

India Strategy

Expectations of a slowdown in the US triggered a sharp market correction in 4QFY08

This was aggravated by concerns of a possible slowdown in the domestic market, too

We believe that valuations are now reasonable; risk-reward equation has turned favorable

We have downgraded Sensex earnings estimates for the first time in eight quarters

However, Sensex earnings growth is still healthy

Downside from current levels is limited; we strongly recommend investing now



RESULTS PREVIEW



Quarter ended March 2008

Only a matter of time

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India Strategy

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

Sensex has corrected 23% in 4QFY08: The Sensex corrected by 23% in 4QFY08 to close at 15,644, reducing the total returns in FY08 to 19.7%. While this is the fifth consecutive year of positive returns for the markets, the sharp correction in the last couple of months has resulted in FY08 returns being much lower than what was anticipated till mid-January. The sharp correction came on the back of global woes – expectation of a slowdown in the US. This was further aggravated, with concerns of a possible slowdown in the domestic economy emerging and hopes of an interest rate cut fading, as inflation inched up.

Rising inflation – a big worry: Since July 2006, inflation has moved up from 4.7% to ~6.7% last week, well above the RBI's target range of 5-5.5%. Inflation remains a big worry for the Indian government. An analysis of the constituents of the wholesale price index (WPI) – primary articles, fuel, and manufacturing products – indicates that the upward price movement in all the three items has led to a significant jump in inflation, despite higher base effect. In fact, for the first time in the last seven years, all the three constituents have crossed 6%. With no base impact to help, we believe inflation is likely to remain high and taming it will require multiple measures from the government.

Earnings estimates downgraded after eight quarters: Over the last eight quarters, we have witnessed consistent upgrades to our earnings estimates. Our Sensex EPS estimate for FY08 was upgraded from Rs 810 in December 2006 to Rs 846 in June 2007 to Rs 883 in December 2007. Similarly, our Sensex EPS estimate for FY09 was revised from Rs 891 in December 2006 to Rs 955 in June 2007 to Rs 1,064 in December 2007. After a series of upgrades, we have now downgraded our Sensex EPS estimates by 5.5% to Rs 834 for FY08 and by 5.8% to Rs 1,002 for FY09. However, the Sensex earnings growth remains healthy – our FY09 EPS estimate is 20.1% higher than our FY08 Sensex EPS estimate.

Valuations are now reasonable; time to start investing: The broader indices have come off the high of 21x one-year forward earnings in the peak of December 2007. The BSE Sensex now trades at 15.6x FY09E earnings v/s the 15-year average of 17.5x. Over the last three years, the BSE Sensex has traded at a forward P/E of 15.7x at the end of March. In the near term, the headwinds (inflation, interest rate, oil prices, etc) may become stronger, but we see limited downside from current levels. The risk-reward equation has turned favorable; we recommend investing now.

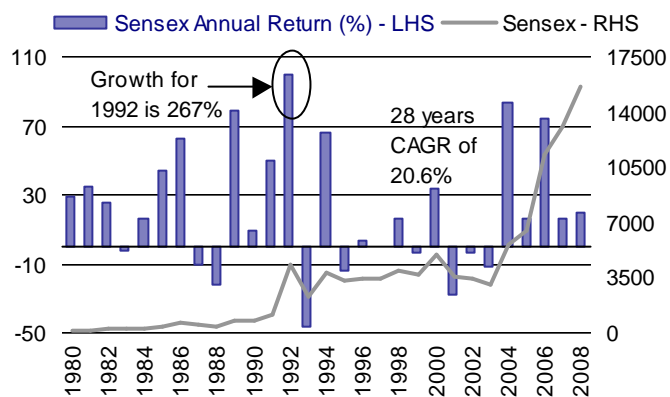
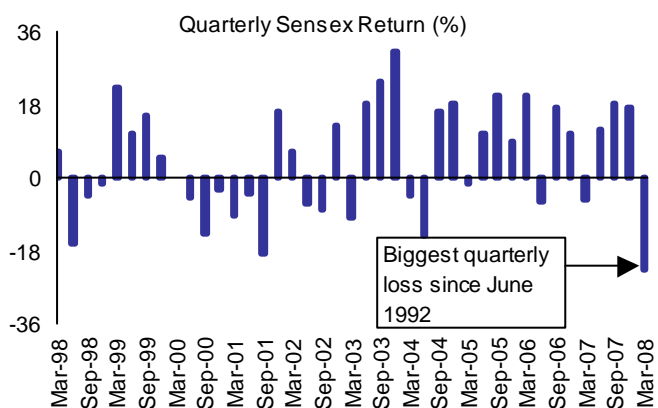
Sensex target of 19,000-21,000: Given the increased risks on earnings and other macro indicators, we are reducing our target Sensex P/E range to 16-18x FY09E EPS and add the embedded value of 2,800. Our 12-month target range for the BSE Sensex is 19,000 – 21,000. Our top large-cap bets are Reliance Industries, Bharti Airtel, Tata Steel, Axis Bank, Hero Honda, ITC, Gail, Ranbaxy, and TCS. Amongst the mid-caps, we like LIC Housing, IVRCL, Sintex, Blue Star, and Amtek Auto.



Risk-reward equation has turned favorable

The BSE Sensex corrected by 23% in 4QFY08 to close at 15,644, reducing the total returns in FY08 to 19.7%. While this is the fifth consecutive year of positive returns for the markets, the sharp correction in the last couple of months has resulted in FY08 returns being much lower than what was anticipated till mid-January. The sharp correction came on the back of global woes – expectation of a slowdown in the US. This was further aggravated, with concerns of a possible slowdown in the domestic economy emerging and hopes of an interest rate cut fading, as inflation inched up.

RECORD CORRECTION IN 4QFY08 LIMITING GAINS FOR FY08



Source: Motilal Oswal Securities

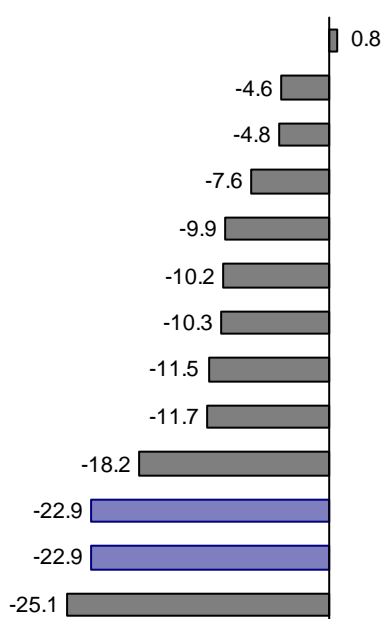
In our opinion, market valuations have become reasonable post the recent correction and the risk-reward equation has turned favorable. In the near term, the headwinds (inflation, interest rate, oil prices, etc) may become stronger, but we see limited downside to markets from current levels. We believe that the recent market correction has reduced several excesses relating to valuations, earnings optimism, primary market offerings and record subscription, leveraging, etc. Given our belief that the downside from current levels is limited, we strongly recommend investing now.

We expect Sensex EPS to grow 16% in FY08 to Rs 834, 20.1% in FY09 to Rs 1,002, and 29.6% in FY10 to Rs 1,299 (over half of the growth contributed by Reliance Industries). Given the increasing risks on earnings and other macro headwinds, we are reducing our target Sensex P/E range to 16-18x FY09E EPS and add the embedded value of 2,800. Our 12-month target range for the BSE Sensex is 19,000 – 21,000. Our top large-cap bets are Reliance Industries, Bharti Airtel, Tata Steel, Axis Bank, Hero Honda, ITC, Gail, Ranbaxy, and TCS. Amongst the mid-caps, we like LIC Housing, IVRCL, Sintex, Blue Star, and Amtek Auto.

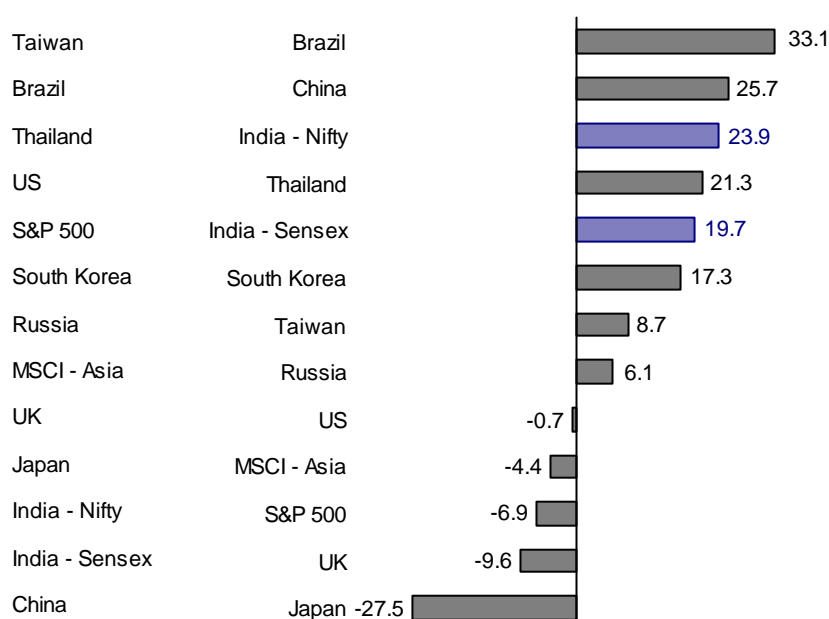
Sensex has corrected 23% in 4QFY08

The Indian markets witnessed a severe correction in 4QFY08, with the BSE Sensex declining by 23% to close at 15,644. This sharp decline lowered the FY08 Sensex returns to 19.7% (9MFY08 returns were 55.2%). During the quarter, the Indian markets underperformed most global markets by a significant margin. Following this underperformance, the valuation gap vis-à-vis other global markets has narrowed.

PERFORMANCE OF MAJOR MARKETS - 4QFY08 (%)



PERFORMANCE OF MAJOR MARKETS - FY08 (%)



Source : Bloomberg /Motilal Oswal Securities

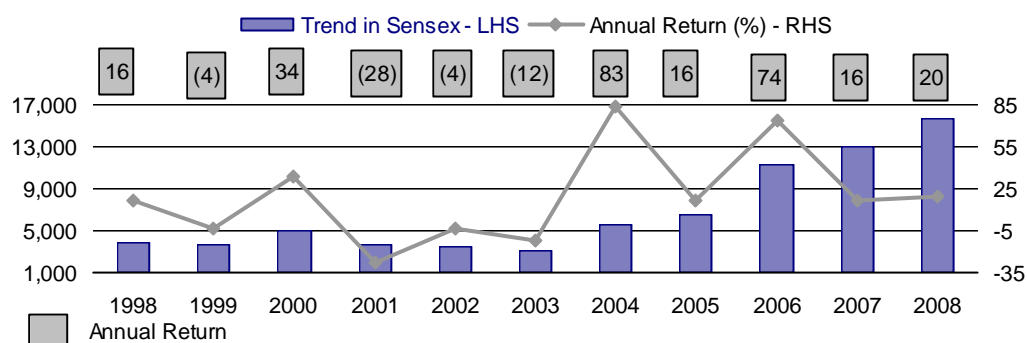
COMPARISON OF INDIAN MARKETS WITH GLOBAL MARKETS

INDEX	INDEX VALUE	EPS (RS)		P/E (X)		P/BV (X)		ROE (%)	
		CY07/FY08	CY08/FY09	CY07/FY08	CY08/FY09	CY07/FY08	CY08/FY09	CY07/FY08	CY08/FY09
Brazil	60,968	4,325	5,177	14.1	11.8	2.1	2.1	15.2	17.7
Russia	2,054	246	234	8.3	8.8	1.9	1.7	22.2	19.7
China	3,473	124	166	28.1	21.0	2.2	4.4	8.0	21.1
Korea	1,704	120	143	14.2	12.0	1.5	1.7	10.3	14.2
Taiwan	8,573	467	665	18.4	12.9	2.3	2.1	12.4	16.2
Thailand	817	49	72	16.6	11.3	1.9	1.9	11.2	16.9
US - S&P 500	1,323	66	96	20.0	13.8	2.5	2.3	12.5	16.8
UK - FTSE	5,702	496	524	11.5	10.9	2.1	2.0	18.0	18.2
Nikkei	12,526	880	854	14.2	14.7	NA	NA	10.1	NA
Malyasia	1,248	91	98	13.6	12.7	2.0	2.0	14.3	15.5
Singapore	3,007	279	214	10.8	14.0	1.9	1.8	17.5	13.0
Hong Kong	22,849	1,715	1,550	13.3	14.7	2.3	2.1	17.2	14.2
Indonesia	2,447	145	168	16.9	14.6	2.1	3.3	12.5	22.7
Philippines	2,985	247	222	12.1	13.5	2.2	2.0	18.1	15.2
India - Sensex	15,644	834	1,002	18.8	15.6	3.9	3.1	21.0	19.5

Source : Bloomberg /Motilal Oswal Securities

FY08 was the fifth consecutive year of positive returns for Indian equities. While the BSE Sensex delivered returns of 19.7%, 8 of the 30 Sensex stocks delivered negative returns. The stocks that outperformed the Sensex by a significant margin were Reliance Energy, Jaiprakash Associates, L&T, and BHEL.

TREND IN SENSEX AND RETURN



Source: Motilal Oswal Securities

PERFORMANCE OF INDIVIDUAL SENSEX STOCKS

COMPANY NAME	PRICE 31 MAR 08 (RS)	RETURN FY08 (%)	RETURN FY07 (%)
Reliance Energy	1,251	152.7	-19.1
Jaiprakash Assoc	227	110.3	14.5
Larsen & Toubro	3,025	86.8	33.1
B H E L	2,057	81.9	0.6
Tata Steel	693	74.4	-16.2
St Bk of India	1,599	70.7	2.6
Reliance Inds.	2,265	65.5	71.8
H D F C	2,384	56.8	13.8
HDFC Bank	1,320	39.0	22.7
ITC	206	37.2	-22.9
NTPC	197	31.6	11.8
Hindalco Inds.	165	26.4	-28.6
Ranbaxy Labs.	439	24.4	-18.3
Grasim Inds.	2,575	23.1	1.6
Reliance Communication	508	21.0	36.0
BSE Sensex	15,644	19.7	15.9
Ambuja Cement	121	13.4	3.3
DLF	647	13.4	-
ACC	826	12.4	-6.1
O N G C	981	11.8	0.6
Hind. Unilever	229	11.4	-24.6
Bharti Airtel	826	8.2	84.9
Maruti Suzuki	830	1.2	-6.3
Cipla	220	-6.8	-11.0
ICICI Bank	770	-9.7	44.8
M & M	696	-10.8	24.4
Tata Motors	623	-14.3	-22.0
Satyam Computer	395	-16.1	10.7
Wipro	425	-23.8	0.0
Infosys Tech.	1,430	-28.9	35.0
TCS	811	-34.1	28.6

Note: DLF Price is from the listing day

Source: Motilal Oswal Securities

The sharp correction has reduced several excesses

A correction of over 20% in a matter of two months has reduced several excesses in the markets. We discuss some of these, below:

1) Valuations have corrected and are reasonable

The broader indices have come off the high of 21x one-year forward earnings at the peak in December 2007. The BSE Sensex now trades at 15.6x FY09E earnings v/s the 15-year average of 17.5x. Over the last three years, the BSE Sensex has traded at a forward P/E of 15.7x at the end of March. It is important to note here that the embedded value of the Sensex has increased considerably in the last three years, which is reflected in higher valuations compared to the pre-FY06 multiples.

CURRENT VALUATIONS ARE REASONABLE

YEAR	FY02	FY03	FY04	FY05	FY06	FY07	FY08	15 YEAR AVERAGE
Sensex	3,469	3,049	5,591	6,493	11,280	13,072	15,644	-
Sensex Return (%)	-3.7	-12.1	83.4	16.1	73.7	15.9	19.7	13.7
EPS	201	272	348	450	523	718	834	-
EPS Growth (%)	16.3	35.8	28.0	29.1	16.4	37.3	16.0	20.3
Sensex P/E (x) Trailing *	17.3	11.2	16.0	14.4	21.6	18.2	18.8	23.2
Sensex P/E (x) Forward *	12.7	8.8	12.4	12.4	15.7	15.7	15.6	17.5

* 12 months

Source: Motilal Oswal Securities

2) Earnings estimates have seen downgrades

Over the last several quarters, we have witnessed consistent upgrades to our earnings estimates. Our Sensex EPS estimate for FY08 was upgraded 7% in December 2007 to Rs 883 from Rs 846 in June 2007. Similarly, our Sensex EPS estimate for FY09 was revised up 11% from Rs 955 in June 2007 to Rs 1,064 in December 2007. However, in 4QFY08, we have seen significant downgrades in our earnings estimates.

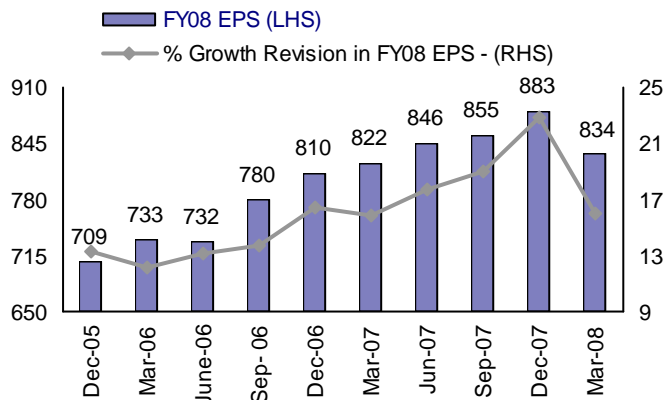
We have downgraded our EPS estimate for FY08 by over 5.5%, and FY09 by 5.9%. While the Sensex EPS got lowered by 2.4% due to change in index constituents and SBI rights issue, it was impacted by another 3.1% by earnings downgrades. Earnings optimism was the key factor contributing to the positive sentiment in the market. However, recent developments such as increase in commodity prices and adverse impact of currency fluctuations are amongst the few reasons leading to downgrade in earnings. Sector-specific indicators like order inflows (capital goods, infrastructure, etc), monthly volumes (autos, etc), and credit growth (banks) also showed a moderating trend since December 2007, driving earnings downgrades.

TREND IN SENSEX EPS REVISION

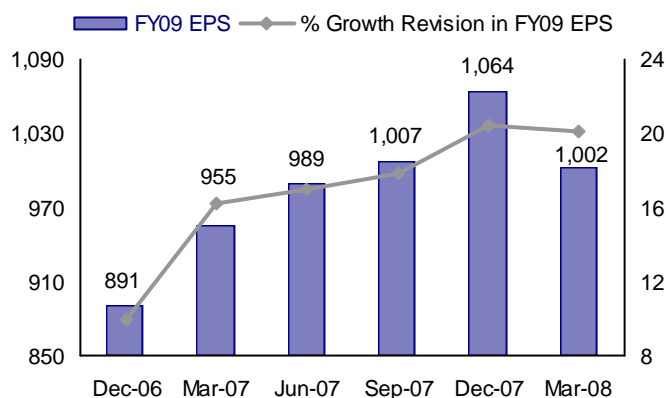
	FY08	FY09
Preview December 2007	883	1,064
Review January 2008	873	1,056
SBI Rights Issue	862	1,045
Change in Sensex (Inclusion of Jaiprakash Associates)	852	1,034
Preview March 2008	834	1,002

Source: Motilal Oswal Securities

TREND IN FY08E EPS AND REVISION



TREND IN FY09E EPS AND REVISION

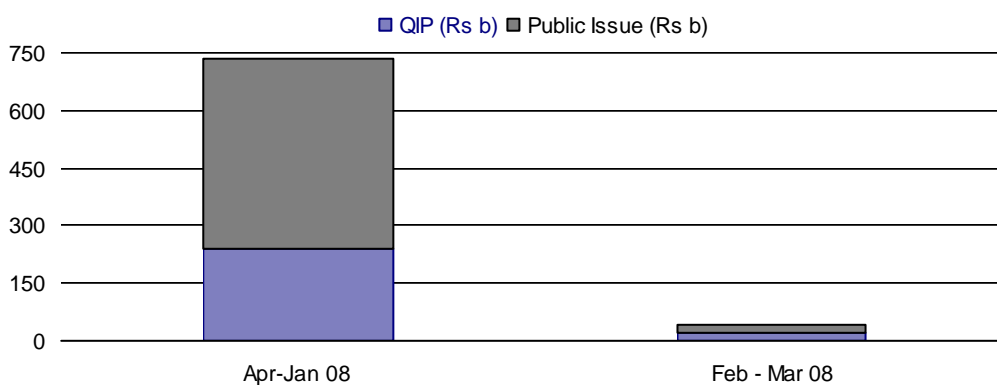


Source: Motilal Oswal Securities

3) Primary market has almost dried up

The Indian capital market witnessed its largest primary market offerings in FY08 – Rs535b v/s the previous highest of Rs292b in FY07. Of the Rs535b, IPOs completed before January 2008 constituted Rs494b; IPOs worth just Rs23.5b were concluded after January 2008. Some of the large equity issues like Reliance Power (Rs 117b), ICICI Bank (Rs 100b), DLF (Rs92b), Power Grid (Rs29.8b), Idea Cellular (Rs21.2b), Rural Electrification (Rs16.4b), etc witnessed significant over subscription.

MONEY RAISED FROM CAPITAL MARKETS (RS B)



Source: Motilal Oswal Securities

As against the total equity offering of Rs535b, the total demand (based on subscriptions) stood at Rs18.4t, an average subscription of 34.3x. The Reliance Power issue was subscribed 61x – a total demand of Rs7.2t v/s the IPO size of Rs117b. The primary market euphoria ended in January 2008, post which subscriptions to IPOs declined significantly. Companies like Emmar MGF (proposed equity offering of Rs65b) and Wockhardt Hospitals (proposed equity offering of Rs7.8b) had to call off their IPOs even after downward revision of the price bands. Even the rights issue of SBI just managed to scrape through. The total money raised through IPOs and QIPs post-January 2008 is Rs43b v/s Rs732b during the period April 2007 - January 2008.

DOMESTIC PUBLIC ISSUE SUBSCRIPTION (RS B)

COMPANY NAME	ISSUE SIZE	SUBSCRIPTION AMOUNT	NO. OF TIMES OVERSUBSCRIBED
Pre 18th January 2008			
Reliance Power	117	7,198	61.5
ICICI Bank	101	976	9.7
DLF	92	303	3.3
Power Grid Corporation of India	30	1,925	64.5
Mundra Port & Special Economic Zone	18	2,042	115.3
Housing Development & Infrastructure	15	83	5.6
Puravankara Projects	9	16	1.9
Central Bank of India	8	502	61.5
IVR-Prime Urban Developers	8	43	5.5
Edelweiss Capital	7	763	110.3
Brigade Enterprises	6	70	10.8
Omaxe	6	376	68.1
BEML	5	159	30.2
Spice Communications	5	195	37.6
Fortis Healthcare	5	14	2.8
Future Capital Holdings	5	648	131.8
BGR Energy Systems	4	505	115.1
Total of above	440	15818	35.9
Since 18th January 2008			
Emaar MGF	65.0	-	Withdrawn
Rural Electrification	16.4	448	27.4
IRB Infrastructure	9.4	40	4.2
Wockhardt Hospitals	7.8	-	Withdrawn
OnMobile Global	4.8	52	10.9
Gammon Infrastructure	2.8	10	3.5
Shriram EPC	1.5	6	3.9
Titagarh Wagons	1.5	10	6.8
GSS America Infotech	1.4	1	1.1
KNR Constructions	1.3	2	1.2
Bang Overseas	0.7	1	1.1
J Kumar Infraprojects	0.7	1	2.0
V-Guard Industries	0.7	2	2.5
Tulsi Extrusions	0.5	1	1.8
Cords Cable Industries	0.4	2	4.6
Sita Shree Food Products	0.3	1	2.4
Manjushree Extrusions	0.2	0	1.2
Total of above	43	576	13.5

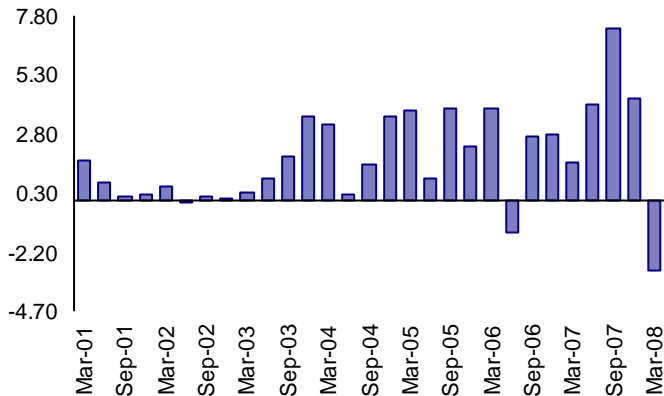
Note : Total excludes Emaar & Wockhardt Hospitals

Source: Motilal Oswal Securities

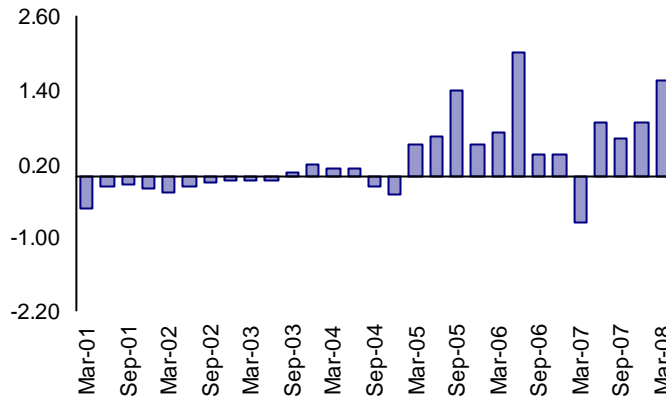
4) Fund flows have been strained

There was a significant decline in total investments from FIIs in the period December 2007 - March 2008, though domestic mutual funds remained net buyers. FIIs recorded a net sale of US\$3b in 4QFY08, the highest ever since they began investing in India. The heavy selling came on the back of net buying of US\$4.3b in 3QFY08 and US\$7.3b in 2QFY08. Domestic mutual funds remained net buyers for Indian equities to the tune of US\$1.5b, indicating no severe redemption pressure despite the sharp market correction.

QUARTERLY TREND IN INVESTMENT BY FIIS (US\$B)



QUARTERLY TREND IN INVESTMENT BY DOMESTIC INSTITUTIONS (US\$B)

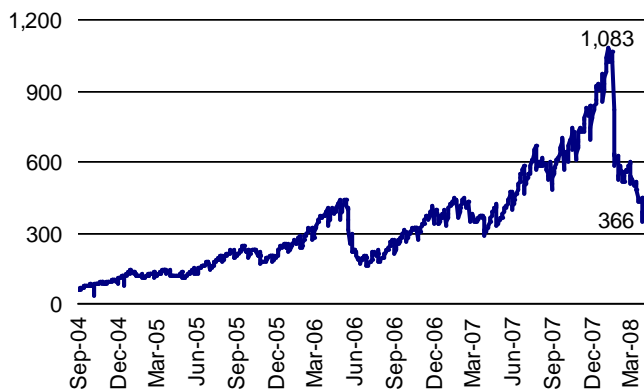


Source: Motilal Oswal Securities

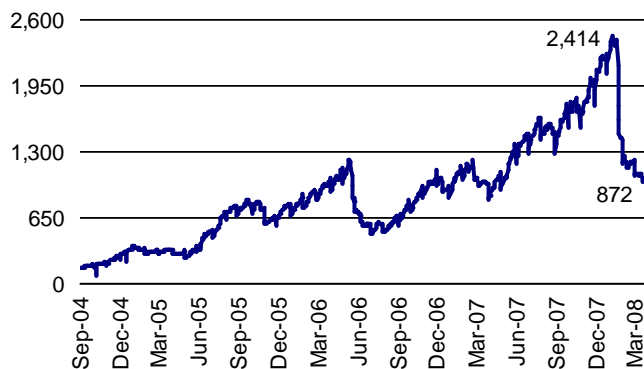
5) Open interest in futures market has declined

The leveraged positions in the market have been a key source of excessive exposure. Following the sharp market correction and retail investors being unable to carry the trade due to losses and margin issues, the outstanding open interest in the futures market has declined significantly. The open interest in March 2008 was 0.4x of the peak open interest position of Rs1,083b in January 2008. Even in terms of number of shares, the outstanding interest is just 0.9b shares v/s 2.4b shares in January 2008.

TOTAL FUTURES OPEN INTEREST (RS B)



TOTAL FUTURES OPEN INTEREST (M SHARES)



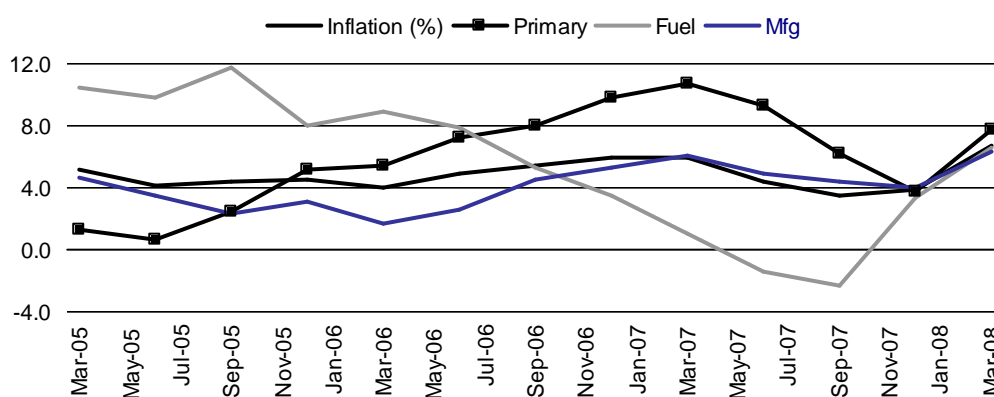
Source: Motilal Oswal Securities

Few headwinds have become stronger

Rising inflation – a big worry

Since July 2006, inflation has moved up from 4.7% to ~6.7% last week, well above the RBI's target range of 5-5.5%. Inflation remains a big worry for the Indian government. An analysis of the constituents of the wholesale price index (WPI) – primary articles, fuel, and manufacturing products – indicates that the upward price movement in all the three items has led to a significant jump in inflation, despite higher base effect. In fact, for the first time in the last seven years, all the three constituents have crossed 6%. With no base impact to help, we believe inflation is likely to remain high and taming it will require multiple measures from the government.

MOVEMENT OF WPI INDEX AND KEY CONSTITUENTS SINCE MARCH 2005

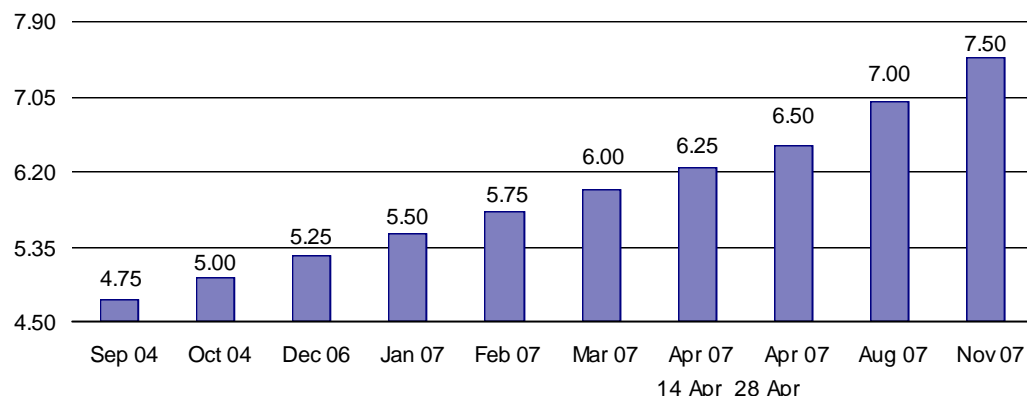


Source: Bloomberg/Motilal Oswal Securities

The government has got into action by announcing a few measures on the fiscal front. With inflation expected to remain high, it can resort to more aggressive duty cuts on certain commodities. However, the challenge lies with the RBI to control inflation through monetary policy measures. The two measures which RBI used very aggressively in 2007 and which could be used again are CRR hikes and allow strong currency gains.

Impact of CRR hike: Since December 2006, the RBI has hiked CRR by 250bp, with the last hike being in November 2007. As banks do not earn any interest on CRR, they have to hike lending rates to offset the impact. Besides leading to overall hardening of rates, this has also resulted in a squeeze on credit availability in a few sectors, which has impacted demand, significantly. If RBI were to resort to any further CRR hikes, we believe banks would be put in a tight spot – credit growth has already slowed down to 21% (from 28% a year back) and higher lending rates would result in further slowdown.

TREND IN CRR RATE HIKE (%)



Source: RBI/Motilal Oswal Securities

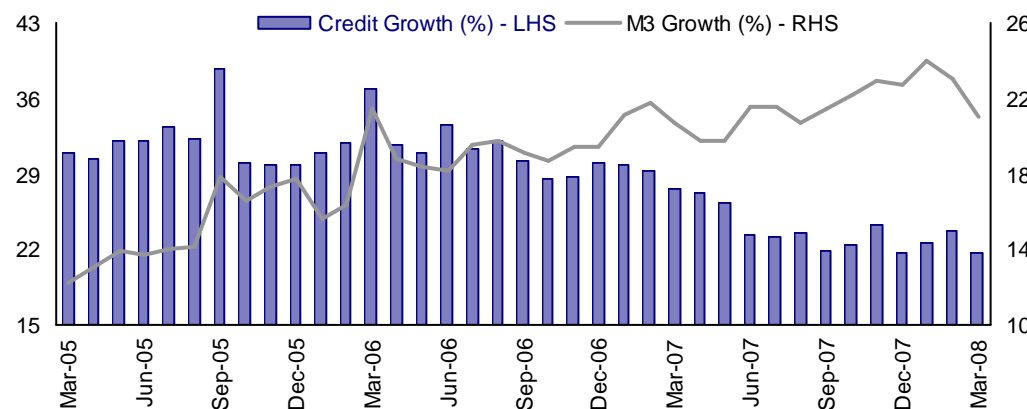
Every 100bp hike in CRR increases bank lending rates by 14bp. With margins of banks already under pressure due to higher cost of funds, any CRR hike will result in banks tightening their lending rates. We also believe that banks will be unable to pass the entire impact, as credit growth is slowing down and banks would like to maintain an average growth of 20% in FY09.

IMPACT OF CRR HIKE ON RATES (RS B)

	MAR-08
Deposits	30,752
Other Time Liabilities	4,087
Total NDTL	34,839
CRR Hike (%)	1
Liquidity Outflow	348
Revenue Loss to Banks at 9% Yield	31
Total Advances Book	22,726
Increase in Yields (bp) Necessary to Recoup Revenue Loss	13.8

Source: Motilal Oswal Securities

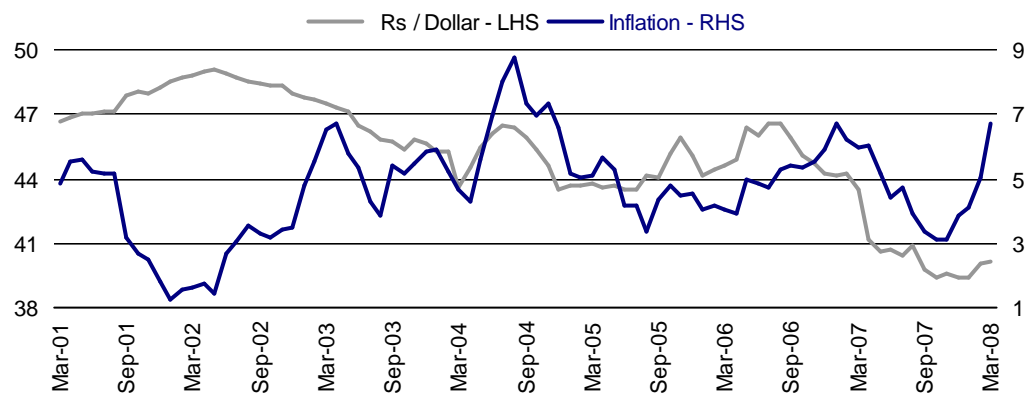
M3 GROWTH V/S CREDIT GROWTH (%)



Source: Bloomberg/Motilal Oswal Securities

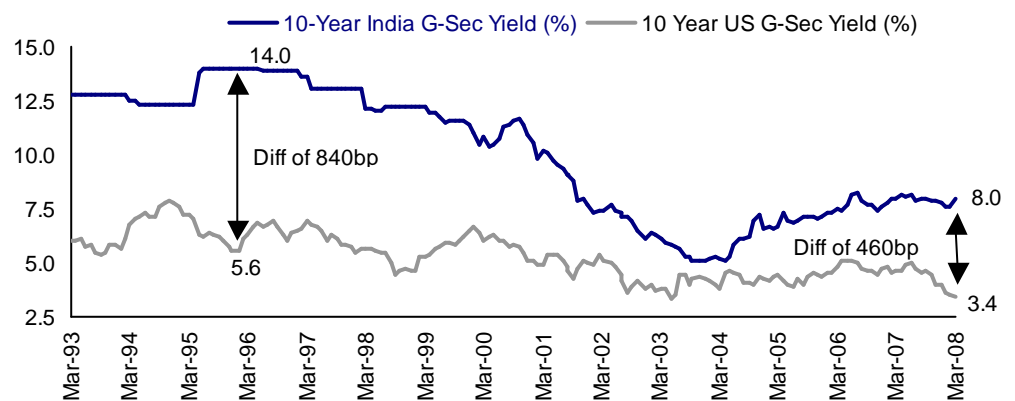
Impact of currency gains: In 2007, the RBI allowed the Indian rupee to appreciate significantly to control inflation. In the first nine-months of 2007, the rupee appreciated 10% vis-à-vis the US dollar, which helped to lower inflation. As the differential between the benchmark rates of India widens with other global economies, higher capital flows in the system could also lead to rupee appreciation.

INFLATION V/S RUPEE/DOLLAR RATE (RS/US\$)



Source: Bloomberg/Motilal Oswal Securities

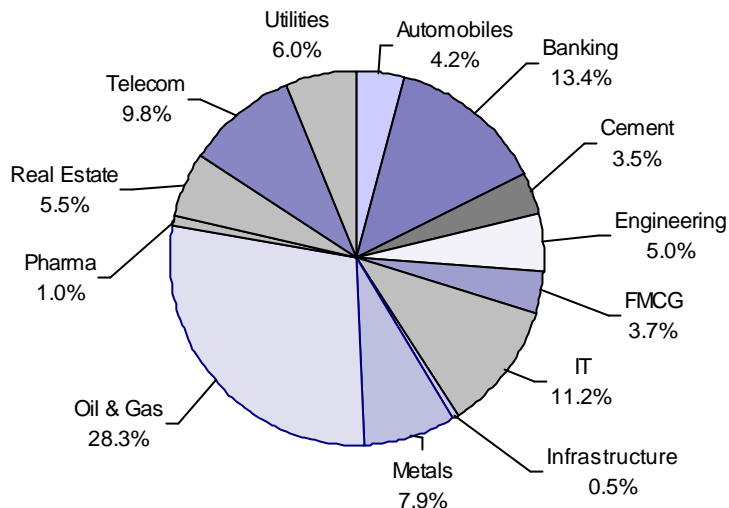
SPREAD BETWEEN 10-YEAR INDIAN AND US G-SEC YIELD IS RISING



Source: Bloomberg/Motilal Oswal Securities

While a strong rupee can have a positive impact on inflation in the near term, it has a negative impact on corporate profits. For the Sensex companies, almost 50% of profits get negatively impacted by rupee appreciation. This is more severe for the IT sector, which constitutes 11.2% of the Sensex profits.

SECTORAL CONTRIBUTION TO TOTAL SENSEX EARNINGS FY09 (%)

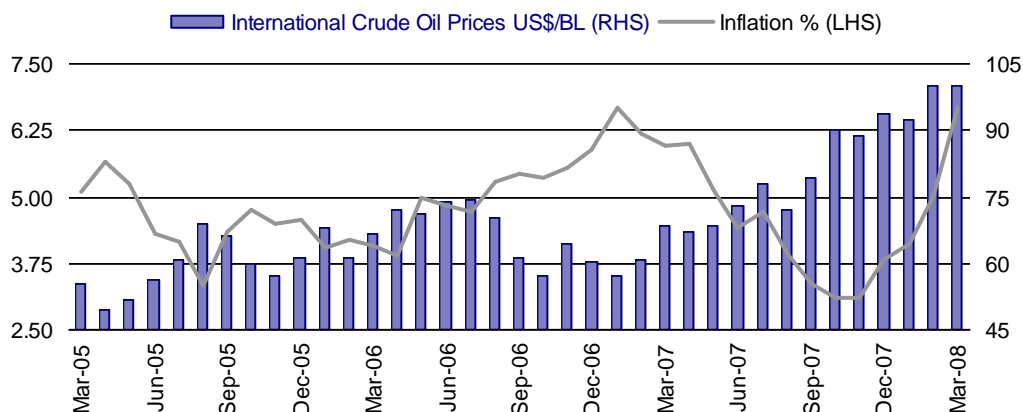


Source: Motilal Oswal Securities

Oil prices hitting all-time highs

In March 2008, crude prices hit an all-time high of US\$110/bbl. Domestic oil prices are shielded from global prices to a large extent, as the government has made very modest price hikes in the last couple of years. The impact of higher oil prices has been borne by ONGC and the government (via issue of oil bonds). The domestic environment will not allow the government to make any further price hikes in the system, which would result in significant sharing of losses by ONGC and very high growth in the oil bond issuance.

CRUDE OIL V/S INFLATION



Source: Bloomberg/Motilal Oswal Securities

FUEL UNDER RECOVERIES AT DIFFERENT OIL PRICES (RSB)

Oil Price - Brent	US\$/bbl	FY08E	FY09 SCENARIOS						
		82	80	85	90	95	100	110	120
Under recoveries	Rsb	780	605	751	898	1,045	1,191	1,484	1,777

Source: Motilal Oswal Securities

DISCOUNTS TO OIL MARKETING COMPANIES BY ONGC (RSB)

UPSTREAM SHARING (%)	OIL PRICE (US\$/BBL) - FY09						
	80	85	90	95	100	110	120
33.3	172	215	258	301	344	429	515
40.0	206	258	309	361	412	515	618
45.0	232	290	348	406	464	580	696
50.0	257	322	386	451	515	644	773

Source: Motilal Oswal Securities

OIL BONDS V/S FISCAL DEFICIT

YEAR	OIL BONDS (RS B)	FISCAL DEFICIT (RS B)	OIL BONDS AS A % TO FISCAL DEFICIT
FY06	115	1,464	7.9
FY07	241	1,426	16.9
FY08E	377	1,437	26.2
FY09E (US\$80/bbl)	321	1,333	24.1
FY09E (US\$100/bbl)	679	1,333	50.9

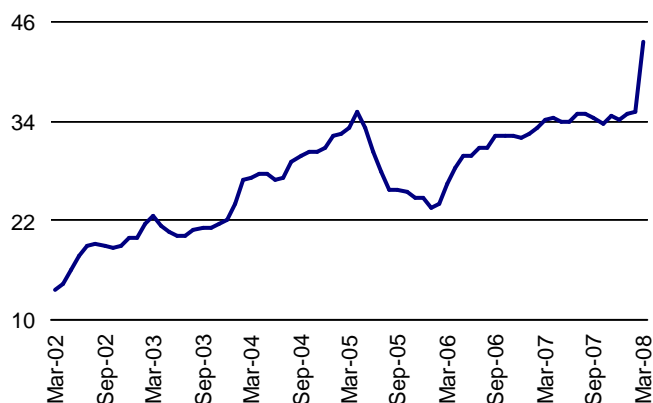
Base Case

Source: Motilal Oswal Securities

Metal prices headed up

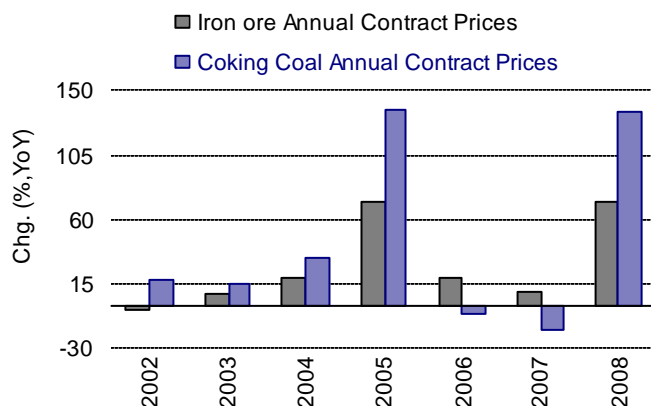
Metal prices are at all-time highs, globally owing to: (1) strong demand-supply mismatch, and (2) supply constrained by lower availability of minerals (like coking coal, iron ore, etc). This has led to a sudden and sharp rise in metals prices, which is likely to impact the margins of user industries like infrastructure, capital goods, etc. We believe this could also lead to a valuation distortion in the overall market capitalization, as global cyclicals command lower multiples on their earnings as compared to user industries.

HRC PRICES (RS '000/TON - INCLUDING EXCISE, VAT)



Source: JPC

IRON ORE AND COKING COAL PRICES



Source: Industry

Since the beginning of January 2008, major metal prices have increased sharply – steel prices are up 28% for flat products and 42% for long products, aluminum prices are up 15-18%, and copper prices are up 20%, while zinc prices have remained flat. Aluminum prices are driven by rising energy costs and production disruption in China and South Africa due to power shortage. News flow of supply disruption has attracted the attention of funds, magnifying the impact on base metal prices.

Steel prices are driven by demand-supply mismatch, as production growth was restricted due to shortage of coking coal in January - February 2008, (2) 65-71% increase in iron ore prices and 140% increase in coking coal prices (consensus estimates, annual contracts are yet to be settled). Iron ore prices have moved up sharply due to strong demand from China, shipping bottlenecks, and supply shortage due to high level of consolidation among miners.

Coking coal prices moved up sharply, as the demand-supply equation has turned from tightly balanced to deficit. This is due to repeated flooding of Australian mines, which contribute 62% to seaborne global trade, in January and February 2008. Also, China simultaneously imposed a temporary ban on coal export after its mines were closed due to unprecedented snowfall.

India – the next trillion dollar opportunity

Despite some of the macro headwinds getting stronger, we believe that the overall macro story remains good and opportunities for large investors are many. As India moves along on the journey to create another trillion dollars in GDP, it will create significant business and investment opportunities.

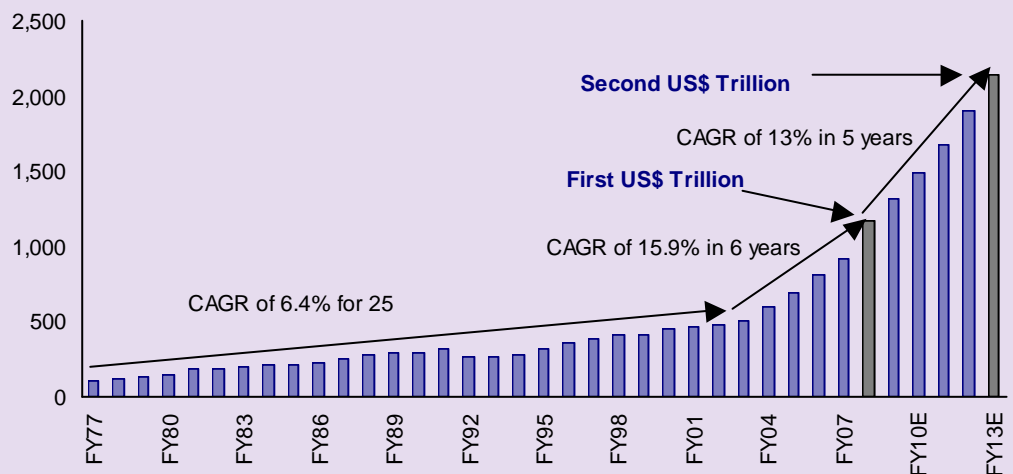
India's first trillion dollars: 1977 to 2008

In FY08, India will achieve the landmark of US\$1 trillion GDP. The first 25 years of the journey saw India's nominal GDP growing at 6.4% per annum to just under US\$0.5 trillion in 2002. In the last 6 years, India's GDP more than doubled to US\$1 trillion at a CAGR of 15.9%. Higher GDP growth rate combined with lower population growth rate has led to accelerated growth in per capita GDP.

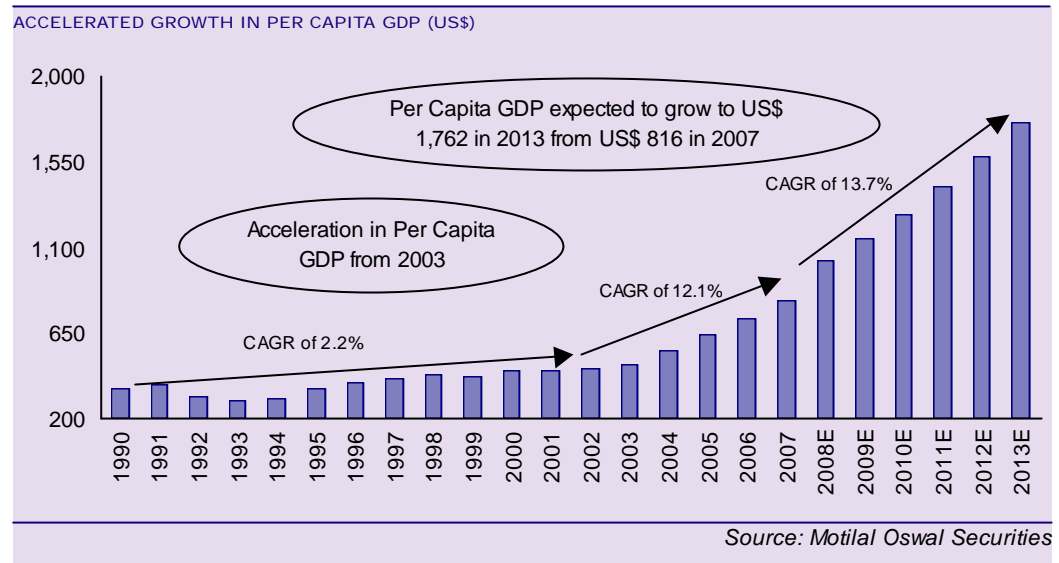
The next trillion dollar (NTD) era: 2008 to 2013

In the next five years, we expect India's GDP at US\$2 trillion. The growth rate in the NTD era will be almost the same as that of the last 6 years. However, given the high base, the GDP added in the next 5 years will be more than what got added in the last 30 years, and twice that of the last 6 years.

30 YEARS FOR THE FIRST US\$1 TRILLION; 6 YEARS TO THE NEXT TRILLION



Source: Motilal Oswal Securities



Recent policy measures to boost consumerism

India is currently in the golden phase of its growth trajectory – average GDP growth in the last four years has been 8.8%. High GDP growth has resulted in per capita GDP increasing from US\$561 to US\$1,023 in the last four years. We expect per capita GDP to increase to US\$1,572 in the next four years. We believe that US\$1,000-1,200 will act as an inflexion point, beyond which higher proportion of income would be allocated to discretionary spending. According to F&R Research, the share of grocery in the consumer spending basket is currently 63%; this share is expected to decline to 53% by 2015. The government has taken a few initiatives in the recent past, which will further boost disposable income and result in higher allocation for consumer durables, housing, automobiles, telecom, education, entertainment, and healthcare.

Change in tax slabs to increase post tax income

In light of robust direct tax collections, the Finance Minister has altered personal income tax slabs to benefit individual tax payers. The threshold of exemption has been increased from Rs 110,000 to Rs 150,000, and the tax slabs have been raised (please see table below). We estimate that for taxable income level of Rs 300,000 the savings would be Rs 2,000 per month while for Rs 400,000 the savings would be about Rs 3,000 per month.

CHANGE IN TAX SLAB

OLD SLABS	%	NEW SLABS	%
Upto Rs 110,000	0	Upto Rs 150,000	0
Rs 110,000 to Rs 150,000	10	Rs 150,000 to Rs 300,000	10
Rs 150,000 to Rs 250,000	20	Rs 300,000 to Rs 500,000	20
Rs 250,000 and above	30	Rs 500,000 and above	30

Source: Budget 2008

Sixth Pay Commission recommendations to increase salaries by 20-25%

The central government has announced the implementation of the Sixth Pay Commission recommendations, which would result in a 20-25% increase in the salaries of nearly 5.5m central government employees. In addition, more than 7m state government employees, and central and state pensioners would also witness an increase in income. As the recommendations are to be implemented with effect from January 2006, employees will get arrears of more than two years. Increase in monthly take home salary and payment of one-time arrears bodes well for consumer demand. The Commission has also made recommendations of soft loans for two-wheelers (Rs60k), cars (Rs360k) and housing (Rs1,500k) at 2% interest rate subsidy from state-owned banks, which would boost demand for automobiles and real estate.

Waiver of farm loans positive for rural demand

The government has provided for waiver of farm loans worth Rs600b. The waiver would be 100% for land holdings up to two hectares and 25% for others. The move would remove the burden of loan repayment for a large number of small and marginal farmers. It would also make them eligible for further loans from other banks. The resultant increase in credit flow to the rural economy would boost consumer demand.

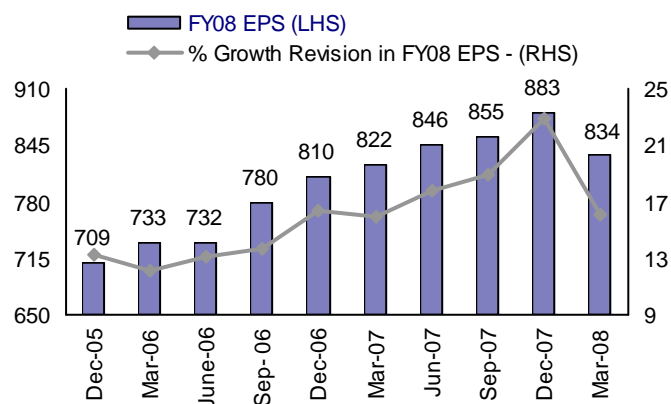
Sensex earnings still healthy; valuations comfortable

We have downgraded our Sensex earnings estimates for the first time in eight quarters. We now estimate Sensex EPS at Rs834 for FY08 and at Rs1,002 for FY09. At these levels, Sensex earnings remain healthy. Given the increased risks on earnings and other macro indicators, we are reducing our target Sensex P/E range to 16-18x FY09E EPS and add the embedded value of 2,800. Our 12-month target range for the BSE Sensex is 19,000 – 21,000.

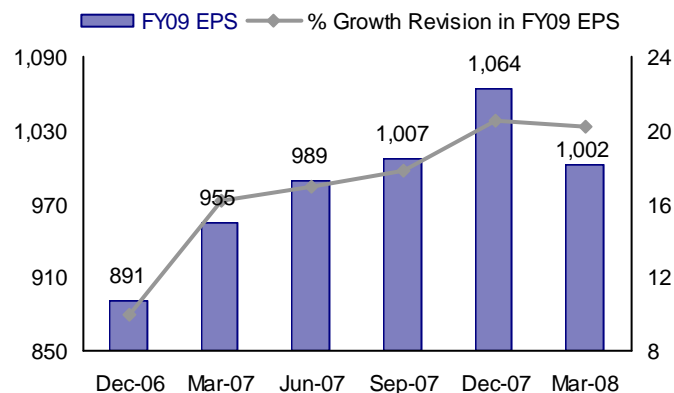
Earnings estimates – downgrades after eight quarters

Over the last eight quarters, we have witnessed consistent upgrades to our earnings estimates. Our Sensex EPS estimate for FY08 was upgraded from Rs810 in December 2006 to Rs846 in June 2007 to Rs883 in December 2007. Similarly, our Sensex EPS estimate for FY09 was revised from Rs891 in December 2006 to Rs955 in June 2007 to Rs1,064 in December 2007.

REVISIONS IN FY08 SENSEX EPS



REVISIONS IN FY09 SENSEX EPS



Source: Motilal Oswal Securities

After a series of upgrades, we have now downgraded our Sensex EPS estimates by 5.5% to Rs834 for FY08 and by 5.8% to Rs1,002 for FY09. While the Sensex EPS got lowered by 2.4% due to change in index constituents and SBI rights issue, it was impacted by another 3.1% by earnings downgrades. The key contributors to downgrades in FY08 earnings are: Metals, Real Estate, Oil & Gas, Cement, and Engineering; while sectors that have witnessed upgrades include Banking, Autos, Pharmaceuticals, and Telecom. The key contributors to downgrades in FY09 earnings are: Metals, IT, Telecom, Cement and Autos; while sectors that have witnessed upgrades include Banking, and Oil & Gas.

TOP 10 UPGRADES/DOWNGRADES IN FY08 EPS (RS)

	PREVIEW EPS		UP- GRADE %		PREVIEW EPS		DOWN- GRADE %
	MAR-08	DEC-07			MAR-08	DEC-07	
Hindalco	14.0	12.4	13.3	Tata Steel	82.8	114.7	-27.7
Tata Motors	51.9	47.8	8.6	Ambuja Cements	7.1	9.6	-26.1
Cipla	8.5	7.9	8.0	Reliance Energy	25.3	33.8	-25.0
HDFC	87.2	84.5	3.3	Larsen & Toubro	78.9	89.0	-11.3
HDFC Bank	44.6	43.7	2.1	ACC	64.0	70.0	-8.6
Hind. Unilever	8.1	8.0	2.0	DLF	44.1	47.0	-6.0
TCS	52.0	51.2	1.5	Wipro	22.4	23.6	-5.1
ITC	8.3	8.2	1.4	BHEL	60.2	63.1	-4.7
Infosys	82.7	81.6	1.3	ICICI Bank	35.5	36.5	-2.8
Mahindra & Mahindra	62.8	62.1	1.1	Maruti Suzuki	66.4	68.1	-2.6

Source: Motilal Oswal Securities

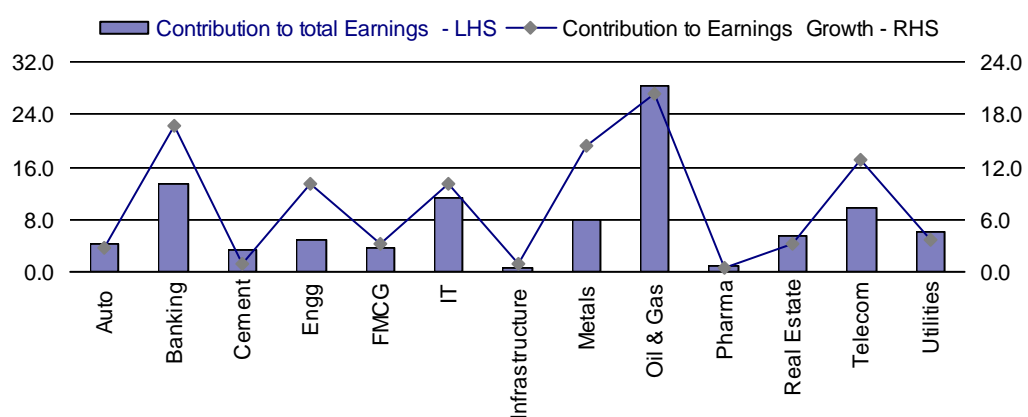
Sensex earnings growth still at healthy levels

We estimate Sensex EPS at Rs 1,002 for FY09, 20.1% higher than our FY08 Sensex EPS estimate of Rs 834. A significant part of this growth would be contributed by Oil & Gas, Banking, Telecom, IT, and Engineering. Company-wise, the largest contributors to the increase in Sensex earnings would be ONGC, Reliance Industries, SBI, Tata Steel, Bharti Airtel, Reliance Communication, NTPC, and DLF. The top-10 companies account for 70% of the total Sensex EPS for FY09 (v/s 61% in FY07).

'Low/Average P/E' sectors to drive earnings growth in FY09

Sensex earnings growth in FY09 would largely be driven by 'low/average P/E' sectors like Oil & Gas, Metals, IT, etc (contributing 52.1% of the growth). Even during FY10, we expect the share of 'lower average P/E' sectors at 62%, which is high.

COMPOSITION OF SENSEX EARNINGS & GROWTH (FY09)



Source: Motilal Oswal Securities

Composition of earnings moving in favor of leaders

Going forward, a large part of the contribution to incremental earnings will be by leaders like ONGC, Tata Steel, Reliance Industries, Bharti Airtel, SBI and ICICI Bank. In fact, nearly 52.4% of the incremental Sensex earnings in FY10 would be contributed by Reliance Industries, driven by monetization of gas and oil reserves, and commencement of production at Reliance Petroleum's greenfield refinery.

TOP 5 ABSOLUTE CONTRIBUTORS TO SENSEX EPS VARIANCE IN FY09

COMPANY	RS M	%
ONGC	26,531	11.6
Tata Steel	25,889	11.3
Reliance	20,050	8.8
Bharti	18,654	8.2
SBI	16,966	7.4

Source: Motilal Oswal Securities

TOP 5 ABSOLUTE CONTRIBUTORS TO SENSEX EPS VARIANCE IN FY10

COMPANY	RS M	%
Reliance	205477	52.4
SBI	23035	5.9
Bharti	15281	3.9
BHEL	14616	3.7
ICICI Bank	13595	3.6

Source: Motilal Oswal Securities

Sensitivity of earnings to key Sensex stocks

We present below the sensitivity of few of the Sensex stocks to our assumptions. We believe that some of these stocks may witness significant changes in estimates, as the underlying assumptions change over the next few quarters.

ONGC (EPS RS)

UPSTREAM SHARING (%)	OIL PRICE (US\$/BBL) - FY09						
	80	85	90	95	100	110	120
33.3	116	113	112	111	110	109	107
40.0	106	100	97	93	90	83	76
45.0	98	91	85	80	75	64	54
50.0	91	81	74	67	59	45	31

Source: Motilal Oswal Securities

TATA STEEL

INCREASE IN REALIZATION FROM FY08 PRICE (\$/T)	FY09 EPS
50	86.1
90	114.3
100	121.4
150	156.7
200	192.1

Source: Motilal Oswal Securities

SAIL

INCREASE IN REALIZATION FROM FY08 (\$/T)		FY09 EPS
	50	18.3
	100	23.2
	150	27.3
	200	31.4

Source: Motilal Oswal Securities

BHEL

EBITDA (%)	REVENUE GROWTH (%) - FY09				
	30.0	35.0	42.2	45.0	50.0
20.4	76.4	79.3	83.5	85.4	88.4
21.4	80.0	83.3	87.8	89.4	92.5
22.4	83.9	87.1	91.7	93.8	97.0

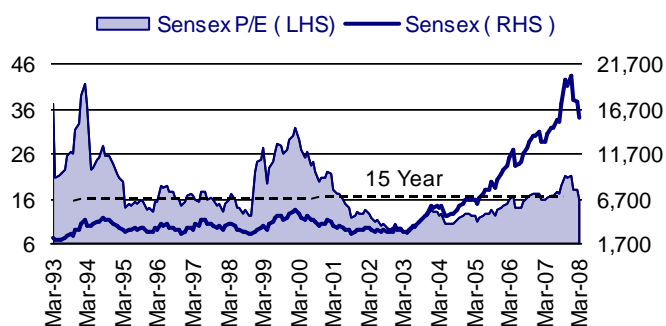
Base Case

Source: Motilal Oswal Securities

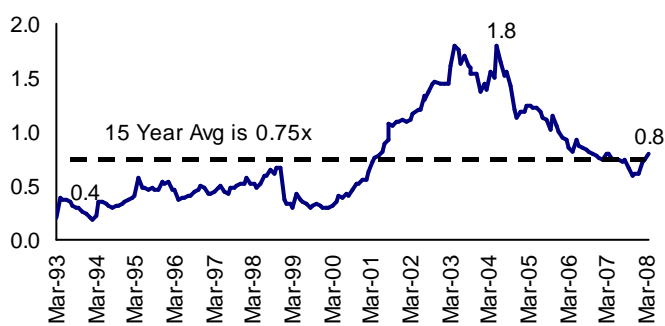
Valuations comfortable; biased towards quality large caps

We are estimating 20.1% growth in Sensex EPS in FY09 to Rs 1,002 and 29.6% growth in FY10 to Rs 1,299 (driven largely by the commissioning of Reliance Industries' Jamnagar refinery). Given the increased risks on earnings and other macro indicators, we are reducing our target Sensex P/E range to 16-18x FY09E EPS and add the embedded value of 2,800. Our 12-month target range for the BSE Sensex is 19,000 – 21,000. Our top large-cap bets are Reliance Industries, Bharti Airtel, Tata Steel, Axis Bank, Hero Honda, ITC, Gail, Ranbaxy, and TCS. Amongst the mid-caps, we like LIC Housing, IVRCL, Sintex, Blue Star, and Amtek Auto.

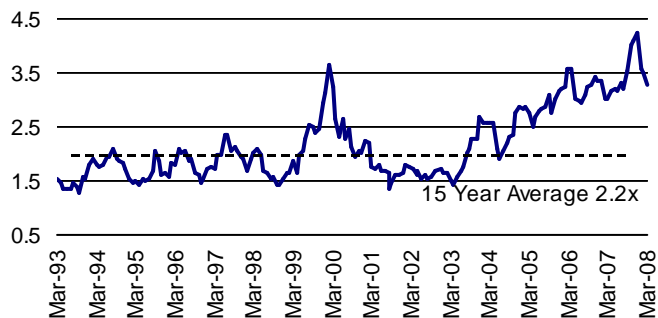
SENSEX P/E (X)



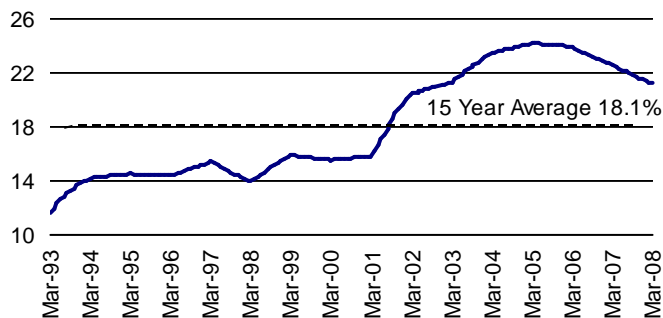
SENSEX EARNINGS YIELD V/S BOND YIELD



SENSEX P/BV (X)



SENSEX ROE (%)



Source: Motilal Oswal Securities

MOST MODEL PORTFOLIO

SECTOR WEIGHT / PORTFOLIO PICKS	BSE-100	MOST WEIGHT	WEIGHT RELATIVE TO BSE-100	EFFECTIVE SECTOR STANCE
Banks	19.2	18.0	-1.2	Neutral
ICICI Bank	5.5	5.0	-0.5	Buy
Axis Bank	1.1	5.0	3.9	Buy
PNB	0.5	4.0	3.5	Buy
Kotak Mahindra Bank	0.7	2.0	1.3	Buy
Union Bank	0.2	2.0	1.8	Buy
Engg./ Infrastructure / Real Estate	14.1	14.0	-0.1	Neutral
Larsen & Toubro	5.1	5.0	-0.1	Neutral
IVRCL Infra.	0.3	4.0	3.7	Buy
IndiaBulls Real Estate	0.6	3.0	2.4	Buy
Simplex Infra.	0.0	2.0	2.0	Buy
Telecom	6.5	9.0	2.5	Overweight
Bharti Airtel	3.5	6.0	2.5	Buy
Reliance Comm	2.3	3.0	0.7	Buy
Petrochemicals	12.9	9.0	-3.9	Underweight
Reliance Inds.	10.5	9.0	-1.5	Buy
FMCG	6.1	8.0	1.9	Overweight
ITC	3.5	4.0	0.5	Buy
Nestle India	0.4	2.0	1.6	Buy
United Spirit	0.5	2.0	1.5	Buy
Metals	6.7	8.0	1.3	Overweight
Tata Steel	2.3	5.0	2.7	Buy
SAIL	0.7	3.0	2.3	Buy
Information Technology	9.0	8.0	-1.0	Neutral
TCS	1.3	4.0	2.7	Buy
HCL Tech.	0.4	4.0	3.6	Buy
Oil & Gas	5.5	7.0	1.5	Overweight
Cairn India	0.6	4.0	3.4	Buy
GAIL	0.9	3.0	2.1	Buy
Auto	3.6	6.0	2.4	Overweight
Hero Honda	0.4	3.0	2.6	Buy
Maruti Suzuki	0.8	3.0	2.2	Buy
Pharmaceuticals	3.4	5.0	1.6	Overweight
Ranbaxy Labs	0.7	3.0	2.3	Buy
Glaxo Pharma	0.3	2.0	1.7	Buy
Cement	2.8	2.0	-0.8	Underweight
Grasim Industries	1.1	2.0	0.9	Buy
Others	9.9	6.0	-3.9	Underweight
Blue Star	0.0	2.0	2.0	Buy
LIC Housing	0.0	2.0	2.0	Buy
Sintex Inds.	0.0	2.0	2.0	Buy
Cash	0.0	0.0		
Total	100.0	100.0		

ANNUAL PERFORMANCE - MOST UNIVERSE

(RS BILLION)

SECTOR Y/E MARCH	SALES				EBITDA				NET PROFIT			
	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*	FY08E	FY09E	FY10E	CH. (%)*
Auto (11)	986	1,135	1,299	15.1	120	134	155	11.6	78	87	100	10.7
Banks (20)	691	847	1,030	22.5	537	664	814	23.6	295	355	429	20.6
Cement (7)	413	473	528	14.5	135	142	144	5.4	75	79	80	6.2
Engineering (10)	916	1,238	1,560	35.2	136	189	247	39.1	95	135	176	42.6
FMCG (12)	536	621	714	15.9	106	125	148	17.8	77	92	111	20.5
IT (8)	842	1,025	1,276	21.7	204	243	302	18.7	174	202	229	15.8
Infrastructure (9)	234	324	438	38.5	35	55	81	58.2	16	23	30	45.1
Media (6)	56	69	81	21.9	22	27	33	25.3	13	18	22	32.0
Metals (8)	2,890	3,313	3,509	14.6	575	671	721	16.8	295	360	411	21.9
Oil Gas & Petchem (10)	7,827	7,978	8,489	1.9	954	1,087	1,375	14.0	570	658	880	15.5
Pharma (17)	409	475	481	16.0	81	95	113	17.1	62	69	83	12.3
Real Estate (2)	184	259	340	40.7	115	150	202	30.1	92	110	149	19.5
Retail (3)	95	138	184	44.1	7	11	15	43.4	3	4	7	56.7
Telecom (3)	524	691	838	32.1	217	297	366	36.8	129	161	194	25.1
Textiles (7)	116	140	171	20.5	17	25	30	47.9	5	9	12	74.4
Utilities (5)	553	633	762	14.4	135	158	186	16.4	93	103	112	10.8
Others (8)	115	157	195	36.0	23	34	44	46.3	14	21	27	53.0
MOST (146)	17,388	19,514	21,896	12.2	3,419	4,106	4,976	20.1	2,085	2,487	3,050	19.3
MOST Excl. Banks (126)	16,697	18,667	20,865	11.8	2,882	3,442	4,162	19.4	1,791	2,132	2,621	19.1
MOST Excl. Oil & Gas (136)	9,561	11,536	13,406	20.7	2,465	3,018	3,601	22.4	1,515	1,829	2,170	20.7
MOST Excl. RMs (143)	12,674	14,787	17,424	16.7	3,212	3,839	4,697	19.5	1,947	2,311	2,867	18.7

* Growth FY09 over FY08; For Banks : Sales = Net Interest Income, EBITDA = Operating Profits; Tata Steel figures are consolidated incl. Corus.

VALUATIONS - MOST UNIVERSE

SECTOR (NO. OF COMPANIES)	P/E			EV/EBITDA			P/BV			ROE			DIV. EARN.	
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	YLD (%)	CAGR
Auto (11)	15.4	13.9	12.1	9.1	7.9	6.6	3.2	2.7	20.7	19.7	19.5	2.0	12.9	
Banks (20)	15.2	12.6	10.5	N.M	N.M	N.M	2.6	2.0	16.8	15.6	16.7	1.4	20.7	
Cement (7)	10.6	10.0	9.9	5.9	5.3	4.9	3.4	2.6	32.1	26.3	21.9	1.7	3.8	
Engineering (10)	33.8	23.7	18.2	23.0	16.7	12.8	8.7	6.8	25.7	28.8	30.1	0.9	36.2	
FMCG (12)	26.5	22.0	18.4	18.5	15.4	12.8	8.6	7.3	32.3	33.0	34.0	2.3	20.1	
IT (8)	17.2	14.8	13.1	13.4	11.0	8.5	5.2	4.1	30.1	27.8	25.5	1.4	14.6	
Infrastructure (9)	53.9	37.1	29.2	27.7	18.8	13.4	4.9	4.0	9.1	10.9	12.5	0.3	35.7	
Media (6)	25.1	19.0	15.4	15.0	11.6	9.1	4.7	3.9	18.6	20.4	20.8	0.6	27.5	
Metals (8)	10.8	8.9	7.8	6.2	5.1	4.6	2.3	1.9	21.2	21.0	19.7	1.3	18.0	
Oil Gas & Petchem (10)	13.0	11.3	8.5	8.1	7.1	5.5	2.7	2.2	20.9	19.7	21.6	1.9	24.2	
Pharma (17)	19.2	17.1	14.3	15.1	12.6	10.3	4.3	3.6	22.5	20.8	21.0	1.4	15.8	
Real Estate (2)	18.0	15.0	11.2	15.4	11.5	7.9	8.1	5.9	45.2	39.4	38.4	1.0	26.9	
Retail (3)	44.8	28.6	17.5	19.2	13.6	9.3	6.2	5.3	13.8	18.4	17.7	0.3	59.9	
Telecom (3)	22.8	18.2	15.1	14.4	11.0	8.7	6.0	4.8	26.5	26.1	25.2	0.0	22.8	
Textiles (7)	11.7	6.7	5.2	9.3	6.8	5.8	0.8	0.8	7.1	11.3	13.0	2.2	50.1	
Utilities (5)	25.9	23.4	21.6	17.1	15.3	13.4	3.1	2.6	11.8	11.2	11.2	1.3	9.7	
Others (8)	14.4	9.4	7.3	9.3	6.3	4.5	3.5	2.5	24.6	26.1	26.8	1.3	41.1	
MOST (146)	16.8	14.1	11.5	N.M	N.M	N.M	3.6	2.9	21.2	20.4	21.0	1.3	20.9	
MOST Excl. Banks (126)	17.1	14.4	11.7	10.8	9.0	7.3	3.8	3.1	22.2	21.5	21.9	1.3	21.0	
MOST Excl. Oil & Gas (136)	18.3	15.1	12.8	N.M	N.M	N.M	3.9	3.1	21.4	20.7	20.7	1.2	19.7	
MOST Excl. RMs (143)	17.6	14.9	12.0	N.M	N.M	N.M	3.8	3.0	21.3	20.4	21.2	1.3	21.4	

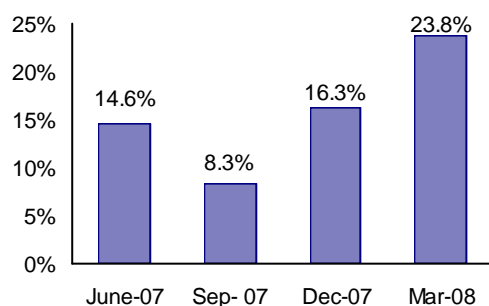
N.M. - Not Meaningful

Source: Motilal Oswal Securities

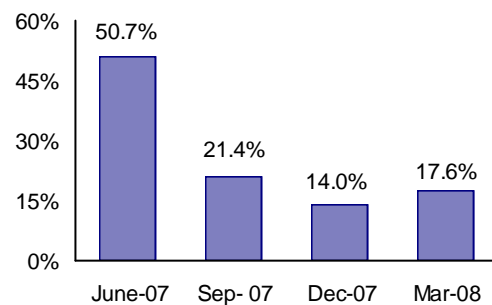
4QFY08: expect steady corporate performance

Aggregate estimates for our universe of 146 companies suggest that 4QFY08 has been a quarter of steady corporate performance. Sales growth is healthy at 24% YoY. However, EBITDA margin is expected to be lower 190bp. As a result, PAT growth has been a steady 18% YoY. Although this is better than the 14% growth recorded in 3QFY08, it is still the second lowest in the last nine quarters. Performance of Sensex companies is expected to be better – sales growth of 37% YoY (excluding DLF and including Tata Steel consolidated) and PAT growth of 24% YoY.

QUARTER-WISE SALES GROWTH (% YOY)



QUARTER-WISE NET PROFIT GROWTH (% YOY)



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

(RS MILLION)

SECTOR (NO. OF COMPANIES)	SALES			EBITDA			NET PROFIT		
	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Auto (11)	259,427	276,299	6.5	31,205	34,287	9.9	21,551	22,472	4.3
Banks (20)	175,866	189,951	8.0	148,469	151,324	1.9	63,264	74,260	17.4
Cement (7)	84,260	96,011	13.9	26,672	30,356	13.8	16,366	18,282	11.7
Engineering (10)	239,956	320,364	33.5	41,740	57,397	37.5	30,050	39,162	30.3
FMCG (12)	127,333	140,646	10.5	21,938	25,481	16.2	15,050	18,393	22.2
IT (8)	171,946	211,984	23.3	48,048	56,813	18.2	41,952	47,768	13.9
Infrastructure (9)	60,445	73,033	20.8	8,367	10,807	29.2	3,815	4,789	25.5
Media (6)	14,082	15,152	7.6	5,121	5,668	10.7	2,564	2,818	9.9
Metals (8)	333,892	374,314	12.1	119,212	133,988	12.4	71,420	83,649	17.1
Oil Gas & Petchem (10)	1,554,451	2,041,356	31.3	195,485	208,690	6.8	106,676	127,765	19.8
Pharma (17)	95,315	105,590	10.8	20,005	21,257	6.3	15,652	14,220	-9.1
Real Estate (2)	8,487	14,592	71.9	5,101	6,073	19.1	3,571	4,051	13.5
Retail (3)	16,725	24,769	48.1	1,447	2,110	45.8	730	919	25.9
Telecom (3)	106,386	146,478	37.7	43,123	60,951	41.3	25,682	33,132	29.0
Textiles (7)	25,131	32,058	27.6	3,975	4,634	16.6	1,370	1,177	-14.1
Utilities (5)	127,954	145,716	13.9	27,508	35,685	29.7	21,693	25,794	18.9
Others (8)	25,372	32,866	29.5	4,701	6,202	31.9	3,086	4,021	30.3
MOSSt (146)*	3,427,027	4,241,179	23.8	752,117	851,723	13.2	444,489	522,672	17.6
MOSSt Excl. Banks (126)	3,251,161	4,051,228	24.6	603,648	700,399	16.0	381,226	448,413	17.6
MOSSt Excl. Oil & Gas (136)	1,872,576	2,199,822	17.5	556,632	643,033	15.5	337,814	394,907	16.9
MOSSt Excl. RMs (143)	2,438,377	2,920,888	19.8	680,102	801,894	17.9	404,084	489,521	21.1
Sensex (Excl DLF)	1,351,846	1,612,965	19.3	388,987	476,550	22.5	245,138	296,579	21.0
Sensex (Tata Steel Cons)	1,376,739	1,889,211	37.2	389,631	497,448	27.7	243,732	303,216	24.4

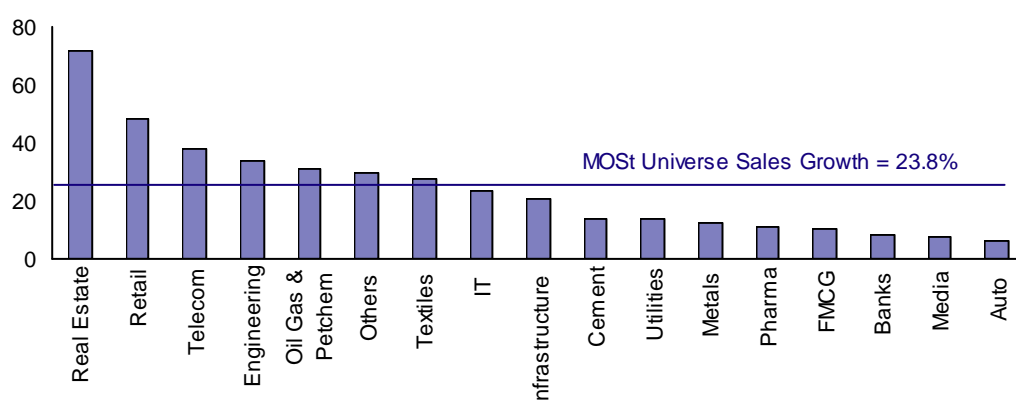
* Tata Steel Standalone; Bajaj Auto numbers are pre-demerger

Source: Motilal Oswal Securities

Healthy sales growth of 24% YoY

- ✦ For 4QFY08, we expect our Universe of 146 companies to record healthy sales growth of 24% YoY. The major sectors driving sales growth are: Telecom (+38%), Engineering (+33.5%) and Oil & Gas (+31%). However, the growth rate is dragged down mainly by Autos (+6.5%), FMCG (+10.5%), Pharma (+11%) and Metals (+12%).
- ✦ The Telecom sector is expected to witness revenue growth of 38% YoY on the back of sustained strong addition to the wireless subscriber base (+26m in 4QFY08). Idea Cellular leads with revenue growth of 43% YoY, followed by Bharti (+38.5%) and Reliance Communications (+35%).
- ✦ We expect the Engineering sector to record sales growth of 33.5% YoY, on the back of sustained capex in the Indian economy, especially in the power sector. Companies which are expected to grow faster than the industry average are Suzlon (+62.5%), Siemens (+35%) and Bharat Electronics (+35%).
- ✦ Oil & Gas sales growth of 31% YoY is higher than the growth rate of the recent past, mainly due to rise in petrol and diesel prices announced in February 2008. The growth leaders are HPCL (+44% YoY), MRPL (+43%), Chennai Petroleum (+39%) and IOC (+33%).
- ✦ Autos continue to grow at single digit rates (expected 6.5% YoY), due to higher interest rates and lower availability of credit. Among OEMs, only Maruti is expected to grow in double digits (13.5% YoY). Tata Motors is expected to grow by a mere 3.3% YoY due to: (a) de-growth in HCV volumes, given the high base of FY07 owing to the ban on overloading of trucks; and (b) de-growth in cars and UVs.
- ✦ FMCG sales growth is dragged down to 10.5% YoY mainly due to a 39% de-growth in Tata Tea, following the hive-off of its tea estates in northern India to a separate company. Excluding Tata Tea, FMCG growth is a healthy 15% YoY, led by United Spirits (+21%), Godrej Consumer (+20.5%), Asian Paints (+20%), Marico (+20%), Nestle (+19%) and Britannia (+19%).
- ✦ The Metals sector clearly displays a divergent performance for the ferrous and non-ferrous segments. Ferrous metals sales are expected to be up 23.6% YoY, whereas non-ferrous metals sales are expected to be down 3% YoY, due to a fall in the prices of copper, aluminium and zinc.

