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October 2007

MARKET GETS PROPELLED TO FAST TRACK

Reduced US Fed rates push the market to new highs

STOCK Idea

- BL Kashyap & Sons
- Jindal Saw

VIEW Point

- Great Offshore
- Gujarat NRE Coke

STOCK Updates

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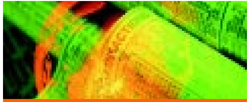
STOCK IDEAS STANDING (AS ON OCTOBER 01, 2007)														
COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 01-OCT-07	GAIN-LOSS (%)	ABSOLUTE PERFORMANCE				RELATIVE TO SENSEX			
							1M	3M	6M	12M	1M	3M	6M	12M
EVERGREEN														
HDFC Bank	358.0	1,694.0	23-Dec-03	Buy	1,404.0	292.2	22.9	25.8	52.6	56.5	8.8	6.3	14.5	11.4
Infosys Technologies	689.1	2,440.0	30-Dec-03	Buy	1,893.1	174.7	2.2	-1.7	-5.4	3.2	-9.5	-16.9	-29.0	-26.5
Reliance Ind	567.0	**	5-Feb-04	Buy	2,289.4	303.8	17.2	35.0	67.8	97.7	3.8	14.1	25.9	40.7
Tata Consultancy Services	852.5	1,425.0	6-Mar-06	Buy	1,038.6	21.8	-0.8	-7.8	-13.7	4.6	-12.1	-22.1	-35.2	-25.5
APPLE GREEN														
ACC	260.0	1,300.0	10-Aug-04	Buy	1,209.9	365.3	12.1	29.3	64.3	24.0	-0.7	9.2	23.3	-11.8
Aditya Birla Nuvo	714.0	1,600.0	6-Dec-05	Buy	1,574.1	120.5	9.6	13.5	43.2	82.1	-3.0	-4.1	7.5	29.7
Apollo Tyres	34.4	47.0	28-Nov-06	Buy	40.1	16.6	-3.7	22.5	39.7	22.4	-14.7	3.5	4.8	-12.8
Bajaj Auto	1,873.0	2,550.0	15-Nov-05	Buy	2,484.1	32.6	8.3	19.3	6.7	-13.7	-4.1	0.8	-19.9	-38.5
Bank of Baroda	239.0	400.0	25-Aug-06	Buy	332.4	39.1	22.0	20.9	53.3	16.1	8.1	2.1	15.1	-17.3
Bank of India	135.0	325.0	25-Aug-06	Buy	278.0	105.9	13.2	19.0	66.1	73.7	0.2	0.5	24.6	23.6
Bharat Bijlee	192.3	2,900.0	29-Nov-04	Buy	2,613.4	1,259.0	9.8	20.8	114.5	122.8	-2.8	2.0	60.9	58.6
Bharat Electronics	1,108.0	1,975.0	25-Sep-06	Buy	1,829.2	65.1	9.3	1.4	23.6	61.3	-3.2	-14.4	-7.3	14.8
Bharat Heavy Electricals	1,203.0	2,450.0	11-Nov-05	Buy	1,990.1	65.4	7.6	32.6	80.4	71.4	-4.7	12.0	35.4	22.0
Bharti Airtel	625.0	1,100.0	8-Jan-07	Buy	942.3	50.8	7.0	12.6	23.3	100.7	-5.3	-4.9	-7.5	42.9
Canara Bank	213.0	315.0	25-Aug-06	Buy	283.1	32.9	14.0	3.2	46.8	0.6	1.0	-12.8	10.2	-28.4
Corp Bank	218.0	422.0	19-Dec-03	Buy	390.3	79.0	17.1	19.7	38.6	-3.4	3.7	1.1	4.0	-31.2
Crompton Greaves	88.1	355.0	19-Aug-05	Buy	346.6	293.2	8.9	31.4	66.8	90.5	-3.6	11.0	25.2	35.6
Elder Pharma	298.0	508.0	26-Apr-06	Buy	431.2	44.7	13.3	1.0	4.9	19.0	0.3	-14.7	-21.3	-15.3
Grasim	1,119.0	**	30-Aug-04	Buy	3,599.5	221.7	19.7	33.2	68.0	41.3	6.0	12.5	26.1	0.6
Hindustan Unilever	172.0	280.0	24-Nov-05	Buy	222.4	29.3	5.2	17.9	10.1	-11.8	-6.9	-0.4	-17.4	-37.2
HCL Technologies	103.0	395.0	30-Dec-03	Buy	294.9	186.3	-1.2	-12.8	3.6	11.8	-12.5	-26.4	-22.3	-20.4
ICICI Bank	284.0	1,173.0	23-Dec-03	Buy	1,058.1	272.6	20.2	11.3	26.0	53.8	6.4	-6.0	-5.5	9.5
Indian Hotel Company	76.6	180.0	17-Nov-05	Buy	135.3	76.6	8.8	-7.2	-3.9	0.9	-3.7	-21.6	-27.9	-28.2
ITC	69.5	200.0	12-Aug-04	Buy	186.0	167.6	11.2	25.1	28.7	3.1	-1.5	5.7	-3.5	-26.6
Lupin	403.5	840.0	6-Jan-06	Buy	598.4	48.3	-0.1	-19.4	-2.5	28.0	-11.5	-31.9	-26.9	-8.9
M&M	232.0	900.0	1-Apr-04	Buy	759.2	227.2	6.0	4.5	-3.2	12.1	-6.1	-11.7	-27.3	-20.2
Marico	7.7	70.0	22-Aug-02	Buy	61.0	692.2	5.2	10.4	-0.6	18.3	-6.9	-6.7	-25.4	-15.8
Maruti Suzuki	360.0	**	23-Dec-03	Buy	991.8	175.5	15.1	35.3	22.7	2.5	1.9	14.3	-8.0	-27.1
Nicholas Piramal	146.0	326.0	16-Mar-04	Buy	278.2	90.5	4.1	-6.2	14.7	20.4	-7.8	-20.7	-13.9	-14.3
Ranbaxy	533.5	500.0	24-Dec-03	Buy	441.0	-17.3	11.0	22.4	25.3	1.1	-1.7	3.4	-5.9	-28.0
Satyam Computers	181.5	538.0	30-Dec-03	Buy	442.8	143.9	-0.9	-4.5	-5.1	9.3	-12.2	-19.3	-28.8	-22.2
SKF India	141.0	500.0	23-Dec-04	Buy	394.1	179.5	-4.9	-10.8	23.3	29.1	-15.8	-24.6	-7.5	-8.1
SBI	476.0	2,282.0	19-Dec-03	Buy	1,893.5	297.8	22.0	27.9	98.6	91.8	8.0	8.0	49.0	36.5
Tata Motors	473.0	792.0	29-Mar-04	Hold	773.1	63.4	10.9	16.2	9.1	-7.9	-1.8	-1.8	-18.2	-34.5
Tata Tea	789.0	970.0	12-Aug-05	Buy	820.1	3.9	6.8	-4.1	34.6	9.2	-5.5	-18.9	1.0	-22.3
Unichem Laboratories	248.0	360.0	12-Dec-05	Buy	218.6	-11.9	-1.4	-15.2	-12.8	-6.0	-12.7	-28.3	-34.6	-33.1
Wipro	418.0	648.0	9-Jun-06	Buy	454.0	8.6	-4.6	-11.3	-17.5	-11.5	-15.6	-25.1	-38.1	-37.0
EMERGING STAR														
3i Infotech	66.0	180.0	6-Oct-05	Buy	150.2	127.6	0.7	-2.2	23.3	78.8	-10.9	-17.4	-7.5	27.3
Aban Offshore	330.4	3,765.0	3-Mar-05	Buy	3,506.4	961.3	20.0	16.4	73.7	180.8	6.2	-1.7	30.4	99.9
Alphageo india	150.0	517.0	29-Nov-06	Buy	512.8	241.8	32.3	13.8	108.7	296.3	17.1	-3.9	56.6	182.1
Axis Bank (UTI Bank)	229.4	960.0	24-Feb-05	Buy	750.5	227.2	20.5	26.3	57.2	103.3	6.7	6.7	18.0	44.7
Balaji Telefilms	231.0	303.0	9-Jul-07	Buy	270.2	16.9	-0.5	17.2	106.7	98.7	-11.9	-1.0	55.1	41.4
BL Kashyap	2,189.0	2,850.0	27-Sep-07	Buy	2,451.8	12.0	41.7	43.4	113.2	133.6	25.4	21.2	60.0	66.3
Cadila Healthcare	297.5	425.0	21-Mar-06	Buy	309.2	3.9	1.7	-16.5	-6.3	-2.4	-10.0	-29.4	-29.7	-30.5
Jindal Saw	635.0	830.0	20-Sep-07	Buy	648.2	2.1	13.0	-4.1	30.4	108.7	0.0	-19.0	-2.2	48.6
KSB Pumps	399.0	625.0	3-Oct-05	Buy	488.0	22.3	-1.5	-14.1	0.2	-9.0	-12.7	-27.4	-24.8	-35.2
Navneet Publications	56.8	**	22-Aug-05	Hold	85.2	49.9	42.5	40.3	55.6	35.9	26.2	18.5	16.8	-3.2
Network 18 Fincap	476.0	651.0	20-Jun-07	Buy	394.9	-17.0	6.0	-24.2	14.1	-	-6.2	-35.9	-14.4	-
Nucleus Software Exports	248.0	370.0	12-Dec-06	Buy	306.4	23.5	-8.4	-37.9	-33.7	41.4	-18.9	-47.5	-50.2	0.7
Orchid Chemicals	254.0	375.0	16-Jan-06	Buy	223.6	-12.0	11.1	-8.7	-12.7	9.6	-1.7	-22.9	-34.5	-22.0
Tata Elxsi	232.0	355.0	14-Dec-06	Buy	299.6	29.1	-3.9	-8.5	6.7	39.7	-14.9	-22.7	-19.9	-0.6



REPORT CARD

STOCK IDEAS STANDING (AS ON OCTOBER 01, 2007)

COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 01-OCT-07	GAIN/ LOSS (%)	ABSOLUTE PERFORMANCE 1M	3M	6M	12M	RELATIVE TO SENSEX 1M	3M	6M	12M
Television Eighteen India	219.0	967.0	23-May-05	Buy	924.1	322.0	12.2	0.9	48.3	111.8	-0.7	-14.8	11.3	50.8
Thermax	124.2	810.0	14-Jun-05	Buy	731.8	489.2	18.0	49.3	96.4	143.0	4.5	26.1	47.4	73.0
Ugly Duckling														
Ahmednagar Forgings	250.0	300.0	10-Oct-06	Buy	219.7	-12.1	-13.5	-3.9	-9.0	-14.8	-23.4	-18.8	-31.7	-39.4
Ashok Leyland	38.0	43.0	23-May-06	Hold	45.8	20.4	20.3	20.9	18.9	5.5	6.5	2.1	-10.8	-24.9
Aurobindo Pharma	684.0	914.0	28-May-07	Buy	599.0	-12.4	0.0	-25.3	-11.1	-3.9	-11.5	-36.9	-33.3	-31.6
BASF	220.0	300.0	18-Sep-06	Buy	263.1	19.6	-1.8	0.7	39.7	13.9	-13.1	-14.9	4.8	-18.9
Ceat	122.0	216.0	28-Nov-06	Buy	162.0	32.7	-0.3	5.2	53.1	36.1	-11.7	-11.2	14.9	-3.1
Deepak Fert	50.6	126.0	17-Mar-05	Buy	118.3	133.8	13.0	32.1	45.7	43.3	0.1	11.6	9.3	2.0
Genus Power Infrastructures	101.0	**	6-Jul-05	Buy	605.5	499.5	17.1	81.2	124.6	176.2	3.7	53.1	68.5	96.6
Hexaware Technologies	159.0	170.0	30-Mar-07	Hold	122.7	-22.9	2.6	-22.7	-25.1	-22.2	-9.2	-34.7	-43.8	-44.6
ICI India	250.0	581.0	26-May-05	Buy	527.0	110.8	0.4	-0.1	20.3	59.9	-11.1	-15.6	-9.7	13.8
India Cements	220.0	330.0	28-Sep-06	Buy	297.3	35.1	19.1	41.4	81.1	32.4	5.5	19.5	35.9	-5.8
Indo Tech Transformers	199.0	650.0	28-Nov-06	Buy	517.5	160.1	-7.4	27.5	89.7	221.2	-18.0	7.7	42.3	128.6
Jaiprakash Associates	125.0	1,350.0	30-Dec-03	Buy	1,146.3	817.0	19.9	48.0	103.4	131.5	6.1	25.0	52.7	64.8
KEI Industries	39.4	125.0	30-Aug-05	Buy	82.4	109.1	19.0	0.9	26.5	33.3	5.3	-14.8	-5.1	-5.1
Punjab National Bank	180.0	636.0	19-Dec-03	Buy	539.5	199.7	12.1	0.5	16.4	5.3	-0.8	-15.1	-12.6	-25.1
Ratnamani Metals	270.0	1,215.0	8-Dec-05	Buy	1,047.7	288.0	-9.9	11.4	58.1	160.8	-20.2	-5.9	18.6	85.6
Sanghvi Movers	53.0	210.0	5-Aug-05	Buy	191.5	261.3	-10.7	20.3	50.6	32.4	-20.9	1.6	13.0	-5.7
Saregama India	149.0	375.0	4-Jul-05	Buy	315.3	111.6	23.6	-8.3	57.7	62.9	9.4	-22.5	18.3	15.9
Selan Exploration	58.0	155.0	20-Mar-06	Hold	153.4	164.5	37.2	64.2	100.8	85.7	21.5	38.7	50.7	32.2
Seamec	190.0	300.0	12-Oct-06	Buy	212.6	11.9	-6.1	4.4	14.5	25.2	-16.8	-11.8	-14.1	-10.9
Subros	206.0	340.0	26-Apr-06	Buy	222.5	8.0	3.4	2.8	-3.9	-1.9	-8.4	-13.1	-27.9	-30.2
Sun Pharmaceutical	302.0	1,287.0	24-Dec-03	Buy	964.8	219.5	3.7	-5.5	-1.1	12.8	-8.2	-20.2	-25.8	-19.7
Surya Pharma	139.0	205.0	2-Dec-05	Buy	99.5	-28.5	2.2	12.3	32.0	0.7	-9.5	-5.2	-0.9	-28.3
UltraTech Cement	384.0	1,300.0	10-Aug-05	Buy	1,060.3	176.1	13.3	15.8	35.3	17.6	0.3	-2.1	1.5	-16.3
Union Bank of India	46.0	192.0	19-Dec-03	Buy	173.6	277.3	19.7	23.4	59.9	23.4	6.0	4.3	20.0	-12.2
Universal Cables	123.0	179.0	30-Aug-05	Buy	96.5	-21.6	2.8	-12.6	12.1	-4.9	-9.0	-26.1	-15.9	-32.3
Wockhardt	248.0	552.0	24-Dec-03	Buy	419.8	69.3	8.5	8.5	4.8	5.1	-3.9	-8.3	-21.4	-25.2
Zensar technologies	342.0	380.0	18-Jun-07	Hold	207.4	-39.4	-5.8	-39.2	-17.2	-8.3	-16.6	-48.7	-37.9	-34.7
Vulture's Pick														
Esab India	60.0	575.0	21-May-04	Buy	470.7	684.4	-4.8	5.8	52.7	40.2	-15.7	-10.6	14.6	-0.2
Orient Paper	214.0	680.0	30-Aug-05	Buy	549.4	156.7	23.9	26.0	33.6	-1.5	9.7	6.5	0.2	-29.9
WS Industries	51.0	108.0	2-Dec-05	Buy	90.6	77.6	3.1	62.8	105.2	46.1	-8.7	37.6	54.0	4.0
Cannonball														
Allahabad Bank	73.0	125.0	25-Aug-06	Buy	108.9	49.2	18.7	31.2	53.4	26.3	5.1	10.8	15.1	-10.1
Andhra Bank	85.0	117.0	25-Aug-06	Buy	103.8	22.1	22.6	21.6	40.4	14.9	8.6	2.8	5.4	-18.2
Gateway Distriparks	190.0	250.0	11-Aug-05	Buy	136.1	-28.4	3.0	-9.9	2.1	4.8	-8.8	-23.9	-23.4	-25.4
International Combustion	350.0	519.0	20-Sep-05	Buy	420.9	20.2	2.3	10.2	49.6	33.9	-9.4	-6.9	12.2	-4.7
J K Cement	149.0	200.0	17-Nov-05	Buy	176.3	18.3	8.8	16.8	26.6	-7.4	-3.7	-1.3	-5.0	-34.1
Madras Cement	1,498.0	4,600.0	17-Nov-05	Buy	4,308.4	187.6	17.7	42.2	55.8	27.3	4.2	20.2	16.9	-9.4
Shree Cement	445.0	1,625.0	17-Nov-05	Buy	1,553.8	249.2	23.9	19.4	65.1	53.2	9.7	0.9	23.9	9.0
TFCI	17.1	**	25-Jun-07	Buy	35.3	106.1	31.9	57.5	152.5	226.2	16.8	33.0	89.5	132.2
Transport Corporation	52.2	**	9-Dec-05	Hold	125.2	139.8	11.1	21.2	109.3	83.3	-1.6	2.4	57.1	30.5

** Price under review

REPORT CARD: STOCK IDEAS BOOKED

COMPANY	RECOMMENDED AT (Rs)	RECOMMENDED ON	BOOKED AT (Rs)	BOOKED ON	APPRECIATION (%)
Marksan Pharma	236.0	07-Mar-2006	98.0	25-Sept-2007	-58.0
Federal Mogul	385.0	18-Jan-2007	148.0	04-Oct-2007	-62.0
ORG Informatics	130.0	16-Dec-2005	99.0	05-Oct-2007	-24.0
NIIT Tech	136.0	31-Mar-2006	364.0	05-Oct-2007	168.0
Sundaram Clayton	1,178.0	15-May-2006	751.0	05-Oct-2007	-36.0

Market gets propelled to fast track

Till recently most market experts had pegged the Indian stock market's fair value at around 15,500-16,000 levels. But the latest policy initiative of the US Federal Reserve (Fed) has changed that perception and much more. On September 18, the Fed cut the key short-term interest rate by 50 basis points instead of 25 basis points as was widely expected. The effect of the surprise Fed action on our market was such that despite the re-emergence of concerns of a slowdown in the domestic economy, the market rallied by over 653 points the very next day, comfortably conquering the peak of 16,000 in the process. In another six days the market sprinted past the milestone of 17,000 as well, recording its fastest 1,000 ever. Incredibly, the euphoric rally triggered by the Fed's rate cut continues till day and the Sensex is now within kissing distance of--hold your breath--18,000! We had always said that a rate cut in the USA would be an enormous positive for our markets, well, the recent performance of the market bears us out. Now, no target seems too lofty or far-fetched for the market anymore and there are even talks of it reaching as high as 20,000 by the year-end. We believe the market has got propelled to the fast track and is likely to scale newer heights in the days to come.

Two key factors would drive the market higher: abundant liquidity globally and continued strong economic growth in India. The Fed rate cut, aimed at preventing a slowdown in the US economy, has also boosted liquidity in global markets. The greatest beneficiaries of this increased liquidity have been the emerging markets due to their relatively stronger fundamentals. The same is evident from the surge in foreign fund inflows into the Indian stock market in the aftermath of the Fed rate cut. The day after the Fed cut the rate, the foreign institutional investors (FIIs) bought Indian equities worth Rs2,400 crore, propelling the Sensex to the peak of 16,000. Since September 18, the FIIs have injected more than Rs20,000 crore (till October 4) in the Indian market and on the back of the strong foreign fund inflows the market has risen by 13.4% since. Clearly, the market is riding on liquidity and liquidity is plentiful.

The good news is that the liquidity situation might improve further in future. So far, the US economy seems to have braved the housing sector slump. This is reflected in the strong growth of 3.8% in the gross domestic product (GDP) in Q2CY2007, 6.1% growth in corporate profits and the buoyancy in the stock markets. Our base case assumption is that the US economy would make a soft landing rather than going into a recession. For the time being, the Fed has decided to cut interest rates and revive growth instead of focusing on inflation. The August data on employment has been revised from a decline of 4,000 to an addition of 89,000 jobs. Again, the September data shows an addition of another 110,000 jobs. The revision in the August data is substantial and completely unexpected while the September data is also healthy. All this indicates that the job market remains healthy and has reduced the odds of the USA going into a recession. The US economy has shown a lot of resilience and so far the housing turmoil has not yet percolated to the other sectors. Thus, we believe our base case assumption of a soft landing in the USA still holds good.

Among the emerging markets, we expect India to emerge as the destination of choice for most foreign investors due to the continued superior performance of its economy. Its GDP has grown at 9% and above in six out of the past seven quarters ending June 2007, though of late there have been some signs of a slowdown, caused no doubt by the RBI's monetary tightening policies that have choked domestic demand and hurt exports.

contd....

In July, for instance, the Index of Industrial Production (IIP) grew by 7.1% year on year compared with the market estimate of a 9.6% growth. The drop in the index was caused by a slowdown in manufacturing production—the manufacturing sector saw a growth of 7.2% in this July vs a 14.3% growth in July last year. The drop was, however, in line with our expectations. We had expected the manufacturing sector to slow down because last year's high growth, achieved on the back of an unusually high growth in food and wood products, was not sustainable. Also, the consumer durables industry feels the latest IIP figures could be misleading since the consumer durables basket of the index is not representative of consumer demand. For example, it still contains several goods that are not relevant anymore, eg alarm clocks, sewing machines and tape recorders, but excludes a truly household product like a mobile phone. As for the capital goods sector, the slowdown could be an aberration as even though production of tractors and commercial vehicles has shown a declining trend, order flows for most heavy engineering companies remain healthy. The growth in capital goods production is likely to recover in the coming quarters. Going forward, we expect the IIP growth to moderate to 8% or so in the coming quarters. However, the official estimate of an 8.5% GDP growth in FY2008 is achievable as higher agricultural growth is likely to compensate for some moderation in manufacturing and services sectors. The 2.8% higher allocation of area under *kharif* crop cultivation and a higher than expected rainfall till September 2007 at 105% of its long period average should help improve agricultural growth in the remaining part of the current fiscal. Even an 8.5% GDP growth is respectable and satisfactory enough to sustain the interest of foreign investors especially in a period when the central bank has tightened its monetary policy stance.

Besides, domestic interest rates have already peaked and expectations have built up that the central bank may begin to cut the rates sooner than later. Any softening of the interest rates will boost economic growth by stimulating consumer demand (domestic consumption accounts for nearly 65% of our GDP) and facilitating investments by corporates. We expect the RBI to change its stance from hawkish stance to neutral since its objectives of lowering inflation (the latest inflation figure is 3.4%) and credit growth have been achieved.

Even though the Wholesale Price Index has been tamed (it has fallen to 3.4% levels and has stayed well below the central bank's comfort zone of 5% for the past several weeks), the Consumer Price Index remains high at 6.5%. Also, while on the one hand, buffer stocks of food articles are still not adequate to help rein in their rising prices in the domestic markets, on the other, the high prices of food articles in international markets make their imports also unfeasible. A better *kharif* crop, due to a better than forecast monsoon this year, could provide some relief in this regard. Then again, crude has also hardened further in the past one month. Crude prices touched an all-time high of $83 on September 27 and are expected to remain firm in the near term. Hence the government might have to raise fuel prices and that could stoke inflation again.

The year-on-year money supply growth remains high at 20% against the RBI's target of 17.5%. We don't expect any moderation in money supply, given the relentless influx of foreign capital into the country. Inflows from all sources, portfolio investment, foreign direct investment (FDI) and private equity (PE), are on a high. FII inflows in FY2008 so far (April 1 to October 4, 2007) have already crossed $12.92 billion compared with the previous high of **$10.98 billion** recorded during the whole of FY2006. FDI inflows have also touched $21.19 billion for the current fiscal. In addition, Indian companies received PE funding worth $2.49 billion during January–July 2007 compared with $1.6

contd....

billion in the whole of 2006. But considering the fact that globally central banks are either cutting interest rates or keeping them steady, we would like to believe that domestic interest rates too would soften in the months ahead. Thus, due to all these factors we expect the RBI to first shift to a more neutral stance before its starts cutting interest rates.

Not much respite is expected on the rupee front though and we expect the strong foreign fund inflows to keep the rupee strong in the rest of the year. The rupee touched a nine-year high of Rs39.475 against the dollar on October 4, 2007 and has appreciated by 11.6% in the year so far. To check the rupee's rise, the RBI recently announced some measures designed to encourage capital outflows. Domestic companies have now been allowed to invest up to 400% of their net worth, against the current norm of 300%, in overseas joint ventures and wholly owned subsidiaries under the automatic route. The RBI has also raised the limit for portfolio investments abroad for listed Indian companies to 50% of their net worth from 35%. It has even scrapped the requirement of 10% reciprocal shareholding in listed Indian companies by overseas companies for portfolio investment outside India by domestic listed companies. These policy measures clearly indicate the central bank's keenness to provide an economic environment that would be conducive to growth, which has moderated in recent times due to its tight monetary policy. In the RBI governor's own words, "The policy challenge for Reserve Bank, now, is to manage the current transition to a higher growth path while containing inflationary pressures and focusing on financial stability."

It is a well-known fact that growth in the export sector has been hurt the most by the appreciation in the rupee. The country's exports in dollar terms grew by 18.91% in August 2007 to $12.68 billion while in rupee terms the growth stood at 4.3% only. The impact of a strengthening rupee is still not fully visible and would be reflected in the earnings of Indian companies in the quarters ahead. Talking of earnings, the second quarter results of India Inc would be announced soon. We expect a stable earnings growth of 20% for the quarter. We also expect some surprises in the form of foreign exchange related gains, contrary to initial expectations of foreign exchange losses in Q2FY2008. Thanks to the rise in the rupee again after a period of weakness during July and early August, Indian companies are likely to report another 3-5% of one-time foreign exchange gains for the second quarter. In terms of earnings, H2FY2008 is expected to be better than H1FY2008 as expectations are that interest rates would soften and demand in certain sectors like automobiles would pick up in the second half with the onset of the festive season. Moreover, the fact that corporate tax collections grew by 41% to touch Rs72,240 crore in this fiscal till September 30 from Rs49,813 crore in the corresponding period of FY2007 indicates that corporate earnings remain healthy despite the slowdown in exports.

Thus, strong domestic economic growth and increased global liquidity in the wake of the Fed rate cut have set the stage for a protracted bull run in the Indian stock market. Though the uncertainty on the political front and the market's dependence on FII inflows remain causes for concern, the downside risks are protected, as domestic mutual funds alone are sitting on a cash pile of Rs14,000 crore and the life insurance companies led by Life Insurance Corporation of India (which is likely to invest Rs12,000 crore in H2FY2008) have also become significant long-term investors in the Indian equity markets. Volatility is expected to be the order of the day though. Hence tread with extreme caution. To make the most of this prolonged bull run, invest in only those stocks that have high earnings growth visibility and are available at decent valuations. Take your pick from Sharekhan's Stock Ideas, which are well-researched companies with strong fundamentals.

Global liquidity to dictate markets

We have seen a sustained one-way rise in our stock market after the US Federal Reserve (Fed) cut the key short-term rate on September 18, 2007. The Fed cut has boosted not just our market but the other emerging markets (EMs) as well. It seems that the US sub-prime concerns are a thing of the past. So what has suddenly changed that the EMs look more attractive than ever before? We feel there has been no change in the fundamentals. What has changed is the liquidity condition and the increased liquidity globally is expected to drive the EMs to a higher valuation orbit.

A majority of the market participants expected the Fed to cut the rate by 25 basis points but Fed chose to cut it by 50 basis points, which came as a positive surprise. In the past, whenever the Fed had cut the rates, The EMs had rallied.

But that doesn't mean we don't have any more concerns and can move only upwards. We feel volatility will increase further in our markets. The major risk and concern that our market faces at this juncture pertains to the US economy going into a recession rather than achieving a soft landing. On the domestic front, there are risks of an economic slowdown owing to the Reserve Bank of India's (RBI) tight monetary policy and of mid-term elections as a result of political instability.

Some leading indicators continue to point towards a slowdown in certain domestic sectors (viz automobile sales, and exports). The Sensex' earnings growth for Q2FY2008 is expected to remain stable at around 20%. However, factoring in the sequential appreciation in the local currency, the reported earnings could be 3-5% higher than our expectations. Corporate tax collections have grown by 41% to Rs72,240 crore till September 30 in this fiscal which is a positive development and goes to show that corporate earnings are still healthy. Hence, there is no major concern with regard to the corporate earnings. Telecom and cement companies are likely to report high growth in earnings.

The Sensex has already scaled our December 2007 target of 16000 and taking note of the current situation we have rolled over our target for the Sensex to 19000 by September 2008. Our preferred sectors are those that are driven by domestic demand and capital spending, and therefore are relatively insulated from a US slowdown. Thus sectors like banking, capital goods, telecom and cement continue to remain our preferred bets. The fast moving consumer goods (FMCG) sector could also be a preferred bet but with a slightly longer-term perspective, say six months. The higher than predicted monsoons, political uncertainty over the 123 nuclear issue and the release of the Sixth Pay Commission's recommendations (likely to hit the market by April 2008) could make FMCG a safe heaven for investors in times of uncertainty.

Liquidity continues to remain the key driver

The subprime concerns look to be a thing of the distant past and EMs have rallied after the Fed cut the interest rate. The other important central banks in Europe have also kept their policy rate steady, which goes to show that the central banks would rather overlook inflation concerns than jeopardise growth. Thus, an easing monetary policy in the developed markets is likely to free up a lot of liquidity, which would find its way into the EMs and drive up the valuations of the assets there.

Emerging markets—biggest beneficiaries of the Fed cut

The EMs have turned out to be the biggest beneficiary of the Fed's rate cut even though the primary objective of the Fed's action was to stabilise the financial markets and limit the negative impact of the credit crunch. Post-Fed rate cut most stock markets in the EMs have recorded a 6-10% appreciation with the Indian market up 13.5%.

