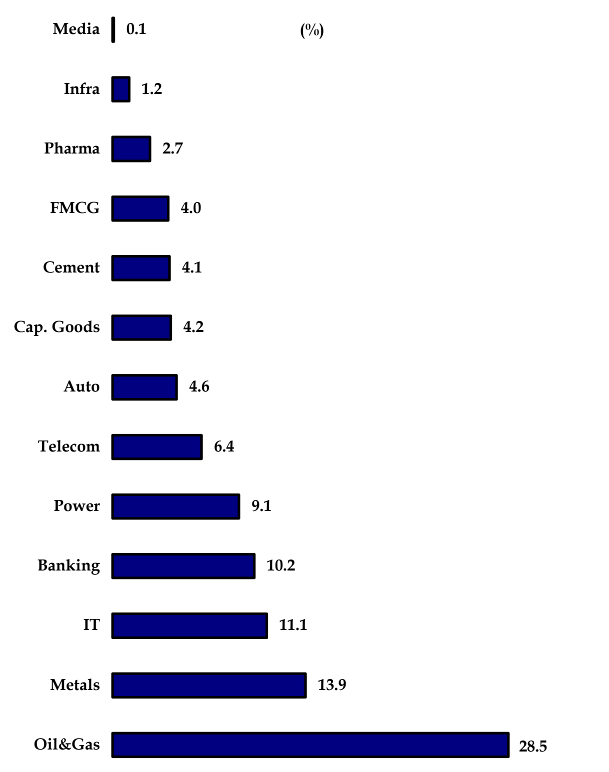
Source: Khandwala Research

S&P Nifty - sector allocations:



Source: CMIE

Nifty – Net Profit attributes:



Source: CMIE

Automobiles

Indian automobile industry has faced tough time during FY08. Sales growth across all segments declined significantly owing to various factors such as; tighter liquidity, high base effect and higher interest rates.

However, Excise duty cut in the current budget has given much needed relief to auto players. We expect strong demand to sustain in FY09 across various segments specially passenger cars. Our positive outlook on the auto sector is on the back of robust growth sustaining in passenger vehicles, expectation of turnaround in two-wheeler industry volumes and continuing infrastructure development leading to expectation of a revival in M&HCV sales.

Key Drivers:

- ✓ **Turnaround in two-wheeler Industry:** The two-wheeler volume growth is expected to stabilize around 2Q FY09 with decrease in interest rates and effect of higher base will reduce. As the New Plants in tax-exempt regions becoming operational, this phase of volume growth to lead to healthy increase in profitability for the industry leaders.
- ✓ **Passenger cars sales to grow:** The compact car segment and lower end of the mid-sized segment to achieve stronger growth over medium term. With the launch of Tata Nano, the lower end of the car market will expand significantly. Also the small car manufacturers have reduced the prices of their models owing to the excise duty cut, which will further boost the sales in coming times. Thus, it could help India to emerge the preferred small car destination for the world.
- ✓ **Competition to intensify in Medium term:** The competition among auto players is expected to grow substantially. The main reasons would be:
  - OEMs launching new models at various price-points and thereby expanding the market.
  - Increased focus on the Indian market by global OEMs, including India-targeted product development.

  The impact of higher competition is likely to be greater for the car market, which is more fragmented. However, existing large OEMs will get an added advantage in terms of established distribution network – a critical success factor.
- ✓ **Joint ventures with global players:** Major Indian Auto players have tied up with global giants for technological and premium products for Indian market. This will give the companies strong product development capabilities that can easily exploited in domestic market and an established international distribution network. Thus, products roll out to gather pace with global JVs.
- ✓ **CV segment to grow at steady rate:** Commercial vehicles segment will get benefit from the increased focus on infrastructure and Defense in the budget, regulatory driven demand and highway spending. Also Rs. 600bn farm loan waiver will revive the tractor demand in rural areas.

Top Picks

Mahindra & Mahindra (M&M):

- ✓ Robust performance of both the operating divisions of M&M over medium term in terms of growth and profitability.
- ✓ Value unlocking through subsidiary company Mahindra Holidays & Resorts.
- ✓ Significant value creation into new segments like auto-components and engineering services.
- ✓ The growth in the auto segment would be driven by a spate of new product offerings and entry into new markets.

Maruti Suzuki:

- ✓ Default beneficiary of upcoming trend of increase in passenger car demand, particularly in compact car segment.
- ✓ Strong product pipeline, largest distribution network and customer satisfaction is likely to have a dominant market share over the coming years.
- ✓ Enhance profitability by the way of successful cost reduction, productivity improvement and increased localization leading to higher internal efficiencies.
- ✓ The company is likely to get a major boost in sales from exports with its launch of Export model in European market.

Tata Motors:

- ✓ The ambitious launch of Nano can bring the structural changes in both compact car and two wheeler markets.
- ✓ Proposed acquisition of Jaguar/Land Rover (JLR) will give the established international distribution network.
- ✓ Key subsidiaries continue to outperform thereby providing the crucial support to the overall performance of the company.

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
M&M	98,424	139,116	159,412	13,072	17,144	20,203	10,683	11,754	13,102	43.1	47.3	53.4
Maruti Suzuki	147,217	180,647	214,292	21,653	25,562	30,264	15,620	18,875	21,573	55.4	65.4	74.7
Tata Motors	274,048	303,560	355,143	32,868	32,855	39,345	19,135	18,599	21,901	47.1	48.5	56.7

	Net Margin (%)			EBITDA Margin (%)			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
M&M	9.3%	8.4%	8.2%	13.3%	12.3%	12.7%	22.3%	20.2%	20.6%	25.9%	26.7%	22.5%
Maruti Suzuki	10.6%	10.5%	10.1%	14.6%	14.2%	14.1%	30.2%	30.9%	29.2%	25.4%	24.3%	22.3%
Tata Motors	6.9%	6.1%	6.2%	12.1%	10.8%	11.1%	30.5%	21.7%	21.9%	27.6%	22.8%	22.1%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
M&M	2,380	156,719	872	543	-24.5%	727	-9.4%	658	16.5	4.5	885	34.4%
Maruti Suzuki	1,445	237,775	1,252	700	-34.3%	901	-8.7%	823	12.6	3.5	1,140	38.6%
Tata Motors	3,855	250,748	840	535	-22.6%	717	-9.2%	650	12.4	3.7	880	35.3%

CMP as on 19th March 2008

Banking

We like banking sector as it can be considered as a proxy for India's continued and consistent economic expansion at higher rates ranging 8.5-9%. If the economy does well, the banking sector has to do well. Many banks are trading at a considerable discount, and especially public sector banks (PSBs), are trading 0.8 to 1.5 FY09 book value when their RoEs are in the range of 14- 24%.