SECTORAL SALES GROWTH - QUARTER ENDED MARCH 2008 (%)

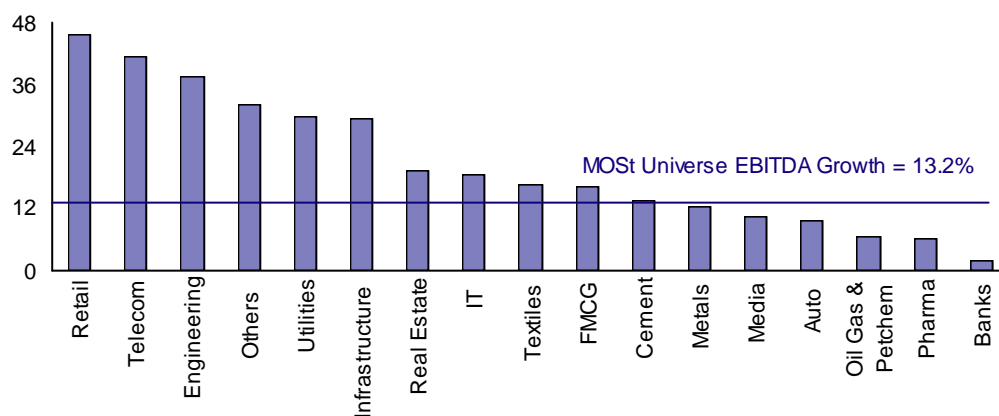


Source: Motilal Oswal Securities

EBITDA margins to remain stable

- ✎ We expect our Universe of 116 companies (excluding Banks and Utilities) to register 4QFY08 EBITDA growth of 15% YoY. This is lower than topline growth of 25%, implying 140bp drop in EBITDA margin. However, much of the reduction in margins is due to underrecovery of OMCs (Oil & Gas marketing companies), IOC, HPCL and BPCL. Excluding OMCs, aggregate EBITDA margin is expected to be stable at 23.8% (23.6% in 4QFY07).
- ✎ The Real Estate sector is expected to take the worst hit, with EBITDA margin going down 18.5% to 41.6%.

SECTORAL EBITDA GROWTH - QUARTER ENDED MARCH 2008 (%)

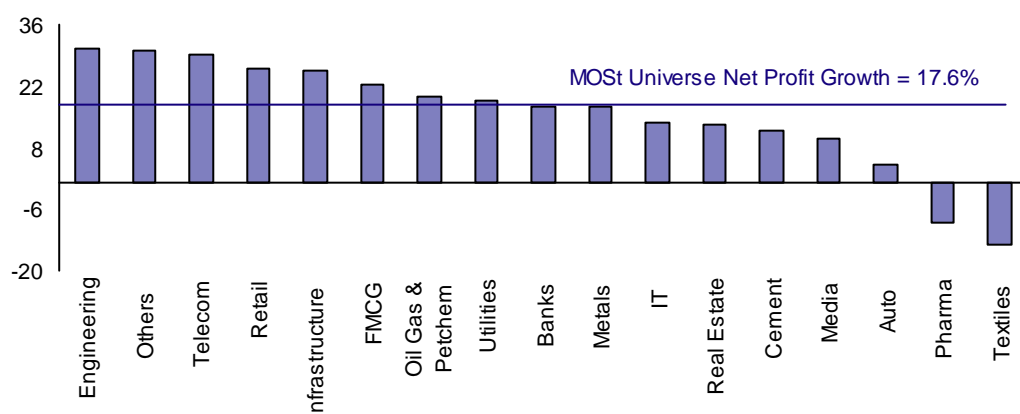


Source: Motilal Oswal Securities

Aggregate PAT growth of 18% YoY; Sensex PAT growth of 24% YoY

- ✎ We expect overall PAT growth of 18% YoY. The major contributors to PAT growth are Engineering (+30% YoY), Telecom (+29%), Infrastructure (+25.5%) and FMCG (+22%). The major drags on profit growth are Pharma (-9% YoY), Autos (+4%), Cement (+12%) and IT (+14%).
- ✎ Profit growth for Sensex companies is expected to be 24% YoY (based on consolidated profit for Tata Steel and excluding DLF as its 4QFY07 numbers are not available). The top five performers are expected to be ONGC (+59% YoY), HDFC Bank (+36%), RCom (+34.5%), L&T (+31%), Bharti (+28%). The bottom five are likely to be Jaiprakash Associates (-22% YoY), Reliance Energy (-20%), Hindalco (-19%), Ranbaxy (-19%) and ACC (-11%).

SECTORAL NET PROFIT GROWTH - QUARTER ENDED MARCH 2008 (%)



Source: Motilal Oswal Securities

QUARTERLY PERFORMANCE - MOST UNIVERSE

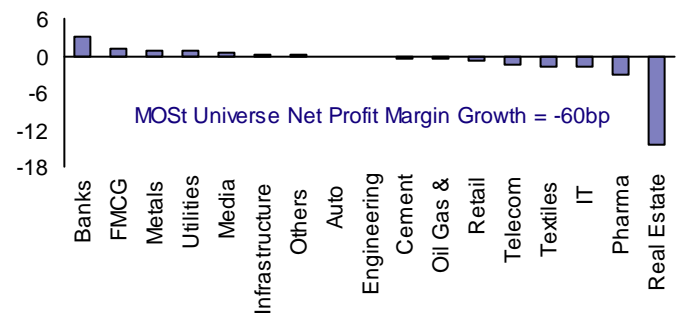
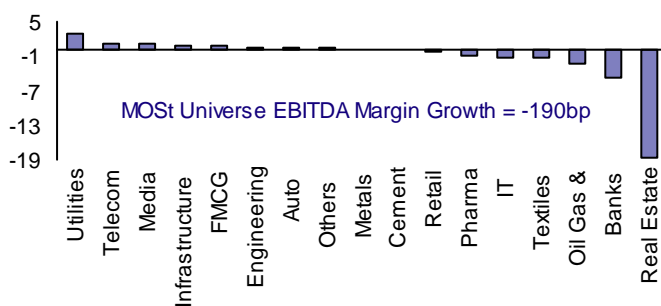
SECTOR (NO. OF COMPANIES)	EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Auto (11)	12.0	12.4	0.4	8.3	8.1	-0.2
Banks (20)	84.4	79.7	-4.8	36.0	39.1	3.1
Cement (7)	31.7	31.6	0.0	19.4	19.0	-0.4
Engineering (10)	17.4	17.9	0.5	12.5	12.2	-0.3
FMCG (12)	17.2	18.1	0.9	11.8	13.1	1.3
IT (8)	27.9	26.8	-1.1	24.4	22.5	-1.9
Infrastructure (9)	13.8	14.8	1.0	6.3	6.6	0.2
Media (6)	36.4	37.4	1.0	18.2	18.6	0.4
Metals (8)	35.7	35.8	0.1	21.4	22.3	1.0
Oil Gas & Petchem (10)	12.6	10.2	-2.4	6.9	6.3	-0.6
Pharma (17)	21.0	20.1	-0.9	16.4	13.5	-3.0
Real Estate (2)	60.1	41.6	-18.5	42.1	27.8	-14.3
Retail (3)	8.7	8.5	-0.1	4.4	3.7	-0.7
Telecom (3)	40.5	41.6	1.1	24.1	22.6	-1.5
Textiles (7)	15.8	14.5	-1.4	5.5	3.7	-1.8
Utilities (5)	21.5	24.5	3.0	17.0	17.7	0.7
Others (8)	18.5	18.9	0.3	12.2	12.2	0.1
MOST (146) *	21.9	20.1	-1.9	13.0	12.3	-0.6
MOST Excl. Banks (126)	18.6	17.3	-1.3	11.7	11.1	-0.7
MOST Excl. Oil & Gas (136)	29.7	29.2	-0.5	18.0	18.0	-0.1
MOST Excl. RMs (143)	27.9	27.5	-0.4	16.6	16.8	0.2
Sensex (Excl DLF)	28.8	29.5	0.8	18.1	18.4	0.3
Sensex (Tata Steel Cons)	28.3	26.3	-2.0	17.7	16.0	-1.7

*Tata Steel Standalone

Source: Motilal Oswal Securities

EBITDA MARGIN GROWTH - QUARTER ENDED MARCH 2008 (%)

NET PROFIT MARGIN GROWTH - QUARTER ENDED MARCH 2008 (%)



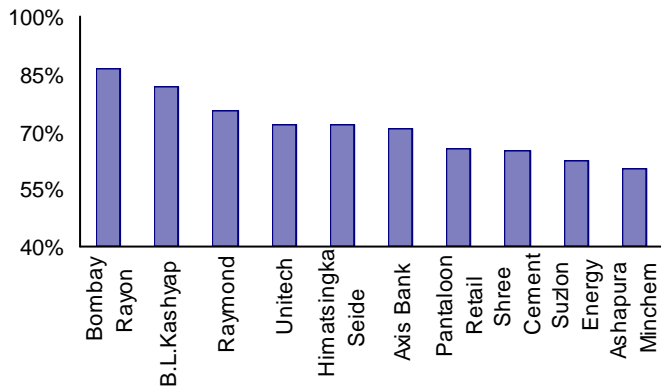
SECTORAL CONTRIBUTION TO GROWTH IN SALES, EBITDA AND NET PROFIT (%)

SECTOR	CONTRIBUTION TO SALES GR.	SECTOR	CONTRIBUTION TO EBITDA GR.	SECTOR	CONTRIBUTION TO NP GR.
Oil Gas & Petchem (10)	59.8	Telecom (3)	17.9	Oil Gas & Petchem (10)	27.0
Engineering (10)	9.9	Engineering (10)	15.7	Metals (8)	15.6
Metals (8)	5.0	Metals (8)	14.8	Banks (20)	14.1
Telecom (3)	4.9	Oil Gas & Petchem (10)	13.3	Engineering (10)	11.7
IT (8)	4.9	IT (8)	8.8	Telecom (3)	9.5
Utilities (5)	2.2	Utilities (5)	8.2	IT (8)	7.4
Auto (11)	2.1	Cement (7)	3.7	Utilities (5)	5.2
Banks (20)	1.7	FMCG (12)	3.6	FMCG (12)	4.3
FMCG (12)	1.6	Auto (11)	3.1	Cement (7)	2.5
Infrastructure (9)	1.5	Banks (20)	2.9	Infrastructure (9)	1.2
Cement (7)	1.4	Infrastructure (9)	2.5	Others (8)	1.2
Pharma (17)	1.3	Others (8)	1.5	Auto (11)	1.2
Retail (3)	1.0	Pharma (17)	1.3	Real Estate (2)	0.6
Others (8)	0.9	Real Estate (2)	1.0	Media (6)	0.3
Textiles (7)	0.9	Retail (3)	0.7	Retail (3)	0.2
Real Estate (2)	0.7	Textiles (7)	0.7	Textiles (7)	-0.2
Media (6)	0.1	Media (6)	0.5	Pharma (17)	-1.8

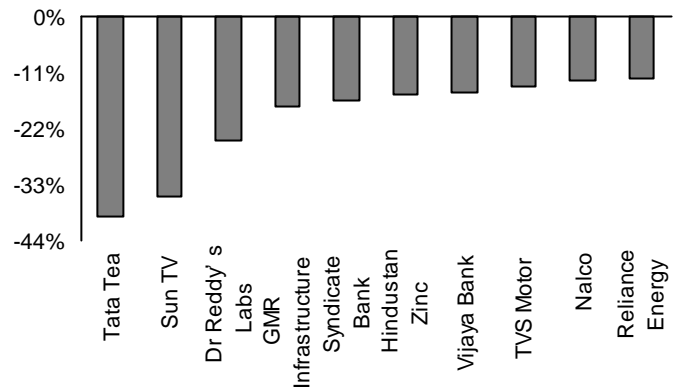
Source: Motilal Oswal Securities

Scoreboard (quarter ended March 2008)

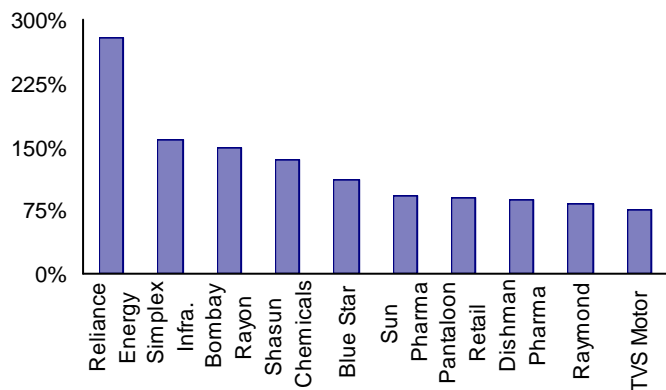
TOP 10 BY SALES GROWTH (%)



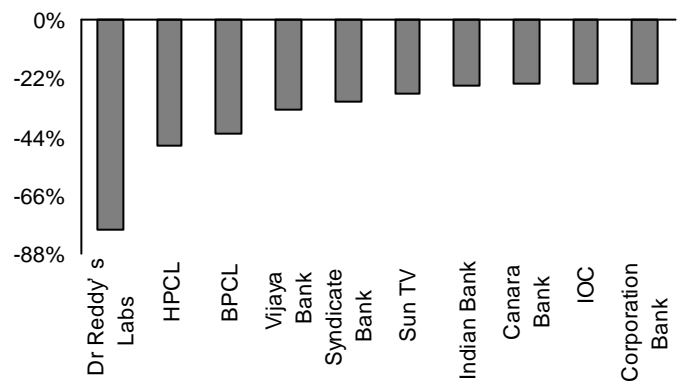
WORST 10 BY SALES GROWTH (%)



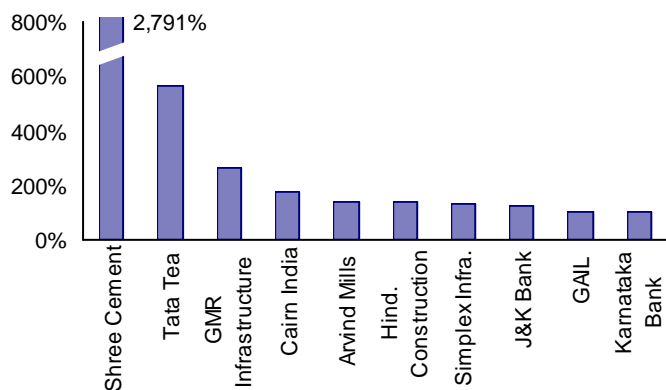
TOP 10 BY EBITDA GROWTH (%)



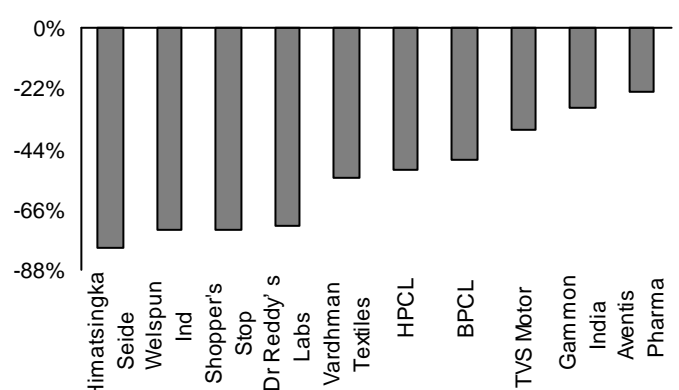
WORST 10 BY EBITDA GROWTH (%)



TOP 10 BY NET PROFIT GROWTH (%)



WORST 10 BY NET PROFIT GROWTH (%)



Matrix: Excluding DocPharma

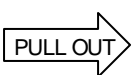
Source: Motilal Oswal Securities

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Note: In our quarterly performance tables, our four-quarter numbers may not always add up to the full-year numbers. This is because of differences in classification of account heads in the company' s quarterly and annual results or because of differences in the way we classify account heads as opposed to the company.

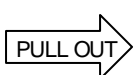
Ready reckoner: valuations

	CMP (RS) 28.3.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Automobiles														
Amtek Auto	260	Buy	28.1	33.9	39.0	9.3	7.7	6.7	6.7	5.7	4.7	17.4	17.4	16.6
Ashok Leyland	34	Buy	3.0	3.4	3.9	11.4	10.0	8.8	6.7	5.9	5.2	21.3	19.9	20.6
Bajaj Auto *	2,080	Buy	127.6	143.8	160.8	16.3	14.5	12.9	11.5	9.6	7.7	20.3	19.8	19.1
Bharat Forge	281	Buy	11.3	15.3	17.9	24.9	18.3	15.7	14.0	11.0	9.0	17.1	16.8	17.0
Eicher Motors	241	UR	23.0	25.1	28.6	10.5	9.6	8.4	4.6	3.8	3.0	14.8	15.9	13.9
Hero Honda	701	Buy	46.2	50.5	55.6	15.2	13.9	12.6	9.3	8.2	7.0	33.8	30.8	26.7
Mahindra & Mahindra	691	Buy	62.8	72.9	85.0	11.0	9.5	8.1	11.8	10.4	8.8	20.7	19.0	18.6
Maruti Suzuki	836	Buy	66.4	73.1	85.6	12.6	11.4	9.8	6.9	5.9	4.9	22.2	20.0	19.2
Swaraj Mazda	316	Neutral	22.6	25.7	28.6	14.0	12.3	11.1	8.5	7.6	6.8	25.8	24.4	22.7
Tata Motors	646	Buy	51.9	56.6	67.4	12.4	11.4	9.6	9.4	8.6	7.2	20.5	19.3	20.2
TVS Motor	36	Neutral	0.6	2.3	2.7	59.3	15.9	13.6	15.2	8.1	7.0	2.0	7.2	7.3
Sector Aggregate						15.4	13.9	12.1	9.1	7.9	6.6	20.7	19.7	19.5
Cement														
ACC	835	Neutral	64.0	63.5	58.8	13.1	13.2	14.2	7.3	7.1	7.8	29.0	24.0	19.5
Ambuja Cements	124	Buy	7.1	9.1	9.5	17.4	13.5	13.0	8.7	8.6	8.4	26.7	27.0	23.8
Birla Corporation	197	Buy	53.0	51.8	54.5	3.7	3.8	3.6	2.0	1.6	0.9	40.4	29.6	24.7
Grasim Industries	2,705	Buy	295.9	287.7	294.0	9.1	9.4	9.2	4.7	4.2	3.7	29.4	22.9	19.4
India Cements	194	Buy	23.7	23.4	23.1	8.2	8.3	8.4	5.7	5.1	4.6	34.4	23.2	18.9
Shree Cement	1,007	Buy	107.5	148.3	167.5	9.4	6.8	6.0	4.6	3.3	2.4	59.5	49.4	37.4
UltraTech Cement	781	Buy	80.2	89.0	90.0	9.7	8.8	8.7	6.7	5.5	5.0	44.8	34.6	26.4
Sector Aggregate						10.6	10.0	9.9	5.9	5.3	4.9	32.1	26.3	21.9
Engineering														
ABB	1,196	Neutral	23.2	32.3	42.9	51.6	37.0	27.9	33.9	23.9	17.4	34.7	35.4	34.5
Alstom Projects	547	Neutral	17.3	21.2	25.7	31.6	25.8	21.3	20.1	15.7	11.9	31.8	32.3	31.8
Bharat Electronics	1,105	Buy	91.3	117.3	137.8	12.1	9.4	8.0	6.2	4.4	3.3	26.9	27.9	26.2
BHEL	2,092	Neutral	60.2	87.8	117.7	34.8	23.8	17.8	21.5	14.6	10.7	29.3	33.0	34.0
Crompton Greaves	288	Neutral	10.6	14.5	19.3	27.1	19.9	14.9	21.9	17.8	14.2	37.6	36.5	35.4
Cummins India	303	UR	15.7	19.3	24.7	19.2	15.7	12.3	15.3	12.1	9.2	27.3	27.7	29.5
Larsen & Toubro	3,147	Neutral	78.9	110.7	137.8	39.9	28.4	22.8	29.7	22.7	18.3	27.2	25.0	25.5
Siemens	662	Neutral	18.3	25.1	32.8	36.1	26.4	20.2	24.3	17.7	13.4	44.5	43.0	43.5
Suzlon Energy	270	Neutral	7.0	12.1	16.3	38.6	22.3	16.5	23.6	17.0	13.2	17.3	19.0	21.9
Thermax	592	Buy	24.2	35.7	49.1	24.4	16.6	12.1	16.9	10.9	7.2	42.4	46.1	44.5
Sector Aggregate						33.8	23.7	18.2	23.0	16.7	12.8	25.7	28.8	30.1
FMCG														
Asian Paints	1,176	Buy	42.2	50.2	61.3	27.8	23.4	19.2	17.3	14.3	11.8	40.5	38.0	36.2
Britannia	1,308	Buy	73.0	87.5	114.0	17.9	15.0	11.5	11.5	9.2	6.7	25.3	24.5	25.8
Colgate	388	Buy	17.3	20.3	23.2	22.4	19.1	16.7	20.9	17.0	14.7	130.9	266.1	201.2
Dabur	108	Neutral	3.9	4.8	5.8	27.5	22.4	18.6	21.8	18.3	15.4	52.5	49.4	46.4
Godrej Consumer	126	Buy	6.9	7.9	9.2	18.5	16.0	13.7	14.3	10.4	9.0	90.9	32.3	34.8
GSK Consumer	606	Buy	38.7	44.9	52.7	15.7	13.5	11.5	9.6	8.1	6.4	25.4	25.0	25.0
Hind. Unilever	242	Neutral	8.1	9.3	10.7	29.8	26.1	22.6	27.1	22.4	19.3	122.9	113.7	107.2
ITC	206	Buy	8.3	9.6	11.4	24.9	21.6	18.1	16.6	14.1	11.5	26.1	26.3	27.4
Marico	67	Buy	2.7	3.2	3.7	25.1	21.3	18.2	16.9	14.1	12.2	66.0	56.7	49.9
Nestle	1,493	Buy	44.7	56.6	71.0	33.4	26.4	21.0	20.4	16.3	13.1	62.1	68.1	73.2
Tata Tea	827	Neutral	47.2	74.4	84.5	17.5	11.1	9.8	5.9	5.0	4.2	7.3	10.7	11.2
United Spirits	1,508	Buy	44.3	69.0	94.7	34.0	21.9	15.9	24.0	19.1	14.8	16.9	18.8	20.6
Sector Aggregate						26.5	22.0	18.4	18.5	15.4	12.8	32.3	33.0	34.0



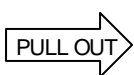
Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.3.08													
Information Technology														
HCL Technologies	272	Buy	19.5	22.1	25.6	14.0	12.3	10.6	9.7	7.8	6.2	25.7	26.7	28.4
Infosys	1,526	Buy	82.7	93.1	103.4	18.5	16.4	14.8	15.1	12.1	9.5	35.7	31.0	27.3
Mphasis	202	Buy	12.1	14.5	17.1	16.6	13.9	11.8	6.9	5.2	4.0	31.5	24.7	24.4
Patni Computer	230	Neutral	33.6	35.2	37.1	6.8	6.5	6.2	3.8	2.5	1.8	19.0	17.1	15.7
Satyam Computer	408	Buy	25.4	30.6	34.7	16.1	13.3	11.8	12.3	9.3	6.8	26.3	25.6	23.7
TCS	870	Buy	52.0	59.8	67.1	16.7	14.6	13.0	13.6	11.4	9.1	46.3	39.2	33.9
Tech Mahindra	723	Neutral	57.5	69.5	77.9	12.6	10.4	9.3	10.1	7.8	5.5	44.8	35.1	38.1
Wipro	454	Buy	22.4	25.5	29.6	20.3	17.8	15.4	15.7	13.1	9.9	29.2	27.8	26.9
Sector Aggregate						17.2	14.8	13.1	13.4	11.0	8.5	30.1	27.8	25.5
Infrastructure														
B.L.Kashyap	1,644	Neutral	55.9	75.5	107.8	29.4	21.8	15.2	21.9	14.7	10.9	33.5	33.7	35.4
Gammon India	400	Neutral	10.3	14.1	19.4	38.0	27.6	20.2	18.7	14.4	11.1	7.4	9.3	11.3
GMR Infrastructure	156	Neutral	1.2	2.2	2.0	125.4	71.2	80.0	45.8	24.8	14.8	3.7	6.2	5.3
Hindustan Construction	139	Buy	2.9	4.5	7.6	48.2	30.9	18.3	14.9	11.5	8.5	6.8	8.4	13.0
IVRCL Infra.	406	Buy	16.2	21.2	29.4	25.1	19.2	13.8	16.6	12.0	8.5	14.5	17.0	20.2
Jaiprakash Associates	240	Buy	4.0	5.7	7.1	59.5	42.2	33.7	36.2	24.2	18.5	11.6	11.7	13.3
Nagarjuna Construction	220	Neutral	7.4	10.9	14.0	29.8	20.1	15.8	16.9	14.1	12.0	12.4	11.2	12.2
Patel Engg.	623	Buy	23.3	22.4	28.0	24.9	25.9	20.7	22.3	18.2	14.8	17.5	14.7	16.1
Simplex Infra.	596	Buy	19.1	40.3	60.0	31.1	14.8	9.9	13.4	8.6	6.2	13.2	18.5	22.0
Sector Aggregate						53.9	37.1	29.2	27.7	18.8	13.4	9.1	10.9	12.5
Media														
Deccan Chronicle	161	Buy	11.8	14.7	17.8	13.7	11.0	9.1	7.9	6.2	4.7	26.7	25.6	24.2
HT Media	170	Buy	5.7	6.5	7.8	29.9	26.1	21.7	17.0	15.3	12.5	14.7	14.6	15.3
Jagran Prakashan	94	Buy	3.5	4.6	6.0	26.8	20.6	15.7	15.4	11.7	8.8	19.3	22.4	25.0
Sun TV	291	Neutral	9.5	13.3	16.3	30.8	21.9	17.8	16.4	12.6	10.1	24.8	27.6	27.0
TV Today	103	Buy	7.3	9.1	11.6	14.0	11.3	8.9	7.0	5.7	4.6	15.7	16.8	18.1
Zee Entertainment	246	Neutral	8.6	12.0	14.9	28.7	20.5	16.6	19.8	14.0	10.6	17.8	18.9	17.9
Sector Aggregate						25.1	19.0	15.4	15.0	11.6	9.1	18.6	20.4	20.8
Metals														
Hindalco	175	Neutral	14.0	19.5	28.0	12.5	9.0	6.3	7.8	6.0	5.7	11.9	13.8	17.3
Hindustan Zinc	536	Buy	94.7	93.0	106.4	5.7	5.8	5.0	3.0	2.3	2.1	35.3	26.3	23.6
Jindal Steel & Power	2,219	Buy	74.1	120.7	161.1	30.0	18.4	13.8	17.5	11.3	8.9	31.9	34.6	31.9
JSW Steel	819	Neutral	90.6	117.6	152.1	9.0	7.0	5.4	7.9	5.9	5.0	23.2	24.2	23.9
Nalco	463	Neutral	26.7	34.8	43.1	17.3	13.3	10.8	11.8	8.4	6.0	19.4	21.2	21.7
SAIL	198	Buy	20.4	23.2	24.5	9.7	8.5	8.1	5.3	4.7	4.6	34.9	29.7	24.7
Sterlite Inds.	756	Buy	56.7	62.0	58.6	13.3	12.2	12.9	5.2	4.2	3.8	18.3	17.0	13.8
Tata Steel	717	Buy	82.8	114.3	128.4	8.7	6.3	5.6	5.2	4.5	4.1	14.5	17.2	16.7
Sector Aggregate						10.8	8.9	7.8	6.2	5.1	4.6	21.2	21.0	19.7
Oil & Gas														
BPCL	434	Buy	62.2	93.6	103.9	7.0	4.6	4.2	6.6	4.3	3.9	17.5	21.9	24.3
Caim India	230	Buy	0.2	1.5	7.3	1,439.2	152.7	31.6	56.5	44.7	16.4	0.1	0.9	4.0
Chennai Petroleum	274	Buy	67.4	57.6	52.5	4.1	4.8	5.2	3.3	3.5	3.8	33.4	23.3	18.5
GAIL	442	Buy	30.5	35.1	38.0	14.5	12.6	11.6	9.9	7.9	7.2	19.9	20.1	19.3
HPCL	263	Buy	30.0	51.2	54.3	8.8	5.1	4.8	8.0	4.7	4.4	10.2	15.8	16.8
Indraprastha Gas	136	Not Rated	12.4	13.2	13.4	10.9	10.3	10.1	5.9	5.2	4.7	33.1	28.7	24.7
IOC	464	Buy	88.8	105.2	107.0	5.2	4.4	4.3	5.0	4.2	4.2	23.0	21.9	18.5



Ready reckoner: valuations

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.3.08													
Oil & Gas (Contd.)														
MRPL	76	Sell	7.6	6.2	5.4	9.9	12.2	13.9	7.1	8.3	9.6	40.8	26.0	19.4
ONGC	1,052	Buy	107.4	119.8	119.1	9.8	8.8	8.8	4.5	3.7	3.5	31.3	29.0	24.5
Reliance Inds.	2,348	Buy	104.4	109.1	238.4	22.5	21.5	9.8	15.7	15.5	7.4	21.4	18.0	27.8
Sector Aggregate						13.0	11.3	8.5	8.1	7.1	5.5	20.9	19.7	21.6
Pharmaceuticals														
Aurobindo Pharma	294	Sell	33.9	36.1	49.2	8.7	8.1	6.0	8.1	6.8	5.3	21.0	18.5	20.3
Aventis Pharma	750	Buy	62.7	63.5	67.6	12.0	11.8	11.1	7.4	6.4	5.1	21.5	19.6	18.9
Biocon	432	Buy	22.5	26.4	31.3	19.2	16.3	13.8	13.7	10.7	8.6	14.9	15.4	16.0
Cadila Health	250	Buy	19.5	24.3	33.2	12.9	10.3	7.5	7.9	6.5	5.0	26.0	25.9	28.6
Cipla	218	Neutral	8.5	9.8	11.7	25.5	22.3	18.5	19.8	17.5	14.4	17.7	17.4	17.9
Dishman Pharma	311	Buy	13.6	17.8	21.3	22.8	17.4	14.6	21.0	15.5	12.6	30.3	30.3	28.0
Divis Labs	1,361	Neutral	57.3	70.8	85.1	23.8	19.2	16.0	20.7	16.5	12.6	53.6	44.8	38.6
Dr Reddy's Labs	591	Buy	27.2	34.6	42.3	21.7	17.1	14.0	17.1	13.4	11.1	10.1	11.8	13.0
GSK Pharma	1,044	Buy	47.2	51.7	59.1	22.1	20.2	17.7	14.9	13.7	11.7	28.9	26.5	25.5
Jubilant Organosys	332	Buy	23.0	22.1	26.0	14.4	15.0	12.8	11.6	9.1	7.3	36.1	25.1	24.0
Lupin	483	Buy	36.8	44.4	56.6	13.1	10.9	8.5	10.2	8.6	6.7	31.1	28.8	29.5
Nicholas Piramal	301	Buy	14.7	19.8	23.2	20.5	15.2	13.0	14.5	11.1	9.5	25.7	27.9	26.9
Pfizer	661	Neutral	42.5	48.5	53.0	15.6	13.6	12.5	8.8	6.5	5.4	18.6	15.5	15.4
Ranbaxy Labs	439	Buy	19.2	19.5	22.2	22.8	22.5	19.7	19.5	15.7	12.6	25.9	23.2	23.3
Shasun Chemicals	44	Buy	2.7	6.2	7.0	16.7	7.1	6.3	12.1	5.2	4.9	5.6	12.3	12.9
Sun Pharma	1,251	Buy	47.9	48.5	57.3	26.1	25.8	21.9	19.1	19.0	15.3	26.0	19.0	19.1
Wockhardt	267	Neutral	29.0	33.4	38.1	9.2	8.0	7.0	7.4	6.0	5.1	28.5	26.0	24.1
Sector Aggregate						19.2	17.1	14.3	15.1	12.6	10.3	22.5	20.8	21.0
Real Estate														
DLF	696	UR	44.1	48.5	55.8	15.8	14.3	12.5	13.6	10.8	8.7	43.2	35.8	31.9
Unitech	292	UR	10.6	17.2	33.3	27.5	17.0	8.8	22.1	13.4	6.4	56.8	57.4	60.0
Sector Aggregate						18.0	15.0	11.2	15.4	11.5	7.9	45.2	39.4	38.4
Retailing														
Pantaloon Retail	434	Buy	9.3	16.0	25.5	46.9	27.2	17.0	18.2	12.3	7.9	10.3	15.6	14.5
Shopper's Stop	417	Neutral	1.3	2.9	9.9	311.5	146.1	42.3	25.1	17.3	11.2	1.3	3.3	10.9
Titan Industries	1,115	Neutral	32.4	43.8	57.7	34.4	25.5	19.3	19.7	15.3	11.8	32.7	33.2	33.0
Sector Aggregate						44.8	28.6	17.5	19.2	13.6	9.3	13.8	18.4	17.7
Telecom														
Bharti Airtel	826	Buy	34.7	44.5	52.6	23.8	18.5	15.7	14.4	10.5	8.6	38.6	35.5	31.9
Idea Cellular	104	Not Rated	3.7	4.8	6.4	28.0	21.5	16.1	14.8	10.6	8.3	29.6	32.9	33.1
Reliance Comm	536	Buy	26.1	31.4	38.0	20.5	17.1	14.1	14.4	11.7	9.0	22.2	21.2	21.7
Sector Aggregate						22.8	18.2	15.1	14.4	11.0	8.7	26.5	26.1	25.2
Textiles														
Alok Ind	59	Buy	7.8	10.3	13.4	7.6	5.7	4.4	9.4	8.5	7.3	11.7	13.8	15.6
Arvind Mills	39	Neutral	1.2	4.0	6.8	33.2	9.6	5.7	9.2	7.2	5.6	1.5	5.1	8.0
Gokaldas Exports	184	Neutral	16.1	23.5	26.2	11.4	7.8	7.0	8.8	6.1	5.3	13.1	16.9	16.3
Himatsingka Seide	64	Neutral	6.7	11.4	12.2	9.6	5.6	5.2	6.7	4.1	3.6	10.4	16.3	15.6
Raymond	302	Neutral	10.6	27.9	31.0	28.5	10.8	9.7	10.6	5.2	4.7	4.5	11.4	11.6
Vardhman Textiles	106	Buy	19.7	24.9	38.8	5.4	4.3	2.7	9.2	6.8	5.7	10.8	12.4	17.1
Welspun Ind	44	Neutral	4.1	12.8	15.3	10.8	3.4	2.9	9.7	5.8	5.4	5.1	14.7	15.5
Sector Aggregate						11.7	6.7	5.2	9.3	6.8	5.8	7.1	11.3	13.0

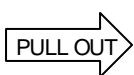


Ready reckoner: valuations

	CMP (RS) 28.3.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Utilities														
CESC	411	Neutral	25.4	27.5	30.3	16.2	14.9	13.5	10.3	10.4	9.5	11.9	11.5	11.4
NTPC	204	Neutral	10.1	10.1	10.5	20.3	20.3	19.4	14.4	13.4	12.3	14.8	14.7	14.0
PTC India	101	Buy	1.6	3.3	4.7	64.1	30.9	21.6	46.9	18.6	11.4	4.1	4.9	6.8
Reliance Energy	1,334	UR	21.3	26.6	36.4	62.6	50.2	36.7	60.2	37.6	25.0	9.8	9.8	9.8
Tata Power	1,211	Buy	34.3	38.1	42.7	35.4	31.8	28.4	27.9	26.1	20.0	9.2	8.2	9.6
Sector Aggregate						25.9	23.4	21.6	17.1	15.3	13.4	11.8	11.2	11.2
Others														
Ashapura Minchem	220	Buy	24.8	52.4	66.2	8.8	4.2	3.3	6.5	3.1	2.0	39.6	53.7	43.6
Blue Star	407	Buy	18.4	25.7	35.9	22.1	15.8	11.3	14.8	10.3	7.4	73.4	59.3	58.6
Bombay Rayon	290	Buy	16.8	26.0	44.4	17.3	11.2	6.5	12.2	9.2	5.6	20.9	22.9	31.1
Everest Kanto	277	Buy	11.1	14.7	22.2	25.0	18.9	12.5	16.2	10.3	6.7	28.5	24.9	27.4
Great Offshore	642	UR	50.6	79.4	82.5	12.7	8.1	7.8	9.1	6.0	4.3	29.4	24.6	21.6
Greaves Cotton	220	Buy	23.6	29.9	38.3	9.3	7.4	5.8	6.0	4.2	3.1	34.7	34.7	35.1
TajGVK Hotels	107	Buy	11.4	14.9	17.1	9.4	7.2	6.2	6.0	4.8	3.9	33.1	34.3	31.7
United Phosphorous	265	Buy	15.5	21.2	27.2	17.1	12.5	9.7	7.5	5.3	4.0	19.4	18.9	20.3
Sector Aggregate						14.4	9.4	7.3	9.3	6.3	4.5	24.6	26.1	26.8

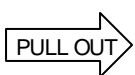
UR - Under Review; * Bajaj Auto numbers are pre-demerger

	CMP (RS) 28.3.08	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Banks														
Andhra Bank	77	Buy	12.6	14.5	17.1	6.1	5.3	4.5	1.1	0.9	0.8	18.3	18.8	19.6
Axis Bank	805	Buy	27.9	36.8	49.6	28.9	21.9	16.2	3.4	3.0	2.6	16.9	14.7	17.3
Bank of Baroda	301	Buy	41.6	46.8	56.4	7.2	6.4	5.3	1.1	1.0	0.9	16.4	16.2	17.1
Bank of India	272	Buy	32.4	40.8	48.2	8.4	6.7	5.7	1.7	1.4	1.2	23.9	22.8	22.4
Canara Bank	227	Neutral	37.6	43.2	46.4	6.0	5.3	4.9	1.0	0.9	0.8	17.8	17.9	16.9
Corporation Bank	289	Neutral	46.8	50.2	60.2	6.2	5.7	4.8	1.0	0.9	0.8	16.7	15.9	16.8
Federal Bank	224	Buy	22.0	31.4	36.2	10.2	7.1	6.2	1.0	0.9	0.8	13.9	13.0	13.6
HDFC	2,614	Buy	87.2	87.0	105.6	30.0	30.0	24.7	6.7	5.6	4.9	24.3	20.6	21.1
HDFC Bank	1,401	Neutral	44.6	61.5	81.3	31.4	22.8	17.2	4.2	3.7	3.2	17.4	17.2	19.7
ICICI Bank	835	Buy	35.5	44.6	56.9	23.5	18.7	14.7	2.0	1.8	1.7	11.0	10.2	12.0
Indian Bank	171	Buy	23.9	27.4	31.0	7.1	6.2	5.5	1.8	1.5	1.2	28.3	26.2	24.3
Indian Overseas Bank	136	Buy	22.1	25.4	29.3	6.1	5.3	4.6	1.6	1.3	1.1	27.6	25.5	24.6
J&K Bank	670	Buy	82.7	96.3	119.1	8.1	7.0	5.6	1.4	1.2	1.0	18.5	18.5	19.6
Karnataka Bank	203	Buy	18.4	21.2	24.8	11.1	9.6	8.2	1.7	1.5	1.3	16.8	16.2	16.6
Oriental Bank	186	Neutral	33.3	37.3	41.1	5.6	5.0	4.5	0.8	0.7	0.6	14.3	14.8	15.0
Punjab National Bank	528	Buy	57.8	69.4	83.0	9.1	7.6	6.4	1.4	1.3	1.1	16.8	17.7	18.5
State Bank	1,680	Buy	104.3	125.4	150.2	16.1	13.4	11.2	2.0	1.8	1.6	15.6	14.0	14.9
Syndicate Bank	79	Buy	16.4	16.9	18.9	4.8	4.7	4.2	1.1	0.9	0.8	21.2	18.7	18.2
Union Bank	146	Buy	22.3	26.6	32.6	6.5	5.5	4.5	1.3	1.1	0.9	21.8	22.0	22.8
Vijaya Bank	52	Neutral	9.8	9.9	12.0	5.3	5.2	4.3	1.0	0.9	0.8	20.9	18.4	19.7
Sector Aggregate						15.2	12.6	10.5	2.6	2.0	1.7	16.8	15.6	16.7



Ready reckoner: quarterly performance

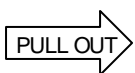
	CMP (RS) 28.3.08	RECO	SALES			EBITDA			NET PROFIT		
			MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Automobiles											
Amtek Auto	260	Buy	10,805	12,966	20.0	1,994	2,321	16.4	1,085	1,220	12.5
Ashok Leyland	34	Buy	22,910	24,697	7.8	2,596	2,650	2.1	1,692	1,548	-8.5
Bajaj Auto *	2,080	Buy	23,136	23,873	3.2	3,263	3,510	7.6	3,208	3,552	10.7
Bharat Forge	281	Buy	5,161	6,094	18.1	1,243	1,461	17.5	665	675	1.6
Eicher Motors	241	UR	6,191	6,655	7.5	384	381	-0.6	209	209	0.2
Hero Honda	701	Buy	26,396	27,589	4.5	2,767	3,760	35.9	2,030	2,538	25.0
Mahindra & Mahindra	691	Buy	27,439	29,926	9.1	3,099	3,352	8.2	2,436	2,418	-0.7
Maruti Suzuki	836	Buy	44,298	50,092	13.1	6,494	7,210	11.0	4,485	4,811	7.3
Swaraj Mazda	316	Neutral	1,651	1,507	-8.7	119	117	-1.5	60	52	-12.6
Tata Motors	646	Buy	82,242	84,978	3.3	9,147	9,347	2.2	5,592	5,392	-3.6
TVS Motor	36	Neutral	9,199	7,924	-13.9	101	178	76.6	90	57	-37.4
Sector Aggregate			259,427	276,299	6.5	31,205	34,287	9.9	21,551	22,472	4.3
Cement											
ACC	835	Neutral	16,348	17,839	9.1	5,071	4,681	-7.7	3,286	2,937	-10.6
Ambuja Cements	124	Buy	14,338	16,433	14.6	5,631	5,270	-6.4	3,826	3,587	-6.3
Birla Corporation	197	Buy	4,441	4,561	2.7	1,524	1,561	2.4	1,012	1,011	-0.1
Grasim Industries	2,705	Buy	24,938	27,006	8.3	6,942	8,453	21.8	4,488	5,174	15.3
India Cements	194	Buy	5,758	8,256	43.4	1,906	2,973	56.0	1,398	1,607	14.9
Shree Cement	1,007	Buy	3,783	6,246	65.1	1,513	2,468	63.2	40	1,164	2791.4
UltraTech Cement	781	Buy	14,655	15,670	6.9	4,085	4,950	21.2	2,315	2,801	21.0
Sector Aggregate			84,260	96,011	13.9	26,672	30,356	13.8	16,366	18,282	11.7
Engineering											
ABB	1,196	Neutral	13,124	17,456	33.0	1,282	1,833	43.0	866	1,235	42.6
Alstom Projects	547	Neutral	4,306	5,630	30.7	534	669	25.2	368	441	20.0
Bharat Electronics	1,105	Buy	17,342	23,371	34.8	4,849	6,690	38.0	3,572	4,686	31.2
BHEL	2,092	Neutral	69,197	87,499	26.4	15,872	20,210	27.3	11,506	14,649	27.3
Crompton Greaves	288	Neutral	9,900	12,472	26.0	1,143	1,573	37.6	749	942	25.7
Cummins India	303	UR	5,049	6,330	25.4	823	887	7.7	657	742	13.0
Larsen & Toubro	3,147	Neutral	62,482	82,133	31.4	9,718	13,902	43.0	7,006	9,158	30.7
Siemens	662	Neutral	21,352	28,804	34.9	1,677	2,301	37.2	1,081	1,555	43.9
Suzlon Energy	270	Neutral	29,159	47,377	62.5	4,954	8,175	65.0	3,590	4,839	34.8
Thermax	592	Buy	8,044	9,293	15.5	887	1,159	30.6	656	915	39.5
Sector Aggregate			239,956	320,364	33.5	41,740	57,397	37.5	30,050	39,162	30.3
FMCG											
Asian Paints	1,176	Buy	9,589	11,549	20.4	1,170	1,532	31.0	615	843	37.1
Britannia	1,308	Buy	5,992	7,129	19.0	387	623	60.9	366	463	26.5
Colgate	388	Buy	3,433	3,927	14.4	536	646	20.7	498	580	16.4
Dabur	108	Neutral	5,307	6,245	17.7	881	1,039	18.0	780	857	9.9
Godrej Consumer	126	Buy	2,424	2,921	20.5	431	464	7.6	308	360	16.9
GSK Consumer	606	Buy	3,265	3,750	14.9	624	705	13.0	423	496	17.3
Hind. Unilever	242	Neutral	31,843	36,250	13.8	3,620	4,278	18.2	3,339	3,797	13.7
ITC	206	Buy	34,663	38,733	11.7	9,303	10,492	12.8	6,507	7,372	13.3
Marico	67	Buy	3,970	4,765	20.0	412	565	37.2	309	368	19.2
Nestle	1,493	Buy	8,631	10,300	19.3	1,788	2,184	22.1	1,114	1,390	24.8
Tata Tea	827	Neutral	11,591	7,048	-39.2	1,933	1,646	-14.8	146	973	564.5
United Spirits	1,508	Buy	6,624	8,029	21.2	853	1,307	53.2	645	894	38.7
Sector Aggregate			127,333	140,646	10.5	21,938	25,481	16.2	15,050	18,393	22.2



Ready reckoner: quarterly performance

	CMP (RS) 28.3.08	RECO	SALES			EBITDA			NET PROFIT		
			MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Infrastructure											
B.L.Kashyap	1,644	Neutral	2,373	4,314	81.7	315	551	75.0	192	347	80.8
Gammon India	400	Neutral	6,207	7,277	17.2	541	585	8.2	367	261	-29.0
GMR Infrastructure	156	Neutral	6,196	5,093	-17.8	1,380	2,223	61.1	185	670	261.6
Hindustan Construction	139	Buy	8,476	10,923	28.9	877	1,250	42.5	160	385	140.7
IVRCL Infra.	406	Buy	9,923	10,930	10.1	1,073	1,253	16.8	732	753	2.8
Jaiprakash Associates	240	Buy	8,860	9,477	7.0	2,630	2,303	-12.4	1,310	1,017	-22.4
Nagarjuna Construction	220	Neutral	8,679	11,894	37.0	727	1,155	58.8	339	565	66.7
Patel Engg.	623	Buy	3,962	4,664	17.7	456	536	17.5	340	346	1.8
Simplex Infra.	596	Buy	5,770	8,461	46.6	368	952	158.5	189	446	135.4
Sector Aggregate			60,445	73,033	20.8	8,367	10,807	29.2	3,815	4,789	25.5
Media											
Deccan Chronicle	161	Buy	1,476	2,113	43.2	731	1,246	70.6	256	219	-14.4
HT Media	170	Buy	2,750	3,331	21.1	418	489	17.0	240	295	23.1
Jagran Prakashan	94	Buy	1,637	2,038	24.5	293	426	45.3	153	231	50.8
Sun TV	291	Neutral	3,790	2,445	-35.5	2,524	1,826	-27.6	1,189	973	-18.2
TV Today	103	Buy	585	746	27.4	204	291	42.7	123	166	35.2
Zee Entertainment	246	Neutral	3,844	4,479	16.5	951	1,388	45.9	604	935	54.8
Sector Aggregate			14,082	15,152	7.6	5,121	5,668	10.7	2,564	2,818	9.9
Metals											
Hindalco	175	Neutral	47,489	50,959	7.3	11,149	9,531	-14.5	7,702	6,223	-19.2
Hindustan Zinc	536	Buy	20,210	17,148	-15.2	14,000	11,172	-20.2	9,350	8,847	-5.4
Jindal Steel & Power	2,219	Buy	10,539	15,664	48.6	3,917	5,921	51.2	2,028	3,129	54.3
JSW Steel	819	Neutral	24,985	30,953	23.9	8,032	8,553	6.5	3,765	4,212	11.9
Nalco	463	Neutral	15,668	13,668	-12.8	8,798	6,718	-23.6	5,908	5,057	-14.4
Sterlite Inds.	756	Buy	62,516	60,197	-3.7	22,716	17,250	-24.1	11,483	9,390	-18.2
SAIL	198	Buy	102,681	131,754	28.3	31,566	50,401	59.7	19,884	32,662	64.3
Tata Steel	717	Buy	49,804	53,972	8.4	19,035	24,442	28.4	11,300	14,129	25.0
Sector Aggregate			333,892	374,314	12.1	119,212	133,988	12.4	71,420	83,649	17.1
Oil & Gas											
BPCL	434	Buy	241,265	302,273	25.3	12,738	7,312	-42.6	6,700	3,465	-48.3
Cairn India	230	Buy	2,364	3,119	31.9	1,472	2,335	58.6	376	1,047	178.8
Chennai Petroleum	274	Buy	56,531	78,787	39.4	4,019	4,127	2.7	1,891	2,248	18.9
GAIL	442	Buy	38,834	43,754	12.7	6,024	10,010	66.2	3,408	7,020	106.0
HPCL	263	Buy	218,495	315,268	44.3	10,251	5,397	-47.4	5,495	2,639	-52.0
Indraprastha Gas	136	Not Rated	1,643	1,981	20.6	711	848	19.2	401	477	19.2
IOC	464	Buy	528,890	702,750	32.9	49,026	37,120	-24.3	28,210	27,047	-4.1
MRPL	76	Sell	67,979	97,117	42.9	5,839	5,415	-7.3	1,819	2,890	58.9
ONGC	1,052	Buy	123,970	146,827	18.4	53,715	78,484	46.1	26,816	42,754	59.4
Reliance Inds.	2,348	Buy	274,480	349,480	27.3	51,690	57,643	11.5	31,560	38,177	21.0
Sector Aggregate			1,554,451	2,041,356	31.3	195,485	208,690	6.8	106,676	127,765	19.8
Pharmaceuticals											
Aurobindo Pharma	294	Sell	5,572	6,265	12.4	652	954	46.5	781	638	-18.3
Aventis Pharma	750	Buy	2,129	2,026	-4.8	494	395	-20.0	433	332	-23.4
Biocon	432	Buy	2,782	2,937	5.6	857	838	-2.2	607	650	7.1
Cadila Health	250	Buy	4,357	5,459	25.3	711	793	11.5	389	388	-0.2
Cipla	218	Neutral	9,319	9,532	2.3	1,459	2,082	42.7	1,431	1,422	-0.6
Dishman Pharma	311	Buy	2,057	2,084	1.3	218	410	88.3	332	291	-12.6
Divis Labs	1,361	Neutral	2,526	2,924	15.8	1,139	1,266	11.1	1,012	1,108	9.5
Dr Reddy's Labs	591	Buy	15,573	11,761	-24.5	5,470	1,169	-78.6	3,254	915	-71.9

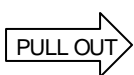
*Tata Steel quarter numbers does not include Corus



Ready reckoner: quarterly performance

	CMP (RS) 28.3.08	RECO	SALES			EBITDA			NET PROFIT		
			MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Pharmaceuticals (Contd.)											
GSK Pharma	1,044	Buy	4,203	4,411	4.9	1,450	1,501	3.5	1,113	1,223	9.9
Jubilant Organosys	332	Buy	4,633	6,635	43.2	797	1,251	56.9	638	796	24.8
Lupin	483	Buy	5,318	7,509	41.2	776	1,250	61.1	652	854	30.8
Nicholas Piramal	301	Buy	6,452	7,600	17.8	849	1,419	67.2	615	980	59.4
Pfizer	661	Neutral	1,703	1,678	-1.4	408	430	5.4	324	364	12.2
Ranbaxy Labs	439	Buy	15,821	17,488	10.5	1,908	2,413	26.5	1,276	1,038	-18.7
Shasun Chemicals	44	Buy	2,328	2,521	8.3	114	268	135.0	121	141	16.1
Sun Pharma	1,251	Buy	5,313	6,812	28.2	1,545	2,984	93.1	2,121	2,282	7.6
Wockhardt	267	Neutral	5,228	7,945	52.0	1,159	1,835	58.3	552	799	44.7
Sector Aggregate			95,315	105,590	10.8	20,005	21,257	6.3	15,652	14,220	-9.1
Real Estate											
DLF	696	UR	-	39,751			22,237	-		18,445	-
Unitech	292	UR	8,487	14,592	71.9	5,101	6,073	19.1	3,571	4,051	13.5
Sector Aggregate			8,487	14,592	71.9	5,101	6,073	19.1	3,571	4,051	13.5
Retailing											
Pantaloon Retail	434	Buy	8,610	14,250	65.5	603	1,140	89.1	187	359	91.6
Shopper' s Slop	417	Neutral	2,149	2,876	33.8	152	174	14.6	67	18	-73.3
Titan Industries	1,115	Neutral	5,966	7,643	28.1	693	796	14.9	475	542	14.0
Sector Aggregate			16,725	24,769	48.1	1,447	2,110	45.8	730	919	25.9
Telecom											
Bharti Airtel	826	Buy	53,932	74,677	38.5	22,408	31,924	42.5	13,531	17,288	27.8
Idea Cellular	104	Not Rated	13,085	18,688	42.8	4,363	6,165	41.3	1,934	2,108	9.0
Reliance Comm	536	Buy	39,369	53,113	34.9	16,352	22,863	39.8	10,217	13,737	34.5
Sector Aggregate			106,386	146,478	37.7	43,123	60,951	41.3	25,682	33,132	29.0
Textiles											
Alok Ind	59	Buy	5,741	6,552	14.1	1,321	1,509	14.3	452	475	5.0
Arvind Mills	39	Neutral	4,831	5,856	21.2	672	710	5.6	39	96	142.8
Gokaldas Exports	184	Neutral	2,766	3,024	9.4	367	309	-15.9	181	164	-9.5
Himatsingka Seide	64	Neutral	432	742	71.9	58	93	60.4	89	18	-79.8
Raymond	302	Neutral	3,477	6,110	75.7	437	801	83.1	136	229	68.6
Vardhman Textiles	106	Buy	5,400	6,704	24.2	768	845	10.1	369	168	-54.5
Welspun Ind	44	Neutral	2,485	3,070	23.6	352	367	4.4	103	27	-73.8
Sector Aggregate			25,131	32,058	27.6	3,975	4,634	16.6	1,370	1,177	-14.1
Utilities											
CESC	411	Neutral	5,470	6,486	18.6	1,170	1,377	17.7	610	834	36.8
NTPC	204	Neutral	88,603	102,986	16.2	23,397	29,795	27.3	18,539	22,153	19.5
PTC India	101	Buy	6,025	7,219	19.8	53	73	39.5	58	61	5.0
Reliance Energy	1,334	UR	16,143	14,183	-12.1	598	2,265	278.6	1,848	1,473	-20.3
Tata Power	1,211	Buy	11,713	14,841	26.7	2,290	2,175	-5.0	638	1,272	99.4
Sector Aggregate			127,954	145,716	13.9	27,508	35,685	29.7	21,693	25,794	18.9

UR - Under Review; * Bajaj Auto numbers are pre-demerger

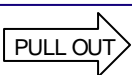


Ready reckoner: quarterly performance

	CMP (RS) 28.3.08	RECO	SALES			EBITDA			NET PROFIT		
			MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Others											
Ashapura Minchem	220	Buy	3,444	5,527	60.5	653	812	24.4	406	637	57.1
Blue Star	407	Buy	5,429	7,329	35.0	445	937	110.7	340	617	81.6
Bombay Rayon	290	Buy	1,733	3,226	86.2	293	730	149.5	216	376	74.4
Everest Kanto	277	Buy	1,336	1,708	27.8	343	500	46.0	263	339	28.8
Great Offshore	642	UR	1,493	2,144	-	681	1,371	-	299	779	-
Greaves Cotton	220	Buy	2,856	3,110	8.9	478	414	-13.4	339	285	-15.9
TajGVK Hotels	115	Buy	678	762	12.5	336	359	6.8	188	212	12.7
United Phosphorous	265	Buy	9,897	11,205	13.2	2,154	2,450	13.7	1,335	1,554	16.4
Sector Aggregate			25,372	32,866	29.5	4,701	6,202	31.9	3,086	4,021	30.3

	CMP (RS) 28.3.08	RECO	SALES			EBITDA			NET PROFIT		
			DEC.07	MAR.08	CHG. (%)	DEC.07	MAR.08	CHG. (%)	DEC.07	MAR.08	CHG. (%)
Information Technology											
HCL Technologies	272	Buy	18,166	19,101	5.1	3,885	4,202	8.2	3,328	3,518	5.7
Infosys	1,526	Buy	42,710	45,590	6.7	13,920	14,886	6.9	12,310	12,842	4.3
Mphasis	202	Buy	6,323	6,607	4.5	1,104	1,153	4.4	663	694	4.8
Patni Computer	230	Neutral	6,862	7,105	3.5	1,138	1,234	8.4	997	1,140	14.3
Satyam Computer	408	Buy	21,956	23,379	6.5	4,712	5,285	12.2	4,336	4,779	10.2
TCS	870	Buy	59,241	61,853	4.4	15,789	16,526	4.7	13,308	13,571	2.0
Tech Mahindra	723	Neutral	9,704	10,168	4.8	2,129	2,308	8.4	1,994	2,077	4.1
Wipro	454	Buy	35,973	38,181	6.1	10,043	11,218	11.7	8,261	9,148	10.7
Sector Aggregate			200,934	211,984	5.5	52,720	56,813	7.8	45,197	47,768	5.7

	CMP (RS) 28.3.08	RECO	NET INT INCOME			OPERATING PROFIT			NET PROFIT		
			MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)	MAR.07	MAR.08	CHG. (%)
Banks											
Andhra Bank	77	Buy	3,879	3,805	-1.9	2,958	2,527	-14.6	1,388	1,595	14.9
Axis Bank	805	Buy	4,390	7,504	70.9	3,970	6,374	60.5	2,120	2,873	35.5
Bank of Baroda	301	Buy	10,535	10,340	-1.9	7,440	7,637	2.7	2,457	3,605	46.7
Bank of India	272	Buy	9,680	11,263	16.4	8,952	9,110	1.8	4,474	4,504	0.7
Canara Bank	227	Neutral	10,585	9,464	-10.6	10,052	7,607	-24.3	5,043	4,426	-12.2
Corporation Bank	289	Neutral	3,849	3,547	-7.8	3,432	2,605	-24.1	1,185	1,426	20.3
Federal Bank	224	Buy	2,239	2,518	12.5	2,247	2,046	-9.0	993	1,115	12.4
HDFC	2,614	Buy	7,242	9,060	25.1	6,813	8,468	24.3	5,501	6,188	12.5
HDFC Bank	1,401	Neutral	10,545	15,568	47.6	7,650	10,671	39.5	3,436	4,683	36.3
ICICI Bank	835	Buy	16,087	20,396	26.8	17,881	20,551	14.9	8,251	9,278	12.4
Indian Bank	171	Buy	5,499	6,003	9.2	5,416	4,080	-24.7	2,353	2,608	10.8
Indian Overseas Bank	136	Buy	7,682	7,120	-7.3	5,618	5,369	-4.4	2,898	3,076	6.2
J&K Bank	670	Buy	2,024	2,203	8.8	1,631	1,849	13.4	453	1,009	122.9
Karnataka Bank	203	Buy	1,289	1,277	-0.9	1,049	1,155	10.2	268	541	102.1
Oriental Bank of Commerce	186	Neutral	4,462	4,402	-1.4	3,249	3,134	-3.5	1,171	1,967	67.9
Punjab National Bank	528	Buy	13,470	14,466	7.4	8,824	9,447	7.1	2,377	3,185	34.0
State Bank	1,680	Buy	45,059	45,353	0.7	37,316	38,005	1.8	14,932	17,384	16.4
Syndicate Bank	79	Buy	6,037	5,036	-16.6	4,736	3,274	-30.9	1,043	1,346	29.1
Union Bank	146	Buy	8,424	8,174	-3.0	7,198	6,059	-15.8	2,286	2,622	14.7
Vijaya Bank	52	Neutral	2,888	2,453	-15.1	2,039	1,355	-33.5	637	829	30.2
Sector Aggregate			175,866	189,951	8.0	148,469	151,324	1.9	63,264	74,260	17.4



Automobiles

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.	
Amtek Auto	56	<p>We maintain our positive stance on the Automobiles sector, although threats to the sector have increased recently due to the changed macro environment. Factors such as increasing input costs and greater volatility in foreign currency exchange rates coupled with lack of traction in volumes have been areas of concern. We have factored in an average 4% decline in earnings for major auto companies in FY09 to allow for higher input costs (steel in particular).</p> <p>We retain our positive bias on the sector, influenced by the following factors:</p> <ul style="list-style-type: none"> ✍ Despite an earnings downgrade of 4% for FY09, the sector (we have considered the core auto business of M&M and Tata Motors) trades at attractive valuations of 14x FY09E and 12.2x FY10E earnings (considering the last traded price of Bajaj Auto prior to demerger). Auto stocks have also outperformed the benchmark indices in the recent stock market correction. ✍ The worst phase of the volume decline and stagnation in profitability has been negotiated. The industry remains on track to achieve volume growth of 8-12% CAGR over the long term. ✍ The benefits accruing from productivity improvement and cost reduction programs undertaken by the auto companies would continue to partially offset the pressures from rising input prices. ✍ Commencement / ramping up of operations in tax-free zones like Uttaranchal would help counter cost pressures through lower tax burden. The recent excise duty cut from 16% to 12% on two/three wheelers and small cars would also help companies like Maruti Suzuki, Bajaj Auto, Hero Honda and M&M.
Ashok Leyland	57	
Bajaj Auto	58	
Bharat Forge	59	
Eicher Motors	60	
Hero Honda	61	
Mahindra & Mahindra	62	
Maruti Suzuki India	63	
Swaraj Mazda	64	
Tata Motors	65	
TVS Motor	66	

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Automobiles							
Amtek Auto	Buy	12,966	20.0	2,321	16.4	1,220	12.5
Ashok Leyland	Buy	24,697	7.8	2,650	2.1	1,548	-8.5
Bajaj Auto	Buy	23,873	3.2	3,510	7.6	3,552	10.7
Bharat Forge	Buy	6,094	18.1	1,461	17.5	675	1.6
Eicher Motors	UR*	6,655	7.5	381	-0.6	209	0.2
Hero Honda	Buy	27,589	4.5	3,760	35.9	2,538	25.0
Mahindra & Mahindra	Buy	29,926	9.1	3,352	8.2	2,418	-0.7
Maruti Suzuki	Buy	50,092	13.1	7,210	11.0	4,811	7.3
Swaraj Mazda	Neutral	1,507	-8.7	117	-1.5	52	-12.6
Tata Motors	Buy	84,978	3.3	9,347	2.2	5,392	-3.6
TVS Motor	Neutral	7,924	-13.9	178	76.6	57	-37.4
Sector Aggregate		276,299	6.5	34,287	9.9	22,472	4.3

*Under Review

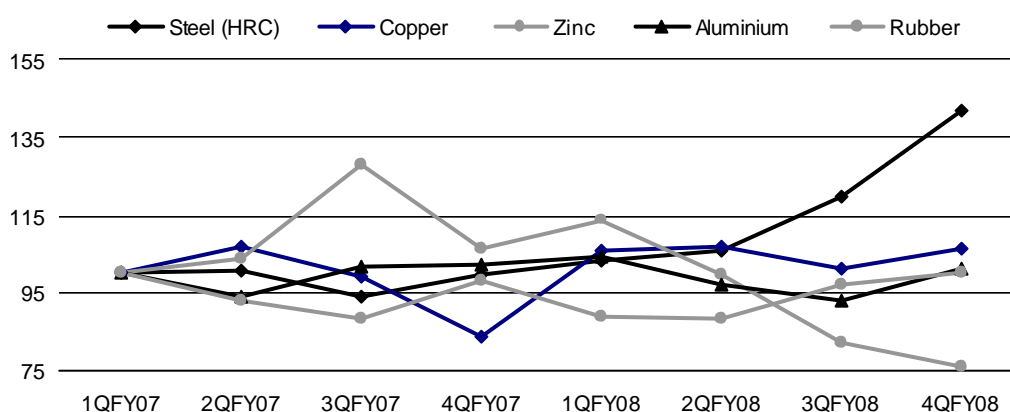
Amit Kasat (Akasat@MotilalOswal.com); Tel: +91 22 39825411; Rohan A Korde (RohanKorde@MotilalOswal.com); Tel: + 91 22 3982 5414

- ✍ The exports market is yet to be fully tapped by Indian auto manufacturers; this segment may become a further volume growth driver for the industry.
- ✍ Recent initiatives by the Finance Minister, such as increasing the tax exemption slabs for individuals and the recommendations of the Sixth Pay Commission (40% increase in basic salary) are positives for the sector. These moves would increase the disposable incomes in the hands of consumers, favorably impacting demand for automobiles.

Input costs are increasing

Prices of aluminum, rubber and copper have inched upwards on a sequential basis in 4QFY08, while zinc price has corrected, significantly. The biggest cause of concern is the rapid increase in steel price in 4QFY08.

RISING INPUT COSTS (PLS PUT UNITS)



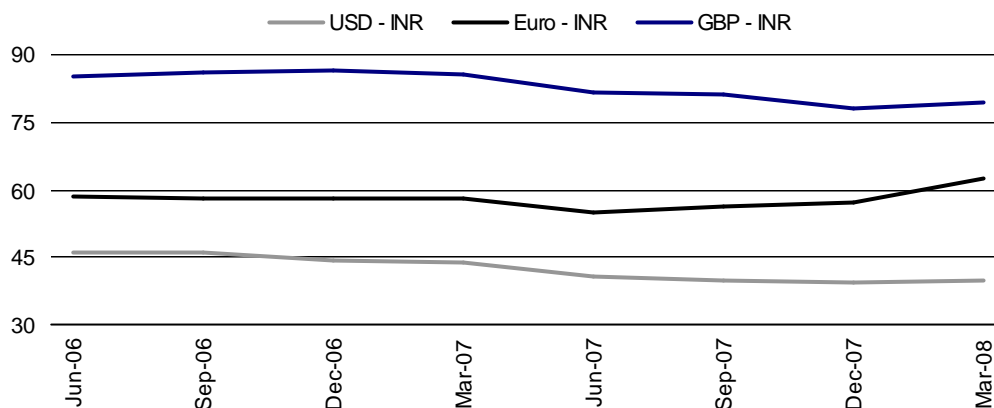
Source: Bloomberg

Forex fluctuation continues to have a destabilizing effect

Exchange rate fluctuation has led to concerns over export revenue realization and rising cost of imported inputs, as well as the effectiveness of the hedging practices being followed by companies.

- ✍ The US dollar has depreciated marginally on a YoY basis, but appreciated marginally significantly on a QoQ basis. The QoQ change is positive for Bharat Forge and other auto companies that have dollar-denominated export revenues.
- ✍ The UK pound has depreciated on a YoY basis, but appreciated marginally on a QoQ basis – positive for Amtek Auto.
- ✍ The euro has appreciated, which will be positive for Amtek Auto and Bharat Forge.

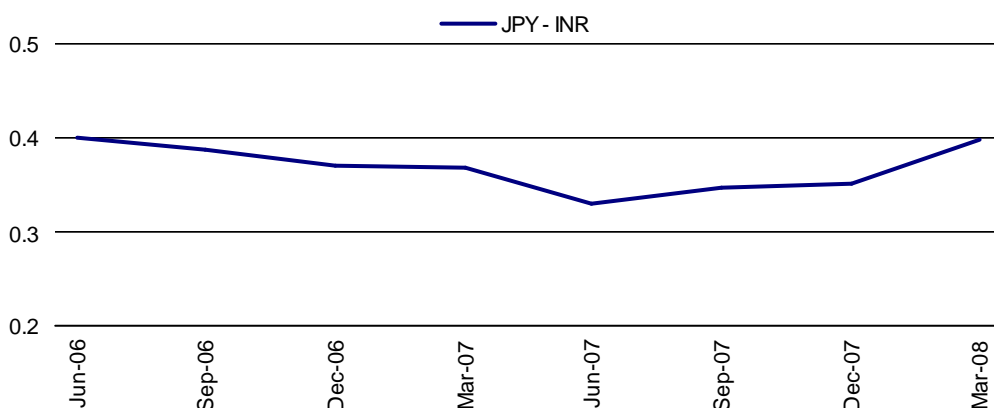
EXCHANGE RATE MOVEMENT (RUPEES PER UNIT OF FOREIGN CURRENCY)



Source: xe.com

- ✘ The Japanese yen has appreciated on a YoY and QoQ basis – negative for Maruti Suzuki, Hero Honda.

HOW THE YEN HAS MOVED (RUPEES PER YEN)



Source: xe.com

Downgrading earnings estimates to factor in cost pressures

We have downgraded our earnings estimates for FY09 and FY10 based on the following assumptions:

- ✘ 30% of raw-material cost is impacted by higher steel prices
- ✘ steel prices have appreciated by 20%
- ✘ auto companies will be able to sustain gains through productivity improvement and cost reduction measures to the extent of 5% of raw material cost, annually

The resultant impact (after also considering the impact of excise duty reduction, future cost compensatory price increases, and qualitative improvement in the product portfolio) is an average 4% downgrade in our earnings estimate for FY09 and an average 3.5% downgrade in our earnings estimate for FY10.

DOWNGRADES IN OUR EARNINGS ESTIMATES

	% CHG IN EPS	
	FY09E	FY10E
Amtek Auto	-2.6	-2.6
Ashok Leyland	-3.0	-2.4
Bajaj Auto	-4.8	-4.1
Bharat Forge S/a EPS	-1.7	-1.7
Bharat Forge Cons EPS	-1.3	-1.3
Eicher Motors	-9.9	-9.7
Hero Honda	-3.8	-3.7
M&M S/a EPS	-4.6	-4.4
M&M Cons EPS	-2.4	-2.2
Maruti Suzuki	-4.8	-3.4
Swaraj Mazda	-6.9	-3.9
Tata Motors S/a EPS	-6.7	-7.2
Tata Motors Cons EPS	-5.0	-5.3
TVS Motor	-12.1	-18.3

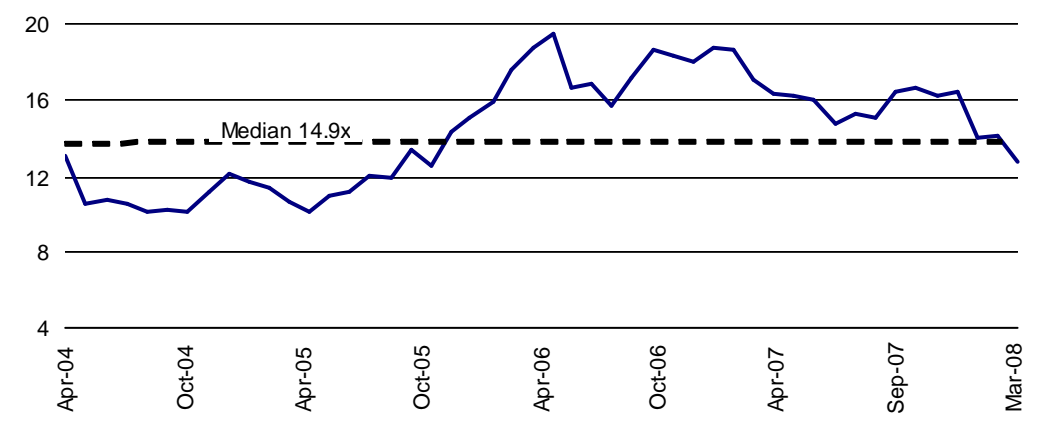
Source: Motilal Oswal Securities

Maintain overweight stance on the sector

While we have downgraded our earnings estimates for FY09 and FY10, we maintain our overweight stance on the sector. Our positive view is supported by the following:

1. Relative outperformance of the sector and attractive valuations

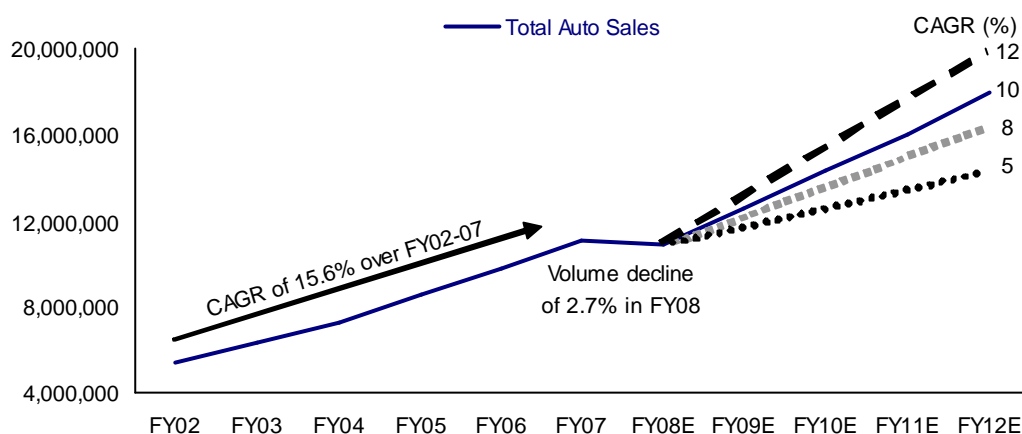
SECTOR P/E BAND



2. Expect long-term volume CAGR of 8-12%

We expect the auto sector to register a volume CAGR of 8-12% over the long term, driven by sustenance of robust growth in passenger vehicles, likely turnaround in two-wheeler volumes, robust LCV demand driven by the hub-and-spoke transportation model, and continuing infrastructure development leading to a revival in M&HCV sales.

VOLUME TREND



Source: SIAM/Motilal Oswal Securities

3. Economies of scale

Revival in volumes will also result in economies of scale for most companies over their expanded capacities. Moreover, the leading companies have successfully undertaken cost reduction and productivity improvement programs, which will help to partially offset the pressures from rising input prices.

4. Plants in tax-exempt regions

Auto majors like Tata Motors, Bajaj Auto, Hero Honda, Ashok Leyland, and TVS Motors have set up their plants in the tax-exempt region of Uttaranchal. All the companies barring Hero Honda (operations to commence in April 2009) have commenced their operations at these plants. As volumes are ramped up further at these tax-exempt locations, auto companies will be in even better positions to take further advantage of these tax benefits offered and thereby counter cost pressures. The recent excise duty cut from 16% to 12% on two/three wheelers and small cars will also help companies like Maruti Suzuki, Bajaj Auto, Hero Honda and M&M.

5. Rising exports

The exports market is yet to be fully tapped by Indian auto manufacturers; this segment may become a further volume growth driver for the industry. Companies like Maruti, Tata Motors, M&M, and Bajaj Auto are in a position to further increase their exports by tapping newer destinations and increasing penetration in their existing markets.

6. Higher disposable incomes following recent policy initiatives

Recent initiatives by the Finance Minister, such as increasing the tax exemption slabs for individuals and the recommendations of the Sixth Pay Commission (40% increase in basic salary relative to July 2007 level) are positives for the sector as these moves will increase the disposable incomes in the hands of the consumers, thereby increasing the demand potential for automobiles.

Segmental outlook

While auto volumes during the period April 2007 - February 2008 have declined by 2.9%, indications of a revival in volumes are now stronger (delay of a quarter over our previous estimate), especially with interest rates remaining stable.

AUTO VOLUMES SNAPSHOT FOR APR-FEB FY08 YTD

	FY08	FY07	% GR.
Domestic sales			
Motorcycles	5,261,457	6,040,071	(12.9)
Two wheelers	6,617,445	7,238,743	(8.6)
Three wheelers	335,049	369,009	(9.2)
Passenger cars	1,166,752	1,036,867	12.5
UVs	214,778	193,120	11.2
M&HCV	237,278	246,795	(3.9)
LCV	193,277	171,689	12.6
Total	8,764,579	9,256,223	(5.3)
Export sales			
Motorcycles	704,157	497,643	41.5
Two wheelers	744,595	567,681	31.2
Three wheelers	130,666	134,024	(2.5)
Passenger cars	187,567	176,123	6.5
UVs	5,632	4,074	38.2
M&HCV	19,105	16,456	16.1
LCV	32,538	27,106	20.0
Total	1,120,103	925,464	21.0
Total sales			
Motorcycles	5,965,614	6,537,714	(8.8)
Two wheelers	7,362,040	7,806,424	(5.7)
Three wheelers	465,715	503,033	(7.4)
Passenger cars	1,354,319	1,212,990	11.7
UVs	220,410	197,194	11.8
M&HCV	256,383	263,251	(2.6)
LCV	225,815	198,795	13.6
Total	9,884,682	10,181,687	(2.9)

Source: SIAM

Volume growth had weakened in 1HFY08, particularly in M&HCVs and two-wheelers, on short-term concerns like higher interest rates, tighter financing norms, and the higher base of the previous year. With interest rates remaining stable for two-wheelers and softening in segments like CVs, coupled with discounts offered for two-wheelers and passenger vehicles in the festival season and towards the year-end, the volume outlook for CVs in particular has turned positive.