Fed easing—its impact on our markets

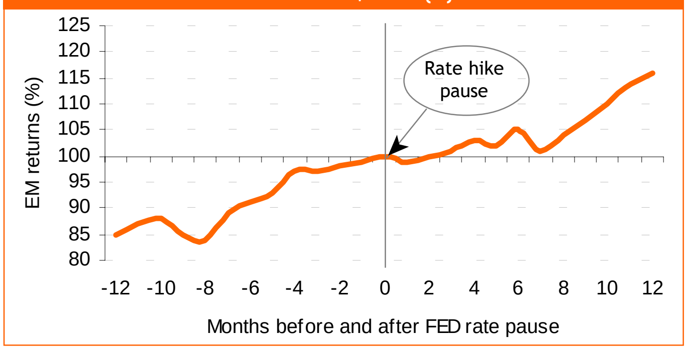
If the Fed does need to cut the rates further in the hope to revive the economic growth, what would it mean for the Asian markets, especially India? After a pause in Fed rate hikes whenever the Fed has started to cut rates and increased the liquidity in the markets, it has actually set the stage for the increased liquidity to move to some new asset class and drive up the asset prices. The asset class that has benefited the most has been typically that segment of the market that has had the best fundamentals at that point in time.

Some past examples:

- Post-1998 liquidity found its way into the technology sector, which had great fundamentals at that point.
- In 2001, after 9/11 the liquidity eventually found its way into the housing sector, which also had great fundamentals at that point.

This time it could be the EMs, which are showing the best fundamentals at the current juncture.

RETURNS ON THE EMERGING MARKET EQUITIES (%)



Source: Bloomberg, Sharekhan Research

Strong Asian fundamentals

Asia has now become the strongest link in the global economic and financial system, and the same would be reflected in the valuations. Developed countries in Europe, Japan and the USA are no more the engines of global growth. The balance is shifting towards the fast growing Asian markets like China and India.

International fund managers turning slightly overweight on India

It is precisely such solid growth credentials that make the EMs even more appealing to global investors as growth is hard to find elsewhere. The table below illustrates the fact that fund managers have turned slightly overweight on India and China, and marginally underweight on non-Asian EMs.

INTERNATIONAL FUND MANAGER'S POLE ON EM

	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Non-Asian EM	-0.25	-0.25	0.00	0.00	0.25	-0.25
China	0.25	0.00	0.50	0.50	0.25	0.50
India	0.00	0.00	0.00	0.25	0.25	0.50

Note: 0 is neutral; up to +0.5 is slightly overweight, above +0.5 to +1 is overweight, above +1 is very overweight and vice versa

Source: Dow Jones monthly survey

Structural shift in asset allocation likely

The strong US economy was instrumental in bailing out the world financial markets after the Asian crises in mid-1997 whereas the robust growth in Asia is likely to bail out the world this time. These contrasting fundamentals between Asia and the USA over the medium to long term could bring about a structural shift in asset allocation by global investors.

Asian valuations to expand, re-rating likely

Valuations in Asia are not cheap but are below 1993 and 1994 peak levels of 22-25x one-year forward earnings. The disappointing earnings growth profile of companies in developing countries due to a lack of focus on profitability and poor corporate governance had led to substantial derating in the 1990s. Money therefore had flown to the USA in big way later that decade with the earnings growth of US companies exploding on the back of the tech boom. However, the scenario has changed with the US economic growth likely to slow down and Asian economies likely to become the next global growth engines. The earnings trajectory and capital efficiency of Asia are also now superior to that of the more developed markets of the USA and Europe. Thus investors are once again gaining confidence to pay the higher multiples for the EMs and this could lead to an expansion in the price/earnings multiples in the EMs.

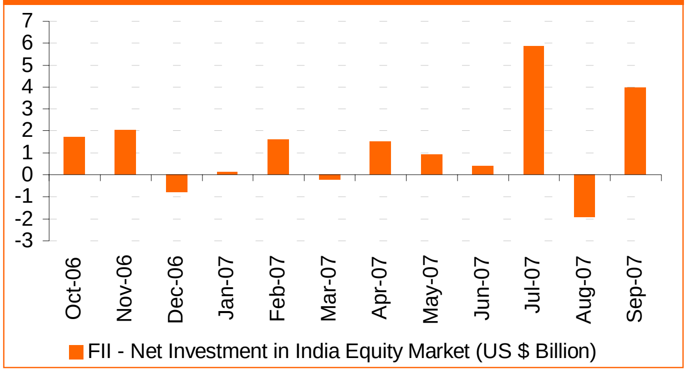
Risks associated with such capital inflows

In the medium term, a lot of this money from the developed markets would enter the EMs, asset prices would inflate and likely bubbles would be formed. Such high capital inflows into these EMs would also make inflation rear its ugly head sooner or later. Then central banks would be called into action to prevent such bubbles from bursting. However, things are likely to run their own course. For now, liquidity is driving the EMs across the world and would continue to do so unless the possible bubbles come to light.

FII flows continue, RBI hikes MSS ceiling

Our markets have seen very strong foreign institutional investor (FII) inflows in the last fortnight with the year-to-date FII inflows at around $13 billion. The subprime concerns had seen a rush of FII outflows in August but the situation has completely reversed in September 2007. Faced with this dollar deluge, the RBI has had to hike the Market Stabilisation Scheme (MSS) ceiling from Rs1.5 lakh crore to Rs2 lakh crore. This signals ceiling RBI's willingness to support the rupee.

FII INFLOWS REMAIN STRONG



Source: Bloomberg

Q2FY2008 earnings preview

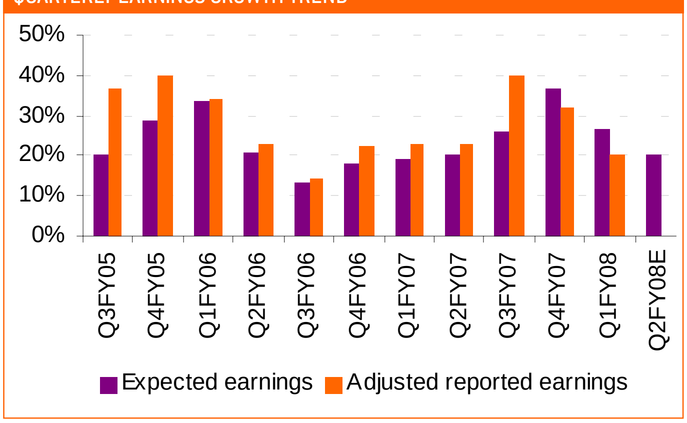
The earnings of the Sensex' companies excluding oil companies and adjusted for one-time items are likely to grow by 20% year on year and remain stable quarter on quarter in Q2FY2008. The Sensex' earnings ex-oil would be driven by companies from the telecom, information technology (IT) and banking sectors.

In Q1FY2008, we had seen that around 10% of the reported earnings had come from foreign exchange (forex) gains. Keeping the current strong uptrend of the rupee in mind, we may see companies reporting another 3-5% of one-time forex gains during the quarter. This would be in contrast to the initial expectations of forex losses in Q2FY2008, as the rupee had started to decline when our markets were facing the threat of large-scale withdrawal from the FIIs.

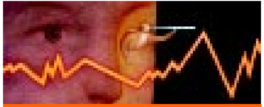
COMPANIES WHERE HIGH EARNINGS GROWTH IS EXPECTED IN Q2FY08

Companies	% yoy growth
Bharti Tele	65
ACC	47
Grasim Industries	38
BHEL	35
Maruti Suzuki	30
TCS	25

QUARTERLY EARNINGS GROWTH TREND



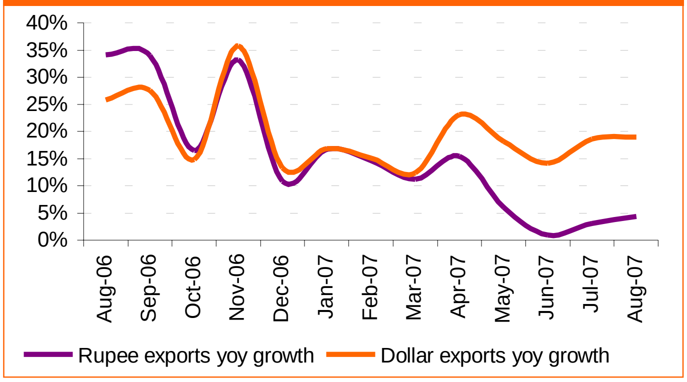
Source: Sharekhan Research



Some lead indicators point to a slowdown

Export oriented sectors remain casualty of a strong currency: However, a strong currency would continue to hurt our export growth in rupee terms. Our year-on-year export growth declined significantly to 4.3% in August 2007 from 15% in April 2007. Besides companies from the IT and pharmaceutical sectors, other large Sensex companies have also a 10-38% exposure to exports and this could have a bearing on the Sensex' aggregate earnings going forward. Thus major upgrades may not be witnessed in FY2008.

TREND IN EXPORTS GROWTH



Source: DGCIS

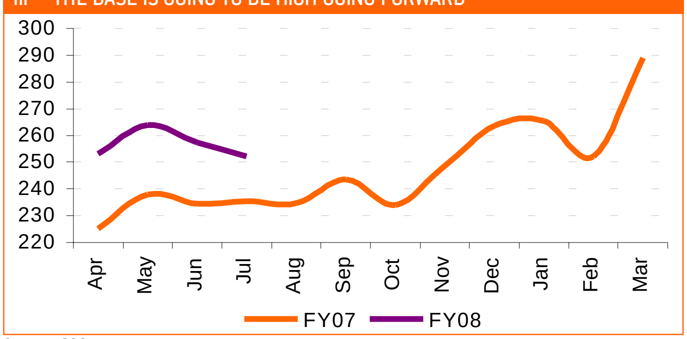
Other lead indicators also point to a slowdown:

- Two-wheeler and heavy commerical vehicle sales continue to decline with August sales down by 1% and 5% respectively.
- Revenues of manufacturing companies in the Sensex have slowed down to 13% in Q1FY2008 from 30% levels in Q1FY2007.
- Year-to-date credit growth stood at 2.8% compared to 6.7% in the corresponding period previous year.

Some concerns on IIP growth rates going forward

Higher base for IIP likely to restrict growth figures: Going forward, after the October 2007 Index of Industrial Production (IIP) growth numbers, the base index for the remaining five months is going to rise substantially and unless the growth picks up, we may see lower year-on-year growth figures for the IIP going forward. The July 2007 IIP at 7.2% could have been influenced by the floods in the major parts of the country but the production activity in various sectors needs to pick up with the onset of the festive season in the second half of this fiscal. Otherwise, with a higher base and lower production activity, the IIP growth numbers may be substantially lower than what we had seen in FY2007.

IIP—THE BASE IS GOING TO BE HIGH GOING FORWARD



Source: CSO

RBI likely to take cognisance of a possibility of a slowdown

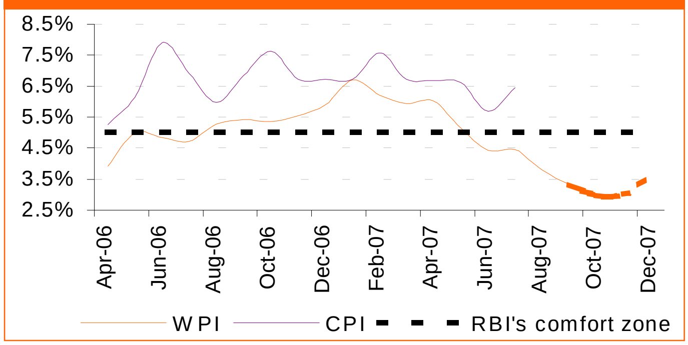
Our domestic interest rate cycle has peaked out and globally major central banks are either withholding policy rate hikes (European Central Bank and Bank of England) or beginning to cut rates (Fed). With inflation below 3.5%, we feel that the RBI would now take cognisance of the fact that due to its strict monetary tightening measures, domestic growth could have been jeopardised. Some lead indicators pointing towards a slowdown are a decline in the IIP and a low year-to-date credit growth.

Is RBI likely to cut rates?

As stated above, we feel that the interest rates have peaked out, however the chances of a rate cut immediately look dim due to the following reasons.

1. **Inflation:** Even though the Wholesale Price Index (WPI) is below 3.5% and hence well below the RBI's comfort zone of 5%, the Consumer Price Index (CPI) is still hovering around 6.5%. The RBI would also like to bring down the CPI before it starts cutting the interest rates.

INFLATION NOT LIKELY TO REMAIN A CONCERN GOING FORWARD



Source: MOSPI

2. **Money supply:** Money supply is still growing at 20% year on year (above the RBI's target of 17.5%) and continues to remain a concern with the possibility of foreign inflows remaining strong.

Monetary stance likely to shift to a neutral mode

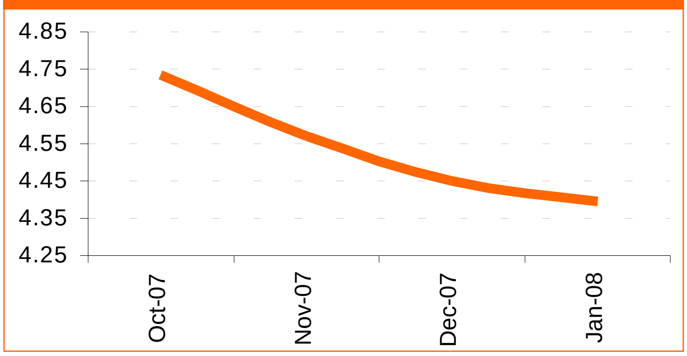
Hence, we feel the RBI is likely to change its stance from much hawkish to neutral and start to focus on growth once again in the next policy review scheduled at end October 2007. With regard to interest rates, we feel the market rates could soften (despite no change in policy rates or reserve requirements) once the banking industry gains comfort from (1) the RBI's neutral stance; (2) the high cost deposits run off the banks books; and (3) deposit growth remains above credit growth. In such a scenario bankers may consider reducing rates and providing a boost to credit growth, which should also help banks to protect their margins as a falling credit/deposit ratio is not margin accretive for banks.

Risks and concerns

Domestic—political risk: Apart from a possible slowdown in the domestic economy, there is risk on the political front. The domestic political scenario has suddenly changed with the Left parties voicing their concerns over the 123 nuclear deal that the United Progressive Alliance government is pursuing with the USA. The concerns have subsided now and resulted in the market getting back to its new lifetime high but the concerns could resurface. If the rift between these two ruling parties continues to grow over the nuclear deal, then the possibility of an early election in CY2008 cannot be ruled out. Although the elections could prove to be beneficial in the longer term, yet the same would give rise to significant volatility and expose our markets to the whims of the FIIs who may prefer to pull out money en masse. This could bring about a meaningful correction in our markets, by say 15-20%.

Global-US recession: Our base case assumption is that the US economy would make a soft landing rather than going into a recession. For the time being, the Fed has decided to cut interest rates and revive growth rather than focus on inflation. The August data on US employment has been revised from a decline of 4,000 to an addition of 89,000 jobs. Again, the September data shows an addition of another 110,000 jobs. The revision in the August data is substantial and completely unexpected while the September data is also robust. It indicates that the job market remains healthy and has reduced the odds of the USA going into a recession. The US economy has shown a lot of resilience and so far the housing turmoil has not yet percolated to the other sectors. Thus we believe our base case assumption of a soft landing in the USA still holds good.

FED FUTURES INDICATING FURTHER RATE CUTS



Source: Bloomberg, Sharekhan Research

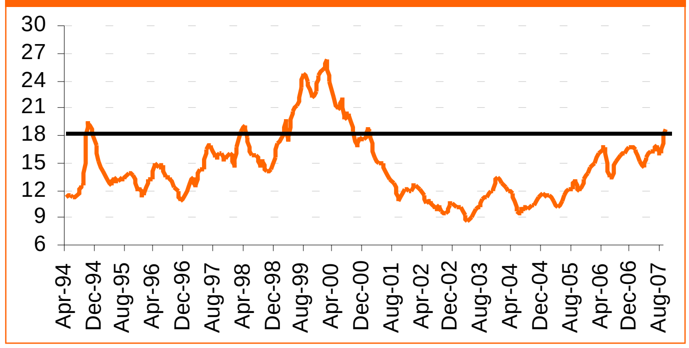
Valuations

Sensex' valuations are not cheap but reasonable if we look at its ex-embedded value at around 16-17x one-year forward earnings. There are talks of a re-rating happening across Asian markets but whether the resulting rally would be of short-term in nature and be driven by only liquidity needs to be seen. Although the Fed futures are indicating further rate cuts, the latest economic data on jobs coming out of the USA has not shown signs of deterioration and the US economy has proved to be rather resilient. Hence, the possible rate cuts factored in by the markets could get delayed and there could be a possible pause in the foreign inflows with the markets consolidating around the current levels. The manner in which the various Asian markets decouple themselves from a slowdown in the US economy is also important. Our markets are relatively insulated as 65% of our growth is domestic consumption driven. Hence, our long-term story remains intact but volatility cannot be ruled out.

Rolling over Sensex' target to 19000 by September 2008

The Sensex has scaled our earlier target of 16000 expected by December 2007. Taking note of the current situation we have rolled over our 12-month forward Sensex' target to 19000 by September 2008. The target is based on an expected growth of 18% in Sensex' FY2010E earnings, a 16 times earnings multiple and an embedded value of around 1500.

SENSEX VALUATIONS NOT CHEAP



Source: Sharekhan Research

High cash levels protect major downside risks

The reversal in FII flows has always brought about a serious correction in our markets. But this time around, the high cash levels with the domestic mutual funds and the swelling corpus of life insurance companies could protect our markets from any major downside. LIC to invest around Rs12,000 crore in H2FY2008. The cash levels with mutual funds stand at around Rs14,000 crore or 9.3% of the assets under management (AUM) compared with Rs8,000 crore a year back.

Conclusion

In the near to medium term, keeping in mind the past trend (emerging market performance during Fed rate cuts) and views of global fund managers, we feel the surge of global liquidity would drive the equity markets of EMs. India being one of the best-positioned EMs, in terms of economic and corporate performance, should definitely receive a large chunk of the FII money destined for the EMs. However, the unfolding of the political risk is a concern and could see reversal of the so-called hot money that is betting on the short-term equity and currency market movements in case of an early election. We expect a soft landing for the USA and hence the future economic data releases from the USA would become critical and could also lead to higher volatility. Our preferred sectors are those that are driven by domestic demand and capital spending, and therefore are relatively insulated from a US slowdown. Thus sectors like banking, capital goods, telecom and cement continue to remain our preferred bets. The FMCG sector also looks attractive though from a slightly longer-term perspective, say six months.

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

Sharekhan Top Picks

Sharekhan top picks

In the September 2007 issue, we had recommended the best 12 of our Stock Ideas as Sharekhan Top Picks. As on October 1, 2007, the basket of stocks has given an absolute return of 13% as compared with a 12.4% appreciation in the Sensex and a 13.2% rise in the S&P CNX Nifty.

This month, we have made four changes in the portfolio. Due to continued strengthening of the rupee, we have replaced the tech stocks (both Infosys and HCL Tech) with ITC and Wockhardt. In terms of churn within the sector, Bharat Bijlee has been replaced with Indo Tech Transformer and Axis Bank comes in place of HDFC Bank.

The price targets of Grasim Industries and Maruti Suzuki are under review and would be upgraded along with their Q2 result updates. We expect a strong Q2 performance from both these companies.

NAME	CMP* (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
Axis Bank (UTI Bank)	750.5	32.1	30.5	23.2	20.9	13.7	12.8	960.0	27.9
Balaji Telefilms	270.2	22.1	18.0	14.8	28.6	28.6	28.0	303.0	12.2
Bharat Heavy Electricals	1,990.1	40.4	31.7	25.4	27.5	26.8	26.4	2,450.0	23.1
Bharti Airtel	942.3	41.9	28.1	22.3	29.1	33.0	32.0	1,100.0	16.7
Grasim	3,599.5	16.8	13.6	15.6	27.5	27.2	27.0	**	-
Hindustan Unilever#	222.4	31.8	26.2	23.2	56.5	57.4	52.0	280.0	25.9
Indo Tech Transformers	517.5	21.8	17.1	11.0	32.3	30.6	35.2	650.0	25.6
ITC	186.0	25.8	23.2	19.4	27.7	26.6	27.5	200.0	7.6
Jaiprakash Associates	1,146.3	56.5	37.5	32.8	16.1	15.5	15.3	1,350.0	17.8
Madras Cements	4,308.4	16.9	11.7	9.7	46.3	41.7	34.1	4,600.0	6.8
Maruti Suzuki	991.8	18.7	15.7	13.8	24.9	26.1	23.8	**	-
Wockhardt#	419.8	15.2	13.5	11.7	22.6	19.6	19.0	552.0	31.5

* CMP as on October 01, 2007 #December ending company ** Price under review

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
AXIS BANK (UTI BANK)	**750.5**	32.1	30.5	23.2	20.9	13.7	12.8	**960.0**	27.9

Remarks:

- Axis Bank is one of the fastest growing private sector banks, which has considerably improved its earnings quality and overall performance under the able Chairmanship of Mr Nayak.
- The bank's assets are expected to grow at a compounded annual growth rate (CAGR) of 36% over FY2007-09E. The growing assets along with stable to improving margins will lead to a strong growth in net interest income of the company during the period. The bank has a very robust fee income model in place.
- The bank has raised around Rs4,200 crore which would help it to maintain its growth momentum in the next three years.
- At the current market price, the stock is quoting at 23.2x FY2009E earnings per share (EPS), 10.3x FY2009E pre-provision profits and 2.8x FY2009E book value. We maintain our Buy recommendation on the stock with a twelve-month price target of Rs960.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
BALAJI TELEFILMS	**270.2**	22.1	18.0	14.8	28.6	28.6	28.0	**303.0**	12.2

Remarks:

- The flurry of entertainment channels to be launched over the next couple of years would result in a huge opportunity for quality and leading content providers such as Balaji Telefilms.
- Balaji has an established presence in the general entertainment channel category and is among the top content provider for channels like Star, Zee and Sony for past few years. Its shows consistently figure in the top slots on the rating charts.
- Going forward, the joint venture with Star for launch of at least six regional entertainment channels would create substantial value for the shareholders. Balaji would produce ~530 hours of annual prime time content for each of these channels, thus scaling up its core content business.
- At current market price the stock quotes at 14.8x its FY2009 estimated earnings. Our sum-of-parts valuation gives us a target price of Rs303.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
BHARAT HEAVY ELECTRICALS	**1,990.1**	40.4	31.7	25.4	27.5	26.8	26.4	**2,450.0**	23.1

Remarks:

- Bharat Heavy Electricals Ltd (BHEL), a leading supplier of power equipment, will be the prime beneficiary of a four-fold increase in the investments (Rs500,000 crore in the 11th Five-Year Plan as against Rs112,000 crore in the 9th Five-Year Plan) being made in the power sector.
- BHEL's current order book of Rs62,400 crore, ie 3.6x its FY2007 revenue, provides high earnings visibility.
- The power ministry has proposed around five ultra mega power projects entailing a capacity addition of 20,000MW (4,000MWx5) with the combined turnkey value of at least Rs80,000 crore.
- BHEL's recent technology transfer agreement with Alstom for design and manufacture of large-sized (500MW+) super-critical boilers will enable it to bid for the ultra mega power projects. We expect BHEL to bag a fair share out of this huge Rs80,000-crore potential investment, which in turn will maintain the growth momentum in the company's order book.
- The stock trades at a PER of 25.4x its FY2009E earnings. BHEL's valuation looks attractive as compared with that of its peers, such as Siemens, ABB and Larsen and Toubro.

BHARTI AIRTEL	**942.3**	41.9	28.1	22.3	29.1	33.0	32.0	**1,100.0**	16.7

Remarks:

- Bharti Airtel, the largest wireless telephony service operator, is one of the key beneficiaries of the consumption boom in the country. It has reportedly added subscribers at a healthy CAGR of over 75% in the past three years and is expected to increase its subscriber base at a CAGR of over 35% over the next two years.
- The company's focus on introducing innovative services, cost control measures and growing economies of scale is resulting in an improvement in its margins, despite the continued pressure on the average revenue per unit (ARPU). Consequently, the earnings are estimated to grow at CAGR of over 46% over the three-year period FY2006-09.
- At the current market price the stock trades attractively at 28.1x FY2008 and 22.3x FY2009 earning estimates. The target price of Rs1,100 is based on multiple of 22x FY2009E earnings estimates plus Rs170 per share as the value of the tower company.

GRASIM	**3,599.5**	16.8	13.6	15.6	27.5	27.2	27.0	**	-

Remarks:

- Grasim Industries will be augmenting its capacity by 9.5MMT comprising two greenfield units of 4MMT each at Kotputli and Shambhupura, and a brownfield expansion of 1.5MMT. With the tight demand-supply situation expected to persist in FY2009, the incremental volumes will augur well for the company.
- With the outlook for the VSF business remaining positive, the incremental volumes coupled with a firm pricing scenario will provide stability for the company's business.
- These two factors coupled with the incremental profits from the UltraTech's business will boost the consolidated earnings of the company.

HINDUSTAN UNILEVER#	**222.4**	31.8	26.2	23.2	56.5	57.4	52.0	**280.0**	25.9

Remarks:

- HUL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HUL is likely to be a key beneficiary.
- The company has regained the pricing power in all the product segments. We believe better pricing power and improved product mix will be the revenue drivers. The turn-around of loss-making businesses, cost-cutting initiatives and increased focus on its food business should help it to improve its profitability.
- At the current market price the stock is quoting at 23.2x its CY2008E EPS of Rs9.6. We maintain our Buy recommendation on the stock with a price target of Rs280.

INDO TECH TRANSFORMERS	**517.5**	21.8	17.1	11.0	32.3	30.6	35.2	**650.0**	25.6

Remarks:

- Transmission and distribution of power is all set to attract huge investments (Rs427,000 crore over the XIth Five-year Plan) owing to the need to develop a robust network for power distribution. Transformer making companies like Indo Tech Transformers are all set to benefit from the huge investments in the sector.
- Indo Tech Transformers, a niche player in the transformer manufacturing space, arguably has the best margins in the industry. The high margins due to operational efficiencies are fuelling the growth of the company.
- The company is expanding its manufacturing capacity to 7,450 MVA per annum to meet the rise in demand for transformers. It has an outstanding order book of Rs134 crore.
- The stock trades at a price/earnings ratio of 11x its FY2009E. We maintain Buy recommendation on the stock with price target of Rs650.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
ITC	**186.0**	25.8	23.2	19.4	27.7	26.6	27.5	**200.0**	7.6

Remarks:

- ITC has successfully channelised the strong cash flows generated from its cigarette business into the businesses of fast moving consumer goods (FMCG), hotels, paperboards and now e-Choupals .
- Despite huge spending on brand building, product development and infrastructure creation, the loss in the non-cigarette FMCG businesses has remained stable. This indicates that the performance of the existing portfolio is improving.
- The company has incurred huge capital expenditure (capex) in its various businesses without affecting its return on capital employed (ROCE), which is quite commendable. With a strong cash flow of Rs2,000 crore and a debt of only Rs200 crore, we believe the company has enough cash surplus to pump into new avenues of growth.
- At the current market price, the stock is quoting at 19.4x its CY2008E EPS of Rs9.6. We maintain our Buy recommendation on the stock with a price target of Rs200.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
JAIPRAKASH ASSOCIATES	**1,146.3**	56.5	37.5	32.8	16.1	15.5	15.3	**1,350.0**	17.8

Remarks:

- Jaiprakash is expanding its capacity by 15MMT over the next three years at the end of which it will emerge as one of the largest cement players in north India with a capacity of 22MMT.
- The company is the largest private sector hydropower player and is currently sitting on a huge construction order book of Rs7,200 crore. Taking cognisance of the government's target of achieving 50,000MW in hydropower electricity by 2012, we expect the order book to maintain its current momentum.
- The Taj Expressway project coupled with the company's real estate business (Taj Greens) will add value to the company's shareholders.
- Thus the company's diversified businesses will provide the much-needed stability to the overall business in the wake of a downturn in the cement cycle.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
MADRAS CEMENT	**4,308.4**	16.9	11.7	9.7	46.3	41.7	34.1	**4,600.0**	6.8

Remarks:

- The company is incurring a capital expenditure of Rs1,474 crore to expand its capacity by 4MMT in the next one year. The 2MMT expansion at Jayantipuram (including a 1MMT grinding unit at Kolkata) will be commissioned by the third quarter of FY2008, whereas the remaining 2MMT capacity at Ariyalur including an additional 56MW wind power plant will be commissioned by the second quarter of FY2009.
- The higher capacities will drive the volume growth of the company going forward whereas the improved pricing scenario will improve its profits. The captive power plants will help lower the power & fuel cost. The company will be able to save income tax in FY2009 to the extent of the accelerated depreciation available on wind power plants, which will positively increase the cash flows of the company. At the current market price of the stock is trading at a valuation of 9.7x its FY2009 earnings.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
MARUTI SUZUKI	**991.8**	18.7	15.7	13.8	24.9	26.1	23.8	**	-

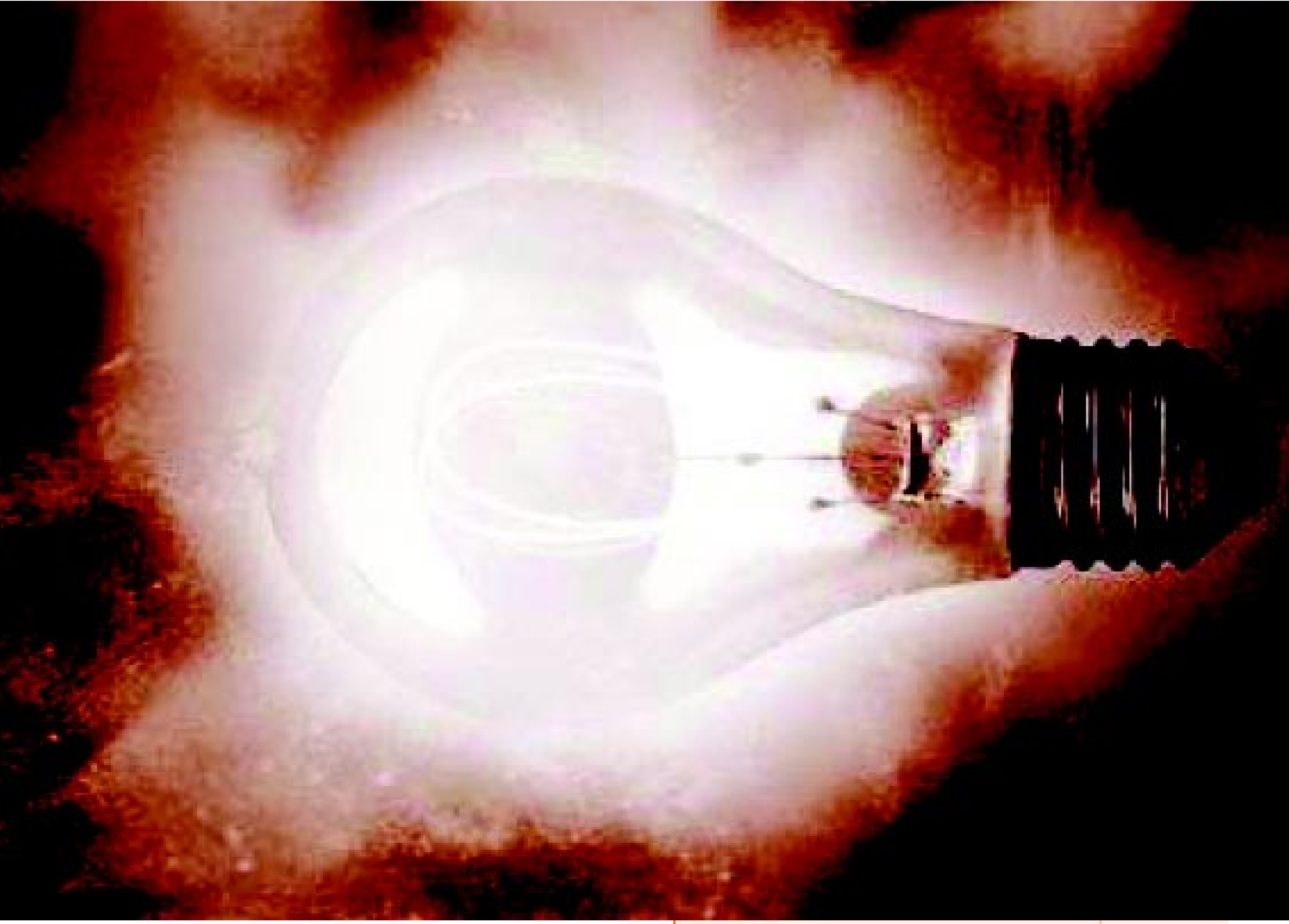
Remarks:

- Maruti Suzuki, the market leader in the passenger car market in India, is set to benefit from the number of new launches made by it in the recent times.
- Most of its new launches, namely *WagonR Duo*, *Zen Estilo*, *Diesel Swift* and *SX4*, have been well received by the market and are clocking strong volumes. Also, with the addition of the diesel vehicle and a sedan, the company has expanded its product basket, making it a full-fledged play on the country's booming passenger car market.
- With the expansion of its Manesar plant, its exports are also set to go on a top gear. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets and the company would be exporting about 100,000 units of the new vehicle to its parent, while another 50,000 units would be supplied to Nissan.
- At current levels, the stock is trading at 13.8x its FY2009E and is available at an EV/EBIDTA of 8x. We maintain our Buy recommendation with a price target under review.