Most of the banks' stocks have corrected by 25-40% in line with market in general and on fears of hit on margins, if the waiver of agriculture loans, which are estimated at Rs 600 bn, are not compensated to banks. The market seems to have clearly overplayed the situation. It is estimated that around 35% of the above waiver belongs to scheduled commercial banks. Finance Minister has cleared that the banks along with RRBs will be fully compensated in cash over four years with majority of waiver amounting to Rs 400 bn will be given upto Aug 2009. Agricultural Gross NPA of scheduled commercial banks as of March 07 is less than Rs 75 bn. Net NPA in agriculture would be much lesser. It indicates bulk of the agricultural loans would have already been written off and hence the loss has already been booked in past years. Hence not only the NPAs will be recovered, but also the already written off agricultural loans would be monetized and thereby add to the bottomline/reserves.

Most of the banks, except few private sector banks have cut their lending rates by ~50 bps to boost their sluggish credit growth. Overall industry credit growth has slowed down to ~22-23% from last few years' more than 30% growth. The slowdown in credit growth has been gradual through out the year and to be in line with regulators expectation and comfort. On the other hand deposit growth has been quite healthy at ~25% as against – 20% growth last year, which also indicates increased liquidity in the system. Incremental credit-deposit ratio has dropped to ~65% from –90% last year. Cut in PLR would not impact the margins, as the banks are due to re-price their deposits in current month, raised last year, downwards.

After the recent cuts in fed rates, RBI seems to be in no hurry to reduce the arbitrage between the two currencies. It is mainly focusing on controlling liquidity and thereby inflation. Especially after inflation crossing the benchmark 5% mark, likelihood of a rate cut by regulator is very bleak.

Top Picks

Axis Bank:

- ✓ Highest credit growth among large banks.
- ✓ Strong Fee Income on account of placement and syndication of corporate bonds, project advisory, cash management services, wealth advisory services, online trading etc
- ✓ Inspite of splendid growth in loan size, bank has managed to contain net NPA within 1%

Bank of Baroda:

- ✓ Well-Protected Net Interest Margins (NIMs).
- ✓ Strong growth on international front
- ✓ Stock is available at a very dirt valuation of 0.9x ABV09E

Bank of India:

- ✓ Highest credit growth among large PSU banks.
- ✓ Strong traction from non-interest income front which contributes ~25-30% of net revenue
- ✓ Commendable operating efficiency with control on operating expenses

ICICI Bank:

- ✓ Largest private sector bank with strong growth in credit as well as fee income front.
- ✓ Strong start in international business.
- ✓ High possibility of value unlocking from subsidiaries.

Punjab National Bank:

- ✓ Higher than industry NIMs well supported by higher CASA deposits.
- ✓ Excellent branch network with higher focus on rural and semi-urban areas.
- ✓ Strong plans to improve asset quality.

State Bank of India:

- ✓ Largest market share with strong growth in subsidiaries.
- ✓ Second largest branch network globally.
- ✓ Stable and increasing NIMs along with healthy CASA deposits

Financial Summary

(Rs Mln)	Net Interest Income			PAT			EPS (Rs)			ABV (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Axis Bank	14,683	23,832	33,198	6,590	10,185	14,418	23.4	28.5	40.3	111.1	241.8	274.9
Bank of Baroda	35,774	44,155	54,012	10,264	15,893	18,344	28.1	43.5	50.2	222.9	255.9	296.1
Bank of India	34,404	42,608	54,189	11,232	17,641	23,199	23.0	33.6	44.1	107.8	154.8	191.2
ICICI Bank	56,371	73,040	93,613	31,102	40,993	52,394	34.6	36.5	46.7	248.2	392.8	418.7
Punjab Nat. Bank	52,133	60,966	72,803	15,401	19,857	25,319	48.9	63.0	69.8	308.0	360.4	436.2
State Bank of Ind	150,174	174,471	208,169	45,413	68,563	81,168	86.3	108.6	128.5	494.8	759.5	859.0

	Net Interest Margin (%)			Net NPA (%)			ROA (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Axis Bank	2.48%	2.85%	3.03%	0.72%	0.43%	0.31%	1.07%	1.18%	1.28%	21.04%	16.60%	15.23%
Bank of Baroda	2.92%	2.88%	2.85%	0.60%	0.52%	0.47%	0.80%	0.99%	0.93%	12.45%	17.13%	17.19%
Bank of India	2.79%	2.73%	2.79%	0.74%	0.57%	0.56%	0.88%	1.10%	1.17%	20.65%	24.06%	23.69%
ICICI Bank	2.02%	2.03%	2.12%	1.02%	1.22%	1.22%	1.04%	1.07%	1.12%	13.37%	11.48%	10.71%
Punjab Nat. Bank	3.50%	3.54%	3.61%	0.75%	0.56%	0.43%	1.00%	1.12%	1.22%	15.55%	17.69%	17.82%
State Bank of Ind	2.98%	2.94%	2.97%	1.56%	1.39%	1.29%	0.86%	1.10%	1.11%	15.41%	16.12%	14.19%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
Axis Bank	3,574	267,067	1,291	433	-42.1%	821	-9.0%	747	29.0	3.4	1,155	54.6%
Bank of Baroda	3,655	99,124	501	193	-45.9%	338	-19.8%	271	7.1	1.2	475	75.1%
Bank of India	5,258	125,298	466	151	-48.9%	303	-21.3%	238	7.4	1.8	420	76.2%
ICICI Bank	11,229	860,534	1,465	720	-47.7%	1,060	-27.7%	766	22.8	2.6	1,490	94.4%
Punjab Nat. Bank	3,153	144,975	721	420	-36.2%	559	-17.7%	460	7.3	1.4	785	70.7%
State Bank of Ind	6,316	1,012,360	2,438	879	-34.3%	1,859	-13.8%	1,603	16.0	2.1	2,540	58.5%

CMP as on 19th March 2008

Capital Goods

Industry Outlook:

- ✓ The capital goods space seems primed for impressive growth going ahead. The sector has strong correlation with economic growth and given strong GDP forecasts, this sector is unlikely to miss out on its shares of the spoils.
- ✓ India is in the midst of an investment super cycle with huge investments planned in capacity creation in various industries. The sheer strength of the investment cycle is likely to create a strong earnings growth scenario for engineering companies.
- ✓ 11th five year plan puts immense emphasis on the development of power generation capacity. The estimated additional power generation capacity of 78,577 MW would also benefit the major capital goods players.
- ✓ The order book for most capital goods companies is showing impressive growth with increasing investment in manufacturing sector, thrust on accelerated infrastructure development and continuation power reforms.
- ✓ We continue to remain positive on business momentum for the capital goods sector. Earnings visibility is high for most of these companies, based on the current order-book-to-bill-ratio. They will now have to focus on efficient execution and timely delivery.
- ✓ The operating efficiency, economies of scale, better sourcing and enrichment in product mix would boost the margins of these companies. The robust order book assures strong revenue visibility over the next few quarters, and the improving margin trend would enable companies to sustain earning growth.