We expect sector revenues to grow 6.5% YoY in 4QFY08. However, margin pressures, particularly for four-wheeler companies, would lead to sector EBITDA margins declining 20bp QoQ (an increase of 40bp YoY) to 12.4%.

SECTOR EBITDA MARGIN (%)

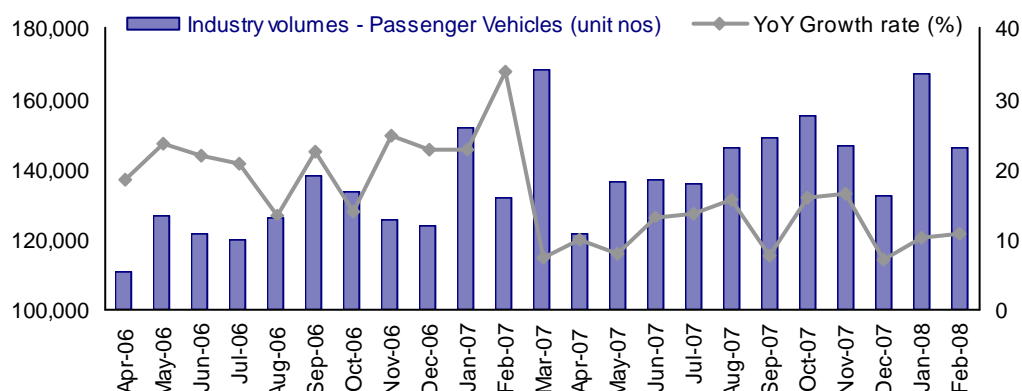
	4QFY08	4QFY07	3QFY08
Four wheeler companies	11.7	11.8	11.9
Two wheeler companies	12.5	10.4	12.4
Auto Component companies	19.8	20.3	20.0
Auto sector	12.4	12.0	12.6

Source: Industry/Motilal Oswal Securities

✎ **Passenger vehicles: expect double-digit volume growth**

We expect passenger vehicle volumes to be boosted by higher domestic demand, in turn driven by a growing number of high and middle income households, increasing urbanization, and steady introduction of new products. The plan to develop India into a regional automotive hub would lead to higher exports. To meet the anticipated demand, most OEMs have put in place aggressive capex plans.

INDUSTRY SALES AND GROWTH RATE FOR PASSENGER VEHICLES



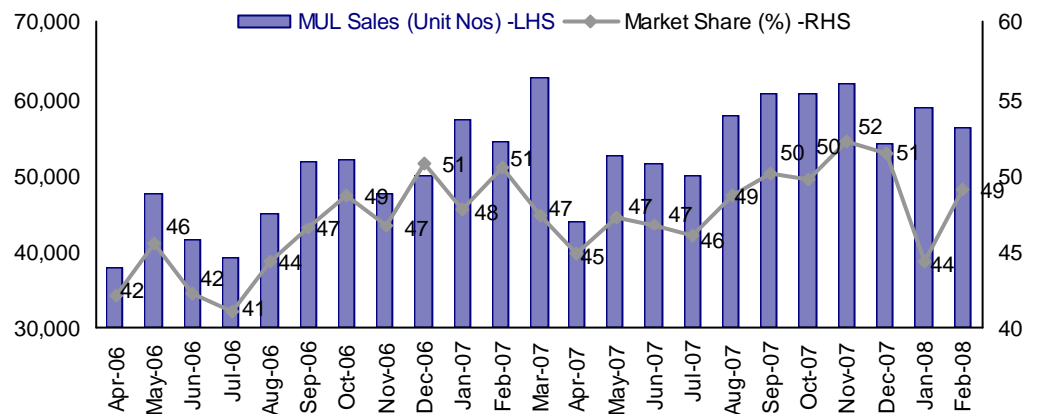
Source: Industry

We remain extremely positive on Maruti Suzuki's growth prospects. We estimate 15% CAGR in Maruti's volumes over FY07-10; aggressive model launches could result in positive surprises both in the domestic and export markets. Its successful entry into the diesel segment with the launch of *Swift* diesel, the replacement of *Baleno* with the new-age *SX4*, and the impending launches of *DZire* (*Esteem* replacement), and *Splash* and *A-Star* in the A2 segment would help Maruti to maintain its dominance in the passenger cars segment and outpace industry growth.

Over the years, Maruti has complemented its strong volume growth with robust EBITDA margins; this has been achieved even in the wake of rising input prices and occasional discounts being offered to boost volumes. The steady improvement in EBITDA margins has been achieved by the success of productivity improvement and cost reduction programs over the years. While increasing quantum of exports and higher input costs would result in

lower EBITDA margins, we expect the company to register 17% CAGR in profitability over FY07-10.

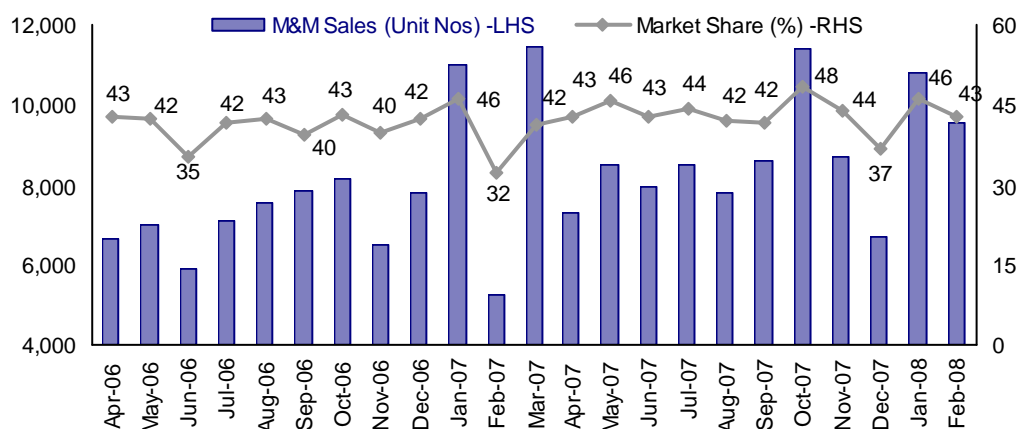
MARKET SHARE OF MARUTI IN PASSENGER CARS



Source: Company/Motilal Oswal Securities

Our other preferred play in the passenger vehicles segment is Mahindra & Mahindra, which has a strong presence in utility vehicles and tractors. Though new entrants have dented its market share in both the segments, the rapidly increasing market size has enabled fast growth in the company's UV sales. M&M's subsidiary and associate companies like M&M Financial Services, Mahindra Gesco, Tech Mahindra, Mahindra Systech, etc. also add substantially to its valuations and consolidated revenues. The expected listing of Mahindra Holidays will add further to M&M's valuations.

MARKET SHARE OF M&M IN UTILITY VEHICLES



Source: Company/Motilal Oswal Securities

Recent developments

- ✎ Tata Motors has acquired the luxury brands of Jaguar and Land Rover from Ford UK. The formalities of the acquisitions will be completed in 1QFY09.
- ✎ M&M has announced the IPO of its subsidiary, Mahindra Holidays and Resorts India. The company is offering 10.7m equity shares and has concluded a pre-IPO sale of 2.5m shares in January 2008. The proceeds of the issue would be used to finance expansion of some of its existing resorts and to set up new projects. This move would result in further value unlocking for M&M and add to its valuations.
- ✎ Maruti is investing heavily in its facilities; it will invest a further Rs90b in India over the next 8 years (previously it had set aside a corpus of Rs90b to increase its production capacities). The additional outlay will be utilized to set up R&D facilities, a design facility, regional distribution centers, and logistics support. The company had earlier announced plans to put up an R&D facility with an investment of Rs1.75-3.5b over the next 3-5 years.
- ✎ M&M's board has approved the amalgamation of Mahindra Holdings & Finance (100% subsidiary) into M&M; the merger would be effective from 1 February 2008. All of its assets and liabilities will be transferred to and recorded by M&M at book value. The scheme of amalgamation will be implemented subject to approval of shareholders and other regulatory approvals.

THE SCHEME FOR AMALGAMATION IS AS UNDER

	NO. OF SHARES
Existing equity share capital of MHFL	146.6m
Shares of MHFL transferred to a Trust	51.3m
Balance equity shares of MHFL to be extinguished	95.3m
No. of shares of M&M to be issued to the Trust in the 1:4 swap ratio	12.8m
Further dilution to existing equity capital of M&M (%)	5

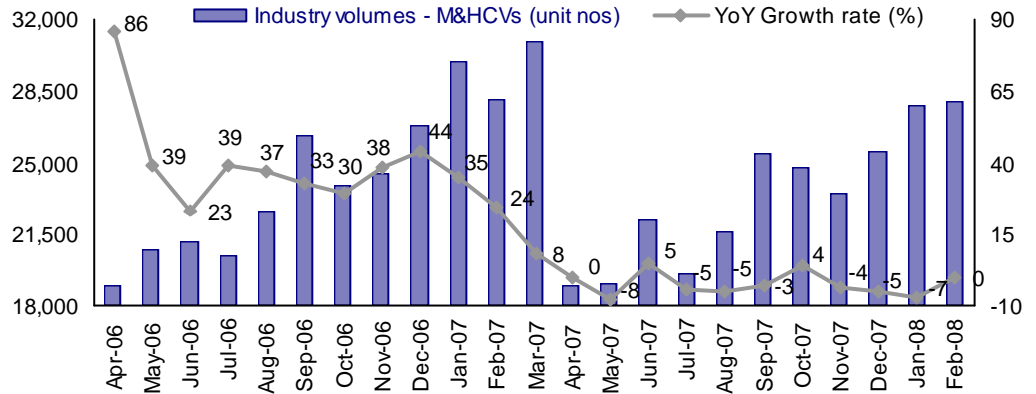
Source: Company/Motilal Oswal Securities

✎ CV industry: demand slackens

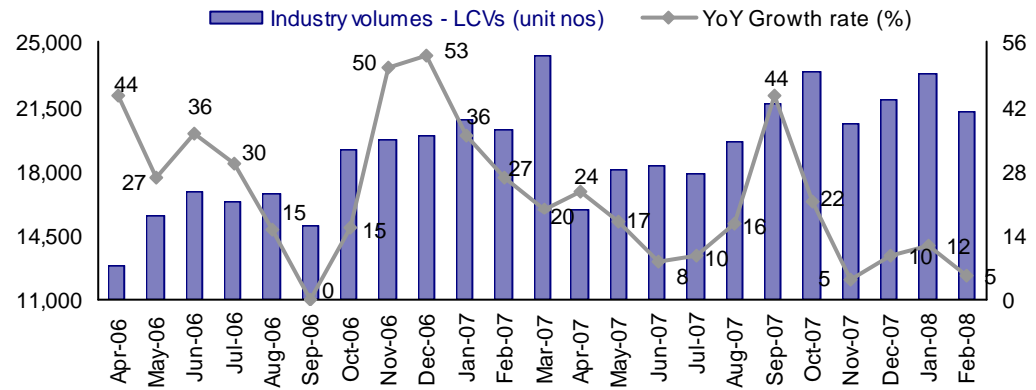
The M&HCV industry growth has slackened during April 2007 - February 2008 on two main counts – the high base of the previous year and increase in cost of ownership of a vehicle owing to higher interest rates on financing in 1HFY08. With the interest rate on CV loans declining, the scenario has improved partially in 4QFY08. We expect a further improvement in FY09. LCVs have maintained robust growth even in FY08, driven by the success of the *Ace*.

We have a positive long-term view on the CV sector. Our view is based on structural and fundamental positives such as: strong growth in economy/industry, policy focus on infrastructure, infrastructure development, steady vehicle replacement demand, expectation of an increase in the demand for buses from STUs and private operators, substitution of three-wheelers by sub-one tonners (both in passenger and goods segments), tonnage redistribution demand (due to hub-and-spoke, restriction on entry of M&HCVs in cities, rising penetration of consumer goods), under-achievement of overloading ban, and continued strong growth in industrial production.

INDUSTRY SALES AND GROWTH RATE FOR M&HCVS



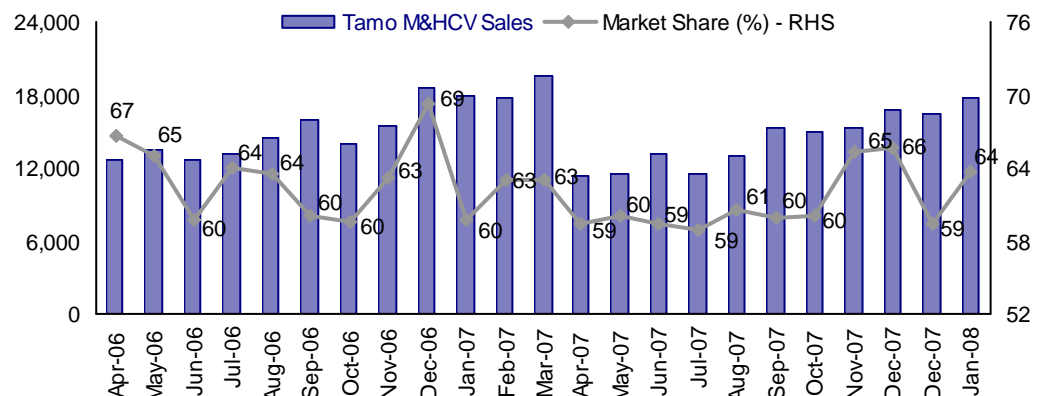
INDUSTRY SALES AND GROWTH RATE FOR LCVS



Source: Company/Motilal Oswal Securities

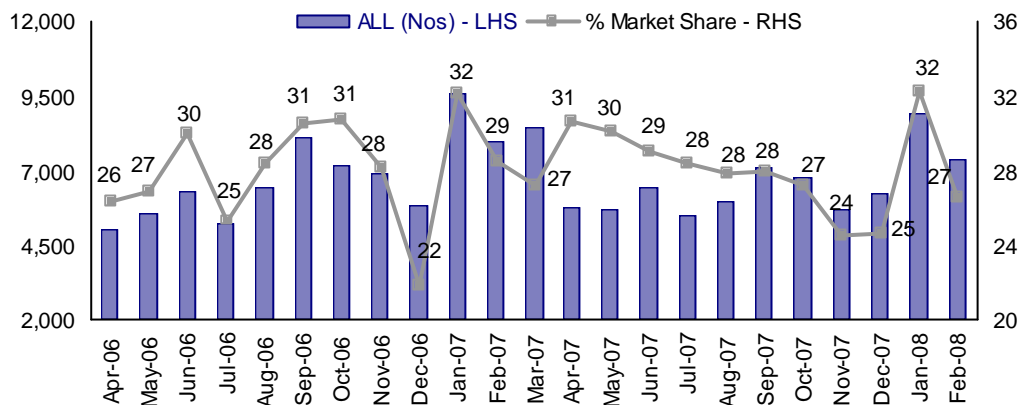
Our top pick in the sector is Tata Motors, while we also have a Buy rating on Ashok Leyland. Apart from the expected revival in M&HCV sales, Tata Motors would also benefit from its various overseas JVs such as those with Marco Polo and Thonburi, in addition to its tie up with Fiat. Subsidiaries like Telco Construction Equipment and Tata Daewoo Commercial Vehicles would continue to add further value to the stock.

MARKET SHARE OF TATA MOTORS IN M&HCVS



Source: Company/Motilal Oswal Securities

MARKET SHARE OF ASHOK LEYLAND IN M&HCVS



Source: Company/Motilal Oswal Securities

Recent developments

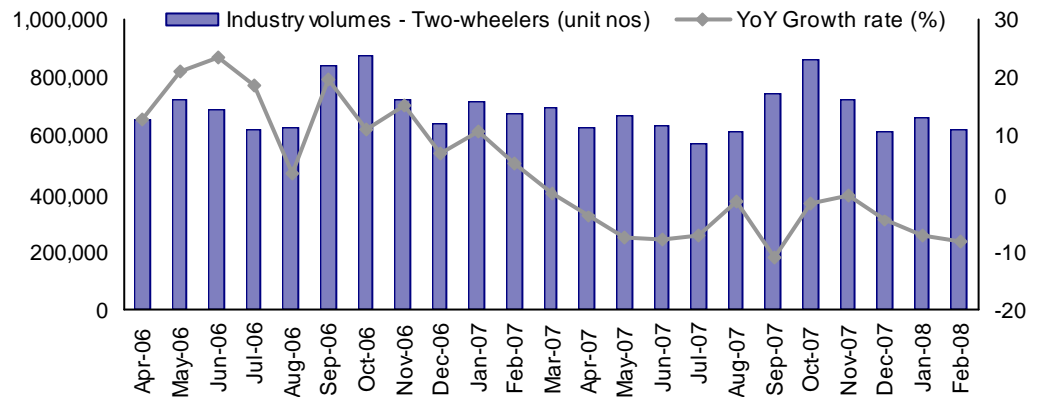
Eicher Motors has signed a letter of intent (LoI) with M/s AB Volvo, Gothenburg, Sweden, for the formation of a joint venture company for the CV and component business. Under this JV, Eicher Motors will transfer its CV business along with its related component and design services business to the new step-down unlisted subsidiary company at an EV of US\$506m (equity: US\$418m, debt: US\$88m). Volvo will invest US\$275m in cash and its Indian truck and dealer network worth US\$75m in the JV. Additionally, Volvo is also buying 8.1% stake in Eicher Motors from the promoters. The newly formed JV will be a 54.4% subsidiary of Eicher Motors; Volvo would hold the remaining stake. Volvo's economic interest in the JV would be 50% on account of its 8.1% stake in Eicher Motors.

The JV would have exclusive distribution rights in India for all present and future trucks of Volvo. However, as the CV manufacturing business of Volvo is not part of the JV, it will earn only marketing margins on the sale of Volvo branded trucks. The JV would also be able to avail of the 140 dealer network of Eicher Motors and its other service and spare part supply network. The LoI is non-binding in nature and negotiations for final definitive agreements have to be initiated. The transaction is expected to be completed by mid-2008. We believe that this is a positive step for Eicher Motors, as it will give access to sophisticated technology from Volvo, the image of a global brand, as well as further investment from Volvo in developing the business.

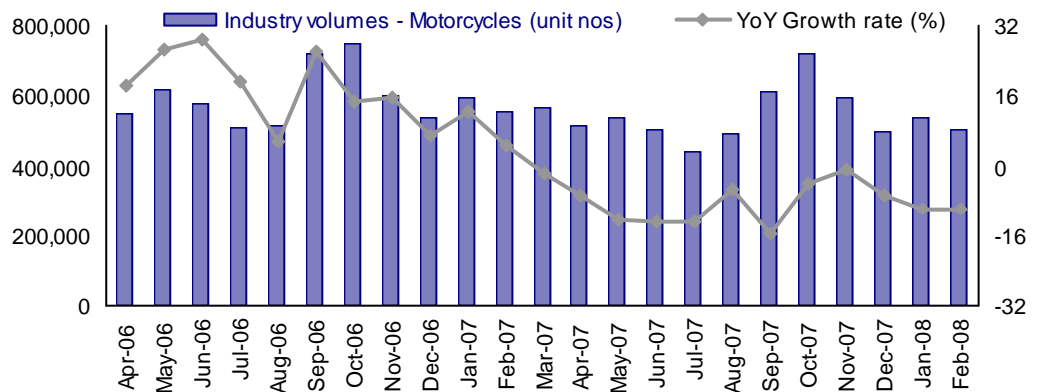
✎ Two-wheelers: burdened by historical success

The motorcycle segment has lost momentum in 2007 due to rising interest cost, tighter financing norms, and high base effect of the previous year. Over April 2007 - February 2008, motorcycle sales (for the industry) have declined 9%, with the three majors – Hero Honda, Bajaj Auto and TVSMotor registering volume declines of 1.8%, 10.2% and 34.7%, respectively. Sustained new launches planned by most auto majors would help boost flagging sales. Favorable policy decisions like lower excise duty, lower tax rates for individuals and salary hikes proposed by the Sixth Pay Commission would also have a positive impact.

INDUSTRY SALES AND GROWTH RATE FOR TWO-WHEELERS



INDUSTRY SALES AND GROWTH RATE FOR MOTORCYCLES



Source: Company/Motilal Oswal Securities

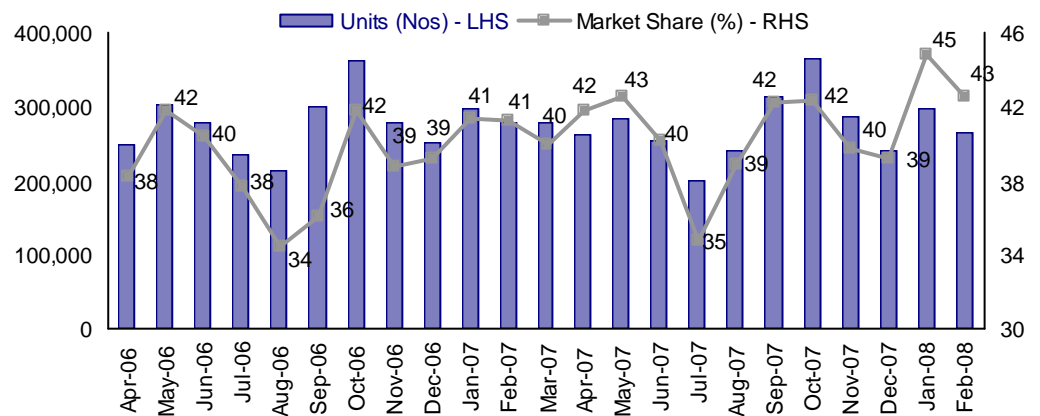
We expect the two-wheeler industry to witness a turnaround in fortunes, driven by better operating performance and an improvement in the demand scenario. The inherent structural factors driving domestic two-wheeler demand are in place. Coupled with new plants in tax-exempt regions becoming operational, we expect this phase of volume growth to lead to improved profitability for the industry leaders – Hero Honda and Bajaj Auto.

A buoyant economy and rising income levels coupled with rising aspirations have increased the size of the target audience for two-wheelers. Poor public transportation necessitates the ownership of personal vehicles, and two-wheelers are both affordable and practical. Besides, a large base of aging two-wheelers and increasing desire to replace scooters/mopeds with motorcycles (or to replace old motorcycles with new versions) is driving replacement demand.

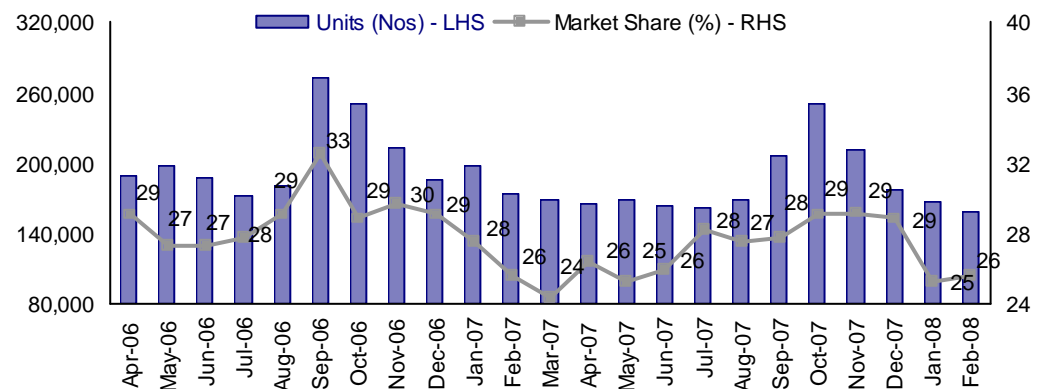
Exports also represent a big growth opportunity for the large two-wheeler manufacturers. Being truly global-sized players, with products comparable with their Japanese counterparts both in terms of price and quality, the top three players are well positioned to capitalize on the opportunity. For Bajaj Auto, exports already constitute 22% of its two-wheeler volumes and TVS Motor exports 9.5% of its volumes.

Apart from strong volume growth, we believe that the two-wheeler companies would be able to sustain better EBITDA margins, which would be driven by lower raw-material costs, and improvements in product mix. We expect earnings growth to remain strong in 2HFY08 and FY09.

HERO HONDA: TWO-WHEELER MARKET SHARE

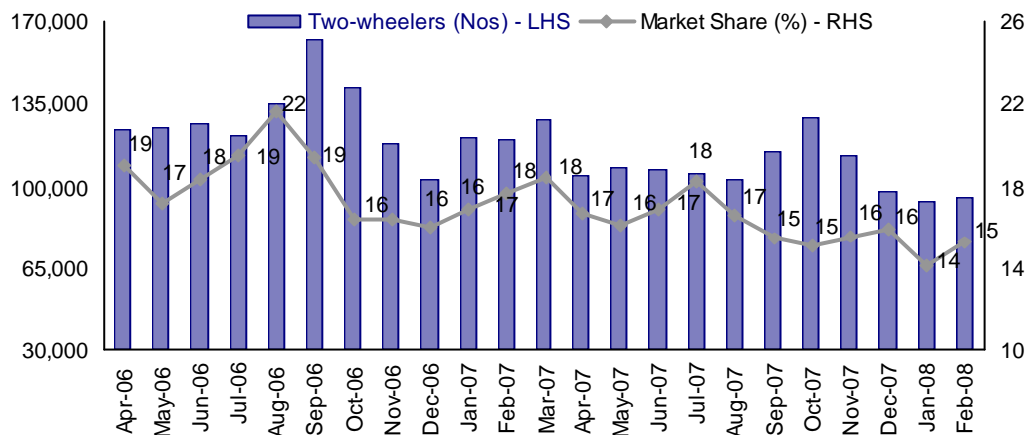


BAJAJ AUTO: TWO-WHEELER MARKET SHARE



Source: Company/Motilal Oswal Securities

TVS MOTOR: TWO-WHEELER MARKET SHARE



Source: Company/Motilal Oswal Securities

Recent developments

Bajaj Auto's demerger process has commenced; the holding company – Bajaj Holdings and Investments has been listed. Bajaj Auto and Bajaj Finserv are expected to be listed by April-end.

Valuation and view

After witnessing a rapid surge in auto volumes in FY07 across all segments, the volume growth turned sluggish in the first half of FY08. However, we now see signs of a turnaround in FY09. Growth has been lower on two main counts – the high base of the previous year, and more importantly, higher interest rates on financing, which led to a significant increase in the cost of ownership of a vehicle. Further, stringent financing norms for segments such as two-wheelers and tractors led to lower availability of credit as well, leading to these segments underperforming the auto industry. With interest rates softening in segments like CVs, and remaining stable for two-wheelers, the outlook for CVs in particular is turning positive.

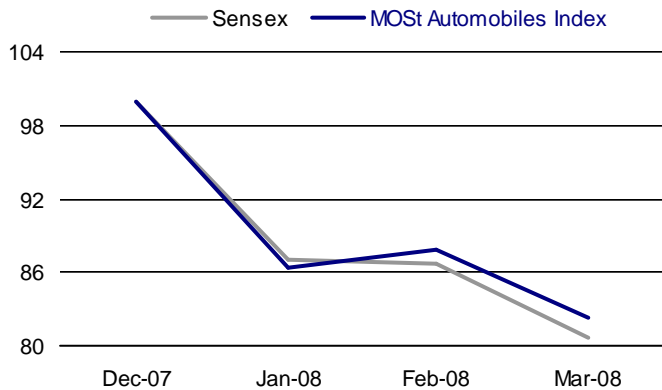
Valuations continue to be comfortable. We reiterate our Overweight stance on the auto sector. Our top picks, Maruti Udyog, M&M, Bajaj Auto and Tata Motors are dominant players in highly consolidated segments, where the top-two players command more than 50% market share.

Stock performance and valuations

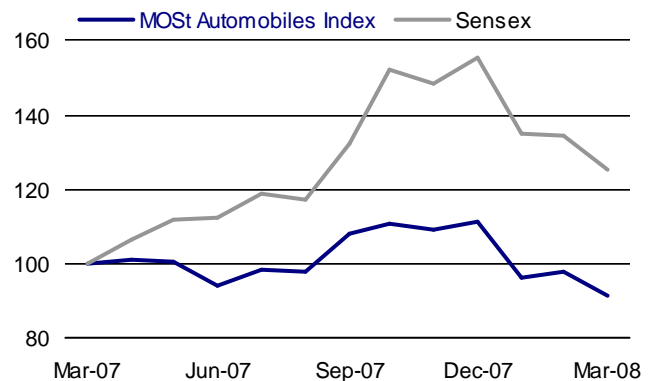
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Automobiles						
Amtek Auto	-39	-29	-20	-56	-22	-22
Ashok Leyland	-31	-11	-12	-39	-15	-4
Bajaj Auto	-20	-16	-1	-43	-4	-8
Bharat Forge	-21	-11	-2	-38	-4	-3
Eicher Motors	-41	-4	-22	-31	-24	3
Hero Honda	0	7	19	-20	17	14
Mahindra & Mahindra	-17	-9	2	-36	0	-2
Maruti Suzuki	-15	5	4	-22	2	12
Swaraj Mazda	-3	-8	16	-35	14	0
Tata Motors	-12	-10	7	-37	5	-3
TVS Motor	-50	-42	-31	-69	-33	-34

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.03.08													
Automobiles														
Amtek Auto	260	Buy	28.1	33.9	39.0	9.3	7.7	6.7	6.7	5.7	4.7	17.4	17.4	16.6
Ashok Leyland	34	Buy	3.0	3.4	3.9	11.4	10.0	8.8	6.7	5.9	5.2	21.3	19.9	20.6
Bajaj Auto	2,080	Buy	127.6	143.8	160.8	16.3	14.5	12.9	11.5	9.6	7.7	20.3	19.8	19.1
Bharat Forge	281	Buy	11.3	15.3	17.9	24.9	18.3	15.7	14.0	11.0	9.0	17.1	16.8	17.0
Eicher Motors	241	UR*	23.0	25.1	28.6	10.5	9.6	8.4	4.6	3.8	3.0	14.8	15.9	13.9
Hero Honda	701	Buy	46.2	50.5	55.6	15.2	13.9	12.6	9.3	8.2	7.0	33.8	30.8	26.7
Mahindra & Mahindra	691	Buy	62.8	72.9	85.0	11.0	9.5	8.1	11.8	10.4	8.8	20.7	19.0	18.6
Maruti Suzuki	836	Buy	66.4	73.1	85.6	12.6	11.4	9.8	6.9	5.9	4.9	22.2	20.0	19.2
Swaraj Mazda	316	Neutral	22.6	25.7	28.6	14.0	12.3	11.1	8.5	7.6	6.8	25.8	24.4	22.7
Tata Motors	646	Buy	51.9	56.6	67.4	12.4	11.4	9.6	9.4	8.6	7.2	20.5	19.3	20.2
TVS Motor	36	Neutral	0.6	2.3	2.7	59.3	15.9	13.6	15.2	8.1	7.0	2.0	7.2	7.3
Sector Aggregate						15.4	13.9	12.1	9.1	7.9	6.6	20.7	19.7	19.5

*Under Review

Amtek Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	AMTK IN
	REUTERS CODE
S&P CNX: 4,942	AMTK.BO

28 March 2008

Buy

Rs260

Previous Recommendation: Buy

Diluted Equity Sh. (m)	162.6
52-Week Range	526/228
1,6,12 Rel. Perf. (%)	-5/-22/-56
M.Cap. (Rs b)	42.3
M.Cap. (US\$ b)	1.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
06/07A	39,898	3,909	24.0	55.7	10.8	1.6	18.1	16.0	1.4	7.9
06/08E	48,567	4,564	28.1	16.8	9.3	1.3	17.4	17.1	1.2	6.7
06/09E	57,064	5,520	33.9	21.0	7.7	1.3	17.4	18.7	1.0	5.7
06/10E	64,731	6,344	39.0	14.9	6.7	1.1	16.6	19.3	0.8	4.7

- ✎ We expect Amtek Auto's consolidated revenues to grow 20% YoY to Rs13b in 3QFY08, while consolidated adjusted PAT should grow 12.5% YoY to Rs1.2b.
- ✎ EBITDA margin is likely to expand 10bp QoQ, but decline 50bp YoY to 17.9%, EBITDA should increase 16.4% YoY to Rs3b.
- ✎ We expect Amtek Auto to report net sales of Rs48.6b in FY08 (up 21.7%), and an adjusted PAT of Rs4.6b (up 16.8%).
- ✎ Amtek Auto has entered into a MoU to set up a 50-50 JV with American Railcar Industries, a North American leader in railcar manufacturing. This MoU is part of Amtek Auto's strategy to diversify into transportation systems – railways, aerospace, and surface transportation.
- ✎ Amtek Auto plans to raise further equity by way of preferential issue of 7m equity shares and 15m warrants at Rs460/share. It intends to raise Rs10.1b through this issue. The proceeds of the issue would be utilized for further acquisitions and transfer of assets from abroad to facilitate capex at plants in India.
- ✎ Amtek Auto is the only player in India with strong presence in both forgings and castings along with machining capacity to supply finished components to global OEMs. On a fully consolidated basis, valuations of Amtek Auto are the cheapest in the auto component space. The stock trades at 9.3x FY08E consolidated EPS of Rs28.1 and 7.7x FY09E consolidated EPS of Rs33.9. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	8,877	9,667	10,805	10,549	11,047	11,686	12,966	12,868	39,898	48,567
Change (%)	46.5	39.7	45.6	44.1	24.4	20.9	20.0	22.0	43.9	21.7
Total Cost	7,275	7,890	8,812	8,715	9,103	9,602	10,645	10,548	32,692	39,898
EBITDA	1,602	1,777	1,994	1,834	1,944	2,084	2,321	2,320	7,206	8,669
As % of Sales	18.0	18.4	18.4	17.4	17.6	17.8	17.9	18.0	18.1	17.9
Change (%)	53.0	42.8	48.4	43.6	21.4	17.3	16.4	26.5	46.7	20.3
Other Income	151	178	203	366	319	298	250	212	898	1,078
Interest	171	199	211	251	228	257	225	212	832	922
Depreciation	330	339	368	421	460	509	515	526	1,457	2,010
PBT	1,252	1,417	1,618	1,527	1,575	1,616	1,831	1,793	5,815	6,815
Tax	293	343	409	441	412	430	476	454	1,486	1,772
Effective Tax Rate (%)	23.4	24.2	25.3	28.9	26.2	26.6	26.0	25.3	25.6	26.0
PAT	959	1,074	1,209	1,086	1,163	1,187	1,355	1,339	4,328	5,043
Minority Interest	87	103	125	105	102	121	135	121	419	479
PAT after minority interest	872	971	1,085	981	1,061	1,066	1,220	1,217	3,909	4,564
Change (%)	59.8	55.7	55.4	52.5	21.7	9.7	12.5	24.0	55.7	16.8

E: MOST Estimates

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Ashok Leyland

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	AL IN
	REUTERS CODE
S&P CNX: 4,942	ASOK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs34

Equity Shares (m)	1,331.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	58/26	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	4/-19/-39	3/07A	71,682	4,276	3.2	41.4	10.7	2.4	23.3	22.8	0.6	6.5
M.Cap. (Rs b)	45.9	3/08E	76,368	3,969	3.0	-7.2	11.6	2.2	21.1	16.3	0.7	6.7
M.Cap. (US\$ b)	1.1	3/09E	88,332	4,570	3.4	15.1	10.0	2.0	19.9	17.7	0.6	5.9
		3/10E	99,845	5,187	3.9	13.5	8.8	1.8	20.6	18.8	0.5	5.2

- ✎ We estimate a marginal volume growth of 0.6% YoY in 4QFY08. However, sales would grow 7.8% YoY to Rs24.7b, buoyed by shift in product mix towards higher tonnage vehicles and increased spare part sales.
- ✎ Volume growth in the CV goods segment has slowed in FY08 partly due to a high base and partly due to higher interest rates adversely impacting demand. We expect M&HCV sales to decline 3% in FY08 – while the goods segment would decline 7%, the passenger segment would witness a robust 23% growth, following strong demand from STUs.
- ✎ In 4QFY08, we expect EBITDA margin to expand 130bp QoQ, but decline 60bp YoY, resulting in an EBITDA of Rs2.65b (increase of 2.1% YoY).
- ✎ We expect the company to register overall volume growth of 10% in FY09 and 9% in FY10. Its focus on non-cyclical businesses such as passenger buses, spare parts, defense supplies and exports would cushion domestic business cyclicality in the long-term. It has entered into an initial agreement to form three joint ventures with Nissan Motor for the development, manufacture and distribution of LCV products. This partnership is a positive development for Ashok Leyland, as it has near-zero presence in the LCV space.
- ✎ The stock trades at 11.6x FY08E EPS of Rs3 and 10x FY09E EPS of Rs3.4. We maintain our **Buy** recommendation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	17,040	19,869	20,068	26,124	18,163	18,870	18,965	26,272	83,101	82,270
Net Sales	14,239	16,757	17,776	22,910	16,211	17,459	18,001	24,697	71,682	76,368
Change (%)	33.9	34.0	47.8	32.3	13.9	4.2	1.3	7.8	36.6	6.5
Total Cost	13,026	15,437	15,907	20,314	14,665	15,820	16,313	22,047	64,685	68,845
EBITDA	1,213	1,320	1,869	2,596	1,546	1,639	1,688	2,650	6,997	7,522
As a % of Sales	8.5	7.9	10.5	11.3	9.5	9.4	9.4	10.7	9.8	9.8
Change (%)	41.4	10.3	61.0	20.6	27.5	24.1	-9.7	2.1	30.3	7.5
Non-Operating Income	139	99	64	169	76	111	107	176	470	470
Interest	5	4	26	19	128	126	152	124	53	531
Depreciation	328	365	332	481	413	466	408	502	1,506	1,789
PBT	1,019	1,050	1,574	2,264	1,081	1,158	1,234	2,200	5,908	5,672
Tax	262	334	463	573	361	374	316	652	1,632	1,703
Effective Tax Rate (%)	25.7	31.8	29.4	25.3	33.4	32.3	25.6	29.6	27.6	30.0
Adj. PAT (before extraordinary)	756	716	1,112	1,692	720	784	918	1,548	4,276	3,969
Change (%)	126.1	-10.7	96.5	28.0	-4.8	9.4	-17.4	-8.5	41.4	-7.2
Extraordinary Income	0	268	0	54	197	46	330	0	322	573
Extraordinary Loss	65	31	59	30	35	27	46	0	185	107
Rep. PAT	692	954	1,053	1,715	882	803	1,202	1,548	4,413	4,435
Change (%)	7.5	27.1	93.1	28.5	27.5	-15.8	14.2	-9.7	34.8	0.5

E: MOST Estimates

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Bajaj Auto

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BJA IN
	REUTERS CODE
S&P CNX: 4,942	BJAT.BO
Equity Shares (m)	101.2
52-Week Range (Rs)	2,880/1,735
1,6,12 Rel.Perf.(%)	2/-13/-43
M.Cap. (Rs b)	210.4
M.Cap. (US\$ b)	5.3

28 March 2008

Buy

Rs2,080

Previous Recommendation: Buy

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	95,204	12,869	127.2	14.6	16.4	3.8	23.3	24.6	1.7	11.4
3/08E	93,604	12,915	127.6	0.4	16.3	3.3	20.3	22.2	1.7	11.5
3/09E	107,654	14,555	143.8	12.7	14.5	2.9	19.8	21.5	1.4	9.6
3/10E	119,810	16,269	160.8	11.8	12.9	2.5	19.1	21.3	1.1	7.7

Stock price mentioned above is the last closing price before demerger

- ✎ We expect total volumes to decline 2.7% YoY in 4QFY08, marking a 7.8% volume decline in FY08. In 4Q, motorcycle volumes are expected to decrease 1.2% YoY, while three-wheeler volumes are expected to decline 9% YoY.
- ✎ We expect sales to grow 3.2% YoY to Rs23.9b. EBITDA margin is likely to increase 60bp YoY and 20bp QoQ to 14.7%. The YoY improvement in the EBITDA margin would be aided by shifting of production from the high cost Akurdi plant in FY08 and commencement of operations at the tax-exempt modern Uttaranchal plant.
- ✎ There was a one-time cost of Rs280m on compensation given to dealers following the Rs4,000 price reduction on the *Platina* in 3QFY08, which is unlikely to be repeated in 4QFY08. This would contribute to the 20bp QoQ EBITDA margin improvement.
- ✎ We estimate EBITDA at Rs3.5b (increase of 7.6% YoY) and adj. PAT at Rs3.55b (increase of 15.2% YoY). We expect the core business PAT to grow 5.5% YoY to Rs2.1b.
- ✎ The demerger process is underway – Bajaj Holdings and Investments is already listed, and the listing of Bajaj Auto and Bajaj Finserv in April 2008 would complete the value unlocking process. The stock trades at 16.3x FY08E pre-demerger EPS of Rs127.6 and 14.5x FY09E EPS of Rs143.8. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	647,086	708,125	738,219	625,346	571,590	614,093	713,443	608,467	2,718,776	2,507,593
Net Sales	22,027	24,360	25,682	23,136	21,091	23,623	25,017	23,873	95,204	93,604
Change (%)	34.8	30.5	28.4	6.8	-4.2	-3.0	-2.6	3.2	24.2	-1.7
Total Cost	18,408	20,708	22,046	19,873	18,338	19,838	21,380	20,363	81,034	79,918
EBITDA	3,619	3,652	3,636	3,263	2,754	3,785	3,637	3,510	14,170	13,686
As % of Sales	16.4	15.0	14.2	14.1	13.1	16.0	14.5	14.7	14.9	14.6
Change (%)	40.5	15.7	1.5	-23.2	-23.9	3.6	0.0	7.6	4.5	-3.4
Other Income	946	1,424	1,609	1,577	1,027	1,472	1,787	1,874	5,556	6,159
Interest	7	20	2	24	1	14	19	23	53	56
Depreciation	481	492	472	458	490	487	493	502	1,903	1,973
PBT	4,076	4,564	4,771	4,358	3,290	4,757	4,911	4,859	17,770	17,816
Tax	1,300	1,250	1,200	1,151	1,025	1,315	1,254	1,307	4,901	4,902
Effective Tax Rate (%)	31.9	27.4	25.2	26.4	31.2	27.6	25.5	26.9	27.6	27.5
Adj. PAT	2,776	3,314	3,571	3,208	2,265	3,442	3,656	3,552	12,869	12,915
Change (%)	32.8	14.0	22.8	-3.9	-18.4	3.8	2.4	10.7	14.5	0.4
Extraordinary Expenses	116	139	123	125	-	77	388	-	498	466
PAT	2,660	3,176	3,452	3,083	2,265	3,364	3,268	3,552	12,371	12,449
Change (%)	27.3	9.2	23.3	-4.2	-14.9	5.9	-5.3	15.2	12.3	0.6
Adj. PAT less OI (Core Auto)	2,020	2,175	2,284	1,946	1,443	2,264	2,227	2,053	8,424	7,987
Change (%)	49.8	19.6	11.0	-22.5	-28.5	4.1	-2.5	5.5	8.9	-5.2

E: MOST Estimates

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Bharat Forge

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BHFC IN
	REUTERS CODE
S&P CNX: 4,942	BFRG.BO

28 March 2008

Buy

Rs281

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	CONS.	P/E	CONS.	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Equity Sh. (m)	237.3										
52-Week Range (Rs)	390/245										
1,6,12 Rel.Perf.(%)	4/4/-38										
M.Cap. (Rs b)	62.5										
M.Cap. (US\$ b)	1.6										
	3/07A	18,644	2,533	10.0	12.0	28.1	23.4	18.2	16.0	3.5	13.7
	3/08E	22,262	2,302	9.1	11.3	30.9	24.9	17.1	15.1	3.1	13.2
	3/09E	26,288	2,967	11.7	15.3	24.0	18.3	16.8	16.4	2.5	10.4
	3/10E	30,306	3,525	13.9	17.9	20.2	15.7	17.0	17.1	2.0	8.5

- ✎ We expect standalone sales to grow 18.1% YoY to Rs6.1b, driven by 16% increase in domestic sales and 21.3% increase in exports. Wider range of products being manufactured and scaling up of European operations would help accelerate sales growth.
- ✎ We expect EBITDA to increase 17.5% YoY to Rs1.5b, with EBITDA margin declining 10bp YoY to 24%. We estimate PAT at Rs675m (increase of 1.6% YoY).
- ✎ On a consolidated basis, we expect the company to register sales growth of 7.1% to Rs11.9b, EBITDA margin of 16.1% and adjusted PAT growth of 4% to Rs848m.
- ✎ Bharat Forge intends to make a preferential issue of convertible warrants to the promoter group, subject to shareholder approval. The company aims to raise Rs3b through this issue, which would be used to fund the ongoing capacity expansion program in the capital goods and non-auto segment.
- ✎ The key growth drivers for the company would be a turnaround in the US CV market (expected in 2QCY08), recovery in the domestic market, beginning of serial production at Baramati in 4QFY09, marking the inflection point in non-auto foray, and the beginning of serial production at Heavy Forge Division, Pune in 1QFY10.
- ✎ We remain positive on Bharat Forge's 'dual shore' model and the management's global vision. We estimate consolidated EPS at Rs11.3 for FY08 and Rs15.3 for FY09. The stock trades at 24.9x FY08E and 18.3x FY09E consolidated EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,206	4,507	4,771	5,161	4,969	5,632	5,567	6,094	18,644	22,262
Change (%)	15.7	19.7	19.5	17.7	18.1	25.0	16.7	18.1	18.2	19.4
Total Expenses	3,132	3,330	3,532	3,917	3,956	4,249	4,204	4,632	13,912	17,041
EBITDA	1,073	1,177	1,239	1,243	1,012	1,383	1,364	1,461	4,732	5,220
As % of Sales	25.5	26.1	26.0	24.1	20.4	24.6	24.5	24.0	25.4	23.5
Change (%)	23.3	21.1	25.6	18.1	-5.7	17.5	10.1	17.5	21.9	10.3
Other Income	233	192	162	222	200	144	179	225	809	748
Interest	176	197	215	234	234	273	294	301	821	1,102
Depreciation	229	250	253	267	329	351	353	370	998	1,404
Extraordinary Expenses	101	0	0	22	0	0	23	0	124	23
Extraordinary Income	0	0	0	0	333	109	0	0	0	442
PBT	800	922	933	943	983	1,012	872	1,015	3,598	3,881
Tax	285	301	303	300	335	334	290	339	1,189	1,298
Effective Tax Rate (%)	35.6	32.6	32.5	31.8	34.1	33.0	33.3	33.4	33.0	33.5
PAT	515	622	630	643	648	677	582	675	2,409	2,583
Adj. PAT	616	622	630	665	425	605	597	675	2,533	2,302
Change (%)	29.9	20.1	18.2	25.5	-31.0	-2.8	-5.1	1.6	23.3	-9.1

E: MOST Estimates

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Eicher Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	EIM IN
	REUTERS CODE
S&P CNX: 4,942	EICH.BO

28 March 2008

Under Review

Previous Recommendation: Neutral

Rs241

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	28.1										
52-Week Range (Rs)	599/222										
1,6,12 Rel. Perf. (%)	-6/-37/-31										
M.Cap. (Rs b)	6.8										
M.Cap. (US\$ b)	0.2										
	3/07A	19,525	613	21.8	21.5	11.0	1.6	14.8	15.6	0.3	4.8
	3/08E	22,145	645	23.0	5.3	10.5	1.5	14.0	15.5	0.3	4.6
	3/09E	24,868	706	25.1	9.5	9.6	1.3	13.7	15.5	0.2	3.8
	3/10E	27,440	804	28.6	13.8	8.4	1.2	13.9	16.0	0.2	3.0

- ✍ We expect Eicher Motors' CV volumes to grow 5.1% YoY in 4QFY08 and 9% in FY08, led by the passenger and LCV goods segments, and its foray into tractor trailers. Its two-wheeler volumes have also been seeing robust growth, defying the general industry trend (16.9% YoY growth in 4QFY08).
- ✍ We estimate sales of Rs6.7b, EBITDA of Rs381m and PAT of Rs209m for the quarter. For FY08, we expect sales of Rs22.1b and PAT of Rs645m (5.3% growth).
- ✍ Eicher Motors has signed a letter of intent (LoI) with AB Volvo, to transfer its CV, component, and design services businesses to a separate JV, which would be a 54.4% subsidiary of the company. Volvo would be contributing US\$275m in cash and its distribution network worth US\$75m to this JV, while also taking 8.1% stake in Eicher Motors. Due to their strengths in different segments of the CV industry, this JV will help the two companies to offer a more complete product range, and help them to penetrate the domestic CV market better.
- ✍ While Eicher Motors is currently a small player in the CV industry, facing margin pressures, benefits of the JV would be visible over the long-term, enabling the company to increase its presence in M&HCVs, particularly at the expense of other fringe players. We are currently reviewing our recommendation on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	3,831	4,565	4,938	6,191	4,644	5,369	5,478	6,655	19,525	22,145
Change (%)	-1.2	29.3	26.6	20.3	21.2	17.6	10.9	7.5	18.7	13.4
Total Expenses	3,649	4,301	4,612	5,807	4,381	5,064	5,176	6,273	18,369	20,893
EBITDA	183	263	326	384	263	306	302	381	1,156	1,252
As a % of Sales	4.8	5.8	6.6	6.2	5.7	5.7	5.5	5.7	5.9	5.7
Non-Operating Income	73	73	52	70	53	83	63	78	267	277
Interest	34	31	32	41	53	50	38	49	138	190
Gross Profit	221	305	346	413	263	338	326	410	1,285	1,338
Less: Depreciation	98	99	102	107	109	109	107	118	405	442
PBT	123	206	244	306	155	230	220	292	879	896
Tax	39	65	66	97	43	63	62	83	267	251
Effective Tax Rate (%)	31.7	31.3	27.0	31.8	28.0	27.3	28.3	28.4	30.3	28.0
PAT	84	142	178	209	111	167	158	209	613	645
Adjusted PAT	84	142	178	209	111	167	158	209	613	645
Change (%)	2,238.9	N.A.	-39.6	-25.5	32.2	17.8	-11.4	0.2	22.0	5.3

E: MOST Estimates

Hero Honda

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HH IN
	REUTERS CODE
S&P CNX: 4,942	HROH.BO

28 March 2008

Buy

Rs701

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	199.7										
52-Week Range	786/561										
1,6,12 Rel. Perf. (%)	2/-1/-20										
M.Cap. (Rs b)	139.9										
M.Cap. (US\$ b)	3.5										
	3/07A	99,000	8,659	43.4	-10.9	16.2	5.7	38.3	48.5	1.2	10.3
	3/08E	103,020	9,230	46.2	6.6	15.2	4.7	33.8	43.7	1.2	9.3
	3/09E	116,309	10,087	50.5	9.3	13.9	3.9	32.1	38.6	1.0	8.2
	3/10E	128,952	11,102	55.6	10.1	12.6	3.4	26.7	34.1	0.8	7.0

- ✍ We expect total volumes to increase by 0.5% YoY (flat QoQ). Volume growth for the two-wheeler industry has been subdued. We expect this to change from 1QFY09 – two-wheeler volumes would be boosted by new launches and lower acquisition cost following the reduction in excise duty rate from 16% to 12%.
- ✍ We expect net sales to grow 4.5% YoY to Rs27.6b, while operating margins are likely to increase 310bp YoY to 13.6%, resulting in an EBITDA of Rs3.8b. The YoY improvement in the margins would be on account of lower ad-spend (4QFY07 and 1QFY08 involved higher expenditure due to the cricket world cup). Other factors expected to contribute to margin improvement are selling of deluxe versions of bikes and lower cost of imported alloy wheels.
- ✍ The company's 150cc bike *Hunk*, which was launched in 3QFY08, has seen good initial response. Its venture into the scooters segment has scaled up rapidly – scooter sales constituted 3.3% of Hero Honda's two-wheeler sales during FY08 (2.8% in FY07).
- ✍ The new 0.5m-unit plant in Uttaranchal has been completed in mid-FY08, with production likely to commence in FY09. This would help Hero Honda to avail tax benefits in FY09.
- ✍ We expect flat volumes in FY08 and 8.6% volume growth in FY09. The stock trades at 15.2x FY08E EPS of Rs46.2 and 13.9x FY09E EPS of Rs50.5. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	832,692	751,967	896,113	855,984	802,853	756,633	893,581	860,549	3,336,756	3,313,616
Net Sales	23,644	22,300	26,661	26,396	24,480	23,521	27,431	27,589	99,000	103,020
Change (%)	19.6	2.9	15.2	17.0	3.5	5.5	2.9	4.5	13.6	4.1
Total Cost	20,454	19,465	23,641	23,629	21,845	20,606	23,605	23,829	87,189	89,885
EBITDA	3,190	2,835	3,019	2,767	2,635	2,915	3,826	3,760	11,810	13,135
As % of Sales	13.5	12.7	11.3	10.5	10.8	12.4	13.9	13.6	11.9	12.8
Change (%)	9.1	-15.0	-20.1	-23.3	-17.4	2.8	26.7	35.9	-13.4	11.2
Other Income	523	595	336	445	389	393	521	409	1,899	1,712
Interest	-33	-65	-55	-77	-90	-101	-87	-65	-230	-342
Depreciation	323	344	376	355	376	384	408	447	1,398	1,615
Extraordinary Expense	0	0	0	80	0	0	0	0	80	0
PBT	3,423	3,151	3,034	2,854	2,737	3,024	4,026	3,787	12,461	13,573
Tax	1,045	991	943	904	839	980	1,276	1,249	3,882	4,343
Effective Tax Rate (%)	30.5	31.5	31.1	31.7	30.6	32.4	31.7	33.0	31.2	32.0
PAT	2,377	2,160	2,092	1,950	1,898	2,043	2,750	2,538	8,579	9,230
Adj. PAT	2,377	2,160	2,092	2,030	1,898	2,043	2,750	2,538	8,659	9,230
Change (%)	16.6	-9.2	-20.1	-24.2	-20.1	-5.4	31.5	25.0	-10.9	6.6

E: MOST Estimates

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Mahindra & Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	MM IN
	REUTERS CODE
S&P CNX: 4,942	MAHM.BO

28 March 2008

Buy

Rs691

Previous Recommendation: Buy

	YEAR	NET SALES	S/A PAT	ADJ.EPS	CONS.	P/E	CONS.	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	EPS (RS)	(X)	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq. Shares (m)	255.9										
52-Week Range	872/543										
1,6,12 Rel.Perf.(%)	10/-3/-36										
M.Cap. (Rs b)	176.9										
M.Cap. (US\$ b)	4.4										
	3/07A	99,874	9,198	35.9	55.1	19.2	12.6	25.9	22.3	1.5	12.1
	3/08E	112,551	9,095	35.5	62.8	19.4	11.0	20.7	19.6	1.2	10.8
	3/09E	125,368	9,449	36.9	72.9	18.7	9.5	19.0	19.3	1.0	9.5
	3/10E	138,400	10,523	41.1	85.0	16.8	8.1	18.6	19.4	0.9	8.0

- ✍ We expect M&M to report overall volume growth of 2.5% YoY in 4QFY08 (excluding Logan), driven by strong growth in UVs (+12.74% YoY). However, three-wheelers and tractors are likely to register volume declines of 19.8% YoY and 5.5% YoY, respectively.
- ✍ Net sales should grow 9.1% YoY to Rs29.9b. We expect margins to decline 10bp to 11.2%, resulting in 8.2% increase in EBITDA to Rs3.4b, and an adjusted PAT of Rs2.4b – a marginal decline of 0.7% YoY.
- ✍ In FY08, we expect M&M to deliver 12.7% total income growth to Rs112.6b, while net profit is expected to decline marginally by 1.1% to Rs9.1b.
- ✍ M&M's board has approved the amalgamation of Mahindra Holdings & Finance (100% subsidiary) into M&M; the merger would be effective from 1 February 2008. M&M would issue 12.8m equity shares to the shareholders of MHFL – the swap ratio would be 1 share of M&M for every 4 shares of MHFL. This would result in a 5% dilution of M&M's existing equity capital.
- ✍ M&M enjoys market leadership in both UVs and tractors. Given the rural bias in its product mix, we expect the company to benefit significantly from the government's thrust on the development of the rural economy. The stock quotes at 11x FY08E and 9.5x FY09E consolidated earnings of Rs62.8 and Rs72.9, respectively. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	62,417	66,649	73,973	77,727	70,915	72,203	79,520	79,707	280,766	302,345
Total Income	22,172	24,501	25,761	27,439	26,128	27,095	29,402	29,926	99,874	112,551
Change (%)	22.4	28.0	17.8	23.2	17.8	10.6	14.1	9.1	22.7	12.7
Total Cost	19,660	21,209	22,664	24,340	23,357	24,170	26,087	26,574	87,874	100,188
EBITDA	2,512	3,292	3,096	3,099	2,771	2,925	3,315	3,352	12,000	12,363
As % of Sales	11.3	13.4	12.0	11.3	10.6	10.8	11.3	11.2	12.0	11.0
Change (%)	30.2	50.9	17.5	46.3	10.3	-11.2	7.1	8.2	35.4	3.0
Non-Operating Income	454	478	412	354	316	692	401	375	1,698	1,784
Extraordinary Income	190	1,393	0	116	0	929	1,571	0	1,699	2,500
Extraordinary Expense	15	0	6	192	16	19	23	0	213	58
Interest	-147	-155	-168	-205	-51	82	72	65	-675	169
Gross Profit	3,288	5,318	3,670	3,582	3,122	4,444	5,192	3,663	15,859	16,420
Less: Depreciation	463	501	522	609	571	577	590	617	2,096	2,355
PBT	2,825	4,817	3,148	2,973	2,551	3,867	4,601	3,046	13,763	14,065
Tax	784	952	731	613	640	1,008	550	628	3,079	2,825
Effective Tax Rate (%)	27.7	19.8	23.2	20.6	25.1	26.1	12.0	20.6	22.4	20.1
PAT	2,042	3,865	2,417	2,360	1,912	2,859	4,052	2,418	10,684	11,241
Change (%)	40.6	145.9	3.5	-26.5	-6.4	-26.0	67.6	2.4	24.7	5.2
Adj PAT	1,867	2,472	2,423	2,436	1,923	2,259	2,496	2,418	9,198	9,095
Change (%)	27.2	55.8	35.3	49.0	3.0	-8.6	3.0	-0.7	42.0	-1.1

E: MOST Estimates

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Maruti Suzuki India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	MSIL IN
	REUTERS CODE
S&P CNX: 4,942	MRTI.BO

28 March 2008

Buy

Rs836

Previous Recommendation: Buy

	YEAR	TOTAL INC.	PAT	ADJ. EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Diluted Equity Shares (m)	289.0										
52-Week Range	1,252/700										
1,6,12 Rel.Perf.(%)	8/-11/-22										
M.Cap. (Rs b)	241.6										
M.Cap. (US\$ b)	6.1										
	3/07A	149,663	15,574	53.9	28.5	15.5	3.5	22.8	30.2	1.3	8.7
	3/08E	185,365	19,142	66.2	22.9	12.6	2.8	22.2	30.1	1.0	6.9
	3/09E	219,872	21,134	73.1	10.4	11.4	2.3	20.0	27.5	0.8	5.9
	3/10E	261,680	24,727	85.6	17.0	9.8	1.9	19.2	26.6	0.7	4.9

- ☞ We expect volumes to grow 5.7% YoY in 4QFY08, marking the lowest quarterly volume growth since 4QFY08. Sales in February were subdued due to expectations of an excise duty cut in the Union Budget and the higher base of the previous year.
- ☞ Sales should grow 13.1% YoY to Rs50b. We expect EBITDA margin to be lower by 20bp YoY and 60bp QoQ on account of discounts and promotional offers, and increase in steel prices. However, Maruti would be able to minimize the impact of higher input prices due to its ongoing cost reduction efforts, productivity improvement and increased localization, leading to higher internal efficiencies. We expect an EBITDA of Rs7.2b(+11% YoY) and PAT of Rs4.8b (+7.3% YoY).
- ☞ Maruti is investing heavily in its facilities; it intends to invest a further Rs90b in India over the next 8 years (previously it had set aside a corpus of Rs90b to increase its production capacities). This additional outlay would be utilized to set up world class R&D facilities, design facility, regional distribution centers, and logistics support.
- ☞ We remain positive on Maruti's growth prospects. We forecast strong volume growth over the next two years and estimate EPS at Rs66.2 for FY08 and Rs73.1 for FY09. The stock trades at 12.6x FY08E and 11.4x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	144,948	157,683	172,181	200,112	169,669	191,325	201,629	211,471	674,924	774,094
Net Sales	31,255	34,192	36,795	44,298	39,308	45,474	46,741	50,092	146,539	181,615
Change (%)	19.0	12.5	18.2	34.0	25.8	33.0	27.0	13.1	21.2	23.9
Other Operating Income	602	612	783	1,127	833	1,105	853	960	3,125	3,750
Total Cost	26,689	29,376	31,723	38,931	33,560	39,496	40,609	43,842	126,718	157,507
EBITDA	5,168	5,428	5,855	6,494	6,580	7,083	6,986	7,210	22,945	27,858
As % of Sales	16.2	15.6	15.6	14.3	16.4	15.2	14.7	14.1	15.3	15.0
Change (%)	42.0	37.5	15.1	18.0	27.3	30.5	19.3	11.0	26.2	21.4
Non-Operating Income	831	605	372	1,065	1,400	780	853	900	2,873	3,934
Interest	33	31	157	156	151	140	144	164	376	599
Gross Profit	5,967	5,942	6,199	7,404	7,829	7,722	7,695	7,946	25,511	31,193
Less: Depreciation	641	596	759	718	822	881	867	880	2,714	3,451
PBT	5,326	5,346	5,440	6,686	7,007	6,841	6,828	7,066	22,797	27,742
Tax	1,630	1,672	1,676	2,201	2,011	2,176	2,158	2,255	7,178	8,600
Effective Tax Rate (%)	30.6	31.3	30.8	32.9	28.7	31.8	31.6	31.9	31.5	31.0
PAT	3,696	3,674	3,764	4,485	4,996	4,665	4,670	4,811	15,619	19,142
Adjusted PAT	3,696	3,713	3,680	4,485	4,996	4,665	4,670	4,811	15,574	19,142
Change (%)	63.2	49.7	8.6	12.6	35.2	25.6	26.9	7.3	31.4	22.9

E: MOST Estimates

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Swaraj Mazda

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SM IN
	REUTERS CODE
S&P CNX: 4,942	SWRJ.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs316

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Diluted Equity Shares (m)	10.5	3/07E	6,034	161	15.3	-3.6	20.6	4.4	21.3	17.6	0.7	11.8
52-Week Range	395/224	3/08E	6,472	237	22.6	47.5	14.0	3.6	25.8	23.3	0.7	8.5
1,6,12 Rel. Perf. (%)	7/9/-35	3/09E	7,067	269	25.7	13.5	12.3	3.0	24.4	23.5	0.6	7.6
MCap. (Rs m)	3,318.7	3/10E	7,648	300	28.6	11.4	11.1	2.5	22.7	23.3	0.5	6.8
MCap. (US\$ m)	83.2											

- ✍ We expect overall volumes to decline 10.7% YoY in 4QFY08, negatively impacted by the slowdown in CV sales. Net sales would decline 8.7% YoY to Rs1.5b.
- ✍ We expect EBITDA margins to expand 190bp in FY08 to 7.8%. We estimate PAT at Rs237m for FY08.
- ✍ Swaraj is increasing its production capacity from 12,000 units a year to 36,000 units per year over the next 2-3 years.
- ✍ We estimate EPS at Rs22.6 for FY08 and at Rs25.7 for FY09.
- ✍ Currently, Swaraj is facing pressure on its operating margins. It is also incurring huge capex over the next 2-3 years. We expect margin and capex pressures to affect profitability. Our recommendation is **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3Q	4QE		
Total Volumes (nos)	2,201	3,101	2,730	2,827	2,685	2,923	3,052	2,525	10,859	11,185
Net Sales	1,181	1,710	1,492	1,651	1,530	1,772	1,663	1,507	6,034	6,472
Change (%)	-20.0	15.2	-6.2	5.0	29.6	3.6	11.5	-8.7	-1.4	7.3
Total Cost	1,150	1,612	1,385	1,533	1,404	1,646	1,530	1,390	5,680	5,970
EBITDA	31	98	107	119	126	126	133	117	355	502
As % of Sales	2.6	5.7	7.2	7.2	8.2	7.1	8.0	7.7	5.9	7.8
Change (%)	-74.4	-6.7	37.2	142.3	306.5	28.6	24.3	-1.5	2.7	41.5
Interest	19	24	25	25	30	26	29	29	93	114
Gross Profit	12	74	82	93	96	100	104	87	261	387
Depreciation	6	7	8	8	8	8	8	9	29	33
PBT	6	67	74	85	88	92	96	78	232	354
Tax	4	18	24	25	28	30	33	26	71	117
Tax Rate (%)	70.0	26.6	32.4	29.7	31.8	32.6	34.4	33.1	30.7	33.0
PAT	2	49	50	60	60	62	63	52	161	237
Adj. PAT	2	49	50	60	60	62	63	52	161	237
Change (%)	-97.3	-10.5	47.1	407.6	3233.3	26.0	26.0	-12.6	-3.5	47.5

E: MOST Estimates

Tata Motors

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TTMT IN
	REUTERS CODE
S&P CNX: 4,942	TAMO.BO

28 March 2008

Buy

Rs646

Previous Recommendation: Buy

	YEAR	SALES	S/A PAT	ADJ EPS	CONS.	P/E	CONS.	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	EPS (RS)	RATIO	P/E (X)	(%)	(%)	SALES	EBITDA
Diluted Eq. Shares (m)	407.2										
52-Week Range	840/535										
1,6,12 Rel. Perf. (%)	-1/-12/-37										
M.Cap. (Rs b)	263.0										
M.Cap. (US\$ b)	6.6										
	3/07A	274,048	18,963	46.6	52.9	13.9	12.2	27.6	27.1	0.9	7.8
	3/08E	282,797	16,090	39.5	51.9	16.3	12.4	20.5	21.1	0.9	8.9
	3/09E	324,557	16,938	41.6	56.6	15.5	11.4	19.3	20.3	0.8	8.5
	3/10E	379,733	18,952	46.5	63.8	13.9	10.1	19.3	20.9	0.7	7.7

- ✎ We expect Tata Motors to post 0.4% volume growth in 4QFY08. While M&HCV volumes would decline 2.2% YoY and car volumes would fall 13.1% YoY, UV volumes would grow 4.9% YoY and LCV volumes would increase 20.9% YoY.
- ✎ We estimate sales at Rs85b (up 3.3% YoY) and EBITDA at Rs9.3b (increase of 2.2% YoY), with EBITDA margin decline of 10bp YoY and 30bp QoQ to 11%. This would result in the adjusted PAT declining 3.6% YoY to Rs5.4b.
- ✎ The company plans capex of Rs120b over the next four years – Rs80b would be spent on new four-wheelers and the balance on maintenance capex. Around Rs75b would be from internal accruals and balance would be raised in international/domestic markets. The company has announced its intention to raise US\$450m, which would result in further equity dilution of 4.4%.
- ✎ Tata Motors is acquiring *Land Rover* and *Jaguar* from Ford, UK at a reported cost of US\$2.3b. To finance this acquisition and the company's capex plans, it has tied up financing of US\$3b.
- ✎ We estimate consolidated EPS at Rs51.9 for FY08 and Rs56.6 for FY09. The stock trades at 12.4x FY08E and 11.4x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	126,031	139,344	141,561	172,442	127,487	135,463	143,979	173,211	579,378	580,140
Total Income	57,835	65,718	68,252	82,242	60,568	64,733	72,518	84,978	274,048	282,797
Change (%)	49.1	37.4	34.5	19.7	4.7	-1.5	6.3	3.3	33.0	3.2
Total Cost	50,329	57,939	59,816	73,096	55,105	58,780	64,321	75,631	241,180	253,837
EBITDA	7,506	7,779	8,436	9,147	5,463	5,953	8,197	9,347	32,868	28,960
As % of Sales	13.0	11.8	12.4	11.1	9.0	9.2	11.3	11.0	12.0	10.2
Change (%)	58.6	30.6	27.7	4.9	-27.2	-23.5	-2.8	2.2	26.4	-11.9
Non-Operating Income	859	848	143	601	863	707	268	628	2,452	2,466
Forex Gain / (Loss)	-783	254	1,316	518	2,059	309	275	0	1,305	2,643
Extraordinary Income	0	0	0	0	20	1,994	650	0	0	2,664
Interest	726	956	852	597	816	965	918	916	3,131	3,614
Gross Profit	6,614	7,610	8,809	9,412	7,589	7,997	8,473	9,059	32,445	33,118
Depreciation & Amort.	1,411	1,435	1,435	1,582	1,475	1,597	1,675	1,722	5,863	6,469
Product Dev. Expenses	103	175	287	285	193	188	147	237	850	765
PBT	5,100	5,999	7,087	7,545	5,921	6,212	6,651	7,099	25,732	25,884
Tax	1,282	1,582	1,956	1,778	1,254	944	1,661	1,707	6,597	5,565
Effective Tax Rate (%)	25.1	26.4	27.6	23.6	21.2	15.2	25.0	24.0	25.6	21.5
PAT	3,819	4,417	5,132	5,767	4,668	5,268	4,991	5,392	19,135	20,319
Adj PAT	4,505	4,459	4,407	5,592	3,275	3,267	4,156	5,392	18,963	16,090
Change (%)	70.9	26.8	17.3	27.5	-27.3	-26.7	-5.7	-3.6	39.7	-15.1

E: MOST Estimates

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TVS Motor

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	TVSL IN
	REUTERS CODE
S&P CNX: 4,942	T VSM.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs36

Equity Shares (m)	237.5											
52-Week Range	79/31											
1,6,12 Rel. Perf. (%)	-9/-43/-69											
M.Cap. (Rs b)	8.6											
M.Cap. (US\$ b)	0.2											
		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
		3/07A	38,550	666	2.8	-37.9	12.9	1.1	8.2	7.7	0.3	7.7
		3/08E	32,741	144	0.6	-78.3	59.3	1.0	1.8	3.5	0.3	15.2
		3/09E	37,283	539	2.3	273.6	15.9	1.0	6.4	6.5	0.3	8.1
		3/10E	40,413	630	2.7	16.8	13.6	1.0	7.3	7.2	0.3	7.0

- ⚡ We estimate overall volume decline of 13.9% YoY in 4QFY08, with motorcycle volumes declining 28.7% YoY and scooter volumes declining 7.2% YoY. Moped volumes are expected to be robust, increasing 12.5% YoY. Sales of mopeds and scooters are less dependent on financing than motorcycles.
- ⚡ We expect sales to decline 13.9% YoY to Rs7.9b and estimate EBITDA margin at 2.2%, resulting in an EBITDA of Rs178m. Net profit would decline 37.4% YoY to Rs57m. The management had guided that margins would ease in 2HFY08, but a sustained slump in volumes further augmented by a delay in key launches like the three-wheeler and new 125cc bike *Flame* have exacerbated the situation.
- ⚡ TVSMotor's volumes have been negatively impacted by the aggressive strategies adopted by Hero Honda and Bajaj Auto. The company is attempting to put in place a strong product portfolio that could drive growth, going forward. Entry in the three-wheeler segment would help diversify revenues over a period of time. However, we believe that operating performance remains an area of concern.
- ⚡ We expect TVSMotor to report an EPS of Rs2.3 in FY09 and Rs2.7 in FY10. The stock trades at 15.9x FY09E EPS and 13.6x FY10E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Volumes (nos)	375,496	419,195	363,670	369,853	320,161	322,996	339,956	318,395	1,528,214	1,301,508
Net Sales	9,218	10,779	9,354	9,199	7,833	8,234	8,750	7,924	38,550	32,741
Change (%)	25.4	36.6	7.3	9.6	-15.0	-23.6	-6.5	-13.9	19.2	-15.1
Total Cost	8,802	10,219	9,058	9,098	7,642	8,036	8,600	7,746	37,177	32,023
EBITDA	416	560	296	101	191	199	150	178	1,373	718
As % of Sales	4.5	5.2	3.2	1.1	2.4	2.4	1.7	2.2	3.6	2.2
Change (%)	-16.3	21.9	-51.2	-79.1	-54.0	-64.5	-49.3	76.6	-32.9	-47.7
Other Income	178	109	176	270	182	179	211	223	732	795
Interest	60	62	86	113	98	70	85	95	321	348
Depreciation	233	244	245	154	239	240	240	237	876	956
Extraordinary Gain / (Expense)	0	0	0	0	72	102	36	0	0	210
PBT	301	363	141	103	109	169	72	69	909	419
Tax	89	114	27	13	34	50	14	12	243	110
Effective Tax Rate (%)	29.5	31.5	18.8	12.6	30.8	29.6	19.3	17.7	26.7	26.1
PAT	213	248	115	90	75	119	58	57	666	310
Change (%)	-14.6	-22.3	-63.1	-68.9	-64.5	-52.0	-49.1	-37.4	-43.1	-53.5
Adj.PAT	213	248	115	90	10	51	26	57	666	144
Change (%)	-14.6	11.6	-63.1	-68.9	-95.1	-79.5	-77.6	-37.4	-37.9	-78.3

E: MOST Estimates

Amit Kasat (AKasat@MotilalOswal.com); Tel: +91 22 3982 5411/Rohan A Korde (RohanKorde@MotilalOswal.com); Tel: +91 22 3982 5414

Banking

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
Andhra Bank	75
Axis Bank	76
Bank of Baroda	77
Bank of India	78
Canara Bank	79
Corporation Bank	80
HDFC	81
HDFC Bank	82
Federal Bank	83
ICICI Bank	84
Indian Bank	85
Indian Overseas Bank	86
J&K Bank	87
Karnataka Bank	88
Oriental Bank	89
Punjab National Bank	90
State Bank	91
Syndicate Bank	92
Union Bank	93
Vijaya Bank	94

In 4QFY08 (as at 14 March 2008), non-food credit grew ~7% QoQ and ~22.5% YoY to Rs22.3t. Slowing demand for housing loans and lower than anticipated credit demand from corporates has led to moderation in credit growth.

Deposits grew ~23% YoY and 5% QoQ to Rs30.7t on the back of higher interest rates offered by the banks. There was increased competitive pressure to raise deposits in 1HFY08, as banks were anticipating a pick-up in credit and they also wanted to reduce the proportion of high cost bulk deposits towards the end of the year. In FY08, the C/D ratio declined marginally to 73.9% from 74.1% recorded in FY07. However, incremental C/D ratio has been more than 100% during 4QFY08.

Lending yields have peaked for most banks and increase in yields from 3QFY08 levels would be marginal, if any. SBI and many large banks (excluding ICICI Bank) have reduced PLR by 25-50bp during the quarter to boost credit demand. Reduction in PLR was contrary to our expectation and given the current inflationary concerns in the economy, there is a high probability of interest rates rising. While liquidity crunch during 4QFY08 has heated up interest rates in the bulk market, the severity is significantly lower compared to last year. Downward re-pricing of these deposits in 4QFY08 would lower cost of funds for banks like ICICI Bank, Canara Bank, OBC, Andhra Bank, etc in FY09.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	NET INTEREST		OPERATING PROFIT		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Banks							
Andhra Bank	Buy	3,805	-1.9	2,527	-14.6	1,595	14.9
Axis Bank	Buy	7,504	70.9	6,374	60.5	2,873	35.5
Bank of Baroda	Buy	10,340	-1.9	7,637	2.7	3,605	46.7
Bank of India	Buy	11,263	16.4	9,110	1.8	4,504	0.7
Canara Bank	Neutral	9,464	-10.6	7,607	-24.3	4,426	-12.2
Corporation Bank	Neutral	3,547	-7.8	2,605	-24.1	1,426	20.3
Federal Bank	Buy	2,518	12.5	2,046	-9.0	1,115	12.4
HDFC	Buy	9,060	25.1	8,468	24.3	6,188	12.5
HDFC Bank	Neutral	15,568	47.6	10,671	39.5	4,683	36.3
ICICI Bank	Buy	20,396	26.8	20,551	14.9	9,278	12.4
Indian Bank	Buy	6,003	9.2	4,080	-24.7	2,608	10.8
Indian Overseas Bank	Buy	7,120	-7.3	5,369	-4.4	3,076	6.2
J&K Bank	Buy	2,203	8.8	1,849	13.4	1,009	122.9
Karnataka Bank	Buy	1,277	-0.9	1,155	10.2	541	102.1
Oriental Bank	Neutral	4,402	-1.4	3,134	-3.5	1,967	67.9
Punjab National Bank	Buy	14,466	7.4	9,447	7.1	3,185	34.0
State Bank	Buy	45,353	0.7	38,005	1.8	17,384	16.4
Syndicate Bank	Buy	5,036	-16.6	3,274	-30.9	1,346	29.1
Union Bank	Buy	8,174	-3.0	6,059	-15.8	2,622	14.7
Vijaya Bank	Neutral	2,453	-15.1	1,355	-33.5	829	30.2
Sector Aggregate		189,951	8.0	151,324	1.9	74,260	17.4

We expect most banks to sustain their margins on a QoQ basis. On a YoY basis, NII growth would remain subdued due absence of one-time CRR interest accounted in 4QFY07. Treasury profits (especially equities) are likely to remain lower (some banks may have to make MTM provisions); recoveries are likely to be strong for most banks. Asset quality would continue to improve; provisioning requirements would be lower.

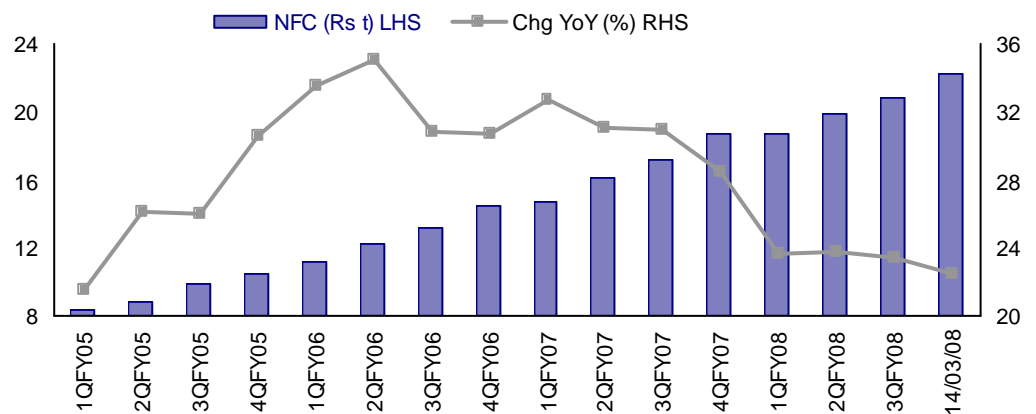
In 4QFY08 (during the period 31 December 2007 - 26 March 2008), the Bankex declined 27%. The sharp correction in bank stocks was led by uncertainties and concerns on account of: (1) farmer loan waiver announced by the FM, (2) large derivatives exposure by private banks on behalf of clients, (3) MTM provisions on international investments, and (4) mounting inflation and slowing industrial/manufacturing activity.

Valuations for state-owned banks are at 0.8-1.2x FY10E BV, with RoE of 15-26%. Private banks, being growth plays, continue to trade at 2-3.5x FY10E BV. We prefer selective buying, with a preference for banks with high earnings visibility. We like HDFC, ICICI Bank and Axis Bank among private players. We like Union Bank of India, Bank of India and Indian Bank among the state-owned banks.

Credit growth shows moderation

Credit growth continued to show moderation in 4QFY08 as against the expectation of a pick-up in the quarter. A distinct slowdown in retail loan growth led by housing finance, and lower growth in corporate advances has been the key reason for moderation in credit growth. Higher interest rates along with higher property prices are making housing unaffordable and consumers are postponing their buying decisions. Increased interest rates have also led to lower demand for corporate loans. Non-food credit has grown by 7.1% QoQ and 22.4% YoY.