NAME	CMP (RS)	PER FY07	PER FY08E	PER FY09E	ROE (%) FY07	ROE (%) FY08E	ROE (%) FY09E	TARGET PRICE	UPSIDE (%)
WOCKHARDT#	**419.8**	15.2	13.5	11.7	22.6	19.6	19.0	**552.0**	31.5

Remarks:

- Wockhardt is an integrated, diversified pharmaceutical company having presence in formulations, generics and bio-pharmaceuticals. The company's operations are spread across the globe.
- The company has a successful history of turning around and creating value for its acquisitions. Hence, it is all set to reap the benefits from its recently acquired Pinewood Laboratories, an Ireland based generic company, and France-based Negma Laboratories.
- We expect its US business to grow at a fast pace going forward, led by the new launches made in the latter part of 2006 and 26 new abbreviated new drug application filings.
- The approval of Wosulin in various export markets would give a huge boost to its bio-pharmaceutical business.
- At current levels, the stock is available at 13.5x its CY2007E and 11.7x its CY2008E earnings. The valuations seem very attractive at these levels and should be viewed as a strong buying opportunity.



Stock Idea

BL KASHYAP & SONS

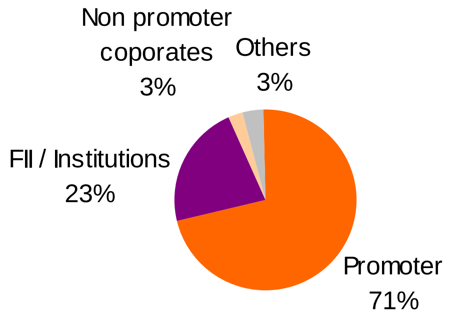
EMERGING STAR	BUY; CMP: RS2,189	SEPTEMBER 27, 2007

On a concrete footing

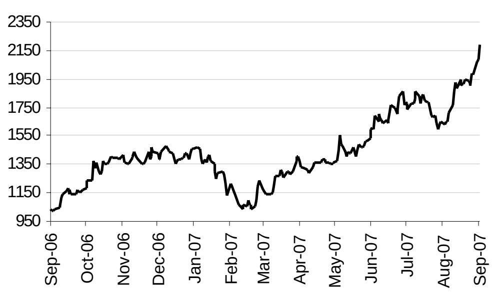
COMPANY DETAILS

Price target:	Rs2,850
Market cap:	Rs2,249 cr
52 week high/low:	Rs2340/989
NSE volume (No of shares):	7,560
BSE code:	532719
NSE code:	BLKASHYAP
Sharekhan code:	BLKASHYAP
Free float (No of shares):	0.3 cr

SHAREHOLDING PATTERN



PRICE CHART



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	34.6	29.6	92.7	114.6
Relative to Sensex	21.2	14.1	63.3	77.8

KEY POINTS

- **Poised to ride construction boom:** With its proven execution skills, reasonably large-scale of operations and an established customer base, BL Kashyap & Sons (BLK) is well poised to ride the construction boom in the fast-growing industrial, residential, commercial and retail segments.
- **Relatively low risk strategy:** Unlike most of its peers, BLK's strategy revolves around providing contractual construction services to private sector clients and it has consciously avoided exposure to long duration infrastructure projects that are prone to delays and are much more capital intensive. Thus, it does not require regular infusion of funds through debt or equity dilution.
- **To sustain growth momentum:** Despite its strategy to stay away from the big-ticket infrastructure projects, BLK has shown a healthy CAGR of 72.6% in its stand-alone revenues to Rs808 crore over the past three years. What's more, the strong order backlog of Rs2,100 crore (2.6x FY2007 revenues) provides a robust revenue growth outlook for the coming years. We expect the stand-alone revenues to grow at a CAGR of 48.8% over FY2007-10.
- **Value in real estate subsidiary:** BLK has forayed into real estate development through its subsidiary SSP, which undertakes joint development projects with the existing owners of land. Currently, it is executing six projects with saleable area of 13.2lsf (SSP's share of around 8.5lsf) and also has rights for around 150-acre land in Bikaner, Rajasthan. We have valued SSP at Rs580 crore.
- **Upside of 30% from current levels:** BLK's stand-alone earnings are estimated to grow at a CAGR of over 48% over FY2007-10. More importantly, given the company's limited exposure to highly capital intensive infrastructure projects, there is limited risk of equity dilution. At the current market price the stock trades at attractive valuations of 12.8x FY2009E and 9.3x FY2010E earnings (after adjusting for the value of its subsidiary: Rs554 per share). We recommend a Buy call on BLK with a price target of Rs2,850.

COMPANY BACKGROUND

BLK is promoted by the Delhi-based Kashyap family that has been involved in the construction business for the past three decades.

KEY FINANCIALS (STAND-ALONE)

Particulars	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Net sales (Rs crore)	465.5	808.1	1397.5	1982.5	2665.0
Net profit (Rs crore)	28.2	55.6	93.0	131.8	180.9
No of shares (crore)	1.0	1.0	1.0	1.0	1.0
EPS (Rs)	27.5	54.1	90.6	128.3	176.1
% y-o-y change	-	*96.7*	*67.5*	*41.7*	*37.2*
PER (x)	80.0	40.7	24.3	17.1	12.5
Price/BV (x)	9.3	7.6	5.9	4.4	3.3
EV/EBIDTA(x)	46.6	24.1	13.8	9.5	6.7
Dividend yield (%)	1.36	1.59	1.82	2.05	2.27
RoCE (%)	30.7	27.5	33.9	34.4	34.9
RoNW (%)	21.7	20.6	27.4	29.5	30.3

BLK has presence in various segments of the construction business like industrial, residential, commercial and retail projects.

In addition to its core business of undertaking civil construction work, the company offers other related services such as designing, furnishing and interiors.

The company has two major subsidiaries:

- **BLK Lifestyle Ltd (BLKL):** It is a wholly owned subsidiary involved in manufacturing of various fit-outs and furnishings that are utilised in residential and commercial projects. It has manufacturing facilities in Pune, Bangalore and Baddi (Himachal Pradesh) to produce various kinds of fit-outs. Though the company is expected to significantly scale up its revenues to around Rs25 crore in FY2008 (up from just Rs1.8 crore in FY2007), we have not considered BLKL's revenues in our estimates, as the same would still form an insignificant part of BLK's overall revenues in the coming years.
- **Soul Space Projects Pvt Ltd (SSP):** It is involved in real estate development through a model that minimises risk. The company does not purchase land but undertakes joint development projects in alliance with owners of the land on a sharing basis. BLK holds 97.9% stake in SSP.

INVESTMENT ARGUMENTS

Huge opportunity for proven players

With almost three decades of experience in the construction business, the ability to manage over 40 projects in a single year and an established clients base of leading private sector players for projects across segments, BLK is comfortably placed to exploit the huge opportunity in the construction business in India. What's more, the company is cash rich with around Rs175 crore of cash and liquid investments on its books as in March 2007. The cash would be more than enough to fund its capital requirements to scale up its operations in order to effectively tap the huge opportunity in the sector.

ESTABLISHED CLIENT BASE

Segment	Some of the existing clients
Industrial	Biocon, Escorts, Yamaha, Maruti, Hindustan Times, Suzuki, Hero Honda and SmithKline among others
Housing/Residential	Mantri Builders, DLF, Acme, Uppal Housing and others
Commercial	Logica, Motorola, Perot Systems, Adobe Systems, Polyplex, Bhilwara group and others
Hotels	Indian Hotels, Radisson, Hyatt and EIH among others
Hospitals	Escorts, Fortis and Jaipur Golden

The size of the opportunity is huge in the various segments that BLK is focused on:

Housing/residential

- Cushman & Wakefield have noted that there is scope for 400 township projects over the next five years spread across 30 to 35 cities, each having a population of more than 0.5 million. It has estimated the total project value dedicated to low and middle income housing in the next seven years at US$40 billion.
- According to CRIS INFAC's "Housing annual review", the residential sector is expected to grow at compounded annual growth rate (CAGR) of 18.4% over the next five years to Rs4.03 trillion.

Commercial

- According to CRIS INFAC, the space required for the information technology (IT) and IT enabled service (ITES) sectors alone is expected to increase at a CAGR of 23% over the next five years.

ESTIMATED GROWTH IN EXPENDITURE (RS CRORE)

Segment	2005	2010P	% CAGR
Housing	172,000	400,000	18.4
Commercial*	3,800	10,500	22.5
Retail	35,000	109,500	25.6

* For IT and ITES sector alone

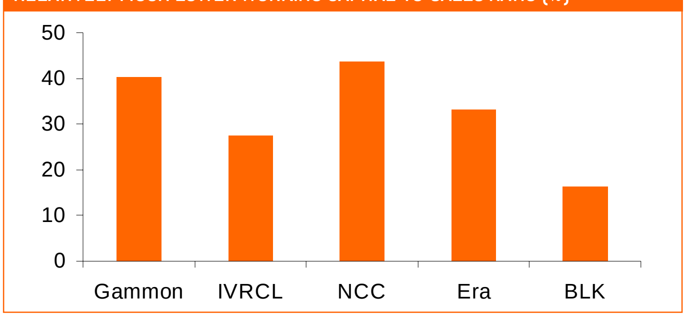
In addition to this, the aggressive expansion projects lined up by corporates and the impending development of special economic zones would only add to the existing opportunity for the construction companies.

De-risked business model

BLK has remained focused on providing contractual construction services to private sector clients and expanding its operation to various regions in the country. This is contrary to the model adopted by most other construction companies that have aggressively forayed into government sponsored big-ticket infrastructure projects. Consequently, BLK has not been exposed to risks associated with the infrastructure projects, such as delays in execution (due to issues like delay in obtaining approvals, acquiring land etc) and the need for huge infusion of capital (projects are awarded based on the net worth criterion; the build-own-transfer [BOT] projects involve huge capital investments initially with cash flows spread over a number of years).

The business model to focus on the shorter duration projects (residential, commercial, retail or industrial) from largely private sector clients has enabled BLK to considerably limit its capital requirements (both in terms of working capital and the initial capital expenditure in BOT projects) resulting in strong cash inflows and return ratios. For instance, BLK's working capital-to-sales ratio is around 10-15% as compared with 25-45% for most of its peers (such as Gammon India, Nagarjuna Construction, IVRC, Era Construction and Hindustan Construction) that are involved in infrastructure projects. Moreover, the visibility in execution of these projects of shorter duration is much better with limited scope for litigations.

RELATIVELY MUCH LOWER WORKING CAPITAL-TO-SALES RATIO (%)

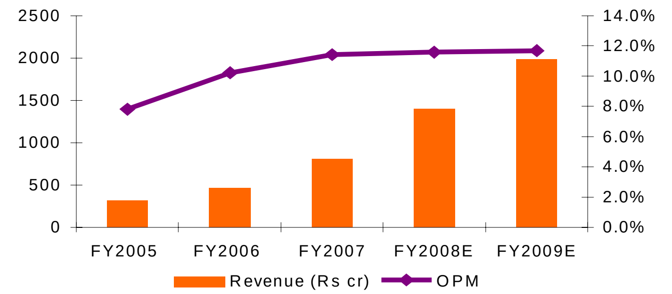


Source: Sharekhan Research

Healthy order backlog provides growth visibility

BLK has an order backlog of Rs2,100 crore that is executable over the next 18-24 months. In addition to this, the company has a strong pipeline of orders and expects to bag orders worth Rs400-500 crore in every quarter during the current fiscal. This provides a strong revenue growth visibility for the coming years. We expect its stand-alone revenues to grow at a CAGR of 48.8% over the three-year period FY2007-10.

REVENUE GROWTH ACCOMPANIED WITH IMPROVING MARGINS



Source: Sharekhan Research

In terms of profitability also, the company has shown a significant improvement in its operating profit margin over the past three years. The company believes that the margin is sustainable at the current levels and could improve marginally in the coming years.

Value to be unlocked in the real estate subsidiary

BLK has forayed into real estate development through its subsidiary SSP, which undertakes joint development projects with the existing owners of land. Currently, it is executing six projects with saleable area of 13.2 lakh sq ft (lsf; SSP's share of around 8.5lsf). Apart from this, the company has rights to develop 300 acre of land in Bikaner, Rajasthan with SSP's share estimated at around 150 acre. We have valued the subsidiary at Rs580 crore (or Rs554 per share for BLK's stake of 97.9% in SSP). Going forward, we believe that BLK could unlock value in its subsidiary through placement of part of the latter's equity to strategic investors.

VALUE OF SSP

	Amount (Rs cr)
SSP's share of projects under execution	206
Value of Bikaner land	375
Total value of subsidiary	581
Value/share for BLK's stake (Rs)	554

INVESTMENT CONCERNS

Intensified competitive scenario

The huge opportunity in the construction sector has attracted to India many globally leading construction companies, which are either directly setting up offices or forming joint ventures with existing construction or real estate companies. This would not only result in increasing competition for the contractual construction projects but put pressure on the cost side due to wage inflation. The industry is already witnessing a shortage of skilled and experienced manpower.

VALUATION

BLK's stand-alone earnings are estimated to grow at a CAGR of over 48% over the three-year period FY2007-10. Given its business model (no exposure to capital intensive infrastructure projects, hence strong cash inflows), there is limited risk of equity dilution and the growth in its earnings would get fully reflected in its earnings per share. At the current market price the stock trades at attractive valuations of 12.8x FY2009 and 9.3x FY2010 estimated earnings (after adjusting for the value of its subsidiary Rs554 per share). We recommend a Buy call on BLK with a price target of Rs2,850 (15x FY2010 estimated earnings discounted backwards by one year plus the value of its real estate subsidiary).

FINANCIALS

PROFIT & LOSS ACCOUNT (STAND-ALONE) RS (CR)

Particulars	FY06	FY07	FY08E	FY09E	FY10E
Net sales	465.5	808.1	1397.5	1982.5	2665.0
Total expenditure	417.9	715.9	1235.4	1750.5	2347.9
EBITDA	47.6	92.2	162.1	232.0	317.1
Other income	3.3	8.0	12.8	15.3	22.0
Interest	4.1	5.0	16.8	21.4	28.8
Depreciation	4.3	9.9	15.0	23.1	32.1
PBT	42.6	85.3	143.1	202.8	278.3
Tax	14.3	29.7	50.1	71.0	97.4
PAT	28.2	55.6	93.0	131.8	180.9

BALANCE SHEET RS (CR)

Particulars	FY06	FY07	FY08E	FY09E	FY10E
Share capital	10.3	10.3	10.3	10.3	10.3
Reserves and surplus	233.9	285.2	373.5	499.9	674.8
Net worth	244.2	295.5	383.7	510.1	685.0
Total debt	19.5	93.2	167.7	237.9	319.8
Deferred tax liabilities	1.6	2.0	2.4	2.9	3.5
Capital employed	265.3	390.7	553.8	750.9	1008.3
Net fixed assets	42.8	70.0	120.0	166.9	214.9
Investments	140.5	145.4	160.0	176.0	193.6
Net current assets	75.6	170.6	269.6	403.8	595.6
Msc exp not w/off	6.4	4.7	4.3	4.3	4.3
Capital deployed	265.3	390.7	553.9	751.0	1008.3

KEY RATIOS

Particulars	FY06	FY07	FY08E	FY09E	FY10E
OPM (%)	10.2	11.4	11.6	11.7	11.9
NPM (%)	6.1	6.9	6.7	6.6	6.8
RoCE (%)	30.7	27.5	33.9	34.4	34.9
RoNW (%)	21.7	20.6	27.4	29.5	30.3

VALUATION

Particulars	FY06	FY07	FY08E	FY09E	FY10E
EPS (Rs)	27.5	54.1	90.6	128.3	176.1
P/E	80.0	40.7	24.3	17.1	12.5
Book value	237.7	287.7	373.6	496.6	666.9
Price/BV	9.3	7.6	5.9	4.4	3.3
EV/Sales	4.8	2.7	1.6	1.1	0.8
Market cap/Sales	4.9	2.8	1.6	1.1	0.8
EV/EBIDTA	46.6	24.1	13.8	9.5	6.7
Dividend yield (%)	1.4	1.6	1.8	2.0	2.3

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

Jindal Saw

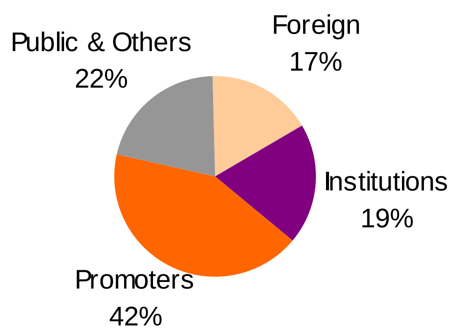
Emerging Star | **Buy; CMP: Rs635** | **September 20, 2007**

Opportunities in the pipeline

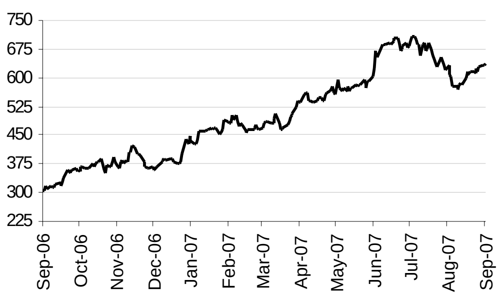
COMPANY DETAILS

Price target:	Rs830
Market cap:	Rs3,071 cr
52 week high/low:	Rs728/300
NSE volume (No of shares):	58,521
BSE code:	500378
NSE code:	JINDALSAW
Sharekhan code:	JINDALSAW
Free float (No of shares):	2.8 cr

SHAREHOLDING PATTERN



PRICE CHART



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	4.7	-3.1	30.8	107.0
Relative to Sensex	-11.9	-15.9	8.0	72.2

KEY POINTS

- **De-risked business model:** Jindal Saw Ltd (JSL), the largest pipe manufacturer in the country, is expected to make the most of a huge opportunity in the pipe sector due a global surge in E&P activities and a strong domestic demand. JSL is present in almost all pipe segments, which makes it a de-risked and strong play on the booming Indian pipe sector.
- **Strong order book:** It enjoys a strong order book of $700 million, ie almost 1.1x its FY2006 sales from Indian operations. Executable by May 2008 this strong order book and the buoyancy in the pipe industry provide good visibility to its future earnings.
- **Margin expansion:** We expect a sharp improvement in the margins of JSL going forward due to the sell-off of its US business (which was less profitable), better product mix in favour of seamless and ductile iron pipes, and greater operating efficiencies. The OPM of the company is expected to improve from 10.6% in FY2006 to 15.2% in FY2009.
- **US sell-off positive:** We regard the sell-off of the US operations as a positive for the company, since its lower margin was dragging the company's overall profitability. Moreover, JSL has been able to get a good price from the stake sale and the transaction would lead to a post-tax inflow of $275 million. The company would utilise part of this to repay some amount of debt and expand its capacity.
- **Attractive valuations:** Considering its strong growth potential, sharp improvement in its margin and the buoyancy in the pipe segment, we believe the stock is trading at very attractive valuations. We expect the profits of the company to grow at a CAGR of 40% over FY2006-09. At the current market price of Rs635, the stock is discounting its FY2009E earnings by 7.6x and is available at an EV/EBIDTA of 3.6x, which is lower than that of its peers. We, therefore, recommend a Buy on JSL with a price target of Rs830.

COMPANY BACKGROUND

JSL, part of the Jindal group, was incorporated in 1984. Over the years, JSL has transformed itself from a single product maker into a multi-product company, with presence in large diameter pipes (both LSAW and HSAW), seamless pipes, and ductile iron (DI) pipes.

KEY FINANCIALS

Particulars	FY2005	FY2006	FY2007E	FY2008E	FY2009E
Net sales (Rs cr)	2,313.6	3,855.7	4,963.1	3,870.7	5,086.8
Net profit (Rs cr)	99.1	169.1	284.6	291.0	465.7
EPS (Rs)	17.7	30.1	50.7	51.9	83.0
% y-o-y change	*73.6*	*70.6*	*68.4*	*2.2*	*60.0*
PER (x)	35.9	21.1	12.5	12.2	7.6
P/B	4.2	3.5	2.8	1.2	1.0
EV/EBIDTA	16.1	10.9	8.7	5.2	3.6
RoCE (%)	17.8	18.9	20.6	16.1	19.3
RoNW (%)	11.7	16.6	22.7	9.5	13.5

The company's manufacturing facilities are located at three places: Kosi Kalan in Uttar Pradesh for the manufacture SAW pipes, Nashik in Maharashtra for seamless pipes, and two manufacturing bases at Mundra in Gujarat. Its clients include all major domestic oil and gas companies, and international majors like CNPC (China), AGIP, Qatar Petro, and Shell among others.

INVESTMENT ARGUMENTS

Strong growth in the pipe sector

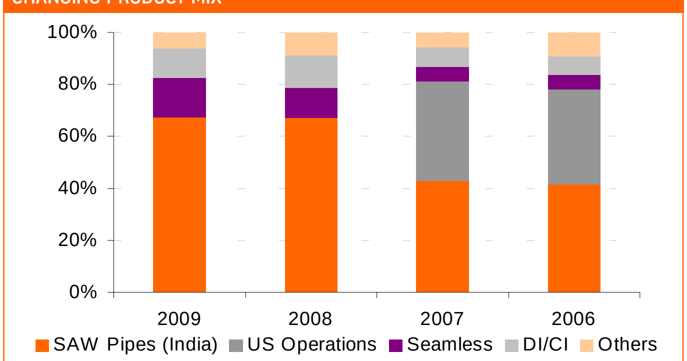
Given the rising demand for crude and the resulting upsurge in the fuel's prices, exploration and production (E&P) activities have received a major boost globally in the past few years. Worldwide, plans are afoot to lay down more than 240,000 kilometre of pipelines in the next few years. Bulk of this demand is accruing from the USA, the Middle East and Asia. Even the domestic pipe market continues to grow at a rapid pace, given the sharp rise in E&P activities and under-penetration of pipe infrastructure in the country. The penetration of pipe infrastructure in India is just about 33% compared with 59% of the USA and about 75% of France. India currently has an oil and gas pipeline network of about 26,000 kilometre. Considering the already announced plans, there would be an addition of almost 18,000 kilometre of pipelines in the next four to five years. GAIL India itself has line up a capital expenditure plan of Rs18,000 crore and would be almost doubling its existing pipe network of 5,400 kilometre while Reliance Industries would be adding 5,000 kilometre of pipeline in the next five years. Also, there exists huge potential in the water transportation segment, which is expected to witness a strong growth too, considering the government's thrust on improving the country's water infrastructure.

We expect Indian pipe makers to not only ride on the domestic boom but also make the most of the huge global opportunity (worth almost $12 billion), considering that they have already won accreditations from global companies, enjoy lower conversion costs and are located close to high growth regions like the Middle East. JSL, being the largest pipe maker in the country, is expected to make the most of this huge opportunity and be one of the prime beneficiaries of this boom.

De-risked business model

We particularly like JSL's diversified business model. JSL is present across pipe segments, namely SAW pipes (both LSAW and HSAW), seamless pipes and DI pipes. The diversification helps the company to cater to almost all the user segments, with clients in oil and gas exploration, transportation, water transportation and sewerage applications; while it also immunes the company against a slowdown in one particular segment.

CHANGING PRODUCT MIX



Source: Sharekhan Research

Strong order book

JSL is sitting on a strong order book of $700 million, which is executable in the next eight to nine months. Out of this, about $525 million pertains to the LSAW segment, $75 million to the HSAW segment, $60 million to the seamless pipes segment and $40 million to the DI/CI segment. The company has strong presence in the Middle East and most of the LSAW orders are from the export markets. The strong order book of JSL, which is about 1.1x sales of its Indian operations, provides good visibility to its earnings.

Margins to improve substantially

We expect significant improvements in JSL's overall margins due to the following reasons.

a) **US sell-off:** The US operations of the company were yielding lower margins (in the region of 8-9% against about 14-15% in its Indian operations). This was on account of a lot of inefficiencies in its manufacturing processes and lack of modernisation due to financial constraints. The sell-off of the US business would straightaway improve the overall margins of the company.

b) **Better capacity utilisation:** The strong demand for pipes, both globally and domestically, would trigger an overall improvement in its capacity utilisation, particularly in the DI pipes and seamless segments. This would lead to better operational leverage.

c) *Setting up of a sintering facility and a CPP:* Last year the company set up a sintering facility, which helped it to improve the margins of its DI pipes from about 13-14% in FY2006 to about 18% currently. Further, by December 2007 the company is installing a captive power plant (CPP) which would help it to reduce its power cost to about Rs2 per unit, thereby improving its DI margins further.

d) *Better product mix:* Seamless and DI pipes enjoy higher margins as compared with the SAW pipes. Going forward, we expect the contribution of both these segments to the overall revenue mix to improve, which should trigger a further margin expansion. We expect the contribution of the seamless pipes to increase from 5.4% in FY2006 to 15.3% in FY2009. Because of lower utilisation and efficiencies, the company was also enjoying lesser margins in its seamless pipes division. With higher utilisation and better operational efficiencies, the margins of the seamless division are expected to improve from the current level of about 13-14% to 22-23% in FY2009.

Considering the above, we expect JSL's overall operating profit margin (OPM) to improve from 10.6% in FY2006 to 15.2% in FY2009E.

Capacity expansions

JSL is also undertaking a capacity expansion exercise. The company would be expanding its current capacity of 1.25mmtpa by another 0.7mmtpa to 1.95mmtpa over the next two years. It plans to spend approximately Rs700 crore towards capacity expansions. Further, the company would be spending close to Rs75 crore for the installation of a waste heat recovery power plant.

EXPANSION PLANS	Current (tpa)	Proposed (tpa)	Expanded (tpa)	Remark capacity
LSAW	800,000	200,000	1,000,000	By September 2008
HSAW	150,000	350,000	500,000	200,000tpa by March 2008; 150,000tpa by September 2008
Seamless	100,000	150,000	250,000	By June 2008
DI/CI	200,000	0	200,000	De-bottlenecking to improve utilisation
Total	**1,250,000**	**700,000**	**1,950,000**	

US operations sold off

JSL had, in August 2007, sold off its investment in the US subsidiary and received total cash of USD275 million. US revenues accounted for about 36% of its total FY2006 revenues for the company. The US subsidiary had a capacity to manufacture 1.2mmtpa plates and 0.5mmtpa pipes. The US operations were less profitable as compared with its Indian operations. This was because of lower efficiencies and lack of modernisation in plants. We believe that the sell-off of the stake in the US subsidiary was a positive move for the company, considering the cash it generated from the transactions. Also, the sell-off would boost the overall margins of the company.

INVESTMENT CONCERN

Steel prices on a rise

Steel is the primary raw material for the pipe manufactures, accounting for bulk of the raw material cost. The steel prices have consistently gone up in the last couple of years. Usually the entire quantity of steel requirement is booked at the time when the order is secured. Hence, the exposure to steel prices is just between the period of bidding for the order and forward booking of steel.

VALUATIONS AND VIEW

Considering its leadership position, de-risked business model, margin improvement and strong growth prospects ahead, we believe that its stock's valuations are very attractive. Also, after the sale of its US operations, the company is sitting on a huge cash pile which would partly be utilised for debt repayments and capacity expansions. The company had also raised about Rs360 crore last year through the foreign currency convertible bond route to fund its expansion plans. High cash position and debt repayment would strengthen the balance sheet size of the company, while interest cost would come down significantly too.