Top Picks

Bharat Heavy Electricals (BHEL):

- ✓ BHEL has substantial expansion plans and has announced a capex of Rs 32 bn over the next two years, which seems to be justified considering the large order book of Rs.727bn and record order backlog of Rs.780bn, 3.6x FY08E revenues.
- ✓ The company has guided for revenue of US$10b by next 4 years both through organic and inorganic growth with revenue CAGR of 19%.
- ✓ The industry segment; spares and services, and R&D are set to play a bigger role. Oil & gas, railways and nuclear power could be the next big growth drivers for BHEL.
- ✓ The increased power generation capacities would necessitate corresponding increase in transmission and distribution network, which would be the key driver for of BHEL's order book for T&D segment.
- ✓ Domestic infrastructure growth remains relatively immune to global slowdown fears, which will benefit the company.

Larsen & Toubro (L&T):

- ✓ Core business to gain immensely from the huge spends planned for infrastructure and industrial sector.
- ✓ Strong order book of Rs.496 bn and expected to grow to Rs. 904 bn by FY2010. The visibility has improved significantly and its order backlog to sales ratio is 2.8x of FY08 sales. We believe this healthy momentum in order growth will continue in next 2to3 years.
- ✓ L&T has the most diversified product offering and exposure to multiple segments; the business model of the company is more resilient to slowdown in some segment without affecting overall growth momentum.
- ✓ New business initiatives like shipbuilding, defense and power equipment to maintain growth momentum and that could prove value accretive to the company in the long run.
- ✓ The management is working towards a structural change in the revenue composition from contracting and turnkey projects towards manufacturing and services, where the margin profile is better. This portfolio rebalancing provides opportunity to improve EBITDA margins.
- ✓ The loss of the L&T International FZE entity due to commodity hedges might lead to some EBITDA expansion in L&T standalone/other group company.

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
BHEL	173,207	216,995	277,154	34,771	43,929	55,498	24,143	33,407	41,435	49.3	68.7	94.8
L&T	203,857	276,750	359,659	27,279	41,033	55,323	17,930	26,303	35,344	62.2	90.6	115.1

	EBITDA Margin (%)			Net Margin (%)			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
BHEL	20.1%	20.2%	20.0%	13.9%	15.4%	15.0%	45.2%	51.2%	55.0%	27.5%	30.2%	32.8%
L&T	13.4%	14.8%	15.4%	8.8%	9.5%	9.8%	23.8%	24.2%	22.2%	35.4%	27.6%	23.2%

Company	Equity	Mkt Cap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
BHEL	4,895	904,731	2,925	979	-36.8%	2,084	-11.3%	1,848	31.2	10.3	2,465	33.4%
L&T	584	829,414	4,670	1,432	-39.2%	3,217	-11.7%	2,839	43.5	13.4	4,317	52.1%

CMP as on 19th March 2008

Cement

Cement is one of the best sector to take the advantage of growing economy, as it has a direct co-relation with economy. However, stock market is not convinced about the growth story on fear of oversupply leading to price decline. A closer look to the situation would reveal some interesting findings.

During Apr-Jan 2008, cement production has registered a growth of 7% as compared to 9.5% growth in consumption during the same period. The capacity utilization ratio increased to 95.1% during first 10 months of FY2008 as compared to 92.8% during corresponding period last year. On top of it, the capacity utilization ratio in Jan 2008 stands at 102%. This has resulted in price increase of 10%-12% across the country. The slow pace of capacity additions combined with continued buoyancy in cement demand led to a much faster growth in cement consumption than the growth in cement production. During Apr-Jan 2008, 12.7 million tonne (MT) of capacity has come onstream, while we expect around 10 MT of additional capacity to come onstream within the next six months. This additional output would be comfortably absorbed mostly by the booming construction and infrastructure sectors. This along with rising cost prices would keep the cement prices firm in the medium term.

The cement industry is swamped by a major capacity augmentation drive to meet the strong cement demand arising from booming construction industry. Total outstanding investment in the sector touched an all time high of Rs.708 bn as of Dec 2007. These are spread over 160 projects of which 57 projects, amounting to Rs.191 bn, are presently under implementation. The operational capacity of the sector as of Feb 2008 stood at around 179.6 MT, which is expected to increase around 300 MT over the next three years as per announcement made by the companies. However, we expect that capacity addition would be at a slower pace on account of constrained faced by companies in acquiring land and getting mines.

The cement industry has seen some consolidation during last two years, as top two groups share around 40% of market share. Apart from this, approx. 25% of the planned capacity would come from these two groups. Over the next three years, the Holcim group would scale up its capacity by 15 MT to around 57 MT. The Aditya Birla group is also expected to add 15 MT over next two years, taking its annual capacity to around 46 MT. As the industry is moving towards surplus situation, we may see some consolidation going forward. This would help companies to support prices at reasonable levels.

Top Picks

ACC:

- ✓ Largest and one of the most efficient player in the country with pan India presence
- ✓ The company would increase its cement capacity from 19 MT to 27 MT over the next three years, resulting in strong volume growth.
- ✓ Additional capacities would also be supported by captive power plant, keeping its cost structure competitive among other players.

India Cement:

- ✓ One of the major player in the southern market and finest turnaround in the cement industry
- ✓ The acquisition of two ships each for coal import and setting up of lignite-based captive plants would result in substantial cost saving for the company.
- ✓ The company is increasing its capacity from 9 MT to 14 MT over next 2 year, which would result in strong volume growth.
- ✓ The recent QIP placement would help the company to expand operation in newer regions like Rajasthan and Himachal Pradesh apart from current expansion.

Shree Cement:

- ✓ Most efficient company in the industry (highest EBITDA per tonne).
- ✓ Strong volume growth as company increased its capacity from 4.5 MT to 8 MT during this year only, while additional 1.5 MT would be available by Dec 2008.
- ✓ SCL would be largest player in the north region after this expansion.
- ✓ The company is also increasing its power capacity from 45 MW to 100 MW in order to make it fully sufficient in captive power.

Ultratech Cement:

- ✓ Second largest player in the country with pan India presence
- ✓ The company would increase its cement capacity from 17 MT to 21 MT in next one year, ensuring strong volume growth in revenue.
- ✓ The company is setting captive power plants for its existing as well as additional capacities, which would result in substantial cost saving in terms of lower per unit cost of production.