YOY NON-FOOD CREDIT GROWTH



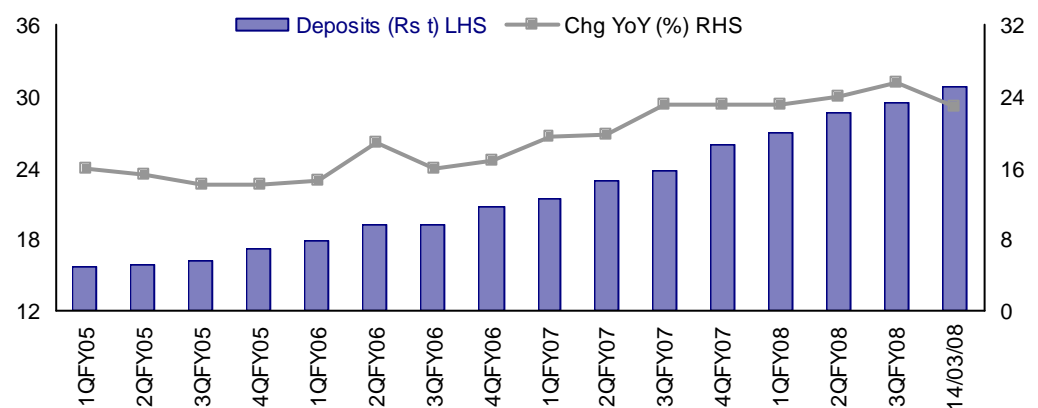
Source: Industry/Motilal Oswal Securities

We believe that lending yields have peaked for most of the banks and improvement in yields from 3QFY08 levels would be marginal, if any. SBI and many large banks (excluding ICICI Bank) have reduced PLR by 25-50bp in 4QFY08 to boost credit demand. We believe that reduction in PLR without corresponding cut in deposit rates (especially for SBI) would maintain downward pressure on margins in 1HFY09.

Deposit growth remain higher than advances growth

Deposits grew ~23% YoY and 5% QoQ to Rs30.7t on the back of higher interest rates offered by the banks. There was increased competitive pressure to raise deposits in 4QFY08, as banks were anticipating a pick-up in credit and they also wanted to reduce the proportion of high cost bulk deposits towards the end of the year. In FY08, the C/D ratio declined marginally to 73.9% from 74.1% recorded in FY07. However, incremental C/D ratio has been more than 100% during 4QFY08.

DEPOSITS GROWTH YOY BASIS



Source: Industry/Motilal Oswal Securities

Banks have reduced PLR too early, likely pressure on margins

SBI announced a total 50bp cut in PLR in two tranches of 25bp each in February 2008. The decision to lower lending rates was to increase credit volume during 4QFY08. SBI's move to reduce lending rates was followed by most of the large state-owned banks like Canara Bank, PNB, BoI and BoB. Except Axis Bank, private banks have not reduced their PLR so far. HDFC passed on the benefit of its lower cost of funds during 2HFY08 to customers by reducing its lending rates by 25bp.

The PLR cut in February came as a negative surprise for us. With inflationary conditions in the economy worsening, there is now a probability of interest rates actually rising. The PLR cut would imply that sustained improvement in yields over several previous quarters would stall or may be marginal, going forward. Since >50% of advances of state-owned banks are sub-PLR, we believe they would reduce the discounts to PLR to counter the effect of decrease in PLR. Thus, we do not see yields dropping significantly.

Re-pricing of bulk deposits could reduce cost of funds

Banks have reduced the excessive bulk deposits raised in 4QFY07 considerably during 4QFY08 with the help of core retail term deposits. However, banks like Canara Bank, ICICI Bank, Andhra Bank, and OBC still hold large chunks of bulk deposits maturing in March 2008. With decline in credit offtake and strong growth in core term deposits, bankers are likely to repay some bulk deposits in 4QFY08. Also, a 50-100bp decline in interest rate on bulk deposits during 4QFY08 is likely to reduce the cost of funds for banks. Downward re-pricing of these deposits during the quarter would lower the cost of funds for banks like Canara Bank, Andhra Bank, ICICI Bank, etc in FY09.

MOVEMENT OF CD RATES (1 YEAR) IN LAST ONE YEAR



Source: Industry/Motilal Oswal Securities

Margins likely to remain at 3QFY08 levels

We have been concerned about the pace at which the funding costs for banks are increasing. Deposit growth continues to be higher than credit growth. This had led banks to park surplus liquidity in short-term government paper, where yields are over 200bp lower than yields on advances. This led to margin squeeze for most of the banks during 9MFY08; but this was compensated by higher investment income through dividend and treasury profits.

Excessive liquidity built up in 1HFY08 has helped most banks to repay some of their bulk deposits in 2HFY08. Repayment / downward re-pricing of high cost bulk deposits would lower incremental cost of funds for banks, the effect of which would be seen from 1QFY09. We believe that lending yields have peaked for most banks and improvement in yields from 3QFY08 levels would be marginal, if any. We expect most banks' margins to be stable QoQ but lower YoY. Going forward, we expect margins to remain stable (at FY08 levels), with a downward bias during FY09.

While operating profit growth would be subdued...

Sustained pressure on NIM on the back of moderating credit growth and high deposit mobilization is likely to keep NII growth under pressure. In 4QFY07, banks had received one-time income of interest on CRR balance with RBI for 9 months; the absence of this would contribute to muted NII growth (YoY) during the quarter.

Most banks would show 25%+ growth in their fee-based income. Treasury income is likely to fall sequentially in 4QFY08 due to subdued equity markets. NPA recoveries are expected to be strong for almost all state-owned banks. However, overall operating profit is likely to remain under pressure due to muted NII growth and lower treasury gains.

...net profit growth would be moderate

Strong asset quality would keep NPA provisions lower (except for the new private banks and PNB). Banks (mainly private banks) had to take a hit on their profitability in 4QFY07 for increased provision requirement (from 1% to 2%) for certain asset classes like credit cards, personal loans, etc. Banks like OBC and Canara Bank had taken large MTM provisions on their investment book during 4QFY07, which would be lower in 4QFY08. We expect overall provisions to remain low for the sector. However, uncertainties persist over the quantum of provisions towards MTM losses on overseas credit derivatives, forex losses for private banks. We have built in higher provisions for these aspects in our estimates for private banks. We expect net profit to show moderate growth of 15-20% for most banks on account of lower provision requirements. We expect HDFC Bank, Axis Bank, BoB and BoI to report strong earnings growth of 30%+ YoY during 4QFY08.

Bankex plummeted amidst uncertainties in 4QFY08

In 4QFY08 (during the period 31 December 2007 - 26 March 2008), the Bankex declined 27%. The sharp correction in bank stocks was led by uncertainties and concerns on account of: (1) scheme of loan waiver for farmers announced in Budget 2008-09, (2) large derivatives exposure by private banks on behalf of clients, (3) MTM provisions on international investments, and (4) mounting inflation and slowing industrial/manufacturing activity.

1. Scheme of loan waiver for farmers announced in Budget 2008-09

In the Union Budget for 2008-09, the Finance Minister announced a loan waiver scheme for small and marginal farmers, and a one-time settlement for other farmers. The lack of clarity on the scheme (the exact definition of beneficiaries and modalities) and exaggerated concern over the moral hazard led to significant fall in the Bankex. The FM has since issued clarifications on the total relief package of Rs603b (of which Rs505b would be towards the debt waiver and Rs98b towards one-time settlement). Of the total amount, around 55% would be for cooperative banks, 35% towards SCBs and rest for RRBs. The FM also clarified that the settlement would be done on cash basis over a period of 36 months. We believe that all-cash disbursement is the key positive for these institutions. However, the front-loaded package in favor of cooperative banks and RRBs is a marginal negative for the SCBs. Bankers do not foresee a large case of moral hazard.

2. Large derivatives exposure by private banks on behalf of clients

Some of the large corporates and SME clients had entered into exotic derivatives contracts to hedge currency risk, on the back of fast rupee appreciation during 1QFY08. They took exposures in CHF/Yen which were relatively stable against the dollar compared to the rupee. With the sharp weakening of the dollar against these currencies as well 3QFY08 onwards, these exposures started turning into large losses. Based on our interaction with industry participants, the losses on these products are likely to be as big as US\$4-5b, most of which relates to foreign banks' clients. Private banks like Yes Bank, Kotak Mahindra Bank, HDFC Bank, ICICI Bank and Axis Bank were also aggressive on this front. However, 70-80% of the exposure of these banks relates to large corporate clients, which are likely to honor their MTM loss commitment.

3. MTM provisions on international investments

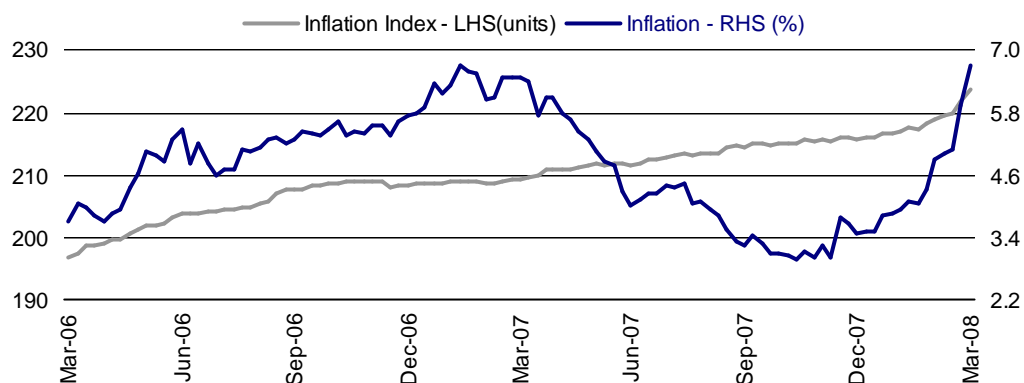
The widening of credit spreads in international markets has resulted in a negative mark-to-market impact on credit derivatives and fixed income investment portfolios of various banks and overseas banking subsidiaries (while there has been no significant deterioration in actual credit quality of the underlying investments). ICICI Bank is expected to report Rs3b of provisions, whereas Axis Bank, BoI and BoB are expected to provide Rs150m, Rs100m and Rs200m, respectively. SBI has categorically denied any MTM provisions for its international book. We believe the turmoil in global financial markets has led to MTM losses on investment book; there is no significant deterioration in the underlying asset quality. This may lead to reversal of these provisions in future once global financial markets stabilize and credit spreads become rational.

4. Mounting inflation and slowing industrial/manufacturing activity

Inflation dropped from its highs of 6.5%+ in March-April 2007 and 4.5% in June 2007 to near 3% in December 2007 (mainly due to high base effect and non pass-through of the rising crude oil prices in India). However, it shot up to 6.8%+ on 14 March 2008. Inflation is well above RBI's comfort level of 5%. The low base effect, mounting commodity prices, and global uncertainties have increased upside risk to inflation. Rising inflation has reduced the probability of interest rate cuts in India.

We believe that probability of CRR hike is low, considering the severe ill effects it would have on already slowing economic growth. Inflation is driven by supply-side constraints (especially food articles and oil prices) and excessive demand control through increased interest rates would de-rail economic growth. However, RBI would like to keep a tight monetary policy, which implies that lending yields would not soften in the medium term.

MOUNTING INFLATION

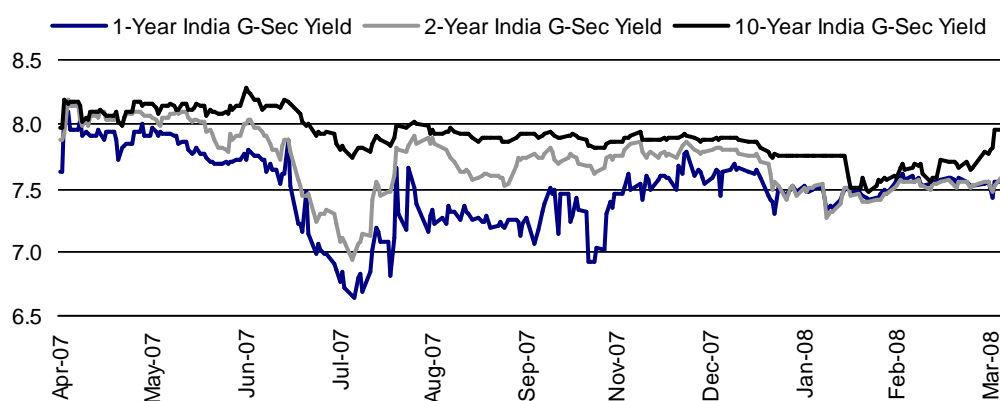


Source: Industry/Motilal Oswal Securities

G-Sec yields firm up

While G-Sec yields remained stable in 4QFY08, they shot up >10bp in the last three trading days, as high inflation numbers meant interest rates would remain firm. While 1-year G-Sec yield has increased by 11 bp QoQ, 10-year G-Sec yield has increased by 17bp. However, 2/3-year G-Sec yields are lower by 8-9bp QoQ. We do not expect significant MTM provisions on AFS book for banks during the quarter (as was the case in 4QFY07). However, earnings of OBC, Canara Bank – (high % in AFS book) and IOB (high duration of AFS book) remain vulnerable to G-Sec yield movement.

TREND IN G-SEC YIELDS



Source: Industry/Motilal Oswal Securities

We prefer selective buying

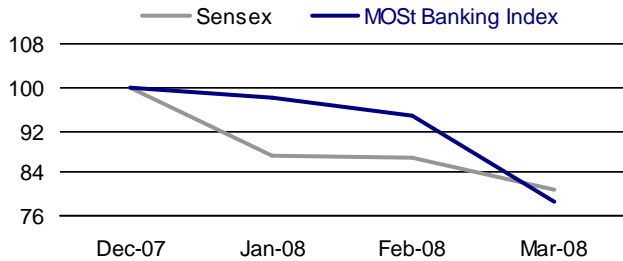
Valuations for state-owned banks are at 0.8-1.2x FY10E BV, with RoE of 15-26%. Private banks, being growth plays, continue to trade at 2-3.5x FY10E BV. We prefer selective buying, with a preference for banks with high earnings visibility. We like HDFC, ICICI Bank and Axis Bank among private players. We like Union Bank of India, Bank of India and Indian Bank among the state-owned banks.

Stock performance and valuations

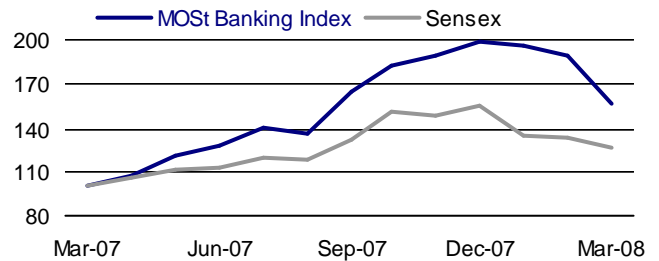
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Banking						
Andhra Bank	-27	0	-8	-27	-6	-57
Axis Bank	-18	62	1	35	4	6
Bank of Baroda	-34	40	-15	13	-13	-17
Bank of India	-25	59	-6	32	-4	2
Canara Bank	-27	17	-8	-10	-6	-40
Corporation Bank	-33	-2	-14	-29	-11	-58
Federal Bank	-33	34	-14	7	-12	-23
HDFC	-11	72	8	45	11	15
HDFC Bank	-19	47	0	20	2	-10
ICICI Bank	-32	-3	-13	-30	-10	-59
Indian Bank	-12	92	7	65	9	35
Indian Overseas Bank	-24	30	-5	3	-2	-27
J&K Bank	-19	3	0	-24	3	-53
Karnataka Bank	-7	20	12	-7	14	-37
Oriental Bank of Commerce	-32	2	-13	-25	-10	-55
Punjab National Bank	-21	14	-2	-13	0	-43
State Bank	-25	83	-6	56	-4	26
Syndicate Bank	-31	24	-12	-3	-9	-33
Union Bank	-30	48	-11	21	-8	-9
Vijaya Bank	-38	28	-19	1	-17	-29

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
28.03.08														
Banks														
Andhra Bank	77	Buy	12.6	14.5	17.1	6.1	5.3	4.5	1.1	0.9	0.8	18.3	18.8	19.6
Axis Bank	805	Buy	27.9	36.8	49.6	28.9	21.9	16.2	3.4	3.0	2.6	16.9	14.7	17.3
Bank of Baroda	301	Buy	41.6	46.8	56.4	7.2	6.4	5.3	1.1	1.0	0.9	16.4	16.2	17.1
Bank of India	272	Buy	32.4	40.8	48.2	8.4	6.7	5.7	1.7	1.4	1.2	23.9	22.8	22.4
Canara Bank	227	Neutral	37.6	43.2	46.4	6.0	5.3	4.9	1.0	0.9	0.8	17.8	17.9	16.9
Corporation Bank	289	Neutral	46.8	50.2	60.2	6.2	5.7	4.8	1.0	0.9	0.8	16.7	15.9	16.8
Federal Bank	224	Buy	22.0	31.4	36.2	10.2	7.1	6.2	1.0	0.9	0.8	13.9	13.0	13.6
HDFC	2,614	Buy	87.2	87.0	105.6	30.0	30.0	24.7	6.7	5.6	4.9	24.3	20.6	21.1
HDFC Bank	1,401	Neutral	44.6	61.5	81.3	31.4	22.8	17.2	4.2	3.7	3.2	17.4	17.2	19.7
ICICI Bank	835	Buy	35.5	44.6	56.9	23.5	18.7	14.7	2.0	1.8	1.7	11.0	10.2	12.0
Indian Bank	171	Buy	23.9	27.4	31.0	7.1	6.2	5.5	1.8	1.5	1.2	28.3	26.2	24.3
Indian Overseas Bank	136	Buy	22.1	25.4	29.3	6.1	5.3	4.6	1.6	1.3	1.1	27.6	25.5	24.6
J&K Bank	670	Buy	82.7	96.3	119.1	8.1	7.0	5.6	1.4	1.2	1.0	18.5	18.5	19.6
Karnataka Bank	203	Buy	18.4	21.2	24.8	11.1	9.6	8.2	1.7	1.5	1.3	16.8	16.2	16.6
Oriental Bank	186	Neutral	33.3	37.3	41.1	5.6	5.0	4.5	0.8	0.7	0.6	14.3	14.8	15.0
Punjab National Bank	528	Buy	57.8	69.4	83.0	9.1	7.6	6.4	1.4	1.3	1.1	16.8	17.7	18.5
State Bank	1,680	Buy	104.3	125.4	150.2	16.1	13.4	11.2	2.0	1.8	1.6	15.6	14.0	14.9
Syndicate Bank	79	Buy	16.4	16.9	18.9	4.8	4.7	4.2	1.1	0.9	0.8	21.2	18.7	18.2
Union Bank	146	Buy	22.3	26.6	32.6	6.5	5.5	4.5	1.3	1.1	0.9	21.8	22.0	22.8
Vijaya Bank	52	Neutral	9.8	9.9	12.0	5.3	5.2	4.3	1.0	0.9	0.8	20.9	18.4	19.7
Sector Aggregate						15.2	12.6	10.5	2.6	2.0	1.7	16.8	15.6	16.7

Andhra Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ANDB IN
	REUTERS CODE
S&P CNX: 4,942	ADBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs77

Equity Shares (m)	485	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
52-Week Range	130/67	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
1,6,12 Rel.Perf.(%)	-6/-21/-27	3/07A	18,644	5,379	11.1	10.6	6.9	1.2	11.3	17.8	1.2	1.2
MCap. (Rs b)	37.2	3/08E	19,776	6,108	12.6	13.6	6.1	1.1	11.1	18.3	1.2	1.1
MCap. (US\$ b)	0.9	3/09E	22,876	7,023	14.5	15.0	5.3	0.9	11.0	18.8	1.2	1.0
		3/10E	26,430	8,292	17.1	18.1	4.5	0.8	10.3	19.6	1.2	0.8

- ✍ We expect net interest income (NII) to remain almost flat at Rs3.8b. Margins would remain under pressure as bank had resorted to bulk deposits during 4QFY07. Currently, bulk deposits constitute ~20% of the total deposits and are yet to be redeemed or repriced. Slower credit growth of ~20% would put further pressure on margins.
- ✍ Fee income growth remains dismal for the bank, and lower treasury profits are likely to keep non-interest income under pressure. However, higher recoveries from written-off accounts could bring in positive surprises to earnings growth.
- ✍ With gross NPAs at just 1.4% and net NPAs at 0.2%, incremental provisioning for NPAs would be low.
- ✍ The stock trades at 4.5x FY10E EPS and 0.8x FY10E BV. The stock also offers an attractive dividend yield of ~6%. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	7,601	7,725	8,128	9,699	9,895	10,455	10,857	11,409	33,153	42,615
Interest Expense	4,249	4,416	4,493	5,820	6,273	7,008	7,156	7,604	18,978	28,041
Net Interest Income	3,352	3,309	3,635	3,879	3,621	3,447	3,701	3,805	14,175	14,574
% Change (Y-o-Y)	22.2	14.7	22.8	25.1	8.0	4.2	1.8	-1.9	28.5	2.8
Other Income	843	1,100	1,142	1,384	1,125	1,379	1,477	1,222	4,469	5,202
Net Income	4,195	4,409	4,777	5,263	4,746	4,826	5,178	5,027	18,644	19,776
% Change (Y-o-Y)	19.3	8.5	15.2	20.4	13.1	9.5	8.4	-4.5	19.4	6.1
Operating Expenses	2,306	2,365	2,356	2,305	2,512	2,505	2,295	2,500	9,332	9,811
Operating Profit	1,890	2,045	2,421	2,958	2,234	2,322	2,883	2,527	9,312	9,965
Other Provisions	291	-95	458	810	93	110	278	300	1,463	780
Profit before Tax	1,599	2,139	1,963	2,148	2,141	2,212	2,605	2,227	7,849	9,185
Tax Provisions	435	675	600	760	730	700	1,015	632	2,470	3,077
Net Profit	1,164	1,464	1,363	1,388	1,411	1,512	1,590	1,595	5,379	6,108
% Change (Y-o-Y)	36.7	10.2	5.8	0.1	21.2	3.3	16.7	14.9	10.6	13.6
Cost to Income Ratio (%)	55.0	53.6	49.3	43.8	52.9	51.9	44.3	49.7	50.1	49.6
Interest Exp./Interest Income (%)	55.9	57.2	55.3	60.0	63.4	67.0	65.9	66.7	57.2	65.8
Other Income/Net Income (%)	20.1	25.0	23.9	26.3	23.7	28.6	28.5	24.3	24.0	26.3

E: MOST Estimates; HTM amortisation is included in the other income

Axis Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	AXSB IN
	REUTERS CODE
S&P CNX: 4,942	AXBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs805

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	357.4	3/07A	24,784	6,590	23.4	34.5	34.4	6.7	11.6	21.0	1.1	6.9
52-Week Range	1,291/433	3/08E	42,223	9,969	27.9	19.2	28.9	3.4	14.6	16.9	1.1	3.5
1,6,12 Rel.Perf.(%)	-12/11/35	3/09E	56,057	13,154	36.8	31.9	21.9	3.0	12.1	14.7	1.1	3.1
MCap. (Rs b)	287.7	3/10E	73,890	17,744	49.6	34.9	16.2	2.6	10.6	17.3	1.1	2.7
MCap. (US\$ b)	7.2											

- ✎ We expect strong NII growth of 70% YoY in 4QFY08, on the back of ~50% loan growth, improved yield on advances, and strong growth in CASA.
- ✎ We expect NIMs to remain strong at 3.5%+ during 4QFY08; however they would remain lower than the 3.9% reported in 3QFY08. The impact of capital raising during 2QFY08 is fading away, putting pressure on cost of funds while improving yields on advances from 3QFY08 levels remains a challenge.
- ✎ The bank continues to be in a rapid branch expansion and manpower addition phase. Opex growth likely to remain ~70% YoY.
- ✎ Another key driver of the bank's performance has been sustained growth in its fee-based income. We expect core fee income to grow ~50% in 4QFY08. The bank's cost-to-income ratio would remain <50%.
- ✎ We have assumed higher provisions towards MTM losses on the bank's international investment book as well as NPAs. We expect the bank to make prudent provisions towards losses on forex and exotic derivatives contracts entered on behalf of clients.
- ✎ Earnings are likely to grow 36% YoY to Rs2.9b in 4QFY08, supported by robust growth in NII and fee income.
- ✎ The stock trades at 16.2x FY10E EPS and 2.6x FY10E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	9,299	10,254	11,648	13,415	15,111	16,765	18,023	19,434	44,617	69,333
Interest Expense	6,321	6,849	7,738	9,025	10,901	10,878	10,550	11,930	29,933	44,260
Net Interest Income	2,978	3,405	3,910	4,390	4,209	5,887	7,473	7,504	14,683	25,073
Y-o-Y Growth (%)	NM	NM	NM	NM	41.3	72.9	91.1	70.9	48.2	70.8
Other Income	2,245	2,048	2,797	3,011	3,682	3,829	4,879	4,760	10,101	17,150
Net Income	5,223	5,453	6,708	7,401	7,892	9,716	12,352	12,263	24,784	42,223
Operating Expenses	2,392	2,955	3,370	3,430	4,212	5,087	5,630	5,889	12,146	20,818
Operating Profit	2,832	2,498	3,338	3,970	3,679	4,629	6,723	6,374	12,639	21,405
Y-o-Y Growth (%)	NM	NM	NM	NM	29.9	85.3	101.4	60.5	39.5	69.4
Provision & Contingencies	1,008	341	515	812	1,009	1,145	2,001	2,146	2,674	6,300
Profit before Tax	1,824	2,157	2,824	3,159	2,670	3,484	4,722	4,228	9,965	15,105
Tax Provisions	618	738	977	1,039	921	1,206	1,654	1,355	3,375	5,136
Net Profit	1,206	1,420	1,846	2,120	1,750	2,278	3,068	2,873	6,590	9,969
Y-o-Y Growth (%)	30.1	30.2	40.2	39.7	45.2	60.5	66.2	35.5	35.9	51.3
Int Exp/Int Earned (%)	68.0	66.8	66.4	67.3	72.1	64.9	58.5	61.4	67.1	63.8
Other Income / Net Income (%)	43.0	37.6	41.7	40.7	46.7	39.4	39.5	38.8	40.8	40.6
Cost to Income Ratio (%)	45.8	54.2	50.2	46.4	53.4	52.4	45.6	48.0	49.0	49.3

E: MOST Estimates

Manish Karwa (Mkarwa@MotilalOswal.com)/Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com)/Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)

Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	BOB IN
	REUTERS CODE
S&P CNX: 4,942	BOB.BO

28 March 2008

Buy

Rs301

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	365.5										
52-Week Range	501/193										
1,6,12 Rel.Perf.(%)	-7/-2/13										
MCap. (Rs b)	110.1										
MCap. (US\$ b)	2.8										
	3/07A	49,593	10,265	28.1	24.1	10.7	1.3	11.8	12.4	0.8	1.4
	3/08E	59,082	15,196	41.6	48.0	7.2	1.1	11.0	16.4	1.0	1.2
	3/09E	65,836	17,094	46.8	12.5	6.4	1.0	11.0	16.2	0.9	1.1
	3/10E	76,353	20,634	56.4	20.7	5.3	0.9	11.0	17.1	0.9	0.9

- ✍ We expect BoB's business growth to remain in line with the industry. The SME, agriculture and corporate segments would be the key drivers of credit growth. We expect margins to remain stable at ~3%.
- ✍ While treasury profits would be lower on a sequential basis (higher on YoY basis), we expect recoveries from written-off accounts to remain strong during the quarter. This would help maintain strong traction in overall other income. Accelerated provisions for operating expenditure (opex) in 1HFY08 would mean low opex growth (on a YoY basis) during 4QFY08.
- ✍ BoB's asset quality has improved significantly over the last one year with coverage ratio at 75% and net NPAs at 0.54%. Recoveries during the quarter are expected to be robust, which would further improve asset quality and require lower NPA provisions. However, we have built in higher overall provisions to account for accelerated provisions on NPAs on the back of strong operating profits, MTM losses on investments in overseas markets.
- ✍ PAT growth is likely to be strong at 47% YoY on account of modest core operating performance, recoveries and lower provisions.
- ✍ Earnings visibility is very high for BoB and stake sale in UTI Mutual Fund could bring in strong treasury gains. The stock trades at 5.3x FY10E EPS and 0.9x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	19,154	21,334	23,344	26,210	26,006	28,798	30,022	32,047	90,041	116,873
Interest Expense	11,378	12,952	14,262	15,674	16,961	18,983	20,047	21,707	54,266	77,698
Net Interest Income	7,776	8,383	9,082	10,535	9,046	9,814	9,975	10,340	35,775	39,175
% Change (YoY)	N.M	N.M	N.M	N.M	16.3	17.1	9.8	-1.9	16.9	9.5
Other Income	2,775	3,217	3,337	4,489	4,242	4,541	6,180	4,945	13,818	19,907
Net Income	10,551	11,600	12,419	15,024	13,287	14,355	16,155	15,285	49,593	59,082
% Change (YoY)	N.M	N.M	N.M	N.M	25.9	23.7	30.1	1.7	15.3	19.1
Operating Expenses	5,516	5,968	6,375	7,584	6,843	7,983	6,831	7,648	25,443	29,304
Operating Profit	5,035	5,632	6,043	7,440	6,445	6,372	9,324	7,637	24,150	29,778
Provision & Contingencies	2,531	1,068	891	3,118	1,414	981	1,570	2,436	7,608	6,400
PBT	2,504	4,564	5,152	4,322	5,030	5,392	7,754	5,202	16,543	23,378
Tax Provisions	871	1,680	1,861	1,866	1,722	2,120	2,744	1,597	6,278	8,182
Net Profit	1,633	2,884	3,291	2,457	3,308	3,272	5,010	3,605	10,265	15,196
% Change (YoY)	4.0	11.3	62.8	17.7	102.6	13.5	52.2	46.8	24.1	48.0
Cost to Income Ratio (%)	52.3	51.4	51.3	50.5	51.5	55.6	42.3	50.0	51.3	49.6
Int Exp/Int Earned (%)	59.4	60.7	61.1	59.8	65.2	65.9	66.8	67.7	60.3	66.5
Other Income / Net Income (%)	26.3	27.7	26.9	29.9	31.9	31.6	38.3	32.4	27.9	33.7

E: MOST Estimates

Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BOI IN
	REUTERS CODE
S&P CNX: 4,942	BOI.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs272

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	525.9										
52-Week Range	466/151										
1,6,12 Rel.Perf.(%)	-14/4/32										
MCap. (Rs b)	143.2										
MCap. (US\$ b)	3.6										
	3/07A	50,034	11,232	23.0	60.2	11.8	2.3	11.6	21.3	0.9	2.5
	3/08E	61,174	17,028	32.4	40.7	8.4	1.7	13.2	23.9	1.1	1.8
	3/09E	72,496	21,433	40.8	25.9	6.7	1.4	12.0	22.8	1.1	1.5
	3/10E	84,571	25,331	48.2	18.2	5.7	1.2	11.5	22.4	1.1	1.2

- Growth in loans and deposits is expected to remain strong at 26-27% - much higher than the industry growth rate. We expect margins to remain stable at 3-3.1%.
- We expect fee income growth to remain strong at 25%+; treasury profits would remain subdued. Continued buoyancy in recoveries would aid profit growth.
- While there are no concerns on asset quality for the bank, we expect it to make higher provisions towards NPAs to bring down NPA ratios further.
- We expect bank to make higher provisions towards AS-15 and staff cost (wage settlement) on account of stronger core operating profitability.
- The bank continues to be the most consistent in terms of improvement in core performance. We believe BoI has many levers to bring in positive surprises to our earnings estimate. The stock trades at 5.7x FY10E EPS and 1.2x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	20,211	22,582	23,187	26,154	27,273	29,752	31,511	33,185	89,363	121,721
Interest Expense	12,566	14,088	14,599	16,474	17,801	19,895	20,717	21,922	54,959	80,334
Reported Net Interest Income	7,644	8,494	8,588	9,680	9,472	9,858	10,795	11,263	34,405	41,387
% Change (Y-o-Y)	36.8	46.8	30.8	15.5	23.9	16.1	25.7	16.4	30.7	20.3
Reported Other Income	3,107	3,533	3,223	5,767	3,812	5,284	5,541	5,150	15,630	19,787
Net Income	10,751	12,026	11,811	15,447	13,284	15,142	16,336	16,413	50,034	61,174
% Change (Y-o-Y)	26.0	36.4	28.5	32.9	23.6	25.9	38.3	6.3	31.1	22.3
Operating Expenses	6,075	7,236	6,279	6,495	6,506	6,744	6,622	7,303	26,084	27,174
Operating Profit	4,676	4,791	5,532	8,952	6,778	8,398	9,714	9,110	23,950	34,000
Other Provisions	1,685	1,587	2,286	3,064	1,992	2,993	2,314	3,051	8,621	10,350
Profit Before tax	2,991	3,204	3,246	5,888	4,786	5,405	7,400	6,059	15,329	23,650
Tax Provisions	904	1,083	697	1,414	1,634	1,153	2,281	1,555	4,097	6,622
Net Profit	2,087	2,121	2,549	4,474	3,152	4,253	5,119	4,504	11,232	17,028
% Change (Y-o-Y)	21.5	60.5	78.1	75.9	51.0	100.5	100.8	0.7	60.1	51.6
Cost to Income Ratio (%)	56.5	60.2	53.2	42.0	49.0	44.5	40.5	44.5	52.1	44.4
Interest Exp./Interest Income (%)	62.2	62.4	63.0	63.0	65.3	66.9	65.7	66.1	61.5	66.0
Other Income/Net Income (%)	28.9	29.4	27.3	37.3	28.7	34.9	33.9	31.4	31.2	32.3

E: MOST Estimates

Canara Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CBK IN
	REUTERS CODE
S&P CNX: 4,942	CNBK.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs227

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	410.0										
52-Week Range	421/177										
1,6, 12 Rel.Perf.(%)	-7/-13/-10										
MCap. (Rs b)	93.1										
MCap. (US\$ b)	2.3										
	3/07A	54,778	14,208	34.7	5.8	6.6	1.1	13.5	18.8	1.0	1.2
	3/08E	55,829	15,435	37.6	8.6	6.0	1.0	11.8	17.8	1.0	1.1
	3/09E	61,228	17,728	43.2	14.9	5.3	0.9	11.7	17.9	0.9	0.9
	3/10E	68,671	19,036	46.4	7.4	4.9	0.8	11.6	16.9	0.9	0.8

- ✎ We expect margins to remain under pressure on a YoY basis for the bank due to high cost of funds on account of aggressive build-up of bulk deposits during 4QFY07 and a muted growth in advances in FY08. During 9MFY08, growth in advances and deposits has been close to NIL due to ongoing balance sheet restructuring.
- ✎ On a QoQ basis, we expect margins to remain stable with an upward bias, as the bank has begun realigning its asset book in favor of high yielding advances (shed ~Rs100b of low yielding short term advances in 9MFY08) and has reduced its high cost bulk deposits (~Rs100b in 9MFY08).
- ✎ We expect operating profit to decline 24.3% YoY in 4QFY08 on the back of muted NII growth and expected lower treasury profit.
- ✎ Canara Bank continues to enjoy high asset quality, with gross NPAs at just 1.54% and net NPAs at 0.89%. We do not expect any negative surprises on the asset quality front from the bank. NPA provisions would continue to be low. In 4QFY07, the bank had to make heavy MTM provisions on the AFS book, absence of which would significantly reduce overall provision.
- ✎ The stock trades at 4.9x FY10E EPS and 0.8x FY10E BV. We remain **Neutral** on account of concerns on core operating profitability for the bank.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Earned	25,128	26,800	29,614	32,105	33,800	34,826	35,502	36,272	113,646	140,399
Interest Expended	15,649	16,988	19,220	21,520	24,859	26,957	26,158	26,808	73,377	104,782
Net Interest Income	9,478	9,811	10,394	10,585	8,941	7,869	9,344	9,464	40,268	35,617
% Change (YoY)	13.8	21.6	8.5	7.6	-5.7	-19.8	-10.1	-10.6	12.4	-11.6
Non Interest Income	2,582	3,133	2,993	5,801	3,801	5,721	5,464	5,226	14,509	20,212
Net Income	12,060	12,944	13,387	16,386	12,742	13,590	14,808	14,690	54,778	55,829
Operating Expenses	6,158	6,792	6,369	6,334	6,621	7,086	7,230	7,083	25,653	28,020
Operating Profit	5,902	6,152	7,018	10,052	6,121	6,503	7,578	7,607	29,125	27,809
% Change (YoY)	5.3	5.9	0.4	33.5	3.7	5.7	8.0	-24.3	14.2	-4.5
Other Provisions & Contingencies	3,743	1,534	2,630	4,509	3,015	1,787	1,990	2,307	12,417	9,100
PBT	2,159	4,618	4,388	5,543	3,106	4,716	5,588	5,300	16,708	18,709
Provision for Taxes	250	1,000	750	500	700	700	1,000	874	2,500	3,274
Net Profit	1,909	3,618	3,638	5,043	2,406	4,016	4,588	4,426	14,208	15,435
% Change (YoY)	2.2	18.0	2.1	2.2	26.0	11.0	26.1	-12.2	5.8	8.6
Cost / Income	51.1	52.5	47.6	38.7	52.0	52.1	48.8	48.2	46.8	50.2
Int Exp / Int Income	62.3	63.4	64.9	67.0	73.5	77.4	73.7	73.9	64.6	74.6
Other Income / Net Income	21.4	24.2	22.4	35.4	29.8	42.1	36.9	35.6	26.5	36.2

E: M0St Estimates; HTM Ammortisation is included in the other income

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Corporation Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CRPBK IN
	REUTERS CODE
S&P CNX: 4,942	CRBK.BO

28 March 2008

Neutral

Previous Recommendation: Sell

Rs289

Equity Shares (m)	143.4	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PI/ABV
52-Week Range	490/230	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
1,6,12 Rel.Perf.(%)	-4/-20/-29	3/07A	19,436	5,361	37.4	20.6	7.7	1.1	12.8	15.0	1.2	1.1
MCap. (Rs b)	41.4	3/08E	20,197	6,720	46.8	25.3	6.2	1.0	12.0	16.7	1.2	1.0
MCap. (US\$ b)	1.0	3/09E	23,211	7,207	50.2	7.2	5.7	0.9	11.0	15.9	1.1	0.9
		3/10E	27,115	8,633	60.2	19.8	4.8	0.8	11.0	16.8	1.1	0.8

- Corporation Bank has significantly improved its yields to 10.27% during 9MFY08. We believe that further improvement in yields would only be marginal. Credit growth also remains sluggish at 21-22% – near industry levels.
- Fee income is growing at a slow pace; growth in treasury profit is also expected to remain muted.
- We expect operating profit to decline 24%+ on muted performance on the NII as well as the non-interest income front.
- Asset quality remains robust, with net NPAs at 0.33%. We do not expect any material weakening of the bank's asset portfolio. In 4QFY07, the bank had taken a hit of higher MTM provision on its investment portfolio and higher provision for NPA.
- While the business growth, margins and fee income remains the area of concerns for the bank, its ability to keep operating cost under control and maintain robust asset quality is impressive. In spite of weak core operating performance RoE would continue to remain healthy at ~17% with tier I greater than 8% the stock trades at 4.8x FY10 EPS and 0.8x FY10E BV. Based on attractive valuations, we upgrade the stock from **Sell** to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	7,076	8,176	8,683	9,627	11,001	10,638	10,989	11,682	33,561	44,309
Interest Expense	4,053	5,158	5,536	5,777	7,479	7,092	7,652	8,134	20,524	30,357
Net Interest Income	3,023	3,018	3,148	3,849	3,522	3,546	3,337	3,547	13,038	13,952
% Change (Y-o-Y)	7.6	-1.5	-4.2	23.8	16.5	17.5	6.0	-7.8	6.3	7.0
Other Income	1,875	1,131	1,593	1,800	1,387	1,832	1,670	1,356	6,399	6,245
Net Income	4,898	4,148	4,741	5,649	4,909	5,377	5,007	4,903	19,436	20,197
% Change (Y-o-Y)	14.8	-1.2	15.6	27.2	0.2	29.6	5.6	-13.2	14.3	3.9
Operating Expenses	1,883	1,941	1,995	2,217	2,154	2,432	2,231	2,298	8,036	9,115
Operating Profit	3,015	2,208	2,745	3,432	2,756	2,945	2,776	2,605	11,400	11,082
% Change (Y-o-Y)	19.1	-7.7	26.8	40.2	-8.6	33.4	1.1	-24.1	19.5	-2.8
Other Provisions	838	238	647	1,513	200	542	97	362	3,235	1,200
PBT	2,177	1,970	2,099	1,919	2,556	2,404	2,678	2,244	8,166	9,882
Tax Provisions	735	700	635	735	785	790	769	818	2,804	3,162
Net Profit	1,442	1,270	1,464	1,185	1,771	1,614	1,909	1,426	5,361	6,720
% Change (Y-o-Y)	16.8	20.3	27.2	18.1	22.8	27.1	30.4	20.3	20.6	25.3
Cost to Income Ratio (%)	38.4	46.8	42.1	39.3	43.9	45.2	44.6	46.9	41.3	45.1
Interest Exp./Interest Income (%)	57.3	63.1	63.7	60.0	68.0	66.7	69.6	69.6	61.2	68.5
Other Income/Net Income (%)	38.3	27.3	33.6	31.9	28.3	34.1	33.3	27.7	32.9	30.9

E: MOST Estimates; HTM amortisation is included in the other income

Federal Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	FB IN
	REUTERS CODE
S&P CNX: 4,942	FED.BO

28 March 2008

Buy

Rs224

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	171.2										
52-Week Range	395/151										
1,6,12 Rel.Perf.(%)	-15/-16/7										
MCap. (Rs b)	38.4										
MCap. (US\$ b)	1.0										
	3/07A	10,191	2,927	34.2	30.0	6.6	1.3	13.4	21.3	1.3	1.3
	3/08E	12,013	3,767	22.0	-35.7	10.2	1.0	19.4	13.9	1.3	1.0
	3/09E	15,177	5,376	31.4	42.7	7.1	0.9	17.7	13.0	1.6	0.9
	3/10E	17,445	6,199	36.2	15.3	6.2	0.8	16.2	13.6	1.5	0.8

- ✎ We expect NII growth of 13% on the back of the stable margins with an upward bias and ~25% advances growth. During the quarter, the bank raised Rs21b of capital through a rights issue, which would also help to expand margins.
- ✎ Higher than expected recoveries during the quarter could provide positive surprises to our earnings estimates.
- ✎ Asset quality has improved substantially, with gross NPAs at 2.76% and net NPAs at 0.29% as of December 2007. We expect NPA provisions to remain low.
- ✎ Federal Bank is a play on improving asset quality, consolidation and attractive valuations. The stock trades at 6.2x FY10E EPS and 0.8x FY10E BV on a fully diluted basis (after taking into account the 1:1 rights issue). We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	4,042	4,296	4,404	5,272	5,553	5,943	6,487	7,119	18,015	25,101
Interest Expense	2,497	2,662	2,658	3,033	3,665	3,918	4,450	4,601	10,850	16,634
Net Interest Income	1,545	1,634	1,747	2,239	1,889	2,024	2,037	2,518	7,165	8,468
% Change (Y-o-Y)	7.2	21.9	16.9	30.0	22.2	23.9	16.6	12.5	19.5	18.2
Other Income	584	767	582	1,095	1,044	808	850	844	3,026	3,545
Net Income	2,129	2,401	2,328	3,333	2,932	2,832	2,887	3,362	10,191	12,013
% Change (Y-o-Y)	14.2	26.0	17.7	37.8	37.8	18.0	24.0	0.9	24.8	17.9
Operating Expenses	991	1,011	973	1,086	1,048	1,066	1,210	1,316	4,061	4,641
Operating Profit	1,137	1,390	1,355	2,247	1,884	1,766	1,676	2,046	6,130	7,372
Prov for Tax	176	170	196	388	545	265	345	310	929	1,465
Provisions and Contingencies	559	526	321	867	670	548	302	620	2,273	2,140
Net Profit	402	695	838	993	669	953	1,029	1,115	2,927	3,767
% Change (Y-o-Y)	-17.5	28.2	17.0	95.6	66.6	37.2	22.8	12.4	30.0	28.7
Cost to Income Ratio (%)	46.6	42.1	41.8	32.6	35.7	37.6	41.9	39.2	39.8	38.6
Interest Exp./Interest Income (%)	61.8	62.0	60.3	57.5	66.0	65.9	68.6	64.6	60.2	66.3
Other Income/Net Income (%)	27.4	32.0	25.0	32.8	35.6	28.5	29.4	25.1	29.7	29.5

E: MOST Estimates

HDFC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	HDFC IN
	REUTERS CODE
S&P CNX: 4,942	HDFC.BO

28 March 2008

Buy

Rs2,614

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E#	P/BV	CAR	ROAE	ROAA	P/ABV*
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	287.1										
52-Week Range	3,257/1397										
1,6,12 Rel.Perf.(%)	2/9/45										
M.Cap. (Rs b)	750.4										
M.Cap. (US\$ b)	18.8										
	3/07A	22,294	15,704	62.1	23.2	30.5	11.9	13.0	31.3	2.8	12.1
	3/08E	30,050	24,213	87.2	40.5	21.7	6.7	16.5	24.3	2.8	6.7
	3/09E	37,503	24,979	87.0	-0.3	21.8	5.6	15.0	20.6	2.8	5.5
	3/10E	45,283	30,321	105.6	21.4	17.9	4.9	14.0	21.1	2.8	4.9

*Price is adjusted for value of key ventures; Book value adjusted for investment in subsidiaries

- Despite concerns relating to growth in mortgages, we expect HDFC to maintain its traditional growth of 26-27% in disbursements and 25%+ in loans.
- HDFC has cut its lending rate on existing loans by 25bp during the quarter. This cut would impact its overall yields by ~5bp QoQ. We expect reported spreads to decline ~5bp QoQ to ~2.25%. However, they would continue to be above HDFC's desired level of 2.1-2.2%.
- We expect a modest 24% normalized PBT growth in 4QFY08, on a higher base of 4QFY07 when HDFC enjoyed the impact of its lending rate hikes.
- We have factored in exceptional capital gains of Rs2b from stake sale in HDFC General Insurance (26%) to Ergo.
- Adjusting for the value of its investments, the stock is available at 17.9x FY10E EPS. We are optimistic about HDFC's future earnings prospects and value unlocking through its other business ventures. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Income from Operations	12,457	14,468	14,538	17,285	18,270	18,886	21,504	22,775	58,755	81,434
Other Income	28	95	39	45	34	39	44	63	208	180
Reported Total Income	12,485	14,563	14,577	17,330	18,304	18,925	21,547	22,838	58,963	81,614
Total Income ex invst. profits	11,975	13,382	13,896	16,454	18,044	18,912	20,513	22,338	55,705	79,807
YoY Change (%)	30.7	35.3	40.2	43.6	50.7	41.3	47.6	31.8	37.8	38.4
Interest and Other Charges	8,014	9,137	9,475	10,042	12,451	12,238	13,160	13,715	36,669	51,564
Other Expenses	667	686	614	474	765	823	741	654	2,442	2,984
Total Expenses	8,681	9,823	10,089	10,517	13,217	13,061	13,901	14,370	39,110	54,587
PBDT	3,805	4,740	4,488	6,813	5,087	5,864	7,646	8,468	19,852	27,027
YoY Change (%)	22.0	22.3	25.6	31.4	33.7	23.7	70.4	24.3	26.0	36.1
Depreciation	37	39	47	52	37	40	44	79	175	200
PBT Pre exceptional income	3,767	4,701	4,441	6,761	5,050	5,824	7,602	8,389	19,678	26,827
Exceptional Profits						3,133	1,209	2,000		6,342
Reported PBT	3,767	4,701	4,441	6,761	5,050	8,957	8,812	10,389	19,678	33,169
Provision for Tax	799	1,021	886	1,261	1,322	2,493	2,323	2,818	3,974	8,956
Reported PAT	2,968	3,680	3,555	5,501	3,728	6,464	6,489	7,571	15,704	24,213
YoY Change (%)	20.0	23.1	25.0	29.0	25.6	75.6	82.5	37.6	24.9	54.4
PAT ex exceptional	2,968	3,680	3,555	5,501	3,728	4,310	5,626	6,188	15,704	19,852
YoY Change (%)	20.0	23.1	25.2	29.0	25.6	17.1	58.2	12.5	24.9	26.4

E: MOST Estimates

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HDFC Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HDFCB IN
	REUTERS CODE
S&P CNX: 4,942	HDBK.BO

28 March 2008

Neutral

Rs1,401

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	319.4										
52-Week Range	1,825/895										
1,6,12 Rel.Perf.(%)	3/3/20										
M.Cap. (Rs b)	447.6										
M.Cap. (US\$ b)	11.2										
	3/07A	49,847	11,415	35.7	28.2	39.2	7.0	13.1	19.5	1.4	7.1
	3/08E	74,202	15,874	44.6	24.9	31.4	4.2	13.3	17.4	1.4	4.2
	3/09E	100,566	21,861	61.5	37.7	22.8	3.7	11.4	17.2	1.4	3.7
	3/10E	130,330	28,903	81.3	32.2	17.2	3.2	9.9	19.7	1.4	3.2

- We expect HDFC Bank to maintain its consistent PAT growth of 30%+. Margins would remain stable QoQ during 4QFY08. We expect downward pressure on yields on advances while cost of funds would remain firm. The impact of capital raising on cost of funds would also start fading.
- We expect advances to grow strong by ~55% YoY and ~2% QoQ, while deposits would grow by 48% YoY and 2% QoQ.
- HDFC Bank's branch expansion has stagnated for the last three consecutive quarters due to non-receipt of new branch licenses from RBI. However, the bank has been able to reap benefits from ~150 branches opened in FY07. Branch expansion would be a key area to watch out for during 4QFY08.
- Fee income growth is expected to sustain at ~30% while lower treasury and forex income would drag other income growth. While opex continues to spiral up for the bank, overall cost-to-income ratio is likely to be 49-50%.
- We have not factored in the merger of CBoP with HDFC Bank in our estimates. We expect earnings CAGR of 36% over FY07-10, with RoE increasing to 20% by FY10. Stock trades at 3.2x FY10E BV and 17.2x FY10E EPS.
- In our view, the acquisition of CBoP was expensive and integration risks prevail. The 23% equity dilution due to share swap deal to acquire CBoP and further issue of convertible warrants to HDFC would lower return ratios. We believe that current valuations provide little upside. Downgrade to **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	14,444	15,780	16,989	19,266	20,692	23,628	27,269	28,984	66,479	100,573
Interest Expense	6,867	7,901	8,307	8,721	10,836	12,001	12,893	13,416	31,795	49,146
Net Interest Income	7,578	7,880	8,682	10,545	9,855	11,627	14,376	15,568	34,685	51,426
Growth (%)	44.7	28.7	29.5	42.6	30.1	47.6	65.6	47.6	50.8	48.3
Other Income	3,508	3,977	3,733	3,944	5,725	4,824	6,789	5,437	15,162	22,775
Net Income	11,086	11,857	12,415	14,490	15,581	16,451	21,165	21,006	49,847	74,202
Growth (%)	40.8	35.9	28.4	38.8	40.5	38.7	70.5	45.0	45.6	48.9
Operating Expenses	5,527	5,791	6,050	6,839	7,744	8,184	10,501	10,335	24,208	36,764
Operating Profit	5,558	6,066	6,365	7,650	7,837	8,267	10,664	10,671	25,639	37,438
Provisions and Contingencies	2,040	2,481	2,060	2,671	3,071	2,894	4,231	3,724	9,252	13,921
Profit Before Tax	3,518	3,585	4,305	4,980	4,766	5,373	6,432	6,946	16,388	23,517
Provision for Taxes	1,125	955	1,349	1,544	1,553	1,688	2,139	2,263	4,973	7,643
Net Profit	2,393	2,629	2,956	3,436	3,212	3,685	4,294	4,683	11,415	15,874
Growth (%)	30.4	31.7	31.7	30.5	34.2	40.1	45.2	36.3	30.8	39.1
Cost to Income Ratio (%)	49.9	48.8	48.7	47.2	49.7	49.7	49.6	49.2	48.6	49.5
Interest Exp./Interest Income (%)	47.5	50.1	48.9	45.3	52.4	50.8	47.3	46.3	47.8	48.9
Other Income/Total Income (%)	31.6	33.5	30.1	27.2	36.7	29.3	32.1	25.9	30.4	30.7

E: MOST Estimates

Manish Karwa (Mkarwa@MotilalOswal.com)/Ajinkya Dhavale (AjinkyaDhavale@MotilalOswal.com)/Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ICICIB IN
	REUTERS CODE
S&P CNX: 4,942	ICBK.BO

28 March 2008

Buy

Rs835

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	API/E*	P/BV	AP/ABV*	CAR	ROE
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(X)	(X)	(%)	(%)
Equity Shares (m)	1,108.3										
52-Week Range	1,465/720										
1,6,12 Rel.Perf.(%)	-16/-16/-30										
M.Cap. (Rs b)	925.7										
M.Cap. (US\$ b)	23.2										
	3/07A	125,650	31,102	34.6	21.2	23.1	13.3	3.0	1.3	11.7	13.4
	3/08E	160,769	39,357	35.5	2.7	22.5	13.0	1.9	1.2	13.7	11.0
	3/09E	209,761	49,487	44.6	25.7	17.9	10.3	1.8	1.2	11.9	10.2
	3/10E	267,762	63,083	56.9	27.5	14.1	8.1	1.6	1.1	10.7	12.0

*Price is adjusted for value of key ventures; Book value adjusted for investment in subsidiaries

- We expect a modest credit growth of ~22% YoY, as all its business segments (especially retail) are facing slow growth. ICICI Bank has not cut its PLR and its retail lending rates continue to be higher than industry. Retail credit growth slowed down to 10% in 3QFY08 and we expect a similar trend to continue in 4QFY08. Higher interest rates would suppress its domestic loan growth.
- This lower asset growth period would enable the bank to lessen its reliance on bulk deposits and re-price its high cost deposits raised during 2HFY07 at lower rates.
- Margins are expected to improve during 4QFY08 to 2.3%+ on account of slower asset growth and contained cost of funds.
- We expect cost-to-income ratio to shoot up to ~53% during 4QFY08 as other income growth is likely to be lower than earlier quarters while massive branch expansion would mean operating costs continue to increase.
- With deteriorating asset quality and exposure to riskier asset classes, we expect NPA provisions to remain high, denting earnings growth. Higher MTM losses on overseas credit derivative is another risk to earnings.
- Excluding subsidiaries, the stock trades at 8.1x FY10E EPS and 1.1x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	47,721	52,267	56,009	63,956	73,308	75,165	79,118	82,117	219,956	309,708
Interest Expense	35,634	38,924	41,159	47,869	58,519	57,305	59,521	61,721	163,585	237,065
Net Interest Income	12,088	13,343	14,850	16,087	14,790	17,860	19,597	20,396	56,371	72,643
Growth (%)	N.M.	N.M.	N.M.	N.M.	22.4	33.9	32.0	26.8	44.3	28.9
Other Income	12,776	15,701	19,806	21,000	19,506	20,719	24,266	23,635	69,279	88,126
Net Income	24,863	29,044	34,656	37,087	34,295	38,579	43,863	44,031	125,650	160,769
Operating Expenses	15,215	15,352	17,133	19,206	19,053	19,708	21,276	23,480	66,906	83,517
Operating Profit	9,648	13,691	17,524	17,881	15,242	18,871	22,587	20,551	58,744	77,252
Growth (%)	-0.6	31.1	46.7	20.7	58.0	37.8	28.9	14.9	51.1	31.5
Provisions and Contingencies	2,169	4,660	6,672	8,760	5,523	6,445	7,603	9,092	22,294	28,663
Profit before Tax	7,480	9,031	10,852	9,121	9,720	12,427	14,984	11,460	36,450	48,589
Provision for Taxes	1,286	1,475	1,751	870	1,969	2,401	2,681	2,181	5,348	9,232
Net Profit	6,194	7,556	9,101	8,251	7,751	10,026	12,303	9,278	31,102	39,357
Growth (%)	16.9	30.3	42.2	4.5	25.1	32.7	35.2	12.4	22.4	26.5
Interest Exp./Interest Income (%)	74.7	74.5	73.5	74.8	79.8	76.2	75.2	75.2	74.4	76.5
Other Income/Net Income (%)	51.4	54.1	57.1	56.6	56.9	53.7	55.3	53.7	55.1	54.8
Cost/Income (%)	61.2	52.9	49.4	51.8	55.6	51.1	48.5	53.3	53.2	51.9

E: MOST Estimates

Indian Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	INBK IN
	REUTERS CODE
S&P CNX: 4,942	INBA.BO

28 March 2008

Buy

Rs171

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	429.8										
52-Week Range	256/83										
1,6,12 Rel.Perf.(%)	-6/12/65										
MCap. (Rs b)	73.5										
MCap. (US\$ b)	1.8										
	3/07A	26,052	7,598	17.7	20.5	9.7	2.3	14.1	29.9	1.5	2.3
	3/08E	30,349	10,280	23.9	35.3	7.1	1.8	12.7	28.3	1.7	1.8
	3/09E	34,606	11,795	27.4	14.7	6.2	1.5	11.2	26.2	1.6	1.5
	3/10E	39,260	13,342	31.0	13.1	5.5	1.2	11.3	24.3	1.6	1.2

- Considering the bank's comfortable liquidity position, we expect loan book growth to remain strong at >30% YoY – higher than industry growth rate. The bank continues to focus on high yielding SME, agricultural and retail advances.
- We expect margins to sustain at 3QFY08 levels, with an upward bias due to strong credit offtake and improvement in incremental C-D ratio. The proportion of bulk deposits for Indian Bank at ~8% is one of the lowest amongst the state-owned banks.
- Strong recoveries would also drive earnings growth during the quarter.
- The bank's higher operating profitability would enable it to make higher provisions towards AS-15 liability, NPAs and standard assets.
- The stock trades at 5.5x FY10E EPS and 1.2x FY10E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	9,336	10,102	10,545	11,965	11,824	12,330	13,754	14,613	41,948	52,520
Interest Expense	5,468	5,785	6,407	6,466	7,124	7,862	8,137	8,610	24,126	31,733
Net Interest Income	3,868	4,317	4,138	5,499	4,700	4,468	5,617	6,003	17,822	20,787
% Change (Y-o-Y)	13.6	20.0	12.1	24.8	21.5	3.5	35.7	9.2	18.0	16.6
Other Income	1,148	1,661	1,751	3,671	1,944	2,601	3,006	2,010	8,231	9,561
Net Income	5,016	5,978	5,889	9,170	6,644	7,069	8,623	8,013	26,052	30,349
% Change (Y-o-Y)	9.4	21.1	23.2	50.0	32.5	18.3	46.4	-12.6	32.0	16.5
Operating Expenses	2,721	3,005	2,987	3,754	3,346	3,635	3,991	3,933	12,467	14,905
Operating Profit	2,295	2,973	2,903	5,416	3,297	3,434	4,632	4,080	13,586	15,444
Other Provisions	417	1,043	797	2,486	907	497	1,057	889	4,744	3,350
Profit Before tax	1,878	1,930	2,105	2,930	2,390	2,937	3,575	3,191	8,842	12,094
Tax Provisions	230	238	200	577	270	461	500	583	1,244	1,814
Net Profit	1,648	1,692	1,905	2,353	2,120	2,476	3,075	2,608	7,598	10,280
% Change (Y-o-Y)	20.7	60.2	54.7	69.2	28.7	46.4	61.4	10.8	50.6	35.3
Cost to Income Ratio (%)	54.2	50.3	50.7	40.9	50.4	51.4	46.3	49.1	47.9	49.1
Interest Exp./Interest Income (%)	58.6	57.3	60.8	54.0	60.3	63.8	59.2	58.9	57.5	60.4
Other Income/Net Income (%)	22.9	27.8	29.7	40.0	29.3	36.8	34.9	25.1	31.6	31.5

E: MOST Estimates

Indian Overseas Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	IOB IN
	REUTERS CODE
S&P CNX: 4,942	IOBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs136

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	544.8	3/07A	29,478	10,084	18.5	28.7	7.3	1.9	13.3	29.1	1.4	2.0
52-Week Range	229/93	3/08E	33,594	12,040	22.1	19.4	6.1	1.5	12.9	27.6	1.3	1.6
1,6,12 Rel.Perf.(%)	-11/-1/3	3/09E	38,927	13,849	25.4	15.0	5.3	1.2	12.4	25.5	1.3	1.3
M.Cap. (Rs b)	73.8	3/10E	45,264	15,960	29.3	15.2	4.6	1.1	11.5	24.6	1.2	1.1
M.Cap. (US\$ b)	1.9											

- ✎ We expect the bank's loan book to grow 24% YoY. High base effect of 4QFY07 would lead to moderate growth in overall business.
- ✎ Margins are likely to remain at 3QFY08 levels. However, they would continue to be significantly (~60bp) lower than the historical level of ~4%, as cost of funds has increased significantly.
- ✎ We expect fee income to grow 20-22%. However, lower treasury profits would keep non-interest income growth subdued.
- ✎ Asset quality is strong, with gross NPAs at 1.87% and net NPAs at 0.36% in 3QFY08. We do not expect material weakness in the bank's asset quality; NPA provisions are likely to remain low. However, classification of some infrastructure loans as NPAs (purely on technical grounds) could lead to worsening of asset quality and increase provisions. We have factored in the higher MTM provision of ~Rs400m on the bank's equity portfolio.
- ✎ PAT growth is likely to remain almost flat in 4QFY08, driven by lower NII and the provisions on its equity portfolio.
- ✎ The stock is trades at 4.6x FY10E EPS and 1.1x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	12,409	13,721	14,737	17,454	18,462	19,303	20,759	21,947	58,321	80,471
Interest Expense	6,654	7,602	8,686	9,771	11,372	12,982	14,199	14,827	32,713	53,379
Net Interest Income	5,755	6,119	6,051	7,682	7,090	6,321	6,560	7,120	25,608	27,091
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	23.2	3.3	8.4	-7.3	23.9	5.8
Other Income	-342	964	1,344	1,905	616	1,745	2,195	1,948	3,870	6,503
Net Income	5,413	7,083	7,395	9,587	7,706	8,066	8,755	9,067	29,478	33,594
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	42.4	13.9	18.4	-5.4	5.5	14.0
Operating Expenses	3,302	3,491	3,116	3,970	3,614	3,486	3,824	3,698	13,878	14,622
Operating Profit	2,111	3,592	4,279	5,618	4,092	4,580	4,931	5,369	15,600	18,972
Other Provisions	-554	-15	615	1,820	620	83	367	1,180	1,866	2,250
Tax Provisions	445	1,108	1,197	900	787	1,300	1,482	1,113	3,650	4,682
Net Profit	2,220	2,499	2,468	2,898	2,685	3,197	3,082	3,076	10,084	12,040
% Change (Y-o-Y)	21.2	25.9	25.1	41.7	20.9	28.0	24.9	6.2	28.7	19.4
Cost to Income Ratio (%)	61.0	49.3	42.1	41.4	46.9	43.2	43.7	40.8	47.1	43.5
Interest Exp./Interest Income (%)	53.6	55.4	58.9	56.0	61.6	67.3	68.4	67.6	56.1	66.3
Other Income/Net Income (%)	-6.3	13.6	18.2	19.9	8.0	21.6	25.1	21.5	13.1	19.4

E: MOST Estimates; HTM amortisation is included in the other income

Jammu & Kashmir Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	JKBK IN
	REUTERS CODE
S&P CNX: 4,942	JKBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs670

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	48.5	3/07A	9,281	2,745	56.6	55.2	11.8	1.6	13.2	14.4	1.0	1.7
52-Week Range	970/570	3/08E	10,531	4,011	82.7	46.1	8.1	1.4	12.1	18.5	1.3	1.5
1,6,12 Rel.Perf.(%)	1/-9/-24	3/09E	12,324	4,669	96.3	16.4	7.0	1.2	11.6	18.5	1.2	1.3
MCap. (Rs b)	32.5	3/10E	14,771	5,775	119.1	23.7	5.6	1.0	11.6	19.6	1.3	1.1
MCap. (US\$ b)	0.8											

- NII is likely to grow 9% YoY to Rs2.2b in 4QFY08 on the back of modest growth of 23%+ in loan book. The management's ability to source core deposits to fund this growth without impacting margins would be a key factor to watch.
- Fee income growth aided by insurance distribution commission would be a key earnings driver. We expect the same trend to continue during 4QFY08.
- Asset quality deteriorated significantly during 4QFY07 (net NPAs increased to >1%), as some legacy accounts were recognized as NPAs, which led to significant rise in NPA provisions. The management has guided improvement in asset quality through recoveries during FY08. Some signs of improvement in asset quality were visible during 9MFY08. Asset quality improvement would be a key area to watch out for, going forward.
- We expect PAT to grow 123% YoY in 4QFY08 on the back of low base effect and strong fee-based income. In 4QFY07, the bank had made excess provisions on NPA and standard assets.
- The stock currently trades at 5.6x FY10E EPS and 1.0x FY09E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	4,547	4,605	4,631	5,210	5,751	5,967	6,183	6,631	18,993	24,531
Interest Expenses	2,760	2,688	2,680	3,187	3,854	4,016	4,169	4,428	11,315	16,468
Net Interest Income	1,786	1,918	1,951	2,024	1,896	1,951	2,013	2,203	7,678	8,063
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	6.2	1.7	3.2	8.8	15.7	5.0
Other Income	217	358	327	701	358	581	705	824	1,602	2,467
Net Income	2,003	2,276	2,278	2,725	2,254	2,532	2,718	3,026	9,281	10,531
Operating Expenses	829	914	888	1,094	943	1,034	1,039	1,178	3,724	4,193
Operating Profit	1,174	1,362	1,390	1,631	1,312	1,498	1,679	1,849	5,556	6,338
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	11.7	10.0	20.8	13.4	29.4	14.1
Prov. & Contingencies	291	192	301	621	190	40	88	207	1,404	525
Profit before Tax	884	1,170	1,089	1,010	1,122	1,458	1,591	1,641	4,152	5,813
Provision for Taxes	260	340	250	557	289	380	500	632	1,407	1,802
Net Profit	624	830	839	453	832	1,078	1,091	1,009	2,745	4,011
% Change (Y-o-Y)	28.8	50.9	65.6	98.6	33.4	30.0	30.1	122.9	55.2	46.1
Cost to Income (%)	41.4	40.2	39.0	40.1	41.8	40.8	38.2	38.9	40.1	39.8
Int.Expense/Int. Earned (%)	60.7	58.4	57.9	61.2	67.0	67.3	67.4	66.8	59.6	67.1
Other Income/Net Income (%)	10.8	15.7	14.3	25.7	15.9	22.9	25.9	27.2	17.3	23.4

E: MOST Estimates; HTM amortisation is included in the other income

Karnataka Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	KBL IN
	REUTERS CODE
S&P CNX: 4,942	KNBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs203

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	121.3	3/07A	5,941	1,770	14.6	0.5	13.9	2.0	11.5	15.1	1.1	2.1
52-Week Range	286/160	3/08E	7,054	2,350	18.4	26.1	11.1	1.7	13.5	16.8	1.3	1.8
1,6,12 Rel.Perf.(%)	-14/-4/-7	3/09E	8,001	2,705	21.2	15.1	9.6	1.5	13.3	16.2	1.3	1.6
MCap. (Rs b)	24.7	3/10E	9,307	3,169	24.8	17.2	8.2	1.3	12.5	16.6	1.3	1.4
MCap. (US\$ b)	0.6											

- ✍ We expect margins to remain under pressure for the bank on subdued advances growth of ~20%. We believe that yields on advances have peaked.
- ✍ The bank has shown robust growth of 35% in traditional fee income during FY07. Even during 9MFY08, fee income grew by 25%+. We expect the bank to continue to maintain ~25% growth in non-treasury other income, going forward.
- ✍ There have been some issues about the bank's asset quality. Its net NPA ratio continues to be >1%. Asset quality, provisions and recoveries would be key aspects to watch for and could bring in surprises to our estimates.
- ✍ Karnataka Bank is a play on improving key operating parameters and consolidation. The stock trades at 8.2x FY10E EPS and 1.3x FY10E BV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	2,858	2,953	3,220	3,532	3,619	3,828	4,055	4,327	12,563	15,828
Interest Expense	1,904	2,047	2,170	2,243	2,375	2,721	2,897	3,050	8,364	11,043
Net Interest Income	953	906	1,050	1,289	1,244	1,106	1,158	1,277	4,199	4,785
% Change (Y-o-Y)	5.0	18.8	7.5	27.5	30.5	22.0	10.2	-0.9	14.8	14.0
Other Income	449	487	397	410	418	569	739	543	1,743	2,269
Net Income	1,402	1,393	1,448	1,698	1,662	1,675	1,897	1,820	5,941	7,054
% Change (Y-o-Y)	1.2	14.7	7.7	22.8	18.5	20.2	31.1	7.2	11.5	18.7
Operating Expenses	520	653	553	650	623	768	682	665	2,376	2,738
Operating Profit	882	741	895	1,049	1,038	907	1,215	1,155	3,566	4,316
Other Provisions	331	-163	62	608	246	-86	105	435	838	700
Tax Provisions	183	308	294	173	275	392	420	180	957	1,266
Net Profit	368	596	539	268	518	601	690	541	1,770	2,350
% Change (Y-o-Y)	-11.8	42.8	29.8	-47.5	40.8	0.9	28.1	102.1	0.6	32.8
Cost to Income Ratio (%)	37.1	46.8	38.2	38.3	37.5	45.8	36.0	36.5	40.0	38.8
Interest Exp./Interest Income (%)	66.6	69.3	67.4	63.5	65.6	71.1	71.4	70.5	66.6	69.8
Other Income/Net Income (%)	32.0	35.0	27.4	24.1	25.1	34.0	39.0	29.8	29.3	32.2

E: MOST Estimates; HTM amortisation is included in the other income

Oriental Bank of Commerce

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	OBC IN
	REUTERS CODE
S&P CNX: 4,942	ORBC.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs186

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	PIABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	250.5										
52-Week Range	321/158										
1,6,12 Rel. Perf.(%)	-17/-18/-25										
MCap. (Rs b)	46.5										
MCap. (US\$ b)	1.2										
	3/07A	22,946	8,268	33.0	2.9	5.6	0.9	12.5	15.4	1.2	0.9
	3/08E	22,879	8,331	33.3	0.8	5.6	0.8	12.0	14.3	1.0	0.8
	3/09E	26,151	9,335	37.3	12.0	5.0	0.7	11.0	14.8	1.0	0.7
	3/10E	30,042	10,309	41.1	10.4	4.5	0.6	11.0	15.0	0.9	0.7

- ✍ We expect OBC' s margins to remain stable at 3QFY08 levels, with an upward bias. In 3QFY08, the bank had shed Rs45b of bulk deposits. However, the proportion of bulk deposits continues to be 25%+. Higher proportion of bulk deposits would continue to put pressure on margins. Advances should grow in line with the industry at 23%+.
- ✍ Sustained growth in fee income, higher recoveries and controlled operating costs would help the bank to report operating profits similar to 4QFY07 levels.
- ✍ OBC continues to enjoy robust asset quality, with net NPAs at 0.67%. Recoveries are expected to remain strong. Moreover, the bank has a pool of Rs2.5b of specific NPA provisions made in excess of the RBI requirement.
- ✍ We expect the bank to report 68% growth in net profit due to reduced provisioning requirements as compared to 4QFY07. In 4QFY07, provisions had increased substantially on account of increased regulatory requirement of standard asset provisions and higher MTM depreciation on investment portfolio.
- ✍ The stock is trading at 4.5x FY10E EPS and 0.6x FY10E BV. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	11,353	12,822	13,137	14,336	15,341	16,457	17,479	17,976	51,649	67,253
Interest Expense	7,244	8,695	8,924	9,874	10,910	12,462	13,456	13,575	34,736	50,402
Net Interest Income	4,110	4,128	4,213	4,462	4,431	3,995	4,024	4,402	16,913	16,851
% Change (YoY)	2.0	2.1	6.7	10.7	7.8	-3.2	-4.5	-1.4	5.4	-0.4
Other Income	1,687	1,579	1,330	1,437	1,462	1,425	1,674	1,467	6,033	6,028
Net Income	5,797	5,707	5,543	5,899	5,893	5,420	5,697	5,868	22,946	22,879
% Change (YoY)	16.3	-1.0	6.3	5.0	1.7	-5.0	2.8	-0.5	6.3	-0.3
Operating Expenses	2,287	2,566	2,476	2,650	2,642	2,698	2,730	2,734	9,979	10,804
Operating Profit	3,510	3,141	3,067	3,249	3,251	2,722	2,967	3,134	12,967	12,075
Provision & Contingencies	1,477	-737	81	1,616	506	-191	258	377	2,436	950
PBT	2,033	3,878	2,986	1,633	2,745	2,913	2,710	2,757	10,531	11,125
Tax Provisions	481	771	550	462	741	551	713	790	2,263	2,794
Net Profit	1,553	3,108	2,437	1,171	2,004	2,362	1,997	1,967	8,268	8,331
% Change (YoY)	48.2	37.2	19.1	-56.2	29.1	-24.0	-18.0	67.9	2.9	0.8
Cost to Income Ratio (%)	39.4	43.4	44.7	44.9	44.8	49.8	47.9	46.6	43.5	47.2
Int Exp/Int Earned (%)	63.8	59.9	67.9	68.9	71.1	75.7	77.0	75.5	67.3	74.9
Other Income / Net Income (%)	29.1	29.9	24.0	24.4	24.8	26.3	29.4	25.0	26.3	26.3

E: MOST Estimates

Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	PNB IN
	REUTERS CODE
S&P CNX: 4,942	PNB.BO

28 March 2008

Buy

Rs528

Previous Recommendation: Buy

Equity Shares (m)	315.3	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
52-Week Range	721/420	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
1,6,12 Rel.Perf.(%)	-1/3/-13	3/07A	65,569	15,401	48.8	7.0	10.8	1.6	12.3	16.0	1.0	1.7
MCap. (Rs b)	166.4	3/08E	68,746	18,233	57.8	18.4	9.1	1.4	11.6	16.8	1.0	1.6
MCap. (US\$ b)	4.2	3/09E	82,947	21,873	69.4	20.0	7.6	1.3	11.0	17.7	1.1	1.4
		3/10E	96,719	26,172	83.0	19.7	6.4	1.1	10.5	18.5	1.1	1.2

- ✎ We expect advances growth to remain <20%, as the bank is undergoing balance sheet restructuring to lower the proportion of low yielding short-term advances.
- ✎ We expect margins to remain stable QoQ but decline YoY on account of aggressive intake of high cost deposits during 4QFY07. While yield improvement would be marginal going forward, managing the rising cost of funds would be a major challenge for the bank. We expect 7% YoY growth in NII.
- ✎ We remain concerned about the sharp deterioration in asset quality during the last couple of quarters. The management is, however, confident of recovering the slippages and bringing down NPA ratios. We expect NPA provisions to remain high for the next couple of quarters.
- ✎ On a YoY basis, earnings growth would remain strong (34%) despite modest operating profit growth, on account of lower NPA provisions during 4QFY08. PNB's NPA provisions had shot up during 4QFY07 as asset quality worsened significantly.
- ✎ The stock is trading at 6.4x FY10E EPS and 1.1x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	25,591	26,882	28,716	31,184	32,860	34,631	36,361	38,156	112,362	142,009
Interest Expense	13,476	14,015	15,024	17,714	19,850	21,716	22,119	23,690	60,229	87,376
Net Interest Income	12,115	12,867	13,691	13,470	13,010	12,915	14,242	14,466	52,133	54,633
% Change (YoY)	N.M	N.M	N.M	N.M	7.4	0.4	4.0	7.4		4.8
Other Income	-227	3,710	3,998	5,944	113	4,678	4,834	4,487	13,436	14,113
Net Income	11,888	16,577	17,689	19,414	13,124	17,593	19,076	18,953	65,569	68,746
% Change (YoY)	N.M	N.M	N.M	N.M	10.4	6.1	7.8	-2.4	11.2	4.8
Operating Expenses	6,969	7,580	8,123	10,591	8,770	9,043	9,165	9,506	33,262	36,483
Operating Profit	4,920	8,997	9,567	8,824	4,354	8,550	9,912	9,447	32,306	32,263
Provision & Contingencies	-216	1,127	3,577	6,127	-1,905	778	1,576	5,001	10,615	5,450
PBT	5,135	7,870	5,990	2,697	6,259	7,772	8,336	4,447	21,691	26,813
Tax Provisions	1,460	2,820	1,691	320	2,009	2,386	2,923	1,262	6,291	8,580
Net Profit	3,675	5,050	4,299	2,377	4,250	5,385	5,413	3,185	15,401	18,233
% Change (YoY)	2.6	19.7	16.0	-17.7	15.6	6.6	25.9	34.0	7.0	18.4
Cost to Income Ratio (%)	58.6	45.7	45.9	54.6	66.8	51.4	48.0	50.2	50.7	53.1
Int exp/ Int Earned (%)	52.7	52.1	52.3	56.8	60.4	62.7	60.8	62.1	53.6	61.5
Other Income / Net Income (%)	-1.9	22.4	22.6	30.6	0.9	26.6	25.3	23.7	20.5	20.5

E: MOST Estimates

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State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SBIN IN
	REUTERS CODE
S&P CNX: 4,942	SBI.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs1,680

Equity Shares (m)	631.6	YEAR	NET INCOME	PAT	EPS	CON. EPS	CON.	P/BV	CON.	CAR	ROAE	ROAA
52-Week Range	2397/863	END	(RS B)	(RS B)	(RS)	(RS)	P/E (X)	(X)	P/BV (X)	(%)	(%)	(%)
1,6,12 Rel.Perf.(%)	-9/-3/56	3/07A	218.2	45.4	86.3	120.9	14.1	2.9	2.5	12.3	15.4	0.9
MCap. (Rs b)	1060.8	3/08E	254.1	65.8	104.3	141.3	12.0	2.0	1.9	13.3	15.6	1.0
MCap. (US\$ b)	26.6	3/09E	299.0	79.2	125.4	168.1	10.1	1.8	1.7	13.2	14.0	1.0
		3/10E	353.4	94.9	150.2	204.6	8.3	1.6	1.5	12.1	14.9	1.0

Consolidated

- ✍ We expect margins to remain stable QoQ but decline YoY. Cost of funds is expected to remain stable. We do not expect lending rate cut to materially affect overall yields for bank during 4QFY08. However, absence of CRR interest coupled with lower margins would keep NII growth muted.
- ✍ We estimate advances growth at ~24% YoY and deposit growth at ~22% YoY.
- ✍ Fee income growth would remain strong at ~15%. Treasury profits are likely to be subdued.
- ✍ We expect SBI to accelerate its NPA provisions during the quarter to improve the coverage ratio. The bank has not made any provision towards the transitional liability on account of revised AS-15. Whether the estimated shortfall of ~Rs45b is routed through opening reserves or through profit and loss account would be a key aspect to watch out for in 4QFY08.
- ✍ The stock is trading at 8.3x FY10E consolidated EPS and 1.6x FY10E consolidated BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	84,786	87,996	94,464	117,296	110,905	116,163	126,668	136,026	384,542	489,762
Interest Expenses	49,466	52,593	60,072	72,237	68,891	78,534	84,105	90,674	234,368	322,203
Net Interest Income	35,320	35,403	34,392	45,059	42,014	37,629	42,564	45,353	150,174	167,559
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	19.0	6.3	23.8	0.7	0.0	11.6
Other Income	10,882	14,377	18,220	24,582	11,386	20,419	26,972	27,730	68,060	86,508
Net Income	46,202	49,780	52,612	69,641	53,400	58,049	69,536	73,083	218,235	254,067
Operating Expenses	28,146	28,655	29,110	32,325	29,785	30,916	32,938	35,078	118,235	128,718
Operating Profit	18,056	21,125	23,502	37,316	23,615	27,132	36,597	38,005	99,999	125,349
% Change (Y-o-Y)	N.M	N.M	N.M	N.M	30.8	28.4	55.7	1.8	21.2	25.4
Other Provisions	2,511	3,213	6,619	11,753	1,594	857	8,044	13,558	24,096	24,054
Provision for Taxes	7,559	6,067	6,232	10,631	7,763	10,161	10,467	7,063	30,490	35,454
Net Profit	7,986	11,845	10,651	14,932	14,258	16,114	18,086	17,384	45,413	65,842
% Change (Y-o-Y)	-34.7	-2.5	-4.5	75.0	78.5	36.0	69.8	16.4	3.1	45.0
Cost to Income Ratio	60.9	57.6	55.3	46.4	55.8	53.3	47.4	48.0	54.2	50.7
Interest Exp / Interest Earned	58.3	59.8	63.6	61.6	62.1	67.6	66.4	66.7	60.9	65.8
Other Income / Net Income	23.6	28.9	34.6	35.3	21.3	35.2	38.8	37.9	31.2	34.0

