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News Roundup

Corporate

- Bajaj Auto to consider demerger on May 17. The proposal is to split the the company into a manufacturing company and a finance entity that would include the financial investments and the insurance business. (BL)
- E&Y in a report to PFC has disqualified Globeleq – Lanco consortium from the Sasan power project stating that it doesn't meet the requirements as per the RFQ and RFP (FE)
- Tata Steel is n race to acquire majority stake in an integrated steel plant in Vietnam. Other competitors include Baosteel of China and Evraz of Russia. The project which could attract Rs140 bn as investment will have local enterprises as minority partners. Tata Steel if is wins the bid would have to shell out over Rs70 bn. (BS)
- Government sold its remaining 10.3% stake in Maruti for Rs23.6 bn to a clutch of Financial Institutions. LIC bagged the major portion of the stake sale bagging 4.4% shares at Rs800 per share increasing its total stake to 12.5%. (BS)

Economic and political

- TRAI has proposed new norms that would make net surfing costlier. The proposal includes levying a uniform license fee of 6% of revenues and reducing the FDI limit to 74% from the current 100%. It also proposed entry fee of Rs2 mn for nationwide license and Rs1 mn for state wise license for the ISPs. (ET)
- Government plans to lower the bar on launching international services by waiving off the mandatory five-year experience in domestic circuit. It is also planning to open up the Gulf market to private airlines by 2008 (ET)
- Government is working on a proposal under which people giving up their land in SEZs could get upto 20% of the rehabilitation grant in the form of shares of the company acquiring the land. (BL)
- SEBI proposes to ask stock exchanges to put circuit filters on the first day of listing for companies with issue size upto Rs2 bn (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	10-May	1-day	1-mo	3-mo
Sensex	13,771	(0.1)	4.5	(5.3)
Nifty	4,067	(0.3)	5.3	(2.9)
Global/Regional indices				
Dow Jones	13,215	(1.1)	5.9	5.0
Nasdaq Composite	2,534	(1.7)	3.0	3.0
FTSE	6,524	(0.4)	1.7	2.2
Nikkei	17,493	(1.4)	(1.0)	(0.1)
Hang Seng	20,428	(1.5)	(0.1)	(1.2)
KOSPI	1,586	(0.8)	4.8	11.1
Value traded - India				
		Moving avg, Rs bn		
	10-May	1-mo	3-mo	
Cash (NSE+BSE)	131.9	129.2	124.7	
Derivatives (NSE)	311.1	220.5	322.2	
Deri. open interest	518.6	474.4	603.6	

Forex/money market

	Change, basis points			
	10-May	1-day	1-mo	3-mo
Rs/US\$	41.3	(11)	(154)	(285)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.1	2	6	30

Net investment (US\$m)

	9-May	MTD	CYTD
FIs	6	1,257	40
MFs	(28)	233	(303)

Top movers -3mo basis

Best performers	Change, %			
	10-May	1-day	1-mo	3-mo
Britannia	1,576	6.1	28.1	33.1
Balaji Telefilms	165	0.4	13.4	28.1
Castrol India	283	4.0	26.1	25.9
GESCO	261	1.6	19.2	24.6
i-Flex	2,321	(0.4)	7.5	19.2
Worst performers				
Polaris	164	(1.2)	(8.6)	(25.5)
Ashok Leyland	37	(0.4)	0.9	(21.6)
Tata Motors	714	(1.2)	(1.0)	(21.1)
Ingersoll Rand	288	0.9	6.8	(20.5)
Arvind Mills	45	(0.9)	(5.0)	(20.3)

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Automobiles

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		10-May	Target
Hero Honda	U	705	625
Bajaj Auto	OP	2,609	2,860
Tata Motors	OP	714	925
Maruti	OP	795	910
Mah & Mah	OP	744	1,000
Ashok Leyland	IL	37	40
TVS Motor	U	61	55
Bharat Forge	OP	345	390