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
ACC *	70,072	77,079	83,246	21,305	23,124	24,308	14,386	15,647	16,649	76.7	83.4	88.7
India Cement	20,497	34,460	38,596	6,617	11,234	12,544	4,495	7,531	8,105	15.9	26.7	28.8
Ultra Tech	49,108	55,103	62,266	14,178	18,944	20,921	7,823	10,657	11,831	62.8	85.6	95.0
Shree Cement	13,680	19,656	25,600	6,117	8,229	10,752	1,770	4,081	5,427	50.8	117.1	155.8

	EBITDA Margin (%)			Net Margin (%)			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
ACC *	30.4%	30.0%	29.2%	20.5%	20.3%	20.0%	31.8%	29.4%	23.5%	33.5%	28.3%	24.4%
India Cement	32.3%	32.6%	32.5%	21.9%	21.9%	21.0%	14.6%	18.6%	17.3%	21.4%	21.5%	19.1%
Ultra Tech	28.9%	34.4%	33.6%	15.9%	19.3%	19.0%	26.0%	28.0%	25.3%	44.3%	38.5%	30.5%
Shree Cement	44.7%	41.9%	42.0%	12.9%	20.8%	21.2%	13.2%	26.5%	27.4%	35.1%	46.2%	39.0%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
ACC *	1,877	145,623	1,315	615	-41.0%	980	-20.8%	776	11.46	3.51	887	14.3%
India Cement	2,819	47,749	333	164	-49.1%	245	-30.9%	169	6.86	2.36	259	53.0%
Ultra Tech	1,245	98,347	1,165	662	-32.2%	937	-15.7%	790	10.29	5.58	950	20.3%
Shree Cement	348	34,642	1,695	851	-41.3%	1,326	-25.0%	994	22.93	7.62	1,402	41.0%

CMP as on 19th March 2008; ACC year end December

FMCG

FMCG is a sector mainly driven by domestic consumption hence it is sufficiently decoupled to the global economy and worries pertaining to it. We expect the sector to continue to grow by more than 12% due to strong domestic demand driven growth arising out of rising incomes, changing demographics and increasing population of working women. Although the growth rate is curtailing month on month we expect the GDP to grow 8%+ in the next fiscal. India's per capita consumption is yet low as compared to other emerging markets and hence provides room for growth. The median age of India is around 25 years, which is younger than the other emerging economies. These factors are leading to rising aspirations and food consumption pattern wherein FMCG, Retail and packaged food companies will be witnessing higher growth.

The Indian economy is going to witness a release of huge funds through write off of agriculture loans and reduction in income tax to individuals in the union budget that will boost the consumer spending; also the fund from sixth pay commission will be released in near future. The policies favouring the rural development will be the thrust area for the government that will drive the consumption of the FMCG products.

Top Picks

ITC:

- ✓ We feel that ITC is well positioned to grow its sales by 18% and continue with its EBIDTA margin of 20%. Even though the margin pressure may continue due to rising agri-commodity prices, company will be able to pass on the rise in cost to the end users.
- ✓ The worldwide scarcity of agricultural produce will make the agri-business revenue of the company to rise by more than 25% CAGR for next 3 years. The soya and wheat produce form major part of the ITC's agri-business, both of them are going to witness drastic shortfall in supply.
- ✓ The hike in excise duty of non-filter cigarettes in the recent budget may not have any impact for more than a quarter. Rather we feel that ITC will gain form this cut as we expect that the non-filter smokers will either continue smoking the same or shift to the filter cigarettes, the one which provide more margins to company. Non-filter smokers shifting to bidi may be a remote possibility, as it does not satisfy the quantity and quality of the smokers' need. Also the other non-filter manufacturers do not have strong presence into the filter category; hence we expect volume and value growth in ITC's cigarette segment.

Jain Irrigation Systems:

- ✓ The allocation of Rs 5,000 mln for micro irrigation scheme in the recent budget is below our expectation, but the overall allocated expenditure for irrigation, water resources and agrarian economy is substantial to carry on growth into the micro-irrigation segment of the company.
- ✓ We expect agro-processing business to grow more than 30% CAGR up to 2010 as it is well placed to cash the opportunity arising in the agricultural segment. India is second largest producer of fruit and vegetable yet processing only 2% of produce. Also government's initiative to increase agricultural production and reduce pilferage works in favour of Jain Irrigation.
- ✓ PE pipes segment is expected to grow more than 30% CAGR till 2010, as it is well placed to cash the infrastructure expenditure made for water distribution and sewage, and telecom and gas distribution system.

United Spirits:

- ✓ The rise in income of young population is changing the consumption pattern and rising inspiration is resulting in shift to premium category high margin alcohol.
- ✓ Company forayed into wine business with a brand Zinzi and it has plans to be numero uno into this category while expanding and penetrating the category further, company had also set up huge winery at Baramati.
- ✓ United Spirits have plans to foray into international markets; they have already started talks in China and Russia. With a big basket of brands of W&M and self-nurtured IMFL brands, it is well positioned to grab the opportunity to serve aspiring emerging market population.

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
ITC	195,050	236,721	278,178	39,564	45,115	58,779	27,000	29,531	39,480	7.2	7.9	10.5
Jain Irrigation	15,057	20,560	26,227	2,336	3,382	4,409	988	1,482	2,044	15.0	20.6	26.3
United Spirits	46,696	43,965	54,201	7,733	8,994	11,115	2,866	3,680	5,353	51.8	39.1	59.1

	EBITDA Margin (%)			Net Margin (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
ITC	20.3%	19.1%	21.1%	7.2%	7.9%	10.5%	25.9%	24.2%	27.1%
Jain Irrigation	15.5%	16.5%	16.8%	6.6%	7.2%	7.8%	29.4%	29.3%	24.2%
United Spirits	16.6%	20.5%	20.5%	6.1%	8.4%	9.9%	26.1%	22.3%	25.7%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
ITC	3,766	723,133	239	140	-21.6%	182	2.9%	187	23.8	5.8	242	29.1%
Jain Irrigation	677	41,918	770	400	-28.1%	567	-2.4%	553	30.3	6.4	736	33.0%
United Spirits	991	154,182	2,188	750	-32.6%	1,634	-9.7%	1,475	49.8	7.8	2,065	40.0%

CMP as on 19th March 2008

Information Technology

Sector Outlook: Cautiously Positive

Indian vendors' maturity and scale has improved substantially from 2000-01 levels. Indian vendors' moved up in the value chain considerably from the time of dot-com and breadth of service gives resilience to business against any structural shock. The business mix also becomes well diversified in terms of client-mix and geography-spread. The dependency on US is declining steadily, still remains major contributor to revenues.