E: MOST Estimates

Syndicate Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	SNDB IN
	REUTERS CODE
S&P CNX: 4,942	SBNK.BO

28 March 2008

Buy

Rs79

Previous Recommendation: Buy

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	522.0										
52-Week Range	131/57										
1,6,12 Rel.Perf.(%)	-11/-9/-3										
MCap. (Rs b)	41.4										
MCap. (US\$ b)	1.0										
	3/07A	27,685	7,161	13.7	33.5	5.8	1.3	11.7	21.9	1.0	1.4
	3/08E	28,711	8,565	16.4	19.6	4.8	1.1	11.3	21.2	0.9	1.2
	3/09E	32,541	8,801	16.9	2.8	4.7	0.9	10.8	18.7	0.8	1.0
	3/10E	36,780	9,855	18.9	12.0	4.2	0.8	10.8	18.2	0.8	0.9

- ⚡ We expect NII to remain subdued and margins to be under pressure on account of slower advances growth and increased cost of deposits.
- ⚡ Strong growth in fee-based income and healthy recoveries would ensure modest growth in non-interest income.
- ⚡ The bank would lose its MAT status in FY08. Thus, tax provisions would go up. We have assumed a 20% tax rate for FY08.
- ⚡ The stock is trading at 4.2x FY10E EPS and 0.8x FY10E BV. Valuations are attractive. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	12,308	14,373	16,353	17,366	18,463	19,386	19,870	20,406	60,401	78,124
Interest Expense	7,249	9,527	10,794	11,330	12,993	14,494	15,130	15,370	38,900	57,987
Net Interest Income	5,059	4,846	5,559	6,037	5,470	4,892	4,740	5,036	21,501	20,138
% Change (Y-o-Y)	7.1	1.0	3.9	53.3	8.1	0.9	-14.7	-16.6	14.3	-6.3
Other Income	1,222	1,616	1,407	1,938	1,531	2,164	2,786	2,093	6,185	8,573
Net Income	6,281	6,462	6,966	7,974	7,001	7,056	7,527	7,129	27,685	28,711
% Change (Y-o-Y)	3.9	6.4	6.8	35.3	11.5	9.2	8.0	-10.6	13.3	3.7
Operating Expenses	3,382	3,471	3,768	3,239	3,855	3,795	3,801	3,854	13,860	15,305
Operating Profit	2,900	2,991	3,198	4,736	3,145	3,261	3,726	3,274	13,826	13,406
Other Provisions	844	690	1,395	3,617	482	590	437	1,192	6,547	2,700
Tax Provisions	250	250	-458	76	453	395	557	736	118	2,141
Net Profit	1,806	2,051	2,261	1,043	2,210	2,276	2,732	1,346	7,161	8,565
% Change (Y-o-Y)	10.7	17.1	20.3	911.5	22.4	11.0	20.8	29.1	33.5	19.6
Cost to Income Ratio (%)	53.8	53.7	54.1	40.6	55.1	53.8	50.5	54.1	50.1	53.3
Interest Exp./Interest Income (%)	58.9	66.3	66.0	65.2	70.4	74.8	76.1	75.3	64.4	74.2
Other Income/Net Income (%)	19.5	25.0	20.2	24.3	21.9	30.7	37.0	29.4	22.3	29.9

E: MOST Estimates; HTM amortisation is included in the other income

Union Bank of India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	UNBK IN
	REUTERS CODE
S&P CNX: 4,942	UNBK.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs146

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	505.1	3/07A	34,768	8,454	16.7	25.3	8.7	1.6	12.8	19.2	0.9	1.7
52-Week Range	235/95	3/08E	40,973	11,281	22.3	33.4	6.5	1.3	11.6	21.8	1.0	1.4
1,6,12 Rel.Perf.(%)	-10/-5/21	3/09E	47,185	13,417	26.6	18.9	5.5	1.1	10.5	22.0	1.0	1.2
MCap. (Rs b)	73.8	3/10E	55,960	16,484	32.6	22.9	4.5	0.9	10.5	22.8	1.0	1.0
MCap. (US\$ b)	1.8											

- ✍ We expect margins to remain stable QoQ at 2.8-2.85%. Moderation in incremental cost of funds and stable yields would enable the bank to hold on to its margins.
- ✍ We expect moderate credit and deposit growth of ~22%, as the management's focus is on sustaining margins and reducing bulk deposits. The proportion of bulk deposits continues to be ~20%. However, strong growth in CASA and retail term deposits is likely to lower cost of funds QoQ.
- ✍ Core fee income is likely to grow strongly at ~25% YoY on the back of increased thrust on marketing third-party products and scaling up traditional non-fund-based revenues. Strong recoveries could bring in positive surprises in other income growth.
- ✍ Net NPAs have reduced to <0.4% in 3QFY08. The management aims to further reduce net NPAs by following aggressive provisioning.
- ✍ Operating profit is expected to decline YoY on account of high base effect. However, lower provisioning would lead to 15% earnings growth during 4QFY08.
- ✍ The stock is trading at 4.5x FY10E EPS and 0.9x FY10E BV. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	16,657	17,724	18,492	20,950	21,112	22,548	24,586	25,686	73,819	93,932
Interest Expense	10,312	11,449	11,633	12,526	13,399	15,820	16,705	17,512	45,920	63,436
Net Interest Income	6,345	6,276	6,859	8,424	7,713	6,728	7,881	8,174	27,900	30,496
% Change (Y-o-Y)	18.7	4.2	7.3	40.9	21.6	7.2	14.9	-3.0	24.3	9.3
Other Income	1,258	1,918	1,660	2,033	1,783	2,708	3,475	2,511	6,868	10,477
Net Income	7,602	8,193	8,519	10,457	9,496	9,436	11,355	10,685	34,768	40,973
% Change (Y-o-Y)	16.8	15.8	9.4	35.6	24.9	15.2	33.3	2.2	21.2	17.8
Operating Expenses	3,730	3,910	3,860	3,259	4,241	4,153	4,996	4,627	14,759	18,017
Operating Profit	3,872	4,283	4,659	7,198	5,255	5,283	6,359	6,059	20,008	22,956
Other Provisions	1,186	1,220	1,030	2,768	1,554	976	1,108	1,962	6,204	5,600
Tax Provisions	1,018	1,122	1,067	2,144	1,450	1,550	1,600	1,475	5,350	6,075
Net Profit	1,668	1,942	2,562	2,286	2,251	2,758	3,651	2,622	8,454	11,281
% Change (Y-o-Y)	-30.6	217.8	11.8	58.1	34.9	42.0	42.5	14.7	25.3	33.4
Cost to Income Ratio (%)	49.1	47.7	45.3	31.2	44.7	44.0	44.0	43.3	42.5	44.0
Interest Exp./Interest Income (%)	61.9	64.6	62.9	59.8	63.5	70.2	67.9	68.2	62.2	67.5
Other Income/Net Income (%)	16.5	23.4	19.5	19.4	18.8	28.7	30.6	23.5	19.8	25.6

E: MOST Estimates; HTM Ammortisation is included in the other income

Vijaya Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	VJYBK IN
	REUTERS CODE
S&P CNX: 4,942	VJBK.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs52

	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	RATIO
Equity Shares (m)	433.5										
52-Week Range	97/38										
1,6,12 Rel.Perf.(%)	-13/-21/1										
MCap. (Rs b)	22.5										
MCap. (US\$ b)	0.6										
	3/07A	13,467	3,313	7.6	161.1	6.8	1.2	11.2	18.6	0.9	1.2
	3/08E	12,910	4,264	9.8	28.7	5.3	1.0	11.0	20.9	0.9	1.1
	3/09E	15,124	4,285	9.9	0.5	5.2	0.9	10.5	18.4	0.8	1.0
	3/10E	17,780	5,189	12.0	21.1	4.3	0.8	10.5	19.7	0.8	0.9

- ✍ We expect NII to decline 15% YoY to Rs2.5b, as margins continue to be under pressure on account of high bulk deposits intake by the bank during FY07. However, NII is likely to improve by 12%, sequentially.
- ✍ Healthy recoveries and lower than expected NPA provisions could lead to positive earnings surprises.
- ✍ Business growth would continue to be strong for the bank. Advances are likely to show 25%+ YoY growth while deposits would post 20%+ growth YoY. CASA ratio has improved in 3QFY08 to 31% and is expected to stabilize near 30%.
- ✍ The bank ranks amongst the best in terms of asset quality, with gross NPAs at 1.96% and net NPAs at 0.5%. We expect incremental NPA provisions to remain low during the quarter.
- ✍ The stock trades at 4.3x FY10E EPS and 0.8x FY10E BV. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	6,134	6,742	7,319	8,036	8,982	9,644	10,225	11,076	28,231	39,928
Interest Expense	3,551	4,144	4,669	5,148	6,346	7,452	8,034	8,624	17,512	30,456
Net Interest Income	2,583	2,598	2,650	2,888	2,636	2,192	2,191	2,453	10,719	9,471
% Change (Y-o-Y)	8.9	11.6	2.3	18.6	2.0	-15.6	-17.3	-15.1	10.2	-11.6
Other Income	717	551	530	952	685	869	1,167	718	2,748	3,438
Net Income	3,300	3,149	3,180	3,840	3,321	3,060	3,358	3,171	13,467	12,910
% Change (Y-o-Y)	-2.9	-3.7	-4.3	19.2	0.7	-2.8	5.6	-7.6	7.2	-4.1
Operating Expenses	1,498	1,550	1,657	1,802	1,609	1,615	1,771	1,816	6,507	6,810
Operating Profit	1,801	1,598	1,523	2,039	1,713	1,446	1,586	1,355	6,960	6,099
Other Provisions	955	308	335	1,885	349	311	-225	465	3,483	900
Tax Provisions	120	268	260	-483	250	83	543	61	164	936
Net Profit	726	1,023	928	637	1,114	1,053	1,269	829	3,313	4,264
% Change (Y-o-Y)	163.7	36.3	57.8	NA	53.3	2.9	36.8	30.2	161.1	28.7
Cost to Income Ratio (%)	45.4	49.2	52.1	46.9	48.4	52.8	52.8	57.3	48.3	52.8
Interest Exp./Interest Income (%)	57.9	61.5	63.8	64.1	70.7	77.3	78.6	77.9	62.0	76.3
Other Income/Net Income (%)	21.7	17.5	16.7	24.8	20.6	28.4	34.8	22.6	20.4	26.6

E: MOST Estimates

Cement

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

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Shree Cement	108
UltraTech Cement	109

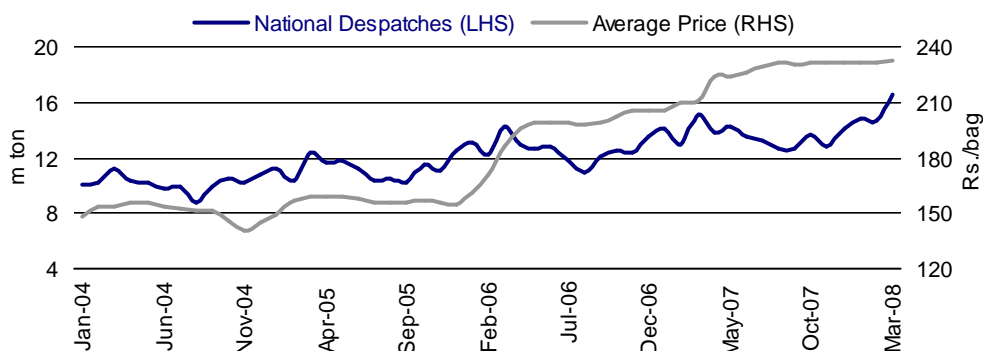
YoY comparative (v/s 4QFY07)

- ✘ Volumes expected to be higher by 9.2%
- ✘ Prices expected to be higher by 11%

QoQ comparative (v/s 3QFY08)

- ✘ Volumes expected to be higher by 13%
- ✘ Prices expected to be higher by 0.4%

CEMENT INDUSTRY DYNAMICS: DEMAND AND PRICE TRENDS



Source: CMA/MOST

MOST CEMENT UNIVERSE: 4QFY08 PERFORMANCE AT A GLANCE

	VOLUME (M TON)			REALIZATION*
	4QFY08	4QFY07	GR. (%)	YOY (%)
ACC	5.2	4.9	4.6	5.3
Grasim	4.6	4.3	6.5	7.7
Ambuja Cement	4.0	3.9	2.0	9.6
Ultratech	4.9	5.0	-3.6	6.1
Birla Corp	1.33	1.32	0.8	3.8
India Cement	2.18	1.74	25.5	23.6
Shree Cement	1.9	1.3	51.2	9.2
Industry*	46.1	42.2	9.2	11.0

* Adjusted for increase in excise

Source: CMA/Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO		SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Cement							
ACC	Neutral	17,839	9.1	4,681	-7.7	2,937	-10.6
Ambuja Cements	Buy	16,433	14.6	5,270	-6.4	3,587	-6.3
Birla Corporation	Buy	4,561	2.7	1,561	2.4	1,011	-0.1
Grasim Industries	Buy	27,006	8.3	8,453	21.8	5,174	15.3
India Cements	Buy	8,256	43.4	2,973	56.0	1,607	14.9
Shree Cement	Buy	6,246	65.1	2,468	63.2	1,164	2791.4
Ultratech Cement	Buy	15,670	6.9	4,950	21.2	2,801	21.0
Sector Aggregate		96,011	13.9	30,356	13.8	18,282	11.7

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Pricing: cement prices stable

4QFY08 highlights

- ✎ **YoY comparative:** higher by 11%
- ✎ **QoQ comparative:** higher by 0.5%

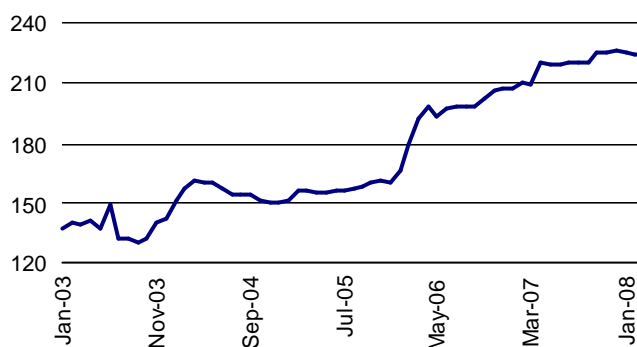
4QFY08: SUMMARY PRICING TREND

	PRICE CHANGE (%) *	
	YOY	QOQ
North	7.5	-0.4
East	4.4	-1.8
West	10.4	1.9
South	21.7	2.2
Central	6.1	-1.8
National	11.0	0.4

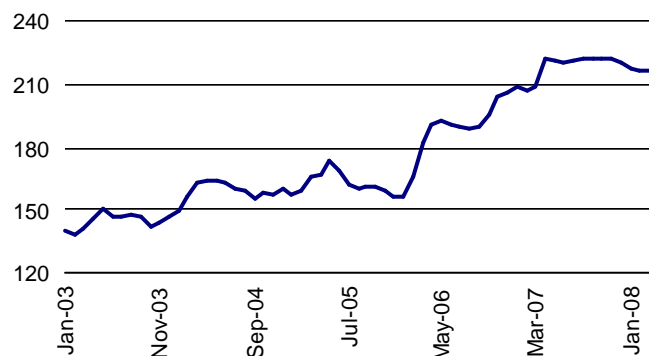
* adjusted for changes in prices for excise duty

Source: Industry/Motilal Oswal Securities

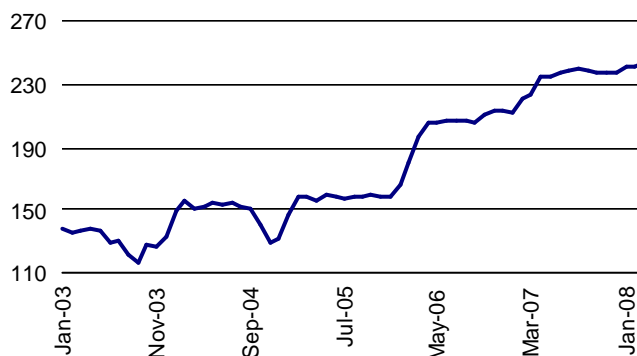
PRICE TREND – NORTH (RS/BAG)



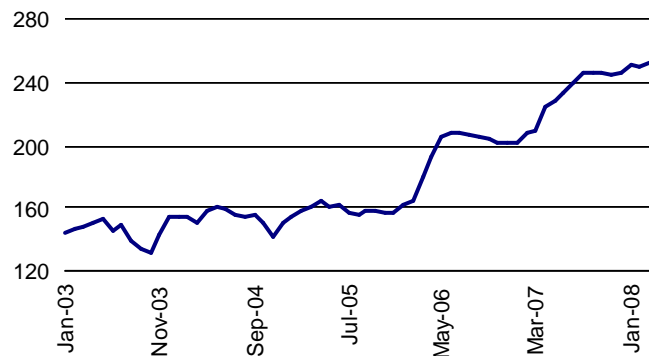
PRICE TREND – EAST (RS/BAG)



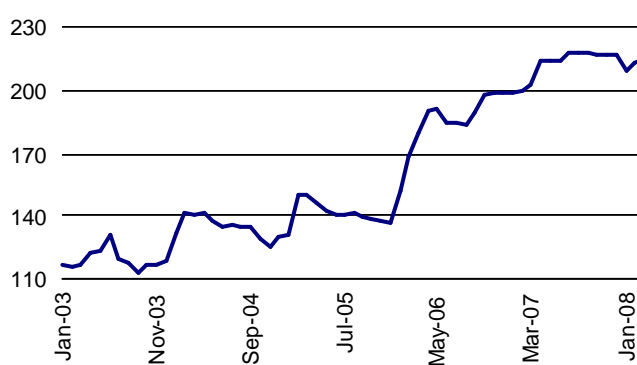
PRICE TREND – WEST (RS/BAG)



PRICE TREND – SOUTH (RS/BAG)



PRICE TREND – CENTRAL (RS/BAG)

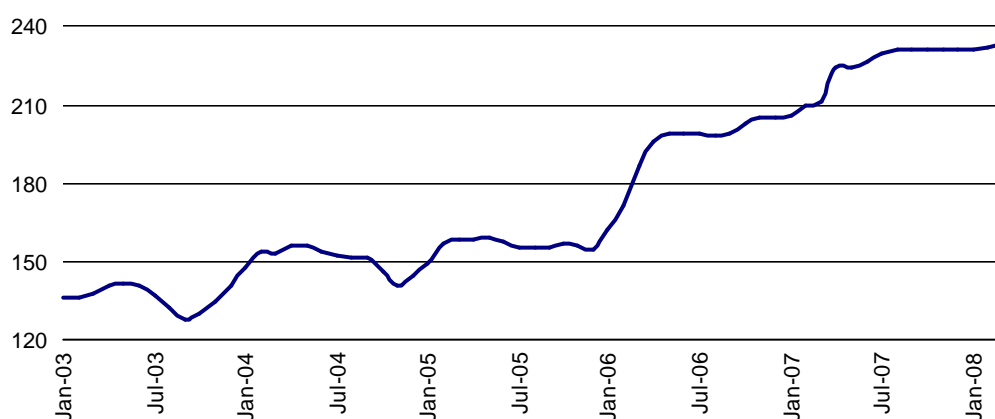


Source: CMA/Motilal Oswal Securities

4QFY08: cement prices stable; demand growth picking up

Cement prices remained stable in 4QFY08, with some pick-up in demand from mid-February after seasonal slowdown in 3QFY08. While cement prices were up ~11% YoY, they were stable on a QoQ basis. Cement demand picked up, with 9.2% growth in 4QFY08 after 5.9% growth in 3QFY08. Demand growth witnessed some build-up in momentum from mid-February, after 5% growth in January. Demand growth was also restricted by supply constraints, as the industry operated at 106% capacity utilization during 4QFY08. Demand growth is expected to accelerate further, as construction peaks before monsoon.

TREND IN CEMENT PRICES (NATIONAL AVERAGE, RS/BAG)



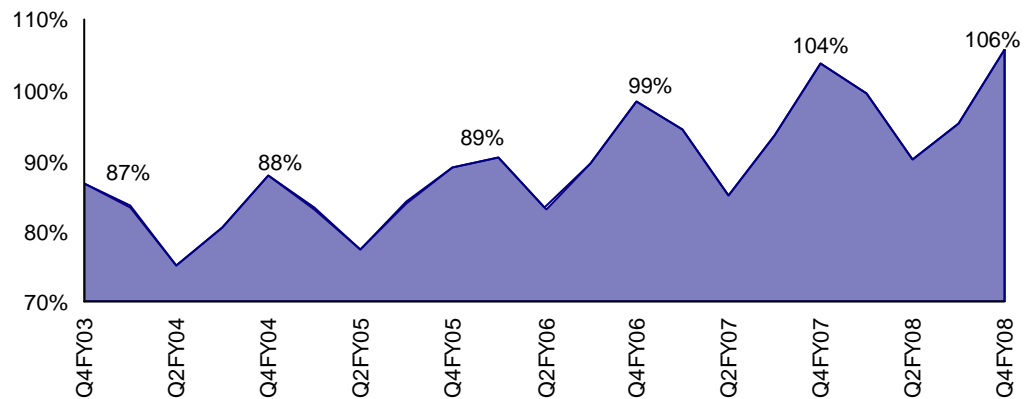
Source: CMA/Motilal Oswal Securities

Cement prices remained stable during 4QFY08 at Rs232/bag. However, severe and prolonged winter (in the North) along with weak demand (in Central & East India) impacted pricing in these regions. Also, being a budget period, the industry exercised self-restraint in increasing prices. Stable prices in 4QFY08 despite lower demand growth, reflects strong underlying demand-supply dynamics. Cement prices are expected to remain stable at current levels, but any cost-push is likely to be passed on.

Capacity utilization remains high

High growth in demand and limited capacity addition has resulted in continuously higher capacity utilization for industry. Cement industry's capacity utilization for 4QFY08 reached 106%, the highest in seven years. Capacity utilization for the industry is likely to remain high due to continued higher demand and low capacity addition. For FY08, we estimate capacity utilization at 97.5% for the industry, reflecting strong demand growth without adequate capacity addition.

TREND IN CAPACITY UTILIZATION



Source: CMA/Motilal Oswal Securities

Supplies are stretched and expansions delayed...

Supply continues to face challenges in its response to growing cement demand. This has been intensified by a prolonged period of underinvestment in capacity addition. As a result, the industry is stretched in its attempt to meet stronger demand, thereby operating above optimum range and leaving no further room for expanding production. The industry has reached its peak utilization in 4QFY08 (~106%), as against optimum capacity utilization of around 90%. This coupled with delay in capacity additions has further aggravated the supply situation.

...restricting demand growth

Lack of adequate supply has restricted demand growth over the past few quarters, as reflected in 8.3% growth in FY08. We believe that the cement demand growth could have been higher than reported demand growth, suggesting latent demand which remains under-serviced due to lack of adequate supply. With few new capacities expected to come over the next six months, the supply situation is expected to ease slightly, thereby boosting demand growth.

Expect cement prices to remain stable

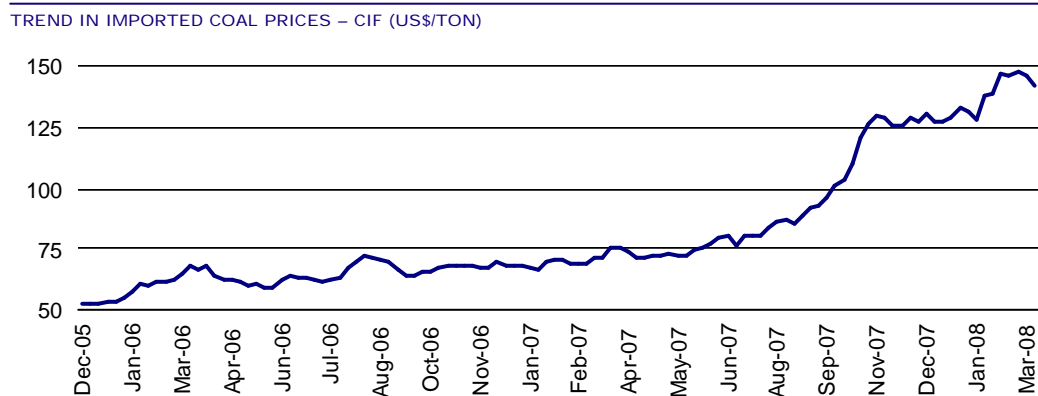
With the government's focus to contain inflation, the cement industry is expected to maintain pricing at current levels. While we do not anticipate any significant increase in cement prices from here on, we do not rule out marginal and gradual increase in prices to offset cost push.



Source: Bloomberg

Spiraling energy cost to restrict margin expansion

Coal prices, both domestic and imported, are on an uptrend. While imported coal prices have gone up by around 15% QoQ, domestic coal prices have gone up by 10-15% from 13 December 2007. Escalating coal prices would push overall cost up by Rs50-70/ton QoQ. However, this cost push is expected to be passed on to the consumer, though with a lag, resulting in stable margins. Our estimates now factor in current coal prices and any further increase would put pressure on margins.



Source: Bloomberg

Budget increases excise duty for bulk segment

The Finance Minister has increased the excise duty on bulk cement (non-retail) to higher of 14% ad-valorem or Rs400/ton from Rs400/ton earlier and on clinker to Rs450/ton from Rs350/ton. However, it has kept excise on bagged cement (with MRP printed) at existing level of 12.5% ad-valorem. Increase in excise duty for bulk segment would result in higher excise of Rs5-6/bag. The bulk segment has grown to around 40% of total cement sales for the industry, driven by favorable excise regime earlier. The new policy measure reduces scope for increase in cement prices, as any further increase in bulk cement prices would be first to compensate for higher excise. However, increase in clinker excise wouldn't

have any impact as it would be set off against excise payable on cement. If this increase in excise is not passed on, our earnings estimates for FY09 would be lowered by 3-7%. Our interactions with industry participants suggest that the incremental burden of excise duty has been passed on to the bulk consumers. Hence, we are maintaining our FY09 price assumption at flat prices over FY08E average (which is lower by Rs4/bag than March 2008 prices).

Strong volume growth, higher prices to drive earnings growth

We expect our cement universe to report volume growth of around 6%, primarily driven by strong volume growth of 51% for Shree Cement and 15% for India Cement (due to Visaka merger). However, other cement companies under our coverage are likely to report muted volume growth, as they are operating at optimum capacity. Improvement in realizations (~Rs259/ton YoY and Rs33/ton QoQ) would dilute the impact of cost push, driving improvement of Rs30/ton YoY in EBITDA (~Rs36/ton QoQ) to Rs1,107/ton.

TREND IN KEY OPERATING PARAMETERS (JAN-MAR QUARTER)

	VOLUME (M TON)			REALIZATION (RS/TON)			EBITDA (RS/TON)		
	MAR-08	YOY (%)	QOQ (%)	MAR-08	YOY (RS/T)	QOQ (RS/T)	MAR-08	YOY (RS/T)	QOQ (RS/T)
ACC	5.2	4.6	2.8	3457	174	40	907	-187	176
Birla Corp	1.4	-1.2	5.5	3036	112	20	1149	-24	-39
Grasim	4	2	6.4	3265	286	50	1256	87	66
Ambuja Cement	4.6	6.5	8.5	3557	253	20	1141	-157	-41
India Cement	2.4	15.3	9.8	3425	654	30	1241	323	119
Shree Cement	1.9	51.2	19.3	3238	273	0	1280	94	-114
UltraTech	4.9	-3.6	11.2	3046	174	55	1019	208	-53
Sector Aggregate	24.4	5.9	8.1	3318	259	33	1107	30	36

Source: Company/Motilal Oswal Securities

Overall, we expect our cement universe's revenue to grow 16% YoY, with EBITDA margin declining 180bp (~110bp QoQ expansion) to 32.1%, translating into 12% YoY increase in PAT.

TREND IN KEY FINANCIAL PARAMETERS (OCT-DEC QUARTER)

	NET SALES (RS M)			EBITDA MARGIN (%)			NET PROFIT (RS M)		
	MAR-08	YOY (%)	QOQ (%)	MAR-08	YOY (BP)	QOQ (BP)	MAR-08	YOY (%)	QOQ (%)
ACC	17,839	9.1	1.1	26.2	-708	485	2,937	-10.6	27.6
Birla Corp	4,561	2.7	5.4	40	567	520	1,197	18.3	12.5
Grasim	16,018	16.9	7.2	32.2	-205	135	5,434	21.1	-1.2
Ambuja Cement	16,433	14.6	9.1	32.1	-720	-135	3,587	-6.3	72.2
India Cement	8,256	43.4	11.9	36	291	283	1,607	14.9	26.5
Shree Cement	6,246	65.1	19.3	39.5	-47	-351	1,164	2,791.4	232.4
UltraTech	15,670	6.9	13.4	31.6	371	-231	2,801	21	0.2
Sector Aggregate*	85,022	16.4	8.4	32.1	-182	113	13,294	11.9	34.8

*Sector PAT excl Grasim

Source: Company/Motilal Oswal Securities

Downgrading earnings estimates to factor in lower volumes, cost push

We are downgrading our earnings estimates for FY09 and FY10 to factor in lower than expected volumes (due to delay in capacity additions and ramp-up), higher energy prices and higher freight. Our estimates for imported coal prices are now re-based at current level. Our estimates are based on flat prices for FY09 over FY08 (average) and Rs5/bag decline in FY10. Our earnings estimates are lowered by 3-12% for FY08 and by 1-11% for FY09. While our estimates factor in the impact of higher energy prices, they do not factor in the impact of any pass-through of cost push to consumers.

REVISED EPS FORECAST (RS)

	FY09E			FY10E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
ACC	63.5	71.5	-11.3	58.8	67.2	-12.6
Ambuja Cement	9.1	10.1	-9.6	9.5	10.0	-5.2
Grasim	287.7	327.6	-12.2	294.0	329.6	-10.8
UltraTech	89.0	98.7	-9.8	90.0	98.2	-8.3
Birla Corp	53.7	55.2	-2.8	56.4	56.8	-0.8
India Cement	23.4	24.9	-5.9	23.1	24.6	-6.1
Shree Cement	148.3	160.1	-7.4	167.5	178.1	-6.0

Source: Motilal Oswal Securities

Valuation and view

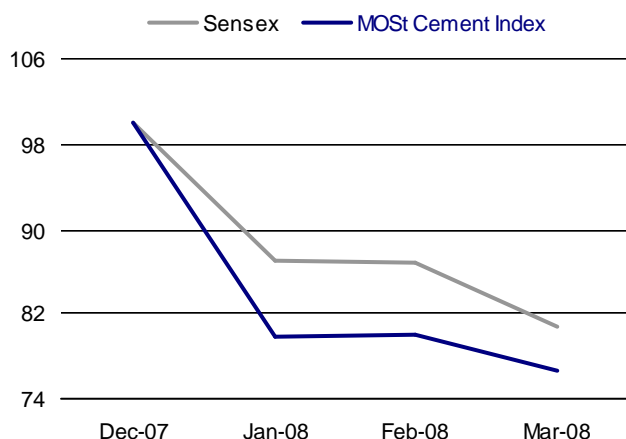
High volume growth and limited capacity addition has improved demand-supply scenario for industry significantly. The industry is going through a cyclical upturn, which is likely to continue at least till 1H CY09. However, margins are expected to remain under pressure with stable pricing and energy cost push. We prefer companies that are ahead of the curve in adding capacity, and have strong cost saving possibilities. Amongst the large caps, Grasim remains our top pick, while we prefer Birla Corp, India Cement, Kesoram and Shree Cement among mid-caps.

Stock performance and valuations

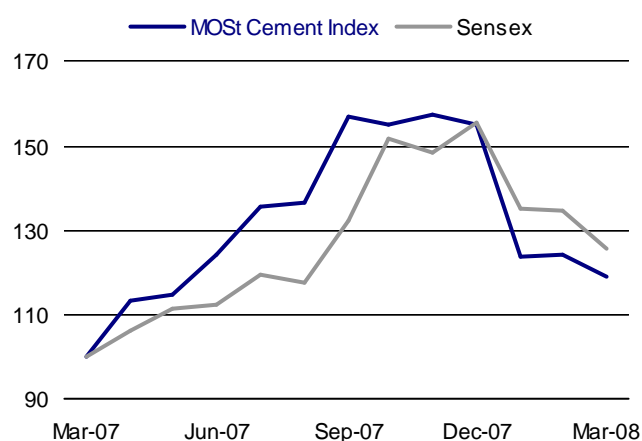
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Cement						
ACC	-17	14	2	-13	5	-7
Birla Corporation	-40	7	-21	-20	-18	-13
Grasim Industries	-25	31	-7	4	-3	10
Ambuja Cement	-17	21	2	-6	5	0
India Cement	-36	22	-17	-5	-14	1
Shree Cement	-24	4	-5	-23	-1	-17
Ultratech Cemco	-20	3	-1	-24	2	-18

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Cement														
ACC	835	Neutral	64.0	63.5	58.8	13.1	13.2	14.2	7.3	7.1	7.8	29.0	24.0	19.5
Ambuja Cements	124	Buy	7.1	9.1	9.5	17.4	13.5	13.0	8.7	8.6	8.4	26.7	27.0	23.8
Birla Corporation	197	Buy	53.0	51.8	54.5	3.7	3.8	3.6	2.0	1.6	0.9	40.4	29.6	24.7
Grasim Industries	2,705	Buy	295.9	287.7	294.0	9.1	9.4	9.2	4.7	4.2	3.7	29.4	22.9	19.4
India Cements	194	Buy	23.7	23.4	23.1	8.2	8.3	8.4	5.7	5.1	4.6	34.4	23.2	18.9
Shree Cement	1,007	Buy	107.5	148.3	167.5	9.4	6.8	6.0	4.6	3.3	2.4	59.5	49.4	37.4
Ultratech Cement	781	Buy	80.2	89.0	90.0	9.7	8.8	8.7	6.7	5.5	5.0	44.8	34.6	26.4
Sector Aggregate						10.6	10.0	9.9	5.9	5.3	4.9	32.1	26.3	21.9

ACC

STOCK INFO. BLOOMBERG
BSE Sensex: 16,371 ACC IN
REUTERS CODE
S&P CNX: 4,942 ACC.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs835

Equity Shares (m) 187.8
52-Week Range 1,315/615
1,6,12 Rel. Perf. (%) 12/-25/-13
MCap. (Rs b) 156.8
MCap. (US\$ b) 3.9

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	57,170	11,094	59.0	161.7	14.1	5.0	35.3	31.3	2.7	9.5
12/07A	68,780	12,020	64.0	8.3	13.1	3.8	29.0	32.5	2.0	7.3
12/08E	73,292	11,925	63.5	-0.8	13.2	3.2	24.0	28.6	1.8	7.1
12/09E	80,761	11,043	58.8	-7.4	14.2	2.8	19.5	22.6	1.7	7.8

* Fully Diluted EPS

- Standalone 1QCY08 results are not comparable, as ACC has divested its RMC business into a separate subsidiary. Dispatches for the quarter are expected to grow 4.6% to 5.16m ton due to muted January 2008 dispatches. Average realizations are likely to be higher by 5.3% YoY (~1.2% QoQ) at Rs3,457/ton.
- Net sales are likely to grow by 9% YoY to Rs17.8b, driven by improvement in realizations. EBITDA margins would decline by 480bp to 26%, as fixed costs are expected to remain high on account of capitalisation of SAP phase-II expenses. Higher depreciation (up 17.5%) and higher tax provisioning (at 30% of PBT v/s 25.7% in 1QCY07) would restrict recurring PAT at Rs3.4b. During the quarter, ACC sold its subsidiary, ACC Machinery, for a consideration of Rs450m. We estimate profit of Rs351m arising from this sale, which would boost reported PAT to Rs3.18b.
- We are revising our EPS estimates downwards by 11% for CY08 to Rs63.5 and by 12.6% to Rs58.8 for CY09 to factor in lower than expected volumes and higher freight cost. Given its high operating leverage and largest capacity, ACC would be one of the biggest beneficiaries of the current upturn in cement prices. However, valuations at 13.2x CY08E EPS and an EV of 7.1x CY08E EBITDA appear rich. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Cement Sales (m ton)	4.93	5.34	4.68	5.02	5.16	5.08	5.00	6.13	20.0	21.4
YoY Change (%)	-2.4	15.3	9.9	3.5	4.6	-4.9	6.8	22.1	6.1	7.0
Cement Realization	3,283	3,365	3,460	3,417	3,457	3,457	3,397	3,411	3,380	3,430
YoY Change (%)	28.6	9.3	10.5	7.1	5.3	2.7	-1.8	-0.2	13.8	1.5
QoQ Change (%)	2.9	2.5	2.8	-1.2	1.2	0.0	-1.7	0.4		
Net Sales	16,348	18,427	16,369	17,637	17,839	17,562	16,986	20,904	68,780	73,292
YoY Change (%)	22.3	28.7	20.2	10.8	9.1	-4.7	3.8	18.5	20.3	6.6
EBITDA	5,071	5,444	4,486	4,172	4,681	4,862	3,986	5,536	19,174	19,065
Margins (%)	31.0	29.5	27.4	23.7	26.2	27.7	23.5	26.5	27.9	26.0
Depreciation	621	633	707	1,089	730	745	765	780	3,051	3,020
Interest	40	-23	-9	231	50	45	45	40	239	180
Other Income	284	283	284	437	295	240	230	405	1,288	1,170
PBT before EO Item	4,694	5,116	4,072	3,289	4,196	4,312	3,406	5,121	17,172	17,035
EO Income/(Expense)	200	0	39	1,893	351	0	0	0	2,131	351
PBT after EO Item	4,894	5,116	4,111	5,182	4,547	4,312	3,406	5,121	19,303	17,386
Tax	1,256	1,604	1,186	871	1,364	1,294	1,022	1,536	4,917	5,216
Rate (%)	25.7	31.3	28.9	16.8	30.0	30.0	30.0	30.0	25.5	30.0
Reported PAT	3,638	3,512	2,925	4,311	3,183	3,019	2,384	3,584	14,386	12,170
Adjusted PAT	3,286	3,581	2,850	2,302	2,937	3,019	2,384	3,584	12,020	11,925
Margins (%)	20.1	19.4	17.4	13.1	16.5	17.2	14.0	17.1	17.5	16.3
YoY Change (%)	44.1	17.8	26.8	-33.6	-10.6	-15.7	-16.4	55.7	8.3	-0.8

E: MOST Estimates; Note: The quarterly results are not strictly comparable due to demerger of RMC business.

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Ambuja Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ACEM IN
	REUTERS CODE
S&P CNX: 4,942	GACM.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs124

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,520.7										
52-Week Range	161/100										
1,6,12 Rel. Perf. (%)	10/-9/-6										
MCap. (Rs b)	188.0										
MCap. (US\$ b)	4.7										
	12/06A	48,479	13,401	8.8	114.7	14.0	5.4	47.4	43.3	3.6	9.8
	12/07E	57,048	10,814	7.1	-19.5	17.4	4.1	26.7	41.6	3.1	8.7
	12/08E	63,540	13,909	9.1	28.6	13.5	3.3	27.0	33.6	2.7	8.6
	12/09E	75,117	14,470	9.5	4.0	13.0	2.9	23.8	30.3	2.4	8.4

- We estimate Ambuja Cement's 1QCY08 sales at Rs16.4b, up ~14.6% YoY. Dispatches are likely to grow ~6.5% YoY to 4.62m ton whereas average realizations would be Rs3,557/ton (up ~7.7% YoY and 0.6% QoQ). Ambuja's volume growth has been restricted due to capacity constraint.
- EBITDA margins are likely to decline by 720bp YoY to 32.1%, impacted by spiraling imported coal prices. EBITDA at Rs5.27b (~6% decline) would translate into PAT decline of 6% to Rs3.6b.
- The company is witnessing capacity constraint, as its new capacities are expected to come in only 1QCY09 onwards. However, Ambuja intends to grow volumes by buying clinker and grinding it at its recently commissioned grinding units. While this strategy would add to growth, it could be margin dilutive.
- We are revising our EPS estimates downwards by 9.6% to Rs9.1 for CY08 and by 5.2% to Rs9.5 for CY09, due to increase in coal prices (domestic as well as imported) and lower than expected volumes. Being a pure play on cement, with the ability to grow volumes faster and more efficiently, valuations at 13.5x CY08E earnings and an EV of 8.6x CY08E EBITDA appear reasonable.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales Volume (m ton)	4.34	4.39	3.77	4.26	4.62	4.70	4.05	4.63	16.76	18.00
YoY Change (%)	3.8	1.7	3.0	3.4	6.5	7.1	7.4	8.7	133.3	83.3
Realization (Rs/ton)	3,304	3,336	3,448	3,537	3,557	3,557	3,497	3,505	3,404	3,530
YoY Change (%)	28.6	9.6	11.6	9.6	7.7	6.6	1.4	-0.9	76.5	99.6
QoQ Change (%)	2.4	1.0	3.4	2.6	0.6	0.0	-1.7	0.2	66.3	18.7
Net Sales	14,338	14,644	12,999	15,067	16,433	16,717	14,162	16,228	57,048	63,540
YoY Change (%)	33.5	11.5	14.9	13.4	14.6	14.2	8.9	7.7	312.1	266.2
EBITDA	5,631	5,453	4,332	5,036	5,270	5,468	4,237	5,029	20,451	20,004
Margins (%)	39.3	37.2	33.3	33.4	32.1	32.7	29.9	31.0	35.8	31.5
Depreciation	598	583	584	598	605	620	630	676	2,363	2,531
Interest	18	-211	-156	1,108	135	125	120	120	759	500
Other Income	257	487	184	1,008	350	600	300	700	1,935	1,950
PBT before EO Item	5,271	5,567	4,088	4,338	4,880	5,323	3,787	4,933	19,265	18,923
Extraordinary Inc/(Exp)	2,408	5,747	-270	-26	0	3,032	0	0	7,859	3,032
PBT after EO Exp/(Inc)	7,679	11,314	3,818	4,313	4,880	8,355	3,787	4,933	27,124	21,955
Tax	1,772	2,537	893	4,231	1,293	1,782	1,004	1,307	9,433	5,386
Rate (%)	23.1	22.4	23.4	98.1	26.5	21.3	26.5	26.5	34.8	24.5
Reported Profit	5,907	8,778	2,924	82	3,587	6,573	2,784	3,626	17,691	16,569
Adj PAT	3,826	4,036	3,133	2,083	3,587	3,912	2,784	3,626	10,814	13,919
YoY Change (%)	42.6	23.2	19.7	-38.3	-6.3	-3.1	-11.2	74.1	60.4	479.3

E: MOST Estimates

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Birla Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BJUT IN
	REUTERS CODE
S&P CNX: 4,942	BRLC.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs197

Equity Shares (m)	77.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	386/162	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-4/-36/-20	03/07A	15,669	3,262	42.4	37.9	4.6	2.3	49.0	46.9	0.9	2.7
MCap. (Rs b)	15.2	03/08E	16,922	4,081	53.0	25.1	3.7	1.5	40.4	37.2	0.7	2.0
MCap. (US\$ b)	0.4	03/09E	17,862	3,992	51.8	-2.2	3.8	1.1	29.6	30.6	0.5	1.6
		03/10E	20,924	4,199	54.5	5.2	3.6	0.9	24.7	27.1	0.3	0.9

- ✍ We expect revenues to grow 3% YoY to Rs4.56b. Cement realizations are likely to be up 3.8% YoY (~0.7% QoQ) to Rs3,036/ton. However, sales volumes would decline marginally by 1.2% to 1.4m ton due to capacity constraint and shutdown at the Durgapur plant.
- ✍ Higher cost push coupled with higher losses in non-cement businesses would restrict EBITDA margin to 34.2%, translating into marginal EBITDA growth of 2.4%. However, higher tax provisioning (at 32.1% of PBT v/s 30.6% in 4QFY07) would result in PAT being flat at Rs1.01b.
- ✍ Birla Corp's management has suspended work from 11 March 2008 at its grinding units (~1.6m ton grinding capacity) at Durgapur, West Bengal, due to disagreements with the labor union. This unit has annual production of around 0.65m ton and is fed clinker from the Satna unit. Although negotiations are going on to restore normal operations, it is difficult to estimate exact timing of restart of operations. Also, actual impact of closure of grinding units would be limited, as the company would relocate part of the clinker to its UP and Rajasthan plants and can also sell excess clinker production. We have assumed loss of production for 20 days in March.
- ✍ We are revising our EPS estimates downward by 4.6% to Rs51.8 for FY09 and by 4.8% to Rs54.5 for FY10, to factor in the increase in domestic coal prices. The stock quotes at a forward P/E of 3.8x, EV/EBITDA of 1.6x. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cement Sales (m ton)	1.25	1.25	1.32	1.42	1.28	1.20	1.33	1.40	5.23	5.21
YoY Change (%)	-2.0	6.1	4.9	-5.4	2.9	-4.2	0.8	-1.2	0.5	-0.4
Cement Realization	2,568	2,621	2,795	2,923	2,972	3,064	3,016	3,036	2,734	3,021
YoY Change (%)	28.8	36.0	44.2	25.7	15.8	16.9	7.9	3.8	32.7	10.5
QoQ Change (%)	10.5	2.1	6.6	4.6	1.7	3.1	-1.6	0.7		
Net Sales	3,489	3,647	4,093	4,441	4,093	3,940	4,329	4,561	15,669	16,922
YoY Change (%)	25.0	39.9	45.4	12.7	17.3	8.0	5.8	2.7	28.9	8.0
EBITDA	1,027	979	1,404	1,524	1,438	1,500	1,506	1,561	4,934	6,004
Margins (%)	29.4	26.8	34.3	34.3	35.1	38.1	34.8	34.2	31.5	35.5
Depreciation	97	96	96	108	103	103	102	103	397	411
Interest	43	31	35	76	50	53	54	59	185	216
Other Income	39	53	55	119	88	98	97	90	265	372
Profit before Tax	927	905	1,328	1,458	1,372	1,441	1,447	1,489	4,617	5,748
Tax	303	229	377	446	398	409	382	478	1,355	1,667
Rate (%)	32.7	25.3	28.4	30.6	29.0	28.4	26.4	32.1	29.3	29.0
Adjusted PAT	624	675	951	1,012	975	1,031	1,065	1,011	3,262	4,081
Margins (%)	17.9	18.5	23.2	22.8	23.8	26.2	24.6	22.2	20.8	24.1
YoY Change (%)	168.3	271.9	452.5	50.7	56.3	52.7	11.9	-0.1	37.9	25.1

E: MOST Estimates

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Grasim Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	GRASIM IN
	REUTERS CODE
S&P CNX: 4,942	GRAS.BO

28 March 2008

Buy

Rs2,705

Previous Recommendation: Buy

Equity Shares (m)	91.7
52-Week Range	4,074/2,025
1,6,12 Rel. Perf. (%)	1/-18/4
MCap. (Rs b)	248.0
MCap. (US\$ b)	6.2

YEAR END*	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	140,952	19,683	214.7	89.7	12.6	3.7	29.6	32.0	2.2	7.7
03/08E	164,752	27,130	295.9	37.8	9.1	2.7	29.4	33.4	1.9	5.9
03/09E	187,011	26,379	287.7	-2.8	9.4	2.2	22.9	32.5	1.5	5.3
03/10E	207,365	26,956	294.0	2.2	9.2	1.8	19.4	29.2	1.2	4.8

* Consolidated

- ⚡ We expect Grasim (standalone) to post sales growth of 8.3% YoY to Rs27b in 4QFY08. Strong performance of the cement and VSF divisions would drive the company's overall operating performance and lead to margin expansion of 350bp to 31.3%. PAT would grow 15% to Rs5.17b. However, accounting for profit on sale of Shree Digvijay, reported PAT would stand at Rs7b.
- ⚡ Cement volumes are likely to grow by just 2% YoY to 4m ton, impacted by capacity constraint. With realizations expected to improve by 9.6% YoY to Rs 3,265/ton, the cement division's operating margins would expand by Rs87/ton to Rs1,256/ton.
- ⚡ VSF volumes are likely to be muted at 69,000 ton and realizations are likely to move up by 19% YoY (~2.8% QoQ decline) to Rs106/kg, being impacted by weak demand and resultant higher discounts of Rs8/kg. As a result, operating margins are expected to decline 690bp QoQ (~380bp YoY increase) to 34.6%.
- ⚡ We are revising our earnings estimates to factor in lower VSF realizations (due to higher discounts) and volumes, higher sulphur prices, lower cement volumes (due to slower ramp-up in new capacity) coupled with higher energy prices and delay in availability of gas (for sponge iron). As a result, our consolidated EPS estimates are downgraded by around 16.9% to Rs272 for FY09 and 13.4% to Rs286 for FY10. The stock trades at 9.4x FY09E EPS and an EV of 5.3x FY09E EBITDA. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	18,917	20,114	22,802	24,938	24,448	25,192	26,299	27,006	86,757	102,946
YoY Change (%)	21.8	22.0	38.3	36.3	29.2	25.2	15.3	8.3	29.4	18.7
EBITDA	5,135	5,326	6,690	6,942	7,921	8,050	8,563	8,453	24,094	32,988
Margins (%)	27.1	26.5	29.3	27.8	32.4	32.0	32.6	31.3	27.8	32.0
Depreciation	741	756	807	876	850	875	865	1,119	3,179	3,709
Interest	238	245	269	366	285	272	234	368	1,118	1,159
Other Income	375	502	444	776	677	573	650	699	2,097	2,600
PBT before EO Items	4,532	4,827	6,058	6,476	7,464	7,476	8,114	7,666	21,893	30,720
Extraordinary Inc/(Exp)	0	0	0	371	0	0	39	2,040	371	2,079
PBT after EO Items	4,532	4,827	6,058	6,847	7,464	7,476	8,153	9,706	22,264	32,799
Tax	1,413	1,449	1,942	2,102	2,347	2,478	2,616	2,746	6,906	10,187
Rate (%)	31.2	30.0	32.1	30.7	31.4	33.1	32.1	28.3	31.0	31.1
Reported PAT	3,119	3,378	4,116	4,745	5,117	4,998	5,538	6,959	15,358	22,611
Adj. PAT	3,119	3,378	4,116	4,488	5,117	4,998	5,511	5,174	15,102	20,800
YoY Change (%)	51.7	80.0	154.3	72.7	64.0	47.9	33.9	15.3	73.1	37.7

E: MOST Estimates; Quarterly results do not add-up to full year results due to restatement

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India Cements

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ICEM IN
	REUTERS CODE
S&P CNX: 4,942	ICMN.BO

28 March 2008

Buy

Rs194

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	281.9										
52-Week Range	333/146										
1,6,12 Rel. Perf. (%)	-1/-28/-5										
MCap. (Rs b)	54.8										
MCap. (US\$ b)	1.4										
	03/07A	22,552	4,788	17.6	818.6	11.0	3.6	43.0	22.0	3.1	9.4
	03/08E	30,258	6,938	23.7	34.3	8.2	2.1	34.4	25.5	2.1	5.7
	03/09E	37,294	6,864	23.4	-1.1	8.3	1.7	23.2	23.5	1.7	5.1
	03/10E	41,032	6,769	23.1	-1.4	8.4	1.4	18.9	21.2	1.4	4.6

- India Cement's 4QFY08 results are not comparable due to the merger of Visaka. India Cement (including Visaka) is expected to report sales growth of 43% YoY to Rs8.26b, driven by 23.6% YoY (0.9% QoQ) increase in realizations to Rs3,425/ton and volume growth of 15.3% to 2.4m ton.
- Higher realization would translate into EBITDA margin expansion of 290bp YoY to 36%, resulting in EBITDA being higher by 56% YoY to Rs3b. However, higher tax provisioning (at 33.5% of PBT v/s no tax in 4QFY07) would restrict PAT growth at 15% to Rs1.6b.
- Our estimates do not yet factor in the company's investments in the Chennai cricket team for Indian Premier League (IPL), which we view as a marketing expenditure rather than capital expenditure.
- We are revising our EPS estimates downward by 5.9% to Rs23.4 for FY09 and by 6.1% to Rs23.1 for FY10 to factor in further increase in imported coal prices. However, our estimates do not factor in any savings in cost of imported coal due to transport by own ship, which is expected to ply from 1QFY09 onwards. At current valuations of 8.3x FY09E EPS and an EV of 5.1x FY09E EBITDA, the stock appears attractive. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.08	2.31	2.27	2.18	2.40	7.55	9.15
YoY Change (%)	-2.6	-1.6	3.2	4.8	24.5	20.9	25.5	15.3	1.0	426.7
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,339	3,395	3,425	2,704	3,294
YoY Change (%)	30.1	33.2	31.9	29.9	16.4	22.2	25.0	23.6	31.0	21.3
QoQ Change (%)	22.2	4.9	-0.6	2.0	9.5	10.1	1.7	0.9	31.0	21.8
Net Sales	4,852	5,164	4,724	5,758	7,012	7,612	7,379	8,256	20,497	30,258
YoY Change (%)	27.4	31.9	36.3	36.2	44.5	47.4	56.2	43.4	32.9	47.6
Total Expenditure	3,197	3,438	3,394	3,852	4,369	4,539	4,930	5,282	13,880	19,120
EBITDA	1,655	1,726	1,331	1,906	2,643	3,074	2,449	2,973	6,617	11,138
Margins (%)	34.1	33.4	28.2	33.1	37.7	40.4	33.2	36.0	32.3	36.8
Depreciation	192	193	198	194	275	303	311	368	777	1,257
Interest	389	364	347	331	314	283	273	281	1,430	1,151
Other Income	54	8	17	22	97	59	30	94	102	280
PBT	1,129	1,177	803	1,403	2,151	2,546	1,895	2,418	4,512	9,010
Tax	3	4	5	5	17	321	224	564	17	1,126
Deferred Tax	0	0	0	0	300	-1	400	247	0	946
Rate (%)	0.2	0.3	0.6	0.4	14.8	12.6	32.9	33.5	0.4	23.0
Reported PAT	1,126	1,173	798	1,398	1,834	2,227	1,271	1,607	4,495	6,938
Adj PAT	1,126	1,173	798	1,398	1,834	2,227	1,271	1,607	4,495	6,938
YoY Change (%)	1,018.1	1,905.5	4,407.3	417.2	62.9	89.8	59.3	14.9	891.8	54.3
Margins (%)	23.2	22.7	16.9	24.3	26.2	29.2	17.2	19.5	21.9	22.9

E: MOST Estimates; * Excluding Visaka merger

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Shree Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SRCM IN
	REUTERS CODE
S&P CNX: 4,942	SHCM.BO

28 March 2008

Buy

Rs1,007

Previous Recommendation: Buy

Equity Shares (m)	34.8
52-Week Range	1,695/851
1,6,12 Rel. Perf. (%)	-11/-28/-23
MCap. (Rs b)	35.1
MCap. (US\$ b)	0.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	13,680	1,588	45.6	898.7	22.1	7.7	42.3	17.6	3.0	6.9
03/08E	20,404	3,746	107.5	135.9	9.4	4.4	59.5	33.9	1.9	4.6
03/09E	26,256	5,168	148.3	38.0	6.8	2.7	49.4	38.1	1.3	3.3
03/10E	30,634	5,835	167.5	12.9	6.0	1.9	37.4	36.1	0.9	2.4

- ⚡ We expect sales to grow 65% YoY in 4QFY08 to Rs6.25b, driven by volume growth of 51% YoY to 1.93m ton and realization growth of 9.2% YoY (flat QoQ) to Rs3,238/ton.
- ⚡ Higher realizations would be mitigated by higher cost (energy and freight), translating into a 50bp YoY decline in EBITDA margin to 39.5% and EBITDA to Rs2.5b (up 63%). The company would be severely impacted by spiraling pet coke prices. However, lower depreciation (down ~37%) would boost PAT to Rs1.16b.
- ⚡ The company is evaluating the setting up of capacity in Madhya Pradesh, and is considering a manufacturing presence in foreign markets. These plans are still at drawing board stage, and would take at least three years to materialize.
- ⚡ We are revising our EPS estimates downwards by 7.4% to Rs148 for FY09 and by 6% to Rs167.5 for FY10 to factor in further increase in pet coke prices. The stock is quoting at 6.8x FY07E EPS and an EV of 3.3x FY06E EBITDA. **Maintain Buy.**

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	1.16	1.11	1.30	1.28	1.41	1.49	1.62	1.93	4.94	6.45
YoY Change (%)	58.5	44.2	81.1	32.5	21.9	34.6	24.9	51.2	50.9	30.5
Realization (Rs/ton)	2,665	2,846	2,815	2,964	3,020	3,122	3,238	3,238	2,767	3,163
YoY Change (%)	36.5	41.1	39.5	26.0	13.3	9.7	15.0	9.2	35.4	14.3
QoQ Change (%)	13.2	6.8	-1.1	5.3	1.9	3.4	3.7	0.0		-7.3
Net Sales	3,083	3,160	3,645	3,783	4,258	4,664	5,236	6,246	13,680	20,404
YoY Change (%)	116.3	103.3	152.7	66.9	38.1	47.6	43.6	65.1	104.4	49.2
EBITDA	1,375	1,426	1,601	1,513	1,823	2,011	2,253	2,468	5,922	8,556
Margins (%)	44.6	45.1	43.9	40.0	42.8	43.1	43.0	39.5	43.3	41.9
Depreciation	263	338	263	1,547	358	688	1,875	982	4,331	3,902
Interest	54	27	7	16	39	85	127	158	104	409
Other Income	30	43	47	91	126	291	170	163	212	750
PBT before EO Exp	1,088	1,104	1,379	41	1,552	1,530	420	1,492	1,699	4,995
Extra-Ord Expense	0	0	0	-201	0	0	0	0	-195	0
PBT	1,088	1,104	1,379	242	1,552	1,530	420	1,492	1,894	4,995
Tax	184	326	338	3	383	468	70	327	124	1,249
Rate (%)	16.9	29.6	24.5	1.3	24.7	30.6	16.7	21.9	6.6	25.0
Reported PAT	904	777	1,041	239	1,169	1,062	350	1,164	1,770	3,746
Adj PAT	904	777	1,041	40	1,169	1,062	350	1,164	1,587	3,746
YoY Change (%)	247.6	108.1	156.6	-93.9	29.3	36.6	-66.4	2791.4	898.4	136.0
Margins (%)	29.3	24.6	28.6	1.1	27.5	22.8	6.7	18.6	11.6	18.4

E: MOS T Estimates; Quarterly results do not add up with full year results as it provides addl. depreciation and deferred tax at the end of year

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UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	UTCEM IN
	REUTERS CODE
S&P CNX: 4,942	ULTC.BO

28 March 2008

Buy

Rs781

Previous Recommendation: Buy

Equity Shares (m)	124.5
52-Week Range	1,165/662
1,6,12 Rel. Perf. (%)	-4/-20/-24
MCap. (Rs b)	97.3
MCap. (US\$ b)	2.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	49,108	7,823	62.8	240.5	12.4	5.5	55.8	43.0	2.2	7.5
03/08E	54,808	9,978	80.2	27.6	9.7	3.6	44.8	38.0	2.1	6.7
03/09E	67,626	11,083	89.0	11.1	8.8	2.6	34.6	34.2	1.6	5.5
03/10E	71,809	11,210	90.0	1.1	8.7	2.0	26.4	32.7	1.4	5.0

- ☞ We expect net sales to grow by 7% YoY to Rs15.7b. While realizations would increase 6.1% YoY (~1.8% QoQ) to Rs3,046/ton, volumes would decline 3.6% YoY to 4.86m ton due to capacity constraint. The increase in realizations would be driven by shift in market mix in favor of the domestic market.
- ☞ Exports (cement + clinker) are expected to decline by 3%, whereas domestic dispatches are expected to decline by 4%. Also, cement exports are likely to decline by 38% YoY flat, suggesting shift of focus from clinker exports to cement.
- ☞ Higher realizations would dilute the impact of cost push (higher coal prices), and drive EBITDA margin expansion of 370bp YoY to 31.6%. EBITDA would grow 21% YoY to Rs4.95b. However, higher depreciation (up 32%) and interest (up 41%) due to commissioning of brownfield expansion at Tadpatri, would restrict PAT growth at 21% to Rs2.8b.
- ☞ We are revising our EPS estimates downward by 10% to Rs89 for FY09 and by 8% to Rs90 for FY10 to factor in lower than expected volumes due to slower ramp-up of new capacities. At 8.8x FY09E EPS and an EV of 5.5x FY09E EBITDA, valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q*	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales (m ton)	4.45	3.60	4.49	5.04	4.47	3.62	4.37	4.86	17.67	17.31
YoY Change (%)	11.5	22.0	14.0	8.9	0.4	0.4	-2.7	-3.6	13.4	-2.0
Realization (Rs/ton)	2,645	2,768	2,778	2,872	2,958	3,066	2,991	3,046	2,755	3,014
YoY Change (%)	33.0	27.6	38.8	25.4	11.9	10.8	7.7	6.1	30.1	9.4
QoQ Change (%)	15.5	4.7	0.4	3.4	3.0	3.7	-2.4	1.8		
Net Sales	11,803	10,045	12,605	14,655	13,653	11,664	13,821	15,670	49,108	54,808
YoY Change (%)	48.8	57.0	59.8	38.2	15.7	16.1	9.7	6.9	48.8	11.6
Total Expenditure	8,057	7,501	8,802	10,570	9,317	8,439	9,137	10,720	34,930	37,613
EBITDA	3,746	2,545	3,802	4,085	4,335	3,226	4,685	4,950	14,178	17,196
Margins (%)	31.7	25.3	30.2	27.9	31.8	27.7	33.9	31.6	28.9	31.4
Depreciation	544	547	571	601	559	581	583	790	2,263	2,513
Interest	226	237	202	203	202	188	174	287	868	850
Other Income	134	119	167	195	269	258	201	222	615	950
PBT after EO Expense	3,110	1,879	3,196	3,476	3,844	2,716	4,129	4,095	11,662	14,783
Tax	1,002	605	1,072	1,161	1,250	927	1,334	1,294	3,839	4,804
Rate (%)	32.2	32.2	33.5	33.4	32.5	34.1	32.3	31.6	32.9	32.5
Reported PAT	2,108	1,274	2,125	2,315	2,594	1,789	2,795	2,801	7,823	9,978
Adj PAT	2,108	1,274	2,125	2,315	2,594	1,789	2,795	2,801	7,823	9,978
YoY Change (%)	251.3	-	790.8	75.3	23.0	40.3	31.5	21.0	240.5	27.6

E: MOST Estimates; Qly results do no add up to full year results due to recasting

Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Engineering

BSE Sensex: 16,371

S&P CNX: 4,942

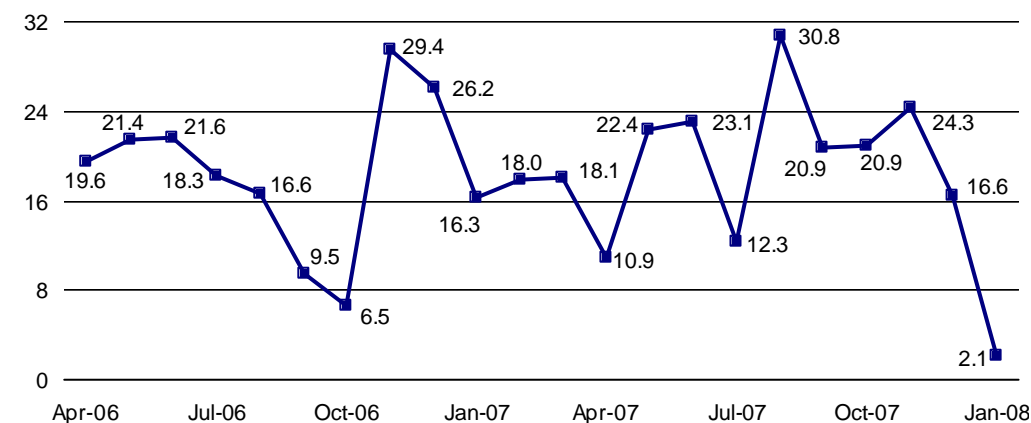
28 March 2008

COMPANY NAME	PG.
ABB	115
Alstom Projects	116
Bharat Electronics	117
BHEL	118
Crompton Greaves	119
Cummins India	120
Larsen & Toubro	121
Siemens	122
Suzlon Energy	123
Thermax	124

IIP growth for January 2008: an aberration?

The Index of Industrial Production (IIP) grew by a modest 5.3% YoY in January 2008; the Capital Goods Index grew just 2.1% YoY. The cumulative growth in IIP for the period April 2007 – January 2008 was 8.7% YoY. The key surprise has been the performance of the Capital Goods Index, which has witnessed a sharp fall from 24.3% YoY growth in November 2007 to 2.1% in January 2008. We believe that this could be an aberration, as the order books for most of the capital goods companies continue to witness strong growth momentum. Justification for such numbers, in our opinion, could be increased imports, impact of higher interest rates on industrial capex, and uneven project commissioning, as the index is based on project commissioning.

CAPITAL GOODS INDEX (% CHG YOY)



Source: CME

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Engineering							
ABB	Neutral	17,456	33.0	1,833	43.0	1,235	42.6
Alstom Projects	Neutral	5,630	30.7	669	25.2	441	20.0
Bharat Electronics	Buy	23,371	34.8	6,690	38.0	4,686	31.2
BHEL	Neutral	87,499	26.4	20,210	27.3	14,649	27.3
Crompton Greaves	Neutral	12,472	26.0	1,573	37.6	942	25.7
Cummins India	UR*	6,330	25.4	887	7.7	742	13.0
Larsen & Toubro	Neutral	82,133	31.4	13,902	43.0	9,158	30.7
Siemens	Neutral	28,804	34.9	2,301	37.2	1,555	43.9
Suzlon Energy	Neutral	47,377	62.5	8,175	65.0	4,839	34.8
Thermax	Buy	9,293	15.5	1,159	30.6	915	39.5
Sector Aggregate		320,364	33.5	57,397	37.5	39,162	30.3

*Under Review

Satyam Agarwal (Agarwals@MotilalOswal.com) Tel: +91 22 3982 5410/ Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com)

Healthy order intake in 3QFY08; order book remains strong

Order books for most capital goods companies have shown significant growth, driven by increasing investments in the manufacturing sector, thrust on accelerated infrastructure development and continued investments in power generation, transmission and distribution. Companies like ABB, BHEL, L&T and Suzlon witnessed strong YoY growth in their order books as at December 2007. Order intake continues to be strong on account of significant project awards from power utilities, SEBs and industrial capex, particularly in oil & gas, cement, metals, etc.

ORDER BACKLOG (RS B; % YOY)

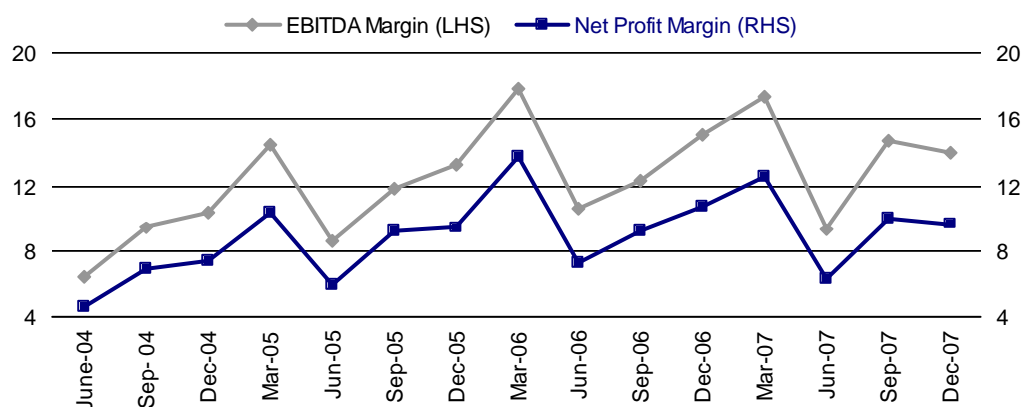
	DEC-07	DEC-06	GROWTH (%)	FY08 SALES	BOOK TO BILL(X)
ABB	50	34	49.0	59.3	0.8
BHEL	780	550	41.8	214.0	3.6
Crompton Greaves	51	45	12.3	72.3	0.7
L&T	496	345	43.8	250.5	2.0
Siemens	94	110	17.8	77.3	1.2
Suzlon	171	77	121.5	134.9	1.3

Source: Company

Expect challenging EBITDA margin scenario

Since FY04, EBITDA margins for the capital goods companies have been improving on the back of favorable demand-supply scenario, long-term supply contracts for raw materials, implementation of risk mitigation strategies, flexibly priced work contracts and cost-cutting programs. However, we now expect the EBITDA margin scenario to turn challenging.

TREND IN EBITDA AND PAT MARGINS (%)



Source: Motilal Oswal Securities

Factors that could lead to challenging margin scenario

- ✘ Sharp rise in commodity prices during 4QFY08, impacting raw material costs particularly for fixed price contracts (comprising of most of the international orders) or partial cost escalations (on selected items) for domestic projects.
- ✘ Appreciating currency impacting companies like Suzlon, Crompton Greaves, Siemens, etc, which derive significant proportion of revenues from exports

Key factors to watch for: commodity prices, forex exposure, one-off items

- ✦ Suzlon's EBITDA for 3QFY08 were impacted due to: (1) provision of Rs190m towards replacement of rotor blades in the US; (2) Rs150m on account of customs duty levied by the US on import of Nacelles; and (3) Rs140m on account of site restoration expenses in Maharashtra. Tax liability for 3QFY08 was higher by Rs480m due to tax paid on non deductibility of hedging related expenses in Denmark (Rs280m) and reversal of deferred tax asset in USA (Rs200m). Also, it derives almost 65% of its revenue from the international market, whereby it is exposed to currency risk and also the nature of international (fixed price) contracts.
- ✦ L&T International FZE (100% subsidiary of L&T) has incurred loss of ~Rs2b on commodity hedging, largely on zinc (price decline of 27% during 9MFY08) and other metals, which had witnessed sharp volatility in the interim. The risk management practice adopted by the company mandates 'stop loss' for derivative positions, which have got triggered due to the sharp price volatility of underlying metals. The losses due to hedging are partly offset through spot market purchases of the specified commodities during that period in the standalone financials.

EXPORTS (AS % OF REVENUES)

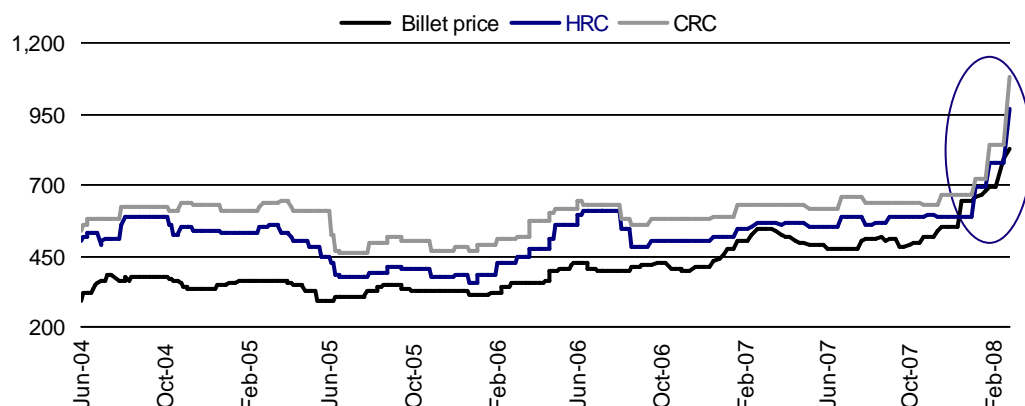
ABB	10.0
BHEL	10.0
Crompton Greaves*	-50
L&T	18.0
Siemens	32.0
Suzlon	65

Source: Industry

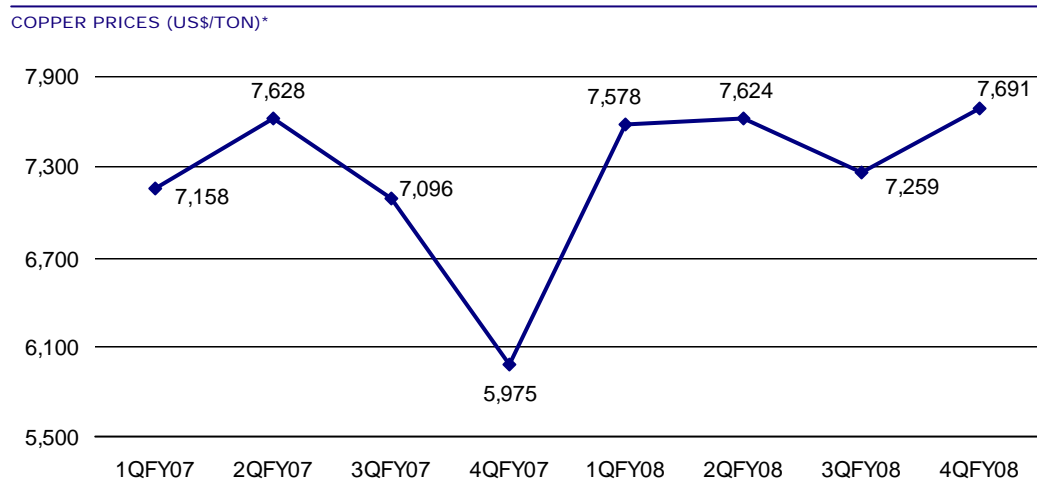
Commodity prices have increased significantly

Major raw materials used by the capital goods industry – steel, copper, etc – have witnessed sharp price increases since December 2007. This could adversely impact margins of capital goods companies, which have larger exposure to fixed price contracts (largely export orders, impacting companies like Siemens, Suzlon, Crompton Greaves, etc) or to contracts allowing only partial cost escalations.

STEEL PRICES – CIS EXPORT, BLACK SEA (US\$/TON)



Source: Bloomberg



*Average for 3 months forward contracts

Source: Bloomberg

We remain Neutral on the sector

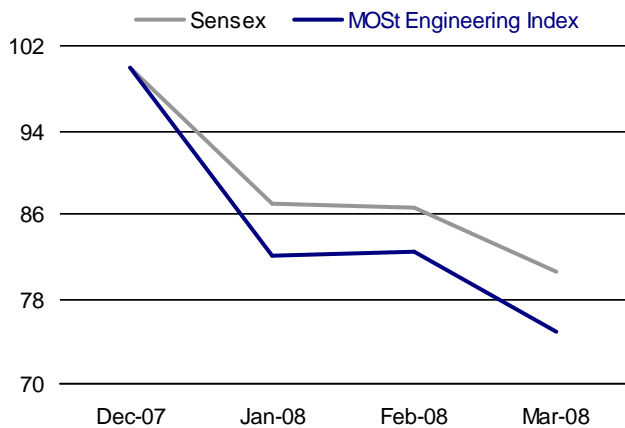
We remain Neutral on the capital goods sector. Earnings visibility is high for most of these companies, based on the current order-book-to-bill-ratio but they need to put in place good risk mitigation techniques for managing risks arising out of commodity price and currency movements. The key focus is now efficient execution and timely delivery.