PEER COMPARISON

	PER			EV/EBIDTA		
	FY07	FY08	FY09	FY07	FY08	FY09
Jindal Saw	12.5	12.2	7.6	8.7	5.2	3.6
Maharashtra Seamless	18.2	13.6	11.1	11.8	8.3	6.5
PSL	23.4	14.3	8.6	12.5	8.7	6.3
Man Inds	17.0	12.7	8.8	9.5	7.2	4.8

We expect the overall revenues of the company to grow at a compounded annual growth rate (CAGR) of 9% between FY2006 and FY2009, and profits to grow at a CAGR of 40% over the same period. Adjusting for the US sales, we expect the sales to increase at a CAGR of 27% over the same period. At the current levels, the stock is trading at compelling valuations: it is discounting its FY2009E earnings by 7.6x and is available at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 3.6x. This also makes it the most attractive stock in the pipe sector. We, therefore, recommend a Buy on the stock with a price target of Rs830. ■

FINANCIALS

PROFIT & LOSS ACCOUNT					RS (CR)
Particulars	**FY05**	**FY06**	**FY07E**	**FY08E**	**FY09E**
Net sales	2,313.6	3,855.7	4,963.1	3,870.7	5,086.8
Operating expenses	2,046.4	3,445.9	4,413.1	3,325.7	4,313.4
Operating profit	267.2	409.8	550.1	545.0	773.4
Other income	17.7	43.2	50.0	65.0	75.0
EBIDTA	285.0	453.0	600.1	610.0	848.4
Depreciation	35.4	51.9	59.0	77.1	83.4
Interest	99.7	145.0	116.2	92.0	59.5
PBT	149.8	256.1	424.8	440.9	705.6
Tax	50.7	87.0	140.2	149.9	239.9
PAT	99.1	169.1	284.6	291.0	465.7
BALANCE SHEET					**RS (CR)**
Share capital	147.1	148.4	148.4	156.1	156.1
Reserves & surplus	700.4	871.8	1,105.0	2,911.1	3,292.7
Shareholders fund	847.5	1,020.2	1,253.4	3,067.2	3,448.8
Total debt	997.7	1,380.0	1,600.0	700.0	700.0
Total liabilities	1,845.2	2,400.1	2,853.4	3,767.2	4,148.8
Gross block	830.9	958.7	1,375.4	1,835.4	1,985.4
Net fixed assets	639.0	715.1	1,072.8	1,455.7	1,522.3
C/w in progress	89.5	166.6	60.0	50.0	0.0
Investments	96.2	96.5	96.5	83.0	83.0
Current assets	1,575.1	2,700.5	3,187.2	3,519.1	4,232.6
Current liabilities	494.8	1,202.0	1,486.4	1,263.9	1,612.5
Net current assets	1,080.3	1,498.5	1,700.8	2,255.2	2,620.1
Misc exp not w/o	0.0	0.0	0.0	0.0	0.0
Deferred tax liability	-59.9	-76.6	-76.6	-76.6	-76.6
Total assets	1,845.2	2,400.1	2,853.4	3,767.2	4,148.8
VALUATIONS					
EPS	17.7	30.1	50.7	51.9	83.0
PER	35.9	21.1	12.5	12.2	7.6
P/B	4.2	3.5	2.8	1.2	1.0
EV/EBIDTA	16.1	10.9	8.7	5.2	3.6
EV/Sales	1.9	1.2	1.0	0.7	0.5
M Cap/Sales	1.5	0.9	0.7	0.9	0.7
KEY RATIOS					
OPM (%)	11.6	10.6	11.1	14.1	15.2
EBIDTA (%)	12.3	11.7	12.1	15.8	16.7
PAT (%)	4.3	4.4	5.7	7.5	9.2
RoCE (%)	17.8	18.9	20.6	16.1	19.3
RoNW (%)	11.7	16.6	22.7	9.5	13.5
Debt equity (X)	1.2	1.4	1.3	0.2	0.2

Stock Update

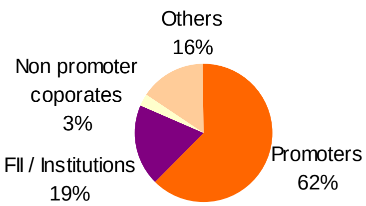
Aban Offshore

Emerging Star | Buy; CMP: Rs3,165 | September 18, 2007

Company details

Price target:	Rs3,765
Market cap:	Rs12,163 cr
52 week high/low:	Rs3,261/1,010
NSE volume (No of shares):	1.2 lakh
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float (No of shares):	1.4 cr

Shareholding pattern



Price performance

(%)	1m	3m	6m	12m
Absolute	20.0	1.0	77.7	158.4
Relative to Sensex	9.4	-8.1	41.2	97.8

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

Price target revised to Rs3,765

Aban Offshore has announced a contract for three of its jack-up rigs (Aban III, Aban IV and Aban V) with Oil & Natural Gas Corporation (ONGC) for a period of three years. At the renewed day rate of US$156,600 the total value of the contract works out to around Rs2,000 crore.

The effective day rate of US$156,600 is ahead of our assumption of US$145,000 and almost 180% higher than the effective day rate in the existing contract (around US$57,600) and clearly shows the strong uptrend in the day rates over the past few years.

Moreover, the new contract would eliminate all the apprehensions about the possible softening of the day rates due to aggressive bidding by some of the smaller players like Great Offshore and Jindal Drilling.

Revision in earnings

To factor in the higher than expected day rates for three of its assets from ONGC and the additional revenues from the recently acquired semi submersible rig (Billford Dolphin; day rate assumption of US$250,000), we have revised our FY2009 and FY2010 earnings estimates by 3.4% and 8.3% respectively. On the other hand, the estimate for FY2008 has been revised downwards marginally to reflect the higher interest outgo and the marginal revenues from the recently acquired semi submersible rig in FY2008.

Valuation

At the current market price the stock trades at 29.3x FY2008 and 8.2x FY2009 estimated earnings. We maintain our Buy call on the stock with a revised price target of Rs3,765 (8.5x FY2010 earnings discounted backwards by one year).

For further details, please visit the Research section of our website, sharekhan.com

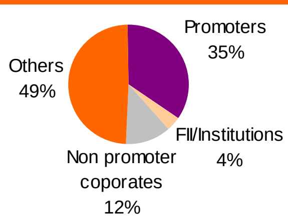
Alphageo India

Emerging Star | Buy; CMP: Rs416 | September 11, 2007

Company details

Price target:	Rs517
Market cap:	Rs203 cr
52 week high/low:	Rs459/106
NSE volume (No of shares):	2,950
BSE code:	526397
NSE code:	ALPHAGEO
Sharekhan code:	ALPHAGEO
Free float (No of shares):	0.32 cr

Shareholding pattern



Price performance

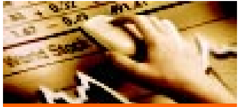
(%)	1m	3m	6m	12m
Absolute	19.1	18.6	137.4	203.0
Relative to Sensex	13.4	6.4	94.3	128.8

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

Annual report review

- In FY2007, Alphageo India's (Alphageo) revenues increased by around 128% year on year (yoy) to Rs54.3 crore. The operating profit rose by 128% yoy to Rs25.5 crore as compared with Rs11.2 crore in FY2006. However, the operating profit margin (OPM) remained almost flat at 46.9% in FY2007. The net profit grew at 78.3% yoy to Rs7.5 crore.
- The company's order book as on April 30, 2007 stood at Rs117.1 crore, which is around 70% higher than that of Rs68.8 crore on April 30, 2006. Among major order wins, it received a Rs58.4 crore contract from ONGC in the operational blocks of the Cauvery basin, Tamil Nadu which is strategically important in terms location advantage (work can be done in monsoon season) and getting order from ONGC after a long gap.
- The Company added one more 3D crew in FY2007. The crew strength of the company now stands at five of which three are 3D crew and two are 2D crew. The 3D projects made up around 77% of the total revenues as compared with around 44% in FY2006.
- Alphageo is one of the leading private sector players operating in the 2D and 3D seismic services. The company is well versed with almost all the terrains across the country. At the current market price of Rs416, the stock discounts its FY2009E earnings by 8.0x and is available at enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 4.0x. We maintain our Buy recommendation on the stock with a price target of Rs517.

For further details, please visit the Research section of our website, sharekhan.com



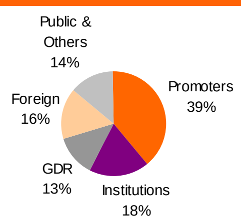
Ashok Leyland

Ugly Duckling | Hold; CMP: Rs39 | September 06, 2007

COMPANY DETAILS

Price target:	Rs42
Market cap:	Rs5,223 cr
52 week high/low:	Rs51/34
NSE volume (No of shares):	31.5 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float (No of shares):	63.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	6.9	1.0	9.7	-7.5
Relative to Sensex	4.7	-5.5	-12.6	-29.6

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

Decline continues

- Ashok Leyland's total vehicle sales during August 2007 declined by 6.6% to 6,055 units as against 6,483 units in the same month a year ago. The sales in the domestic market declined by 3.2%, whereas the export sales were substantially down by 31% for the month. On a month-on-month basis the total sales grew by 8.6%, which can be attributed to higher sales of passenger and light commercial vehicles.
- The passenger/bus segment grew by 61% to 2,220 vehicles. The domestic passenger vehicle sales rose by 81% to 1,832 units on the back of orders from various State Transport Corporations, mainly the Tamil Nadu State Transport Corporation. These orders are expected to continue for one more month.
- The truck sales declined by 25% to 3,794 vehicles. The domestic truck sales declined by 22% year on year (yoy) to 3,656 vehicles, while the truck exports declined by 67% to 138 vehicles.
- The company under performed the industry during the month as its sales declined higher than that of the industry.
- For the full year, the company expects the commercial vehicle industry to grow by 5-6%. We estimate that the overall volumes for the company will decline by 4.7% in the current year but to grow by 13% the next year.
- The capital expenditure for FY2008 has been doubled to Rs1,000 crore and is expected to restrict the profit after tax (PAT) growth. We remain very cautious on industry's prospects considering weak freight rates, low freight availability due to seasonal factors, reduced auto loan disbursals by financiers and increase in the instances of delinquencies. Consequently, we are maintaining Hold on the stock.

For further details, please visit the Research section of our website, sharekhan.com

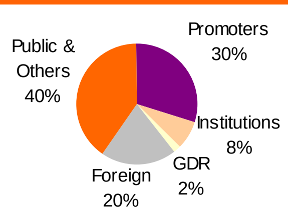
Bajaj Auto

Apple Green | Buy; CMP: Rs2,393 | September 12, 2007

COMPANY DETAILS

Price target:	Rs2,550
Market cap:	Rs24,218 cr
52 week high/low:	Rs3175/2063
NSE volume (No of shares):	3.2 lakh
BSE code:	500490
NSE code:	BAJAJAUTO
Sharekhan code:	BAJAJ
Free float (No of shares):	6.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	0.6	12.2	-4.5	-11.9
Relative to Sensex	-3.9	1.1	-21.6	-35.3

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

XCD launch to improve margins

Bajaj Auto Ltd (BAL) expects its overall margin to rise in the second quarter of FY2008 on the back of sales of *XCD*, the recently launched 125cc motorcycle, and the closure of the Akurdi plant.

With increasing sales in the 125cc plus segment, the contribution from the segment should rise in H2FY2008, leading to a better profit margin in H2FY2008. The margin in the 125cc plus segment is higher at 15%, whereas that in the 100cc segment is only in single digits.

All of this coupled with the cost savings arising out of the closure of manufacturing operations at Akurdi, is expected to take the operating profit margin to 15% in H2FY2008.

However, as per our current estimates we expect the margins to be at 14.3% in H2FY2008, higher than 13.2% expected in the H1FY2008. As mentioned earlier, we feel the closure of the Akurudi manufacturing operations may not lead to huge cost savings. The company manufactured only its scooter *Krystal* from this plant.

In view of this we maintain our earnings estimate of Rs109.7 for FY2008 and of Rs120.4 for FY2009. We would review our estimates depending on the success of *XCD* and the actual savings resulting from the closure of the plant.

For further details, please visit the Research section of our website, sharekhan.com

Bank of India

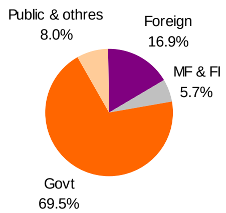
Apple Green | Buy; CMP: Rs260 | September 27, 2007

Price target revised to Rs325

COMPANY DETAILS

Price target:	Rs325
Market cap:	Rs12,691 cr
52 week high/low:	Rs276/132
NSE volume (No of shares):	21.2 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BOI
Free float (No of shares):	14.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	17.1	19.8	53.4	76.7
Relative to Sensex	-0.3	2.4	18.1	27.2

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

- Bank of India (BoI) is considering diluting 5% of the government's stake in it. At present, the government holds 69.5% stake in the bank.
- A 5% reduction in the government's stake would result in an issue of 3.8 crore shares equivalent to 7.8% of the existing equity base of 48.8 crore shares which would help the bank to raise around Rs1,000 crore.
- The bank is weighing the option of raising resources through both the follow-on public offer (FPO) option and the qualified institutional placement (QIP) route but prefers the latter since it could be faster and cost effective.
- If the bank goes ahead with the QIP offering, it will be the first public sector bank (PSB) to do so. We feel the QIP route would make more sense, considering the small dilution plans of the bank. It would also help the bank to fetch much better pricing than it would normally get if it adopts the FPO route.

For further details, please visit the Research section of our website, sharekhan.com

Bharat Electronics

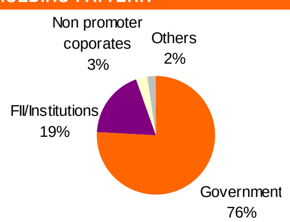
Apple Green | Buy; CMP: Rs1,775 | September 04, 2007

Annual report review

COMPANY DETAILS

Price target:	Rs1,975
Market cap:	Rs14,200 cr
52 week high/low:	Rs1949/1052
NSE volume (No of shares):	1.5 lakh
BSE code:	500049
NSE code:	BEL
Sharekhan code:	BEL
Free float (No of shares):	1.9 cr

SHAREHOLDING PATTERN



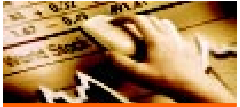
PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	5.3	-7.4	17.7	52.7
Relative to Sensex	3.3	-13.1	-2.5	15.3

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

- Gross sales of Bharat Electronics Ltd (BEL) grew by 11.8% in FY2007 on the back of a healthy growth in the civilian segment whereas the defence business remained stagnant during the year. The earnings growth of 23.2% was aided by a jump of 65.6% in the other income component and a decline in the interest outgo. In terms of balance sheet, the huge jump in the sundry debtors resulted in a lower than expected growth in the free cash on its books.
- The order backlog at the beginning of the year stood at a record level of Rs9,130 crore of which Rs3,969 crore is executable in the current fiscal. The company has agreed to a revenue target of Rs4,725 crore for FY2008.
- BEL is gearing itself to meet the increasing competition through the roll-out of new products (leveraging its research capabilities) and tie-ups with suitable partners (domestic and foreign vendors). During the year, the company signed agreements with leading global defence vendors including Lockheed Martin, Boeing, Northrop Grumman and CASA.
- At the current market price the stock trades at 13.7x FY2008 and 11.2x FY2009 earnings estimates (adjusted for the estimated free cash on its books). We maintain our Buy call on the stock with a price target of Rs1,975.

For further details, please visit the Research section of our website, sharekhan.com



Bharat Heavy Electricals

Apple Green

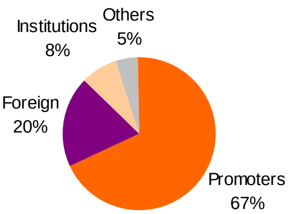
Buy; CMP: Rs1,910 | **September 11, 2007**

Annual report review

COMPANY DETAILS

Price target:	Rs1,954
Market cap:	Rs93,498 cr
52 week high/low:	Rs1,960/970
NSE volume (No of shares):	7.7 lakh
BSE code:	500103
NSE code:	BHEL
Sharekhan code:	BHEL
Free float (No of shares):	15.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	12.0	44.7	81.2	64.1
Relative to Sensex	6.7	29.8	48.2	23.9

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

- Bharat Heavy Electricals Ltd (BHEL) had a splendid FY2007, registering a 29% growth in its revenues to Rs18,739 crore and a 44% increase in its net earnings to Rs2,414.7 crore. The operating profit margin (OPM) expanded marginally (by 60 basis points) to 19.1%.
- The power business registered a healthy growth of 28% in its revenues while the industrial business recorded a rise of 32% in its revenues during the year.
- It was a remarkable year for BHEL in terms of order inflow, which grew at 88.2% year on year (yoy) to Rs35,643 crore. Consequently, the order backlog at the end of the year stood at Rs55,000 crore.
- BHEL's cash pile stood at a huge Rs5,808 crore at the end of FY2007, thanks to reduced working capital requirement and lower capital expenditure during the year.
- The company has crafted a "Strategic plan 2012" targeting a turnover of $10 billion by 2012 vs $4 billion at present.
- In our view, the government's focus on increasing power generation in order to meet its mission of providing "power for all by 2012" would be one of the key catalysts for BHEL's order inflows, providing clear visibility to the company's earnings.
- We believe in future, the execution capability is going to be a key differentiating factor in this business and BHEL, which is a large player, will be better placed to secure the best orders in the industry. Hence, we remain bullish on the stock and reiterate our Buy recommendation with a price target of Rs1,954. At the current market price Rs1,910 the stock is trading at 30.4x its FY2008E earnings and 24.4x its FY2009E earnings.

For further details, please visit the Research section of our website, sharekhan.com

Elder Pharmaceuticals

Apple Green

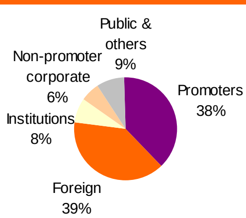
Buy; CMP: Rs399 | **September 05, 2007**

Acquisition is earnings accretive

COMPANY DETAILS

Price target:	Rs508
Market cap:	Rs741 cr
52 week high/low:	Rs449/320
NSE volume (No of shares):	26,894
BSE code:	532322
NSE code:	ELDERPHARM
Sharekhan code:	ELDERPHARM
Free float (No of shares):	1.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.9	-0.3	1.7	8.9
Relative to Sensex	-3.1	-7.0	-16.0	-17.1

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

- Elder Pharmaceuticals (Elder) has acquired a 51% stake in Biomeda Group in Bulgaria for 5 million euros (around Rs28 crore) in an all-cash deal.
- Biomeda is among Bulgaria's top ten oral dosage formulation manufacturer and distributor. The manufacturing division of the company includes a manufacturing facility to produce oral formulations and hard gelatin capsules.
- In line with its strategy to expand its global footprint, Elder's acquisition of a 51% stake in Bulgaria's Biomeda group is expected to provide it with an entry point into the European markets. With Biomeda's stable of nine products and its strong relationships, Elder hopes to grow the existing business of Biomeda at an annual rate of 15-20% in the next two-three years. Further, Elder is also planning to introduce products from its own portfolio into Bulgaria and the other European countries through Biomeda.
- We believe that through the introduction of Elder's products into the Bulgarian and other key European markets, Biomeda's sales will grow by 20% to 12 million euros in CY2008/FY2009 and by 50% to 18 million euros in CY2009/FY2010. Further, cheaper sourcing of the raw materials and rationalisation of operating costs will improve Biomeda's margins from the current level of 8-10% to 12% in the next three years. Our back-of-the-envelope calculations indicate that after minority interest, the Biomeda acquisition will dilute Elder's earnings by Rs0.06 per share in FY2008, but add Rs0.8 per share in FY2009 and Rs2.3 per share in FY2010.

For further details, please visit the Research section of our website, sharekhan.com

ESAB INDIA

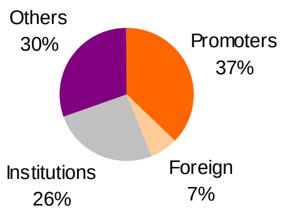
VULTURE'S PICK | **BUY; CMP: RS470** | **SEPTEMBER 20, 2007**

Subdued response to open offer

COMPANY DETAILS

Price target:	Rs575
Market cap:	Rs723 cr
52 week high/low:	Rs505/286
NSE volume (No of shares):	19,941
BSE code:	500133
NSE code:	ESABINDIA
Sharekhan code:	ESAB
Free float (No of shares):	1.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	0.9	12.7	49.4	41.1
Relative to Sensex	-12.7	-1.6	14.7	2.2

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

- ESAB India's parent company had made an open offer to the shareholders of ESAB India for acquiring 58.01 lakh equity shares, which amounted to 37.69% of the equity share capital, at the rate of Rs505 per share.
- The shareholder response to the offer was lukewarm as only 28.09 lakh equity shares were tendered during the offer period. This shows high confidence in the company by its existing shareholders.
- Post offer, the shareholding of the parent company increased to 55.56% as against 37.31% prior to the offer. Consequently, public shareholding decreased from 62.69% to 44.44%.
- After conclusion of the offer, the parent company wanted to hold 75% of the equity capital however, a subdued response to the offer is a testimony to the growing confidence of the existing shareholders in the company. ESAB India has recently expanded its product range and capacities indicating the management's confidence in the increasing demand for the company's products. The company has also reported a spectacular growth in both its revenues and earnings in the first half of CY2007.
- We expect order inflows and robust product demand to continue for the company owing to planned investment in core infrastructure sectors like roads, ports, airports and construction in India. ■

For further details, please visit the Research section of our website, sharekhan.com

GENUS POWER INFRASTRUCTURES

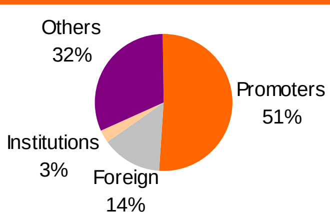
UGLY DUCKLING | **BUY; CMP: RS599** | **SEPTEMBER 24, 2007**

Issue of warrants to meet working capital needs

COMPANY DETAILS

Price target:	Under review
Market cap:	Rs731 cr
52 week high/low:	Rs650/185
NSE volume (No of shares):	64,912
BSE code:	530343
NSE code:	GENUSOVERE
Sharekhan code:	GENUSOVER
Free float (No of shares):	0.6 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	59.9	148.6	150.1	187.7
Relative to Sensex	34.9	116.9	93.9	110.7

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

- Genus Power Infrastructures (Genus) has issued 1,500,000 equity shares of Rs10 each on a preferential basis at a price of Rs560, aggregating to Rs84 crore.
- The company had earlier issued 1,000,000 convertible warrants, convertible into an equivalent number of equity shares of Rs10 each at Rs409 each and another 600,000 convertible warrants convertible at Rs342.50 each.
- According to our estimates, the issue of warrants would dilute the equity base to the extent of 12.13% from the current levels.
- The company would use the proceeds from the issue to fund its working capital requirements.
- The company recently also launched RFID-based contact-less smart card pre-paid meters. The pilot project for the technology has already started in India and the product has already been approved by the Brazilian utilities. ■

For further details, please visit the Research section of our website, sharekhan.com

Hindustan Unilever

Apple Green

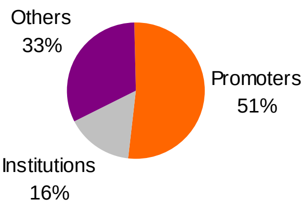
Buy; CMP: Rs218 — September 27, 2007

Regaining pricing power

COMPANY DETAILS

Price target:	Rs280
Market cap:	Rs48,289 cr
52 week high/low:	Rs262/166
NSE volume (No of shares):	25.4 lakh
BSE code:	500696
NSE code:	HINDLEVER
Sharekhan code:	HLL
Free float (No of shares):	108.1 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	12.8	20.3	17.5	-10.3
Relative to Sensex	-3.9	2.7	-9.6	-35.5

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

- Hindustan Unilever Ltd (HUL) was also able to pass on the pressure of the rising raw material prices to consumers by effecting a price hike in the soap, shampoo, skin and oral care product categories.
- According to industry data, the market share of most of the segments has improved except for the personal wash segment, which is showing a declining trend. Though the premium segment in soaps continues to garner market share, it is the lower-end segment that is losing market share, which we believe is positive for the margins. The segments that have shown an improvement in the market share compared with the June quarter of CY2007 are laundry (+50 basis points), shampoo (+20 basis points), skin care (+10 basis points), tea (90 basis points) and coffee (+110 basis points).
- On a sequential basis, we expect HUL's advertising spend to go up with aggressive spending in categories like skin care products and shampoos where the company is facing fierce competition from Proctor and Gamble (P&G; P&G's Olay launched against HUL's Pond's Age Miracle recently). In the shampoo segment, the entry of ITC has further intensified the competition. Moreover, our channel checks reveal that P&G is planning to launch skin care products for the mass segment which could further add to the competition.
- Buy back of shares at Rs230 per share and below will act as a support for the stock price. The buy back is commencing from October 03, 2007.
- At the current market price of Rs218, the stock is quoting at 25.6x its CY2007E earnings per share (EPS) of Rs8.5 and 22.8x its CY2008E EPS of Rs9.6. We maintain our Buy recommendation on the stock with a price target of Rs280. ■

For further details, please visit the Research section of our website, sharekhan.com

India Cements

Ugly Duckling

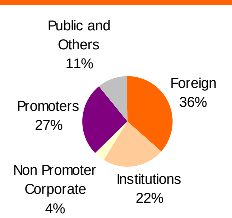
Buy; CMP: Rs263 — September 05, 2007

Price target revised to Rs300

COMPANY DETAILS

Price target:	Rs300
Market cap:	Rs6,942 cr
52 week high/low:	Rs274/145
NSE volume (No of shares):	32.4 lakh
BSE code:	530005
NSE code:	INDIACEM
Sharekhan code:	INDCEM
Free float (No of shares):	19.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	23.7	51.1	58.7	30.9
Relative to Sensex	21.0	40.8	31.1	-0.4

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

- With a revised capital expenditure (capex) plan of 14 million metric tonne (MMT) by the end of FY2009, India Cements will emerge as one of the top five cement players in India in terms of capacity. The company will witness a robust volume growth of 23% over FY2007-09.
- The company received the Madras High Court's approval for merger of Visaka Cements in Q1FY2008.
- For Q1FY2008, the combined turnover of the company stood at Rs701 crore. The turnover was much in line with our expectations. Backed by higher realisations, the OPM improved by 400 basis points year on year (yoy) to 38%, whereas the EBITDA per tonne stood at Rs1,150. Consequently, the profit before tax (PBT) stood higher at Rs215 crore beating our expectation of Rs.200 crore for the same.
- In the last couple of months, the cement retail price have touched Rs280 per bag in certain regions and the dealers expect it to touch Rs300 per bag in the coming months. Considering the rise in prices, we are upgrading our estimates by 33.9% for FY2008 and 32.5% for FY2009.
- We expect the earnings of the company to grow at a compounded annual growth rate (CAGR) of 27% over FY2007-09 on an enhanced equity capital of Rs260 crore. At the current market price of Rs263, the stock is currently trading at 9.5x its FY2009E earnings per share (EPS) and at an enterprise value (EV)/EBITDA of 5.1x. Considering all these aspects, we maintain our positive outlook on the stock with a revised price target of Rs300. ■

For further details, please visit the Research section of our website, sharekhan.com

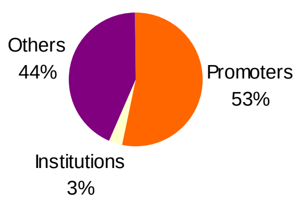
International Combustion (India)

Cannonball | Buy; CMP: Rs391 | September 07, 2007

COMPANY DETAILS

Price target:	Rs519
Market cap:	Rs93 cr
52 week high/low:	Rs480/235
BSE volume (No of shares):	7,911
BSE code:	505737
Sharekhan code:	INTLCOMB
Free float (No of shares):	0.1 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-3.7	31.3	51.1	30.2
Relative to Sensex	-8.2	19.2	21.8	-1.6

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

Sharp increase in margins

RESULT HIGHLIGHTS

- The revenues of International Combustion India Ltd (ICIL) grew by 27.2% year on year (yoy) to Rs20.2 crore in Q1FY2008. The revenue growth was in line with our estimates.
- The revenues of the Heavy Engineering Division (HED) of the company grew by 18.9% yoy to Rs16.5 crore. The Geared Motor and Geared Box Division's (GMGBD) revenues rose by an impressive 78.9% yoy to Rs3.8 crore.
- The operating profit margin (OPM) expanded by 560 basis point yoy to 24%. The OPM rise was due to a reduced raw material cost to sales ratio, which declined by 380 basis points to 46.8% in Q1FY2008. The staff cost to sales ratio and the other expenses to sales ratio both saw a decline of 90 basis points yoy.
- The HED reported a profit before interest and tax (PBIT) margin of 38.4%, which was up 670 basis points yoy. The GMGBD, which incurred a loss in the corresponding quarter last year reported a PBIT margin of 1.3% for this quarter.
- The net profit jumped by a whopping 104.4% yoy to Rs2.8 crore led by a higher other income and robust expansion of margins. The profit after tax (PAT) margin for the quarter was 13.9%.
- The outstanding order book of the company at the end of July 2007 was Rs64 crore. The HED has an order backlog of Rs52 crore while the GMGBD has pending orders worth Rs12 crore.
- The company plans a capital expenditure (capex) of Rs8 crore in FY2008 towards capacity addition in the HED and the GMGBD to meet the rising demand for its products.

For further details, please visit the Research section of our website, sharekhan.com

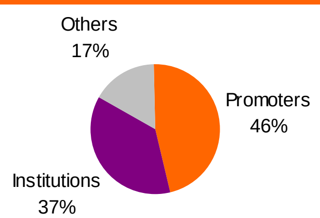
ITC

Apple Green | Buy; CMP: Rs184 | September 26, 2007

COMPANY DETAILS

Price target:	Rs200
Market cap:	Rs69,484 cr
52 week high/low:	Rs196/140
NSE volume (No of shares):	54.3 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float (No of shares):	203.1 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	15.4	23.6	32.2	3.4
Relative to Sensex	-1.6	5.7	3.1	-26.4

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

Breaking new grounds

- Despite the imposition of a 12.5% value-added tax (VAT), an increase of 5% in the excise duty and a levy of 32.5% trade tax in Uttar Pradesh, there had been only a marginal decline in the cigarette volumes of ITC in the first quarter. Our channel checks reveal that the second quarter is expected to witness a trailing effect of the same since this quarter would also bear the full effect of the 32.5% sales tax levied by the Uttar Pradesh state government.
- ITC launched *Fiama Di Wills*, a premium range of shampoos, in three variants. The product has been priced between Hindustan Unilever's *Sunsilk* and Procter and Gamble's *Pantene*. Looking at the success rate of its newly launched products, we believe the company would be able to establish itself in the soaps & skincare segment also.
- The salted snacks business *Bingo* is also doing well. The product has been rolled out in all the 10-lakh-plus population markets and by leveraging on the company's vast distribution network it has been able to capture 10-12% share in these markets.
- Biscuits category, which is growing at a scorching pace of 40-50% year on year, though at a lower base, against the industry growth of 10-12%. In a very short span, the company had been able to garner a market share of 11%, which speaks volumes about its potential to create market positions in new segments.
- At the current market price of Rs184, the stock is attractively quoting at 23.2x its FY2008E earnings per share and 14.8x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on ITC with a price target of Rs200.