Reasons to be positive on the sector:

- ✓ **Valuation:** The sector remained underperformer in last one year on the bourses mainly because of uncertainty over the growth momentum, though earnings in USD grew by over ~35% in past 12 months. We expect lack of visibility would continue to hurt sentiments; however risk-reward ratio seems to be in favor of long-term investors.
- ✓ **Demand Outlook:** We believe global economy slowdown could impact the demand; however possibility of higher off-shoring gives hopes for reasonably strong growth in CY2008. Uncertainty over economic growth would impact demand growth in short to medium terms, but we are optimistic over medium to long term prospects of the business. We believe continued emphasis on cutting operational costs, better acceptance of outsourcing in Europe region, adoption of technology in emerging markets, dealing with increasing compliance and regulatory requirements and transforming into a global service oriented business would augur well for the demand.
- ✓ **Management Capability:** The companies have demonstrated resilience during tough time earlier and we do not see any reason to doubt their capabilities to handle contemporary challenges. We expect management to realign their business model and resources effectively and come out of these challenges with better and robust business model and capabilities.

Challenges:

- ✓ Imminent global economy slowdown
- ✓ Weakening US Dollar due to fears over US economy and other structural issues
- ✓ End of STPI benefit in 2009 would result into higher effective tax rate
- ✓ Attracting talent and managing cost as competition for talent increases considerably

Top Picks

Infosys Technology:

- ✓ Superlative Margin with comprehensive service offerings: Infosys offers services from BPM to Consulting across the value chain, which provides cross-selling opportunities. High value-add offerings like consulting, improvement in subsidiaries profitability and SG & A cost economies would help the company in absorbing wage inflation and appreciating rupee partially.
- ✓ Fast growing European business
- ✓ Well-recognized Brand: We believe strong Infosys brand will help it to generate new business and enhance its ability to attract talent globally.
- ✓ Superior execution capability and talent management
- ✓ Target Revision downward – Lack of visibility

Tata Consultancy Services (TCS):

- ✓ Largest Indian IT vendor
- ✓ Diversified revenue mix with broader geographic presence – Geographic presence would help the company to win and deliver business efficiently and also to manage its margin against rupee appreciation and wage inflation.
- ✓ Winning greater wallet share
- ✓ Proactive hedging strategy would provide stability against currency fluctuations in short term.
- ✓ Target Revision downward – Lack of visibility

Satyam Computer & Services:

- ✓ Strong sequential volume growth of over 9% in preceding four quarters
- ✓ Expanding breadth of service offerings and global footprint
- ✓ Turnaround in subsidiaries would help margin
- ✓ Leadership position in consulting and enterprise business solutions

Rolta India:

- ✓ Strong Order book of over Rs 10,900 million
- ✓ Strategic JVs and acquisitions will drive the growth
- ✓ Growth Drivers: Growing demand for "As-Built" digital plant models, Power on Demand by 2012, Huge core infrastructure development in India with increased use of geospatial technology
- ✓ Opening up of Indian defense sector - increased private participation
- ✓ Opportunities arises from Indo-US nuclear treaty

Financial Summary

Company	Sales			EBIDTA			PAT			EPS (Rs)		
Rs million	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Infosys	138,930	166,565	206,383	43,910	51,751	61,915	38,610	46,700	54,356	67.5	81.5	95.0
TCS	186,334	228,397	285,640	50,743	60,074	73,410	41,733	51,238	60,841	42.6	52.4	62.2
Satyam	64,851	84,356	101,980	15,377	17,878	21,182	14,046	17,057	19,460	21.1	25.5	29.1
Rolta *	7,114	10,635	15,112	2,866	3,988	5,417	1,726	2,431	3,247	10.8	15.2	19.5

Company	EBIDTAM			PATM			ROCE			ROE		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Infosys	31.6%	31.1%	30.0%	27.8%	28.0%	26.3%	46.4%	40.6%	36.2%	42.4%	35.5%	31.5%
TCS	27.2%	26.3%	25.7%	22.4%	22.4%	21.3%	43.0%	35.6%	32.5%	56.4%	47.4%	40.9%
Satyam	23.7%	21.2%	20.8%	21.7%	20.2%	19.0%	26.9%	24.6%	24.7%	27.9%	26.5%	24.6%
Rolta *	40.3%	37.5%	35.9%	24.3%	22.9%	21.5%	13.0%	13.6%	15.4%	17.4%	21.3%	21.9%

Company	Equity	MCap	52-Week (Rs)		Away frm	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Prc (Rs)	(%)
Infosys	2,859	766,292	2,156	1,255	-37.8%	1,757	-23.7%	1,340	16.8	5.4	1,700	26.9%
TCS	979	802,452	1,330	725	-38.3%	1,025	-20.0%	820	16.1	6.9	1,100	34.1%
Satyam	1,341	250,692	523	305	-28.5%	441	-15.2%	374	15.5	3.6	470	25.7%
Rolta *	1,605	40,130	396	110	-36.8%	286	-12.5%	250	19.2	3.5	350	40.0%

Note: Rolta India – Year end June

CMP as on 19th March 2008

Metals

Indian steel sector is witnessing one of the most critical phase as one side it is attracting huge investment from the global players and at the same time India has become net importer of steel despite huge capacity announced. The next hurdle is skyrocketing raw material prices, which has resulted in 15%-20% hike in steel prices across the globe including India. However, this recent price hike is not digestible with the government on account of inflationary pressure. Although, we expect, Indian companies would be able to pass the cost burden to the consumers.

During Apr–Dec 2007, finished steel production growth halved from 13.3% to 6.3% due to no major capacities addition in the sector. Growth in steel consumption at 12.3% has continued to outpace production growth. Robust demand along with strong rupee has led to a steep 69% surge in steel imports, which is approx. 10% of total demand.

Key inputs like met coke and iron ore have witnessed over 100% surge in prices over the past one-year. With the recent annual sourcing agreements between international steel companies and mining majors indicating at least a further 50%-60% hike in ore prices, NMDC is also contemplating to hike domestic ore prices by 50%. Consecutively, steel companies also hiked prices by Rs.1,500– 3,000 per tonne in the first week of March, translating into an increase of 6–7%. This is despite excise duty cut in budget and enforced price rollback from government in last month.

Encouraged by buoyant demand from consumer industries, mammoth investments have been lined up by steel companies. Total outstanding investments in the sector made new peaks by touching Rs.6,012 bn as of December 2007. New project announcements continue to pour in with Rs.181 bn worth of capital outlay being announced during the Dec 2007 quarter. Projects under implementation are also on the rise with nearly 46% worth of outstanding investments currently under implementation.