Stock performance and valuations

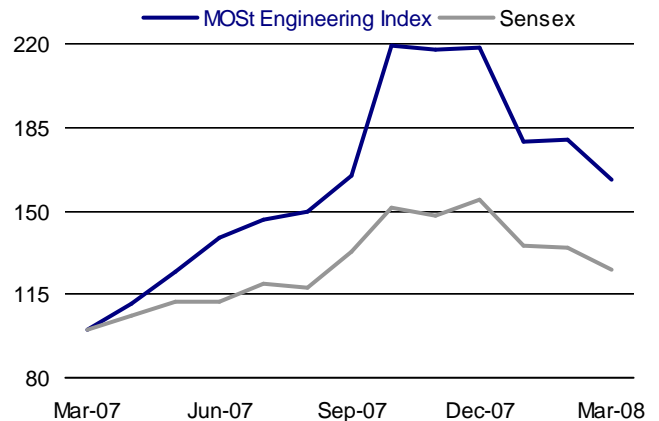
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Engineering						
ABB	-20	68	-1	41	5	2
Alstom Projects	-45	39	-26	12	-20	-26
Bharat Electron	-47	-26	-28	-53	-23	-92
BHEL	-19	83	0	56	6	18
Crompton Greaves	-27	51	-8	23	-2	-15
Cummins India	-26	16	-7	-11	-1	-50
Larsen & Toubro	-24	101	-5	74	1	35
Siemens	-30	22	-11	-5	-5	-43
Suzlon Energy	-29	40	-10	13	-4	-26
Thermax	-29	62	-10	35	-4	-4

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Engineering														
ABB	1,196	Neutral	23.2	32.3	42.9	51.6	37.0	27.9	33.9	23.9	17.4	34.7	35.4	34.5
Alstom Projects	547	Neutral	17.3	21.2	25.7	31.6	25.8	21.3	20.1	15.7	11.9	31.8	32.3	31.8
Bharat Electronics	1,105	Buy	91.3	117.3	137.8	12.1	9.4	8.0	6.2	4.4	3.3	26.9	27.9	26.2
BHEL	2,092	Neutral	60.2	87.8	117.7	34.8	23.8	17.8	21.5	14.6	10.7	29.3	33.0	34.0
Crompton Greaves	288	Neutral	10.6	14.5	19.3	27.1	19.9	14.9	21.9	17.8	14.2	37.6	36.5	35.4
Cummins India	303	UR*	15.7	19.3	24.7	19.2	15.7	12.3	15.3	12.1	9.2	27.3	27.7	29.5
Larsen & Toubro	3,147	Neutral	78.9	110.7	137.8	39.9	28.4	22.8	29.7	22.7	18.3	27.2	25.0	25.5
Siemens	662	Neutral	18.3	25.1	32.8	36.1	26.4	20.2	24.3	17.7	13.4	44.5	43.0	43.5
Suzlon Energy	270	Neutral	7.0	12.1	16.3	38.6	22.3	16.5	23.6	17.0	13.2	17.3	19.0	21.9
Thermax	592	Buy	24.2	35.7	49.1	24.4	16.6	12.1	16.9	10.9	7.2	42.4	46.1	44.5
Sector Aggregate						33.8	23.7	18.2	23.0	16.7	12.8	25.7	28.8	30.1

*Under Review

ABB

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ABB IN
	REUTERS CODE
S&P CNX: 4,942	ABB.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs1,196

		YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
Equity Shares (m)	211.9	12/06A	42,740	3,403	16.1	55.6	74.4	21.2	32.4	49.2	5.8	51.8
52-Week Range	1,670/676	12/07A	59,303	4,917	23.2	44.2	51.6	15.5	34.7	53.3	4.1	33.8
1,6,12 Rel. Perf. (%)	9/-2/41	12/08E	80,106	6,852	32.3	39.6	37.0	11.3	35.4	54.7	3.0	23.9
M.Cap. (Rs b)	253.2	12/09E	105,980	9,097	42.9	32.8	27.8	8.3	34.5	53.3	2.2	17.4
M.Cap. (US\$ b)	6.3											

- For 1QCY08, we expect revenues to grow by 33% YoY to Rs17.5b, EBITDA by 43% YoY to Rs1.8b and net profit by 42.5% YoY to Rs1.2b.
- ABB recently completed its capex plan of US\$100m and intends to invest another US\$100m over CY08-CY09. The capex would be mainly on power and industrial transformers, HV/MV/LV switchgears, line protection devices, 765kV transformers and instrumentation devices, etc. It plans to increase transformer capacity to 22,500MVA from current levels of 15,000MVA. On the wind generation side, the facility has capacity to produce 1,200 generators of up to 2MW each (per annum). Also, the company plans to manufacture 765kV equipment in India.
- During CY07, ABB received significantly large orders from JSW, DMRC, KPTCL, Grasim Industries, etc. It has experienced increase in average project size, with several order wins during the past 12 months for projects in the range of Rs2b+. This trend is likely to tilt revenue mix towards project business (long gestation) from product business (smaller gestation, relatively higher margin segment). Contribution from project division has increased to 55%+ in CY07, from 54.3% in CY06 and 49.8% in CY05.
- EBITDA margin for the company improved 100bp YoY during CY07 to 12.2% (v/s 11.2% in CY06). Order book momentum remains strong, but increasing share of projects in revenues could prolong the execution cycle.
- We believe ABB's rich valuations already discount its buoyant growth prospects. It trades at 37x CY08E and 27.8x CY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales	13,124	14,009	13,775	18,394	17,456	18,912	18,638	25,100	59,303	80,106
Change (%)	63.5	43.8	28.7	29.0	33.0	35.0	35.3	36.5	38.8	35.1
EBITDA	1,282	1,638	1,724	2,602	1,833	2,345	2,404	3,584	7,246	10,166
Change (%)	84.6	60.6	55.9	33.7	43.0	43.2	39.5	37.7	52.0	40.3
As % of Sales	9.8	11.7	12.5	14.1	10.5	12.4	12.9	14.3	12.2	12.7
Depreciation	86	77	79	82	90	100	105	124	324	419
Interest	10	23	16	20	10	15	15	25	68	65
Other Income	152	147	158	254	175	200	250	275	710	900
PBT	1,337	1,686	1,787	2,755	1,908	2,430	2,534	3,710	7,565	10,582
Tax	471	600	630	947	673	857	893	1,308	2,648	3,730
Effective Tax Rate (%)	35.2	35.6	35.3	34.4	35.3	35.3	35.3	35.3	35.0	35.3
Reputed PAT	866	1,086	1,157	1,808	1,235	1,573	1,641	2,402	4,917	6,852
Adj. PAT	866	1,079	1,170	1,808	1,235	1,573	1,641	2,402	4,917	6,852
Change (%)	50.0	42.5	34.0	44.5	42.6	45.8	40.2	32.9	44.5	39.4

E: MOST Estimates

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Alstom Projects

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ABBAP IN
	REUTERS CODE
S&P CNX: 4,942	ABBP.BO
Equity Shares (m)	67.0
52-Week Range	1,109/369
1,6,12 Rel.Perf. (%)	-17/-29/12
MCap. (Rs b)	36.7
MCap. (US\$ b)	0.9

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs547

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
	3/07A	12,215	1,118	16.3	132.2	33.6	11.0	34.4	44.5	2.8	28.0
	3/08E	15,992	1,159	17.3	6.1	31.6	9.3	31.8	48.8	2.1	20.1
	3/09E	19,652	1,420	21.2	22.5	25.8	7.6	32.3	49.8	1.6	15.7
	3/10E	23,980	1,723	25.7	21.3	21.3	6.1	31.8	49.4	1.3	11.9

Consolidated Numbers

- For 4QFY08, we expect revenues to grow 30.7% YoY to Rs5.6b, EBITDA to grow 25.2% YoY to Rs669m and net profit to grow 20% YoY to Rs441m.
- During the quarter, Alstom received two export orders worth Rs2.4b for Fujairah Independent Water and Power Plant at Fujairah, UAE and an order worth Rs3.5b for Bujagali Hydro Electric Power Station at Jinja in Uganda.
- The transport division is also poised for buoyant order intake, with the Railways increasing focus on safety measures and also due to plans by various urban infrastructure bodies to set up metro rail projects in key cities.
- The stock trades at 25.8x FY09E EPS and 21.3x FY10E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,237	2,677	2,977	4,306	2,413	3,981	3,968	5,630	12,215	15,992
Change (%)	24.6	18.3	2.7	72.3	7.9	48.7	33.3	30.7	29.2	30.9
EBITDA	90	322	242	534	246	323	414	669	1,209	1,652
Change (%)	119.5	177.6	139.6	198.3	173.3	0.3	71.1	25.2	167.3	36.6
As of % Sales	4.0	12.0	8.1	12.4	10.2	8.1	10.4	11.9	9.9	10.3
Depreciation	34	36	40	54	55	54	60	48	164	217
Interest	0	1	1	0	0	1	0	1	2	2
Other Income	68	102	169	9	87	107	109	47	350	350
Extra-ordinary income	0	0	0	22	0	0	0	0	22	0
PBT	124	387	370	511	278	375	463	667	1,415	1,783
Tax	8	74	67	127	103	133	162	226	279	624
Effective Tax Rate (%)	6.5	19.1	18.1	24.8	37.1	35.5	35.0	33.9	19.7	35.0
Reported PAT	116	313	303	384	175	242	301	441	1,136	1,159
Adj PAT	116	313	303	368	175	242	301	441	1,118	1,159
Change (%)	73.1	172.2	304.0	77.6	50.9	-22.7	-0.7	20.0	137.1	3.6

E: MOST Estimates

Bharat Electronics

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	BHE IN
	REUTERS CODE
S&P CNX: 4,942	BAJE.BO

28 March 2008

Buy

Rs1,105

Previous Recommendation: Buy

Equity Shares (m)	80.0
52-Week Range	2,180/1102
1,6,12 Rel. Perf. (%)	10/-24/12
MCap. (Rs b)	88.4
MCap. (US\$ b)	2.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	39,002	7,139	89.8	23.2	12.3	3.4	32.9	32.9	1.7	6.2
3/08E	41,206	7,307	91.3	1.7	12.1	2.8	26.9	26.9	1.6	6.2
3/09E	51,058	9,388	117.3	28.5	9.4	2.3	27.9	27.9	1.1	4.4
3/10E	58,717	11,022	137.8	17.4	8.0	1.8	26.2	26.2	1.1	4.4

- For 4QFY08, we expect Bharat Electronics to report revenues of Rs23.4b, up 34.8% YoY, EBITDA of Rs6.7b, up 38% YoY, and net profit of Rs4.7b, up 31.2% YoY.
- BEL has guided revenues of US\$1b in FY08 and US\$2b by FY12. Order backlog as of March 2007 stood at Rs90b (up 36% YoY) and order intake for FY07 was at Rs63b (up 64% YoY).
- BEL has signed MoUs with (1) Lockheed Martin to explore business opportunities for co-production of domestic aerospace and defense electronics needs, (2) Elbit Systems Electro Optics ELOP Ltd, Israel, for setting up a JV for development, production and marketing of Thermal Imaging Cameras and Forward Looking Infra Red (FLIRs) for the Indian and global markets, and (3) Northrop Grumman Corp to explore business opportunities for co-production in current and future aerospace and defense needs of India and international markets of Northrop Grumman's.
- Though these are currently enabling MoUs, we believe BEL would be able to leverage its competitive positioning with the JV partners over a longer period due to the offset clause.
- We expect the company to post earnings CAGR of 15% over FY07-10. The stock quotes at a 9.4x FY09E EPS and 8x FY10E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	4,831	8,343	8,638	17,342	4,044	7,089	6,622	23,371	38,943	41,127
Change (%)	0.8	0.7	27.5	10.1	-16.3	-15.0	-23.3	34.8	9.4	5.6
EBITDA	721	1,865	1,976	4,849	-46	1,534	1,269	6,690	9,411	9,446
Change (%)	-4.0	-9.1	36.6	16.2	-106.4	-17.8	-35.8	38.0	11.7	0.4
As of % Sales	14.9	22.4	22.9	28.0	-1.1	21.6	19.2	28.6	24.2	23.0
Depreciation	208	198	205	252	211	221	234	248	863	914
Interest	3	1	2	0	1	0	0	1	5	3
Other Income	384	508	407	574	656	497	647	416	1,874	2,217
PBT	894	2,175	2,177	5,171	398	1,809	1,681	6,857	10,416	10,745
Tax	291	692	696	1,599	135	581	552	2,171	3,278	3,439
Effective Tax Rate (%)	32.6	31.8	31.9	30.9	33.9	32.1	32.8	31.7	31.5	32.0
Reported PAT	603	1,483	1,482	3,572	263	1,228	1,130	4,686	7,139	7,307
Change (%)	6.5	1.1	52.7	27.2	-56.4	-17.2	-23.8	31.2	22.8	2.4
Adj PAT	603	1,483	1,482	3,572	263	1,228	1,130	4,686	7,139	7,307

E: MOST Estimates

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BHEL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BHEL IN
	REUTERS CODE
S&P CNX: 4,942	BHEL.BO

28 March 2008

Neutral

Previous Recommendation: Buy

Rs2,092

Equity Shares (m)	489.5	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	2,925/1,073	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-2/8/56	03/07A	176,427	24,144	49.3	44.0	42.4	11.7	30.0	50.0	5.6	26.8
MCap. (Rs b)	1,024.1	03/08E	214,003	29,458	60.2	22.0	34.8	9.0	29.3	53.1	4.6	21.5
MCap. (US\$ b)	25.7	03/09E	303,581	42,977	87.8	45.9	23.8	7.0	33.0	53.1	3.2	14.6
		03/10E	388,142	57,594	117.7	34.0	17.8	5.3	34.0	54.1	2.5	10.7

- For 4QFY08, we expect revenues to grow 26.4% YoY to Rs87.5b, EBITDA to grow 27.3% YoY to Rs20.2b and net profit to grow 27.3% YoY to Rs14.6b.
- The order book for the company stood at Rs780b as of December 2007, up 67% YoY while the order intake for 3QFY08 was Rs109.3b. The current order backlog represents a book-to-bill ratio of 3.7x on its FY08E revenues of Rs209b.
- During 4QFY08, key order wins by BHEL include a 1,000MW Nabinagar Thermal Power Project in Bihar (250MW x 4) worth Rs20.3b, (2 x 350MW) gas turbine based combined cycle power plant near Pipavav in Gujarat by GSPC Pipavav Power Company worth Rs18.9b, 350MW gas turbine based combined cycle power plant to be installed at Hazira in Gujarat worth Rs10.8b, 300MW Western Mountain Power Project Extension in Libya for General Electricity Company of Libya worth Rs6.5b, mega contract for setting up two units of 500MW each at Anpara D Thermal Power Station (TPS) in Uttar Pradesh worth Rs34b, etc.
- Majority of orders (~66GW) for the XIth plan have already been placed, while the remaining (~12GW) are likely to be placed during the next 2-3 quarters. Going forward, we expect stagnation order intake for BHEL – order intake in FY09 is contingent on XIIth plan projects taking off.
- NTPC and BHEL are setting up a JV to carry out EPC activities for the power generation plants. The details about the structuring of the JV are not yet clear.
- BHEL has guided revenues of US\$10b by FY12 – a CAGR of 19%. The stock trades at 23.8x FY09E EPS and 17.8x FY10E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	26,564	33,412	43,397	69,197	32,339	39,654	49,641	87,499	172,375	209,133
Change (%)	37.2	33.1	30.5	25.5	21.7	18.7	14.4	26.4	29.7	21.3
EBITDA	3,182	4,563	9,292	15,872	3,107	6,952	9,976	20,210	32,909	40,244
Change (%)	85.5	23.7	54.1	32.8	-2.4	52.3	7.4	27.3	40.7	22.3
As a % Sales	12.0	13.7	21.4	22.9	9.6	17.5	20.1	23.1	19.1	19.2
Depreciation	639	667	662	762	689	694	762	937	2,730	3,082
Interest	131	136	120	47	22	193	98	109	433	421
Other Income	1,201	1,699	1,855	2,860	2,063	5,009	2,649	3,203	7,615	12,924
PBT	3,613	5,460	10,365	17,928	4,460	11,074	11,765	22,367	37,366	49,665
Tax	1,246	1,860	3,688	6,419	1,570	4,197	4,046	7,718	13,214	17,532
Effective Tax Rate (%)	34.5	34.1	35.6	35.8	35.2	37.9	34.4	34.5	35.4	35.3
Reported PAT	2,367	3,600	6,677	11,509	2,890	6,877	7,719	14,649	24,152	32,133
Change (%)	85.1	38.4	57.8	32.6	22.1	91.0	15.6	27.3	43.8	33.0
Adj. PAT	2,367	3,600	6,677	11,506	2,890	5,632	7,719	14,649	24,149	29,458
Change (%)	85.1	38.4	57.8	32.6	22.1	56.4	15.6	27.3	43.8	22.0

E: MOST Estimates

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Crompton Greaves

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	CRG IN
	REUTERS CODE
S&P CNX: 4,942	CROM.BO

28 March 2008

Neutral

Rs288

Previous Recommendation: Neutral

	YEAR	NET SALES	PAT*	EPS*	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	366.6										
52-Week Range	454/183										
1,6,12 Rel. Perf. (%)	-4/-8/23										
3/07A	33,676	2,417	6.6	0.6	43.7	16.0	32.6	38.6	3.2	31.2	
3/08E	39,634	3,887	10.6	60.8	27.2	12.0	37.6	45.8	2.7	21.9	
3/09E	47,319	5,298	14.5	36.3	19.9	9.2	36.5	44.6	2.2	17.8	
3/10E	57,238	7,076	19.3	33.6	14.9	7.1	35.4	46.0	1.8	14.3	

* Consolidated; pre-exceptionals

- For 4QFY08, we expect Crompton to report standalone revenues of Rs12.5b, up 26% YoY, EBITDA of Rs1.6b, up 37.6% YoY, and net profit of Rs942m, up 25.7% YoY. As of December 2007, the company's standalone order book stood at Rs21.7b, up 2.8% YoY, and the order book for Pauwels and Ganz put together stands at Rs30.3b, up 24.8% YoY.
- The management has guided 20-22% revenue growth during FY09. Power and Industrial segments are expected to grow ~20% during FY08; in FY09, growth in the Industrial segment is likely to decline to 15%. Exports and international business are expected to grow at ~20% for FY08 and FY09. The company expects standalone EBITDA margins to improve to ~12% in FY08 (v/s 10.2% in FY07). The tax rate would increase to the full corporate tax level by FY10. Due to demand slowdown in the US and Europe, the power business could be adversely impacted.
- Through its 100% subsidiary, CG International BV, Netherlands, the company has acquired its JV partner's 40% voting share capital in PT Pauwels Trafo Asia, Indonesia, for US\$10.7m.
- We expect Crompton to report consolidated revenues of Rs72.3b in FY08 (up 20.6% YoY) and Rs86.8b in FY09 (up 20% YoY). The stock trades at 27.2x FY08E EPS and 19.9x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	7,406	8,240	8,130	9,900	8,961	9,050	9,152	12,472	33,676	39,634
Change (%)	42.5	48.6	25.5	24.0	21.0	9.8	12.6	26.0	33.6	17.7
EBITDA	722	736	818	1,143	1,045	1,068	1,160	1,573	3,418	4,846
Change (%)	58.7	39.1	38.5	52.0	44.8	45.2	41.8	37.6	46.9	41.8
As of % Sales (Adj)	9.7	8.9	10.1	11.5	11.7	11.8	12.7	12.6	10.2	12.2
Depreciation	100	81	100	113	105	113	115	122	394	455
Interest	53	72	78	101	66	60	72	85	304	282
Other Income	49	94	72	133	126	185	144	129	349	584
PBT	618	677	713	1,063	1,000	1,080	1,117	1,495	3,070	4,693
Tax	254	270	258	363	313	339	438	553	1,146	1,642
Effective Tax Rate (%)	41.1	39.9	36.3	34.2	31.2	31.4	39.2	37.0	37.3	35.0
Reported PAT	364	407	454	699	688	742	679	942	1,924	3,050
Adj PAT	364	387	454	749	638	642	679	942	1,954	2,900
Change (%)	16.4	18.9	-17.0	0.1	75.3	65.9	49.5	25.7	1.0	48.4

E: MOST Estimates

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Cummins India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	KKC IN
	REUTERS CODE
S&P CNX: 4,942	CUMM.BO

28 March 2008

Under Review

Previous Recommendation: Neutral

Rs303

Equity Shares (m)	198.0
52-Week Range	463/252
1,6,12 Rel. Perf. (%)	-4/-25/-11
MCap. (Rs b)	81.3
MCap. (US\$ b)	2.1

YEAR	NET SALES*	PAT *	EPS*	EPS GR.*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	18,408	2,680	13.5	45.9	20.9	6.0	28.2	35.0	2.6	15.9
03/08E	22,938	3,117	15.7	16.3	18.0	5.0	27.3	32.6	2.0	14.2
03/09E	28,716	3,815	19.3	22.4	14.7	4.2	27.7	34.5	1.6	11.2
03/10E	36,050	4,881	24.7	27.9	11.5	3.4	29.5	36.9	1.2	8.5

* Consolidated nos

- In 4QFY08, Cummins committed significant amounts for capacity expansion. It invested Rs200m at Pirangut near Pune to manufacture low HP gensets, and Rs800m in Kothrud, Pune towards expansion of its KV range of engines for the global market.
- Further, Cummins signed a “mega project” MoU with the government of Maharashtra for the “Cummins Campus” at Phaltan in the Satara district. This campus is expected to house facilities of Tata Cummins, Cummins India and other Cummins group companies in India. We expect Cummins India to invest here Rs1.5b over FY08 and FY09.
- For 4QFY08, we expect steady revenue growth of 25% YoY. EBITDA margin should be 230bps lower due to rupee appreciation and rising cost of materials. We expect PAT growth of 13% YoY.
- The stock trades at a PE of 18x FY08E, 14.7x FY09E and 11.5x FY10E. Our target price and rating for Cummins India are under review.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	3,915	4,674	4,770	5,049	5,423	5,282	5,902	6,330	18,408	22,938
Change (%)	19.3	30.8	22.4	30.2	38.5	13.0	23.7	25.4	25.8	24.6
Total Expenses	3,295	3,889	4,051	4,226	4,684	4,556	5,035	5,443	15,461	19,718
EBITDA bef. OI	619	786	719	823	740	726	867	887	2,947	3,220
Operating Other Income *	78	93	95	101	108	106	118	127	395	459
EBITDA	697	879	814	924	848	831	985	1,013	3,341	3,678
Change (%)	38.2	78.2	22.3	39.9	21.6	-5.5	21.1	9.6	44.0	10.1
EBITDA Margin (%)	17.8	18.8	17.1	18.3	15.6	15.7	16.7	16.0	18.2	16.0
Depreciation	81	94	77	74	76	77	86	96	326	335
Interest	0	0	2	11	2	1	0	15	14	18
Financial Income *	84	101	164	135	123	157	151	201	459	632
PBT	700	886	899	975	894	911	1,049	1,103	3,460	3,957
Tax	192	259	270	318	253	246	303	361	1,040	1,164
Tax/PBT (%)	27.5	29.2	30.1	32.6	28.3	27.0	28.9	32.7	30.0	29.4
Reported PAT	508	627	629	657	640	665	746	742	2,421	2,793
Adjusted PAT	508	627	629	657	640	665	746	742	2,421	2,793
Change (%)	43.6	66.0	29.8	21.4	26.1	6.0	18.6	13.0	37.8	15.4
PAT Margin (%)	13.0	13.4	13.2	13.0	11.8	12.6	12.6	11.7	13.1	12.2

E: MOST Estimates

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Larsen & Toubro

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	LT IN
	REUTERS CODE
S&P CNX: 4,942	LART.BO
Equity Shares (m)	291.9
52-Week Range	4,670/1,508
1,6,12 Rel. Perf. (%)	-5/17/74
MCap. (Rs b)	918.5
MCap. (US\$ b)	23.0

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs3,147

YEAR	NET SALES	PAT *	EPS*	EPS GR.	P/E*	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	176,846	18,310	62.7	72.4	50.2	15.5	26.1	28.2	5.1	49.6
3/08E	247,886	23,029	78.9	22.1	39.9	9.5	27.2	31.5	3.6	29.7
3/09E	320,399	32,299	110.7	40.3	28.4	7.9	25.0	28.9	2.9	22.7
3/10E	397,034	40,228	137.8	24.5	22.8	6.6	25.5	28.4	2.3	18.3

* Consolidated; EPS is fully diluted

- For 4QFY08, we expect revenues of Rs82.1b, up 31.4% YoY, EBITDA of Rs13.9b, up 43% YoY, and net profit of Rs9.1b, up 30.7% YoY.
- L&T's order backlog as at December 2007 stood at Rs496b against Rs440b in September 2007. The company's order book-to-bill ratio has improved from 1.5x as of March 2006 to around 2x as of December 2007 (FY08 revenue).
- The management has revised its revenue growth guidance up to 35%+ in FY08 (v/s earlier guidance of 30-35%) and expects E&C division EBITDA margin to improve marginally.
- L&T International FZE (100% subsidiary of L&T) has incurred a loss of ~Rs2b on commodity hedging, largely on zinc (price decline of 27% during 9MFY08) and other metals, which had witnessed sharp volatility in the interim. The risk management practice adopted by the company mandates 'stop loss' for derivatives positions, which have been triggered due to the sharp price volatility of underlying metals. The losses due to hedging are partly offset through spot market purchases of the specified commodities in standalone results.
- The company has acquired land for setting up a power equipment manufacturing facility in JV with Mitsubishi Heavy Industries for supercritical boilers and turbines. The land is in Hazira, near its existing facility, and the new facility would be commissioned in 24 months.
- The stock trades at 39.9x FY08E EPS and 28.4x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	34,689	37,361	41,184	62,482	45,052	54,999	63,827	82,133	175,788	246,011
Change (%)	11.5	11.7	12.3	36.0	29.9	47.2	55.0	31.4	20.0	39.9
EBITDA	2,698	3,062	5,185	9,718	4,738	6,526	7,551	13,902	20,665	32,716
Change (%)	53.5	117.6	63.0	54.2	75.6	113.1	45.6	43.0	82.4	66.3
As of % Sales	9.2	8.9	11.8	14.9	10.2	11.6	11.7	16.1	11.3	12.9
Depreciation	309	336	357	698	424	483	527	612	1,700	2,046
Interest	158	106	12	63	157	132	438	447	339	1,175
Other Income	216	437	350	420	1,608	-430	360	645	1,420	2,183
Reported PBT	2,448	3,057	5,166	9,377	5,764	5,481	6,946	13,488	20,046	31,678
Tax	877	1,046	1,727	2,371	1,995	2,001	2,128	4,330	6,019	10,454
Effective Tax Rate (%)	35.8	34.2	33.4	25.3	34.6	36.5	30.6	32.1	30.0	33.0
Reported Profit	1,571	2,011	3,440	7,006	3,769	3,480	4,817	9,158	14,027	21,224
Adjusted PAT	1,839	1,831	3,440	7,006	2,924	3,836	5,148	9,158	13,845	21,066
Change (%)	89.5	53.0	83.1	52.8	59.0	109.5	49.7	30.7	59.1	52.2

E: MOSI; All quarterly numbers are for standalone entity

Siemens

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SIEM IN
	REUTERS CODE
S&P CNX: 4,942	SIEM.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs662

	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	337.2										
52-Week Range	1,125/510										
1,6,12 Rel. Perf. (%)	-15/3/-5										
M.Cap. (Rs b)	223.2										
M.Cap. (US\$ b)	5.6										
	9/07A	77,660	4,671	13.9	30.0	47.8	7.0	40.1	69.1	1.4	14.4
	9/08E	103,294	6,183	18.3	32.4	36.1	5.4	44.5	66.6	1.0	11.8
	9/09E	137,500	8,463	25.1	36.9	26.4	4.3	43.0	64.8	0.7	8.5

- For 2QFY08, we expect Siemens to report revenues of Rs28.8b (up 34.9% YoY), EBITDA of Rs2.3b (up 37.2% YoY), and net profit of Rs1.5b (up 43.9% YoY).
- Siemens has set a target to double its revenues over the next three years, driven by growth in product and project business. The order book for the company as of December 2007 stood at Rs93.7b (v/s Rs110b in December 2006), and order book to bill ratio now stands at 0.9x.
- During FY07, the company spent Rs4.5b on new factory additions and upgradation of existing manufacturing facilities. Its new large transformer capacity at Kalwa became operational during FY07. Currently, total manufacturing capacity for transformers stands at 15,000 MVA per year.
- Siemens AG launched an extensive review of major projects in 2QCY08, and the results so far indicate an impact of ₹900m on earnings in 2QCY08, largely on account of: (a) Power Generation Equipment: large number of turnkey projects that had accumulated since 2004 have had an adverse effect and new exposure is attributed to structural challenges in suppliers market and delays in recruiting experienced project engineers; (b) Mobility Division: delays in awarding of major projects; (c) Siemens IT Solutions and Services: new risks arose in UK projects, including among others a customer's cancellation of a major order.
- We expect Siemens to report a standalone net profit of Rs6.2b during FY08 and Rs8.5b during FY09. The stock trades at 36x FY08E and 26.4x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E SEPTEMBER	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Total Revenues	16,331	21,352	17,902	22,055	19,195	28,804	25,031	30,264	77,660	103,294
Change (%)	89.9	88.4	71.1	47.1	17.5	34.9	39.8	37.2	71.1	33.0
EBITDA	1,234	1,677	910	3,575	1,548	2,301	1,529	3,505	7,415	8,883
Change (%)	56.1	38.2	14.8	187.3	25.4	37.2	68.1	-2.0	85.2	19.8
As % of Revenues	7.6	7.9	5.1	16.2	8.1	8.0	6.1	11.6	9.5	8.6
Adjusted EBITDA	1,234	1,677	910	2,495	1,548	2,301	1,529	3,505	6,335	8,883
As % of Revenues	7.6	7.9	5.1	11.3	8.1	8.0	6.1	11.6	8.2	8.6
Depreciation	103	109	121	160	151	125	150	165	492	591
Interest Income	126	105	123	90	131	100	125	94	443	450
Other Income	152	57	295	370	16	45	250	176	593	486
Extra-ordinary Items	0	0	259	524	1,246	0	0	0	783	1,246
PBT	1,409	1,730	1,207	4,399	2,789	2,321	1,754	3,610	8,742	10,474
Tax	426	650	389	1,313	819	766	579	1,293	2,777	3,456
Effective Tax Rate (%)	30.2	37.5	32.2	29.8	29.4	33.0	33.0	35.8	31.8	33.0
Reported PAT	984	1,081	818	3,086	1,970	1,555	1,175	2,317	5,965	7,018
Adjusted PAT	984	1,081	642	1,960	1,090	1,555	1,175	2,317	4,671	6,183
Change (%)	78.4	-8.3	13.6	43.4	10.8	43.9	83.1	18.2	27.6	32.4

E: MOST Estimates; Nos are for standalone entity

Satyam Agarwal (Agarwals@MotilalOswal.com) Tel: +91 22 3982 5410/ Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com)

Suzlon Energy

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	SUEL IN
	REUTERS CODE
S&P CNX: 4,942	SUZL.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs270

	YEAR	NET SALES	PAT*	EPS*	EPS GR.*	P/E*	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,550.9										
52-Week Range	460/186										
1,6,12 Rel. Perf. (%)	-1/-1/13										
MCap. (Rs b)	418.7										
MCap. (US\$ b)	10.5										
	3/07A	79,857	8,641	6.0	19.6	45.0	11.4	27.6	21.0	5.3	32.1
	3/08E	134,934	10,850	7.0	16.6	38.6	4.4	17.3	15.1	3.4	23.6
	3/09E	200,035	18,793	12.1	73.2	22.3	3.8	19.0	14.8	2.5	17.0
	3/10E	248,584	25,323	16.3	34.8	16.5	3.2	21.9	15.1	2.0	13.2

* Consolidated

- For 4QFY08, we expect revenues of Rs47.4b, up 62.5% YoY, EBITDA of Rs8.2b, up 65% YoY, and net profit of Rs4.8b, up 34.81% YoY.
- Order backlog as of December 2007 stood at Rs171b (3,357MW, as against Rs77.2b in 3QFY07). The geographic break-up of this was as follows: India 441MW, USA 1,832MW, Brazil 231MW, Europe 304MW, China 202MW and Australia 346MW.
- New orders during 4QFY08 include an order from Spanish Saving Bank Unicaja, Spain for 49 units of Suzlon S88-2.1MW wind turbines translating into 102.9MW, an order from Pacific Hydro Ltd, Australia for delivery of 27 units of Suzlon S88-2.1 MW wind turbines translating into 56.7MW (scheduled for completion in early 2010).
- US operations impacted both margins and volumes: US operations currently account for 55% of order book (1,834MW of total order book of 3,357MW). We understand that margins on US operations have been impacted due to (1) rupee appreciation (5%+ since 1QFY08), (2) levy of import duty of 2.6% on Nacelles import (which accounts for 60% of WTG cost), and (3) increasing commodity prices (22%+ increase in steel prices w.e.f. April 2007). Based on these factors, we expect EBITDA margin impact on existing order book from US operations at ~500bp, given that fixed price contracts account for 65% of the order book. Further, current order book from the US would account for 96% of Suzlon's FY09 MW sales from US operations and 79% of FY10, resulting in continued margin pressure.
- We expect Suzlon to post net profit of Rs10.9b in FY08 and Rs18.8b in FY09. The stock trades at 22.3x FY09E and 16.5x FY10E consolidated earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	10,689	20,870	19,139	29,159	19,446	36,413	31,698	47,377	79,857	134,934
Change (%)	243.6	85.8	117.3	91.0	81.9	74.5	65.6	62.5	107.9	69.0
EBITDA	1,858	3,600	2,546	4,954	1,398	5,870	3,889	8,175	12,958	19,331
Change (%)	181.0	42.6	69.8	24.9	-24.8	63.0	52.7	65.0	47.4	49.2
As of % Sales	17.4	17.3	13.3	17.0	7.2	16.1	12.3	17.3	16.2	14.3
Depreciation	347	428	343	600	585	583	747	873	1,718	2,789
Interest	366	547	638	972	1,079	1,387	1,565	1,793	2,523	5,823
Other Income	161	87	254	463	426	535	725	297	965	1,983
PBT	1,306	2,711	1,820	3,846	161	4,434	2,302	5,805	9,683	12,701
Tax	346	340	93	256	-40	457	873	966	1,035	2,257
Effective Tax Rate (%)	26.5	12.5	5.1	6.6	(24.6)	10.3	37.9	16.6	10.7	17.8
Reported PAT	960	2,371	1,727	3,590	200	3,978	1,428	4,839	8,648	10,445
Change (%)	115.2	14.7	28.9	-4.3	-79.2	67.8	-17.3	34.8	13.7	20.8
PAT (post Minority Interest)	953	2,354	1,744	3,590	189	3,978	1,517	4,839	8,640	10,850

E: MOST Estimates

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Thermax

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	TMX IN
	REUTERS CODE
S&P CNX: 4,942	THMX.BO

28 March 2008

Buy

Rs592

Equity Shares (m)	119.2
52-Week Range (Rs)	968/355
1,6,12 Rel. Perf. (%)	-2/-16/35
MCap. (Rs b)	70.4
MCap. (US\$ b)	1.8

Previous Recommendation: Buy

YEAR	NET SALES	PAT*	EPS*	EPS GR.*	P/E*	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	21,730	1,976	16.6	92.7	35.6	12.2	35.5	56.2	3.2	24.5
03/08E	32,029	2,885	24.2	46.0	24.4	9.4	42.4	63.3	2.1	16.9
03/09E	43,910	4,251	35.7	47.4	16.6	6.7	46.1	69.1	1.4	10.9
03/10E	57,224	5,848	49.1	37.6	12.0	4.6	44.5	66.8	1.0	7.2

* Consolidated

- For 4QFY08, we expect revenues of Rs9.3b, up 15.5% YoY, EBITDA of Rs1.2b, and net profit of Rs915m, up 39.5% YoY. The management has guided revenue growth of 40% YoY during FY08 and stable EBITDA margin.
- The order backlog for the company stood at Rs32.7b as of December 2007.
- Thermax recently signed a technical transfer license with Babcock & Wilcox Power Generation Group, Inc. (B&W PGG), USA. This grants it the right to engineer, manufacture and sell sub-critical B&W Radiant utility boilers up to 800MW in India for the next 15 years.
- Thermax has also signed a technical knowhow transfer and license agreement with Balcke-Durr GmbH, Germany. The license mainly encompasses manufacture of electrostatic precipitators (ESPs) – air pollution control equipment for power, industrial and utility segments upto 300MW.
- We expect Thermax to report a consolidated net profit of Rs2.8b in FY08 and Rs4.2b in FY09. The stock trades at 24.4x FY08E and 16.6x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	3,226	4,823	5,499	8,044	6,581	7,701	8,454	9,293	21,368	32,029
Change (%)			53.0	68.9	104.0	59.7	53.7	15.5	44.0	49.9
EBITDA	383	758	760	887	680	1,011	1,049	1,159	2,429	3,899
Change (%)			63.2	25.1	77.9	33.3	38.1	30.6	21.5	60.5
As of % Sales	11.9	15.7	13.8	11.0	10.3	13.1	12.4	12.5	11.4	12.2
Depreciation	38	50	47	53	50	54	53	69	188	226
Interest	0	2	5	5	4	2	3	2	13	10
Other Income	65	88	83	272	85	109	86	324	732	603
Extra-ordinary Items	0	-231	0	41	98	0	0	0	-190	0
PBT	410	562	790	1,143	809	1,063	1,080	1,411	2,770	4,266
Tax	135	211	236	446	249	371	330	496	1,027	1,446
Effective Tax Rate (%)	32.8	37.6	29.8	39.0	30.8	34.9	30.5	35.2	37.1	33.9
Reported PAT	275	351	555	697	560	692	750	915	1,743	2,820
Adj PAT	275	582	555	656	462	692	750	915	1,933	2,820
Change (%)			83.5	53.6	67.9	18.9	35.3	39.5	49.7	45.9

E: MOST Estimates

FMCG

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
Asian Paints	131
Britannia Industries	132
Colgate Palmolive	133
Dabur India	134
GSK Consumer	135
Godrej Consumer Products	136
Hindustan Unilever	137
ITC	138
Marico	139
Nestle India	140
Tata Tea	141
United Spirits	142

We expect FMCG companies to post steady growth in 4QFY08; rising inflation is preventing significant acceleration in consumer demand. Raw material prices have risen through the quarter, resulting in price increases in soaps, detergents, edible oils, etc. The Union Budget 2008-09 has made an attempt to increase the disposable cash with the consumers by reduction of taxes, likely implementation of the Sixth Pay Commission Report, and debt waiver for small farmers. We expect select categories like packed foods, skin care, paints and alcoholic beverages to report demand acceleration in the coming quarters. Rising prices of agricultural commodities remain a concern, and continued buoyancy in food-grain prices could result in consumer down-trading in select products. We expect steady growth momentum to continue, but gross margins are likely to be under pressure.

Higher tax slabs; Sixth Pay Commission recommendations to boost demand

In light of robust direct tax collections, the Finance Minister has raised income tax slabs, thus lowering tax outgo for individual taxpayers. We estimate that for taxable income level of Rs300,000 the savings would be Rs2,000 per month while for Rs400,000 the savings would be about Rs3,000 per month.

CHANGE IN TAX SLAB

OLD SLABS	%	NEW SLABS	%
Upto Rs 110,000	0	Upto Rs 150,000	0
Rs 110,000 to Rs 150,000	10	Rs 150,000 to Rs 300,000	10
Rs 150,000 to Rs 250,000	20	Rs 300,000 to Rs 500,000	20
Rs 250,000 and above	30	Rs 500,000 and above	30

Source: Budget 2008

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO	SALES		EBITDA		NET PROFIT		
	MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)	
FMCG							
Asian Paints	Buy	11,549	20.4	1,532	31.0	843	37.1
Britannia	Buy	7,129	19.0	623	60.9	463	26.5
Colgate	Buy	3,927	14.4	646	20.7	580	16.4
Dabur	Neutral	6,245	17.7	1,039	18.0	857	9.9
Godrej Consumer	Buy	2,921	20.5	464	7.6	360	16.9
GSK Consumer	Buy	3,750	14.9	705	13.0	496	17.3
Hind. Unilever	Neutral	36,250	13.8	4,278	18.2	3,797	13.7
ITC	Buy	38,733	11.7	10,492	12.8	7,372	13.3
Marico	Buy	4,765	20.0	565	37.2	368	19.2
Nestle	Buy	10,300	19.3	2,184	22.1	1,390	24.8
Tata Tea	Neutral	7,048	-39.2	1,646	-14.8	973	564.5
United Spirits	Buy	8,029	21.2	1,307	53.2	894	38.7
Sector Aggregate		140,646	10.5	25,481	16.2	18,393	22.2

Also, the implementation of the Sixth Pay Commission recommendations would result in an increase in base salary levels of government employees. Higher base salaries together with significant tax savings would result in an increase in disposable incomes, thereby boosting demand for consumer goods. We expect higher demand for low penetration products like skin creams, household products, biscuits, beer, packed juices, noodles, packaged water, mid-priced IMFL, wines and decorative paints.

Cigarette volumes may be adversely impacted

The Finance Minister has announced an increase in specific rates of excise duty on non-filter cigarettes. This will bridge the huge gap in the excise rates between filter and non-filter cigarettes. Filter cigarettes is a faster growing segment and non-filter cigarette volumes have suffered in FY08 due to VAT and excise-led price increase last year. Increase in excise duty for <60mm non-filter cigarettes is as high as 388% and for 60-70mm, the increase is 142%. The excise change has resulted in lower duty on regular filter cigarettes in comparison to plain cigarettes.

We expect the industry to increase prices, although entire excise increase in bingos is unlikely to be passed on to the consumer. We expect bingos and plain cigarette volumes to take a beating in the coming quarters due to lowering of price differential vis-à-vis filter cigarettes. Some of the terminal consumers might also shift back to *bidis*. We expect cigarette companies to launch lower length filter cigarettes to gain from lower excise duty in comparison to plains.

We expect companies like ITC and Godfrey Philips to emerge stronger, as non-filter cigarettes are just 20% and 30% of their volumes. GTC and VST would suffer, as filter cigarettes are just 30% and less than 10% of their volumes. Consumer shift towards *bidis* could result in volume loss in FY09, though sales mix would become richer, boosting margins.

INCREASING EXCISE DUTY ON CIGARETTES

RS/1,000 CIGARETTE	2005-06	2006-07	2007-08	2008-09
Filter				
>85mm	2,000	2,100	2,205	2,205
75-85mm	1,627	1,708	1,793	1,793
70-75mm	1,224	1,285	1,349	1,349
<70mm	754	792	832	832
Non Filter				
60-70mm	505	530	546	1,323
<60mm	153	161	168	819

Source: Cris-Infac/ Motilal Oswal Securities

Input cost heading northwards; price increase in end products likely

Prices of key raw material are witnessing an uptrend. Sugar, which witnessed a downtrend in the recent past, has bounced back. Palm oil price has crossed 4,000 ringgit/ton after consolidation. Soda ash and LAB prices have marched up on account of strong crude

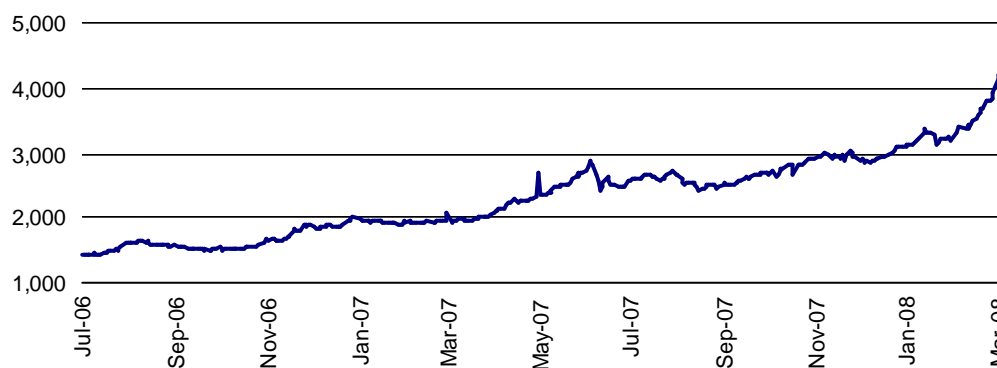
prices. In addition, all agri-based inputs like wheat, rice, edible oils, etc are showing a strong uptrend. The industry is of the view that some of the commodities have structurally settled at higher levels and are unlikely to witness significant decline in their prices. Rising commodity prices are being looked upon as a major challenge for most FMCG companies due to likely consumer resistance at a higher price level. HUL has taken price increase of 8-9% on soaps, 3-4% on detergents, and 4% on select personal care products. The industry believes that prices will have to be increased in view of rising costs, which could prevent any significant acceleration in volume growth.

IMPACT OF INPUT PRICE CHANGES

INPUT	PRICE TREND	IMPACT	COMPANIES
LAB	Up	Negative	HUL
Soda Ash	Up	Negative	HUL
Palm Oil	Up	Negative	HUL, Godrej Consumer
Sugar	Up	Negative	Nestle, GSK Consumer, ITC and Britannia
Wheat	Up	Negative	Nestle, ITC and Britannia
Milk	Up	Negative	Nestle, GSK Consumer
Molasses	Up	Negative	United Spirits, Radico

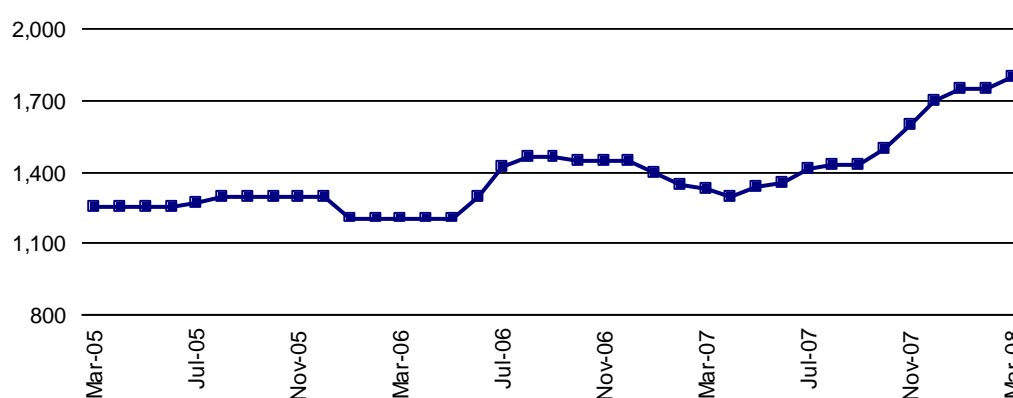
Source: Motilal Oswal Securities

TREND IN PALM OIL PRICES (RINGGITS/TON)



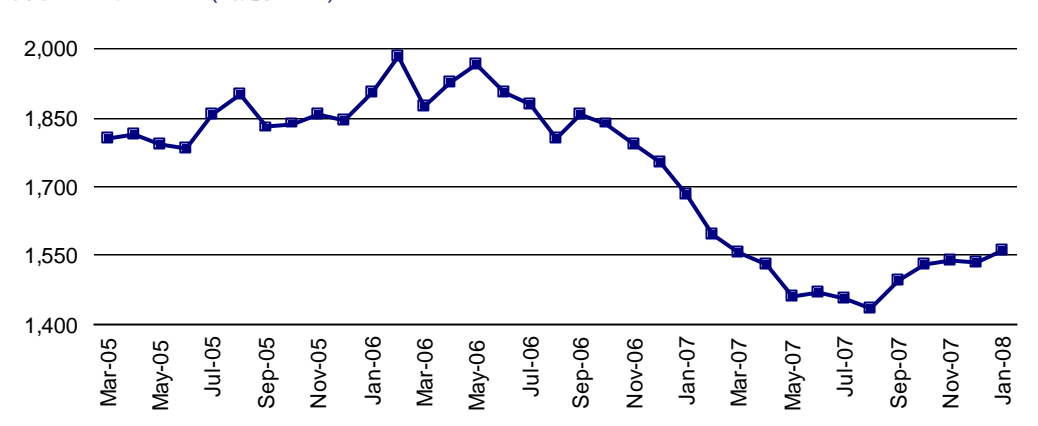
Source: Bloomberg

TREND IN LAB PRICES (US\$/TON)



Source: Bloomberg

SUGAR PRICE TREND (RS/QUINTAL)



Source: Cris-Infac/ Motilal Oswal Securities

Competition intensifies across all categories

Rising disposable income and buoyant consumer confidence is resulting in rising growth rates for premium products, although at a low base. The trend is clearly visible in processed foods, skin care, hair care and liquor, where the key drivers have been a young working population, influence of media and modern trade. To tap this opportunity, FMCG majors are adding new products in their portfolio.

This is evident from the fact that HUL, which did not add any new product category during the last few years, is turning aggressive in new product launches. It plans to complete the national rollout of its water purifier (*Pure IT*) by the end of CY08. The company has launched the *Ponds (Skincare)* and *Dove (Hair care)* products in the premium end. HUL has also unveiled *Kissan Amaze Brainfood* nutritional products targeted at the 6-14 age-group.

Nestle has launched *Nescafe Mild Coffee* and *Cerevita* breakfast cereals. Marico has unveiled *Parachute Advanced Starz* range of hair care products for 3-10 year-old children. ITC has launched five new variants in its premium soap brand *Vivel Di Wills*, shower gels and conditioners.

COMPANY	CATEGORY	BRAND	VARIANT
Nestle	Coffee	Nescafe	Mild
	Breakfast Cereals	Cerevita	Wheat, Corn and Mixed Fruit
Dabur	Health Supplements	Chyawan Junior	Malted Drink
	Household Products	Dazzle	Household and Kitchen Cleaner
	Skin Care	Gulabari	Rose Skin cream and Lotion
Marico	Hair Care	Parachute Advanced Starz	Shampoo, Hair oil and Cream for kids
	Edible Oil	Saffola Functional food	Cholesterol & Diabetes Management
United Spirits	Premium IMFL	W&M, Isle of Jura	Scotch Whisky
ITC	Personal Wash	Vivel Di Wills	Soap in 2 variants
		Fiama Di Wills	Shower gel in 3 variants
		Vivel	Soap in 4 variants
		Fiama Di Wills	Polishing drops hair conditioner
HUL	Food Products	Kissan Amaze Brainfood	Milk Mix, Bites and Bars

Source: Motilal Oswal Securities

We expect new product launches to intensify competition across segments and product categories. This will put pressure on incumbents to launch new variants and increase spends on advertising and brand building. Rising competitive intensity in a highly inflationary environment will prevent any sharp increase in profit margins.

Focus on specific categories and stocks

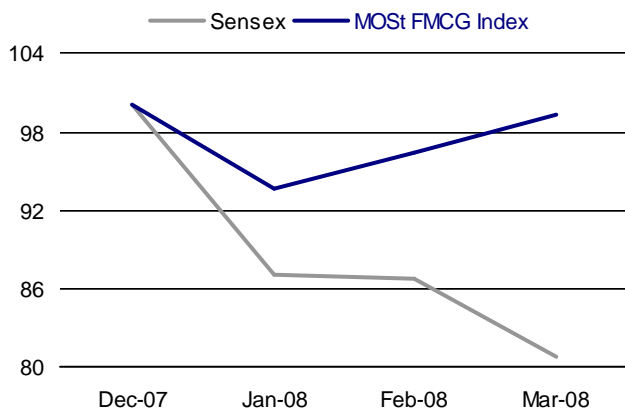
We expect steady growth for the FMCG sector in 4QFY08. Gross margins would be under pressure for companies having dependence on crude and agri-based raw materials. We expect premium-end personal care products, household products, processed foods and alcoholic beverages to report acceleration in volume growth. We prefer companies with strong presence in processed foods, alcoholic beverages and paints. United Spirits, ITC, Nestle and Colgate are our top picks.

Stock performance and valuations

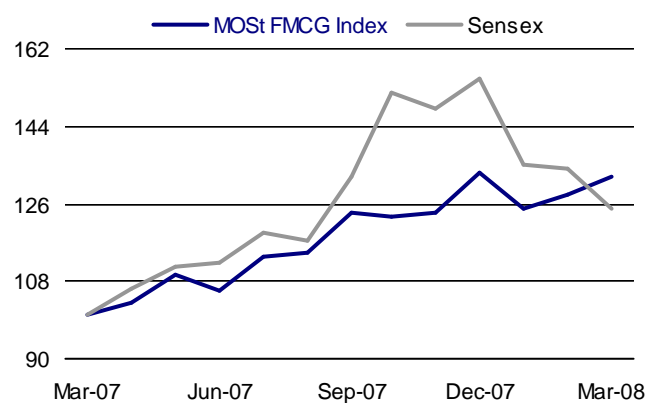
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
FMCG						
Asian Paints	6	58	25	31	6	21
Britannia	-11	6	8	-21	-12	-32
Colgate	-3	17	16	-10	-4	-20
Dabur	-5	19	14	-8	-6	-18
Godrej Consumer	-2	-13	17	-40	-3	-50
GSK	-14	18	5	-9	-14	-19
Hind. Unilever	12	22	31	-5	11	-15
ITC	0	44	19	17	0	7
Marico Industries	-1	15	18	-12	-2	-22
Nestle	2	62	21	35	2	25
Tata Tea	-8	35	11	7	-9	-3
United Spirits	-22	86	-3	59	-22	49

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.03.08													
FMCG														
Asian Paints	1,176	Buy	42.2	50.2	61.3	27.8	23.4	19.2	17.3	14.3	11.8	40.5	38.0	36.2
Britannia	1,308	Buy	73.0	87.5	114.0	17.9	15.0	11.5	11.5	9.2	6.7	25.3	24.5	25.8
Colgate	388	Buy	17.3	20.3	23.2	22.4	19.1	16.7	20.9	17.0	14.7	130.9	266.1	201.2
Dabur	108	Neutral	3.9	4.8	5.8	27.5	22.4	18.6	21.8	18.3	15.4	52.5	49.4	46.4
Godrej Consumer	126	Buy	6.9	7.9	9.2	18.5	16.0	13.7	14.3	10.4	9.0	90.9	32.3	34.8
GSK Consumer	606	Buy	38.7	44.9	52.7	15.7	13.5	11.5	9.6	8.1	6.4	25.4	25.0	25.0
Hind. Unilever	242	Neutral	8.1	9.3	10.7	29.8	26.1	22.6	27.1	22.4	19.3	122.9	113.7	107.2
ITC	206	Buy	8.3	9.6	11.4	24.9	21.6	18.1	16.6	14.1	11.5	26.1	26.3	27.4
Marico	67	Buy	2.7	3.2	3.7	25.1	21.3	18.2	16.9	14.1	12.2	66.0	56.7	49.9
Nestle	1,493	Buy	44.7	56.6	71.0	33.4	26.4	21.0	20.4	16.3	13.1	62.1	68.1	73.2
Tata Tea	827	Neutral	47.2	74.4	84.5	17.5	11.1	9.8	5.9	5.0	4.2	7.3	10.7	11.2
United Spirits	1,508	Buy	44.3	69.0	94.7	34.0	21.9	15.9	24.0	19.1	14.8	16.9	18.8	20.6
Sector Aggregate						26.5	22.0	18.4	18.5	15.4	12.8	32.3	33.0	34.0

Asian Paints

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	APNT IN
	REUTERS CODE
S&P CNX: 4,942	ASPN.BO

28 March 2008

Buy

Rs1,176

Previous Recommendation: Buy

	YEAR	NET SALES	ADJ. PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	95.9										
52-Week Range	1,320/725										
1,6,12 Rel. Perf. (%)	11/25/31										
M.Cap. (Rs b)	112.8										
M.Cap. (US\$ b)	2.8										
	3/07A	36,700	2,813	29.3	32.7	40.1	14.5	36.4	49.2	3.1	23.6
	3/08E	44,262	4,052	42.2	44.1	27.8	11.0	40.5	54.3	2.6	17.3
	3/09E	52,535	4,814	50.2	18.8	23.4	8.5	38.0	53.7	2.1	14.3
	3/10E	61,831	5,877	61.3	22.1	19.2	6.7	36.2	54.0	1.8	11.8

- ✎ We expect Asian Paints to register 20.4% growth in revenues to Rs11.5b in 4QFY08, driven by strong demand in both domestic and international markets.
- ✎ Growth is expected to be broad-based, with decorative paints, industrial paints and powder coatings growing in tandem. EBITDA margins would expand from 12.2% in 4QFY07 to 13.3% in 4QFY08 on the back of improvement in the profitability of international business and strong volume growth in the domestic market. PAT would grow 37.1% to Rs843m.
- ✎ We expect the company to gain from rising consumerism on the one hand and huge infrastructure growth on the other. Demand for decorative paints should grow steadily in the coming year due to expected increase in disposable income of the urban middle class.
- ✎ Competitive intensity is expected to increase but a strong brand, wide product range and marketing strength would enable the company to maintain its leadership position in the decorative paints market in India. Raw Material prices are a concern but reduction in excise duty in budget will provide some cushion to the margins in the coming quarters.
- ✎ The stock is currently trading 27.8x FY08E earnings and 23.4x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	7,773	9,981	9,356	9,589	9,605	11,332	11,776	11,549	36,700	44,262
Change (%)	17.3	26.2	16.6	20.2	23.6	13.5	25.9	20.4	21.5	20.6
Total Expenditure	6,738	8,639	8,122	8,420	8,251	9,516	9,921	10,016	31,920	37,704
EBITDA	1,035	1,342	1,234	1,170	1,354	1,816	1,856	1,532	4,780	6,557
Margin (%)	13.3	13.4	13.2	12.2	14.1	16.0	15.8	13.3	13.0	14.8
Change (%)	27.2	23.3	12.9	20.5	30.8	35.3	50.3	31.0	22.1	37.2
Interest	40	50	57	43	49	69	54	63	189	236
Depreciation	143	149	147	173	141	146	150	173	611	610
Other Income	62	98	76	136	89	265	132	127	373	613
Operational PBT	914	1,241	1,108	1,090	1,252	1,866	1,783	1,423	4,352	6,325
Non Recurring Items	2.5	0.1	1.9	-51.5	4	-67	-1	0	-51	-64
PBT	911	1,241	1,106	1,038	1,256	1,933	1,783	1,423	4,301	6,261
Tax	322	388	357	399	422	597	537	531	1,467	2,087
Effective Tax Rate (%)	35	31	32	38	33.6	30.9	30.1	37.3	34.1	33.3
PAT	589	853	748	639	834	1,336	1,246	892	2,834	4,173
Minority Interest	-13	23	38	-27	15	63	58	50	21	185
Adjusted PAT	605	831	712	615	815	1,341	1,189	843	2,813	4,052
Change (%)	35.4	47.5	19.4	33.5	34.8	61.4	66.9	37.1	30.1	47.3

E: MOST Estimates

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Britannia Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	BRIT IN
	REUTERS CODE
S&P CNX: 4,942	BRIT.BO

28 March 2008

Buy

Rs1,308

Previous Recommendation: Buy

Equity Shares (m)	23.9
52-Week Range	1,780/1,175
1,6,12 Rel. Perf. (%)	2/-5/-21
MCap. (Rs b)	31.2
MCap. (US\$ b)	0.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	21,993	1,076	47.3	-23.9	27.6	5.1	18.4	17.8	1.3	22.3
03/08E	26,050	1,745	73.0	54.3	17.9	4.3	25.3	28.9	1.0	11.5
03/09E	30,637	2,154	87.5	19.8	15.0	3.5	24.5	28.7	0.8	9.2
03/10E	35,503	2,767	114.0	30.3	12.5	2.9	25.8	31.2	0.7	6.7

- ✍ We expect Britannia to report revenues of Rs7.1b in 4QFY08, a growth of 19% YoY. EBITDA margins are expected to increase by 220bp YoY to 8.7%, as input cost pressures would be offset by higher realizations. PBT would increase by 42% YoY but sharp increase in tax rate would result in PAT increase of 26.5% YoY to Rs463m.
- ✍ Input costs continue to rule strong and we expect prices of wheat, sugar and milk to remain firm. Britannia has been launching premium variants like *Nutri Choice Sugarout*, *Nutri Choice Digestive Biscuit*, *Treat Fruit Rolls*, etc which would help face rising cost pressures.
- ✍ The industry might make a consolidated effort to ward off inflationary pressures in wheat by reducing the pack size of Glucose biscuits, which account for more than 50% of the industry size. Strong material prices are likely to further eliminate smaller players, thus improving long-term growth potential for the large players.
- ✍ We are factoring in lower tonnage growth and higher wheat prices in our estimates. We maintain our FY08 estimates but are reducing our EPS estimates for FY09 from Rs91.3 to Rs87.5. The stock is currently trading at 17.9x FY08E and 15x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,828	5,497	5,673	5,992	5,769	6,588	6,564	7,129	21,993	26,050
YoY Change (%)	25.2	23.8	26.1	32.0	19.5	19.8	15.7	19.0	28.4	18.4
Total Exp	4,502	5,209	5,412	5,605	5,323	5,902	5,976	6,507	20,758	23,708
EBITDA	326	288	261	387	446	686	588	623	1,235	2,343
Margins (%)	6.8	5.2	4.6	6.5	7.7	10.4	9.0	8.7	5.6	9.0
Depreciation	57	64	65	66	69	72	73	95	253	309
Interest	7	16	23	8	5	29	30	26	89	90
Other Income	119	27	50	87	108	58	63	68	293	297
PBT	381	235	223	400	480	643	548	569	1,187	2,240
Tax	55	-3	22	34	88	127	60	106	57	381
Rate (%)	14.4	1.3	9.9	8.5	18.3	19.8	10.9	18.6	4.8	17.0
PAT	326	238	201	366	392	516	488	463	1,130	1,859
YoY Change (%)	-8.7	-45.8	-48.5	59.8	20.2	116.8	142.8	26.5	-33.7	64.4
Extraordinary Expenses	-23	-26	-37	32	-31	-31	-34	-18	-54	-114
Reported PAT	303	212	164	398	361	485	454	445	1,077	1,745

E: MOST Estimates

Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CLGT IN
	REUTERS CODE
S&P CNX: 4,942	COLG.BO

28 March 2008

Buy

Rs388

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	136.0										
52-Week Range (Rs)	521/326										
1,6,12 Rel. Perf. (%)	11/2/-10										
M.Cap. (Rs b)	52.7										
M.Cap. (US\$ B)	1.3										
	03/07A	12,951	1,933	14.2	47.9	27.3	160.9	70.1	69.3	3.3	20.5
	03/08E	14,747	2,351	17.3	21.6	22.4	67.0	130.9	128.1	3.6	20.9
	03/09E	16,699	2,757	20.3	17.3	19.1	41.0	266.1	255.9	3.1	17.1
	03/10E	18,695	3,161	23.2	14.7	16.7	28.4	201.2	196.1	2.7	15.1

- ☞ We expect Colgate to report sales growth of 14.4% YoY in 4QFY08 to Rs3.9b. EBITDA margins would expand 90bp to 16.5%. Adjusted PAT is expected to increase 16.4% YoY to Rs580m.
- ☞ We expect 9-10% volume growth in toothpaste segment and a similar volume growth in toothbrushes. Colgate has gained 110bp market share in FY08 and our trade check indicates continuation of this strong performance.
- ☞ Colgate has launched *Palmolive Naturals* body wash in two variants i.e. *Milk & Honey* and *Milk & Almond*, which will enable it to maintain growth in this high potential segment.
- ☞ We expect the company to maintain its strong leadership position in the oral care industry. Stock trades at 22.4x FY08E and 19.1x FY09E earnings and at a divided yield of 4%. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	3,096	3,200	3,223	3,433	3,507	3,639	3,675	3,927	12,951	14,747
YoY Change (%)	19.9	15.1	12.8	13.6	13.3	13.7	14.0	14.4	15.2	13.9
Total Exp	2,695	2,642	2,679	2,897	2,817	3,074	3,064	3,281	10,863	12,236
EBITDA	401	558	544	536	689	564	611	646	2,089	2,511
Margins (%)	12.9	17.4	16.9	15.6	19.7	15.5	16.6	16.5	16.1	17.0
Depreciation	37	36	44	37	44	49	51	35	-153	179
Interest	2	2	3	3	3	6	2	-5	-10	6
Other Income	148	122	166	174	135	196	228	114	585	673
PBT	509	643	664	670	777	705	787	731	2,512	3,000
Tax	149	137	161	172	158	158	182	151	579	649
Rate (%)	29.2	21.4	24.2	25.6	20.3	22.4	23.2	20.7	23.0	21.6
Adjusted PAT	361	505	503	498	619	547	605	580	1,933	2,351
YoY Change (%)	1.6	63.7	-13.6	34.6	71.6	8.3	20.1	16.4	47.9	21.6
Extraordinary Expenses	0	274	0	-8	10	0	0	-30	331	-20
Reported PAT	361	232	503	506	609	547	605	610	1,602	2,371
YoY Change (%)	28.9	-24.9	20.6	36.7	68.8	136.2	20.1	20.5	16.4	48.0

E: MOST Estimates

Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	DABUR IN
	REUTERS CODE
S&P CNX: 4,942	DABU.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs108

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	862.9										
52-Week Range	134/72										
1,6,12 Rel. Perf. (%)	18/7/-8										
MCap. (Rs b)	92.9										
MCap. (US\$ b)	2.3										
	03/07A	20,431	2,782	3.2	23.9	33.3	19.4	58.0	51.4	4.6	26.6
	03/08E	23,790	3,361	3.9	21.2	27.5	14.5	52.5	57.4	3.8	21.8
	03/09E	27,194	4,146	4.8	22.6	22.4	11.1	49.4	53.6	3.3	18.3
	03/10E	30,835	4,995	5.8	20.5	18.6	8.7	46.4	50.9	2.8	15.4

- ✎ We expect Dabur to report sales of Rs6.2b in 4QFY08, a growth of 17.7% YoY. EBITDA margins would remain flat on a YoY basis due to increasing raw material prices. Pre-tax profit would increase by 14.5% while adjusted PAT before minority interest is likely to be Rs857m – up 9.9% YoY due to higher tax rate of 10.3%.
- ✎ Volume growth is likely to remain steady across segments. Growth would be mainly volume-driven, as the company has not taken any price increase in 4QFY08. The company expects urban demand to remain strong while any acceleration in rural demand is still doubtful.
- ✎ Dabur has launched *Chyawan Junior*, *Gulabari Hydrating Rose* cream & lotion, *Vatika Black* shampoo and *Dazzle* range of household cleaners, which have received good consumer response.
- ✎ H&B Stores (Dabur's 100% retail subsidiary) has launched its first Health & Beauty store under the brand, *New-U* in Rajouri Garden in Delhi. The stores would provide top of the line personal care and wellness products. We expect the venture to accelerate topline growth although it is likely to break even only in the fourth year. Our estimates do not factor in the impact of retail operations.
- ✎ We believe that wide product range and strong market shares in niche segments makes Dabur one of the best plays in the FMCG space. The stock is currently trading at 27.5x FY08E and 22.4x FY09E earnings without considering the impact of retail operations, which factor in the high growth prospects. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	3,917	5,544	5,664	5,307	4,791	6,258	6,497	6,245	20,431	23,790
YoY Change (%)		18.6	5.4	10.6	22.3	12.9	14.7	17.7	18.6	16.4
Total Exp	4,116	4,571	4,660	4,426	3,999	5,098	5,334	5,206	16,934	19,636
EBITDA	639	973	1,004	881	792	1,160	1,163	1,039	3,497	4,154
Margins (%)	16.3	17.6	17.7	16.6	16.5	18.5	17.9	16.6	17.1	17.5
Depreciation	97	106	115	90	102	98	105	152	408	456
Interest	41	55	31	28	47	42	44	14	154	147
Other Income	53	62	33	71	77	76	49	83	219	285
PBT	554	874	891	835	721	1,096	1,064	956	3,155	3,837
Tax	80	123	115	54	100	139	139	98	373	476
Rate (%)	14.5	14.1	12.9	6.5	13.9	12.7	13.0	10.3	11.8	12.4
PAT	474	751	776	780	621	958	925	857	2,782	3,361
YoY Change (%)	37.5	19.7	17.3	23.3	31.1	27.5	19.2	9.9	23.9	20.8
Minority Interest	-9	6	-17	11	-1	-8	-20	10	-9	-20
Extraordinary Inc/(Exp)	0	41	0	0	0	0	0	0	40	0
Reported PAT	482	787	793	769	622	966	945	848	2,830	3,381

E: MOST Estimates

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GlaxoSmithKline Consumer

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SKB IN
	REUTERS CODE
S&P CNX: 4,942	GLSM.BO

28 March 2008

Buy

Rs606

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	42.1										
52-Week Range (Rs)	742/489										
1,6,12 Rel. Perf. (%)	7/0/-9										
M.Cap. (Rs b)	25.5										
M.Cap. (US\$ b)	0.6										
	12/06A	11,079	1,269	30.2	18.4	20.1	4.7	23.4	35.7	2.1	12.4
	12/07A	12,778	1,627	38.7	28.2	15.7	4.0	25.4	39.0	1.7	9.6
	12/08E	14,470	1,887	44.9	16.0	13.5	3.4	25.0	38.1	1.4	8.0
	12/09E	15,654	2,217	52.7	17.5	11.5	2.9	25.0	38.0	1.2	6.4

✍ We expect GSK Consumer to register sales of Rs3.8b in 1QCY08 against Rs3.3b in 1QCY07, a growth of 14.9% YoY. Volume growth is expected to be 7-8%. GSK's EBITDA margins at 18.8% are likely to decline by 30bp. Margin decline despite 4% price increase in January due to rising prices of milk, malt and wheat. GSK is likely to report PAT of Rs496m in 1QCY08 against Rs423m in 1QCY07, a growth of 17.3% YoY.

✍ We expect competitive intensity to increase due to the launch of *Chyawan Junior* by Dabur and increased focus of Nestle on this product category. HUL has entered the milk-based drinks category, with the launch of *Kissan Amaze Brainfood* which is priced at 25% premium to *Horlicks*. GSK has launched *Women Horlicks* and is undertaking an aggressive campaign in this niche segment. Entry of new formats and players would expand the category. We expect *Horlicks* to maintain market leadership in this category, although growing at above industry average rates could be a challenge.

✍ The stock is currently trading at 13.5x CY08E and 11.5x CY09E earnings. Launch of new products and liberal dividend policy could re-rate the stock significantly. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,265	3,156	3,516	2,841	3,750	3,650	3,975	3,095	12,778	14,470
YoY Change (%)	17.9	17.8	16.6	7.3	14.9	15.7	13.1	8.9	14.9	13.2
Total Exp	2,641	2,571	2,839	2,484	3,045	2,986	3,220	2,712	10,535	11,962
EBITDA	624	585	677	357	705	664	755	383	2,243	2,508
Margins (%)	19.1	18.5	19.3	12.6	18.8	18.2	19.0	12.4	17.6	17.3
Depreciation	108	109	111	108	110	110	115	112	435	447
Interest	11	11	12	12	8	8	10	9	45	35
Other Income	139	166	209	175	165	200	245	206	689	816
PBT	644	631	763	412	752	746	875	468	2,452	2,842
Tax	221	208	258	137	256	250	293	156	825	955
Rate (%)	34.3	33.0	33.8	33.3	34.0	33.5	33.5	33.3	33.7	33.6
PAT	423	423	505	275	496	496	582	313	1,627	1,887
YoY Change (%)	22.8	36.8	39.4	9.1	17.3	17.3	15.3	13.7	28.4	16.0

E: MOST Estimates

Godrej Consumer Products

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	GCPL IN
	REUTERS CODE
S&P CNX: 4,942	GOCP.BO

28 March 2008

Buy

Rs126

Previous Recommendation: Buy

Equity Shares (m)	226.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	176/94	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/-4/-40	03/07A	9,532	1,350	6.0	13.1	21.1	23.5	110.6	65.0	3.1	16.6
MCap. (Rs b)	28.6	03/08E	11,251	1,547	6.9	14.6	18.5	16.8	90.9	87.3	2.6	14.3
MCap. (US\$ b)	0.7	03/09E	13,222	2,038	7.9	15.3	16.0	4.5	32.3	43.6	2.3	12.0
		03/10E	14,832	2,375	9.2	16.5	13.7	4.2	34.8	46.3	2.0	10.4

*Equity capital for EPS calculation in FY09-10E is Rs258m (Post rights)

- ✎ We expect revenue growth of 20.5% YoY to Rs2.9b in 4QFY08. EBITDA margins would decline by 190bp to 15.9% on higher input prices and deteriorating sales mix. We expect the company to report PAT of Rs360m, a growth of 16.9% YoY.
- ✎ We expect soaps volumes to grow in high double digits, led by strong performance in *Godrej No1*. Its hair color portfolio continues to suffer due to higher growth in cream based colors, which is not an area of strength for the company. The toiletries segment is expected to maintain its growth momentum; liquid fabric cleaner is expected to report encouraging growth due to prolonged winter.
- ✎ GCPL is likely to face intense competition from ITC in the mass market for soaps and shampoo. Initial success of ITC in the mass market could impact the pricing power of its high growth *No1* brand. We expect GCPL to launch new variants in existing products and launch new products to ward off competition.
- ✎ The company is considering a rights issue of 1:7 at Rs123/share, which would be partly used for repayment of debt and financing the acquisition of Kinky Group. The stock offers dividend yield of 4% and is currently trading at 18.5x FY08E and 16x FY09E consolidated earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	2,376	2,318	2,380	2,424	2,863	2,740	2,728	2,921	9,532	11,251
YoY Change (%)	41.7	47.6	29.3	26.6	20.5	18.2	14.6	20.5	36.2	18.0
Total Exp	1,955	1,922	1,865	1,993	2,352	2,239	2,159	2,457	7,735	9,206
EBITDA	421	397	516	431	511	501	568	464	1,798	2,045
Margins (%)	17.7	17.1	21.7	17.8	17.9	18.3	20.8	15.9	18.9	18.2
Depreciation	31	31	36	45	44	46	48	43	142	182
Interest	18	26	33	20	35	32	29	14	96	109
Other Income	8	28	17	6	13	14	15	15	27	56
PBT	381	369	464	372	445	437	506	421	1,586	1,810
Tax	53	59	68	64	59	67	76	61	243	262
Rate (%)	13.9	15.9	14.6	17.3	13.1	15.2	15.0	14.5	15.3	14.5
PAT	328	310	396	308	386	371	430	360	1,343	1,547
YoY Change (%)	21.0	11.5	10.5	2.3	17.7	19.5	8.7	16.9	13.1	15.2
Extraordinaries	13	0	0	86	0	0	0	0	99	0
Reported PAT	315	310	396	394	386	371	430	360	1,441	1,547

E: MOST Estimates

Hindustan Unilever

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HUVR IN
	REUTERS CODE
S&P CNX: 4,942	HLL.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs242

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	2,177.5										
52-Week Range	248/170										
1,6,12 Rel. Perf. (%)	18/16/-5										
M.Cap. (Rs b)	527.4										
M.Cap. (US\$ b)	13.2										
	12/06A	121,034	15,397	7.0	17.5	34.7	19.6	56.5	67.0	4.2	30.8
	12/07A	137,178	17,691	8.1	14.9	29.8	36.6	122.9	144.7	3.7	27.1
	12/08E	156,037	20,226	9.3	14.3	26.1	29.6	113.7	135.7	3.2	22.4
	12/09E	173,981	23,313	10.7	13.0	22.6	24.2	107.2	128.7	2.9	19.3

- ✎ We expect HUL to report 13.8% YoY increase in sales for 1QCY08 to Rs36.2b. EBITDA margins would expand 40bp to 11.8%. Decline of 12% in other income will limit adjusted PAT growth to 13.7% YoY.
- ✎ Strong growth in detergents would enable HUL to maintain double-digit growth in soaps & detergents. Personal care would report yet another quarter of growth above mid-teens due to strong sales of skin creams in an extended winter.
- ✎ HUL has increased the prices of toilet soaps by 8-9% to neutralize the impact of sharp increase in palmoil prices. We expect price increase to reduce volume growth in soaps. The company has increased prices by 8% for *Surf Excel Blue*, by 2% for *Rin Advanced* and by 6% in *Wheel Powder* (reduction in pack size). *Clinic Shampoo* has seen 6% price increase while *Fair and Lovely* prices are up 3%. The price increases would enable the company to neutralize raw material price spiral to a considerable extent.
- ✎ HUL plans to complete the national rollout of water purifier, *Pureit* by the end of CY08. The company unveiled *Kissan Brainfood* nutritional products targeted at the 6-14 age-group, which is first major food product launch after several years.
- ✎ We are increasing our EPS estimates from Rs9.2 to Rs9.3 for CY08 and from Rs10.3 to Rs10.7 for CY09. The stock is currently trading 26.1x CY08E and 22.6x CY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales (incl service inc)	31,843	34,814	33,646	36,874	36,250	39,650	38,300	41,837	137,178	156,037
YoY Change (%)	13.8	12.9	9.7	16.8	13.8	13.9	13.8	13.5	13.3	13.7
Total Expenditure	28,224	29,695	29,170	31,232	31,973	33,544	32,976	35,028	118,321	133,520
EBITDA	3,620	5,120	4,476	5,642	4,278	6,106	5,324	6,809	18,857	22,517
YoY Change (%)	9.5	23.5	11.1	12.8	18.2	19.3	18.9	20.7	14.4	19.4
Margins (%)	11.4	14.7	13.3	15.3	11.8	15.4	13.9	16.3	13.7	14.4
Depreciation	329	333	353	369	345	353	362	374	1,384	1,434
Interest	51	110	68	26	45	75	55	25	255	200
Other Income	908	1,063	1,059	1,597	800	900	880	1,466	4,627	4,046
PBT	4,147	5,739	5,114	6,844	4,688	6,578	5,787	7,877	21,845	24,929
Tax	809	1,020	1,021	1,305	891	1,184	1,128	1,500	4,155	4,703
Rate (%)	19.5	17.8	20.0	19.1	19.0	18.0	19.5	19.0	19.0	18.9
Adjusted PAT	3,339	4,719	4,093	5,540	3,797	5,394	4,658	6,377	17,691	20,226
YoY Change (%)	13.6	24.4	6.9	14.6	13.7	14.3	13.8	15.1	14.9	14.3
Extraordinary Inc/(Exp)	590	212	-12	775	0	0	0	0	1,564	0
Reported Profit	3,929	4,931	4,081	6,314	3,797	5,394	4,658	6,377	19,255	20,226
YoY Change (%)	-11.3	29.6	-21.6	23.5	-3.4	9.4	14.2	1.0	3.8	5.0

E: MOST Estimates

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ITC

Buy

Rs206

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ITC IN
	REUTERS CODE
S&P CNX: 4,942	ITC.BO

28 March 2008

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	3,762.2										
52-Week Range	239/140										
1,6,12 Rel. Perf. (%)	10/14/17										
M.Cap. (Rs b)	776.1										
M.Cap. (US\$ b)	19.4										
	03/07A	123,693	27,000	7.2	18.4	28.7	7.4	25.9	35.5	6.0	18.6
	03/08E	139,299	31,217	8.3	15.6	24.9	6.5	26.1	36.1	5.3	16.6
	03/09E	163,684	35,941	9.6	15.1	21.6	5.7	26.3	36.8	4.4	14.1
	03/10E	195,633	42,802	11.4	19.1	18.9	5.0	27.4	38.6	3.6	11.5

- ☞ We expect ITC to post revenue growth of 11.7% YoY in 4QFY08 to Rs38.7b. EBITDA margins would expand 30pb YoY to 27.1%, as new FMCG (excluding *Bingo* and personal care) has turned around. PAT is likely to grow 13.3% YoY to Rs7.3b.
- ☞ The company would report flat cigarette volumes in 4QFY08 as against a 2.7% YoY decline in volumes for 9MFY08. Our FY08 estimates factor in a 2% decline in cigarette volumes.
- ☞ Paper and paperboard would report yet another quarter of steady growth. *Bingo* and *Sunfeast* would enable ITC to maintain strong growth momentum in food products. We expect the Foods business (excluding *Bingo*) to sustain turnaround in 4QFY08.
- ☞ ITC has strengthened its presence in the personal care segment, with the launch of *Vivel* and *Vivel Di Wills* premium soaps in six variants. In addition, it has launched three variants of shower gels and hair conditioners. We expect ITC to launch more products in the HPC category.
- ☞ ITC is expected to emerge stronger due to sharp increase in excise on non filter cigarettes, as lowest end cigarettes constitute just 5% of its volumes and plains constitute another 15%. We expect the company's sales mix to improve and market share to increase.
- ☞ The stock is currently trading at 24.9x FY08E earnings and 21.6x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	28,498	28,876	31,147	34,663	33,252	32,734	34,580	38,733	123,693	139,299
YoY Change (%)	25.7	32.3	21.9	24.5	16.7	13.4	11.0	11.7	26.3	12.6
Total Exp	18,792	19,149	20,319	25,360	21,977	22,414	22,583	28,241	84,055	95,215
EBITDA	9,706	9,727	10,828	9,303	11,276	10,320	11,997	10,492	39,638	44,085
Margins (%)	34.1	33.7	34.8	26.8	33.9	31.5	34.7	27.1	32.0	31.6
Depreciation	876	910	921	922	1,010	1,062	1,097	1,164	3,629	4,334
Interest	7	35	-9	-1	-8	9	18	6	160	25
Other Income	849	795	698	1,023	1,016	2,083	1,374	1,175	3,418	5,647
PBT	9,672	9,578	10,614	9,404	11,289	11,331	12,256	10,497	39,267	45,373
Tax	3,149	2,782	3,440	2,897	3,461	3,623	3,948	3,125	12,267	14,156
Rate (%)	32.6	29.0	32.4	30.8	30.7	32.0	32.2	29.8	31.2	31.2
Reported PAT	6,523	6,796	7,174	6,507	7,829	7,709	8,307	7,372	27,000	31,217
YoY Change (%)	16.8	18.7	23.2	14.7	20.0	13.4	15.8	13.3	20.8	15.6
Adjusted PAT	6,523	6,796	7,174	6,507	7,829	7,709	8,307	7,372	27,000	31,217
YoY Change (%)	21.1	18.7	33.6	14.7	20.0	13.4	15.8	13.3	18.4	15.6

E: MOST Estimates

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Marico

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	MRCO IN
	REUTERS CODE
S&P CNX: 4,942	MRCO.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs67

Equity Shares (m)	609.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	83/47	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	15/16/-12	03/07A	15,569	1,129	1.9	6.9	35.0	21.3	58.7	39.2	2.8	20.3
MCap. (Rs b)	41.0	03/08E	19,157	1,621	2.7	39.4	25.1	16.7	66.0	49.9	2.2	16.9
MCap. (US\$ b)	1.0	03/09E	23,010	1,948	3.2	18.0	21.3	11.9	56.7	55.9	1.8	14.1
		03/10E	26,102	2,283	3.7	17.1	18.2	9.0	49.9	52.9	1.6	12.2