For further details, please visit the Research section of our website, sharekhan.com

Madras Cement

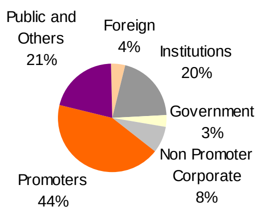
Cannonball

Buy; CMP: Rs4,082 | **September 26, 2007**

COMPANY DETAILS

Price target:	Under review
Market cap:	Rs4,939 cr
52 week high/low:	Rs4200/2441
NSE volume (No of shares) :	4,813
BSE code:	500260
NSE code:	MADRASCEM
Sharekhan code:	MADCEM
Free float (No of shares) :	0.69 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	22.1	47.8	52.7	30.2
Relative to Sensex	4.2	26.3	19.1	-7.3

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

A buyback in the offing

Madras Cement has announced at its extraordinary general meeting held on September 14 that subject to provisions of the Companies Act 1956, the company may buy back its own shares. The details of the buy-back proposal have not been disclosed yet.

Company may buy back close to 4%

As per our financial estimates, we expect the company to generate Rs1,200 crore of cash from the operations in the next two financial years. The company will spend close to Rs1,350 crore towards the capital expenditure (capex) plan. Assuming that the company finances its capex partly by debt, we expect it to have cash on books of Rs240 crore at the end of FY2009. Also assuming that the company uses Rs200 crore of cash for the purpose of buy-back and buys back its shares @ Rs4,100 per share, its equity base will reduce by 487,804 shares. This will translate into 4% of its current equity base of 1.2 crore shares (Rs12 crore @ face value Rs10 per share).

Positive impact on earnings

Consequent to the buy-back, the promoter's stake will improve from 42.5% to 44%. The earnings of the company will improve by 0.9% in FY2008 and 1.4% in FY2009. ■

For further details, please visit the Research section of our website, sharekhan.com

Marico

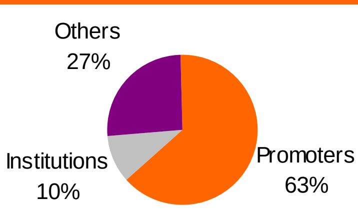
Apple Green

Buy; CMP: Rs61 | **September 28, 2007**

COMPANY DETAILS

Price target:	Rs70
Market cap:	Rs3,660 cr
52 week high/low:	Rs67/49
NSE volume (No of shares) :	4.1 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float (No of shares) :	22.3 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	3.5	9.3	3.1	17.8
Relative to Sensex	-10.5	-8.4	-21.7	-16.1

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

Growth momentum continues

The copra prices have strengthened in the last two months but Marico has taken a price hike of 3% in *Parachute*, which will offset the increase in its raw material cost and help it to safeguard its margin. The company has been able to maintain its market share at 48%. The launch of *Fortune* (agro tech foods) has been a non-event for Marico since the same has not been able to erode its market share.

A new health clinic, *Kaya Life*, was launched in Mumbai in Q1FY2008; Kaya Life provides customised solutions to customers for diet and nutrition. The clinic is performing as per the company's expectations. In the beginning of the financial year, the company had mentioned that it would be adding 15 more Kaya clinics in this year. But looking at the ramp-up pace, we believe that it would be able to set up 12 more such clinics (our projections also factor in 12 clinics for the current financial year). In the second quarter, two new *Kaya* clinics were also launched in Powai (Mumbai) and Pune. Two more clinics are expected to be rolled out within a month in the Middle East.

Outlook

We continue to be bullish on the company, which has an insatiable thirst for making new acquisitions that would fuel its growth in future. The stock is trading at attractive valuations of a price/earnings ratio of 16.5x FY2009E and enterprise value /earnings before interest, depreciation, tax and amortisation of 10.9x FY2009E. We maintain our Buy recommendation on the stock with a price target of Rs70. ■

For further details, please visit the Research section of our website, sharekhan.com

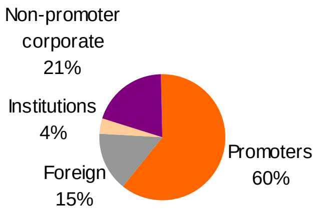
Marksans Pharma

Emerging Star | Book Out; CMP: Rs98 | September 25, 2007

COMPANY DETAILS

Price target:	Rs353 cr
Market cap:	Rs133/44
52 week high/low:	86,211
BSE volume (No of shares):	524404
BSE code:	MARKSANS
Sharekhan code:	TASCPH
Free float (No of shares):	1.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	104.5	94.3	74.9	-13.5
Relative to Sensex	75.0	66.3	36.8	-37.9

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

Book out

- Marksans Pharma's (Marksans) performance in FY2007 has been extremely disappointing. The company's revenues declined by 17% whereas its profits plunged by a massive 56% to Rs9.9 crore.
- Ciprofloxacin and Ranitidine form the mainstay of Marksans' bulk business. With increasing commoditisation, the prices for Ciprofloxacin bulk and Ranitidine bulk have fallen by approximately 28% each in the last one year. The uncertainty over the future prices of these bulk drugs is a cause for concern and makes Marksans' bulk business unpredictable.
- Against Rs100 crore worth of orders for the CRAMS business for FY2007, Marksans has only executed Rs52 crore. This was primarily due to a delay in obtaining regulatory approvals for its filings and site variation applications. Marksans has made four certificate of suitability (COS) filings. We do not expect a major ramp-up in the company's CRAMS business until the regulatory approvals come through.
- Marksans had raised $50 million in November 2005 through a foreign currency convertible bond (FCCB) issue, primarily to fund acquisitions. We believe the risk of non-conversion and the resultant burden of the redemption premium are causing Marksans to retain the FCCB money as cash instead of deploying it for acquisitions.
- At the current price of Rs98.0, the stock is trading at 52x its FY2007 consolidated earnings. In view of the disappointing performance in FY2007 and the uncertain outlook on the future prospects of the company, we advise investors to book out of the stock.

For further details, please visit the Research section of our website, sharekhan.com

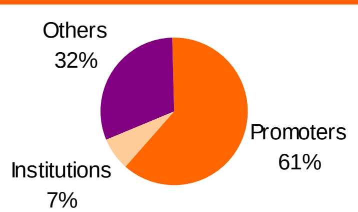
Navneet Publications (India)

Emerging Star | Hold; CMP: Rs77 | September 14, 2007

COMPANY DETAILS

Price target:	Under review
Market cap:	Rs734 cr
52 week high/low:	Rs85/50
NSE volume (No of shares):	41,000
BSE code:	508989
NSE code:	NAVNETPUBL
Sharekhan code:	NAVNEET
Free float (No of shares):	3.7 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	33.1	33.8	50.4	27.9
Relative to Sensex	27.8	19.5	23.8	-3.7

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

e-learning: new initiative

Navneet Publications has launched a new product called "Navneet e-Book", a system of e-learning which is an animated content of the textbooks for effective understanding of concepts.

The company is initially planning to target private schools in the states of Maharashtra and Gujarat. For the other states the company has started mapping their curriculum. It has already introduced products at the distributor level to be supplied to schools. After establishing the efficacy of its products in the schools, it intends to target the students.

Expected to break even by FY2010

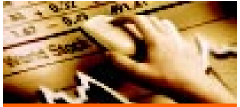
The company is making initial investments of Rs1.5 crore in FY2008 (Educomp has invested Rs14 crore in FY2007 alone in product development research and intellectual property creation) and Rs4 crore in FY2009; of the total initial investment 60% would be utilised to develop and market the e-learning products.

We expect the e-learning business to report losses till FY2009 since it would be in the investment phase till then. We expect the company to break even in this business by FY2010 since the business would take some time to gain acceptance from the school community. Moreover, once it gains recognition in schools, we believe the development cost would drastically come down and the business would start enjoying operating leverage.

Outlook

Though we don't expect any changes in our estimates for FY2008 and FY2009, the entry into the e-learning business could turn out to be the growth driver for the company, resulting in the re-rating of its stock .Our price target of Rs67 has been achieved and we are putting a Hold recommendation on the stock, as we would like to see how the e-learning business pans out and how much e-learning products are accepted by schools.

For further details, please visit the Research section of our website, sharekhan.com



Nicholas Piramal India

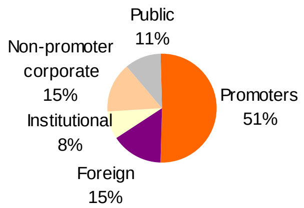
Apple Green | Buy; CMP: Rs288 | September 03, 2007

Demerger of discovery R&D to unlock value

COMPANY DETAILS

Price target:	Rs326
Market cap:	Rs6,023 cr
52 week high/low:	Rs321/195
NSE volume (No of shares):	12.3 lakh
BSE code:	500302
NSE code:	NICHOLASPIR
Sharekhan code:	NICHPI
Free float (No of shares):	10.5 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	0.2	7.1	21.2	21.1
Relative to Sensex	1.6	1.1	1.5	-8.6

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

- Nicholas Piramal India Ltd (NPIL) has announced the demerger of its new chemical entity (NCE) research into a separate company called Nicholas Piramal Research Company (NPRC). The proposed demerger would be effective from April 1, 2007 and the new company will be listed on the bourses by June 2008.
- With a focus on the therapeutic segments of oncology, diabetes, inflammation and infectious diseases, NPIL has a pipeline of 13 molecules, of which nine molecules are in pre-clinical development stage, whereas the remaining four molecules are in Phase II clinical trials. Further, four more molecules are scheduled to enter the clinics by the end of FY2008.
- As a part of the demerger plan, NPIL will initially invest Rs4.55 crore as equity capital in the new company (NPRC). It will also transfer Rs90 crore worth of fixed assets and Rs95 crore of cash to NPRC. In consideration, NPIL will issue one new share of face value Rs10 each in the new company to all its shareholders for every ten shares of face value Rs2 each held in NPIL.
- With the proposed demerger, the managament has revised its guidance for FY2008. Even though the top line growth guidance has been maintained at 25%, the operating profit margin (OPM) is expected to expand to 17.7% (as against the earlier guidance of 15.5%) on the back of a Rs70 crore savings in the research and development (R&D) expenses. As a result, the earnings per share (EPS) is expected to improve by Rs3 to Rs17.0 (as compared with the earlier guidance of Rs14). ■

For further details, please visit the Research section of our website, sharekhan.com

Ranbaxy Laboratories

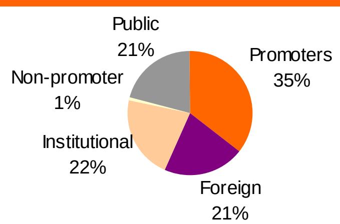
Apple Green | Buy; CMP: Rs417 | September 13, 2007

Lipitor launch in Canada delayed; Ranbaxy to appeal

COMPANY DETAILS

Price target:	Rs500
Market cap:	Rs15,554 cr
52 week high/low:	Rs452/304
NSE volume (No of shares):	12.9 lakh
BSE code:	500359
NSE code:	RANBAXY
Sharekhan code:	RANBAXY
Free float (No of shares):	24.3 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	13.4	13.1	31.1	5.4
Relative to Sensex	8.6	2.5	8.0	-21.7

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

- Pfizer Inc has succeeded in winning patent protection in Canada for its blockbuster drug, Lipitor, thereby prohibiting its rival, Ranbaxy Laboratories (Ranbaxy), from launching a generic version of the cholesterol-reducing drug until the expiry of the patent in July 2016.
- The Canadian Federal Court in Toronto has ruled that Ranbaxy's proposed generic drug would infringe Pfizer Inc's patent that covers a crystalline form of atorvastatin (patent # 2,220,018) which is due to expire in July 2016. On the other hand, the Canadian court has granted a favourable ruling to Ranbaxy in the case of the patent # 2,220,455, which covers the process for making an amorphous form of atorvastatin and is also due to expire in July 2016.
- Despite handing out a mixed ruling , the court has ordered the Canadian health ministry not to issue a notice of compliance (approval) to Ranbaxy for marketing the generic version of Lipitor until the expiry of the patent covering the crystalline form of atorvastatin in July 2016, thereby preventing the company from entering the market until July 2016.
- Ranbaxy has confirmed its intention to appeal against the ruling of the Canadian Federal Court to the Federal Court of Appeal in Canada and is confident of reversing the current ruling, thereby enabling it to launch the product in Canada before July 2016. ■

For further details, please visit the Research section of our website, sharekhan.com

Satyam Computer Services

Apple Green

Buy; CMP: Rs430 | **September 14, 2007**

On a transformational path

COMPANY DETAILS

Price target:	Rs538
Market cap:	Rs28,294 cr
52 week high/low:	Rs517/396
NSE volume (No of shares):	32.5 lakh
BSE code:	500376
NSE code:	SATYAMCOMP
Sharekhan code:	SATYAM
Free float (No of shares):	29.9 cr

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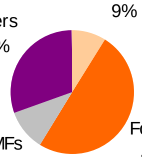


PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-8.4	-10.2	-3.4	9.1
Relative to Sensex	-12.0	-19.8	-20.5	-17.9

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

- Satyam Computer Services' (Satyam Computer) management articulated its business strategy to identifying new markets and new opportunities for its growth in the coming years. The key ingredient to the overall strategy is to prepare itself for the next wave of opportunity—transformational outsourcing.

- Infrastructure management services (IMS) is an important part of the overall growth strategy. The company is targeting managed services and remote management services part of the opportunity rather than the traditional business of taking over the hardware assets. This segment contributes around 35% of the total IMS market estimated at $234 billion by 2010, up from about 29.5% in 2006.

- The management re-iterated that it has not witnessed any change in the overall environment due to the subprime issue. It has been in regular interaction with its clients and the overall confidence level continues to be high. However, the management added a word of caution stating that it is premature to assess the possible impact if the fallout of subprime issue spills over to other sectors and results in a marked slowdown or recession in the USA.

- At the current market price the stock trades at 17.2x FY2008 and 14.4x FY2009 earning estimates. We maintain Buy call on the stock with a target price of Rs538.

For further details, please visit the Research section of our website, sharekhan.com

Seamec

Ugly Duckling

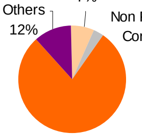
Buy; CMP: Rs208 | **September 28, 2007**

Unexpected damage

COMPANY DETAILS

Price target:	Rs300
Market cap:	Rs705 cr
52 week high/low:	Rs260/151
NSE volume (No of shares):	70,337
BSE code:	526807
NSE code:	SEAMECLTD
Sharekhan code:	PEERSSHIP
Free float (No of shares):	0.74 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-2.2	2.2	22.7	25.0
Relative to Sensex	-15.4	-14.3	-6.9	-10.9

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

Seamec has announced that its vessel Seamec II has been damaged in its front portion due to a fire while the vessel was undergoing statutory dry-docking in a shipyard at Netherlands. The extent of damage is not certain as of now. However, it is clear that the dry-docking days for the vessel would get extended now, resulting in lower revenue and earnings for the company in CY2007.

Possible earnings revision

Assuming that the dry-docking days for the vessel get extended by another 30 days (to a total of 60 days) due to additional maintenance required to repair the damage caused by the fire, we expect the CY2007 earnings to decline by 10.9% to Rs15.8 per share, down from Rs17.7 per share estimated earlier.

We have also slightly revised down the CY2008 estimates (down by 1.1%) to reflect the recent appreciation in the rupee. The rupee assumption has been revised to Rs40 per USD now.

Valuation

Given the fact that the unfortunate incident is likely to impact only the CY2007 estimates, we maintain our positive stance on the stock. At the current market price the stock trades at 13.2x CY2007 and 6.4x CY2008 earnings. We re-iterate Buy recommendation on the stock with a price target of Rs300.

For further details, please visit the Research section of our website, sharekhan.com

Surya Pharmaceuticals

Ugly Duckling

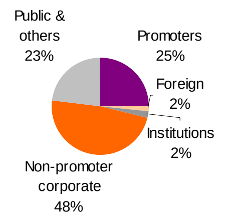
Buy; CMP: Rs83

September 28, 2007

COMPANY DETAILS

Price target:	Rs205
Market cap:	Rs121 cr
52 week high/low:	Rs95/61
NSE volume (No of shares):	22,415
BSE code:	532516
NSE code:	SURYAPHARM
Sharekhan code:	SURYAPHARM
Free float (No of shares):	1.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	3.6	12.6	30.7	2.6
Relative to Sensex	-10.4	-5.6	-0.8	-26.9

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

Strong growth at cheap valuations

- During FY2007, Surya Pharmaceuticals (Surya) has enhanced its production capacities which is expected to translate into higher revenues for the company's existing business of active pharmaceutical ingredients (APIs) and intermediates from FY2008 onwards.
- Surya has also initiated construction of a new plant in Jammu for manufacturing new APIs and sterile cephalosporins. With the commissioning of this facility, Surya will enter the high-margin injectable business. We expect the Jammu facility to contribute an incremental Rs100 crore to Surya's revenues in FY2009E.
- Surya has recently entered the business of manufacturing menthol and its derivatives. The company primarily intends to sell these products to its overseas clients. We expect the menthol business to add Rs50 crore to Surya's turnover in H2FY2008E and Rs100 crore in FY2009E.
- We have introduced our FY2009E revenue and earning estimates for Surya. We expect Surya's profit to grow at a compounded annual growth rate (CAGR) of 55.3% over FY2007-09E on the back of a 46.2% CAGR in the revenues and a 100 basis point expansion in the operating profit margin. Based on this, we have projected fully diluted earnings of Rs28.8 per share in FY2008E and Rs32.1 per share in FY2009E.
- At the current market price of Rs83, Surya is trading at 3.6x its FY2008E diluted earnings of Rs23.2 and at 2.6x its FY2009E diluted earnings of Rs32.1. We view this as a strong buying opportunity and hence maintain our Buy call on the stock with a price target of Rs205. ■

For further details, please visit the Research section of our website, sharekhan.com

Tata Motors

Apple Green

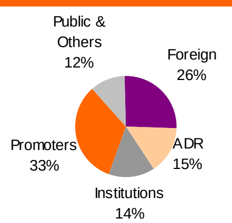
Buy; CMP: Rs691

September 04, 2007

COMPANY DETAILS

Price target:	Rs792
Market cap:	Rs26,436 cr
52 week high/low:	Rs975/616
NSE volume (No of shares):	16.1 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Sharekhan code:	TELCO
Free float (No of shares):	19.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	7.1	-5.9	-7.4	-16.9
Relative to Sensex	5.0	-11.6	-23.3	-37.3

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

Continued decline in key M&HCV segment

- Tata Motors' overall sales for the month stood at 45,144 vehicles. The overall sales declined slightly by 0.4% on year-on-year basis.
- The commercial vehicle sales grew by 1.6% to 23,431 vehicles. The sales growth was driven by strong sales of light commercial vehicles (LCVs), which grew by 23% year on year on the back of its new launches *Magic* and *Winger*.
- The passenger vehicle sales remained weak and declined by 5% in August to 16,620 vehicles. *Indica* sales dropped by 4% while *Sumo* and *Safari* sales dropped by 12% during the month.
- The weakness in the freight rates, as indicated by the Freight Rate Index, continues. In September 2007 the index dipped by 0.01% year on year (yoy). However, the Diesel Adjusted Freight Rate Index increased by 0.02% yoy for the same month as compared with a rise of 0.06% yoy in August 2007.
- Any substantial revival in the freight rates would point to a recovery in the sales of commercial vehicles. We expect the freight rates to recover with the end of the monsoon season (ie by October) which coincides with the onset of the festive season, when the demand for automobiles picks up.
- At the current market price of Rs696, the stock discounts its FY2009E consolidated earnings by 10.7x and is available at an enterprise value/earnings before interest and depreciation tax and amortisation of 5.4x. We maintain our Buy recommendation on the stock with a price target of Rs792. ■

For further details, please visit the Research section of our website, sharekhan.com

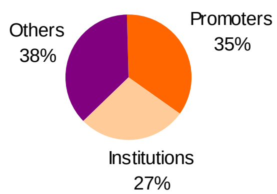
Tata Tea

Apple Green | Buy; CMP: Rs762 | September 04, 2007

COMPANY DETAILS

Price target:	Rs970
Market cap:	Rs4,724 cr
52 week high/low:	Rs990/558
NSE volume (No of shares):	2.2 lakh
BSE code:	500800
NSE code:	TATATEA
Sharekhan code:	TATATEA
Free float (No of shares):	4.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	5.3	-17.8	30.9	-4.5
Relative to Sensex	3.3	-22.8	8.4	-27.9

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

Getting branded

- In FY2007 the consolidated net sales of Tata Tea Ltd (TTL) grew by 29.6% year on year (yoy) to Rs4,024.9 crore. The growth was mainly driven by higher branded sales across the business and the inclusion of revenue of Rs558 crore from new acquisitions. The organic growth in FY2007 was 11.5%.
- TTL reported a 24.6% year-on-year (y-o-y) jump in its consolidated net profit (adjusted for extraordinary items) to Rs366.2 crore.
- In the domestic market, the company reported a top line growth of 9% to Rs1,054 crore in FY2007. The branded business (which constitutes 80% of the sales) continued with its impressive performance during the year, registering a 9% growth in volume and a 12% rise in value compared with that in the last year.
- For the same period, the turnover of the Tetley group (a 77.7% British subsidiary of TTL) was Rs2,298 crore, which was 13% higher than that in the previous year. For FY2007 the profit after tax (PAT) of Tetley was lower by 12% at Rs130 crore as against Rs147 crore in FY2006.
- We believe the company is poised to become a strong player in the beverage market by penetrating new geographies through the inorganic route as well as by gaining presence in every segment of the beverage industry. On the valuation front, the TTL stock looks attractive at 11x its FY2009E diluted consolidated earnings per share (EPS) when compared with its peers in the fast moving consumer goods (FMCG) sector. We maintain our Buy recommendation on the stock with a price target of Rs970.

For further details, please visit the Research section of our website, sharekhan.com

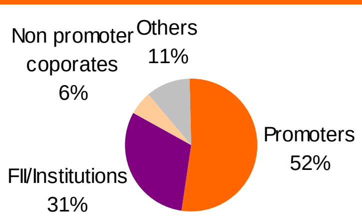
Television Eighteen India

Emerging Star | Buy; CMP: Rs838 | September 18, 2007

COMPANY DETAILS

Price target:	Rs967
Market cap:	Rs4,740 cr
52 week high/low:	Rs975/490
NSE volume (No of shares):	91,585
BSE code:	532299
NSE code:	TV-18
Sharekhan code:	TV18
Free float (No of shares):	2.7 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	5.6	1.1	56.5	97.4
Relative to Sensex	-3.8	-7.9	24.4	51.2

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

Revising estimates

RESULT HIGHLIGHTS

- TV18 India (TV 18) reported a top line growth of 50.1% for Q1FY2008 with revenues of Rs68.1 crore on the back of a strong growth in both news and Internet segments.
- The operating profit margin (OPM) dropped to 15.2% as against 31.3% in Q1FY2007 as web18 and Newswire 18 are in high investment phase.
- The adjusted net profit (pre-ESOP amortisation and extraordinary items) stood at Rs0.6crore primarily on account of lower consolidated margins.
- Web18 expanded its portfolio of offerings through the launch of bookmyshow.com and buzz.com. We expect Web18 to get listed by Q1FY2009.
- After raising Rs200 crore through qualified institutional placement (QIP), TV18 board has approved a preferential allotment of 50 lakh warrants at Rs796 per share to the holding company Network18. This will increase holding of the parent company from 49.18% to 53.3%. We believe these funds will be utilised for the organic and inorganic growth plans in media and allied space.
- TV18 has acquired a 35% stake in Mobile NXT a Bangalore based mobile retail chain. Mobile NXT has 25 retail outlets and has plans to open 150 stores by March 2008.
- We have revised our estimates for FY2008 and FY2009 to factor in the higher revenue growth and the increased spend on account of ramping up new businesses that are in investment phase.
- We maintain a price target of Rs967 for the stock derived from our sum-of-the-parts methodology of valuation of stock.

For further details, please visit the Research section of our website, sharekhan.com

Q2FY2008 earnings preview

KEY POINTS

- The earnings of the Sensex' companies excluding oil companies and adjusted for one-time items are likely to grow by 20% year on year (yoy) and remain stable quarter on quarter in Q2FY2008.

- In Q1FY2008 we had seen that around 10% of the reported earnings had come from foreign exchange (forex) gains. Keeping the current strong uptrend of the rupee in mind, we may see companies reporting another 3-5% of one-time forex gains during the quarter. This would be in contrast to the initial expectations of forex losses in Q2FY2008, as the rupee had started to decline when our markets were facing the threat of large-scale withdrawal from foreign institutional investors (FIIs). After the political turmoil and global subprime saga unfolded in end July and most part of August 2007 there were fears that the FIIs would pull out serious money from the market.

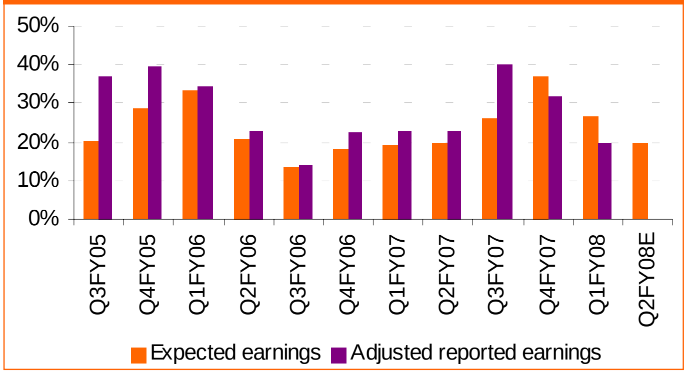
- The Q2FY2008 earnings of the Sensex are going to be driven by companies from the telecom, information technology (IT) and banking sectors.

- The backdrop of Q2FY2008 performance is not very encouraging with a lower export growth in rupee terms, a decline in the industrial output, deceleration in manufacturing revenues and a drop in automobile sales. All these leading indicators have been discussed in detail later.

- Latest corporate tax collection growth rate for the period April to September 15, 2007 has slowed down to 25% from 49% reported for the period April to August 2007 (the first five months in FY2008). This translates into a 11% yoy growth in corporate tax collections for the first fortnight of September which includes the second installment of advance tax payments for corporates. We need to look at full tax collections for the month as the collections could have been influenced by the banking holiday falling on September 15, 2007 and the period of advance tax payment being extended to September 17, 2007.

- Considering that all the leading indicators are pointing towards a slowdown, would the Reserve Bank of India (RBI) take cognisance of the matter and make the interest rate environment more conducive for growth? We feel the RBI is more likely to adopt a neutral stance in its next quarterly policy review meet (October end) before it starts easing its monetary stance. However the interest rates may start to come down slowly if the credit growth doesn't pick up and deposits continue to grow ahead of advances. This should set the stage for a recovery in key sectors like housing and automobiles with the onset of the festive season in the second half of the current fiscal.

QUARTERLY EARNINGS GROWTH TREND

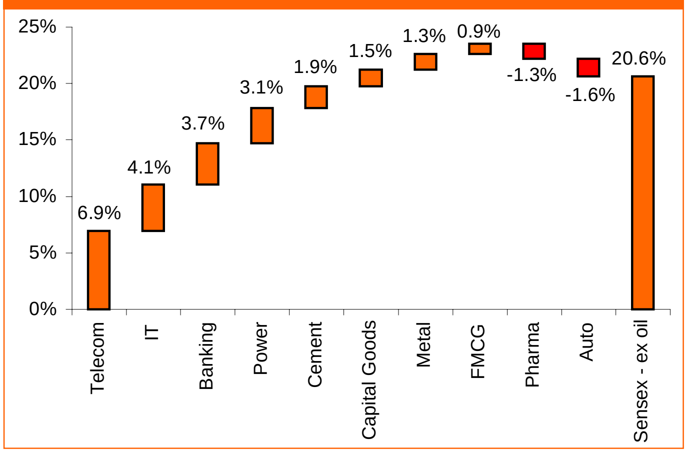


Source: Sharekhan Research

COMPANIES WHERE HIGH EARNINGS GROWTH IS EXPECTED IN Q2FY08

Companies	% yoy growth
Bharti Tele	65
ACC	47
Grasim Industries	38
BHEL	35
Maruti Suzuki	30
TCS	25

SECTOR-WISE CONTRIBUTION TO SENSEX' EARNINGS GROWTH



Source: Sharekhan Research

SOME MACRO FACTORS THAT WOULD INFLUENCE Q2FY2008 EARNINGS

Q1FY2008 earnings influenced by one-time forex gains

The rupee had sharply appreciated during Q1FY2008 on a sequential basis; this had resulted in many companies reporting one-time forex gains on their foreign currency holdings. These gains on an aggregate amounted to around 10% of Q1FY2008 reported earnings. We have listed below in a tabular format such one-off gains reported by some of the Sensex companies during Q1FY2008.

COMPANY	FOREX RELATED ONE-OFFS AND OTHERS
Reliance Energy	Rs190 crore gain, partly offset by Rs83 crore loss on derivatives
Larsen & Toubro	Rs133 crore gain vs Rs40 crore loss
Ranbaxy	Rs230 crore gain
Dr Reddy's Labs	Rs28.5 crore gain
Reliance Industries	Rs170 crore gain, one-off royalty expense of Rs290 crore
Tata Steel	Rs550 crore gain, partly offset by other one-off expenses of Rs200 crore
HUL	Rs21 crore gain on land sale
BHEL	Rs37 crore loss
R Com	Rs200 crore gainRs95-crore gain from change in accounting norm
Tata Motors	Rs208 crore gain
ONGC	Rs140 crore gain from change in accounting norm

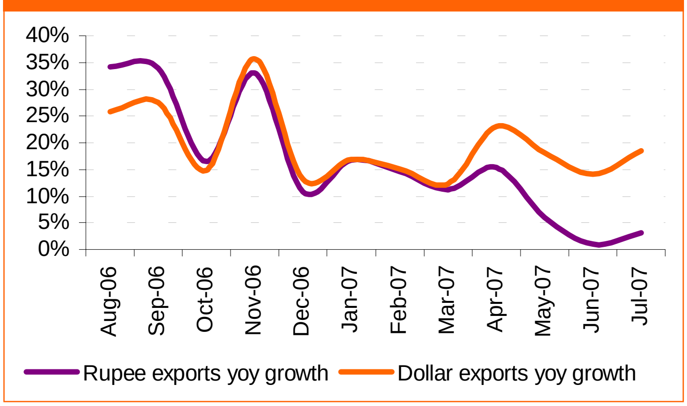
How would the local currency affect the Q2FY2008 earnings?