Freight rates remain stable in April after the sharp rise in March

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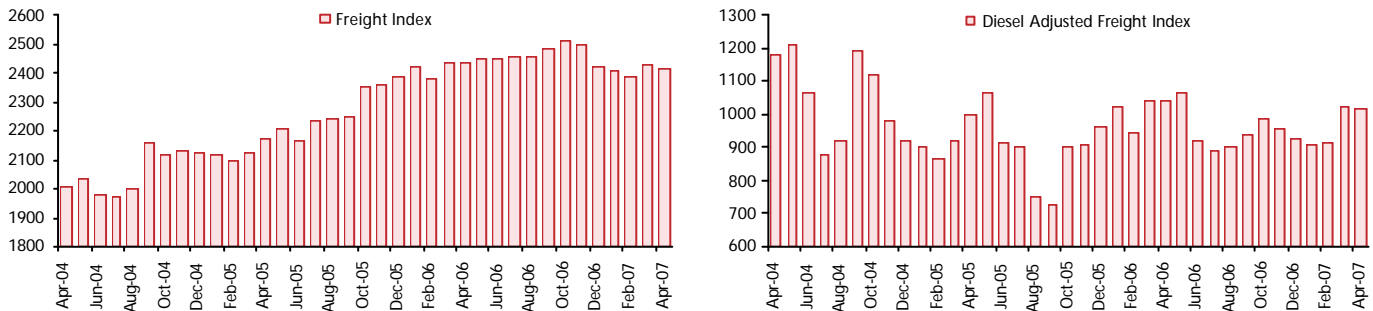
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- **Freight rates remain stable in April after the sharp rise in March**

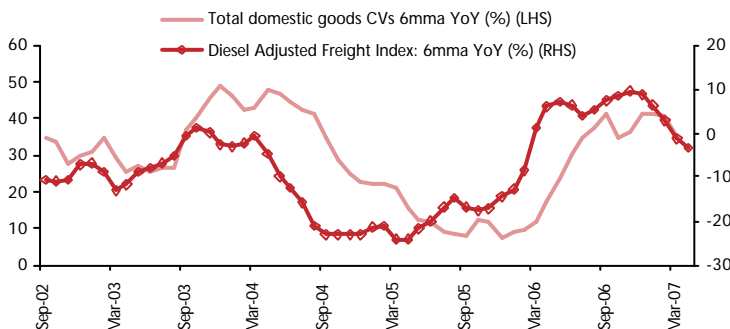
Freight rates in India remained stable in April after seeing a sharp rise in March. Our freight index is down just 0.3% mom in April while our diesel adjusted freight index is down 1.0% mom. We had attributed the sharp 1.6% rise in freight rates in March to the 'March effect' when overall economic activity in the country is at its peak leading to a sharp increase in freight on roads during the month. We were expecting a bigger drop in freight rates in April. Consequently the relatively stable freight rate behavior during the month is a positive, in our view. Our current FY2008 estimates for Tata Motors and Ashok Leyland factor in a domestic growth of 2.5% for M&HCVs and 10% for LCVs. We note that M&HCV sales for the month of April have disappointed with Tata Motors reporting a 10% yoy decline and Ashok Leyland reporting just a 1% growth. In our view, if overall economic activity and freight demand remains strong, then any over-supply situation in the heavy truck industry will get corrected by 2HFY2008 and industry growth will improve thereafter.

Description of our proprietary Freight Index

We track freight rates across 26 routes in India using our proprietary freight index (FI). We adjust the freight rates for diesel prices and arrive at a "Diesel adjusted freight index" (DAFI), which is a measure of the operating profitability of freight operators. Historically, our DAFI has been a good leading indicator to CV industry growth rates. DAFI growth rates have historically risen and fallen ahead of CV cycle upturns and downturns respectively.

Our freight index is down 0.3% mom while diesel adjusted freight index is down 1.0% mom in April

Source: Kotak Institutional Equities

Our diesel adjusted freight index has historically been a good leading indicator for the CV cycle

Source: SIAM, Kotak Institutional Equities

Automobiles

Sector coverage view Attractive

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Hero Honda	U	705	625
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Tata Motors	OP	714	925
Maruti	OP	795	910
Mah & Mah	OP	744	1,000
Ashok Leyland	IL	37	40
TVS Motor	U	61	55
Bharat Forge	OP	345	390

Automobiles: Divergent trends in the auto sector in April

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- **2Ws: Motorcycle growth dips further as dealer inventory reduction assumes top priority**
- **3Ws: Weak growth trend continues—bad news for Bajaj Auto's margins**
- **Cars & UVs: Better-than-expected growth despite rising interest rates; small cars outperform**
- **CVs: Heavy truck sales under pressure but LCVs continue to surpris**

The Indian auto sector has started FY2008 on an overall soft note but with divergent trends across sub-segments in a period of rising interest rates. Cars, utility vehicles and light commercial vehicles have outperformed growing 12%, 11% and 21% yoy in April respectively. However, M&HCVs, 3Ws and motorcycles underperformed declining 3%, 4% and 10% yoy in April respectively.

2Ws: Motorcycle growth dips further as dealer inventory reduction assumes top priority

Industry 2W sales for the month of April declined 6% yoy largely driven by a 10% decline in motorcycle sales. Hero Honda's market share grew 230 bps mom to 55.2% while Bajaj Auto saw its market share rising 40 bps mom to 27.3%, both gaining at the expense of TVS Motor. In our view, both Bajaj Auto and TVS Motor are cutting dispatches to dealers to alleviate high inventory levels at the dealer's end, something that Hero Honda is not yet doing. Our estimates for the 2W companies are based on domestic motorcycle industry growth of 10%, which now has downside risk.