Besides investing heavily in setting up capacities, steel companies intend to become globally competitive by securing raw material supplies for the long run. Input prices of iron ore and coal have risen sharply in recent months and in the absence of an appropriate mining policy in place, domestic supply constraints are unlikely to ease. Steel companies therefore are in a mad scramble to acquire mines abroad to stay cost competitive.

Top Picks

JSW Steel:

- ✓ One of the fastest growing company in the sector
- ✓ It is in the middle of a gigantic investment, which will increase its capacity from 3.8 MT to 6.8 MT by Q4FY2009 and 10 MT by Q2FY2011.
- ✓ JSW's constant focus on value added products would result in stable realization, at the same time acquisition of plate mill and pipes company in US would increase the realization.
- ✓ The company is planning to acquire 300 MW power plant from group company for captive use. It is also setting up iron ore beneficiation plant with annual capacity of 16 MT (FY2010).

SAIL:

- ✓ SAIL is India's largest domestic steel producer and one of the biggest corporate turnarounds in India's incorporation.
- ✓ It would be default beneficiary of steel price hike on account of iron ore due to its captive mines.
- ✓ Gigantic investment plan of Rs.530 bn to increase its capacity to 26 MT from 14.5 MT by 2010.
- ✓ Virtually Debt-free company
- ✓ It has taken other initiative like JV with JP Associates Ltd for cement production

Sterlite Industries:

- ✓ The company is in the middle of setting up 2,400 MW power plant in Orissa
- ✓ The acquisition of remaining stake in BALCO and HZL would be the major trigger for the company as it would be EPS accretive.
- ✓ Sterlite is increasing its zinc capacities by 258,000 TPA to 669,000 TPA through HZL.
- ✓ The cost reduction initiative in metals like aluminium and zinc would reduce per unit cost by 10%-15%.

Tata Steel:

- ✓ Tata Steel has embarked a huge expansion plan to boost its capacity from 25 MT to 40 MT by FY2012.
- ✓ Corus is expected to add significant value to the firm in long term as cost reduction initiative and raw material linkages would increase the margin substantially
- ✓ It has formed several JVs and agreements in abroad on raw materials like power, coal, coking coal, ferro chrome and iron ore. These projects would start generating results in next 2-3 years.

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
JSW Steel	85,944	100,495	152,769	28,168	31,359	45,902	12,920	16,610	23,314	78.8	101.3	135.5
SAIL	344,680	381,636	489,677	95,689	117,855	144,496	62,023	75,585	95,317	15.0	18.3	23.1
Sterlite Inds	243,868	232,412	248,661	94,589	75,703	84,034	44,842	40,294	42,381	63.3	56.9	59.8
Tata Steel	175,520	1,306,496	1,502,470	69,733	183,670	218,733	42,222	64,451	95,002	69.4	88.2	130.0

	EBITDA Margin (%)			Net Margin (%)			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
JSW Steel	32.8%	31.2%	30.0%	15.0%	16.5%	15.3%	23.7%	21.3%	21.5%	23.1%	23.3%	25.6%
SAIL	27.8%	30.9%	29.5%	18.0%	19.8%	19.5%	30.4%	30.9%	31.7%	35.8%	33.0%	31.7%
Sterlite Inds	38.8%	32.6%	33.8%	18.4%	17.3%	17.0%	64.0%	29.6%	28.7%	44.9%	18.5%	16.6%
Tata Steel	39.7%	14.1%	14.6%	24.1%	4.9%	6.3%	36.8%	19.2%	19.4%	29.2%	14.3%	13.9%

Company	Equity	Mkt Cap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
JSW Steel	1,640	146,835	1,390	436	-35.6%	887.65	0.9%	896	8.6	2.8	1,355	51.3%
SAIL	41,304	815,961	293	101	-32.6%	205.35	-3.8%	198	11.6	4.7	254	28.6%
Sterlite Inds	1,417	502,681	1,140	415	-37.8%	783.03	-9.4%	710	58.6	4.0	1,041	46.7%
Tata Steel	6,081	387,542	970	372	-34.3%	714.05	-10.7%	637	10.6	2.5	1,155	81.2%

CMP as on 19th March 2008

Oil & Gas

- ✓ To meet the projected increase in world oil demand, total petroleum supply in 2030 will need to be 38 mbpd higher than the 2003 level of 80 mbpd. India is expected to consume additional 2.2 mbpd. The oil production is in a stabilized phase however, production of natural gas is expected to double within two years. We believe crude prices have to stabilize at $75 in the long term. The current rally is completely due to speculation and not a demand supply imbalance. The slowdown expected to be witnessed in US will reverse the movement of crude
- ✓ Most of the domestic capacity additions in refineries are expected to be EOUs which makes them entitled for tax benefits. The refining capacity is expected to grow by 50% .The refining margins are expected to be sustainable in the near future.
- ✓ There is enough room for growth for natural gas transmission and distribution activities. The twofold growth of the production has sufficient demand to be met. This would ensure better capacity utilization and increased realization in distribution and transmission business

Top Picks

Indraprastha Gas:

- ✓ Hike in fuel prices will result into more consumers converting their vehicles to CNG based
- ✓ Consistent growth: The company is expected to report consistent growth in volumes as wells as earnings. Management targets to add 10-12 stations every year and 35,000 customers for PNG every year.
- ✓ Private are increasingly beginning to convert to CNG as the economics are in its favor
- ✓ Incremental demand generated from new users such as the Northern Railways and introduction of radio taxis & high capacity buses for the Commonwealth Games
- ✓ Assured supply of gas from holding company GAIL.

Cairn India:

- ✓ The operational update suggests approx. 25% upgrade in plateau production rate and a commensurate rise in reserves in its main Rajasthan block.
- ✓ Potential upside to MBA reserves, clarity on which is likely in March 2008
- ✓ Production from MBA fields could be more than 150,000 barrels per day (as disclosed) due to upgradation.
- ✓ Higher crude prices ($75 per barrel)
- ✓ Law ministry has given an in-principle approval to pipeline cost recovery being allowed

Oil & Natural Gas Corporation (ONGC):

- ✓ Subsidy burden rationalization expected in near term.
- ✓ Higher crude prices ($75 per barrel)
- ✓ Government decision upon the gas pricing issue for APM based contracts expected to be in favour of ONGC
- ✓ Further scope of upside in OVL on assurance of further discoveries.