The rupee was expected to weaken sequentially as the FIIs withdrew cash heavily from our markets during end July to August 2007, influenced by the domestic political turmoil and the global equity market correction on account of the US subprime saga. Hence fears of a forex loss during Q2FY2008 were building up unlike the windfall gains seen in Q1FY2008. However, after the cut in the US Fed rate in September 2007, the global markets have rallied and the strong foreign direct investment, FII and private equity flows are likely to keep the rupee strong. Thus chances of companies reporting marked-to-market forex losses during Q2FY2008 are remote. Hence, the reported Q2FY2008 earnings with one-offs could exceed our profit estimates (adjusted for the one-offs) by 3-5% if the rupee closes below Rs40 in end September 2007.

Export oriented sectors remain casualty of a strong currency

However, a strong currency would continue to hurt our export growth in rupee terms. Our year-on-year export growth declined significantly to 3% in July 2007 from 15% in April 2007. Apart from companies from the IT and pharmaceutical sectors, other large Sensex companies have also a 10-38% exposure to exports and this could have a bearing on the aggregate Sensex earnings going forward. Thus, we may not see any major upgrades in earnings during FY2008 unlike in FY2007, when the key driver of our markets had been the strong upwards earnings revision story.

TREND IN EXPORTS GROWTH

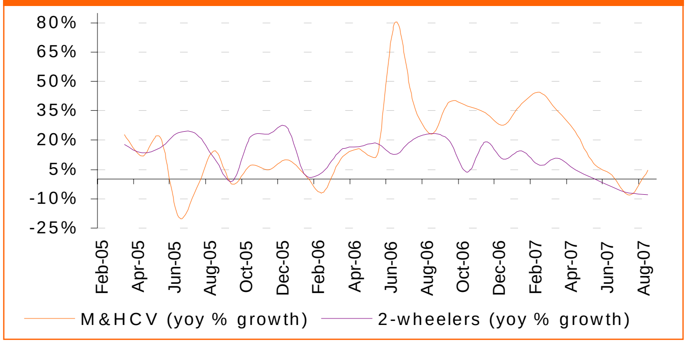


Source: DGCIS

Other lead indicators also point to a slowdown

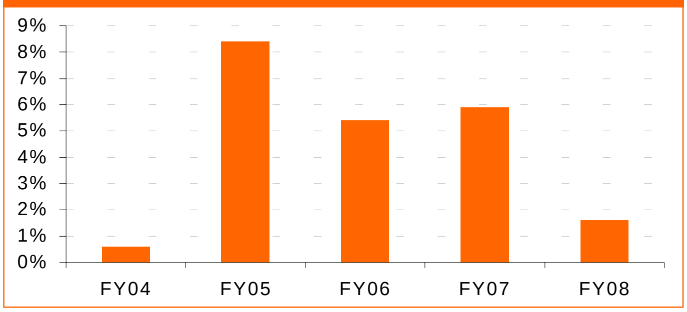
Be it automobile sales, industrial production, corporate revenue growth or year-to-date credit growth, all the leading indicators point towards a slowdown. However our sources in the banking industry say that corporate credit demand exists but people want to wait and watch if the rates come down. Hence, going forward, with the onset of the festive season, things are expected to improve.

TREND IN AUTOMOBILE SALES



Source: SIAM

YEAR TO DATE CREDIT GROWTH REMAINS LOW

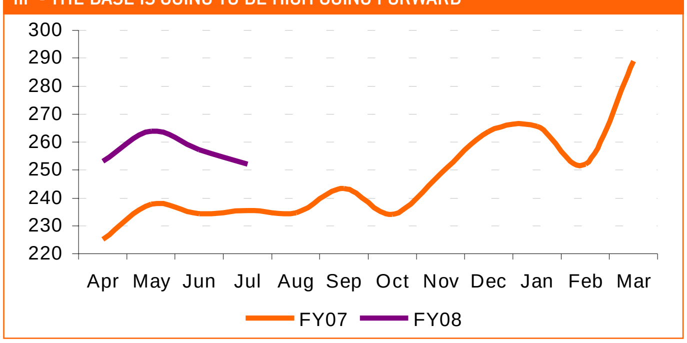


Source: RBI

Higher base for IIP likely to restrict growth figures

Going forward, after the October 2007 Index of Industrial Production (IIP) growth numbers, the base index for the remaining five months is going to rise substantially and unless the growth picks up we may see lower year-on-year growth figures for the IIP going forward. The July 2007 IIP at 7.1% could have been influenced by the floods in the major parts of the country but the production activity in various sectors needs to pick up with the onset of the festive season in the second half of the current fiscal. Otherwise, with a higher base and lower production activity, the IIP growth numbers may be substantially lower than what we had seen in FY2007.

IIP - THE BASE IS GOING TO BE HIGH GOING FORWARD

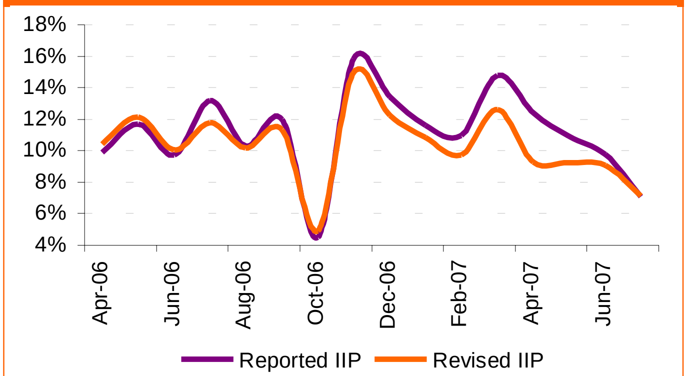


Source: CSO

IIP growth for FY2008 expected at 9.1%

The high IIP numbers in CY2007 (up to May 2007) were driven by the high growth in the manufacturing sector. The growth in the manufacturing sector was, in turn, coming on the back of above 25% growth in food products and above 100% growth in wood products, mostly from December 2006 onwards. However if we normalise the growth trend in these two sectors (as such high growth is unsustainable), the average IIP growth would show a decline of 1.4% in the first four months of FY2008. Our IIP estimate for FY2008 is at 9.1% compared with the 11.5% growth recorded in FY2007.

REVISED AND ACTUAL IIP GROWTH TREND

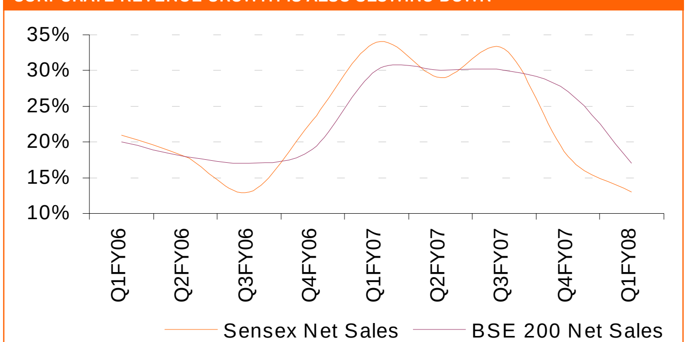


Source: CSO

Manufacturing revenue growth has also slowed down

The revenue growth trend of the large-cap and other manufacturing companies over a period of past nine quarters points to a significant slowdown especially in the last couple of quarters. The revenue growth for the Sensex manufacturing companies decelerated to 13% in Q1FY2008 compared with a 34% growth reported in Q1FY2007. A higher base coupled with the RBI's tight monetary policy explains a large part of the lower revenue growth.

CORPORATE REVENUE GROWTH IS ALSO SLOWING DOWN



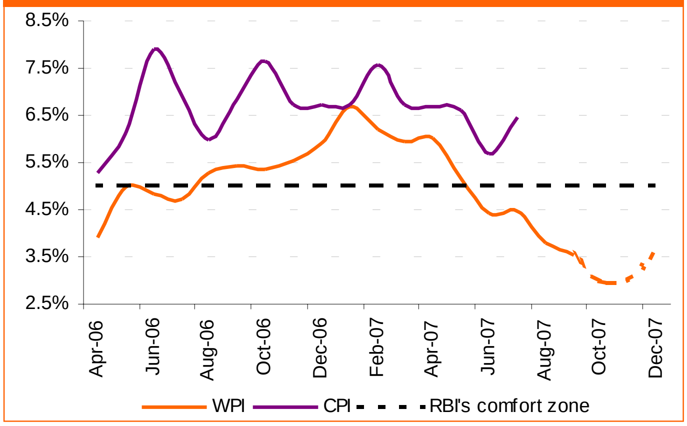
Source: Capitaline database

Is RBI likely to cut rates?

We feel that the interest rates have peaked out. However the chances of an immediate rate cut are dim due to the following reasons.

1. **Inflation:** Despite the fact that the Wholesale Price Index numbers at 3.5% are well below the RBI's comfort zone of 5%, the Consumer Price Index (CPI) numbers are still hovering around the 6.5% levels as on July 2007. The RBI would also like to bring down the CPI numbers before it starts cutting the rates. Oil prices are hovering above $80 per barrel which remains a concern as a pass through of the higher prices would increase the inflation, which has only come down due to a higher base effect. Week-on-week inflation is still on the uptrend. But the base effect is likely to play a significant part going forward, as inflation could dip below 3% for a brief period in October 2007 if the current trend in prices continues and an oil price hike is not undertaken. We don't expect inflation numbers to be a concern for the RBI in the medium term if we strictly go by the weekly numbers reported by the authorities.

INFLATION NOT LIKELY TO REMAIN A CONCERN GOING FORWARD



Source: MOSPI

2. **Money supply:** Money supply is still growing at 20% yoy (above the RBI's target of 17.5%) and continues to remain a concern with the possibility of foreign inflows remaining strong.

Hence, we feel the RBI is likely to change its much hawkish stance to a more neutral stance and then turn its focus on growth once again in the next policy review scheduled at end October 2007. On interest rates, we feel the market rates could soften (even though the policy rates or reserve requirements may remain unchanged) once the banking industry begins to derive comfort from the RBI's neutral stance, the high cost deposits run off the banks' books and the deposit growth remains higher than the credit growth. Under such a scenario bankers may consider to reduce rates and provide a boost to credit growth, which should also help them to protect their margins, as a falling credit-deposit ratio is not margin accretive for banks.

SECTORAL PREVIEW

Automobiles: Subdued volumes to hamper performance

The slowdown in the automobile industry continued in the second quarter of FY2008, as volumes continued to decline on the back of higher interest rates, the seasonal effect of the monsoons and the high base of the last year. The two-wheeler segment remained the worst affected as the sales in the entry level motorcycles, ie the 100cc segment, were affected by the higher cost of credit and product fatigue. The commercial vehicle sales too remained low due to lower freight availability because of the monsoons, the high base of FY2007 and the loosening of the ban on overloading. The surprise in the pack remained the passenger car segment, where growth was led by a number of new launches in the recent times. The operating profit margins are expected to be under pressure for the whole sector, considering the decline in the sales volumes. We expect Maruti Suzuki, Ceat and Apollo Tyres to be the lead performers in the sector in Q2FY2008.

AUTO: QUARTERLY ESTIMATES						(RS CRORE)
	Net sales			PAT		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
Ashok Ley	1,628.8	1,675.7	-2.8	76.1	77.7	-2.0
Bajaj Auto	2,270.2	2,436.0	-6.8	262.4	331.5	-20.8
Maruti Suzuki	4,512.6	3,419.2	32.0	478.6	367.4	30.3
M&M	2,554.9	2,490.5	2.6	202.2	245.4	-17.6
Tata Motors	6,557.8	6,571.8	-0.2	349.2	486.9	-28.3
Ahmed Forg	160.0	122.0	31.1	15.6	13.5	15.6
Apollo Tyre	832.7	767.3	8.5	38.6	19.3	99.4
Ceat	575.2	537.6	7.0	22.6	4.3	426.4
FM Goetze	166.9	139.1	20.0	4.8	12.3	-61.4
Subros	170.9	165.8	3.1	7.8	7.8	0.7
Sundaram	211.0	203.4	3.8	23.9	23.0	3.8
SKF India	400.5	339.4	18.0	37.2	22.4	66.3
Auto universe	20,041.4	18,867.7	6.2	1,519.0	1,611.5	-5.7

Banking: Margins to remain under pressure sequentially

We expect the earnings of the major banks under our coverage to grow at 20.5% in Q2FY2008. The industry's net interest margin is expected to remain under pressure sequentially as the contribution from the yield on advances is likely to decline because the credit growth remained low during the quarter. Deposit costs could show a marginal increase due to a higher growth witnessed in the case of term deposits. However, the fee income and treasury gains are likely to keep the non-interest component robust. We expect the core operating profit to grow at 28.5% driven by an improvement in the net core income and lower operating costs. However, provisions are expected to remain mixed with some banks likely to report higher provisions due to their asset mix (banks with higher retail exposure are likely to report higher provisions in line with the previous quarter).

BANKING: QUARTERLY ESTIMATES						(RS CRORE)
Banks	NII			PAT		
	Q2FY08E	% yoy chg	% qoq chg	Q2FY08E	% yoy chg	% qoq chg
ICICI Bank	1930.1	22.4	12.6	909.2	20.4	17.3
HDFC Bank	1146.4	35.6	10.0	345.8	31.5	7.6
Axis Bank	505.2	38.3	13.1	199.0	40.2	13.7
Total: PVBs	3581.7	28.5	11.8	1454.0	25.3	14.4
SBI	4550.5	16.7	1.2	1405.8	18.7	-1.4
UBI	772.5	23.1	0.2	275.4	41.9	22.3
BOI	1039.6	14.4	2.8	304.3	43.4	-3.4
PNB	1405.7	3.2	2.0	510.5	1.1	20.1
BOB	996.4	9.7	3.9	321.0	11.3	-3.0
Total: PSBs	8764.8	13.7	1.7	2817.0	18.2	3.5
Total	12346.6	17.7	4.5	4270.9	20.5	7.0

FMCG: Strong upside potential

The revenue growth for the current quarter is likely to be driven by volume growth as well as improved pricing power of the fast moving consumer goods (FMCG) companies. We expect the earnings of the market leader, Hindustan Unilever, to grow by 17.2% yoy, led by a 13% growth in its home & personal care business. We expect ITC's growth to be broad based with the reduction in the magnitude of the losses of its non-FMCG businesses.

FMCG: QUARTERLY ESTIMATES						(RS CRORE)
	Net sales			PAT		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
HUL*	3,495.3	3,066.0	14.0	448.9	383.0	17.2
ITC	3,263.0	2887.6	13.0	755.9	679.6	11.2
Marico	474.2	377.9	25.5	41.9	28.1	49.2
ICI	251.1	243.8	3.0	25.6	20.6	24.3
IHCL	354.7	266.7	33.0	61.6	46.2	33.4

*December ending company

Cement: Shining south

Cement dispatches in the first two months of Q2FY2008 had grown by 12% cumulatively fuelled by higher capacities and a lower base of the same period in the last year. As rains continued in most parts of the country, the cement prices did not change in the first two months of the quarter except in the south (especially Tamil Nadu), where the retail cement prices jumped by Rs15-20 per bag during the second quarter. We do not see any major change in the realisations on a sequential basis except for our south-based companies. We expect the cement stocks under Sharekhan's coverage to record an earnings growth of 42% on the back of a 117% growth in Orient Paper and Industries and a 63% growth in JK Cement.

CEMENT: QUARTERLY ESTIMATES						(RS CRORE)
	Net sales			PAT		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
ACC	1755.2	1373.5	27.8	329.2	224.7	46.5
Grasim	2319.4	2010.8	15.3	466.2	337.9	38.0
India Cements	726.4	516.3	40.7	180.2	117.3	53.7
Madras Cement	440.0	407.2	8.1	98.0	90.0	8.9
Ultratech	1075.1	1004.5	7.0	179.2	127.4	40.7
JK Cement	322.1	268.2	20.1	49.0	30.0	63.2
Shree Cement	440.9	316.0	39.5	115.3	81.9	40.7
Orient Paper	288.4	229.4	25.7	44.3	20.4	117.2

*We would revise our expected earnings if need be.

IT: Strengthening rupee to dampen margins

The recent rate cut by the US Federal Reserve has affected the Indian technology stocks in two ways. First, it is a positive development in terms of the remedial steps taken to avoid a possible slowdown in the US economy. On the other hand, the move has weakened the US Dollar against all the other currencies including the Indian Rupee.

In fact, the rupee has breached the psychologically important benchmark of Rs40/US Dollar. This has dented the sentiments towards the tech stocks. Moreover, with the appreciation coming at the fag end of the quarter, it would also severely affect the performance of the second quarter.

On the positive side, the consensus opinion of the leading technology companies seems to suggest an expected range of Rs39-41 for the rupee against the dollar. This essentially means that a possible breach of the Rs40 mark is not an unexpected event and the Indian companies have been preparing for the same. In the near term, the technology stocks could remain under pressure due to continued strengthening of the rupee. In such a scenario, it is preferable to find shelter in companies with aggressive forex hedging and/or limited exposure to billing in US Dollars. Consequently, we maintain our positive stand on HCL Technologies and 3i Infotech.

IT: QUARTERLY ESTIMATES (RS CRORE)

	Net sales			PAT		
	Q2 FY08E	% qoq	% yoy	Q2 FY08E	% qoq	% yoy
Infosys	4165.9	10.4	20.7	1127.0	9.6	21.3
Guidance	*3952-3993*					
Satyam	1977.2	8.0	23.4	381.0	0.7	19.1
Guidance	*1917-1926*					
HCL Tech#	1739	7.9	26.1	321.3	-34.0	28.4
Wipro (cons)	4713.8	12.7	34.2	803.3	13.1	15.4
Wipro (global IT)	3247.2	8.1	19.5			
Guidance (global IT)	*$777 mln*					
TCS	5657.5	8.7	26.2	1234.6	6.8	24.5

Note: The average realisation could be around 1-1.5% lower than Rs40.6 considered for the expected numbers reported in the table above. However, given the changed scenario the earnings estimates for Infosys Technologies and Satyam Computer Services could be lower by 1.5-2.5% compared with our estimates stated above.

#June ending company

Media: marginal yoy increase in earnings

Even as the television news channels continue to slug it out in the face of stiff competition, the general entertainment space awaits the entry of new players. Among the existing general entertainment channels Zee Television continued its momentum of gaining incremental market share in Q2 and now stands very close to Star Plus. We believe the impact of the implementation of the conditional access system in terms of enhanced pay revenues should start reflecting in the Q2 revenues of the broadcasters while the momentum in the ad revenues continues to remain strong. We expect TV 18's bottom line to remain subdued as the company continues to spend heavily on Internet and newswire businesses, which are in investment mode. Saregama India's numbers should be affected by the lack of major releases during the quarter whereas Balaji Telefilms' substantially higher year-on-year realisations would neutralise the lower volumes. Thus, there should be a marginal year-on-year increase in the profits.

MEDIA: QUARTERLY ESTIMATES (RS CRORE)

	Net sales			Reported PAT		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
Balaji Telefilms	81.0	81.5	-0.6	19.8	19.3	2.4
TV18	75.9	53.0	43.2	1.2	13.6	-91.2
Saregama#	29.5	34.8	-15.2	3.0	3.2	-6.5

#Stand-alone numbers

Metals: firm prices likely to result in better earnings

Metal stocks continued with the strong momentum with steel companies leading from the front. During the quarter, steel prices remained buoyant following a sharp rise in spot iron ore and coking coal prices. The cost-push factors will keep the steel prices firm in the medium term and increasing consolidation will ensure reduced volatility over the longer term.

Pharma: Mixed bag

We remain positive on the Indian pharmaceutical sector on account of the steady domestic growth, growing revenues from generics in the regulated markets, geographical expansion into growing emerging markets and synergies arising out of integration of acquisitions. We believe the companies will manage to grow at above average industry rates due to the continuous stream of new launches and an increased geographical penetration. Even though volume-led export growth is likely to be good during the quarter for most companies, the realisation on exports will continue to remain under pressure due to the 9.5% year-on-year appreciation in the rupee against the US Dollar. The pharma sector Sensex earnings is expected to show a decline as other Sensex companies like Cipla and Dr Reddy's Lab likely to show a decline.

PHARMA: QUARTERLY ESTIMATES (RS CRORE)

	Net sales			PAT		
	Q2 FY08E	Q2 FY07	% chg	Q2 FY08E	Q2 FY07	% chg
Ranbaxy Labs	1754.4	1627.1	7.8	174.1	139.3	25.0
Sun Pharma	632.0	536.2	17.9	213.0	186.4	14.3
Wockhardt	715.5	437.7	63.5	85.0	74.0	14.9
Lupin	623.9	495.8	25.8	78.8	58.3	35.2
Nicholas Piramal	658.8	636.9	3.4	57.1	46.1	23.9
Orchid Chem	282.3	245.7	14.9	40.0	29.5	35.8
Cadila Health	620.0	474.8	30.6	76.5	70.5	8.5
Elder Pharma	133.0	113.7	17.0	15.5	14.2	9.4
Total	5420.0	4567.8	18.7	740.1	618.2	19.7

Markets expect earnings to be back ended

Generally, the second half of any fiscal is better than the first half, however many companies especially the auto sector is betting big on the festive season and expect earnings to be back ended. Whether sales picks up during the second half of the current fiscal remains to be seen. However the implied growth in metals remains low, which could see revisions with firm outlook on global steel prices post Q2FY2008 numbers. ■

SECTORS	EXPECTED H1FY08 EARNINGS GROWTH	IMPLIED H2FY2008 EARNINGS GROWTH
Auto	-25%	36%
Banking & Finance	25%	28%
Capital goods	40%	27%
Cement	53%	33%
FMCG	3%	22%
IT	15%	24%
Metal	-1%	-4%
Pharma	-19%	-15%
Power	8%	10%
Telecom	60%	50%
Sensex - ex oil	20%	24%

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

MUTUAL GAINS SEPTEMBER 11, 2007

Sharekhan's top equity fund picks

The global concerns on the subprime mortgage crisis in the USA and the political storm on the domestic front took its toll on the markets in August 2007. Led by a hefty withdrawal of funds by foreign institutional investors (Rs7,700 crore), the Sensex and the Nifty plunged by almost 10% each, with the Sensex closing below the 14,000 mark on August 21, 2007. However, with the easing of subprime concerns in the USA and the reaching of truce between the government and its Left allies after the deadlock over the 123 nuclear agreement between India and the USA, the markets settled down towards the end of the month.

What must have also calmed the market's nerves are the worldwide efforts to contain the damage caused by the US subprime lending crisis. In Europe, European Central Bank and Bank of England have offered to provide additional cash to banks to bring down the cost of credit and facilitate lending between banks. In the USA, President George W Bush announced a measured plan to help stabilise the markets and provide loan guarantees to some of the defaulting borrowers. The US Federal Reserve (Fed) too, in an unexpected move, has lowered its discount rate (the rate at which it directly lends to banks) by 0.5 percentage points to 5.75% to tackle the credit squeeze resulting from the collapse of the subprime lending market.

However, the ultimate silver lining was once again the strong fundamentals of the Indian economy, which grew at a healthy pace of 9.3% in Q1FY2008, surpassing market expectations and easing concerns that the rising cost of credit and the appreciation in the rupee may have slowed down the economy. What's remarkable about the first quarter's performance is that the same was achieved despite the high base of Q1FY2007 when the GDP had grown by 9.6%. Equally heartening is the fact that the agricultural sector showed signs of revival-agricultural produce saw an increase of 3.8% in Q1FY2008 vs a 2.8% rise a year ago.

Other economic indicators like export growth and automobile sales also showed a recovery. Most importantly, the latest inflation data was benign, with the inflation rate falling below the 4% mark to 3.79% for the week ended August 25. The tax collections are very strong. Net tax collection grew by 42% in the April-August period with the corporate tax collection rising by 49%. Loan growth has also begun to pick up with the year-to-date growth up 0.5% from a negative 0.7% a month back. Further, the Reserve Bank of India's move to restrict external commercial borrowings above $20 million would help to reduce the overall money supply in the economy, thus keeping inflation under control and serving to arrest the sustained appreciation in the rupee and provide some relief to the export-oriented sectors.

Even though the sun is shining through the clouds again, we feel developments within the country, in the USA and the financial markets worldwide need to be watched closely as the same could influence our market in the near term. In the USA, so far the subprime lending concerns have not yet spread to the other sectors of the economy but it remains to be seen for how long this will hold true. If the subprime lending crisis worsens, it could increase the chances of a downturn in the USA, which could affect growth in the emerging economies like India. It could also force foreign investors to reassess their risks and withdraw capital from the emerging markets, thereby affecting liquidity and setting off widespread volatility in financial markets across the globe. However, the Fed chief is under pressure to cut the Fed rate to boost consumer spending and prevent the US economy from slowing down. Interest rate futures show traders are betting with 100% certainty that the Fed will cut the borrowing cost by at least 25 basis points to 5% at its September 18 meeting. A rate cut by the Fed could stimulate fresh appetite for riskier assets like equities of emerging economies like India.

The yen, which continues to appreciate against the other major global currencies, also needs to be monitored. A lot of yen money has been invested in the Indian market and any more rise in the yen may set off another bout of unwinding of the yen carry trades and this could destabilise our market. Crude has hardened. Brent crude oil has risen to $75 and crude prices are expected to go up further because supplies are falling and demand remains strong.

Also, though an uneasy truce has been reached between the government and the Left parties over the 123 nuclear agreement, the same is only temporary and the issue might flare up again when the government decides to operationalise the nuclear deal. Further, India Inc will announce its results for the second quarter next month. The base of last year is moderate at 22.8%. However the extraordinary foreign exchange (forex) gains reported by some companies in the first quarter of this year due the appreciating rupee would be absent in the second quarter and some companies could even report forex losses because the rupee is likely to end the second quarter below its June 2007 highs.

When all's said and done, there are concerns, both global and homegrown, that might keep the markets volatile in the near term. Hence caution is advised. Rather than rushing in on a correction, we would wait and watch how the global and domestic factors unfold.

We have identified the best equity-oriented schemes available in the market today based on the following 3 parameters: the past performance as indicated by the one and two year returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the one and two year returns generated by the scheme. Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

FAMA measures the returns generated through selectivity, ie the returns generated because of the fund manager's ability to pick the right stocks. A higher value of net selectivity is always preferred as it reflects the stock picking ability of the fund manager.

We have selected the top 10 schemes upon ranking on each of the above 4 parameters and then calculated the mean value of each of the 4 parameters for the top 10 schemes. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the 4 parameters vis a vis their respective mean values.

For our final selection of schemes, we have generated a total score for each scheme giving 30% weightage each to the relative performance as indicated by the one and two year returns, 30% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 10% to the relative performance as indicated by the FAMA of the scheme.

All the returns stated below, for less than one year are absolute and for more than one year the returns are annualised.

AGGRESSIVE FUNDS

MID-CAP CATEGORY

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
Sundaram BNP Paribas Select Midcap	99.86	4.16	29.03	41.00
Birla Mid Cap	79.26	10.36	49.58	38.78
SBI Magnum Midcap	25.76	9.01	46.95	38.65
Reliance Growth	311.78	5.91	44.36	36.42
ICICI Prudential Emerging STAR	32.56	6.02	42.00	35.52
HDFC Capital Builder	76.32	9.32	41.40	28.87
HSBC Midcap Equity	22.33	7.90	39.08	30.32
Indices				
BSE Sensex	15318.60	5.32	30.94	40.09

OPPORTUNITIES CATEGORY

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
Fidelity Equity	24.54	4.51	44.44	39.59
ICICI Prudential Dynamic	72.23	3.23	36.68	39.75
Franklin India Flexi Cap	23.76	6.80	31.70	39.43
DSP ML Opportunities	63.45	7.03	35.46	39.42
ABN AMRO Opportunities	24.97	4.84	50.64	40.57
Kotak Opportunities	33.01	5.01	35.93	37.41
Tata Equity Opportunities	67.55	5.74	38.83	35.32
Indices				
BSE Sensex	15318.60	5.32	30.94	40.09

EQUITY DIVERSIFIED/CONSERVATIVE FUNDS

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
Birla SunLife Frontline Equity	59.54	6.95	42.58	43.26
DSP ML Top 100 Equity	66.09	3.45	38.46	43.89
SBI Magnum Multiplier Plus 93	63.28	12.22	43.69	44.49
Birla SunLife Equity	217.45	7.46	48.26	41.76
Franklin India Prima Plus	159.14	5.02	41.99	40.91
HDFC Growth	58.17	9.35	43.02	41.35
Reliance Vision	214.28	7.14	41.92	42.98
HDFC Top 200	126.20	5.97	32.05	40.94
Sundaram BNP Paribas Select Focus	68.40	8.23	36.21	42.06
Indices				
BSE Sensex	15318.60	5.32	30.94	40.09

THEMATIC/EMERGING TREND FUNDS

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
ICICI Prudential Infrastructure	22.67	10.26	52.56	--
DSP ML India Tiger	40.03	9.12	52.49	49.25
Sundaram BNP Paribas CAPEX Opportunities	21.68	15.09	54.86	--
Tata Infrastructure	29.10	13.03	51.54	49.33
Birla Infrastructure	14.77	11.98	49.19	--
SBI Magnum Sector Umbrella - Contra	44.05	6.32	40.15	41.79
Indices				
BSE Sensex	15318.60	5.32	30.94	40.09

BALANCED FUNDS

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
Birla SunLife 95	209.77	5.15	38.49	30.01
HDFC Prudence	129.90	7.46	32.65	32.60
Tata Balanced	57.54	5.73	34.93	29.39
FT India Balanced	37.10	5.30	30.17	28.53
DSP ML Balanced	43.82	3.08	29.75	31.31
SBI Magnum Balanced	39.17	4.15	27.71	28.67
Indices				
Crisil Balanced Fund Index	2668.87	3.53	20.81	23.70

TAX PLANNING FUNDS

Scheme Name	NAV	Returns as on Aug31, 07(%)		
		3 Months	1 Year	2 Years
PRINCIPAL Tax Savings	91.16	5.89	50.30	43.08
Birla SunLife Tax Relief 96	109.11	7.05	47.70	39.74
SBI Magnum Tax Gain	50.06	7.47	40.88	35.33
Scheme 93				
Indices				
BSE Sensex	15318.60	5.32	30.94	40.09

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

BANKING SEPTEMBER 28, 2007

Banking sector poised for a re-rating

In this report we have discussed our views on the various macro aspects that have been a concern for the banking sector in the recent past.