3Ws: Weak growth trend continues —bad news for Bajaj Auto's margins

Industry 3W sales declined 4% yoy in April largely due to 9% yoy drop in goods 3W sales. Goods 3W sales have been coming under pressure in recent months due to competition from Tata Motors' 'Ace' and M&M's 'Maxx Pick-up' truck. Bajaj Auto's 15% total 3W growth in April was entirely driven by exports, which rose 57% yoy. The company saw 13% and 24% yoy declines in domestic passenger and goods 3Ws respectively. Bajaj Auto also lost 290 bps market share in 3Ws on a mom basis. Our estimates for Bajaj Auto and M&M are based on domestic 3W industry growth of 0%, which now has downside risk. This does not bode well for Bajaj Auto's margins as 3Ws are the company's most profitable product.

Cars & UVs: Better-than-expected growth despite rising interest rates; small cars outperform

Industry car sales grew a better-than-expected 12% yoy in April despite the sharp rise in interest rates. However, compact cars outperformed with 18% yoy growth for the month versus mid-size cars, which declined 14% yoy. Most of the growth was contributed by Maruti and Tata Motors who reported 17% and 22% domestic growth respectively. Hyundai's growth, however, was lacklustre at 5% yoy. Industry UV sales, too, grew a respectable 11% yoy in April. Our FY2008 estimates for Maruti, Tata Motors and M&M are based on domestic car industry growth of 8% and UV growth of 10%. We don't see risk to these estimates as yet.

CVs: Heavy truck sales under pressure but LCVs continue to surprise

Industry CV sales grew 7% yoy in April. LCVs outperformed growing 21% yoy versus M&HCVs, which declined 3% yoy. Within M&HCVs, goods carriers saw a decline of 8% while buses grew 60% yoy in April. Both medium commercial vehicles (MCVs) and multi-axle vehicles (MAVs) saw 8% decline during the month. This, in our view, is surprising since MAVs have grown much faster than MCVs in FY2007. LCV sales growth was robust at 21% driven by strong demand for Tata Motors 'Ace'. Our estimates for Tata Motors and Ashok Leyland are based on domestic M&HCV industry growth of 2.5% and LCV growth of 10%. We see some downside risk to the former and upside risk to the latter.

Automobile Industry Summary: April 2007

	YOY			MOM			YTD		
	Apr-07	Apr-06	% chg yoy	Apr-07	Mar-07	% chg mom	FY2008	FY2007	% chg yoy
Industry: domestic sales (units)									
Scooters	72,369	65,679	10.2	72,369	87,515	(17.3)	72,369	65,679	10.2
Motorcycles	463,091	512,381	(9.6)	463,091	517,334	(10.5)	463,091	512,381	(9.6)
Mopeds	33,343	27,121	22.9	33,343	35,489	(6.0)	33,343	27,121	22.9
Total two-wheelers	570,381	606,181	(5.9)	570,381	640,338	(10.9)	570,381	606,181	(5.9)
Three-wheelers	25,545	26,595	(3.9)	25,545	34,883	(26.8)	25,545	26,595	(3.9)
M&HCVs	17,661	18,113	(2.5)	17,661	28,812	(38.7)	17,661	18,113	(2.5)
LCVs	13,175	10,854	21.4	13,175	20,433	(35.5)	13,175	10,854	21.4
Total CVs	30,836	28,967	6.5	30,836	49,245	(37.4)	30,836	28,967	6.5
Passenger cars	89,052	79,592	11.9	89,052	122,856	(27.5)	89,052	79,592	11.9
Utility vehicles	16,910	15,179	11.4	16,910	27,218	(37.9)	16,910	15,179	11.4

Company: domestic sales (units)

Hero Honda: motorcycles	255,408	234,656	8.8	255,408	273,452	(6.6)	255,408	234,656	8.8
Bajaj Auto: motorcycles	126,494	165,811	(23.7)	126,494	139,460	(9.3)	126,494	165,811	(23.7)
Bajaj Auto: three-wheelers	10,244	12,151	(15.7)	10,244	14,984	(31.6)	10,244	12,151	(15.7)
TVS Motor: motorcycles	48,058	76,285	(37.0)	48,058	66,454	(27.7)	48,058	76,285	(37.0)
Maruti: passenger cars	48,444	41,400	17.0	48,444	64,284	(24.6)	48,444	41,400	17.0
Tata Motors: passenger cars	13,502	11,080	21.9	13,502	19,651	(31.3)	13,502	11,080	21.9
Tata Motors: M&HCVs	10,375	12,117	(14.4)	10,375	17,673	(41.3)	10,375	12,117	(14.4)
Tata Motors: LCVs	9,214	7,557	21.9	9,214	13,047	(29.4)	9,214	7,557	21.9
Ashok Leyland: M&HCVs	5,463	4,733	15.4	5,463	7,936	(31.2)	5,463	4,733	15.4
M&M: utility vehicles	7,201	6,583	9.4	7,201	11,287	(36.2)	7,201	6,583	9.4