Reliance Industries (RIL):

- ✓ There is a scope for value unlocking in exploration and retail business indicating further upside.
- ✓ Further upside can be seen on the exploration front with new finds/discoveries at Cauvery basin and NEC-25 coast GRMs expected to stabilize at $13 per barrel.
- ✓ Reliance petroleum refinery being on schedule will report higher GRM since other expansions in the industry are being delayed.
- ✓ Reliance retail is on an expansion spree

GAIL (India):

- ✓ Higher supply to ensure better capacity utilization
- ✓ Capacity expansion parallel to increase in production
- ✓ Any delays in implementation schedule of Gujarat State Petronet Limited (GSPL) and Reliance Gas Transportation Infrastructure Limited (RGTIL) would be further boost for GAIL as it would be primary beneficiary
- ✓ Petrochemical margins to improve
- ✓ Going global

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Cairn India *	9,931	35,399	101,811	5,723	27,174	89,483	2,589	21,896	71,752	0.9	12.0	39.3
GAIL (India)	160,472	173,605	215,920	35,346	41,312	51,388	23,867	24,542	29,737	28.2	29.0	35.2
IGL	6,141	6,927	7,938	2,662	2,996	3,466	1,380	1,414	1,630	9.9	10.1	11.6
ONGC	566,414	594,377	708,551	338,206	367,797	477,138	156,429	184,203	251,223	73.1	86.0	117.5
Reliance Inds	1,116,927	1,269,608	1,330,555	205,245	299,383	370,800	119,434	199,699	248,781	76.0	127.1	158.4

	EBITDA Margin			PAT Margin			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Cairn India *	57.6%	76.8%	87.9%	26.1%	61.9%	70.5%	1.2%	7.0%	18.7%	0.9%	6.9%	18.4%
GAIL (India)	22.0%	23.8%	23.8%	14.9%	14.1%	13.8%	21.1%	20.4%	17.6%	21.0%	17.7%	16.0%
IGL	43.3%	43.3%	43.7%	22.5%	20.4%	20.5%	40.9%	35.1%	32.0%	29.5%	23.2%	21.2%
ONGC	59.7%	61.9%	67.3%	27.6%	31.0%	35.5%	28.4%	29.6%	33.8%	25.3%	24.8%	27.6%
Reliance Inds	18.4%	23.6%	27.9%	10.7%	15.7%	18.7%	15.9%	20.4%	20.1%	18.7%	25.0%	21.3%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
Cairn India *	17,653	392,603	269	121	-17.2%	188	18.3%	222	-	1.4	297	33.5%
GAIL (India)	8,457	352,826	555	256	-24.8%	391	6.7%	417	13.8	3.1	542	29.9%
IGL	1,400	17,360	183	89	-32.1%	134	-7.3%	124	10.4	3.7	214	72.6%
ONGC	21,389	2,122,644	1,387	756	-28.4%	1,025	-3.2%	992	12.9	2.0	1,580	59.2%
Reliance Inds	14,532	3,137,531	3,252	1,262	-33.6%	2,334	-7.5%	2,159	22.5	5.1	3,341	54.7%

Note: Cairn India – Year end December 2008, 2009 and 2010

CMP as on 19th March 2008

Power

- ✓ The huge power shortage in India is driving power utilities to aggressively add power capacity. Moreover, efficient manufacturers of power are moving towards merchant power plants as these plants offer unregulated returns. Also, the government is pushing for UMPPs for huge capacity additions at lower tariffs to consumers. Similarly, PGCIL is driving expansion of inter-regional transmission capacity to improve regional connectivity of power through own and private participation. We believe power utilities will witness explosive growth with their huge generation as also transmission capacity addition plans.
- ✓ The government has undertaken an ambitious initiative under which it strives to provide "power for all by 2012". Accordingly, the Xth 5-Year Plan (FY03-07) witnessed an increase of 23,250MW (57% of the targeted) in capacity. Going forward, the XIth Plan (FY08-12) envisages a capacity addition of appr 75000MW and the XIIth Plan (FY13-17) a capacity addition of 86,500MW. Generation
- ✓ The Ministry of Power and Government of India have launched an initiative for the development of coal-based UMPPs in India, each with a capacity of 4,000MW. The projects are being developed with a view to lower the cost of power to consumers. These projects would adopt supercritical technology to reduce emissions and would be environment-friendly. UMPPs would be awarded to developers

Top Picks

NTPC

- ✓ NTPC is building a platform for faster growth, with 64% growth in FY08E capex.
- ✓ Capacity additions, higher utilization rates & efficiency gains led by increased fuel security are going to be the catalysts.
- ✓ Internal accruals and cash availability would provide cushion.

Power Grid

- ✓ It is expected to double its transmission assets in the next four-five years and we believe it will further leverage them to provide various telecom infrastructure.
- ✓ Aggressive outlay for 11th plan in power generation will make power grid default beneficiary for transmission.
- ✓ Company has increased its inter-regional power transfer capacity from 13,700 MW to 17,000 MW. It has added about 4,800 ckt kms, 8 new sub-stations, and around 7,200 MVA of transformation capacity.
- ✓ It is expected to lease close to 25,000 transmission towers to mobile operators in the next three years. Under such an arrangement, any additional capital investment for tower conversion will be undertaken by the mobile operators, and PGCIL will receive lease rental from these telecom companies

Tata Power

- ✓ Higher visibility over the implementation of its power projects and backward integration in coal production
- ✓ Expect power generation capacity to grow five times in the next five years.
- ✓ In addition to its acquisition of a strategic stake in Indonesian coal mines, the Ministry of Coal has allocated coal mines in India to the company, which should reduce its fuel costs substantially. The coal mines are expected to be operational by the end of FY11

Financial Summary

(Rs Mln)	Sales			EBITDA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
NTPC	338,392	379,842	441,548	129,492	148,138	176,619	68,944	81,654	91,542	8.4	9.9	11.1
Power Grid	35,899	42,586	58,974	29,592	50,698	69,381	10,976	16,541	19,225	2.9	3.9	4.6
Tata Power	64,772	71,253	76,589	7,650	8,907	9,957	7,591	7,215	8,142	31.4	29.9	33.7

	EBITDA Margin (%)			PAT Margin (%)			ROCE (%)			ROE (%)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
NTPC	38.3%	39.0%	40.0%	20.4%	21.5%	20.7%	14.3%	14.4%	15.2%	14.2%	14.4%	13.9%
Power Grid	82.4%	119.0%	117.6%	8.9%	8.0%	7.3%	8.5%	7.7%	8.5%	10.3%	9.9%	12.1%
Tata Power	11.8%	12.5%	13.0%	11.7%	10.1%	10.6%	3.4%	3.4%	2.9%	14.0%	11.8%	11.7%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
NTPC	82,455	1,577,356	291	138	-34.3%	202	-5.4%	191	20.2	3.2	244	27.7%
Power Grid	42,088	392,471	167	80	-44.2%	-	-	93	32.5	3.0	114	22.5%
Tata Power	2,189	230,381	1,641	491	-35.9%	1,031	2.1%	1,052	37.5	3.2	1,280	21.6%

CMP as on 19th March 2008

Telecom

Sector Outlook: Positive

The Indian telecom sector becomes the fastest growing market in the world, adding over 8 million subscribers in a month, by surpassing China. Investors concerns of tariff war and increased cost of operations remain; we believe lower regulatory costs, benefits of economies of scale, infrastructure sharing would help margin positively.