RBI likely to take cognisance of a possibility of a slowdown

Our domestic interest rate cycle has peaked out and globally major central banks are either withholding policy rate hikes (European Central Bank and Bank of England) or beginning to cut rates (US Federal Reserve [Fed] cut the Fed funds rate by 50 basis points on September 18, 2007). With inflation below 3.5%, we feel that the Reserve Bank of India (RBI) would now take cognisance of the fact that due to its strict monetary tightening measures, domestic growth could have been jeopardised. Some lead indicators pointing towards a slowdown are a decline in the Index of Industrial Production (IIP) and a low year-to-date (YTD) credit growth.

Is RBI likely to cut rates?

As stated above, we feel that the interest rates have peaked out, however the chances of a rate cut immediately look dim due to the following reasons.

1. **Inflation:** Even though the Wholesale Price Index (WPI) is below 3.5% and hence well below the RBI's comfort zone of 5%, the Consumer Price Index (CPI) is still hovering around 6.5%.
2. **Money supply:** Money supply is still growing at 20% year on year (yoy; above the RBI's target of 17.5%) and continues to remain a concern with the possibility of foreign inflows remaining strong.

Monetary stance likely to shift to a neutral mode

We feel the RBI is likely to change its much hawkish stance to a more neutral stance and then start to focus on growth once again in the next policy review scheduled at end October 2007. With regard to interest rates, we feel the market rates could soften (despite no change in policy rates or reserve requirements) once the banking industry gains comfort from (1) the RBI's neutral stance; (2) the high cost deposits run off the banks books; and (3) deposit growth remains above credit growth. In such a scenario bankers may consider to reduce rates and provide a boost to credit growth, which should also help banks to protect their margins as a falling credit/deposit ratio is not margin accretive for banks.

Banks benefit in a stable to declining interest rate scenario

Banks perform their best when the interest rates are stable with a downward bias for the future. We feel the stage is set for the domestic banks to experience good growth with the onset of the festive season in the second half of the current fiscal.

Positive triggers going forward

Capital raising options: Indian banks need to raise huge capital if India has to sustain the current growth momentum and they have to meet the Basel II norms from FY2008 onwards.

Restrictions on ECB: The latest restrictions on external commercial borrowing (ECB) would translate into 5-6% higher domestic loan demand.

SLR cut unlikely now, but possible in H2FY2008: the government's improving fiscal performance has led to a decrease in the fresh supply of government paper in the market. We feel there would be a demand-supply mismatch, considering the other large pool of demand coming from the fast growing insurance sector and the other traditional investors like the provident funds and primary dealers. Hence, the RBI may consider a cut in the SLR in future when the liquidity situation demands such an action. A back-of-the-envelope calculation suggests that a 1% cut in the SLR could improve banks' earnings by 2-3%.

Key risks to watch out going forward

A higher than expected rise in non-performing loans: If the default rates turn out to be much higher than market estimates, then the earnings may see some downgrades for the banking sector.

Loan growth may not pick up: The YTD credit growth has recovered but remains low at 1.6% compared with 5.9% in the corresponding period of the previous year. High interest rates and lower demand may postpone investment decisions for many companies in which case the expectations of a 20-25% loan growth for FY2008 may look stretched.

Evolving political tension: The political scenario had suddenly changed in the country with the Left parties voicing their concerns over the 123 nuclear deal that the United Progressive Alliance government is pursuing with the USA.

Sixth Pay Commission: The Sixth Pay Commission's recommendations are likely to be doing the rounds from April 2008 onwards and could hurt the valuations of the PSBs, as we feel the market has not yet factored in the likely impact of such changes going forward.

Revision in price target

Considering the potential re-rating that could happen in the banking sector in the medium term, we have revised our price targets for most leading banks, where there is strong visibility of earnings.

Conclusion

We continue to remain bullish on the banking sector as the rewards of investing in them far outweigh the risks in the medium to long term. Hence, we would recommend investors to use every opportunity that the market provides to increase their exposure to the banking sector. Our top picks remain SBI, BOI and Bank of Baroda in the PSB space while Axis Bank and HDFC Bank in the private banking space.

BANKS	CMP*	OLD PRICE TARGET	NEW PRICE TARGET	UPSIDE (%)
Bank of Baroda	322	366	400	24.1
Bank of India	260	280	325	25.0
SBI	1,886	1,780	2,282	21.0
HDFC Bank	1,433	1,355	1,694	18.2
Axis (UTI) Bank	768	725	960	25.0

Note: New price target is as of September 2008 *CMP as on September 27, 2007

For further details, please visit the Research section of our website, sharekhan.com

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

Information Technology — September 20, 2007

Two-pronged impact of Fed cut

The recent rate cut by the US Federal Reserve has affected the Indian technology stocks in two ways. First, it is a positive development in terms of the remedial steps taken to avoid a possible slowdown in the US economy. On the other hand, the move has weakened the US Dollar against all the other currencies including the Indian Rupee.

In fact, the rupee has breached the psychologically important benchmark of Rs40/US Dollars. This has dented the sentiments towards the tech stocks. Moreover, with the appreciation coming at the fag end of the quarter, it would also severely affect the performance in the second quarter.

Q2 earnings could be lower by 1.5-2.5%

The average realisation could be around 1-1.5% lower than Rs40.6 that was considered in the second quarter results preview note released earlier this month. However, given the changed scenario the earnings estimates for Infosys Technologies and Satyam Computer Services could be lower by 1.5-2.5% compared with our estimates.

On the positive side, the consensus opinion of the leading technology companies seems to suggest an expected range of Rs39-41 for the rupee against the dollar. This essentially means that a possible breach of the Rs40 mark is not an unexpected event and the Indian companies have been preparing for the same.

Valuation

In the near term, the technology stocks could remain under pressure due to continued strengthening of the rupee. In such a scenario, it is preferable to find shelter in companies with aggressive foreign exchange hedging and/or limited exposure to billing in US Dollars. Consequently, we maintain our positive view on HCL Technologies and 3i Infotech. ■

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Media — September 25, 2007

TRAI's notification on interconnection issues in DTH

A brief of the interconnection amendment regulations is presented below.

- Every broadcaster will publish a RIO for DTH operators containing technical and commercial terms for interconnection.
- Such RIO among other things should compulsorily contain a-la-carte rates for channels.
- Broadcasters may offer bouquets, but they cannot compel any DTH operator to include the entire bouquet in any package being offered by DTH operators to their subscribers.
- In case a DTH operator includes various pay channels of a broadcaster's bouquet in different DTH packages for its subscribers, the payment for the bouquet will be made by the DTH operator to the broadcaster based on the highest subscriber base for any pay channel from that bouquet.
- The sum of a-la-carte rates of pay channels in a bouquet should not exceed 1.5 times the bouquet rate, and a-la-carte rate of a pay channel in a bouquet should not be more than 3 times the average pay channel rate of that bouquet.

Explanation and inference

- We believe the requirement to publish RIO by a is aimed at ensuring transparency keeping in mind the interest of all DTH operators.
- RIO will ensure faster consensus between DTH operators and broadcasters on the terms of the interconnect agreements.
- The a-la-carte pricing should help DTH operators pick and choose channels of choice. While this leads to effective utilisation of the much-limited transponder space, it will lessen the burden of carrying weaker channels for the operator.
- Liberty to DTH operators to package channels to be offered to DTH subscribers from bouquets offered by broadcasters should help the operators in localising the content to suit the local tastes of different regions of the country. ■

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STEEL — SEPTEMBER 11, 2007

Sustained upturn in steel prices

Cost push inflation to drive steel prices

The average international hot rolled coil prices has increased by approximately 6% in the last one month to $570 per tonne. Following the global buoyancy in the international market and the increase in feedstock prices, international companies such as POSCO and Hyundai steel have raised the prices for the second time in the last two months. We believe cost-push factors will keep the steel price firm for the medium term and increasing consolidation will ensure reduced volatility over the longer term.

Outlook

The integrated players such as Tata Steel, JSW Steel and SAIL will be the key beneficiaries of the up cycle in the prices. JSW Steel meets 30% of its iron ore requirement through captive sources where as 100% of coal is through external purchases. The company will be exposed to changes in the raw material prices. SAIL is fully integrated for iron ore however it sources coal from open market. Tata Steel for its domestic production fulfills its 100% iron ore and 70% coal requirement from its captive sources. Going forward companies will have to adjust with the increased in capital cost for steel making. The cost-push factors will keep the steel price firm for the medium term and increasing consolidation will ensure reduced volatility over the longer term.

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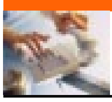
TELECOMMUNICATION — SEPTEMBER 19, 2007



Healthy growth in subscribers continues

The mobile service providers reported a healthy month-on-month growth of 4.2% in net subscriber additions during August. Of the total net subscriber addition of 7.94 million in August, GSM operators added 5.95 million additional users. thereby taking the GSM subscriber base to 147.7 million. On the other hand, the CDMA operators added 1.99 million subscribers in August (a growth of 4.2% over last month), taking the user base to 49.24 million users.

Bharti Airtel, steady growth

Bharti Airtel maintained its leadership position, adding 2.1 million subscribers in August (one of the highest ever), taking its user base to 46.8 million. It amounts to a growth rate of 4.6% over the base in July. However, with net subscriber addition of 1.7 million, Hutch-Essar reported a growth of 5% in its subscriber base during August. This is the fourth consecutive month of relatively higher growth rates as compared with its competitor and market leader Bharti Airtel.

Other telecom players

Another private sector player that has maintained the growth momentum in subscriber additions is Idea Cellular. It added 0.9 million subscribers, taking the total user base to 17.9 million, amounting to a month-on-month growth of 5.1%, the highest in August. The company has been able to a show growth rate of over 5% for the past three months on the back of an aggressive roll-out of network in the existing 11 circles.

Reliance Communications has added 1.2 million users with a growth rate of 3.5%. It added 1.18 million users in the CDMA segment (a growth rate of 4.1%) with no additions in the GSM segment. The state owned Bharat Sanchar Nigam continued to lag behind the private sector players due to network constraints. It reported a growth of 2.4%, taking its subscriber base to 29.7 million.

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Great Offshore

Viewpoint | CMP: Rs825 | September 03, 2007

Fleet expansion boosts FY2007 revenues

We attended the Annual General Meeting (AGM) of Great Offshore (GOL) and the key takeaways from the same are mentioned below.

At the end of FY2007, the company had a total of 39 vessels. In FY2007, the company added six vessels in its fleet size. In May 2007, the company took a delivery of a Platform Support Vessel (PSV), which increased total vessels of the company to 40.

The company has placed an order for a jackup rig and a MSV, which are expected to be delivered in FY2009 and FY2010 respectively. The company has chartered its upcoming jackup rig with the Oil and Natural Gas Corporation (ONGC) at the day rate of $1,40,000 per day.

The company has a capex plan of around $225 million, which is to be partly met by raising 1.5 million redeemable preference shares and foreign currency convertible bond (FCCB).

The company declared an 80% interim dividend (Rs8 per share) for FY2007.

The consolidated revenues for FY2007 increased by 50% year on year (yoy) to Rs582.2 crore. The operating profit margin (OPM) increased by 340 basis points to 45.1% yoy and operating profit increased by 62.5% to Rs262.8 crore and finally the net profit increased by 50% yoy to Rs145.2 crore.

In FY2007, the company's total debt increased by 96% yoy to Rs746.6 crore. As on FY2007, the debt equity ratio of the company was 1.21:1.

The company is continuously expanding its fleet and is well placed to take full advantage of the ongoing boom in the demand for vessels. A well diversified fleet and a proactive management gives GOL an edge over its peers.

At the current market price of Rs825, the stock is trading at 21.7x its FY2007 earnings and enterprise value (EV)/net asset value (NAV) multiple of 5.9x. ■

For further details, please visit the Research section of our website, sharekhan.com

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Gujarat NRE Coke

Viewpoint | CMP: Rs63.4 | September 03, 2007

Merger of subsidiaries and growing investment value

Event

India NRE Minerals Ltd (INR) proposes to acquire Gujarat NRE resources NL (GUJ) by way of an off market take over bid with the merged operations creating a major Australian coal company with coking coal reserves of ~456 million tonne.

Details

- Gujarat NRE Coke Ltd's (Gujarat NRE Coke) Australian subsidiary INR in which the company holds 91% stake proposes to merge GUJ (its another Australian subsidiary in which it has 71% stake) by way of share swap of 3 INR shares for every 4 GUJ fully paid shares.
- The offer is made at a 13.5% premium to the closing price of GUJ shares at the Australian stock exchange.
- The merged company on a fully diluted basis is expected to have a value of A$480 million. We believe Gujarat NRE Coke will have ~86% stake in the merged entity based on the current share swap ratio.
- The total investment value of the company based on the latest closing price is Rs1,473 crore which is 96% of Gujarat NRE coke's current market cap.

Outlook

Gujarat NRE Coke has successfully transformed itself into an integrated coking coal company from a coke producer. The stock price performance will be largely driven by the Chinese coke prices and coking coal prices. However the current dynamics suggest the coke market to remain firm in the near term. The successful completion of the recent acquisition of Ellouera mines, which would increase the coking coal mining production, would insulate the company from adverse price movements in coke. ■

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SHAREKHAN EARNINGS GUIDE

Prices as on October 01, 2007

Company	Price (Rs)	Sales			Net Profit			EPS			(%) EPS Growth	PE (x)			ROCE (%)		RONW (%)		DPS	Div Yield
		FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY09/FY07	FY07	FY08E	FY09E	FY07	FY08E	FY07	FY08E	(Rs)	(%)
Evergreen																				
HDFC Bank	1,404.0	5,225.8	7,183.9	9,544.1	1,141.9	1,502.9	1,964.2	35.8	42.2	55.2	24%	39.2	33.3	25.4	-	-	19.3	15.9	7.0	0.5
Infosys Tech	1,893.1	13,893.0	17,269.0	22,299.0	3,726.0	4,717.0	5,952.0	66.9	82.0	103.3	24%	28.3	23.1	18.3	37.5	37.8	34.3	33.2	21.0	1.1
Reliance Ind	2,289.4	105,701.0	91,354.0	142,079.0	10,386.0	10,499.9	19,417.0	74.4	75.2	128.3	31%	30.8	30.4	17.8	25.1	23.0	19.4	16.7	10.0	0.4
TCS	1,038.6	18,633.0	23,803.0	29,460.0	4,132.0	5,030.0	6,054.0	42.2	51.4	61.9	21%	24.6	20.2	16.8	39.5	35.4	45.2	38.2	7.5	0.7
Apple Green																				
ACC	1,209.9	5,803.5	7,263.7	7,808.3	1,062.2	1,556.6	1,493.1	56.5	82.8	79.5	19%	21.4	14.6	15.2	34.1	39.9	33.8	34.3	15.0	1.2
Aditya Birla Nuvo^	1,574.1	8,258.0	10,782.4	-	281.2	501.0	-	32.0	53.7	-	68%	49.2	29.3	-	7.5	7.5	15.5	15.5	5.0	0.3
Apollo Tyres	40.1	3,284.3	3,741.2	4,180.2	113.4	166.3	199.6	2.3	3.3	4.0	33%	17.8	12.2	10.0	17.6	18.7	11.9	13.5	4.5	11.2
Bajaj Auto	2,484.1	9,317.5	9,045.6	10,565.9	997.9	1,127.6	1,238.5	98.6	111.4	122.4	11%	25.2	22.3	20.3	22.3	20.9	18.0	18.2	40.0	1.6
Bank of Baroda	332.4	4,750.8	5,771.4	6,511.7	1,026.5	1,307.7	1,576.7	28.1	35.8	43.1	24%	11.8	9.3	7.7	-	-	12.4	14.3	6.0	1.8
Bank of India	278.0	5,003.0	5,954.0	7,113.7	1,123.2	1,396.3	1,747.0	23.0	26.5	33.2	20%	12.1	10.5	8.4	-	-	21.2	19.8	3.5	1.3
Bharat Bijlee	2,613.4	469.9	590.5	756.6	55.1	76.4	103.2	97.6	135.3	182.7	37%	26.8	19.3	14.3	63.4	59.0	48.8	42.9	25.0	1.0
BEL	1,829.2	3,892.5	4,446.5	4,974.9	718.2	842.0	948.8	89.8	105.2	118.6	15%	20.4	17.4	15.4	45.3	41.3	25.9	23.8	12.0	0.7
BHEL	1,990.1	17,237.5	22,143.4	27,543.5	2,414.7	3,076.3	3,825.9	49.3	62.8	78.2	26%	40.4	31.7	25.4	45.2	47.6	27.5	26.8	14.5	0.7
Bharti Airtel	942.3	18,519.7	27,051.0	34,192.0	4,257.0	6,365.6	8,034.4	22.5	33.5	42.3	37%	41.9	28.1	22.3	31.7	32.1	29.1	33.0	-	0.0
Canara Bank	283.1	5,477.8	6,001.4	6,896.4	1,420.8	1,552.0	1,785.4	34.7	37.9	43.5	12%	8.1	7.5	6.5	-	-	16.3	14.2	7.0	2.5
Corp Bank	390.3	1,943.6	2,181.6	2,453.7	536.1	635.7	746.2	37.4	44.3	52.0	18%	10.4	8.8	7.5	-	-	15.0	16.0	9.0	2.3
Crompton Greaves	346.6	5,639.0	7,297.7	8,542.4	281.7	383.5	519.3	7.7	10.5	14.2	36%	45.0	33.0	24.4	36.8	41.2	27.3	28.0	1.0	0.3
Elder Pharma	431.2	447.3	562.1	648.4	56.8	74.8	84.6	30.6	40.3	45.6	22%	14.1	10.7	9.5	15.9	15.4	17.3	18.8	2.5	0.6
Grasim	3,599.5	14,412.0	12,726.4	13,659.6	1,967.5	2,430.0	2,115.0	214.6	265.0	230.7	4%	16.8	13.6	15.6	33.3	35.7	27.5	27.2	16.0	0.4
HCL Tech**	294.9	6,033.7	7,533.4	9,377.5	1,258.1	1,268.7	1,650.0	18.4	18.5	23.8	14%	16.0	15.9	12.4	25.5	28.3	21.7	23.1	8.0	2.7
HUL*	222.4	12,103.4	13,800.0	15,395.0	1,539.7	1,883.9	2,111.8	7.0	8.5	9.6	17%	31.8	26.2	23.2	67.0	68.4	56.5	57.4	6.0	2.7
ICICI Bank	1,058.1	12,565.0	16,796.7	21,641.1	3,110.4	4,015.7	5,120.8	34.6	35.8	45.7	15%	30.6	29.6	23.2	-	-	13.3	10.4	10.0	0.9
Indian Hotel Co	135.3	1,544.0	1,787.0	2,086.0	321.8	363.7	440.6	5.3	6.0	7.3	17%	25.5	22.6	18.5	22.6	21.6	17.9	17.6	1.6	1.2
ITC	186.0	12,369.0	14,328.0	17,276.0	2,699.9	2,998.3	3,629.2	7.2	8.0	9.6	16%	25.9	23.2	19.4	34.9	33.5	27.7	26.6	3.1	1.7
Lupin	598.4	1,970.9	2,600.0	3,054.4	302.1	328.9	410.5	34.2	37.3	46.5	17%	17.5	16.0	12.9	23.4	20.4	34.0	20.4	5.0	0.8
M&M	759.2	9,629.9	11,312.1	13,010.4	957.7	898.0	1,061.4	40.2	37.7	44.6	5%	18.9	20.1	17.0	29.7	21.6	20.2	19.3	11.5	1.5
Marico	61.0	1,559.5	1,896.9	2,149.7	112.9	160.8	203.2	1.9	2.6	3.3	34%	33.0	23.5	18.5	35.9	48.0	58.7	51.3	0.7	1.1
Maruti Suzuki	991.8	14,611.5	17,768.3	20,447.3	1,532.9	1,821.3	2,077.8	53.0	63.0	71.9	16%	18.7	15.7	13.8	35.2	41.0	24.9	26.1	4.5	0.5
Nicholas Piramal	278.2	2,420.2	2,866.9	3,248.1	232.6	282.4	342.1	11.0	13.4	16.3	22%	25.3	20.8	17.1	16.6	17.6	21.4	22.3	3.5	1.3
Ranbaxy*	441.0	6,018.3	6,535.2	7,456.2	510.3	740.9	706.0	13.7	18.5	17.7	14%	32.2	23.8	24.9	11.2	14.2	19.7	25.1	8.5	1.9
Satyam Comp	442.8	6,485.0	8,114.0	10,178.0	1,405.0	1,673.0	2,026.0	21.4	25.0	29.9	18%	20.7	17.7	14.8	27.8	27.9	25.9	25.9	8.0	1.8
SKF India*	394.1	1,342.5	1,537.1	1,798.9	99.3	145.4	176.1	18.8	27.6	33.4	33%	21.0	14.3	11.8	39.4	45.7	23.5	27.4	4.5	1.1
SBI	1,893.5	23,501.0	26,946.7	31,199.4	4,541.3	5,164.7	6,267.4	86.3	90.4	109.7	13%	21.9	20.9	17.3	-	-	15.4	13.5	14.0	0.7
Tata Motors	773.1	32,426.4	34,592.6	40,856.7	2,170.0	2,076.3	2,615.0	56.3	54.3	64.9	7%	13.7	14.2	11.9	33.4	28.4	28.4	22.5	15.0	1.9
Tata Tea	820.1	4,024.9	4,323.0	4,582.6	366.2	321.7	421.8	62.3	52.2	68.4	5%	13.2	15.7	12.0	11.4	8.9	19.6	10.3	15.0	1.8
Unichem Lab	218.6	545.6	638.9	710.7	89.0	102.5	115.6	24.7	28.5	32.1	14%	8.8	7.7	6.8	25.3	27.1	24.0	25.2	5.0	2.3
Wipro	454.0	14,943.0	18,670.0	23,126.0	2,917.0	3,283.0	3,977.0	20.4	23.0	27.6	16%	22.3	19.7	16.4	22.5	22.1	28.7	27.2	6.0	1.3
Emerging Star																				
3i Infotech	150.2	655.3	1,126.5	1,432.2	96.5	173.9	218.4	7.2	10.3	12.9	34%	20.9	14.6	11.6	11.4	12.7	13.7	11.4	1.0	0.7
Aban Offshore	3,506.4	718.7	2,419.0	4,296.2	-50.2	424.9	1,445.0	-13.0	110.4	375.4	-	-269.7	31.8	9.3	4.7	12.0	-7.1	59.9	-	-
Alphageo India	512.8	54.0	90.0	138.1	7.5	16.9	28.4	15.2	30.7	51.7	84%	33.7	16.7	9.9	28.5	43.2	28.7	37.9	0.5	0.1
Axis Bank (UTI Bank)	750.5	2,577.2	3,628.8	4,872.5	659.0	875.6	1,150.8	23.4	24.6	32.3	17%	32.1	30.5	23.2	-	-	20.9	13.7	4.5	0.6
Balaji Telefilms	270.2	320.2	391.4	497.4	79.5	96.7	119.6	12.2	15.0	18.3	22%	22.1	18.0	14.8	41.7	42.8	28.6	28.6	3.5	1.3
BL Kashyap	2,451.8	808.1	1,397.5	1,982.5	55.6	93.0	131.8	54.1	90.6	128.3	54%	45.3	27.1	19.1	27.5	33.9	20.6	27.4	-	0.0
Cadila Healthcare	309.2	1,828.8	2,241.0	2,600.8	233.8	271.9	328.3	18.6	21.6	26.1	18%	16.6	14.3	11.8	20.4	19.2	25.4	24.6	4.0	1.3
Jindal Saw	648.2	4,963.1	3,870.7	5,086.8	284.6	291.0	465.7	50.7	51.9	83.0	28%	12.8	12.5	7.8	20.6	16.1	22.7	9.5	-	-
KSB Pumps	488.0	406.4	462.2	546.1	51.1	49.1	69.1	29.4	28.2	39.7	16%	16.6	17.3	12.3	45.0	37.7	25.3	20.6	4.0	0.8
Navneet Pub	85.2	326.8	375.6	405.2	42.7	53.7	58.5	4.5	5.6	6.1	16%	18.9	15.2	14.0	17.0	19.0	21.0	23.0	2.0	2.3
Network 18 Fincap	394.9	338.3	-	-	-9.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nucleus Software	306.4	221.2	301.8	368.6	55.2	67.2	81.5	17.0	20.6	25.0	21%	18.0	14.9	12.3	37.4	35.7	33.2	31.7	1.8	0.6

* Year CY instead of FY

^EPS growth resembles FY08/FY07

** June ending company

Company	Price (Rs)	Sales			Net Profit			EPS			(%) EPS Growth	PE (x)			ROCE (%)		RONW (%)		DPS	Div Yield
		FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY09/FY07	FY07	FY08E	FY09E	FY07	FY08E	FY07	FY08E	(Rs)	(%)
Orchid Chemicals	223.6	912.9	1,044.3	1,193.9	96.6	156.4	224.5	14.7	17.3	23.5	26%	15.2	12.9	9.5	9.4	11.2	19.3	10.8	3.0	1.3
Tata Elxsi	299.6	308.0	389.7	492.2	52.1	58.1	74.2	16.7	18.7	23.8	19%	17.9	16.0	12.6	62.0	55.0	84.0	65.4	7.0	2.3
TV18 India	924.1	239.8	325.5	437.9	60.8	85.1	126.1	11.0	15.1	22.3	42%	84.0	61.2	41.4	13.9	16.0	20.7	21.2	2.0	0.2
Thermax	731.8	2,324.8	3,264.0	4,405.1	209.6	299.7	418.6	17.6	25.2	35.1	41%	41.6	29.0	20.8	59.7	63.9	32.8	37.1	3.4	0.5
Ugly Duckling																				
Ahmed Forging	219.7	600.3	801.6	990.7	68.2	84	106.8	20.5	25.3	32.2	25%	10.7	8.7	6.8	26.2	26.1	21.4	21.6	2.0	0.9
Ashok Leyland	45.8	7,320.4	7,920.6	9,144.6	441.3	401.0	517.2	3.1	3.0	3.9	12%	14.8	15.3	11.7	25.8	21.9	21.5	19.4	1.5	3.3
Aurobindo Pharma	599.0	2,122.9	2,622.9	3,143.7	203.2	278.0	348.4	38.1	45.8	57.1	22%	15.7	13.1	10.5	11.2	13.4	13.5	15.7	1.5	0.3
BASF	263.1	836.7	1,156.9	1,556.2	54.0	80.5	111.4	17.8	28.6	39.5	49%	14.8	9.2	6.7	27.4	32.8	18.6	24.0	7.0	2.7
Ceat	162.0	2,133.1	2,314.5	2,573.9	39.7	77.1	96.4	8.6	16.9	21.1	57%	18.8	9.6	7.7	15.4	22.9	11.0	16.5	1.8	1.1
Deepak Fert	118.3	833.1	1,114.5	1,259.1	94.4	114.9	150.8	10.7	13.0	17.1	26%	11.1	9.1	6.9	11.1	12.1	13.9	18.3	3.0	2.5
Genus Infra	608.5	357.3	516.0	648.5	27.8	47.1	57.8	23.2	38.6	47.4	43%	26.2	15.8	12.8	28.5	31.0	27.9	31.6	1.5	0.2
Hexaware Tech	122.7	848.2	1,087.2	1,326.5	124.2	126.2	164.5	8.9	8.8	11.4	13%	13.8	13.9	10.8	33.2	30.1	28.6	24.9	0.4	0.3
ICI India	527.0	1,015.0	987.3	1,102.9	87.4	118.9	134.4	21.4	29.1	32.9	24%	24.6	18.1	16.0	8.6	11.5	12.4	13.0	27.0	5.1
India Cements	297.3	2,049.7	3,103.0	3,574.0	488.8	779.3	736.5	18.8	30.0	28.3	23%	15.8	9.9	10.5	22.0	27.8	36.2	28.1	-	-
Indo Tech Trans	517.5	155.4	226.6	352.5	25.2	32.1	49.7	23.7	30.2	47.0	41%	21.8	17.1	11.0	41.2	38.7	31.3	30.6	4.5	0.9
Jaiprakash Asso	1,146.3	3,796.0	4,637.0	5,635.0	443.6	663.0	767.0	20.3	30.6	35.0	31%	56.5	37.5	32.8	10.5	10.8	16.1	15.5	2.5	0.2
KEI Industries	82.4	603.9	868.9	1,173.0	40.1	53.5	81.2	5.2	6.9	10.4	42%	15.9	12.0	7.9	24.9	23.1	32.5	30.2	0.5	0.6
PNB	539.5	6,556.9	7,374.2	8,707.8	1,540.0	1,874.4	2,217.8	48.8	59.4	70.3	20%	11.1	9.1	7.7	-	-	15.8	17.2	9.0	1.7
Ratnamani Metals	1,047.7	571.2	818.4	1,087.8	64.1	88.5	125.7	71.2	95.9	134.6	37%	14.7	10.9	7.8	43.7	44.0	57.7	47.7	5.0	0.5
Sanghvi Movers	191.5	178.6	237.1	285.5	47.2	62.4	75.9	11.5	14.5	17.4	23%	16.7	13.3	11.0	23.9	23.8	24.5	23.6	2.5	6.3
Saregama India	315.3	143.3	170.8	198.1	17.3	21.0	28.7	11.4	14.0	19.1	29%	27.7	22.5	16.5	18.0	18.6	20.1	20.5	-	-
Selan Exploration	153.4	26.2	36.0	49.8	10.6	14.7	20.2	7.3	10.2	14.0	38%	21.0	15.0	11.0	28.5	31.0	23.8	24.9	-	-
SEAMEC	212.6	159.1	192.7	274.6	58.6	53.4	110.6	17.3	15.8	32.6	37%	12.3	13.5	6.5	29.0	21.0	25.0	18.0	-	-
Subros	222.5	647.4	733.5	952.1	31.9	33.8	51.4	26.6	28.2	42.8	27%	8.4	7.9	5.2	21.7	20.4	19.5	16.8	3.0	1.3
Sun Pharma	964.8	2,132.1	2,688.4	3,232.0	774.1	927.0	1,100.8	40.0	44.8	53.1	15%	24.1	21.5	18.2	19.0	18.9	19.5	18.7	5.5	0.6
Surya Pharma	99.5	304.3	450.0	650.0	23.9	41.7	57.7	16.5	23.2	32.1	39%	6.0	4.3	3.1	14.7	17.1	20.5	25.8	-	-
UltraTech Cement	1,060.3	4,910.8	5,717.7	6,496.7	782.2	1,001.4	1,139.7	62.8	80.4	91.5	21%	16.9	13.2	11.6	43.3	39.6	44.7	37.4	4.0	0.4
UBI	173.6	3,478.0	3,981.8	4,595.9	846.0	1,079.7	1,293.2	16.7	21.4	25.6	24%	10.4	8.1	6.8	-	-	19.2	21.0	3.5	2.0
Universal Cables^	96.5	377.2	478.8	-	21.9	30.1	-	9.5	13.0	-	37%	10.2	7.4	-	18.2	20.5	13.7	16.5	2.4	2.5
Wockhardt*	419.8	1,729.0	2,718.8	3,098.8	301.6	370.1	427.8	27.6	31.0	35.8	14%	15.2	13.5	11.7	11.4	18.9	22.6	19.9	5.0	1.2
Zensar Tech	207.4	605.9	815.2	971.7	58.8	67.6	82.2	24.4	28.3	34.2	18%	8.5	7.3	6.1	23.7	27.2	27.8	28.1	3.5	-
Vulture's Pick																				
Esab India*	470.7	287.2	368.7	424.0	42.6	57.4	68.6	27.7	37.2	44.5	27%	17.0	12.7	10.6	108.1	83.6	55.5	46.1	5.0	1.1
Orient Paper	549.4	1,101.1	1,274.4	1,388.3	137.2	182.6	181.5	84.6	94.7	94.1	5%	6.5	5.8	5.8	48.8	44.7	87.5	36.4	10.0	1.8
WS Industries	90.6	165.4	200.5	294.0	7.9	14.5	18.5	3.7	6.8	8.7	53%	24.5	13.3	10.4	15.4	16.8	11.2	18.6	-	-
Cannonball																				
Allahabad Bank	108.9	2,127.1	2,476.2	2,815.6	750.2	839.5	967.1	16.8	18.8	21.6	13%	6.5	5.8	5.0	-	-	22.6	21.6	4.0	3.7
Andhra Bank	103.8	1,864.4	2,156.5	2,612.4	537.9	611.1	705.7	11.1	12.6	14.6	15%	9.4	8.2	7.1	-	-	17.8	18.2	3.8	3.7
Gateway Distri	136.1	161.0	262.6	395.2	78.8	88.9	114.8	8.5	9.6	12.5	21%	16.0	14.2	10.9	14.8	15.1	12.0	13.4	3.5	2.6
ICIL	420.9	79.8	98.9	117.9	8.3	11.3	13.9	34.6	47.1	58.0	29%	12.2	8.9	7.3	34.7	39.8	21.3	23.0	2.5	0.6
J K Cements	176.3	1,233.0	1,479.0	1,559.0	178.6	210.0	180.0	25.5	30.0	25.7	0%	6.9	5.9	6.9	23.2	24.7	21.6	20.8	1.5	0.9
Madras Cements	4,308.4	1,574.1	2,028.6	2,619.7	308.5	445.4	536.4	255.4	368.7	444.1	32%	16.9	11.7	9.7	42.0	42.2	46.3	41.7	15.0	0.3
Shree Cement	1,553.8	1,368.0	1,962.5	2,276.8	356.7	544.6	564.7	102.4	156.3	162.1	26%	15.2	9.9	9.6	42.6	58.7	56.0	46.9	3.0	0.2
TFCI	35.3	29.7	37.5	48.5	14.3	20.2	27.5	2.1	3.0	4.1	40%	16.8	11.8	8.6	-	-	7.5	9.9	0.5	1.4
TCI	125.2	1,088.5	1,265.7	1,560.1	30.6	39.9	49.9	4.5	4.9	6.3	18%	27.8	25.3	19.9	17.6	17.1	22.4	16.3	1.5	1.2