Domestic market shares (%)

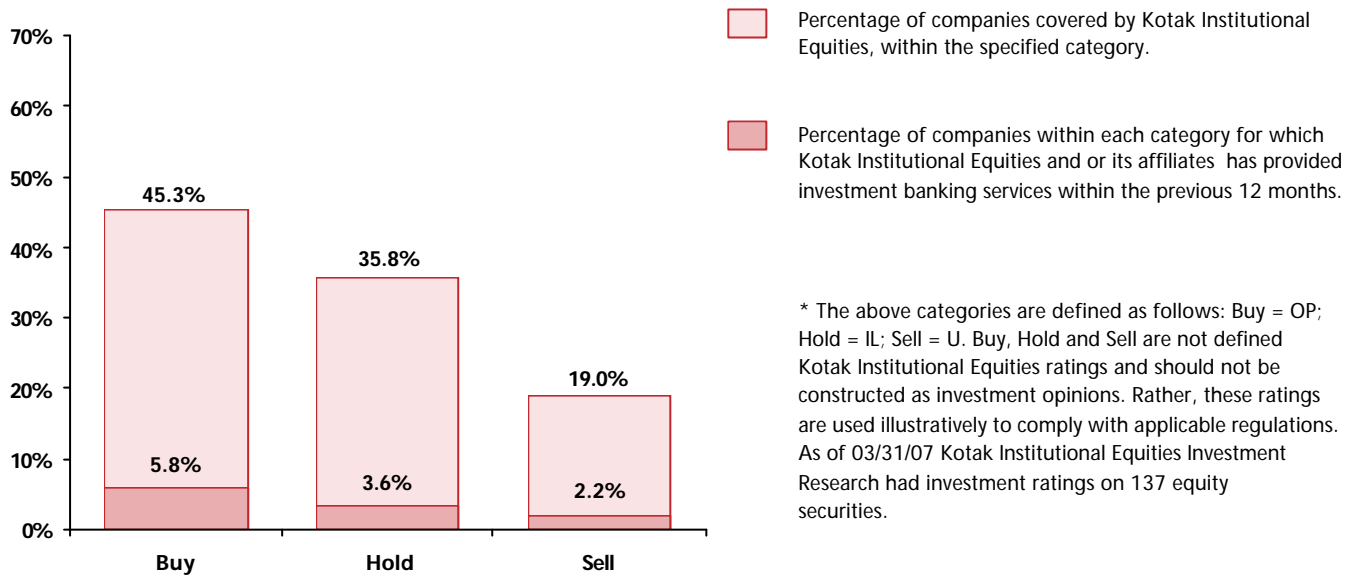
Hero Honda: motorcycles	55.2	45.8	9.4	55.2	52.9	2.3	55.2	45.8	9.4
Bajaj Auto: motorcycles	27.3	32.4	(5.0)	27.3	27.0	0.4	27.3	32.4	(5.0)
Bajaj Auto: three-wheelers	40.1	45.7	(5.6)	40.1	43.0	(2.9)	40.1	45.7	(5.6)
TVS Motor: motorcycles	10.4	14.9	(4.5)	10.4	12.8	(2.5)	10.4	14.9	(4.5)
Maruti: passenger cars	54.4	52.0	2.4	54.4	52.3	2.1	54.4	52.0	2.4
Tata Motors: passenger cars	15.2	13.9	1.2	15.2	16.0	(0.8)	15.2	13.9	1.2
Tata Motors: M&HCVs	58.7	66.9	(8.2)	58.7	61.3	(2.6)	58.7	66.9	(8.2)
Tata Motors: LCVs	69.9	69.6	0.3	69.9	63.9	6.1	69.9	69.6	0.3
Ashok Leyland: M&HCVs	30.9	26.1	4.8	30.9	27.5	3.4	30.9	26.1	4.8
M&M: utility vehicles	42.6	43.4	(0.8)	42.6	41.5	1.1	42.6	43.4	(0.8)

Source: SIAM

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Source: Kotak Institutional Equities.

As of March 31, 2007

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