Reasons to be positive on the sector

- ✓ **Valuation:** Favorable demographics, rising disposable income, lower penetration level, faster technology adoption, and demand for other value-added services would augur well for the sector. We believe stocks are available at attractive levels after recent correction.
- ✓ **Subscriber addition momentum to continue:** In the last 12 months, the sector has added over 90 million subscribers. The tele-density reached 24.6% in Jan 2008 as compared to 17.5% in Jan 2007. We expect low penetration level, large untapped population with rising aspirations and income level would keep growth momentum intact.
- ✓ **Rising per capita income and favorable demographics would augur well:** Per capita income is rising steadily and with lower tax incidence from the coming financial year will result into higher disposable income which would drive the usage and affordability. The proportion of India's working population (between 15-64 years age group) is over 60% and is growing.

Challenges

- ✓ **Rising Competition:** Recently government has allotted licenses to new entrants which would intensify competition and could lead to tariff war.
- ✓ **Changes in regulatory landscape:** Lack of clarity on the issues of Spectrum allocation, likely hike in spectrum charges, DoTs' comments on preferred tariff level might affect sentiments.
- ✓ **Introduction of number portability:** It can lead to high customer attrition rate, as the inability to retain a telephone number is currently a significant exit barrier for a customer in the intensely competitive market. Implementation of number portability will put pressure on margins as operators could cut prices to retain and attract subscribers. The company needs to invest in implementation and maintenance of systems to provide this facility that will increase capital expenditures and expenses.

Top Picks:

Bharti Airtel:

- ✓ **Market leadership to continue:** Bharti, a leader in the domestic telecom market, will be primary beneficiary of anticipated robust growth momentum. We believe strong management, expanding national footprint, innovative products, wide distribution and strong brand name will enable it to manage its market share.
- ✓ **Increasing usage with change in usage pattern:** Introduction of calling-party-pays, coupled with affordability and fixed-to-mobile usage shift has driven a rise in mobile usage and also quality of usage pattern as outgoing minutes of usage has shown steady growth rate and also increased usage of non-voice services. We believe this trend could stabilize ARPU, which could help company to improve its margin by operational efficiencies.
- ✓ Value unlocking through listing of Tower business

Reliance Communications (RCom):

- ✓ **Well-diversified revenues:** Rcom is uniquely positioned across the voice and data spectrum. Recently it received a license to roll out GSM services across India. It currently derives substantial revenues from the wireless business and global ILD and broadband businesses. We expect income from fixed line and broadband to grow significantly as a source of revenue in the coming years.
- ✓ **Growing in CDMA while exploring GSM opportunities:** We expect the company to maintain its market share ~20% despite stiff competitions from other players. The company stated its intention to grow GSM operations if it is able to secure sufficient spectrum from the authority.
- ✓ **Growth coupled with improvement in margins:** The Company has managed 43% EBIDTA margin in first 9 months of FY2008. We believe benefits of economies of scale, higher usage of value-added services, operational efficiencies would support margin going forward. Any cut in ADC and license fees could improve margin as they account for ~22% of revenues. The Company has yet to realize the benefits of higher utilization of its network infrastructure (especially in broadband); we believe increase in traffic across the segment would improve utilization which would result into margin improvement.

Financial Summary

(Rs Mln)	Sales			EBIDTA			PAT			EPS (Rs)		
Company	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Bharti	185,197	268,072	356,623	74,508	113,065	150,365	42,572	67,401	88,309	22.5	35.5	46.6
R Com	144,683	189,206	245,696	57,213	80,886	105,158	31,945	53,887	64,584	15.5	26.4	31.6

Company	ROE			ROCE			EBIDTAM			PATM		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Bharti	37.4%	39.8%	35.7%	27.1%	32.7%	33.8%	40.2%	42.2%	42.2%	23.0%	25.1%	24.8%
R Com	19.7%	23.3%	22.3%	9.9%	10.8%	10.2%	39.5%	42.8%	42.8%	21.9%	28.5%	26.3%

Company	Equity	MCap	52-Week (Rs)		Away from	200	Away from	CMP	Curr.	Curr.	Target	Upside
	(Rs Mln)		Hi	Lo	52 Wk Hi	DMA	200 DMA	(Rs)	P/E	P/BV	Price (Rs)	(%)
Bharti	18,978	1,433,151	1,184	628	-36.2%	894	-15.5%	755	23.09	7.80	1,030	36.4%
R Com	10,314	1,014,108	845	377	-41.8%	621	-20.8%	492	20.40	4.22	660	34.3%

CMP as on 19th March 2008

INDIA

EQUITY RESEARCH	TEL. NO. +91 22 4076 7373		FAX +91 22 4076 7377/78
Name	**Designation**	**Sectors**	**E-mail**
Ashok Jainani	VP, Head Research	Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Research Analyst	IT , Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals, Cement	giriraj@kslindia.com
Vivek Patil	Research Analyst	FMCG, Retail	vivek.patil@kslindia.com
Harshul Verma	Research Associate	Automobiles, Capital Goods	harshul.verma@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com

EQUITY DEALING	TEL NO. +91 22 4076 7343/44/45		FAX NO. +91 22 4076 73 77/78
Prakash Rajdev	Chief Dealer	Equity & Derivatives	prakashrajdev@kslindia.com
Biranchi Sahu	Head	Equity Institutional	bsahu@kslindia.com
Sweedel A. Colaco	Dealer	Equity Institutional	sweedel@kslindia.com
Sanjay K Thakur	President	Sales & Marketing	thakursk@kslindia.com
Subroto Duttaroy	Gen. Manager	Equity & Portfolio Mgmt. Ser.	subroto@kslindia.com

BRANCH OFFICE (PUNE)	TEL NO. +91 20 2567 1404		FAX NO. +91 20 2567 1405
Ajay G Laddha	Vice President		ajay@kslindia.com

Corporate Office:
Vikas Building, Ground Floor,
Green Street, Fort,
MUMBAI 400 023.
Tel. No. (91) (22) 4076 7373
Fax No. (91) (22) 4076 7377/78
E-mail: research@kslindia.com

Web site: www.kslindia.com

Branch Office:
C8/9, Dr. Herekar Road,
Off. Bhandarkar Road,
PUNE 411 004
Tel. No. (91) (20) 2567 1404/06
Fax. No. (91) (20) 2567 1405
Email: pune@kslindia.com

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