* Year CY instead of FY

^ EPS growth resembles FY08/FY07

** June ending company

Remarks	
Evergreen	
HDFC Bank	• The consistent growth of 31% quarter after quarter makes HDFC Bank, India's leading private sector bank, a safe bet. The risk from the interest rate volatility is low as its fee income/net income ratio is the highest in the industry at 30%. The recent capital raising along with approval for new branch licences would help the bank to sustain the growth momentum.
Infosys Tech	• Infosys is India's premier IT and IT-enabled service company. It is one of the key beneficiaries of the strong trend of offshore outsourcing. It is relatively better positioned to weather the current uncertainties related to a possible slowdown in the USA and its fallout on the overall demand environment.
Reliance Ind	• RIL's refining business remains strong. The upswing in the petrochemical cycle is likely to continue for the next 18-24 months. Upstream assets are valued at Rs580 per share. Its subsidiary, RPL, adds another Rs167 per share to the stock price.
TCS	• TCS pioneered the IT service outsourcing business from India and is the largest IT service firm in the country. It is a leader in most service offerings and is in the process of further consolidating its leadership position through the inorganic route and large deals.
Apple Green	
ACC	• ACC is India's largest cement maker and will be the primary beneficiary of the improving cement demand-supply equilibrium. The volume boost from the expanded capacity and the cost reduction through captive power plants shall boost its profitability. Holcim's strategic stake in it will result in the unlocking of value.
Aditya Birla Nuvo	• Aditya Birla Nuvo participates in India's four most exciting sectors: garments, insurance, telecom and IT/IT enabled services. It has a perfect strategy: to earn cash from its cash cow businesses, such as carbon black, rayon and fertilisers, and invest in high-growth businesses, such as garments, insurance, telecom and IT/IT enabled services.
Apollo Tyres	• Apollo Tyres is the market leader in the truck and bus tyre segment with a market share of 28%. We expect the replacement cycle to get triggered in a big way, given the sharp rise in the commercial vehicle (CV) sales in the past one year. The margins improved substantially in FY2007 and are expected to be sustained heron due to lower rubber prices, its main raw material. Considering the strong growth opportunities and the powerful position of the company in the market, we believe that the stock is under-valued.
Bajaj Auto	• Bajaj Auto is a leading two-wheeler maker. It is being spilt into three separate companies, comprising a holding company, an automobile company and a financial service & insurance company. The sales of the two-wheeler segment, currently affected, are expected to improve with new product launches. The three-wheeler segment continues to under perform the industry. The insurance business makes it the second largest player in the insurance space.
Bank of Baroda	• BOB, with a wide network of over 2,700 branches across the country, has a stronghold in the western and eastern parts of India. With only around 25% of its investment portfolio in the available-for-sale category of duration below 1 year, the bank has insulated its investment portfolio from the risk of rising interest rates. We expect a 14% growth in its net revenue and a 24% growth in its earnings over FY2006-09E.
Bank of India	• BOI has a wide network of 2,644 branches across the country and 24 branches abroad. With only around 25% of its investment portfolio in the available-for-sale category of duration below one year, the bank has insulated its investment portfolio from the risk of rising interest rates. With improving margins and steady asset growth, we expect a strong 23% growth in its net revenues and a 35% growth in its earnings over FY2006-09E.
Bharat Bijlee	• Bharat Bijlee, a leading transformer manufacturing company, shall benefit from huge investments in the T&D sector. Its OPM and RoCE are all set to improve substantially on transfer of the low-margin elevator business.
Bharti Airtel	• Bharti Airtel is leading the wireless telephony revolution and has emerged as the largest mobile operator in the country. In addition to the robust growth in revenues, the focus on cost efficiencies and high-margin non-voice business are more than mitigating the impact of declining trend in the tariffs.
BEL	• BEL, a public sector unit involved in manufacturing of electronic, communication and defence equipment, is benefiting from the enhanced capital expenditure outlay in the budget to strengthen and modernise security systems. Moreover, civilian and export orders are also aiding the overall growth in revenues.
BHEL	• BHEL, India's biggest power equipment manufacturer, will be the prime beneficiary of a four-fold increase in the investments being made in the Indian power sector. Its order book of Rs62,400 crore stands at around 3.55x FY2007 revenue and we expect it to maintain the growth momentum.
Canara Bank	• Canara Bank, with a wide network of 2,513 branches across the country, has a stronghold in the southern parts of India, especially in the states of Andhra Pradesh and Karnataka. The bank has reduced its interest rate risk by bringing down the duration of its available-for-sale (AFS) portfolio to 1.5 years. We expect a 12% growth in its net revenues and a 10% growth in its earnings over FY2006-09E.

Remarks		
Corp Bank	•	Corporation Bank has one of the lowest cost/income ratio and the highest Tier-I CAR. This leaves ample scope to leverage balance sheet without diluting equity, quite unlike the other state-owned banks. It is most aggressive on technology implementation with all its branches under Core Banking Solution, covering 100% business of the bank. It has superior asset quality with NPAs at 0.47%.
Crompton Greaves	•	The outlook is buoyant for Crompton Greaves' key business of industrial and power systems. A consolidated order book of Rs4,620 crore generates clear earnings visibility. The synergy from the acquisitions of Pauwels, GTV and Microsol will drive its consolidated earnings.
Elder Pharma	•	With leading big brands like Shelcal and Tiger Balm, pharma company Elder Pharma is set to make the most of the domestic demand with line extensions and new molecules. New in-licencing agreements will ensure good growth for the company. Elder is also looking to expand its global footprint through acquisitions. Having already made 2 acquisitions in Europe, the company is on the look out for more acquisition opportunities in markets like Latin America.
Grasim	•	Going forward, the improved performance of the VSF business, continued concrete performance of its cement business and the steep uptrend in the earnings of its 51% subsidiary, Ultratech, would drive Grasim's consolidated earnings.
HCL Tech	•	HCL Tech is one of the leading Indian IT service vendors. It has been able to successfully ramp up the business from the large-sized deals bagged over the past few quarters, which has considerably improved its revenue growth visibility.
HUL	•	HUL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HUL is likely to be a key beneficiary. The rural demand growth will be icing on the cake. HUL has regained the pricing power in all the product segments. Turn-around of loss-making businesses and cost reduction measures should help it improve its profitability.
ICICI Bank	•	ICICI Bank is India's second-largest bank. With a strong positioning in the retail advance segment, it enjoys a healthy growth in both loans and fee income. Its various subsidiaries add Rs380 to the overall valuation. The bank has successfully raised Rs20,000 crore, which would fund its growth for the next three years.
Indian Hotels Co	•	The tight demand-supply scenario in the hotel industry will push up the ARRs in the short term and we expect Indian Hotels Co (India's largest hotel company) with its pedigree of hotels to be the key beneficiary of this trend. We expect its earnings to grow at a strong 27.3% CAGR over FY2006-08.
ITC	•	ITC's plan to diversify from the key business of cigarettes is paying off with the non-cigarette businesses of hotels, paper and agri-products reporting a strong growth in revenues. The cigarette business would nurture the growth of the businesses that are at nascent stage. As ITC gains leadership position in each of these businesses, we expect its valuations to improve further, reducing the gap between its valuation and that of HLL.
Lupin	•	Leading pharma company Lupin is set to take off in the export market by targeting the US market (primarily for formulations) while maintaining its dominance in the anti-TB segment globally. Further, with an expanded field force and therapy focused marketing division, Lupin's branded formulation business in the domestic market has been performing better than the industry. Lastly, Lupin's ongoing R&D activities are expected to yield sweet fruits going forward.
M&M	•	M&M is a leading maker of tractors and utility vehicles in India. Its utility vehicle sales continue to be strong. Its investments with world majors in passenger cars and commercial vehicles have helped the company diversify into various auto segments. The acquisitions made by its subsidiary Systech will pay off over the coming three years. The value of its subsidiaries adds to the sum-of-parts valuation.
Marico	•	Marico is India's leading FMCG company. Its core brands, Parachute and Saffola, have a strong footing in the market. It intends to play on the broader beauty and health platform. Its risk appetite is rising, as is evident from the five acquisitions made in eighteen months. It is also directing its energies to the high-margin businesses, viz value-added hair oil, *Kaya* and *Sundari*.
Maruti Udyog	•	Maruti Udyog is India's largest small car manufacturer. This is the only pure passenger car play. With new launches the company is expected to maintain its growth rate in the domestic market. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets. Increased indigenisation and cost control measures to help improve margins.
Nicholas Piramal	•	Pharma major Nicholas Piramal is ready to gain from the ramp-up in its contract manufacturing deals with MNCs. Further, the acquisition of Pfizer's Morpeth facility in the UK adds glory to its global contract manufacturing strength. The demerger of its R&D division will unlock value of its impressive R&D pipeline.
Ranbaxy	•	Ranbaxy, apart from adopting an inorganic growth strategy, has been maintaining an aggressive product introduction strategy as well in the domestic, regulated and other pharma markets. With such efforts, it maintains the numero uno position in the domestic market. Exclusivity opportunities in the USA, along with strong expansion in semi-regulated markets, will drive its growth.
Satyam Comp	•	Satyam is among the top five Indian IT service companies. In the past few quarters, it has been able to bag some large-sized deals and has further consolidated its leadership position in enterprise solutions segment.

	Remarks
SKF India	• SKF, a leading bearing and engineering solution provider, enjoys good visibility in high-margin replacement market. It will be the primary beneficiary of growing volumes of Indian automobile industry and the huge industrial investment lined up by India Inc. It also plans to focus on its high-margin service division.
SBI	• Despite being the largest bank of India SBI is growing at a high rate which is commendable. Its loan growth is likely to remain healthy at 22-25% with improving core operating performance and stable net interest margins. The ownership transfer from RBI to the government and value unlocking from its investments in subsidiaries could provide further upside for the parent bank. The asset quality has been improving with the net NPAs falling to 1.7% of the net advances.
Sundaram Clayton	• Sundaram Clayton is a strong player in the air brake and casting business and supplies mainly to the automobile industry. It is being split into two companies: the Airbrakes business will be held by WABCO and the castings company will be held by the Sundaram group. This value unlocking will lead to higher sourcing by WABCO of its global requirements from India and good export prospects for the casting business as well.
Tata Motors	• Tata Motors is one of India's leading automobile companies with diverse product portfolios across commercial vehicles and cars. The commercial vehicle segment is witnessing a slowdown due to rising interest rates. However, with the spending on infrastructure long-term prospects continue to be positive. The international operations and subsidiaries also add value to the company.
Tata Tea	• Over past two years Tata Tea has transformed itself from just a commodity (tea) seller to a branded tea maker. It has recently acquired management control of Mount Everest Mineral water, owner of the Himalayan brand. This makes the company a compete beverage company, having presence in all the vertical: tea, coffee and water. However, its valuations are much cheaper than is peers.
Unichem Lab	• Big brands in the domestic pharma market and a strong marketing network are the distinguishing features of Unichem. Its domestic business is growing steadily while it is aggressively registering products in international markets (particularly in Europe). The recent acquisition of the balance 40% in subsidiary, UK-based Niche Generic, would boost its product registration and launches in the entire European region, and augment its exports.
Wipro	• Wipro is one of the leading Indian IT service companies. The revival in the BPO business, strong traction in its existing IT service business and the incremental growth from the recent inorganic initiatives have considerably improved the growth visibility in the global software service business.
	Emerging Star
3i Infotech	• 3i offers software products and solutions to the banking, financial services and insurance (BSFI) sector. The growth momentum is expected to continue due to a healthy order book and the growing visibility of its product business in the overseas markets. The benefits of the recent acquisitions will also get fully reflected in its performance in the coming quarters.
Aban Offshore	• Aban Offshore, one of Asia's largest oil drilling companies, is benefiting from the increase in oil exploration and production activities globally. The re-pricing of its existing assets at significantly higher day rates and efforts taken to substantially ramp up the asset base through organic and inorganic routes would significantly improve its financial performance over the next few years.
Alphageo	• Alphageo provides seismic survey and other related support services to oil exploration & production companies in India. The recent order wins and a healthy pipeline of orders have considerably improved the company's revenue growth visibility.
Axis Bank	• Over the last few years Axis Bank (UTI Bank) has grown its balance sheet aggressively. We expect the quality of its earnings to improve as the proportion of the fee income goes up. Axis Bank has also raised capital, which would help it to maintain its growth momentum for the next three years. Its asset quality continues to remain healthy with the net NPAs at 0.6% despite a strong asset growth.
Balaji Telefilms	• Balaji Telefilms (BTL) is a play on the fast growing demand for quality Television content in India. It is by far the leader in the TV content production space. The flurry of entertainment channels along with their willingness and ability to spend more on good content, will be add to BTL's revenues. Its JV with Star for regional broadcasting also opens up a big value proposition.
BL Kashyap	• With its proven execution skills, reasonably large-scale of operations and an established customer base, BL Kashyap & Sons (BLK) is well poised to ride the construction boom in India. Unlike most of its peers, it has a de-risked business strategy of providing contractual construction services and has consciously avoided exposure to long duration infrastructure projects that are prone to delays and are much more capital intensive.
Cadila	• Cadila's improving performance in the US generic and French market, along with the steady progress in the CRAMS space enriches its growth visibility. With key subsidiaries turning profitable, Cadila is all set to harvest the fruits of

	Remarks
Jindal Saw	• Jindal Saw, the largest pipe maker in the country, is set to benefit from the huge opportunity arising out of rising global E&P activities. Its strong order book of $700 million, coupled with margin expansion as a result of better product mix and selling off of the US division would continue to drive its earnings going forward.
KSB Pumps	• KSB Pumps, a leading maker of pumps and valves, is a beneficiary of the investments lined up in India's power and industrial sectors. The strong order inflow in the pump business and the capacity expansion would drive its growth.
Navneet Pub	• Publishing major Navneet's earnings will continue to grow in FY2008 because of change in school syllabi in Gujarat and Maharashtra. The growth in stationary business would be aided by its entry into non-paper stationary products. The entry into the e-learning business could turn out to be the growth driver for the company.
Network 18	• Network 18, the holding company of the TV18 group, owns the best media properties through its holdings in TV18 and GBN. While, TV18 owns business channels CNBC and Awaaz, GBN controls CNN-IBN and IBN-7. GBN will soon launch a Hindi general entertainment channel via its tie-up with Viacom. Network 18 is in the process of launching a full fledged home shopping network inclusive of a dedicated home shopping channel. We expect Network 18 to create immense value through its holdings.
Nucleus Software	• Nucleus Software offers a comprehensive suite of software products to banking and financial service companies globally. Its flagship product "FinnOne" is rated as the highest selling retail banking product in the IBS annual ranking review 2006. The niche positioning and a robust order book provide a reasonably healthy growth outlook.
Orchid Chem	• Orchid's entry into the non-antibiotic space will fuel its growth during the year. Its entry into European and Canadian markets will further boost its sales in the coming years. With UK MHRA approval for its plants and marketing tie-ups in place, Orchid is all set to make its entry into the European market, which will catapult its growth to a different trajectory.
Tata Elxsi	• Tata Elxsi has successfully transformed itself from a system integration company into an established player in the niche segment of product design and engineering services. It has built the required scale of operations and strong client relationships to effectively tap the huge emerging opportunity in this segment.
TV18 India	• TV18 is India's leading news media company. It owns the nation's top business news channels, CNBC TV-18 and Awaaz. It also owns a repertoire of web properties such as moneycontrol.com, poweryourtrade.com and commoditiescontrol.com. The buoyant economic fundamentals augur well for its media properties. With top-notch management it remains one of the best media companies in the country.
Thermax	• The continued rise in India Inc's capital expenditure (capex) will benefit Thermax' energy and environment businesses. Its strong order book of Rs3,057 crore, which is equivalent to 1.3x FY2007 revenues, ensures visibility of earnings.
	Ugly Duckling
Ahmed Forging	• Ahmednagar Forgings, a very promising forgings company, has a strong order book of Rs1,300 crore. It is further raising its forging capacity to 165,000tpa from the current 115,000tpa. It trades at very attractive valuations considering the stupendous increase in its size and improving product mix.
Ashok Leyland	• Ashok Leyland is the second largest CV player in the industry. Its short-term performance may get affected due to slowdown in the segment due to rising interest rates. Long-term prospects appear bright. Initiatives on value engineering and e-sourcing of materials should help in maintaining the margins going forward.
Aurobindo	• Aurobindo, with 94 ANDAs, 112 DMFs and 11 USFDA approved facilities in hand, is well positioned to exploit the US generic opportunity going forward. Further, its expansion into Europe and other emerging markets and likely incremental revenue flow from its largest approved ARV product basket would fuel the revenue growth. Galloping Pen-G prices and higher formulation growth would expand the margin of the company going forward.
BASF India	• BASF India (BASF) is set to benefit from the changing demographics and the resulting consumption boom in India. BASF's products are used in industries like white goods, textiles, home furnishing, paper, construction and automobiles all of which have been growing at a fast pace in contemporary times. To capitalise on the resulting opportunity, BASF is expanding the capacity of its products. A dividend yield of over 3% provides a margin of safety to the investment.
Ceat	• Tyre maker Ceat has an overall market share of 12% across categories and ranks fourth in the industry. Exports account for 20% of its sales. It is improving its product mix with higher contribution expected from exports and specialty tyres where the profit margins are higher. Ceat has undertaken various initiatives in order to improve its productivity and this should lead to improvement in margins. We find the stock's valuations attractive.
Deepak Fert	• Deepak Fertiliser manufactures and supplies industrial chemicals. The industrial upsurge will increase the demand for bulk chemicals. A new 70,000MTPA capacity for producing IPA will act as an inflexion point for its top and bottom lines. It also has plans to expand its ammonium nitrate capacity at a cost of Rs400 crore. Despite a Rs700-crore capex, there is no equity dilution and the debt/equity ratio remains comfortable.

	Remarks
Genus Power Inf	• Genus, India's leading electric meter manufacturing company, is all set to reap the benefits of the APDRP initiatives like the 100% metering programme and the replacement of mechanical meters by electronic meters. A healthy order book of Rs370 crore will maintain growth in its revenue and profitability.
Hexaware Tech	• Hexaware Technologies is a mid-sized IT service company focused on the fast growing enterprise solutions market and HR IT services. It has a dominant position in PeopleSoft products and is scaling up its capabilities in Oracle and SAP. The earnings are expected to grow at a CAGR of 16% over CY2006-08.
India Cements	• With the modified capex plan, India Cements will join the league of top 5 cement players with a capacity of 14 MMT at the end of FY09. Higher cement prices in the south coupled with the higher volume growth will help the earnings to grow at a CAGR of 27% over FY07-09.
Indo Tech	• The demand for transformers is on an upswing, thanks to high power-generation targets of the government. The annual demand for transformer is expected to be around 95,000MVA whereas the current capacity of transformer industry stands at around 75,000MVA. To cater to this opportunity transformer maker Indo Tech is tripling its capacity, which will result in a strong earnings growth.
ICI India	• The outlook for the company is positive due to its increased focus on premium products. Due to the discontinuation of some of its businesses the top line growth may look subdued. The company has Rs877 crore of investment on its book, which would translate into free cash and cash equivalents of around Rs215 per share. Moreover with ICI UK getting acquired by Akzo Nobel, the company would get access to wider portfolio of products coming from the acquirer's stable.
Jaiprakash Asso	• Jaiprakash Associate, India's leading cement and construction company, is all set to reap the benefits of the huge investments to be made in India's infrastructure. It has a strong order backlog of Rs11,750 crore. The Taj Expressway project as well as the real estate business will add significant value to the stock price of the company going ahead.
KEI Industries	• KEI makes stainless steel wires, cables and winding wires. It is expected to be a major beneficiary of the pick-up in investments in the power generation as well as transmission and distribution sectors. On the back of these investments we expect its revenues and earnings to grow at a CAGR of 39% and 42% respectively over FY2007-09E.
PNB	• PNB has the best deposit mix in the banking space with the low-cost deposits constituting 49% of its total deposits. Its asset quality remains comfortable with net NPAs at 0.9%. A strong retail franchise and technology focus will help boost its loan and fee businesses. It has also reduced its interest rate risk by shifting securities to the held to maturity category.
Ratnamani Metals	• Ratnamani is the largest maker of stainless steel (SS) tubes and pipes in the country. Given the buoyant demand for SS tubes and pipes from its clients including BHEL and L&T, and a strong order book of Rs.431 crore, we expect its revenues and earnings to grow at a CAGR of 38% and 40% respectively over FY2007-09E.
Sanghvi Movers	• Sanghvi Movers is the largest crane hiring company in Asia. It is a perfect asset play on the upsurge in the country's capex cycle. The usage of cranes is an essential part of investment spending and of the projects being undertaken by Indian companies; this bodes well for the company. Its strong cash flows make it an attractive investment.
Saregama India	• Saregama is in the business of music and home entertainment, and has a repertoire of around 3 lakh songs spread across a number of languages. We expect a strong growth in Saregama's earnings from the sale of music in non-physical format with tremendous growth in the value-added services in the telecom sector and the expansion of the radio broadcast sector.
Selan Exploration	• Selan is an oil exploration & production company with five oil fields in the oil rich Cambay Basin off Gujarat. The initiatives taken to develop and monetise the oil reserves in its Bakrol and Lohar oil fields are likely to significantly ramp up the production capacity and thereby lead to re-rating of the stock.
SEAMEC	• SEAMEC with its fleet of three MSVs is a key beneficiary of the higher rates for MSVs due to the surge in oil exploration spends. It has recently acquired a vessel, which is being converted into a diving support vessel and will commence operation in the current quarter, boosting the company's overall performance.
Subros	• Subros, the largest integrated manufacturer of automobile air conditioning systems in India, is expected to be a prime beneficiary of buoyancy in the passenger car segment. It is a strong play on growth plans of Maruti Udyog and Tata Motors, who are expanding their capacities. It plans to double its capacity in next two years which in turn will maintain momentum in its earnings growth.
Sun Pharma	• Sun Pharma has been a steady performer in the domestic pharma market supported by its leading position in chronic therapies, which contribute 70% of its domestic formulation sales. Going forward, the robust growth in Caraco, the US outfit of the company, as well as growth in the domestic and ROW markets would maintain the growth momentum.

Remarks

Surya Pharma	• A shift to a high-margin product portfolio is the name of the game, and Surya is well aware of it. Expansion of existing capacities, entry into the high-margin injectables and earnings from menthol products would drive the fortunes of this company.
UltraTech Cement	• Going forward, UCL should benefit from firm cement prices across the country as well as higher volumes owing to rising capacity utilisation and improving cost efficiency, as it commissions its captive power plants. Synergies with Grasim will reduce its freight cost. All this should improve its operating margins.
UBI	• Union Bank has a strong branch network and an all-India presence. The net NPAs are below 1% and with the biggest chunk of its investment portfolio in the held-till-maturity segment, the bankis well protected against further interest rate increase. With an average return on equity of 20% over FY2006-09E, the bank is available at attractive valuations.
Universal Cables	• Universal Cables is a leading player in the Indian power cable segment and hence would be one of the biggest beneficiaries of the huge demand for power cables over the next couple of years. It has investments that are worth Rs34 per share of its group companies.
Wockhardt	• A stream of new launches in the USA and sustained momentum in the domestic business will ensure good growth for Wockhardt. The recent acquisition of Negma Laboratories will propel the company to a new growth trajectory as synergistic benefits start flowing in. Further, the likely approval of bio-similar in USA, EU and other geographies would drive Wockhardt in the medium to longer term.
Zensar	• Zensar, promoted by the RPG group, has effectively utilised the inorganic route to gain critical mass in the fast growing service practice like enterprise solutions and extend its presence in newer markets. Its earnings are expected to grow at a healthy CAGR of 29% over FY07-09.
	Vultures's Pick
Esab India	• Change in positioning from low margin, high volume products to quality and high margin products. Double-digit manufacturing sector growth to help business of electrodes and welding equipment.
Orient Paper	• Orient Paper is set to benefit from the upswing in both its businesses: paper and cement. The volume growth in the cement business through capacity expansion and increased blending and savings in power costs (thanks to the 50MW captive power plant) would drive the profitability of the cement division. Rising paper prices and increased capacity augur well for the paper division. It also has investments in excess of Rs100 crore on its books.
WS Industries	• WSI, a leading maker of insulators, is all set to reap the benefits of a three-fold increase in investment in the T&D segment in India. A strong order book of about Rs110 crore and a shift to higher-margin product of hollow insulators will drive the earnings. It plans to develop an IT park covering 10 lakh sq ft at Chennai. Taking WSI's current 59% stake in its realty venture, we arrive at a value of Rs29.1 per share for the realty venture alone.
	Cannonball
Allahabad Bank	• Allahabad Bank, with a wide network of 1,933 branches across the country, has a stronghold in the northern and eastern parts of India. With only around 35% of its investment portfolio in the available-for-sale category of duration of below 3 years, the bank has insulated its investment portfolio from the risk of rising interest rates. With an average RoE of 19% over FY2006-09E, the bank is available at attractive valuations.
Andhra Bank	• Andhra Bank, with a wide network of over 1,200 branches across the country, has a stronghold in the southern parts of India, especially in Andhra Pradesh. With only around 32% of its investment portfolio in the available-for-sale category of duration of less than 2 years, the bank has insulated its investment portfolio from the risk of rising interest rates. We expect a 17% growth in its net revenues and a 13% growth in its earnings over FY06-09E.
Gateway Dist	• Gateway Distriparks, a port-based logistic facilitator, has strong presence at JNPT, the country's biggest port. It has a market share of 25%. The recently won contract from the Punjab state government to operate a CFS near JNPT for a period of 15 years will provide the much-needed trigger for the volume growth going ahead. The company's foray into the rail operation business will be a trigger for its earnings in the long term.
ICIL	• International Combustion, which makes gear motors & boxes, polymers, heavy engineering equipment etc, is a good play on India Inc's current capex plans, especially in the sugar and steel industries. The emerging outsourcing trend in the gear motor space should lead to an earnings surprise.
J K Cements	• The firm cement prices and volume growth from the recent capacity expansion will drive JK Cement's top line. This coupled with the company's drive to bring down its power cost by installing a CPP and a waste heat recovery unit would result in substantial margin improvement.
Madras Cements	• Strong cement consumption in the southern region would continue to drive the earnings of Madras Cement, one of the most cost efficient producers of cement. The 4-million-tonne expansion of the company's existing facilities will provide the much needed volume growth in the future.

Remarks	
Shree Cement	• The company's recent addition of 1.5MMT coupled with expansion of 4MMT over the next 18 months will drive volumes at a CAGR of 22.1% over the next 2 years. The company's robust cash flows will enable it to withstand the downturn in the cement cycle.
TFCI	• Tourism Finance Corporation of India TFCI provides financial assistance to the hotel and tourism sector. Given its exposure to only this sector, its performance is inextricably linked to the prospects of the tourism sector. This was largely responsible for TFCI's earlier financial problems. However, things are now looking very promising for TFCI with improved asset quality and strong loan demand due to significant expansion plans lined up by the hotel and tourism sector. We expect TFCI's earnings to grow at a 32% CAGR over FY2006-09.
TCI	• TCI, a leading logistic solution provider, is rightly focusing on its high-growth logistic business and high-margin express cargo business. Driven by the exponential growth in the logistic business and the incremental revenue from the express cargo business, its earnings are expected to grow substantially. The company's plans to develop property at 4 identified places provide a cushion to its stock price.

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