- ✎ We expect Marico to report sales of Rs4.7b in 4QFY08 against Rs3.9b in 4QFY07, a growth of 20% YoY. EBITDA margins would expand marginally to 11.9% as against 10.4% in 4QFY07. We estimate PAT at Rs368m as against Rs309m in 4QFY07, a growth of 19.2% YoY.
- ✎ We expect *Parachute*, hair oils and *Saffola* to maintain strong double-digit growth. *Fiancée* and *Haircode* would boost topline and enable the company to maintain margins.
- ✎ Marico has witnessed 20-25% increase in prices of all raw materials. The company has already taken 10-12% price increase in *Saffola Gold* to ward off this impact. We expect Marico to take price increase in coconut oils, but maintaining profit margins could be a challenge in the coming year.
- ✎ Marico has launched *Parachute Advanced Starz*, a hair care range targeting children in the age group of 3-10 years. The product line includes shampoo, hair oil and hair gel cream which makes Marico the first company to launch kids specific brand variants.
- ✎ We are reducing our EPS estimates from Rs2.8 to Rs2.7 for FY08 and from Rs3.4 to Rs3.2 for FY09; our new estimates factor in high raw material prices. The stock trades at 25.1x FY08E and 21.3x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	3,728	3,780	4,092	3,970	4,691	4,638	5,062	4,765	15,569	19,157
YoY Change (%)	37.7	37.5	36.2	33.4	25.8	22.7	23.7	20.0	36.1	23.0
Total Exp	3,165	3,174	3,541	3,558	4,031	3,990	4,420	4,200	13,443	16,642
EBITDA	563	605	551	412	660	648	643	565	2,126	2,515
Margins (%)	15.1	16.0	13.5	10.4	14.1	14.0	12.7	11.9	13.7	13.1
Depreciation	112	127	168	115	58	64	66	71	521	259
Interest	48	57	54	47	71	65	68	42	239	246
Other Income	11	1	3	87	7	5	3	46	134	61
PBT	414	422	332	337	539	523	511	498	1,501	2,071
Tax	111	116	55	28	136	101	83	130	372	451
Rate (%)	26.8	27.5	16.6	8.3	25.3	19.3	16.3	26.1	24.8	21.8
Adjusted PAT	303	306	277	309	402	423	428	368	1,129	1,621
YoY Change (%)	30.6	50.7	-22.8	23.0	32.9	38.0	54.4	19.2	30.0	43.5
Exceptional Items	0	-45	7	-28	0	0	31	0		31
Reported PAT	303	261	284	281	402	423	459	368	1,129	1,683

E: MOST Estimates

Nestle India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	NEST IN
	REUTERS CODE
S&P CNX: 4,942	NEST.BO

28 March 2008

Buy

Rs1,493

Previous Recommendation: Buy

Equity Shares (m)	96.4
52-Week Range	1,676/900
1,6,12 Rel. Perf. (%)	17/18/35
MCap. (Rs b)	144.0
MCap. (US\$ b)	3.6

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
12/06A	28,161	3,269	33.9	-0.6	44.0	23.7	53.8	79.0	5.1	26.5
12/07A	35,044	4,313	44.7	31.9	33.4	20.7	62.1	91.0	4.1	20.4
12/08E	41,957	5,454	56.6	26.4	26.4	18.0	68.1	99.6	3.4	16.3
12/09E	50,137	6,842	71.0	25.5	21.0	15.4	73.2	107.5	2.8	13.1

* Excluding extraordinary items and provisions

- ✎ We expect Nestle to report net sales growth of 19.3% YoY in 1QCY08. Domestic revenues would grow 20.5% YoY while exports are likely to post a modest 4.4% growth. EBITDA margin would expand just 50bp YoY to 21.2%, as prices of key raw material have increased. Adjusted PAT is likely to increase by 23.6% YoY to Rs1,390m.
- ✎ We expect broad-based growth across categories, with noodles and chocolates being the key drivers. Rising raw material prices would be a key challenge in the current year, as milk and wheat prices are strong. Sugar prices, which have been trending lower for the last three quarters, have started inching up.
- ✎ New product launches continue to gain traction; the company has launched *Nescafe Mild* and *Cerevita* breakfast cereal in three flavors. *Nescafe Mild* has received good response; the product has a mild coffee taste and is targeted at tea b consumers. Its success could substantially accelerate growth rates in the coffee segment.
- ✎ We expect Nestle to maintain momentum in the launch of high margin value added variants, which would enable the company to sustain double-digit volume growth. It would be a major beneficiary of the increase in disposable incomes of the middle class. The stock trades at 26.4x CY08E and 21x CY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	8,631	8,389	9,067	8,957	10,300	10,010	10,805	10,842	35,044	41,957
YoY Change (%)	27.7	23.2	25.5	21.7	19.3	19.3	19.2	21.0	24.4	19.7
Total Exp	6,843	6,694	7,152	7,380	8,116	7,948	8,374	8,874	28,081	33,312
EBITDA	1,788	1,695	1,916	1,576	2,184	2,062	2,431	1,968	6,963	8,644
Margins (%)	20.7	20.2	21.1	17.6	21.2	20.6	22.5	18.1	19.9	20.6
Depreciation	179	178	184	206	207	200	205	208	747	820
Interest	1.9	3.7	0.7	2.2	1.5	1.0	1.0	1.2	9	5
Other income	70	32	57	97	90	50	70	110	254	320
PBT	1,677	1,544	1,787	1,465	2,065	1,911	2,295	1,868	6,461	8,140
Tax	563	507	597	481	675	630	760	621	2,148	2,686
Rate (%)	33.6	32.8	33.4	32.8	32.7	33.0	33.1	33.2	33.2	33.0
Adjusted PAT	1,114	1,037	1,190	984	1,390	1,281	1,535	1,247	4,313	5,454
YoY Change (%)	52.1	39.8	36.5	24.1	24.8	23.5	29.0	26.8	31.9	26.4
Extraordinary Inc/(Exp)	-30	-80	-29	-48	-50	-55	-40	-65	-175	-210
Reported PAT	1,085	957	1,161	936	1,340	1,226	1,495	1,183	4,138	5,244
YoY Change (%)	22.4	30.1	39.8	50.0	23.6	28.1	28.8	26.3	31.3	26.7

E: MOST Estimates

Tata Tea

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TT IN
	REUTERS CODE
S&P CNX: 4,942	TTTE.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs827

Equity Shares (m)	61.8
52-Week Range	1,014/586
1,6,12 Rel. Perf. (%)	9/8/7
M.Cap. (Rs b)	51.2
M.Cap. (US\$ b)	1.3

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	40,446	2,985	48.3	2.3	17.1	2.2	13.7	12.3	2.2	11.9
3/08E	40,051	2,919	47.2	-2.2	17.5	1.3	7.3	15.6	1.1	5.9
3/09E	43,102	4,604	74.4	57.7	11.1	1.2	10.7	16.5	0.9	5.0
3/10E	46,190	5,228	84.5	13.6	9.8	1.1	11.2	17.2	0.8	4.2

- ✎ We expect Tata Tea to report sales of Rs7.04b for the quarter. We have taken into account sale of North India plantations. Domestic branded business is likely to grow in mid-teens due to continued success of its branded portfolio.
- ✎ EBITDA margins would expand 670bp to 23.4%, due to higher contribution from *Eight O'clock Coffee* and stabilization of Tata Coffee's new instant coffee plant.
- ✎ Tata Tea would start reporting the benefits of Glaceau stake sale, as increase in other income from surplus funds and decline in interest burden would boost adjusted PAT by 564.5% to Rs973m. Our full year estimates include reduction in debt to Rs16b and surplus of more than Rs20b in Tetley balance sheet.
- ✎ Tata Tea has announced an open offer for Mount Everest Mineral Water. Long-term prospects for the water business look encouraging; our estimates do not factor in the financials of Mount Everest acquisition.
- ✎ The stock is trading at 17.5x FY08E and 11.1x FY09E earnings. Though we have a **Neutral** rating on the stock, it could be a good contrarian bet from a long-term perspective.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE*		
Net Sales	7,989	9,740	11,126	11,591	10,188	10,965	11,849	7,048	40,446	40,051
YoY Change (%)	11.5	25.1	37.1	41.9	27.5	12.6	6.5	-39.2	30.2	-1.0
Total Exp	6,412	7,938	9,120	9,658	8,523	9,143	9,643	5,402	33,129	32,710
EBITDA	1,577	1,801	2,005	1,933	1,672	1,582	2,112	1,646	7,317	7,340
Margins (%)	19.7	18.5	18.0	16.7	16.4	14.4	17.8	23.4	18.1	18.3
Depreciation	202	258	262	245	258	240	227	360	967	1,086
Interest	274	472	909	1,074	946	660	504	370	2,729	2,480
Other Income	75	410	68	-296	100	204	47	448	783	800
PBT	1,175	1,482	901	319	567	886	1,427	1,365	4,404	4,574
Tax	322	268	393	93	140	373	503	219	1,076	1,235
Rate (%)	27.4	18.1	43.6	29.2	24.7	42.1	35.2	16.0	24.4	27.0
PAT	853	1,214	508	226	427	513	924	1,146	3,328	3,339
YoY Change (%)	32.3	22.1	-36.1	-60.2	-49.9	-57.8	81.8	407.8	26.7	0.3
Minority Interest/ Share of Associate	-34	57	-91	-79	-50	-51	-145	-173	147	-420
Adjusted PAT	819	1,271	418	146	377	462	779	973	3,474	2,919
YoY Change (%)	31.0	23.2	-49.8	-72.8	-54.0	-63.7	86.5	564.5	2.3	-16.0
Extraordinary Gains	-18	-670	754	374	80	631	12,294	1,747	1,449	14,752
Reported PAT	801	602	1,172	520	457	1,092	13,073	2,720	4,923	17,671
YoY Change (%)	-7.3	-40.6	44.2	1.0	-43	82	1,016	422.9	48.2	258.9

E: MOST Estimates; * 4QFY08 sales show adjustment for previous quarters due to sale of north India plantations

United Spirits

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	UNSP IN
	REUTERS CODE
S&P CNX: 4,942	UNSP.BO

28 March 2008

Buy

Rs1,508

Previous Recommendation: Buy

Equity Shares (m)	100.2
52-Week Range	2,188/786
1,6,12 Rel. Perf. (%)	-2/-8/59
MCap. (Rs b)	151.0
MCap. (US\$ b)	3.8

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	27,205	2,542	27.8	576.3	54.2	11.5	18.9	17.3	4.8	29.5
03/08E	32,102	3,951	44.3	59.2	34.0	7.2	16.9	21.1	3.9	19.8
03/09E	38,180	6,151	69.0	55.7	21.9	6.0	18.8	23.9	3.3	15.7
03/10E	44,689	8,443	94.7	37.3	15.9	5.0	20.6	27.4	2.7	12.2

* Excluding extraordinary items and provisions

- ✎ We expect United Spirits to register 21% growth in topline to Rs8b in 4QFY08. EBITDA margins are likely to improve by 340bp to 16.3%. We expect adjusted PAT to increase to Rs894m, a growth of 39%. Above estimates do not include numbers of White & Mackay.
- ✎ Strong growth in high margin brands, low prices of molasses and ENA (extra neutral alcohol), and Rs80/case price increase in Tamil Nadu will be the key margin drivers. United Spirits was allowed a price increase in Tamil Nadu (a controlled market) after three years.
- ✎ We expect strong growth in the deluxe segment to benefit the flagship brand *McDowell No1*, which had grown by over 25% during 9MFY08. Premium brands like *Black Dog*, *Antiquity*, and vodka brands like *Romanov*, *White Mischief* and *Alcazar* are expected to grow strongly.
- ✎ United Spirits is launching scotch and single malt products under *Dalmore*, *Isle of Jura* and *Whyte & Mackay* brands in India, and the initial response has been encouraging. *Whyte & Mackay* has been granted permission to set up new warehouses, which will enable the company to age scotch and increase the average age of scotch being sold.
- ✎ We expect volume growth to accelerate in the coming years due to rising disposable income of middle class and favorable regulatory changes. We believe that United Spirits continues to be best bet in the liquor space in India. The stock is trading at 34x FY08E and 21.9x FY09E earnings. We rate the stock as our top pick in the consumer space.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	6,549	6,321	7,711	6,624	7,657	7,526	8,890	8,029	27,205	32,102
YoY Change (%)	101	108	93	89.1	16.9	19.1	15.3	21.2	9.0	18.0
Total Exp	5,540	4,964	6,437	5,771	5,943	5,925	7,182	6,722	22,736	25,772
EBITDA	1,009	1,357	1,274	853	1,714	1,601	1,708	1,307	4,469	6,330
Margins (%)	15.4	21.5	16.5	12.9	22.4	21.3	19.2	16.3	16.4	19.7
Depreciation	60	103	34	114	70	72	90	77	309	309
Interest	255	270	289	217	292	328	328	283	1,068	1,231
PBT From operations	695	983	951	522	1,352	1,201	1,290	947	3,092	4,790
YoY Change (%)	375	1,048	308	456	94	22	36	82	227	55
Other income	36	-7	143	360	49	42	96	381	704	567
PBT	731	976	1,094	881	1,400	1,243	1,386	1,328	3,796	5,357
Tax	279	413	325	236	505	389	505	434	1,276	1,832
Rate (%)	38.2	42.3	29.7	26.8	36.0	31.3	36.4	32.7	33.6	34.2
PAT	451	563	769	645	896	854	882	894	2,520	3,525
YoY Change (%)	335	900	350	264	98	52	15	39	182	40
Extraordinary Inc/(Exp)	0	0	2,657	0	-20	-52	0	0	2,627	-72
Reported PAT	451	563	3,425	645	876	802	882	894	5,147	3,453

E: MOST Estimates

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Information Technology

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
HCL Technologies	147
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The current scenario: The United States (US) is in the midst of one of its worst financial crises arising out of sub prime lending and bad mortgages. The relentless price fall in the overheated housing markets in the recent past has aggravated the credit crisis. Major financial institutions such as Merrill Lynch, Citigroup, UBS, Morgan Stanley, HSBC, BOA, DB and others have taken write offs of over US\$150b. We have already seen fall of the fifth largest Investment banking firm in the US viz Bear Stearns. With negative news still flowing in from the US credit markets and the extent of woes still uncertain, it seems there is still some time before one sees light at the end of tunnel. Further, the impact on insurance companies and some European banks is yet unknown. Under these circumstances the US economy is already slowing down, with recession being only a matter of time. There's no question that as America's huge and hungry consumption machine starts to splutter, other economies around the world will suffer, including emerging economies like China and India.

On the eve of the closure of FY08 closure, never had there been (post the dot-com bubble bust and 9/11 events dating back about 8 years in year 2001) a bigger question mark on (business) demand for the Indian IT/BPO industry, than is perceived today on account of uncertainty looming around in the US financial markets. Managements of the frontline IT companies like TCS, Infosys, Wipro etc. are still non-committal on business outlook for the next fiscal. Even the customers, particularly BFSIs are non-committal on IT spend, as they are not able to assess the impact of the credit crisis on their businesses going forward. This has put IT spends for CY08 in state of flux. The authorities on their part have been supportive — indicated by the Federal Reserve (Fed) having taken six interest cuts in six months, bringing rates down to 2.25% from 5.5%. Further the Fed

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Information Technology							
HCL Technologies	Buy	19,101	5.1	4,202	8.2	3,518	5.7
Infosys	Buy	45,590	6.7	14,886	6.9	12,842	4.3
MphasiS	Buy	6,607	4.5	1,153	4.4	694	4.8
Patni Computer	Neutral	7,105	3.5	1,234	8.4	1,140	14.3
Satyam Computer	Buy	23,379	6.5	5,285	12.2	4,779	10.2
TCS	Buy	61,853	4.4	16,526	4.7	13,571	2.0
Tech Mahindra	Neutral	10,168	4.8	2,308	8.4	2,077	4.1
Wipro	Buy	38,181	6.1	11,218	11.7	9,148	10.7
Sector Aggregate		211,984	5.5	56,813	7.8	47,768	5.7

also had announced a US\$200b loan program that allowed the biggest US banks to borrow treasury securities and post mortgage-backed securities as collateral hoping to avoid a systemic meltdown in financial markets. The Federal Reserve had approved a US\$30b credit line to engineer the bail out and takeover of Bear Stearns.

What to expect in FY09: Ever since the last recession (i.e. 3 quarters of continuous declining GDP growth – this happened in Sep-01) in the US in CY01, until now, the Indian IT/BPO industry's exports has witnessed an impressive CAGR growth of 34%, taking its size from US\$4b to around US\$40b in FY 2008 (est). The total IT/BPO services industry including the domestic business would be US\$50b by FY08, employing close to 1.6 million people and contributing close to 5.2% to India's GDP. NASSCOM believes Indian IT/BPO is on track to reach the US\$60b in exports and US\$73-75b in overall software and services revenues, by 2010, implying export growth of 22.47% for next two years.

For FY09 we believe that IT companies would have back ended growth. We are assuming only 2-3 quarters of negative growth for the US economy including the March 2008 quarter and hence the IT spends would be impacted in H1FY09. After factoring the impact of marginal negative growth in a few BFSI clients, a flat pricing scenario and a moderate wage hike, we expect the frontline IT companies like TCS, Infosys, Satyam, HCL and Wipro to register muted growth in FY09 ranging from higher teens to higher twenties in US\$ terms. Infosys had posted muted growth for two quarters post the US being hit by a recession the previous time, emphasizing a lag effect of this condition on IT spends.

Companies such as Infosys and TCS have grown by 35%+ in US\$ terms in FY08. In the light of uncertainty in IT spend and continuing woes in US credit markets we reckon Infosys to guide between 18% to 21% revenue growth in US\$ terms. The growth is expected to be driven via the European geography and ex BFSI verticals. Upon a turnaround in US credit crisis expected post H1FY09, companies could witness back ended growth. During FY09 companies will be under immense pricing pressure across geographies, more so from the worst-affected BFSI clients. We have assumed around 2% rupee appreciation (last financial year rupee appreciated ~10%) from an average Rs40 in FY08. With the US alone contributing over 60% of the business for Indian IT/BPO industry the impact is imminent; it only remains to be seen how severe the recession in the US could be.

In spite of slowdown in businesses, nondiscretionary spend (which is typically between 60-70% of IT companies business), would continue to increase given urgency for cost rationalization in biting business conditions. Also to maintain global competitiveness the US companies would have to stay put with their discretionary spend, which could get impacted in the short term. Further most frontline companies now have 30% business coming from Europe, for example in the last quarter, TCS has less than 50% revenue contribution from US. In tough times we could see IT intensity (IT spend as % to business) going down or being flat with a shift towards offshoring.

FY09 will witness reduction of margins depending on the worsening of sub prime crisis. Indian IT companies will have to come out of their comfort zones for holding margins and take short term risks for long term sustainability and growth. For this IT companies would need to transform yet again and move up the value chain and thrive on innovation and business solutions, coupled with cost arbitrages, productivity gains and pricing pressures.

What is reassuring at this stage for Indian IT companies?

1. A fair fourth quarter guidance from some frontline companies like Satyam, Infosys and Wipro in midst of US slowing down
2. Cognizant giving a good 38% revenue growth guidance for CY08 in mid-February 2008 and reassuring Accenture results in March last week
3. No significant stall in hiring plans by frontline companies
4. No profit or revenue guidance warning coming from any of Indian IT companies
5. A slowing US economy though would envisage cuts in IT budgets, could be a blessing in disguise for offshore companies as it would focus on cost savings. Globally India is the only country equipped to provide skill, scale, quality, pace and cost rationalization in one go.
6. Wage hikes are expected to be moderate in current year due to business slowing down and budgetary tax concession in salary for FY09
7. The offshoring story remains intact with frontline Indian IT companies already at the top end of the value chain competing with global players like IBM, Accenture, EDS, CSC, HP etc.
8. Analysts from IDC, Gartner, Forrester have indicated growth in IT spend globally albeit slower in CY08
 - a. Gartner predicts that the IT spending is expected to grow by 3.3 percent in FY2008 when compared with 2007 levels
 - b. IDC predicted in February that worldwide IT market would grow of 5% this year, down from last year's pace of 6%. Global IT spending is projected to reach US\$1.38t (including hardware) this year CY08, up from just over US\$1.3t in 2007
 - c. Forrester Research has revised its earlier forecast for a 4.6% increase in US purchase of IT goods and services down to a more modest 2.8%. The research firm says it is based on the updated numbers of newly available economic data that points toward a slight recession in the United States and will impact IT spending for more than half of this year.

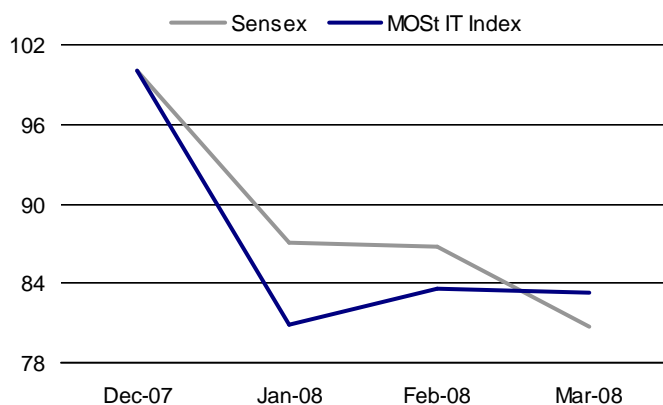
Sector valuations: Valuations of Indian IT companies have already discounted a mild / soft US slowdown / recession and hence would have limited downside unless a severe recessionary condition develops (this could only be estimated after a few months), in such a scenario one could see a significant fall in revenues and growth impacting profitability of the Indian IT/BPO companies severely. We recommend holding investments in frontline IT companies viz. TCS, Infosys, HCL Technologies, Satyam Computers and Wipro, which have transformational capabilities which is the need of the hour. We expect fair returns in the long run and post clarity on uncertainties in IT spending.

Stock performance and valuations

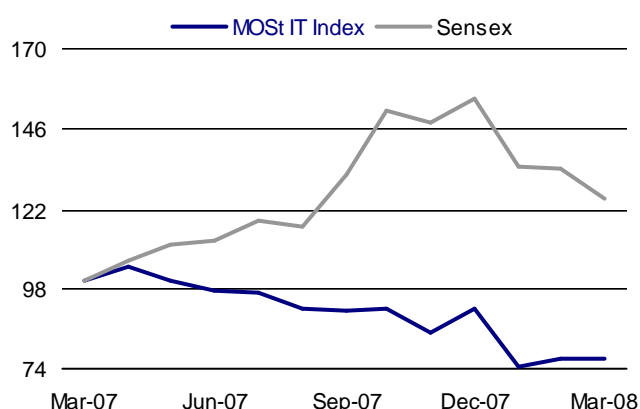
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Information Technology						
HCL Technologies	-17	-5	2	-33	0	17
Infosys	-15	-23	4	-50	2	-1
Mphasis	-33	-27	-14	-54	-16	-5
Patni Computer	-30	-38	-12	-65	-13	-16
Satyam Computer	-9	-10	10	-37	8	12
TCS	-19	-28	0	-55	-2	-5
Tech Mahindra	-37	-49	-18	-76	-20	-27
Wipro	-14	-19	5	-46	3	3

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Information Technology														
HCL Technologies	272	Buy	19.5	22.1	25.6	14.0	12.3	10.6	9.7	7.8	6.2	25.7	26.7	28.4
Infosys	1,526	Buy	82.7	93.1	103.4	18.5	16.4	14.8	15.1	12.1	9.5	35.7	31.0	27.3
Mphasis	202	Buy	12.1	14.5	17.1	16.6	13.9	11.8	6.9	5.2	4.0	31.5	24.7	24.4
Patni Computer	230	Neutral	33.6	35.2	37.1	6.8	6.5	6.2	3.8	2.5	1.8	19.0	17.1	15.7
Satyam Computer	408	Buy	25.4	30.6	34.7	16.1	13.3	11.8	12.3	9.3	6.8	26.3	25.6	23.7
TCS	870	Buy	52.0	59.8	67.1	16.7	14.6	13.0	13.6	11.4	9.1	46.3	39.2	33.9
Tech Mahindra	723	Neutral	57.5	69.5	77.9	12.6	10.4	9.3	10.1	7.8	5.5	44.8	35.1	38.1
Wipro	454	Buy	22.4	25.5	29.6	20.3	17.8	15.4	15.7	13.1	9.9	29.2	27.8	26.9
Sector Aggregate						17.2	14.8	13.1	13.4	11.0	8.5	30.1	27.8	25.5

HCL Technologies

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HCLT IN
	REUTERS CODE
S&P CNX: 4,942	HCLT.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs272

Equity Shares (m)	663.7
52-Week Range	366/180
1,6,12 Rel. Perf. (%)	1/-4/-33
MCap. (Rs b)	180.4
MCap. (US\$ b)	4.5

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
6/07A	60,336	12,543	18.9	72.8	14.4	3.6	29.9	33.2	2.6	11.8
6/08E	74,010	13,058	19.5	3.1	14.0	3.3	25.7	28.6	2.1	9.7
6/09E	91,211	15,093	22.1	13.3	12.3	2.9	26.7	30.7	1.7	7.8
6/10E	116,421	17,835	25.6	15.9	10.6	2.9	28.4	35.3	1.3	6.2

* After ESOP charges

- ✍ We expect HCL Technologies' consolidated revenue to grow by 5.1% QoQ. The growth is muted on account of the US credit crises and also as one key BFSI client based in UK facing a financial crisis. Growth will primarily be driven by volume and marginal uptake in revenue productivity, primarily in the software services business.
- ✍ Infrastructure management and software services will witness muted growth, while BPO growth will continue to struggle.
- ✍ We expect consolidated EBITDA margin to marginally improve by 60bp as the current quarter (a) will not have a salary hike factor and (b) will be subject to rupee depreciation.
- ✍ The company has hedged its net receivables for over 10 quarters and had forward covers of US\$2.1b as of 31 December 2007 and expected the company to continue with an opportunistic hedging policy. For the quarter we expect the company to earn marginally lower other income at Rs520m on account of forex losses due to QoQ rupee depreciation.
- ✍ Net profit is expected to grow 5.7% QoQ (after ESOP charges) in rupee terms with the tax rate around 10% to PBT.
- ✍ The stock is trading at 12.3x FY09E earnings estimates (after ESOP charges). HCL has a very good revenue stream from Europe, with leadership in the remote infrastructure space and large deal winning capability, along with presence in BPO and engineering and R&D. We reckon HCL will further strengthen and consolidate its position in IT. We reiterate **Buy**.
- ✍ **Key challenges:** US and IT spend slow down. Key BFSI client as its largest client; BPO growth.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenues	13,794	14,651	15,771	16,120	17,092	18,166	19,101	19,651	60,336	74,010
Q-o-Q Change (%)	10.0	6.2	7.6	2.2	6.0	6.3	5.1	2.9	37.5	22.7
Direct Expenses	8,709	9,107	9,737	10,039	10,763	11,258	11,874	12,321	37,592	46,216
Sales, General & Admin. Expenses	2,098	2,303	2,366	2,607	2,689	3,023	3,024	3,029	9,374	11,765
Operating Profit	2,987	3,241	3,668	3,474	3,640	3,885	4,202	4,301	13,370	16,028
Margins (%)	21.7	22.1	23.3	21.6	21.3	21.4	22.0	21.9	22.2	21.7
Other Income	290	481	615	2,873	504	542	520	550	4,259	2,116
Depreciation	556	623	659	693	686	723	789	801	2,531	2,999
PBT bef. Extra-ordinary	2,721	3,099	3,624	5,654	3,458	3,704	3,933	4,050	15,098	15,145
Provision for Tax	219	206	283	777	346	355	393	415	1,485	1,509
Rate (%)	8.0	6.6	7.8	13.7	10.0	9.6	10.0	10.3	9.8	10.0
Share of Income from Equity Investees	4	-7	-3	-3	0	0	0	0	-9	0
Minority Interest	5	23	20	7	28	21	22	23	55	94
PAT bef. Extra-ord. & ESOP chrg	2,501	2,863	3,318	4,867	3,084	3,328	3,518	3,612	13,549	13,542
Q-o-Q Change (%)	7.3	14.5	15.9	46.7	-36.6	7.9	5.7	2.7	75.2	-0.1

E: MOST Estimates

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Infosys

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	INFO IN
	REUTERS CODE
S&P CNX: 4,942	INFY.BO

28 March 2008

Buy

Rs1,526

Previous Recommendation: Buy

Equity Shares (m)	571.8
52-Week Range	2,140/1,212
1,6,12 Rel. Perf. (%)	4/-14/-50
MCap. (Rs b)	872.7
MCap. (US\$ b)	21.9

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	138,930	37,250	68.4	53.3	22.3	7.6	42.3	46.4	5.7	18.1
3/08E	167,090	45,932	82.7	20.8	18.5	5.8	35.7	41.0	4.6	14.7
3/09E	197,966	53,324	93.1	12.6	16.4	4.5	31.0	36.1	3.7	11.8
3/10E	248,443	59,333	103.4	11.1	14.8	3.6	27.3	34.9	2.8	9.2

* 1:1 bonus in FY07, accordingly ratios are adjusted, PAT figures are adjusted PAT

- ✎ We expect consolidated revenue to grow by 6.7% QoQ; supported by 6.3% volume growth during the quarter. Revenue growth in US dollar terms is expected to be 5.6% QoQ. The rupee has marginally depreciated (average around 0.75%) during the quarter
- ✎ EBITDA margins are expected to be flat at 32.7% levels in 4QFY08, with marginal improvement in realizations.
- ✎ Net profit growth in 4QFY08 is expected to be muted compared with 3QFY08 at 4.3% QoQ on account of slowdown in IT spends during the quarter arising from subprime credit crisis in the US.
- ✎ On FY09 revenue guidance: Uncertainty over IT spend of some of the larger BFSI clients even in the third month of CY08 is cause for concern. Continuous negative newsflow from the US and write-offs of over US\$150b until date by some key BFSI offshoring clients clearly indicate slower revenue and earnings growth than anticipated in mid-January post 3QFY08 results. In this scenario, we believe Infosys will give guidance of between 18-21% revenue growth in US\$ terms. We see operating margins falling marginally and assume 2% rupee appreciation.
- ✎ The stock currently trades at 18.5x FY08E and 16.4x FY09E earning estimates. While long term business prospects appear fair, the company could witness slower growth until credit conditions improve in the US. Maintain **Buy**.
- ✎ **Key issues:** US and IT spend slow down, abnormal rupee appreciation

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	30,150	34,510	36,550	37,720	37,730	41,060	42,710	45,590	138,930	167,090
Q-o-Q Change (%)	14.9	14.5	5.9	3.2	0.0	8.8	4.0	6.7	45.9	20.3
Direct Expenses	16,660	18,330	19,380	20,210	21,690	22,310	23,250	24,321	74,580	91,571
Sales, General & Admin. Expenses	4,600	5,090	5,210	5,540	5,200	5,910	5,540	6,383	20,440	23,033
Operating Profit	8,890	11,090	11,960	11,970	10,840	12,840	13,920	14,886	43,910	52,486
Margins (%)	29.5	32.1	32.7	31.7	28.7	31.3	32.6	32.7	31.6	31.4
Other Income	1,250	660	590	1,200	2,530	1,540	1,580	1,819	3,700	7,469
Depreciation	1,060	1,220	1,410	1,450	1,440	1,440	1,530	1,641	5,140	6,051
Provisions									1	2
PBT bef. Extra-ordinary	9,080	10,530	11,140	11,720	11,930	12,940	13,970	15,064	42,470	53,904
Provision for Tax	1,060	1,230	1,300	1,520	1,650	1,940	2,160	2,222	5,110	7,972
Rate (%)	11.7	11.7	11.7	13.0	13.8	15.0	15.5	14.8	12.0	14.8
PAT bef. Minority	8,020	9,300	9,840	10,200	10,280	11,000	11,810	12,842	37,360	45,932
Minority Interest	-80	-10	-10	-10	0	0	0	0	-110	0
PAT before EO	7,940	9,290	9,830	10,190	10,280	11,000	11,810	12,842	37,250	45,932
Extra-ordinary Items	60	0	0	1,250	510	0	500	0	1,310	1,010
PAT aft. Minority and EO	8,000	9,290	9,830	11,440	10,790	11,000	12,310	12,842	38,560	46,942
Q-o-Q Change (%)	18.9	16.1	5.8	16.4	-5.7	1.9	11.9	4.3	56.9	21.7

E: MOST Estimates

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Mphasis

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	MPHL IN
	REUTERS CODE
S&P CNX: 4,942	MBFL.BO

28 March 2008

Buy

Rs202

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	164.1										
52-Week Range	340/150										
1,6,12 Rel. Perf. (%)	-5/-24/-54										
M.Cap. (Rs b)	33.1										
M.Cap. (US\$ b)	0.8										
	3/07A	11,958	1,199	7.3	-21.5	27.6	6.8	27.4	30.3	2.7	15.7
	3/08E	24,263	2,533	12.1	66.2	16.6	3.7	31.5	33.6	1.6	8.9
	3/09E	30,456	3,031	14.5	19.6	13.9	3.1	24.7	27.6	1.2	6.9
	3/10E	37,804	3,567	17.1	17.7	11.8	2.6	24.4	29.7	0.9	5.4

- ✍ We expect Mphasis to report revenue growth of 4.5% in 4QFY08, supported by growth in EDS driven revenues.
- ✍ EBITDA margins are expected to be flat at around 17.4% in the quarter.
- ✍ In 4QFY08, we expect the tax rate to increase to 8% levels versus 5.6% in 3QFY08.
- ✍ Net profit is expected to grow at 4.8% QoQ to Rs694m.
- ✍ The stock is currently trading at 16.6x FY08E and 13.9x FY09E earnings estimates. Maintain **Buy**.
- ✍ **Key issues:** Revenue growth through EDS, margins, US and IT spend slow down.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	2,607	2,919	3,060	3,373	5,316	6,017	6,323	6,607	11,958	24,263
Q-o-Q Change (%)	4.1	12.0	4.8	10.2	57.6	13.2	5.1	4.5	27.2	102.9
Direct Expenses	1,858	1,935	1,982	2,179	3,713	4,290	4,616	4,724	7,954	17,343
Sales, General & Admin. Expenses	434	499	489	547	626	648	602	730	1,969	2,606
Operating Profit	315	485	588	647	978	1,079	1,104	1,153	2,035	4,314
Margins (%)	12.1	16.6	19.2	19.2	18.4	17.9	17.5	17.4	17.0	17.8
Other Income	42	-56	-50	-6	-147	-15	-28	-15	-69	-204
Depreciation	150	157	161	163	305	340	374	383	631	1,403
PBT bef. Extra-ordinary	207	273	378	478	526	724	702	755	1,335	2,706
Provision for Tax	55	39	20	22	13	61	40	60	136	174
Rate (%)	26.7	14.2	5.3	4.6	2.4	8.4	5.6	8.0	10.2	6.4
PAT bef. Extra-ordinary	152	234	358	456	513	663	663	694	1,199	2,532
Q-o-Q Change (%)	-56.8	54.0	52.9	27.4	12.7	29.2	-0.1	4.8	-20.0	111.2

E: MOST Estimates; *Consolidated with EDS (I)

Patni Computer Systems

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	PATNI IN
	REUTERS CODE
S&P CNX: 4,942	PTNI.BO
Equity Shares (m)	138.9
52-Week Range	573/185
1,6,12 Rel. Perf. (%)	1/-46/-65
MCap. (Rs b)	31.9
MCap. (US\$ b)	0.8

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs230

	YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
	12/06A	26,112	3,572	25.8	18.8	8.9	1.4	16.8	21.2	0.7	3.8
	12/07A	26,950	4,643	33.6	30.0	6.8	1.2	19.0	22.7	0.7	3.8
	12/08E	30,082	4,868	35.2	4.9	6.5	1.0	17.1	20.3	0.4	2.5
	12/09E	36,269	5,127	37.1	5.3	6.2	0.9	15.7	19.7	0.3	1.8

* Reflects adjusted PAT

- ✍ We expect revenue to increase by 3.5% QoQ in rupee terms in 1QCY08.
- ✍ Margins (EBIT) are expected to improve by 80bp in 1QCY08 at 17.4%.
- ✍ Other income is expected to be higher at Rs400m in 1QCY08 v/s Rs295m in 4QCY07.
- ✍ We expect net profit to increase by 14% for the quarter.
- ✍ The stock is trading at 6.8x CY08E and 6.5x CY09E earnings estimates. We maintain **Neutral**.
- ✍ **Key issues:** US and IT spend slow down, abnormal rupee appreciation, margins, attrition rates.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenues	6,724	6,628	6,736	6,862	7,105	7,363	7,637	7,977	26,950	30,082
Q-o-Q Change (%)	-1.2	-1.4	1.6	1.9	3.5	3.6	3.7	4.4	3.2	11.6
Direct Expenses	4,204	4,303	4,470	4,594	4,719	5,086	5,027	5,276	17,570	20,108
Sales, General & Admin. Expenses	1,094	1,108	1,149	1,130	1,152	1,149	1,168	1,212	4,480	4,681
Operating Profit	1,427	1,217	1,117	1,138	1,234	1,128	1,442	1,490	4,899	5,294
Margins (%)	21.2	18.4	16.6	16.6	17.4	15.3	18.9	18.7	18.2	17.6
Other Income	268	635	441	295	400	400	400	400	1,638	1,600
Depreciation	234	252	262	257	277	280	283	287	1,004	1,127
PBT bef. Extra-ordinary	1,460	1,600	1,296	1,176	1,357	1,249	1,560	1,602	5,533	5,767
Provision for Tax	260	253	198	179	217	200	242	240	890	899
Rate (%)	17.8	15.8	15.3	15.2	16.0	16.0	15.5	15.0	16.1	15.6
Net Income bef. Extra-ordinary	1,200	1,348	1,098	997	1,140	1,049	1,318	1,362	4,643	4,868
Q-o-Q Change (%)	5.8	12.3	-18.5	-9.2	14.3	-8.0	25.7	3.4	30.0	4.9

E: MOST Estimates

Vikas Jadhav (Vikas.Jadhav@MotilalOswal.com); Tel: +91 22 3982 5585

Satyam Computer

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SCS IN
	REUTERS CODE
S&P CNX: 4,942	SATY.BO

28 March 2008

Buy

Rs408

Previous Recommendation: Buy

Equity Shares (m)	669.1
52-Week Range	522/305
1,6,12 Rel. Perf. (%)	-0/-3/-37
M.Cap. (Rs b)	273.3
M.Cap. (US\$ b)	6.8

YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	64,851	14,047	21.5	41.7	19.0	4.6	27.9	30.3	3.6	15.3
3/08E	83,954	16,989	25.4	18.4	16.1	3.8	26.3	29.9	2.7	12.3
3/09E	106,731	20,601	30.6	20.5	13.3	3.1	25.6	30.0	2.0	9.3
3/10E	136,725	23,600	34.7	13.5	11.8	2.5	23.7	31.0	1.4	6.8

* PAT figures reflects adjusted PAT

- ✍ We expect Satyam to report consolidated revenue growth of 6.5% QoQ in 4QFY08. In dollar terms, we expect consolidated revenue growth of 5.9% QoQ in 4QFY08.
- ✍ EBITDA margins are expected to improve by 100bp in 4QFY08, on the back of higher volume growth and better revenue realisation.
- ✍ Net profit is expected to grow by 10.2% in the quarter on the back of improved revenue growth.
- ✍ The stock is currently trading at 16.1x FY08E and 13.3x FY09E earnings estimates. We continue to be impressed with Satyam's execution in terms of reduction in attrition rates and diversification into other service offerings such as engineering services and infrastructure management. This measure has improved its earnings visibility significantly. We maintain **Buy**.
- ✍ **Key issues:** US and IT spend slowdown, abnormal rupee appreciation, BPO business.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	14,429	16,019	16,611	17,792	18,302	20,317	21,956	23,379	64,851	83,954
Q-o-Q Change (%)	9.8	11.0	3.7	7.1	2.9	11.0	8.1	6.5	35.3	29.5
Direct Expenses	8,316	9,827	9,674	10,763	11,062	13,028	13,806	14,423	38,579	52,319
Sales, General & Admin. Expenses	2,563	2,567	2,838	2,927	3,137	3,263	3,437	3,670	10,894	13,508
Operating Profit	3,550	3,625	4,100	4,102	4,103	4,027	4,712	5,285	15,377	18,127
Margins (%)	24.6	22.6	24.7	23.1	22.4	19.8	21.5	22.6	23.7	21.6
Other Income	745	282	102	704	632	1,105	705	706	1,833	3,148
Depreciation	362	375	394	354	387	391	423	456	1,484	1,656
Interest	26	27	32	74	33	42	81	47	159	203
PBT bef. Extra-ordinary	3,908	3,505	3,776	4,378	4,315	4,700	4,913	5,488	15,566	19,416
Provision for Tax	368	307	403	442	532	609	576	710	1,520	2,427
Rate (%)	9.4	8.8	10.7	10.1	12.3	13.0	11.7	12.9	9.8	12.5
Minority Interest	-1	0	0	0	0	0	0	0	-1	0
PAT bef. Extra-ordinary	3,541	3,198	3,372	3,936	3,783	4,091	4,336	4,779	14,047	16,989
Q-o-Q Change (%)	24.4	-9.7	5.4	16.7	-3.9	8.1	6.0	10.2	43.0	20.9

E: MOST Estimates

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Tata Consultancy Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TCS IN
	REUTERS CODE
S&P CNX: 4,942	TCS.BO

28 March 2008

Buy

Rs870

Previous Recommendation: Buy

Equity Shares (m)	978.6
52-Week Range	1,330/730
1,6,12 Rel. Perf. (%)	7/-12/-55
MCap. (Rs b)	851.5
MCap. (US\$ b)	21.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	186,334	41,316	41.7	39.6	20.9	9.5	54.5	58.8	4.5	16.4
3/08E	229,521	50,911	52.0	24.8	16.7	6.8	46.3	50.6	3.5	13.2
3/09E	272,699	58,487	59.8	14.9	14.6	5.1	39.2	44.2	2.8	10.9
3/10E	330,803	65,646	67.1	12.2	13.0	4.0	33.9	42.5	2.2	8.5

* 1:1 bonus in FY07, accordingly ratios are adjusted

- ✎ We expect TCS to report 4.4% QoQ growth, with dollar revenue growth of 3.5% QoQ during 4QFY08. Two of TCS' top 15 clients in the BFSI vertical have delayed their projects to the next quarter indicating muted growth.
- ✎ EBIDTA margins are expected to remain flat at 26.7% QoQ.
- ✎ We expect net profit to grow slower at 2.0% QoQ to Rs13.6b in 4QFY08 due to muted revenue growth.
- ✎ Though TCS' BFSI clients have not lowered respective budgets and have postponed it, the message is clear that IT spend is slowing down and impacting revenue and earnings growth in FY09 versus FY08. Also, we expect pressure on margins in the backdrop of flat pricing and moderate wage hikes.
- ✎ The stock is trading at 16.7x FY08E and 14.6x FY09E earnings estimates. We maintain **Buy**.
- ✎ **Key issues:** US and IT spend slowdown, abnormal rupee appreciation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07*				FY08*				FY07*	FY08E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	41,443	44,822	48,605	51,464	52,029	56,398	59,241	61,853	186,334	229,521
Q-o-Q Change (%)	11.3	8.2	8.4	5.9	1.1	8.4	5.0	4.4	40.6	23.2
Direct Expenses	22,989	23,880	26,294	27,177	28,221	30,152	31,384	33,095	100,339	122,853
Sales, General & Admin. Expenses	8,327	8,648	8,559	9,720	10,543	11,426	12,068	12,231	35,253	46,268
Operating Profit	10,128	12,294	13,753	14,568	13,265	14,820	15,789	16,526	50,742	60,400
Margins (%)	24.4	27.4	28.3	28.3	25.5	26.3	26.7	26.7	27.2	26.3
Other Income	668	77	300	235	1,516	1,105	1,048	900	1,280	4,569
Depreciation	863	958	1,080	1,395	1,265	1,381	1,475	1,515	4,296	5,637
PBT bef. Extra-ordinary	9,932	11,414	12,973	13,408	13,516	14,543	15,362	15,911	47,726	59,332
Provision for Tax	1,238	1,447	1,828	2,056	1,816	2,037	1,947	2,228	6,568	8,027
Rate (%)	12.5	12.7	14.1	15.3	13.4	14.0	12.7	14.0	13.8	13.5
Minority Interest	69	52	98	155	138	38	107	113	373	395
Net Income bef. Extra-ordinary	8,626	9,915	11,047	11,198	11,563	12,469	13,308	13,571	40,786	50,911
Q-o-Q Change (%)	8.5	14.9	11.4	1.4	3.3	7.8	6.7	2.0	39.6	24.8
PAT aft Extra-ordinary	8,626	9,915	11,047	11,728	11,856	12,469	13,308	13,571	41,316	50,911

E: MOST Estimates; * Consolidated numbers that include Tata Infotech

Tech Mahindra

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TECHM IN
	REUTERS CODE
S&P CNX: 4,942	TEML.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs723

Equity Shares (m)	121.3
52-Week Range (Rs)	1,687/615
1,6,12 Rel. Perf. (%)	13/-40/-76
MCap. (Rs b)	87.7
MCap. (US\$ b)	2.2

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	29,290	6,124	46.4	105.2	15.6	9.5	66.2	65.2	2.9	11.7
3/08E	37,611	7,584	57.5	23.8	12.6	5.5	44.8	45.1	2.2	10.1
3/09E	48,403	9,160	69.5	20.8	10.4	3.6	35.1	35.1	1.7	7.8
3/10E	61,220	10,278	77.9	12.2	9.3	2.3	38.1	38.1	2.3	5.5

*EPS is diluted

- ✎ We expect Tech Mahindra to report 4.8% QoQ revenue growth in 4QFY08 versus growth of 8.1% QoQ in 3QFY08.
- ✎ We expect EBITDA margins to improve by 75bp during the quarter on the back of better revenue realisation.
- ✎ Net profit margin is expected to be flat and grow 4.1% QoQ due to marginal appreciation impact of the GBP in the quarter.
- ✎ The stock trades at 12.6x FY08E and 10.4x FY09E consolidated (diluted) earnings estimates. We believe that valuations are attractive at current levels and are reviewing a rating upgrade. Maintain **Neutral**.
- ✎ **Key issues:** BT deal ramp up, abnormal currency appreciation, margins.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenues	5,871	6,976	7,698	8,745	8,763	8,976	9,704	10,168	29,290	37,611
Q-o-Q Change (%)	39.4	18.8	10.3	13.6	0.2	2.4	8.1	4.8	135.7	28.4
Direct Cost	3,724	4,149	4,527	5,135	5,492	5,658	6,144	6,355	17,535	23,648
Other Operating Exps	840	1,058	1,098	1,392	1,338	1,346	1,431	1,505	4,388	5,620
Operating Profit	1,307	1,769	2,073	2,218	1,934	1,972	2,129	2,308	7,367	8,343
Margins (%)	22.3	25.4	26.9	25.4	22.1	22	22	23	25.2	22.2
Other Income	11	-57	-32	154	131	249	300	275	76	955
Interest	0	0	12	49	15	26	16	18	61	75
Depreciation	108	113	137	158	168	193	206	219	516	786
PBT bef. Extra-ordinary	1,210	1,599	1,892	2,165	1,882	2,002	2,207	2,347	6,866	8,437
Provision for Tax	144	169	224	204	183	187	213	270	741	853
Rate (%)	11.9	10.6	11.8	9.4	9.7	9.3	9.7	11.5	10.8	10.1
Net Income bef. Extra-ordinary	1,066	1,430	1,668	1,960	1,696	1,815	1,994	2,077	6,122	7,584
Q-o-Q Change (%)	19.7	34.2	16.6	17.5	-13.5	7.0	9.9	4.1	160.1	23.9

E: MOST Estimates; does not include BT deal

Wipro

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	WPRO IN
	REUTERS CODE
S&P CNX: 4,942	WIPR.BO

28 March 2008

Buy

Rs454

Previous Recommendation: Buy

	YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,459.5										
52-Week Range	600/325										
1,6,12 Rel.Perf.(%)	10/4/-46										
M.Cap. (Rs b)	662.6										
M.Cap. (US\$ b)	16.6										
	3/07A	149,431	28,447	19.7	38.8	23.0	6.5	32.4	36.0	4.1	17.9
	3/08E	198,442	32,630	22.4	13.3	20.3	5.4	29.2	32.1	3.2	15.8
	3/09E	247,108	37,263	25.5	14.2	17.8	4.6	27.8	31.8	2.5	13.1
	3/10E	308,781	43,494	29.6	15.9	15.4	3.7	26.9	33.9	2.1	11.0

* Reflects adjusted PAT

- ✍ We expect Wipro to report growth of 6.1% in global IT business in rupee terms, with underlying dollar growth of 5.4% QoQ.
- ✍ Consolidated EBITDA margins are expected to marginally improve by 50bp QoQ.
- ✍ We expect consolidated net profit to grow by 10.7% QoQ in the quarter.
- ✍ At CMP the stock is trading at 20.3x FY08E and 17.8x FY09E, We maintain **Buy**.
- ✍ **Key issues:** US and IT spend slowdown, abnormal rupee appreciation.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Global IT Services incl Spectramind	24,513	27,179	28,873	30,357	30,030	32,285	35,973	38,181	110,922	136,469
Other Businesses	6,800	7,959	10,763	12,988	11,802	14,996	16,388	18,787	38,510	61,973
Revenues	31,312	35,138	39,636	43,345	41,832	47,281	52,361	56,968	149,431	198,442
Q-o-Q Change (%) - Global IT	7.1	10.9	6.2	5.1	-1.1	7.5	11.4	6.1	37.4	23.0
Total Expenses	23,849	26,896	30,691	33,896	32,925	37,801	42,318	45,750	115,333	158,794
EBITDA	7,463	8,242	8,945	9,449	8,907	9,480	10,043	11,218	34,098	39,648
Margins (%)	23.8	23.5	22.6	21.8	21.3	20.1	19.2	19.7	22.8	20.0
Depreciation	941	1,058	1,096	1,105	1,270	1,320	1,503	1,631	4,199	5,724
EBIT	6,522	7,184	7,849	8,344	7,637	8,160	8,540	9,587	29,899	33,924
Margins (%)	20.8	20.4	19.8	19.2	18.3	17.3	16.3	16.8	20.0	17.1
Other Income	512	756	559	827	220	745	814	817	2,653	2,596
PBT	7,033	7,939	8,408	9,170	7,857	8,905	9,354	10,404	32,551	36,520
Provision for Tax	979	1,068	1,080	1,296	839	865	1,074	1,300	4,423	4,078
Rate (%)	13.9	13.5	12.8	14.1	10.7	9.7	11.5	12.5	13.6	11.2
Net Income before EO*	6,120	6,963	7,450	7,914	7,105	8,121	8,261	9,148	28,447	32,635
Q-o-Q Change (%)	2.4	13.8	7.0	6.2	-10.2	14.3	1.7	10.7	40.3	14.7

E: MOST Estimates; * includes Infocrossing

Infrastructure

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.	
BL Kashyap	161	During 4QFY08, we expect infrastructure companies in our universe to report revenue growth of 20.8% YoY, EBITDA growth of 29.2% YoY, and net profit growth of 25.5% YoY. EBITDA margins would expand 110bp from 9.6% in 4QFY07 to 10.7%. Though the order intake has been moderate (except for IVRCL and Simplex), order book to bill ratio remains comfortable at ~3.3x FY08E revenues. The key challenge is of faster execution, as the order intake in the medium term would be expected to remain healthy, given the proposed investment of US\$494b during the 11 th five-year plan.
Gammon India	162	
GMR Infrastructure	163	
Hindustan Construction	164	
IVRCL	165	
Jaiprakash Associates	166	
Nagarjuna Construction	167	
Patel Engineering	168	
Simplex Infrastructure	169	

TREND IN ORDER BOOK (RS M)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	YOY (%)
Gammon	74,000	80,000	75,000	75,000	80,000	78,000	75,000	0.0
HCC	91,430	98,170	96,040	93,120	93,810	96,020	90,530	-5.7
IVRCL	66,866	66,372	72,200	81,000	95,000	96,000	110,000	52.4
L&T	286,520	306,760	357,100	368,820	368,820	440,290	496,000	38.9
NCC	62,700	66,917	70,250	73,020	77,710	90,040	97,500	38.8
Patel	43,000	50,000	47,651	50,000	50,000	54,000	55,000	15.4
Simplex Infra.	45,900	52,000	54,880	53,200	70,000	70,770	89,000	62.2%

Source: Companies

TREND IN REVENUE GROWTH (% YOY)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	YOY (%)
Gammon	5,539	4,830	4,607	6,207	6,495	4,699	5,227	13.5
HCC	5,806	4,257	5,407	8,476	7,306	5,487	7,530	39.3
IVRCL	4,266	3,644	5,223	9,923	6,773	6,885	9,749	86.6
L&T	34,689	37,361	41,184	62,482	45,052	54,999	63,827	55.0
NCC	6,517	6,517	6,998	8,679	7,622	6,772	7,795	11.4
Patel	2,900	1,979	2,184	3,962	3,301	2,358	2,622	20.1
Simplex Infra.	3,520	3,563	4,257	5,770	5,818	5,711	7,040	65.4

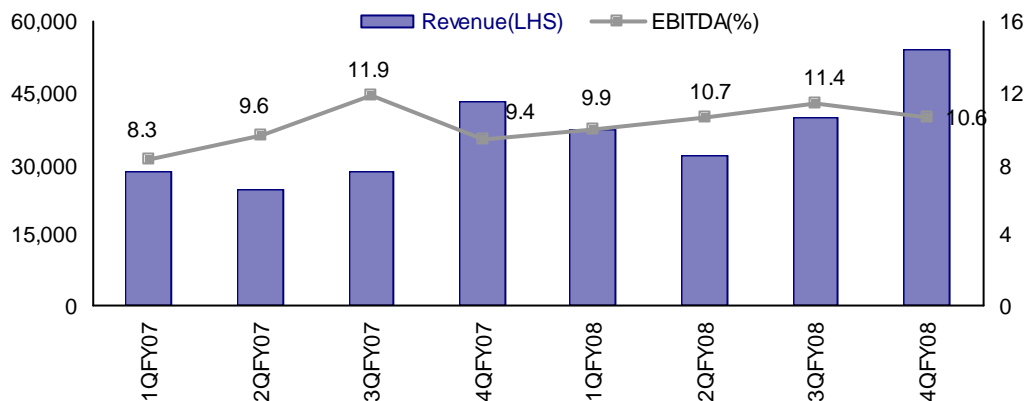
Source: Companies

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT		
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)	
Infrastructure								
B.L.Kashyap	Neutral	4,314	81.7	551	75.0	347	80.8	
Gammon India	Neutral	7,277	17.2	585	8.2	261	-29.0	
GMR Infrastructure	Neutral	5,093	-17.8	2,223	61.1	670	261.6	
Hindustan Construction	Buy	10,923	28.9	1,250	42.5	385	140.7	
IVRCL Infra.	Buy	10,930	10.1	1,253	16.8	753	2.8	
Jaiprakash Associates	Buy	9,477	7.0	2,303	-12.4	1,017	-22.4	
Nagarjuna Construction	Neutral	11,894	37.0	1,155	58.8	565	66.7	
Patel Engg.	Buy	4,664	17.7	536	17.5	346	1.8	
Simplex Infra.	Buy	8,461	46.6	952	158.5	446	135.4	
Sector Aggregate		73,033	20.8	10,807	29.2	4,789	25.5	

REVENUE (RS M) AND EBITDA (%) TREND*



*Excluding L&T

Source: Companies

Comfortable order backlog position

The order book for the construction companies under our coverage as of December 2007 was up 24.3% YoY, indicating moderation in terms of project award. The order intake during FY07 witnessed a mere 15% YoY growth as against 142% YoY increase during FY05 and 69% YoY increase during FY06. Growth during FY05 and FY06 was driven by increased spending by NHAI and Andhra Pradesh government on irrigation projects.

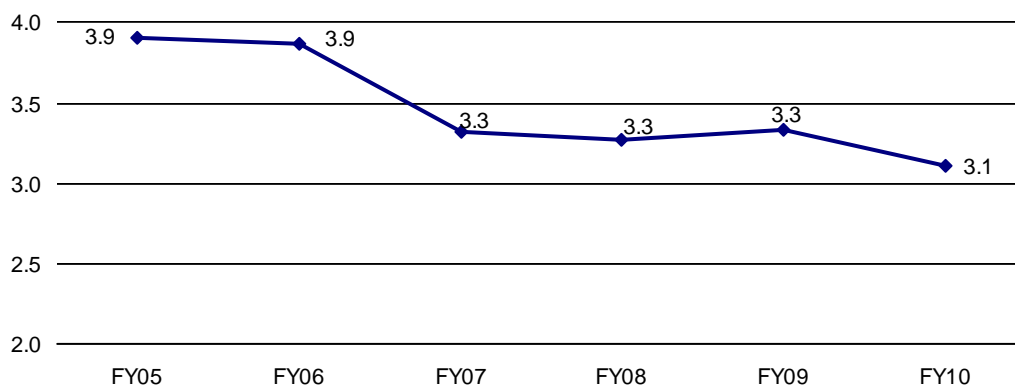
TREND IN BOOK TO BILL RATIO (X)

	FY04	FY05	FY06	FY07	DEC-07*
Gammon	2.7	4.3	3.8	4.1	3.1
Hind. Const.	3.8	3.6	4.9	3.9	2.9
IVRCL	2.1	3.7	4.1	3.0	3.2
Nagarjuna Const	2.0	3.0	2.9	2.5	2.9
Simplex Projects	5.5	4.5	3.4	3.0	3.3
Patel Engineering	4.6	5.2	4.9	4.6	3.3

(*) Calculated on FY08E sales

Source: Motilal Oswal Securities

BOOK TO BILL RATIO (X)



Source: Companies

We expect order intake for construction companies to accelerate in FY09, driven by increased project award from the NHDP program, increased allocation towards irrigation, power projects (through private participation), railways, real estate construction, metal and minerals, industrial capex, etc.

EBITDA margin expansion – a challenge

Since FY06, construction companies have witnessed significant EBITDA margin expansion, driven by favorable demand-supply scenario and several projects entering into the revenue recognition stage. Going forward, companies have guided stable to marginal improvement in EBITDA margins. The key challenges are increased staff cost and higher commodity prices. Most construction companies have fixed price contracts (5%-20% of the order backlog), where margins could get impacted due to higher commodity prices. These contracts are either the in-house BOT projects or international contracts.

TREND IN EBITDA (%)

	MAR-06	JUN-06	SEP-06	DEC-06	MAR-07	JUN-07	SEP-07	DEC-07	MAR-08
Gammon	7.4	7.6	8.6	11.2	10.9	8.9	8.8	9.0	8.0
Hindustan Construction	8.8	8.0	9.4	10.9	9.1	10.8	11.0	12.9	11.4
IVRCL	9.4	9.5	8.5	10.7	10.8	8.9	8.0	11.1	11.5
Larsen and Toubro	13.2	9.2	8.9	11.8	14.9	10.2	11.6	11.7	16.1
Nagarjuna Construction	8.3	8.4	9.5	11.5	8.4	10.4	11.6	11.7	9.4
Patel Engineering	8.9	11.0	15.5	19.2	11.5	10.9	17.8	17.9	11.5
Simplex Infrastructure	9.2	9.3	9.6	11.4	7.3	10.8	11.1	10.6	11.4

Source: Motilal Oswal Securities

Value unlocking process: will it get delayed?

In FY08, several companies have unlocked value through fund raising in subsidiaries/ associate companies in BOT, real estate, etc. Given the current volatile capital markets, we believe that fund raising plans for several companies and also for public-private projects could get delayed. This has impacted business momentum and also valuations.

VALUE UNLOCKING DURING FY08

COMPANY	SUBSIDIARY	MODE	% STAKE OFFERED	AMOUNT (RS B)	VALUATION (RS B)	RESIDUAL STAKE (%)
IVRCL	IVR Prime	IPO	22.0	7.5	38.5	62.5
Gammon India	Gammon Infrastructure Projects Ltd(GIPL)	IPO	11.5	2.7	24.0	76.0
Jaiprakash	Jaypee Infratech	Private Equity	1.0	2.5	25.0	98.0

Source: Motilal Oswal Securities

Plans for value unlocking, which could possibly get delayed

- ✦ Lavasa Corp (63% subsidiary of HCC) has successfully completed the launch of Phase-1 at Lavasa, which comprises 300 units at an average realization of Rs2,950/sft. The company is contemplating private equity funding, and media reports indicate that it is in talks with various strategic and financial partners.
- ✦ L&T has stated that IPO plans for L&T Infotech (100% subsidiary) have been delayed; it had earlier intended to bring out the IPO in CY08.
- ✦ Patel Engineering has a land bank of 1,000 acres, spread across Hyderabad, Mumbai, Bangalore and Maharashtra (Karjat, Panvel, etc) and development rights for the properties have been transferred to Patel Realty India (100% subsidiary). The company is looking for funding at the SPV level for certain projects.
- ✦ Nagarjuna Construction has consolidated its real estate initiatives under NCC Urban Infrastructure (80% subsidiary) and has a land bank of 530 acres, of which 267 acres is being developed currently (development area of 13.4m sft). It also has a BOT subsidiary, NCC Infrastructure Projects Limited, with a portfolio of seven BOT projects (including Machillipatnam Sea Port Project). The company has fund raising plans in both the subsidiaries over the next two years, through either an IPO or PE.

Factors to watch out for

- ✦ **Uncertain capital markets could impact business momentum for infrastructure companies:** Accelerated investments through public private partnerships (PPPs) for physical infrastructure require vibrant capital markets, which encourage value unlocking for existing assets and enable easy financing of new projects. The current volatility in capital markets could result in postponement of investments by potential investors. This would delay plans for several companies in segments like BOT, real estate, etc. Also, companies in the construction space need to augment their net worth periodically to bid for large projects, and thus require robust capital markets.
- ✦ **Run-up to central elections could lead to political uncertainty:** During FY09, in the run-up towards central elections, several project awards could get delayed. Also, elections result in uncertainty, as new governments tend to re-look at the existing regulatory framework, ongoing projects, etc; thus leading to delays in project awards.
- ✦ **Continued higher interest rates:** Falling interest rates can create additional incentive for the private players, by improving returns in PPP projects. At the same time, this also helps on the demand side, as more projects become financially viable, improving the demand scenario for construction companies. Continued high interest rates could potentially postpone some projects.
- ✦ **EBITDA margin expansion – a challenge:** Since FY06, construction companies have witnessed significant improvement in EBITDA margins, driven by favorable demand-supply scenario. Going forward, key challenges are increased staff cost and higher commodity prices. Most construction companies have fixed price contracts (5-20% of order backlog), where margins could get impacted due to higher input cost.

11th plan target: US\$494b investment in infrastructure

In a report published by Planning Commission in October 2007, the investment in infrastructure is envisaged at US\$494b, representing 7.53% of GDP (v/s 5.63% of GDP under the 10th plan). The key sectors witnessing major allocation are power, roads, telecom, railways, irrigation and water supply, and sanitation projects. This, we believe, offers significant opportunity for construction companies.

SECTOR-WISE PROJECTIONS OF INVESTMENT DURING THE ELEVENTH PLAN

SECTOR	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL	10TH PLAN
Electricity	742	928	1,16,541	1,46,914	1,860	6,165	2,919
Roads	514	543	587	679	795	3,118	1,449
Telecom	331	398	503	634	804	2,670	921
Railways	332	400	486	597	765	2,580	1,197
Irrigation	270	338	426	539	657	2,231	648
Water Supply and Sanitation	258	311	379	466	578	1,991	41
Ports	97	117	143	174	208	739	68
Airports	62	65	68	73	80	347	48
Storage	38	41	44	48	52	224	87
Gas	30	35	40	47	54	205	1,115
Total Investment	2,674	3,176	2,677	3,257	5,853	20,272	8,492
Total (US \$ billion)	65	77	94	115	143	494	212
Investment as % of GDP	6.0	6.5	7.2	8.1	9.2	7.3	5.6
GCF in infrastructure	2,063	2,586	3,186	3,874	4,659	5,713	
GCF in infra. as a % of GDP	5.0	5.8	6.5	7.3	8.0	9.0	

Source: Planning Commission

A large part of this funding arrangement would be met by the central government (Rs8t), though the share of private sector in the overall funding has increased to 29.7% under the 11th plan v/s 16.7% under the 10th plan. This indicates that increasing number of projects would be awarded on PPP basis and project awards would be faster.

SECTOR-WISE PUBLIC AND PRIVATE INVESTMENT DURING 11TH PLAN (RS B)

	10TH PLAN			11TH PLAN			
	PRIVATE	PUBLIC	% PRIVATE	PRIVATE	CENTRAL	STATE	% PRIVATE
Electricity	918	2,000	31.5	1,625	2,183	2,357	26.4
Roads	70	1,379	4.8	1,125	1,131	862	36.1
Telecom	330	590	35.9	1,777	893	-	66.5
Railways	3	1,194	0.3	505	1,975	100	19.6
Water Supply and Sanitation	10	638	1.6	54	1,137	800	2.7
Ports	19	22	46.7	545	158	36	73.7
Airports	29	38	43.4	212	135	1	60.9
Storage	34	14	70.1	112	45	67	50.0
Gas	-	87	-	65	140	-	31.8
Irrigation	-	1,115	-	-	247	1,984	-
Total	1,414	7,078	16.7	6,020	8,044	6,208	29.7

Source: Planning Commission

We remain positive on the sector

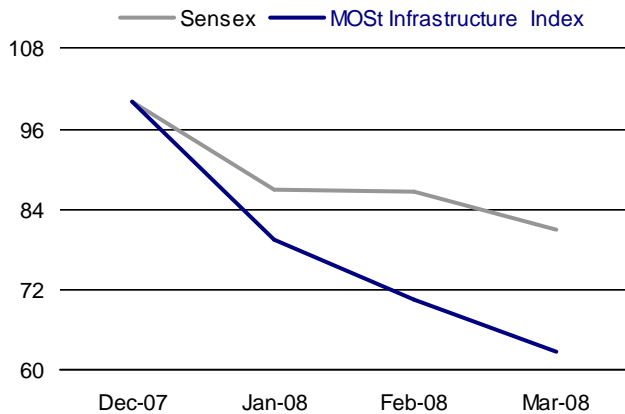
We remain positive on the construction sector, given the strong revenue visibility, growth opportunity in the target markets, possible value unlocking opportunity, and recent price corrections.

Stock performance and valuations

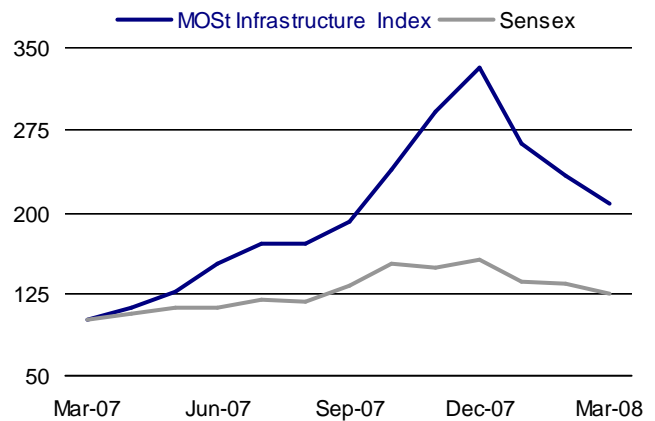
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Infrastructure						
Gammon India	-32	33	-13	6	5	-77
GMR Infrastructure	-37	120	-18	93	-1	10
B.L.Kashyap	-12	187	7	160	25	77
Hindustan Construction	-37	54	-18	27	0	-56
IVRCL	-22	42	-3	15	14	-68
Jaiprakash Associates	-43	127	-24	100	-7	17
Nagarjuna Construction	-37	39	-18	12	-1	-71
Simplex Infra.	-8	66	11	38	29	-45
Patel Engg.	-33	84	-14	57	4	-26

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Infrastructure														
B.L.Kashyap	1,644	Neutral	55.9	75.5	107.8	29.4	21.8	15.2	21.9	14.7	10.9	33.5	33.7	35.4
Gammon India	400	Neutral	10.3	14.1	19.4	38.0	27.6	20.2	18.7	14.4	11.1	7.4	9.3	11.3
GMR Infrastructure	156	Neutral	1.2	2.2	2.0	125.4	71.2	80.0	45.8	24.8	14.8	3.7	6.2	5.3
Hindustan Construction	139	Buy	2.9	4.5	7.6	48.2	30.9	18.3	14.9	11.5	8.5	6.8	8.4	13.0
IVRCL Infra.	406	Buy	16.2	21.2	29.4	25.1	19.2	13.8	16.6	12.0	8.5	14.5	17.0	20.2
Jaiprakash Associates	240	Buy	4.0	5.7	7.1	59.5	42.2	33.7	36.2	24.2	18.5	11.6	11.7	13.3
Nagarjuna Construction	220	Neutral	7.4	10.9	14.0	29.8	20.1	15.8	16.9	14.1	12.0	12.4	11.2	12.2
Patel Engg.	623	Buy	23.3	22.4	28.0	24.9	25.9	20.7	22.3	18.2	14.8	17.5	14.7	16.1
Simplex Infra.	596	Buy	19.1	40.3	60.0	31.1	14.8	9.9	13.4	8.6	6.2	13.2	18.5	22.0
Sector Aggregate						53.9	37.1	29.2	27.7	18.8	13.4	9.1	10.9	12.5

BL Kashyap

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	KASH IN
	REUTERS CODE
S&P CNX: 4,942	BLKS.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs1,644

Equity Shares (m)	20.5	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	2,300/540	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	10/41/160	3/07A	8,080	556	27.1	102.5	60.7	5.8	21.0	27.5	4.1	35.6
MCap. (Rs b)	33.8	3/08E	15,120	1,148	55.9	106.4	29.4	4.3	33.5	38.0	2.2	18.5
MCap. (US\$ b)	0.8	3/09E	23,490	1,552	75.5	35.2	21.8	3.2	33.7	37.8	1.4	12.1
		3/10E	32,886	2,215	107.8	42.7	15.3	2.3	35.4	41.3	1.0	8.5

- ✎ We expect BL Kashyap to report revenues of Rs4.3b for 4QFY08, up 81.7% YoY, EBITDA of Rs551m, up 75% YoY, and net profit of Rs347m, up 80.8% YoY.
- ✎ The company's order book stood at Rs31b as of December 2007 (2.1x FY08E sales) and it bagged orders worth Rs11b during 4QFY08. The order book is to be executed over a period of 12-18 months, ensuring strong near-term growth.
- ✎ The company has taken several initiatives to further leverage its execution skills, including formation of a wholly-owned subsidiary - Soulspace Projects - for undertaking joint or co-development of real estate projects. It is currently executing three projects, of which two are in Pune and one is in Bikaner.
- ✎ We expect BL Kashyap to report a net profit CAGR of 47.5% over FY08-10. The stock trades at a P/E of 21.8x FY08E and 15.3x FY09E.
- ✎ We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	1,639	1,707	2,362	2,373	3,025	3,723	4,058	4,314	8,080	15,120
Change (%)	-	-	119.3	57.2	84.6	118.1	71.8	81.7	73.6	87.1
EBITDA	177	182	250	315	352	440	474	551	924	1,816
Change (%)	-	-	156.2	100.4	98.4	141.6	89.8	75.0	94.2	96.6
As of % Sales	10.8	10.7	10.6	13.3	11.6	11.8	11.7	12.8	11.4	12.0
Depreciation	23	24	26	27	31	38	42	53	99	163
Interest	7	12	12	19	34	35	42	20	50	131
Other Income	9	16	23	33	102	46	32	38	80	218
PBT	156	162	234	302	389	413	421	516	854	1,740
Tax	52	56	80	110	112	142	169	169	298	591
Effective Tax Rate (%)	33.4	34.3	34.3	36.4	28.7	34.4	40.1	32.7	34.9	34.0
Reported PAT	104	106	154	192	278	271	252	347	556	1,148
Adj PAT	104	106	154	192	278	271	252	347	556	1,148
Change (%)	-	-	185.5	106.0	167.4	154.9	63.9	80.8	102.5	106.4

E: MOST Estimates

Gammon India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	GMON IN
	REUTERS CODE
S&P CNX: 4,942	GAMM.BO

28 March 2008

Neutral

Rs400

Previous Recommendation: Neutral

Equity Shares (m)	86.7	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	845/280	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-13/-9/6	3/07A	18,647	957	10.8	12.5	36.9	3.1	8.3	11.6	2.0	20.2
MCap. (Rs b)	34.7	3/08E	22,526	910	10.3	-4.9	38.8	2.9	7.4	9.6	1.7	19.1
MCap. (US\$ b)	0.9	3/09E	30,634	1,251	14.1	37.6	28.2	2.6	9.3	11.8	1.3	14.6
		3/10E	39,644	1,714	19.4	36.9	20.6	2.3	11.3	14.1	1.1	11.3

- For 4QFY08, we expect Gammon to report revenues of Rs7.3b, up 17.2% YoY, EBITDA of Rs585m, up 8.2% YoY, and net profit of Rs261m, down 29% YoY.
- Gammon Infrastructure Project Limited (GIPL), a 76.15% subsidiary, has successfully completed its IPO, by offering 16.5m shares at Rs167/share, raising Rs2.7b. At the issue price of Rs167/share, GIPL has been valued at Rs24b. Post issue, the holding structure would be: Gammon India – 76.15%, Och Ziff – 7.9%, Promoters – 4.4%, and Public – 11.5%.
- GIPL currently has a portfolio of 15 BOT projects, comprising of 6 road and bridge projects, 2 port projects, 4 O&M projects (own BOT road), and 3 power projects. Besides, the company has been declared L1 bidder or has received LOI for (1) Bedi Port Project in Gujarat, (2) 264 MW hydro power project in Himachal Pradesh and 60MW Tidong Hydro Project, and (3) Adityapur SEZ Project.
- The company has tied up with Siemens Transportation for design, commissioning and operation of airport-city rail link for a 30-year period in an expression of interest invited by Delhi Metro Rail Corporation.
- Order backlog as of December 2007 stood at Rs75b, representing 3.1x FY08E revenue.
- The stock trades at a reported P/E of 28.2x FY09E and 20.6x FY10E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	5,539	4,830	4,607	6,207	6,495	4,699	5,227	7,277	20,912	23,697
Change (%)	93.5	67.1	37.5	30.2	17.3	-2.7	13.5	17.2	25.4	13.3
EBITDA	317	418	515	541	577	412	472	585	1,722	2,046
Change (%)	-6.9	-6.6	6.0	53.2	82.1	-1.3	-8.4	8.2	-10.9	18.9
As of % Sales	5.7	8.6	11.2	8.7	8.9	8.8	9.0	8.0	8.2	8.6
Depreciation	83	103	102	91	108	113	114	116	352	452
Interest	52	18	53	13	35	38	48	63	136	185
Other Income	3	1	7	118	11	8	0	5	197	23
Extra-ordinary income	27	0	0	0	0	0	0	0	27	0
PBT	211	297	366	556	444	269	309	410	1,458	1,432
Tax	25	36	50	875	159	97	118	149	1,030	523
Effective Tax Rate (%)	11.9	12.0	13.7	157.4	35.7	36.2	38.0	36.4	70.7	36.5
Reported PAT	186	262	316	-319	285	171	192	261	427	910
Adj PAT	122	197	242	367	271	171	192	261	946	895
Change (%)	-20.8	-20.6	15.5	34.1	122.2	-12.8	-20.6	-29.0	-8.1	-5.3

E: MOST Estimates; * including sales from JV's

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GMR Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	GMRI IN
	REUTERS CODE
S&P CNX: 4,942	GMRI.BO
Equity Shares (m)	1,820.7
52-Week Range	269/65
1,6,12 Rel. Perf. (%)	-3/-5/93
M.Cap. (Rs b)	284.8
M.Cap. (US\$ b)	7.1

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs156

YEAR	NET SALES*	PAT*	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	16,967	1,744	1.1	-8.5	148.4	13.0	8.8	6.9	16.5	51.6
3/08E	19,161	2,270	1.2	18.4	125.4	4.6	3.7	4.2	4.0	11.6
3/09E	25,894	3,997	2.2	76.0	71.2	4.4	6.2	7.2	4.4	8.3
3/10E	42,962	3,559	2.0	-10.9	80.0	4.2	5.3	9.0	3.0	5.3

* Consolidated

- ✍ GMR Infrastructure has opened the New Hyderabad international airport from 25 March 2008. It has decided to waive off the user development fees to all the passengers for the first three months of operating, amidst resistance from airlines to land at the new airport. In the mean time, it will work out a more acceptable formula for UDF recovery v/s postage stamp method of flat charges for all embarking passengers.
- ✍ It is in the process of working out a suitable mechanism to attain the financial closure for the Delhi international airport, given the reservation expressed by the government on accepting security deposit for land monetization, as there is no revenue sharing. It has made proposal to AAI, Ministry of Aviation with a revised proposal to achieve financial closure for the project.
- ✍ GMR Energy Limited, a 100% subsidiary, has been awarded a coal mine in consortium with other players in dip side of Rampia block, which has estimated reserves of 360m tons. Also, the Vemagiri Power Plant has been assured a gas supply of 1.12-1.15m cubic meter of natural gas per day from GAIL India by the state government. The plant is expected to start operations from January 2008.
- ✍ We expect GMR to report a net profit CAGR of 27% over FY07-10 on a consolidated basis. We expect its net profit after minority interest to grow from Rs1.7b in FY07 to Rs3.6b in FY10. **Neutral.**

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	4,093	3,125	3,554	6,196	4,766	3,953	5,350	5,093	16,967	19,161
Change (%)	53.50	41.3	62.0	0.0	16.45	26.5	50.5	-17.8		12.9
EBITDA	1,281	1,250	1,526	1,380	1,386	1,557	1,499	2,223	5,436	6,665
Change (%)	10.14	9.6	39.6	0.0	8.19	24.6	-1.7	61.1		22.6
As of % Sales	31.3	40.0	42.9	22.3	29.1	39.4	28.0	43.7	32.0	34.8
Depreciation	260	268	445	354	406	439	366	675	1,345	1,886
Interest	294	236	376	535	375	359	340	803	1,441	1,877
Other Income	17	46	121	-1	192	117	282	564	183	1,154
PBT	744	792	826	490	796	875	1,076	1,309	2,833	4,056
Tax	96	86	139	94	101	157	275	341	215	874
Effective Tax Rate (%)	12.9	10.9	16.8	19.3	12.7	17.9	25.6	26.0	7.6	21.5
Reported PAT	648	706	688	395	695	719	800	968	2,618	3,182
Adj PAT (before minority inter.)	648	706	688	395	695	719	800	968	2,483	3,200
Change (%)	146.84	199.4	43.1	0.0	7.29	1.8	16.4	145.0		28.9
Minority Interest	181	170	155	210	231	223	160	299	539	729
Adj PAT (after minority interest)	467	536	533	185	464	496	641	670	1,744	2,270

E: MOST Estimates; Quarterly numbers do not add up to the full year nos as company changed accounting policy for depreciation for GMR Energy from 3QFY07 onwards and adjusted figure for the past numbers are not available. * Adjusted PAT numbers are before minority interest.

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Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HCC IN
	REUTERS CODE
S&P CNX: 4,942	HCNS.BO

28 March 2008

Buy

Rs139

Previous Recommendation: Buy

Equity Shares (m)	274.3	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	279/83	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-8/7/27	3/07A	23,576	595	2.1	-35.3	65.2	3.9	6.1	6.6	2.1	22.8
MCap. (Rs b)	38.1	3/08E	31,245	793	2.9	35.7	48.1	2.7	6.8	10.9	1.7	14.9
MCap. (US\$ b)	1.0	3/09E	40,850	1,239	4.5	56.2	30.8	2.5	8.4	11.3	1.4	11.5
		3/10E	53,650	2,086	7.6	68.4	18.3	2.3	13.0	14.3	1.0	8.5

- For 4QFY08, we expect HCC to report revenue of Rs10.9b, up 28.9% YoY, EBITDA of Rs1.2b, and net profit of Rs385m, up 140.7% YoY.
- HCC's order backlog at the end of December 2007 was Rs90.5b (2.9x FY08E revenue) and it had L1 projects worth Rs40b. As of December 2007, the share of power sector in order backlog was 33%.
- Lavasa Corp (63% subsidiary of HCC) has successfully completed the launch of Phase 1 at Lavasa comprising of 300 units at an average realization of Rs2,950/sft+.
- The state cabinet has approved part of the cost escalations (increased cost from changes in project scope and design) of Rs1.6b, v/s claims of Rs2.3b for Bandra-Worli Sea Link. As per the revised timeframe, the project will be completed by December 2008 (4 lanes).
- Construction work on Vikroli IT Park has already commenced (developable area of 1.95m sft) and it plans to offer offices for fit-out by December 2008 and for occupation by March 2009. The revenue booking from the project would start from 1QFY09.
- During FY07-09E, we expect HCC to report a revenue CAGR of 32% and a net profit CAGR of 44.2%. The stock trades at a P/E of 30.8x FY09E and 18.3x FY10E.
- We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Sales	5,806	4,257	5,407	8,476	7,306	5,487	7,530	10,923	23,945	31,245
Change (%)	25.9	40.9	18.6	10.3	25.8	28.9	39.3	28.9	20.5	30.5
EBITDA	461	395	664	877	791	602	968	1,250	2,396	3,611
Change (%)	12.8	53.3	36.6	29.9	71.5	52.4	45.9	42.5	31.0	50.7
As of % Sales (Adj)	7.9	9.3	11.1	9.1	10.8	11.0	12.9	11.4	9.3	11.6
Depreciation	161	186	206	244	228	226	233	236	797	923
Interest	74	158	175	212	322	342	408	420	620	1,491
Other Income	62	10	2	125	315	106	54	-74	199	401
PBT	288	61	284	546	556	140	381	520	1,179	1,597
Tax	36	19	65	266	206	23	130	183	386	543
Effective Tax Rate (%)	12.6	31.5	22.8	48.7	37.1	16.5	34.2	35.3	32.8	34.0
Reported PAT	251	42	220	280	350	117	251	337	793	1,054
Adj PAT	201	42	144	160	150	34	216	385	547	793
Change (%)	-11.2	45.3	-36.5	-62.4	-25.5	-19.5	50.3	140.7	-33.1	45.0

E: MOST Estimates

IVRCL Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	IVRC IN
	REUTERS CODE
S&P CNX: 4,942	IVRC.BO

28 March 2008

Buy

Rs406

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS GR.	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	(%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	129.7										
52-Week Range	575/241										
1,6,12 Rel. Perf. (%)	-8/2/15										
M.Cap. (Rs b)	52.6										
M.Cap. (US\$ b)	1.3										
	3/07A	23,465	1,415	10.9	25.5	37.2	4.0	15.7	14.2	2.4	24.3
	3/08E	34,336	2,043	16.2	48.2	25.1	3.5	14.5	15.7	1.7	16.6
	3/09E	48,830	2,747	21.2	31.1	19.2	3.0	17.0	18.7	1.3	12.0
	3/10E	67,694	3,814	29.4	38.8	13.8	2.6	20.2	20.0	1.0	9.2

- For 4QFY08, we expect IVRCL to report revenues of Rs10.9b, up 10.1% YoY, and net profit of Rs753m, up 2.8% YoY, in line with the management guidance for FY08.
- Order backlog stood at Rs110b as at end of December 2007 and it had L1 orders worth Rs7.7b. The current order book represents a book-to-bill ratio of 3.2x FY08E revenues of Rs34.3b.
- The management has guided revenues of Rs34b in FY08 (up 46.3% YoY) and 40% growth in revenues in FY09. The company has also guided EBITDA margin of 10.5% v/s 9.8% in FY07.
- Increasing proportion of relatively higher margin buildings in the order book (up from 12% in 3QFY07 to 21% in 3QFY08), (2) focused project selection, as enough opportunities are available in market to pick and choose, and (3) lower proportion of fix price contracts to aid EBITDA margin improvement.
- For FY08-10, we expect IVRCL to report 40.4% CAGR in revenues and 36.6% CAGR in net profit. The stock trades at a P/E of 19.2x FY09E and 13.8x FY10E. We recommend **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	4,266	3,644	5,223	9,923	6,773	6,885	9,749	10,930	23,059	34,336
Change (%)	41.9	42.0	27.9	68.0	58.8	88.9	86.6	10.1	54.2	48.9
EBITDA	407	308	556	1,073	600	553	1,084	1,253	2,301	3,490
Change (%)	73.3	46.5	61.8	92.3	47.5	79.4	94.9	16.8	71.4	51.7
As of % Sales	9.5	8.5	10.7	10.8	8.9	8.0	11.1	11.5	10.0	10.2
Depreciation	38	49	60	69	66	76	87	102	216	331
Interest	133	103	98	25	57	76	177	134	308	444
Other Income	17	55	18	2	10	16	8	8	74	42
PBT	253	211	416	981	488	416	829	1,025	1,851	2,758
Tax	42	56	94	249	108	64	218	272	436	662
Effective Tax Rate (%)	16.6	26.5	22.7	25.4	22.2	15.3	26.3	26.5	23.6	24.0
Reported PAT	211	155	321	732	380	353	611	753	1,415	2,096
Adj PAT	261	155	271	732	380	353	558	753	1,415	2,043
Change (%)	53.0	38.7	22.4	67.1	45.4	127.0	105.7	2.8	52.2	44.4

E: MOST Estimates

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Jaiprakash Associates

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	JPA IN
	REUTERS CODE
S&P CNX: 4,942	JAIA.BO

28 March 2008

Buy

Rs240

Previous Recommendation: Buy

Equity Shares (m)	1,241.8
52-Week Range	510/101
1,6,12 Rel. Perf. (%)	-3/15/100
MCap. (Rs b)	298.5
MCap. (US\$ b)	7.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GR.* (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	34,639	4,330	3.9	55.4	60.9	9.2	15.6	10.8	8.8	36.7
3/08E	36,367	5,017	4.0	2.3	59.5	5.2	11.6	9.8	9.1	36.2
3/09E	54,016	7,073	5.7	41.0	42.2	4.7	11.7	11.7	6.5	24.2
3/10E	74,372	8,859	7.1	25.3	33.7	4.3	13.3	13.4	4.9	18.5

* Fully Diluted, Excl Real Estate

- For 4QFY08, we expect Jaiprakash Associates to report revenues of Rs9.5b, up 7% YoY, and net profit of Rs1b, down 22.4% YoY.
- Jaiprakash Associates has completed a private equity deal in Jaypee Infratech (Taj Expressway Project) with ICICI Bank as its partner. ICICI Bank will invest US\$287.5m in the SPV, of which Rs2.5b is towards 1% equity stake in SPV and Rs9b is towards debt. The deal values Taj Expressway Project at ~US\$6b v/s our current valuation of US\$4b.
- Jaypee Ganga Infrastructure Corporation (100% subsidiary of Jaiprakash Associates) has signed the concession agreement with Uttar Pradesh Expressways Industrial Development Authority (UPEIDA) for the development of Ganga Expressway (1,047km) project from Greater Noida to Ballia on 23 March 2008. The company has also submitted a bank guarantee of Rs15b for the same.
- Jaiprakash Associates has already launched Phase 1 of the Taj Expressway development at Noida on the first 600 acres (3m sft) at a price of Rs5,700/sft in November 2007.
- The stock trades at a P/E of 59.5x FY08E and 42.2x FY09E. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	8,950	7,700	8,910	8,860	9,270	8,620	9,000	9,477	34,420	36,367
Change (%)	9.5	14.6	11.8	3.6	3.6	11.9	1.0	7.0	9.6	5.7
EBITDA	2,130	1,980	2,310	2,630	2,390	2,210	2,230	2,303	9,040	9,133
Change (%)	37.4	42.4	38.3	70.8	12.2	11.6	-3.5	-12.4	46.3	1.0
As of % Sales	23.8	25.7	25.9	29.7	25.8	25.6	24.8	24.3	26.3	25.1
Depreciation	380	390	430	420	450	460	510	550	1,630	1,970
Interest	590	620	700	650	790	840	790	743	2,570	3,163
Other Income	250	380	400	300	780	600	1,020	333	1,360	2,733
PBT	1,410	1,350	1,580	1,860	1,930	1,510	1,950	1,343	6,200	6,733
Tax	490	450	560	550	530	470	390	326	2,050	1,716
Effective Tax Rate (%)	34.8	33.3	35.4	29.6	27.5	31.1	20.0	24.3	33.1	25.5
Reported PAT	920	900	1,020	1,310	1,400	1,040	1,560	1,017	4,150	5,017
Adj PAT	920	900	1,020	1,310	1,400	1,040	1,560	1,017	4,150	5,017
Change (%)	70.4	4.7	78.9	87.1	52.2	15.6	52.9	-22.4	55.4	20.9

E: MOST Estimates

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Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	NJCC IN
	REUTERS CODE
S&P CNX: 4,942	NGCN.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs220

Equity Shares (m)	240.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	373/220	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-8/-9/12	3/07A	28,711	1,335	6.4	26.1	34.4	4.4	13.5	14.9	1.9	20.3
MCap. (Rs b)	52.9	3/08E	34,083	1,658	7.2	12.0	30.7	3.1	12.4	12.9	1.7	16.3
MCap. (US\$ b)	1.3	3/09E	41,758	2,037	8.8	22.9	25.0	2.6	11.2	12.7	1.5	13.7
		3/10E	52,515	2,565	11.1	25.9	19.8	2.4	12.2	13.3	1.3	11.7

For 4QFY08, we expect NCC to report revenue of Rs11.9b, up 37% YoY, and net profit of Rs565m, up 66.7% YoY.

As of end-December 2007, NCC's order book stood at Rs97.5b, 2.9x its FY08E revenues of Rs34b. Order book composition: roads 17.4%, buildings 22.6%, water 17%, irrigation/HEP 9%, electricals 6%, power 1%, oil/gas 3%, metals 11% and international 13%.

NCC consortium (NCC's stake 25%) comprising of Maytas (26%), Port Operator Company (11%) and SREI Finance (38%) has received the Letter of Intent from the government for Machilipatnam port project in Andhra Pradesh. The project location has been firmed at Machilipatnam town itself (rather than earlier location ~30km away from city) and the additional construction cost is estimated at Rs3.35-3.5b. The management expects to sign the development agreement for the project shortly. Financial closure would be achieved by December 2008 and the operations are likely to begin in 2011. The project entails 8,000 acres of land to be provided to the consortium by the government on 99-year lease for development of SEZ.

The stock trades at a P/E of 25x FY09E and 19.8x FY10E. **Neutral.**

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	6,517	6,517	6,998	8,679	7,622	6,772	7,795	11,894	28,711	34,083
Change (%)	81.4	77.0	48.1	35.5	16.9	3.9	11.4	37.0	56.0	18.7
EBITDA	550	618	802	727	794	848	862	1,155	2,697	3,659
Change (%)	97.8	63.0	75.5	36.9	44.3	37.3	7.5	58.8	64.4	35.6
As of % Sales	8.4	9.5	11.5	8.4	10.4	12.5	11.1	9.7	9.4	10.7
Depreciation	58	69	76	96	104	117	123	128	299	472
Interest	57	96	185	166	145	233	167	206	504	751
Other Income	8	10	5	270	4	4	11	12	292	31
PBT	443	462	546	735	548	502	583	834	2,186	2,467
Tax	59	69	97	443	187	165	187	270	667	809
Effective Tax Rate (%)	13.3	14.9	17.8	60.2	34.2	32.9	32.1	32.3	30.5	32.8
Reported PAT	384	393	449	293	360	337	396	565	1,519	1,658
Adj PAT	326	334	359	339	360	337	396	565	1,358	1,658
Change (%)	70.3	59.9	33.9	-3.1	10.4	0.6	10.5	66.7	30.7	22.1

E: MOST Estimates

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Patel Engineering

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	PEC IN
	REUTERS CODE
S&P CNX: 4,942	PENG.BO

28 March 2008

Buy

Rs623

Previous Recommendation: Buy

	YEAR	NET SALES*	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	3/07A	10,989	1,122	18.8	28.2	33.1	5.3	24.5	12.9	3.6	29.3
52-Week Range	3/08E	12,800	1,393	23.3	24.2	26.7	4.9	17.5	12.1	3.1	23.9
1,6,12 Rel. Perf. (%)	3/09E	15,940	1,334	22.4	-4.2	27.9	4.3	14.7	12.8	2.5	19.5
M.Cap. (Rs b)	3/10E	19,842	1,670	28.0	25.1	22.3	3.7	16.1	13.1	2.1	15.8
M.Cap. (US\$ b)											

* Consolidated

- For 4QFY08, we expect Patel Engineering to report revenues of Rs4.7b, up 17.7% YoY, and net profit of Rs346m.
- Order book as of end-December 2007 stood at Rs55b – a book to bill ratio of 3.3x FY08E consolidated revenues. Order book composition stands as: hydro 56%, irrigation 21%, and transportation and others 23%.
- Patel Realty India Limited (PRIL), the company's real estate subsidiary is on track in terms of development plans at Mumbai (corporate park of 0.83m sft) and Hyderabad (IT SEZ of 2.7m sft at Gachibowli). There could be some delay in the integrated SEZ of 12.1m sft at Bangalore due to elections in Karnataka. At Bangalore, the residential area of the integrated township will be developed first and then the IT Park. The management does not expect any significant funding requirement for the real estate projects, as developments would be undertaken in a phased manner.
- Patel plans to set up 1,200MW of thermal power (300MW x 4, to be completed by FY12/FY13), at Bhavnagar in Gujarat based on imported coal. It is also acquiring a greenfield coal mine (at 100m ton reserves) in Indonesia to provide the fuel linkage (for 1,200MW). We understand that the acquisition is in advanced stages, and expect it to be completed in the next 3-4 months. The project cost is likely to be US\$60m-US\$70m.
- The stock trades at a reported P/E of 27.9x FY09E and 22.3x FY10E. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,900	1,979	2,184	3,962	3,301	2,358	2,622	4,664	11,036	12,945
Change (%)	52.8	40.6	28.7	31.5	13.8	19.1	20.1	17.7	37.7	17.3
EBITDA	318	307	419	456	358	420	469	536	1,512	1,783
Change (%)	54.2	38.7	15.9	69.2	12.6	36.5	12.1	17.5	42.8	18.0
As of % Sales	11.0	15.5	19.2	11.5	10.9	17.8	17.9	11.5	13.7	13.8
Depreciation	65	66	70	72	66	70	72	88	273	295
Interest	46	-13	24	52	27	28	30	31	109	115
Other Income	26	20	11	35	35	45	30	11	80	120
PBT	233	274	335	368	300	367	398	428	1,210	1,493
Tax	33	24	44	28	37	43	48	82	129	209
Effective Tax Rate (%)	14.2	8.7	13.0	7.7	12.2	11.6	12.0	19.2	10.6	14.0
Reported PAT	200	250	292	340	264	324	350	346	1,081	1,284
Adj PAT	200	250	292	340	264	324	350	346	1,081	1,284
Change (%)	76.9	98.2	16.4	59.9	32.1	29.6	20.1	1.8	54.0	18.8

E: MOST Estimates

Simplex Infrastructure

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SINF IN
	REUTERS CODE
S&P CNX: 4,942	SINF.BO
Equity Shares (m)	55.0
52-Week Range	774/315
1,6,12 Rel. Perf. (%)	4/46/38
M.Cap. (Rs b)	32.7
M.Cap. (US\$ b)	0.8

28 March 2008

Buy

Previous Recommendation: Buy

Rs596

	YEAR END	NET SALES* (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
	3/07A	17,110	537	12.5	28.9	47.8	9.3	19.5	15.9	1.6	19.2
	3/08E	27,030	1,052	19.1	53.5	31.1	4.1	13.2	18.5	1.0	9.5
	3/09E	41,106	2,216	40.3	110.6	14.8	2.7	18.5	22.2	0.7	6.2
	3/10E	53,438	3,296	60.0	48.7	9.9	2.2	22.0	25.7	0.6	4.5

* Consolidated

- For 4QFY08, we expect Simplex to report revenue of Rs8.5b, up 46.6% YoY, and net profit of Rs446m, up 135% YoY.
- Order backlog stood at Rs89b as at the end of December 2007. The current order book represents a book-to-bill ratio of 3.1x FY08E revenue of Rs27b. Order book is represented by orders from government - 35%, private sector - 35% and foreign orders - 35%. The current order book is executable over the next 2.5 years. The average order size has moved beyond Rs1b for the company and could increase further, going forward.
- The company has acquired the ability to execute about Rs2.5b worth of orders per month. It plans to take it to Rs3.5b/month in FY09, thus improving project execution.
- Key orders received during 4QFY08: Ritz Carlton Hotel, Bangalore, cement plant, sewerage system and thermal power plant (Rs6,530m), 6 flyovers on Seeb Corniche Road in Muscat in Sultanate of Oman (Rs3,020m), 10.7 km viaduct on the Versova - Andheri - Ghatkopar elevated corridor (Rs4,060m) and Qatalum Thermal Power Plant in Qatar (Rs2,870m).
- For FY08-10, we expect IVRCL to report 40.6% CAGR in revenue and 77% CAGR in net profit. The stock trades at a P/E of 14.8x FY09E and 9.9x FY10E. We recommend **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	3,520	3,563	4,257	5,770	5,818	5,711	7,040	8,461	17,110	27,030
Change %	13.1	29.8	13.6	45.6	65.3	60.3	65.4	46.6	26.1	58.0
Total Expenses	3,203	3,232	3,804	5,402	5,236	5,139	6,334	7,509	15,642	24,219
EBITDA	317	331	452	368	582	572	705	952	1,468	2,811
Change %	22.4	39.0	67.2	10.3	83.9	73.0	55.9	158.5	33.3	91.5
As % of sales	9.3	9.6	11.4	7.3	10.8	11.1	10.6	11.4	9.2	11.0
Other Income	11	12	33	50	44	63	41	9	106	157
Interest	121	148	160	202	247	251	296	141	632	934
Depreciation	86	94	104	(44)	127	142	167	175	240	612
PBT	121	100	221	261	252	242	283	644	702	1,422
As % of sales	3.4	2.8	5.2	4.5	4.3	4.2	4.0	7.6	4.1	5.3
Change %	(22.3)	(2.1)	57.5	35.9	109.1	143.0	28.4	147.1	19.2	102.6
Tax	16	29	48	71	56	52	63	198	164	370
Tax/PBT	13.5	29.1	21.7	27.3	22.2	21.5	22.3	30.8	23.4	26.0
PAT	104	71	173	189	196	190	220	446	537	1,052
Adjusted PAT	104	71	173	189	196	190	220	446	537	1,052
As % of sales	3.0	2.0	4.1	3.3	3.4	3.3	3.1	5.3	3.1	3.9
Change %	(10.3)	(21.2)	57.2	78.2	88.1	169.1	27.4	135.4	27.3	95.9

E: MOST Estimates

Satyam Agarwal (Agarwals@MotilalOswal.com) Tel: +91 22 3982 5410/ Shridatta Bhandwaldar (Shridatta.Bhandwaldar@MotilalOswal.com)

Media

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.	
Deccan Chronicle	175	<p>The media sector witnessed a great deal of action with launch of 9X and NDTV Imagine channels, new radio policy recommendations by TRAI and huge investors interest. Competitive intensity is increasing in all segments of the media industry, as most players are in the process of diversifying their revenue streams. Advertising revenues continue to post sustained growth of 20-22% as rising consumer demand is necessitating an increase in spend across segments. TV broadcasting subscription revenues picked up in 3QFY08 due to exponential growth in the DTH subscriber base; addressability in cable can perk up subscription revenue growth further. FICCI-PricewaterhouseCoopers 2008 report on the Indian media industry expects the entertainment and media (E&M) industry to grow by 18% CAGR for the next five years. We maintain our positive view on the print media industry with Deccan Chronicle Holdings (DCHL) as our top pick. We maintain a Neutral stance on the TV broadcasting industry with a Neutral rating on Sun TV and Zee Entertainment Enterprise.</p>
H T Media	176	
Jagran Prakashan	177	
Sun TV Network	178	
TV Today	179	
Zee Entertainment	180	

Entry of 9X and NDTV Imagine likely to result in fragmentation

Television industry continues to attract new players on the back of sustained growth in advertisement revenue and positive outlook on subscription revenue driven by digitization of distribution network. During the quarter NDTV launched a GEC channel *NDTV Imagine*. In just first two months from its launch the channel has already made a huge impact in the GEC genre. The channel has a GRP of 90 which is higher than Sony. UTV World movies has emerged as the third most watched movie channel trailing only HBO and Star Movies. 9XM has emerged as most watched music channel in just 7 weeks from launch. More channels are expected to hit this space from the stable of Network 18 Group, Reliance Entertainment and Bag Films. This is likely to result in fragmentation of viewership ratings. Fragmentation of viewership will put a cap to the ad rates being charged on various channels and genres.

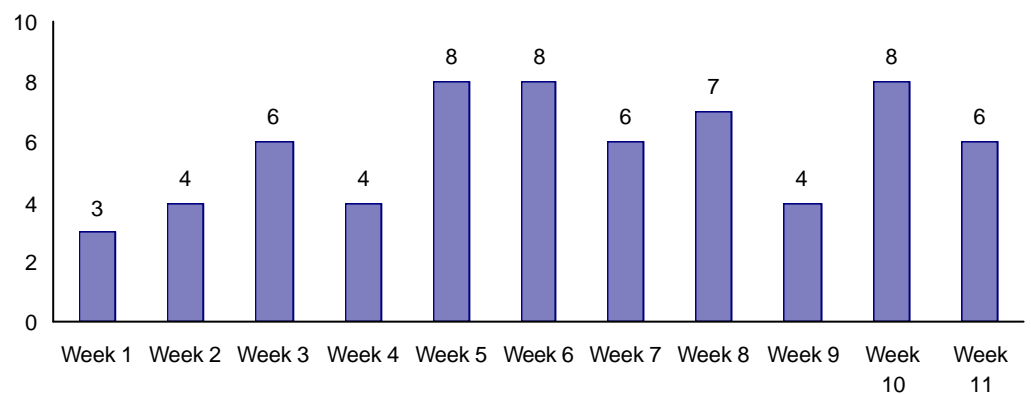
EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Media							
Deccan Chronicle	Buy	2,113	43.2	1,246	70.6	219	-14.4
HT Media	Buy	3,331	21.1	489	17.0	295	23.1
Jagran Prakashan	Buy	2,038	24.5	426	45.3	231	50.8
Sun TV	Neutral	2,445	-35.5	1,826	-27.6	973	-18.2
TV Today	Buy	746	27.4	291	42.7	166	35.2
Zee Entertainment	Neutral	4,479	16.5	1,388	45.9	935	54.8
Sector Aggregate		15,152	7.6	5,668	10.7	2,818	9.9

Zee TV has started gaining strong traction with its share in the number of programs in the Top 10 list increasing from three shows in the first week of the quarter to an average of seven shows in the last few weeks. This is in spite of the India v/s Australia Cricket series showcased during the same period. Zee TV has been doing well on the back of strong content and poor performance of Star Plus. We will watch this space closely as ability to sustain strong GRP will enable Zee to prevent any pressure on its ad rates, which could potentially arise from undercutting by the new players.

ZEE ENTERTAINMENT: NOS OF PROGRAMMES IN TOP TEN (YTD CY08)



Target group: C&S 4 + Yrs

Source:www.Indiantelevision.com

SATELLITE TELEVISION (SHARE IN TOP 100 PROGRAMMES)

	13-19JAN	20-26JAN	27JAN-2FEB	2-9FEB	10-16FEB	17-23FEB	24FEB-1MAR	2-8MAR
Star Plus	40	36	34	34	32	36	35	35
Zee TV	36	32	34	32	34	33	32	29
Sun TV	18	28	24	29	26	22	27	24
Sony	1	2	1		1	1	1	2

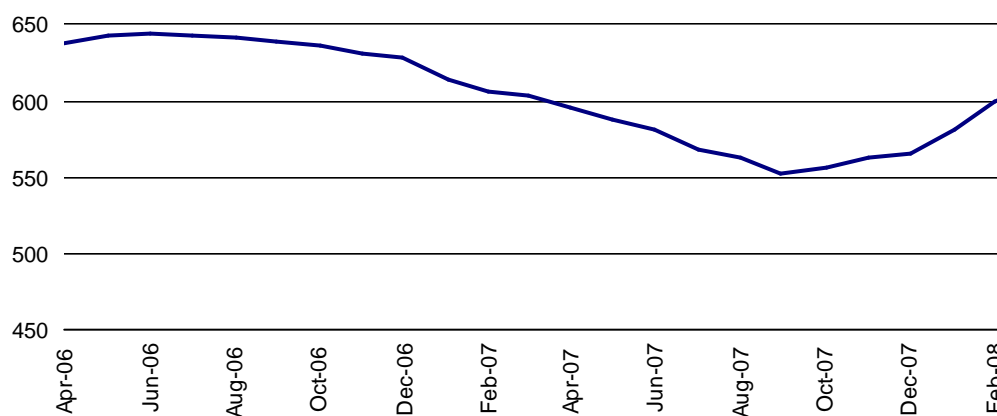
Source:www.Indiantelevision.com

Sharp increase in newsprint prices to check margin expansion

Print media has been cruising through a paradigm shift with players expanding their geographical reach and diversifying into new media verticals. Improving literacy rate and consumer demand has resulted in strong growth momentum in advertising revenue. During the quarter newsprint prices saw a sharp increase from US\$590/ton in September 2007 to US\$650-675/ton now. Increase in prices is largely on account of: (1) merger of Abitibi and Bowater in North America at the end of CY07, resulting in consolidation of capacity, (2) shortage of waste newsprint for Chinese newsprint plants resulting in global price increase of US\$35 per ton (3) high prices of crude oil and wood and increase in demand for newsprint in USA due to presidential elections.

The domestic market for newsprint is very tight currently and it is difficult to source volumes. Firm newsprint prices will impact the profitability all the three print media companies. HT Media will face the maximum pressure as it has plans to expand geographical reach of *Hindustan* (Hindi daily) and *Mint* (Business daily). HT Media's circulation of its Mumbai edition and *Mint* is mostly subscription based, which will impair the ability of the company to pass on any cost increases to consumers. Jagran Prakashan will also have an immediate impact as it maintains newsprint inventory of just 10-15 days for domestically sourced material. Near term newsprint price outlook remains strong; the prices could correct after CY08 post the impact of US elections, the Olympics and commissioning of new capacities in China.

NEWSPRINT PRICES TO REMAIN FIRM (US\$/TON)



Source: Company/Motilal Oswal Securities

Direct-to-home

The DTH subscriber base, which stood at 2.2m in 2006-07, is likely to touch the 5m mark by March 2008 on the back of upsurge in subscriber base additions. Existing players such as Tata Sky and Dish TV continued to offer attractive schemes to woo customers. The forthcoming months will see the launch of services by both Reliance and Bharti. We expect the resultant competition to accelerate industry growth rates significantly. We expect the DTH subscriber base to post CAGR of 54% to 26m by FY12.

During the quarter, Dish TV India cancelled its Rs2.5b preferential allotment of equity shares and warrants to Indivision Partners due to low valuations. The company has plans to raise Rs16b (debt:equity at 40:60) to fund its expansion plans over the next 2-3 years. However, the company indicated that it has lined up adequate funds for the coming 6-9 months.

Radio

The radio industry is growing at a fast clip in the current year on the base of over 70% jump in revenues last year. Rising popularity of FM radio and increasing usage options in out-of-home devices like cars and mobiles is aiding this growth. From the level of Rs6.2b in 2007, industry is expected to grow to Rs18b by 2012. Deregulation in the radio industry has been the turning point for the sector. TRAI has proposed a new radio policy, which would go a long way to boost growth prospects of the industry. Some the key recommendations by TRAI are:

1. Geographical basis of private FM radio bidding to be changed from city to district.
2. Multiple channels allowed to be operated by a FM broadcaster in a district
3. Cap on maximum number of channels by an operator removed
4. Broadcasting of news and current affairs by FM radio stations
5. Increase in the FDI and FII cap

We believe that multiple frequencies and entry of private players into news and current affairs programs can open up new revenue streams, pushing growth rates to higher-than-estimated levels.

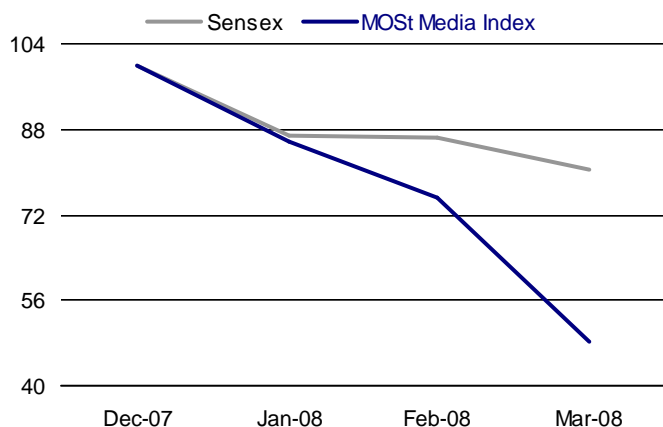
We maintain our positive view on the print media industry with **DCHL** as our top pick. We maintain a Neutral stance on the TV broadcasting industry with a **Neutral** rating on **Sun TV** and **Zee Entertainment Enterprise**.

Stock performance and valuations

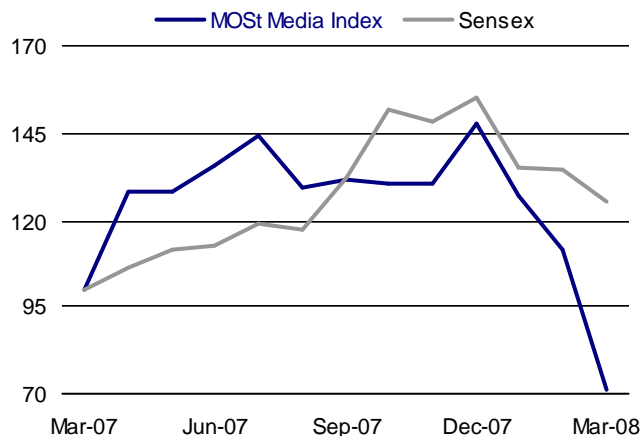
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Media						
Deccan Chronicle	-26	10	-7	-17	3	4
HT Media	-34	-6	-15	-33	-5	-11
Jagran Prakashan	-39	31	-20	4	-11	25
Sun TV	-28	-24	-9	-52	0	-30
T V Today	-45	-12	-26	-39	-17	-18
Zee Entertainment	-22	2	-3	-25	7	-4

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
28.03.08														
Media														
Deccan Chronicle	161	Buy	11.8	14.7	17.8	13.7	11.0	9.1	7.9	6.2	4.7	26.7	25.6	24.2
HT Media	170	Buy	5.7	6.5	7.8	29.9	26.1	21.7	17.0	15.3	12.5	14.7	14.6	15.3
Jagran Prakashan	94	Buy	3.5	4.6	6.0	26.8	20.6	15.7	15.4	11.7	8.8	19.3	22.4	25.0
Sun TV	291	Neutral	9.5	13.3	16.3	30.8	21.9	17.8	16.4	12.6	10.1	24.8	27.6	27.0
TV Today	103	Buy	7.3	9.1	11.6	14.0	11.3	8.9	7.0	5.7	4.6	15.7	16.8	18.1
Zee Entertainment	246	Neutral	8.6	12.0	14.9	28.7	20.5	16.6	19.8	14.0	10.6	17.8	18.9	17.9
Sector Aggregate						25.1	19.0	15.4	15.0	11.6	9.1	18.6	20.4	20.8

Deccan Chronicle

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	DECH IN
	REUTERS CODE
S&P CNX: 4,942	DCHL.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs161

Equity Shares (m)	244.0
52-Week Range	270/134
1,6,12 Rel. Perf. (%)	2/-14/-17
MCap. (Rs b)	39.4
MCap. (US\$ b)	1.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	5,528	1,614	6.8	105.0	23.9	4.7	19.5	18.5	7.5	16.0
03/08E	7,886	2,912	11.8	74.3	13.7	3.7	26.7	30.3	5.6	9.1
03/09E	9,710	3,642	14.7	25.1	11.0	2.8	25.6	34.2	4.2	7.3
03/10E	11,033	4,408	17.8	21.0	9.1	2.2	24.2	32.5	3.7	6.3

- ✍ We expect Deccan Chronicle to post 43.2% YoY growth in revenue to Rs2.1b
- ✍ Sharp increase in EBIDTA margin from 49.5% in 4QFY07 to 59% in 4QFY08 would result in a 70.6% YoY increase in operating profits to Rs1.2b. Lower other income and higher tax rate will result in a 14.4% YoY decline in PAT to Rs219m.
- ✍ DCHL will face margin pressure due to increase in newsprint prices from FY09 as the company keeps news print inventory of 3-4 months.
- ✍ DCHL's plans of having a strong presence in southern India will be fulfilled with the expected launch of its Bangalore edition this month. Although the company will face strong competition from *The Times of India*, its success in Bangalore will lead to a rerating of the company.
- ✍ DCHL is launching a business daily which will help the company not only capitalize the growing market for business dailies but also improve the content quality in its English paper.
- ✍ DCHL has won the IPL ownership of Hyderabad team. The company has already roped in some international stars in its team and has big plans from the SBU. We estimate that even in the event of complete failure of IPL, EPS impact would not be more than Re1.0 per share.
- ✍ The stock is trading at 13.7x FY08 and 11x FY09 earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	1,096	1,492	1,464	1,476	1,734	1,878	2,162	2,113	5,528	7,886
Change (%)					58.1	25.8	47.7	43.2	67.1	42.7
EBITDA	380	765	708	731	1,037	1,178	1,413	1,246	2,583	4,874
Change (%)	81.2	280.5	82.2	202	173.2	54.0	99.5	70.6	46.7	88.7
As of % Sales	34.6	51.2	48.4	49.5	59.8	62.7	65.4	59.0	46.7	61.8
Depreciation	40	40	44	47	71	66	71	77	171	286
Interest	64	73	81	113	130	174	213	117	332	634
Other Income	29	37	52	205	103	91	103	96	323	391
PBT	304	688	635	776	939	1,029	1,231	1,148	2,403	4,346
Tax	72	45	151	520	101	203	202	929	790	1,434
Effective Tax Rate (%)	23.6	6.5	23.8	67.0	10.8	19.7	16.4	81%	32.9	33.0
Reported PAT	233	643	484	256	838	826	1,029	219	1,614	2,912
Adj PAT	233	643	484	256	838	826	1,029	219	1,614	2,912
Change (%)					260.2	28.5	112.5	-14.4	137.8	80.4

E: MOST Estimates

H T Media

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HTML IN
	REUTERS CODE
S&P CNX: 4,942	HTML.BO

28 March 2008

Buy

Rs170

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	234.2										
52-Week Range	266/128										
1,6,12 Rel. Perf. (%)	-5/-16/-33										
M.Cap. (Rs b)	39.7										
M.Cap. (US\$ b)	1.0										
	03/07A	10,393	1,156	4.9	91.7	34.4	5.1	14.7	15.1	3.5	19.2
	03/08E	12,135	1,330	5.7	15.3	29.9	4.4	14.7	15.4	2.9	16.2
	03/09E	14,264	1,521	6.5	14.3	26.1	3.8	14.6	14.8	2.5	14.6
	03/10E	16,663	1,828	7.8	20.2	21.7	3.3	15.3	15.7	2.1	11.9

- ✍ We expect HT Media to post 21.1% increase in revenue to Rs3.3b.
- ✍ EBIDTA margin is expected to decline from 15.2% in 4QFY07 to 14.7% in 4QFY08. The decline is largely on account of expanding the geographical presence of *Mint*, launch of *Hindustan* in UP markets and continuing losses in Mumbai.
- ✍ HT Media will start feeling the impact of increase in newsprint prices from this quarter itself as it currently has low inventory (normal level is 2 months). Moreover ability of HT Media to pass on the cost increase is very low in Mumbai as most of the circulation is subscription based.
- ✍ HT Delhi continues to be the largest contributor to the company's total revenue. We do not rule out some price increase in Delhi after an understanding with TOI. *Hindustan* and *Mint* edition launches might be delayed due to a rise in material costs.
- ✍ The company will start reporting the numbers of *Hindustan* separately from 1QFY09. We expect *Mint* and *HT Mumbai* to remain in an investment mode for next 2-3 years.
- ✍ The stock is trading at 29.9x FY08 and 26.1x FY09 earnings. We maintain a **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,391	2,499	2,752	2,750	2,733	2,877	3,194	3,331	10,393	12,135
Change (%)					14.3	15.1	16.1	21.1	0.3	16.8
EBITDA	519	477	491	418	556	558	592	489	1,905	2,195
Change (%)					7.1	17.0	20.7	17.0		15.2
As of % Sales	21.7	19.1	17.8	15.2	20.3	19.4	18.5	14.7	18.3	18.1
Depreciation	96	96	98	107	106	110	114	105	397	435
Interest	34	38	36	35	42	44	45	43	143	173
Other Income	87	76	149	91	103	18	87	105	403	313
Extra-ordinary income	-3	0	0	0	0	0	0	0	-3	0
PBT	474	419	506	367	511	422	521	446	1,765	1,900
Tax	167	150	170	127	169	97	153	151	614	570
Effective Tax Rate (%)	35.3	35.7	33.6	34.7	33.1	23.0	29.3	33.9	34.8	30.0
Reported PAT	306	269	336	240	342	325	369	295	1,151	1,330
Adj PAT	309	269	336	240	342	325	369	295	1,153	1,330
Change (%)					10.6	20.7	9.8	23.1		15.3

E: MOST Estimates

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Jagran Prakashan

STOCK INFO.	BLOOMBERG
BSE Sensx: 16,371	JAGP IN
	REUTERS CODE
S&P CNX: 4,942	JAGP.BO

28 March 2008

Buy

Rs94

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	301.2										
52-Week Range	169/71										
1,6,12 Rel. Perf. (%)	-7/-12/4										
M.Cap. (Rs b)	28.3										
M.Cap. (US\$ b)	0.7										
	03/07A	5,982	762	2.5	100.4	37.2	5.5	14.9	18.4	4.7	23.7
	03/08E	7,634	1,057	3.5	38.6	26.8	5.2	19.3	24.6	3.7	16.2
	03/09E	9,683	1,375	4.6	30.2	20.6	4.6	22.4	30.0	2.9	12.4
	03/10E	11,660	1,806	6.0	31.3	15.7	3.9	25.0	34.6	2.4	9.3

- Jagran Prakashan is expected to post 24.5% YoY growth in revenue on the back of continued growth in advertising revenue.
- EBITDA margin is expected to expand from 17.9% in 4QFY07 to 20.9% in 4QFY08. However, sequential margins are likely to decline by 80bp due to increase in newsprint prices. The company keeps a low inventory level of 15 days and sources 70% of its requirement from domestic markets, which could impact its profit margins.
- The company has launched five more editions of *Dainik Jagran* in Uttar Pradesh in the current quarter. This will increase readership as increased localization will increase the reader's interest. Moreover this will increase the proportion of local ads, which offers higher ad-rates and profitability.
- Diversification in the OOH and Event Management segments is on track. Jagran will launch its Hindi business daily in a JV with the TV18 group, which will mark its entry in the business news segment.
- PAT is expected to grow by 50.8% YoY at Rs231m due to increase in EBITDA margins from 17.9% in 4QFY07 to 20.9% in 4QFY08.
- The stock is trading at 26.8x FY08 and 20.6x FY09 earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	1,367	1,417	1,561	1,637	1,834	1,772	1,990	2,038	5,982	7,634
Change (%)	19.8	25.9	25.7	27.7	34.2	25.0	27.5	24.5	25.1	59.7
EBITDA	344	291	270	293	515	390	432	426	1,198	1,763
Change (%)	171.9	69.2	58.9	25.2	49.6	34.2	59.9	45.3	68.4	147.8
As of % Sales	25.2	20.5	17.3	17.9	28.1	22.0	21.7	20.9	20.0	23.1
Depreciation	48	56	58	75	70	83	89	93	237	335
Interest	17	20	16	32	20	14	14	25	85	74
Other Income	57	52	73	66	89	37	56	60	248	242
Extra-ordinary income	0	0	0	0	0	0	0	0	-27	0
PBT	336	266	269	253	513	330	385	368	1,152	1,597
Tax	107	91	92	99	166	110	127	137	389	540
Effective Tax Rate (%)	31.9	34.1	34.2	39.3	32.4	33.3	32.9	33.0	33.8	33.8
Reported PAT	229	175	177	153	347	220	258	231	762	1,057
Adj PAT	229	175	177	153	347	220	258	231	735	1,057
Change (%)	433.3	78.0	143.8	18.0	51.6	25.3	46.0	50.8	111.7	43.8

E: MOST Estimates

Amnisha Aggarwal (AmnishaAggarwal@MotilalOswal.com) Tel: +91 22 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com); Tel: 39825418

Sun TV Network

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SUNTV IN
	REUTERS CODE
S&P CNX: 4,942	SUTV.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs291

Equity Shares (m)	394	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	458/260	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	2/-8/-52	3/07A	6,788	2,688	6.8	29.9	42.7	7.6	22.1	41.0	16.1	22.6
MCap. (Rs b)	114.7	3/08E	8,609	3,728	9.5	38.7	30.8	6.2	24.8	44.1	12.3	16.4
MCap. (US\$ b)	2.9	3/09E	10,665	5,243	13.3	40.7	21.9	6.2	27.6	44.5	9.6	12.6
		3/10E	12,719	6,434	16.3	22.7	17.8	4.9	27.0	43.4	7.7	10.1

- ✍ We expect the company to post revenue of Rs2.4b up 12.3% QoQ, EBITDA of Rs1.8b and of PAT of Rs973m for 4QFY08.
- ✍ Sun TV continues to remain an undisputed leader in southern India with presence across all the four states. Its Tamil Kids channel Chutti TV has been big hit and the company now plans to extend this same to other languages, which will further strengthen its position in the Kids genre.
- ✍ We expect competitive intensity to increase due to expansion plans of players like Kalaingar and Raj TV in Tamil language. Zee News is gaining ground in Kannada and Telgu GEC space in the non-film based programmes. The company has plans to relaunch its Tamil GEC channel in six months.
- ✍ The company is in the process of becoming a strong player in the FM radio space. It currently has 27 stations under operation; the remaining 14 are to be launched by year-end. We expect Sun TV network to be a major beneficiary from phase three of radio policy, due to groups synergy in other news based mediums like television and print.
- ✍ The stock is trading at 30.8x FY08 and 21.9x FY09 earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	894	945	1,140	3,790	2,023	1,945	2,178	2,445	6,770	8,591
Change (%)					126.3	105.8	91.0	-35.5		26.9
EBITDA	693	715	884	2,524	1,529	1,398	1,710	1,826	4,818	6,464
Change (%)					120.8	95.5	93.5	-27.6		34.2
As of % Sales	77.5	75.7	77.5	66.6	75.6	71.9	78.5	74.7	71.2	75.2
Depreciation	127	110	90	864	243	248	262	471	1,193	1,225
Interest	11	2	2	15	5	15	25	21	31	65
Other Income	96	114	110	174	149	143	142	100	495	534
PBT	651	717	902	1,819	1,431	1,278	1,565	1,435	4,089	5,709
Tax	228	238	305	630	500	477	542	462	1,401	1,981
Effective Tax Rate (%)	35.1	33.1	33.8	34.6	34.9	37.3	34.6	32.2	34.3	34.7
Reported PAT	422	480	598	1,189	931	802	1,023	973	2,688	3,728
Adj PAT	422	480	598	1,189	931	802	1,023	973	2,688	3,728
Change (%)					120.4	67.1	71.2	-18.2		38.7

E: MOST Estimates; Note: 4QFY08 nos not comparable on a YoY basis, as 4QFY07 results includes Udaya TV and Gemini TV full year nos

TV Today

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TVTN IN
	REUTERS CODE
S&P CNX: 4,942	TVTO.BO

28 March 2008

Buy

Rs103

Previous Recommendation: Buy

Equity Shares (m)	58.0
52-Week Range	200/88
1,6,12 Rel. Perf. (%)	-14/-23/-39
MCap. (Rs b)	6.0
MCap. (US\$ b)	0.1

YEAR END	NET SALES (RS M)	PAT* (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	1,889	312	5.4	12.3	19.2	2.3	12.2	18.4	2.5	9.0
3/08E	2,419	466	7.3	36.5	14.0	2.2	15.7	23.6	2.1	6.8
3/09E	2,755	578	9.1	24.1	11.3	1.9	16.8	25.3	1.7	5.3
3/10E	3,174	734	11.6	26.9	8.9	1.6	18.1	27.3	1.3	3.8

* Excluding extraordinary items and provisions

- ✍ We expect the company to post revenue of Rs746m, up 27.4% YoY on the back consistent growth in advertising revenue.
- ✍ Aaj Tak is an undisputed leader in the Hindi news genre in spite of increased competition in this genre. Revamp of *Headlines Today* has resulted in an increase in market share from 7% in FY05 to 10% in FY07.
- ✍ New initiatives like merger of Radio Today and conversion into a pay channel will pay off in the long term. TV Today is awaiting the Ministry of Information and Broadcasting's clearance to go ahead with the merger.
- ✍ We believe TV Today is a low risk investment, with potential re-rating triggers. The stock is trading at 14x FY08 and 11.3x FY09 earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	351	381	571	585	515	464	694	746	1,889	2,419
Change (%)	3.1	21.2	26.2	20.0	46.7	21.8	21.4	27.4	18.4	28.1
EBITDA	38	61	216	204	119	78	244	291	518	732
Change (%)	-66.6	7.1	33.3	8.1	214.3	29.6	13.1	42.7	-0.5	2.9
As of % Sales	10.8	15.9	37.7	34.8	23.1	16.9	35.1	39.0	27.4	30.3
Depreciation	39	45	43	43	39	40	40	52	170	171
Interest	0	0	0	0	0	0	0	1	1	1
Other Income	25	37	46	27	42	44	54	18	135	157
Extra-ordinary income	0	0	0	0	0	0	0	0	0	0
PBT	24	53	218	188	121	82	257	257	482	717
Tax	9	20	77	66	41	29	90	92	170	251
Effective Tax Rate (%)	37.3	37.6	35.3	34.8	33.7	34.7	35.1	33.0	35.3	35.0
Reported PAT	15	33	141	123	80	54	167	166	312	466
Adj PAT	15	33	141	123	80	54	167	166	312	466
Change (%)	-65.5	-66.7	93.8	-5.7	439.9	63.7	18.6	35.2	12.3	49.5

E: MOST Estimates

Zee Entertainment Enterprises

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	Z IN
	REUTERS CODE
S&P CNX: 4,942	ZEE.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs246

Equity Shares (m)	434	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	363/169	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	10/-23/-25	3/07A	15,159	2,374	5.5	11.7	45.1	4.1	14.2	12.8	7.2	34.1
MCap. (Rs b)	106.6	3/08E	17,563	3,728	8.6	57.0	28.7	3.7	17.8	19.1	6.2	19.8
MCap. (US\$ b)	2.7	3/09E	21,490	5,224	12.0	40.1	20.5	3.2	18.9	22.8	5.0	14.0
		3/10E	25,340	6,460	14.9	23.7	16.6	2.7	17.9	24.0	4.1	10.6

- ✎ We expect Zee Entertainment Enterprises (ZEEL) to report 16.5% YoY growth in revenue on the back of higher advertising. Sequentially, revenues are expected to be lower by 13.6% due to seasonality and lower contribution from Sports channels.
- ✎ Zee TV has improved its ratings during the quarter with its share in the number of programs in the Top 10 list increasing. Zee TV has more shows in the Top 10 list versus Star TV with an average of seven shows in the last few weeks.
- ✎ Subscription revenue to remain flat on a YoY basis at Rs1.9b. We expect subscription revenue to post steady growth going forward on the back of increase in DTH subscriber base and new players entering the segment.
- ✎ GEC space is getting fragmented with new launches. INX Media and NDTV have already launched their GEC channels 9X and NDTV Imagine. We believe increase in fragmentation will impact the advertising revenue and increase the carriage cost for the incumbent broadcasters.
- ✎ PAT is expected to grow by 54.8% YoY at Rs935m due increase in EBITDA margins from 24.6% in 4QFY07 to 31% in 4QFY08.
- ✎ The stock is trading at 28.7x FY08 and 20.5x FY09 earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	2,894	3,496	4,177	3,844	3,916	3,986	5,182	4,479	14,454	17,563
Change (%)			53.0	10.6	35.3	14.0	24.1	16.5	30.9	21.5
Prog, Transmission & Direct exp	1,598	2,403	1,721	1,632	1,585	1,660	2,549	1,969	7,353	7,763
Staff Cost	244	239	232	292	375	338	312	351	1,008	1,375
Selling and other exp	391	636	867	969	759	668	753	770	2,864	2,951
EBITDA	662	217	1,357	951	1,197	1,321	1,569	1,388	3,229	5,475
Change (%)			186.3	111.9	80.9	508.1	15.6	45.9	30.5	69.5
As of % Sales	22.9	6.2	32.5	24.8	30.6	33.1	30.3	31.0	22.3	31.2
Depreciation	52	51	69	56	67	55	47	58	228	227
Interest	109	34	68	8	118	85	167	39	220	409
Other Income	147	152	155	177	213	225	238	220	630	895
PBT	648	284	1,375	1,064	1,225	1,405	1,592	1,511	3,411	5,734
Tax	109	74	417	365	412	435	458	531	964	1,835
Effective Tax Rate (%)	16.8	26.0	30.3	34.3	33.6	30.9	33.4	35.1	28.3	32.0
Reported PAT	539	210	958	699	813	971	1,135	980	2,447	3,899
Minority Interest	13	-12	83	95	42	46	38	46	212	171
Adj PAT	526	222	875	604	771	925	1,097	935	2,235	3,728
Change (%)			166.9	12.8	46.6	316.5	25.3	54.8	10.4	66.8

E: MOST Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) Tel: +91 22 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com); Tel: 39825418

Metals

BSE Sensex: 16,371

S&P CNX: 4,942

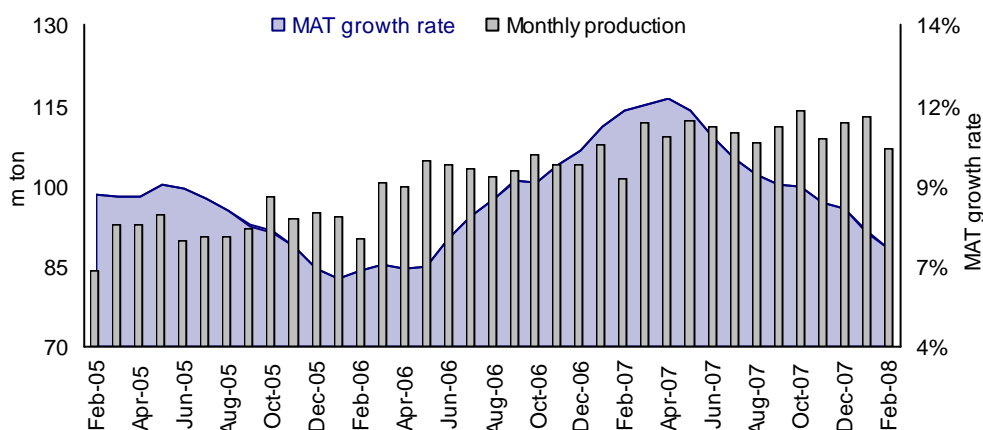
28 March 2008

COMPANY NAME	PG.
Hindalco	187
Hindustan Zinc	188
Jindal Steel	189
JSW Steel	190
Nalco	191
Sterlite Industries	192
SAIL	193
Tata Steel	194

Growth in crude steel production continues to moderate

Global crude steel output increased 6.2% to 553m tons during October 2007-February 2008, driven by 8.7 % growth in China, 24.3% in India and 3.6% in the rest of the world (RoW). China's moving average total (MAT) growth rate has slowed from 21.9% in February 2007 to 13% in February 2008 due to slower capacity addition and closing of ~30m tons of inefficient capacity, while India's MAT growth rate has climbed steeply from 7.7% in February 2007 to 17.7% in February 2008. China is still the largest contributor to growth and accounted for 50.6% of the incremental crude steel production during October 2007-February 2008.

GLOBAL CRUDE STEEL PRODUCTION GROWTH IS MODERATING



Note: MAT = Moving Annual Total of crude steel production

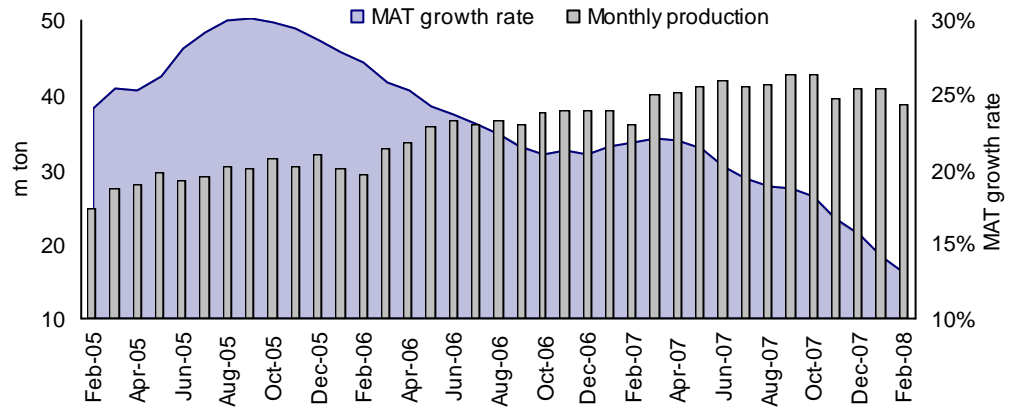
Source: IISI

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Metals							
Hindalco	Neutral	50,959	7.3	9,531	-14.5	6,223	-19.2
Hindustan Zinc	Buy	17,148	-15.2	11,172	-20.2	8,847	-5.4
Jindal Steel & Power	Buy	15,664	48.6	5,921	51.2	3,129	54.3
JSW Steel	Neutral	30,953	23.9	8,553	6.5	4,212	11.9
Nalco	Neutral	13,668	-12.8	6,718	-23.6	5,057	-14.4
Sterlite Inds.	Buy	60,197	-3.7	17,250	-24.1	9,390	-18.2
SAIL	Buy	131,754	28.3	50,401	59.7	32,662	64.3
Tata Steel	Buy	53,972	8.4	24,442	28.4	14,129	25.0
Sector Aggregate		374,314	12.1	133,988	12.4	83,649	17.1

CHINA'S CRUDE STEEL PRODUCTION GROWTH DECLINING SHARPLY

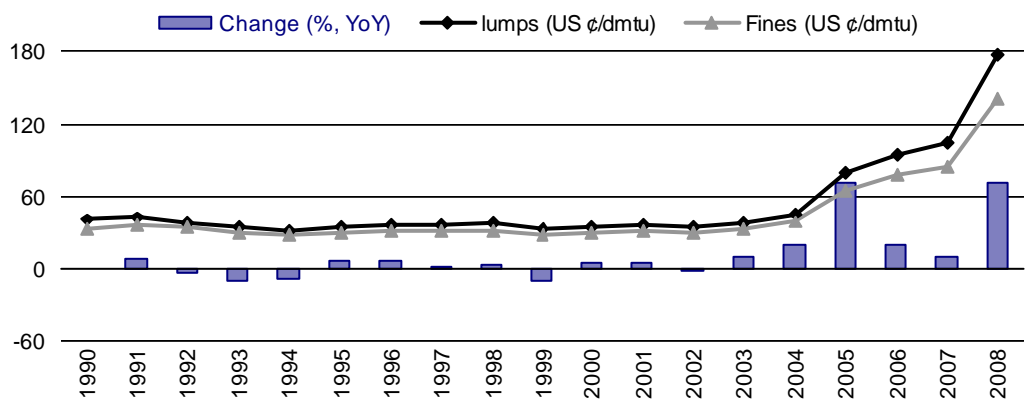


Source: IISI

Metallics shortage worldwide is driving iron ore prices northward

Iron ore prices have been up sharply in the last six months in the spot market. Driving iron ore prices upward are: (1) continued strong demand from the largest consumer of iron ore i.e. China, which constitutes ~45 % of the total global trade; (2) high ocean freight due to shortage of ships and port congestion; (3) limited supply growth in the international market due to infrastructure bottlenecks and consolidation of miners; and (4) supply of substitute i.e. steel scrap has been limited as scrap collection in main scrap generating developed countries has peaked.

IRON ORE ANNUAL BENCHMARK CONTRACT PRICES 5X IN 5 YEARS



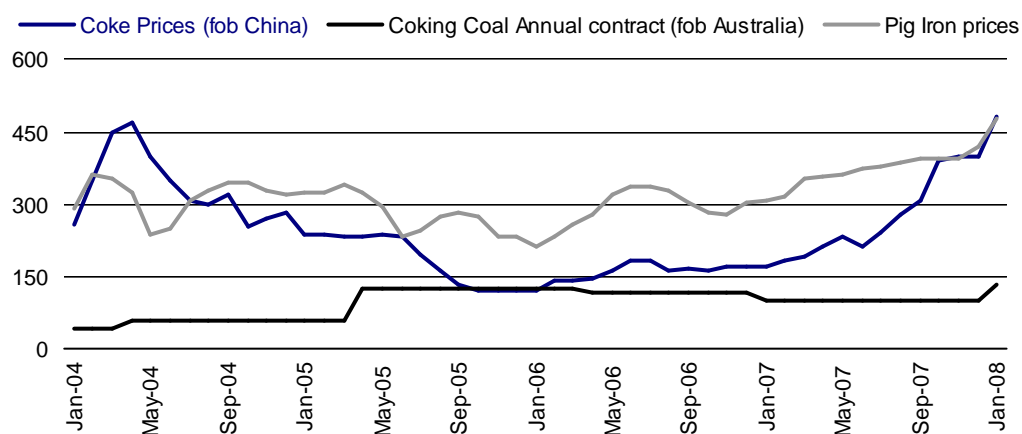
Source: Industry

Sesa Goa is a play on iron ore prices, while SAIL, Jindal Steel & Power benefit when steel prices are pushed up due to rising iron ore costs.

High coke prices to squeeze margins of small Indian pig iron producers

Extraordinary snowfall in China and flooding of mines in Australia during early 2008 has disrupted coal supplies significantly. China had imposed a temporary export ban. BHP-Billiton alone has lost shipment of 8.5m tons of coking coal for the year. ABARE has forecast only 4m tons of incremental coking coal supplies in 2008. This is grossly insufficient to meet ~6% growth in steel consumption. Therefore, the prices of coking coal have increased to as high as US\$330/ton versus the annual contract price of US\$96-98/ton in 2007.

FIG IRON, COKE AND COAL PRICES - PRICES (US\$/TON)



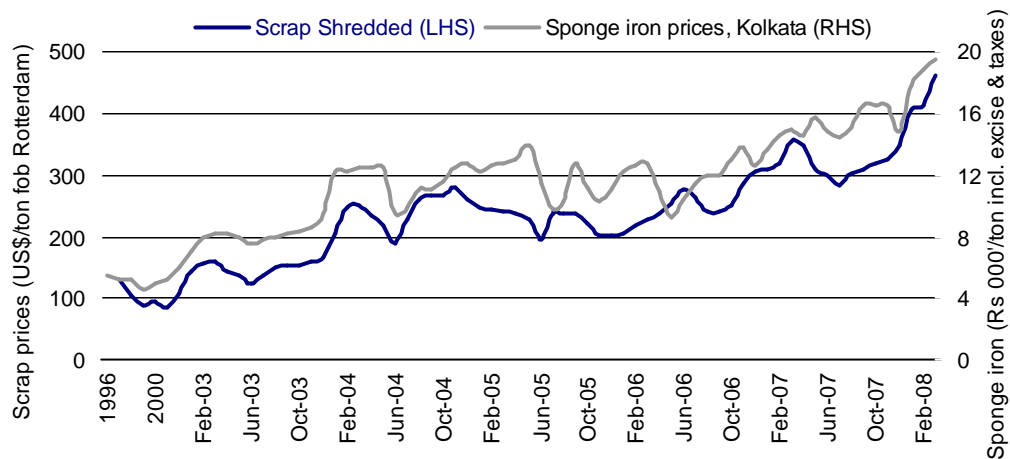
Source: IISI

Among the large players, only Tata Steel and Steel Authority of India (SAIL) have captive coking coal mines that meet 67% and 5% of their respective requirement. JSW Steel's margins are at risk due to its full exposure to coking and non-coking coal imports for steel production and power generation and absence of captive iron ore mines.

Indian sponge iron producers are beneficiaries of rising metallics prices

International prices of metallics are increasing due to: (1) rising production costs of pig iron on account of unprecedented increase in coking coal and iron ore prices and (2) lack of growth in steel scrap supply. Shortage of iron ore and steel scrap has been driving up steel prices. Prices of sponge iron moves in tandem with the scrap prices as India continues to import scrap due to low domestic generation. Indian mini steel mills making steel through the sponge iron route are the beneficiaries of rising prices of steel metallics because their costs have not increased as much as that of global players and margins are expected to increase as Indian sponge iron producers remain insulated from high ocean freight and international prices of iron ore and coal.

SCRAP PRICES ARE DRIVING SPONGE IRON PRICES



Source: IISI

We prefer investments in sponge-iron based mini steel mills and advise staying away from pig iron-based mini mills. Godawari Power and Bhushan Steel have strong balance sheets and their raw material linkages will improve substantially in coming years. They have drawn up growth plans to plough in the strong cashflows to increase capacity and set up pelletization plants to reduce raw material costs.

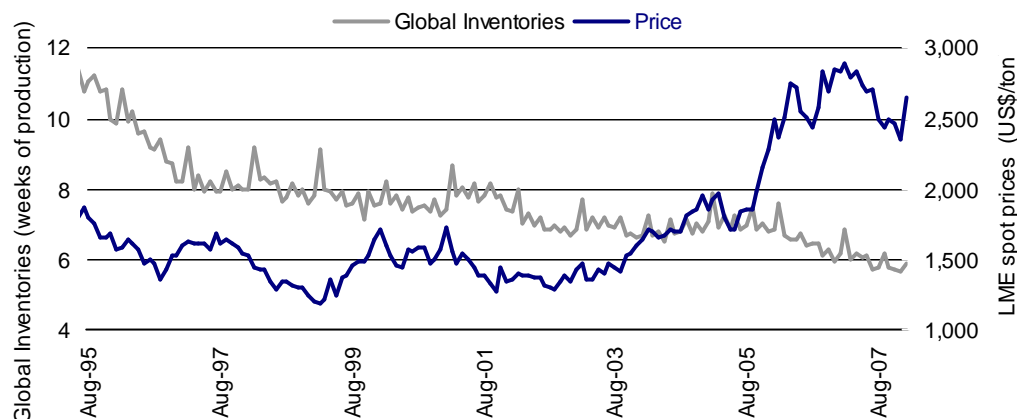
Steel prices above US\$1,000/ton for HRC and no sign of peaking

Steel prices are reaching new highs and have now crossed US\$1,000/ton due to strong demand, end of de-stocking in second half of 2007, declining exports from China, restricted growth in steel production due to coking coal shortage, and rising raw material prices. We still see no sign of prices peaking as demand remains strong and seaborne supplies from Russia, Ukraine, China, Brazil and India are declining simultaneously. We like integrated steel producers such as Tata Steel, SAIL and Jindal Steel & Power that are key beneficiaries of rising steel prices since they are partially insulated from raw materials costs pressure due to captive mines. JSW Steel is vulnerable due to absence of captive raw materials.

Non-ferrous metals

Long term outlook for Aluminium has significantly improved: Aluminum prices are up significantly this year after reduced production from China due to power outages caused by severe snow storms. Aluminum prices have increased 11% QoQ to US\$2,779/ton and 1% YoY. We have revised our EPS estimates upward for Hindalco, Nalco and Sterlite due to change of average aluminium price assumption from US\$2,500 to US\$2,750/ton. We re-iterate Buy on Sterlite due to its strong volume growth in both aluminium and zinc metals, and strong pipeline of projects in the energy business.

GLOBAL INVENTORIES AND PRICES OF ALUMINUM



Source: IAI and LME

AVERAGE METAL PRICES ON LME (US\$/TON)

QUARTER	ZINC			ALUMINIUM			COPPER			LEAD			ALUMINA		
	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %	AVG.	QOQ %	YOY %
4QFY08	2,460	-8	-29	2,779	11	1	7,741	7	30	2,900	-10	66	391	14	21
3QFY08	2,664	-17	-36	2,500	-4	-8	7,259	-5	2	3,232	4	104	343	-1	43
2QFY08	3,221	-12	-4	2,610	-7	3	7,624	1	0	3,094	42	159	347	-4	2
1QFY08	3,679	7	14	2,802	2	4	7,578	27	6	2,184	25	95	360	12	-38
4QFY07	3,441	-17	52	2,748	1	12	5,975	-16	23	1,751	10	43	322	34	-47
3QFY07	4,142	23	152	2,726	8	32	7,096	-7	72	1,587	33	57	240	-29	-55
2QFY07	3,359	4	155	2,531	-6	37	7,628	7	115	1,194	7	37	340	-42	-21
1QFY07	3,239	43	152	2,684	10	50	7,158	47	123	1,119	-9	18	583	-4	34
4QFY06	2,267	38	71	2,447	18	29	4,862	18	55	1,224	21	31	607	15	46
3QFY06	1,642	25	45	2,071	12	14	4,130	17	39	1,011	16	9	530	23	32
2QFY06	1,316	2	32	1,849	3	8	3,544	10	27	869	-8	0	432	0	29
1QFY06	1,287	-3	23	1,795	-5	6	3,213	3	19	949	1	22	434	5	-5
4QFY05	1,327	17	22	1,891	4	13	3,127	5	16	937	1	15	415	3	-1
3QFY05	1,131	13	20	1,818	6	19	2,975	7	45	927	6	47	401	19	29
2QFY05	998	-4	19	1,718	2	21	2,788	3	58	872	12	71	336	-27	18
1QFY05	1,043	-4	32	1,690	1	22	2,698	0	63	777	-5	68	450	9	62

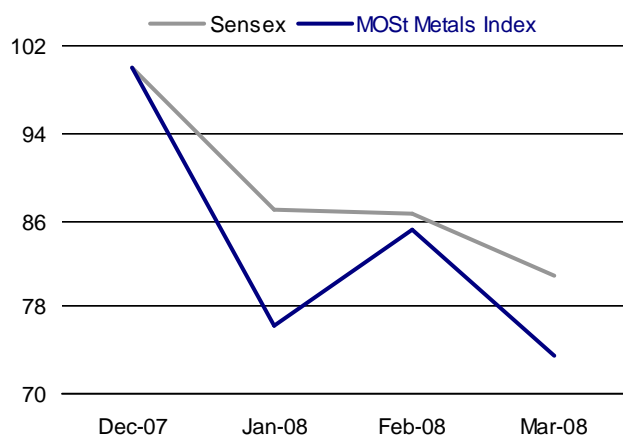
Source: Bloomberg & Motilal Oswal Research

Stock performance and valuations

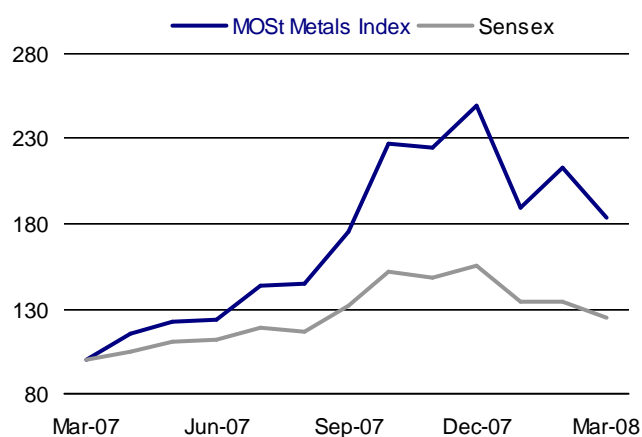
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Metals						
Hindalco	-18	35	1	8	9	-52
Hindustan Zinc	-34	-3	-15	-30	-8	-90
Jindal Steel & Power	-27	369	-8	342	-1	282
JSW Steel	-38	74	-19	47	-12	-12
Nalco	-7	100	12	73	19	13
SAIL	-29	80	-10	53	-3	-7
Sterlite Inds.	-28	62	-9	35	-2	-25
Tata Steel	-23	84	-4	57	3	-3

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Metals														
Hindalco	175	Neutral	14.0	19.5	28.0	12.5	9.0	6.3	7.8	6.0	5.7	11.9	13.8	17.3
Hindustan Zinc	536	Buy	94.7	93.0	106.4	5.7	5.8	5.0	3.0	2.3	2.1	35.3	26.3	23.6
Jindal Steel & Power*	2,219	Buy	74.1	120.7	161.1	30.0	18.4	13.8	17.5	11.3	8.9	31.9	34.6	31.9
JSW Steel	819	Neutral	90.6	117.6	152.1	9.0	7.0	5.4	7.9	5.9	5.0	23.2	24.2	23.9
Nalco	463	Neutral	26.7	34.8	43.1	17.3	13.3	10.8	11.8	8.4	6.0	19.4	21.2	21.7
SAIL	198	Buy	20.4	23.2	24.5	9.7	8.5	8.1	5.3	4.7	4.6	34.9	29.7	24.7
Sterlite Inds.	756	Buy	56.7	62.0	58.6	13.3	12.2	12.9	5.2	4.2	3.8	18.3	17.0	13.8
Tata Steel	717	Buy	82.8	114.3	128.4	8.7	6.3	5.6	5.2	4.5	4.1	14.5	17.2	16.7
Sector Aggregate						10.8	8.9	7.8	6.2	5.1	4.6	21.2	21.0	19.7

*Standalone

Hindalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HNDL IN
	REUTERS CODE
S&P CNX: 4,942	HALC.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs175

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,306.8										
52-Week Range	223/127										
1,6,12 Rel. Perf. (%)	-6/7/8										
M.Cap. (Rs b)	229.3										
M.Cap. (US\$ b)	5.8										
	3/07A	199,548	28,006	24.2	77.5	7.3	1.7	22.8	18.8	1.2	5.2
	3/08E	676,088	18,340	14.0	-41.9	12.5	1.5	11.9	7.3	0.7	7.8
	3/09E	715,367	25,471	19.5	38.9	9.0	1.2	13.8	9.9	0.7	6.0
	3/10E	750,277	36,601	28.0	43.7	6.3	1.1	17.3	10.2	0.6	5.7

Consolidated

- During 4QFY08, we expect standalone PAT to decline 19.2% YoY to Rs6.2b due to appreciation of the rupee by 10%, and falling TcRc margins. Volumes are expected to remain flat YoY.
- Expansion of the Muri alumina refinery to 450k tpa and Hirakud from 100 to 143k tpa are expected by March 2008. Aluminum capacity would rise 3x to 1.5m tpa by 2010-2012 and growth would largely be back ended.
- We have revised our EPS estimates upward by 21.1% to Rs19.5 for FY09E and Rs28 for FY10E due to a change in the average aluminium price assumption from US\$2,500 to US\$2,750/ton. Aluminum prices are up significantly this year after reduced production from China due to power outages caused by severe snow storms. We are positive on aluminum prices but are concerned for Novellis, which continues to suffer on account of fixed price contracts and demand slowdown in USA. We maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	42,737	46,342	46,562	47,489	46,779	49,597	45,317	50,959	183,130	192,652
Change (YoY %)	93.6	74.2	62.0	29.8	9.5	7.0	-2.7	7.3	60.7	5.2
Total Expenditure	33,403	36,478	36,109	36,340	37,936	40,380	37,311	41,428	142,330	157,055
EBITDA	9,334	9,864	10,453	11,149	8,843	9,217	8,006	9,531	40,800	35,597
Change (YoY %)	54.4	102.2	79.3	19.9	-5.3	-6.6	-23.4	-14.5	56.6	-12.8
As % of Net Sales	21.8	21.3	22.4	23.5	18.9	18.6	17.7	18.7	22.3	18.5
Interest	634	515	698	577	562	632	622	682	2,424	2,498
Depreciation	1,341	1,353	1,384	1,576	1,428	1,446	1,460	1,446	5,654	5,780
Other Income	776	1,108	584	1,233	1,246	1,098	1,143	700	3,701	4,187
PBT (before EO item)	8,135	9,104	8,955	10,229	8,099	8,237	7,067	8,103	36,423	31,506
Extra-ordinary Income	-	-727.0	-	(650)	-	-	-	-	-1,377.0	
PBT (after EO item)	8,135	8,377	8,955	9,579	8,099	8,237	7,067	8,103	35,046	31,506
Total Tax	2,120	2,401	2,516	2,366	2,070	1,809	1,640	1,880	9,403	7,399
% Tax	26.1	28.7	28.1	24.7	25.6	22.0	23.2	23.2	26.8	23.5
Reported PAT	6,015	5,976	6,439	7,213	6,029	6,428	5,427	6,223	25,643	24,107
Adjusted PAT	6,015	6,495	6,439	7,702	6,029	6,428	5,427	6,223	26,651	24,107
Change (YoY %)	61.1	107.4	89.5	22.9	0.2	-1.0	-15.7	-19.2	61.2	-9.5

E: MOST Estimates

Hindustan Zinc

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HZ IN
	REUTERS CODE
S&P CNX: 4,942	HZNC.BO

28 March 2008

Buy

Rs536

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	422.5										
52-Week Range	969/507										
1,6,12 Rel. Perf. (%)	-11/-29/-30										
M.Cap. (Rs b)	226.7										
M.Cap. (US\$ b)	5.7										
	3/07A	85,602	44,418	105.1	201.7	5.1	3.0	58.2	78.8	2.1	2.8
	3/08E	73,268	40,027	94.7	-9.9	5.7	2.0	35.3	41.5	2.1	3.0
	3/09E	80,207	39,308	93.0	-1.8	5.8	1.5	26.3	33.8	1.6	2.3
	3/10E	89,228	44,948	106.4	14.3	5.0	1.2	23.6	28.2	0.9	1.5

Standalone

- During 4QFY08, we expect net sales to decrease 15.2% YoY to Rs17.1b due to lower zinc prices at the LME, rupee appreciation, and lower import duty.
- EBITDA is expected to decline 20.2% YoY to Rs11.2b and margins would contract 420bp to 65.1% due to falling realizations.
- Profit after tax is likely to decrease 5.4% YoY to Rs8.8b.
- Production of refined zinc metal is expected to increase 21% YoY to 115k tons in 4QFY08E and 26% YoY to 510k tons in FY09 due to full ramp up of the new 170k tpa smelter commissioned recently. Higher production of refined metal will correspondingly reduce sales volumes of zinc concentrate and improve product mix. We reiterate **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	16,100	24,410	24,800	20,210	19,700	19,840	16,580	17,148	85,602	73,268
Change (YoY %)	205.5	269.8	171.9	13.9	22.4	-18.7	-33.1	-15.2	120.8	-14.4
Total Expenditure	3,660	5,850	5,730	6,210	5,340	5,650	6,140	5,976	21,528	23,106
EBITDA	12,440	18,560	19,070	14,000	14,360	14,190	10,440	11,172	64,074	50,162
Change (YoY %)	465.5	535.6	270.3	11.2	15.4	-23.5	-45.3	-20.2	178.4	-21.7
As % of Net Sales	77.3	76.0	76.9	69.3	72.9	71.5	63.0	65.1	74.9	68.5
Interest	270	100	-110	20	70	60	60	85	284	275
Depreciation	370	370	370	450	450	490	540	450	1,566	1,930
Other Income	470	460	640	740	2,700	1,440	1,110	1,650	2,313	6,900
PBT (before EO item)	12,270	18,550	19,450	14,270	16,540	15,080	10,950	12,287	64,537	54,857
Extra-ordinary Income									-	-
PBT (after EO item)	12,270	18,550	19,450	14,270	16,540	15,080	10,950	12,287	64,537	54,857
Total Tax	3,530	5,570	6,100	4,920	4,690	3,600	3,100	3,440	20,119	14,830
% Tax	28.8	30.0	31.4	34.5	28.4	23.9	28.3	28.0	31.2	27.0
Reported PAT	8,740	12,980	13,350	9,350	11,850	11,480	7,850	8,847	44,418	40,027
Adjusted PAT	8,740	12,980	13,350	9,350	11,850	11,480	7,850	8,847	44,418	40,027
Change (YoY %)	502.8	562.2	305.8	16.6	35.6	-11.6	-41.2	-5.4	201.7	-9.9

E: MOST Estimates

Jindal Steel & Power

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	JSP IN
	REUTERS CODE
S&P CNX: 4,942	JNSP.BO

28 March 2008

Buy

Rs2,219

Previous Recommendation: Buy

Equity Shares (m)	154
52-Week Range	3,356/445
1,6,12 Rel. Perf. (%)	2/119/342
MCap. (Rs b)	341.6
MCap. (US\$ b)	8.5

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
3/07A	35,198	7,028	228.2	22.6	66.5	18.9	28.4	16.6	14.3	35.8
3/08E	55,635	11,196	363.6	59.3	41.7	13.2	31.6	22.5	9.0	22.9
3/09E	63,602	12,488	405.6	11.5	37.4	9.9	26.4	21.4	7.9	21.0
3/10E	84,264	18,111	588.2	45.0	25.8	7.2	28.0	21.2	6.1	15.7

Standalone

- During 4QFY08, we expect net sales to grow 48.6% YoY to Rs15.7b, driven by volume growth in steel business.
- EBITDA is likely to increase 51.2% YoY to Rs5.9b. Interest expenses will increase due to the impact of capex. Post-tax adjusted profit is likely to move up 54.3% YoY to Rs3.1b.
- The first module of 250MW of JPL's 1,000MW project has already started and remaining 3 modules will be completed by July 2008. JSPL has further ordered 1,620MW captive power for its Raigarh and Orissa sites.
- We have revised our consolidated EPS by 6% to Rs175 for FY09E and by 18.5% to Rs247 for FY10E, factoring the stronger steel prices and power tariff on merchant sales. Strong growth in steel business and JSPL's plans to grow its power business aggressively will continue to re-rate the stock. Our SOTP valuation is Rs3,425. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	6,662	7,896	10,101	10,539	12,231	12,690	13,956	15,664	35,198	54,541
Change (YoY %)	5.8	27.1	61.6	56.5	83.6	60.7	38.2	48.6	35.9	55.0
Total Expenditure	3,413	4,812	6,327	6,622	7,440	7,284	8,633	9,743	21,174	33,098
EBITDA	3,249	3,085	3,773	3,917	4,792	5,407	5,324	5,921	14,024	21,443
Change (YoY %)	21.7	18.5	64.5	45.8	47.5	75.3	41.1	51.2	39.3	52.9
As % of Net Sales	48.8	39.1	37.4	37.2	39.2	42.6	38.1	37.8	39.8	39.3
Interest	558	330	363	250	621	791	500	506	1,503	2,417
Depreciation	621	642	919	1,183	1,115	1,178	1,188	1,101	3,365	4,581
Other Income	32	33	24	201	96	29	118	58	290	301
PBT (before EO item)	2,103	2,145	2,516	2,685	3,152	3,467	3,754	4,372	9,446	14,745
Extra-ordinary Income					250				2	250
PBT (after EO item)	2,103	2,145	2,516	2,685	3,402	3,467	3,754	4,372	9,448	14,995
Total Tax	572	573	617	657	901	692	564	1,243	2,419	3,400
% Tax	27.2	26.7	24.5	24.5	26.5	20.0	15.0	28.4	25.6	22.7
Reported PAT	1,531	1,572	1,899	2,028	2,501	2,775	3,191	3,129	7,030	11,595
Adjusted PAT	1,531	1,572	1,899	2,028	2,317	2,775	3,191	3,129	7,028	11,402
Change (YoY %)	1.9	8.0	50.1	34.6	51.4	76.5	68.0	54.3	22.6	62.2

E: MOST Estimates

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JSW Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	JSTL IN
	REUTERS CODE
S&P CNX: 4,942	JSTL.BO
Equity Shares (m)	200.8
52-Week Range	1,390/461
1,6,12 Rel. Perf. (%)	-16/2/47
MCap. (Rs b)	164.5
MCap. (US\$ b)	4.1

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs819

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	85,944	12,340	71.7	90.5	11.4	2.6	23.0	21.0	2.0	6.5
3/08E	113,229	15,588	90.6	26.3	9.0	2.1	23.2	14.6	2.0	7.2
3/09E	188,995	20,247	117.7	29.9	7.0	1.7	24.2	14.9	1.5	5.7
3/10E	240,980	28,248	152.1	29.2	5.4	1.3	23.9	16.2	1.3	5.0

Consolidated

- ✎ We expect net sales to grow 23.9% YoY to Rs30.9b. We expect volume growth of 6.5% YoY while realizations would grow 16.3% YoY.
- ✎ EBITDA is likely to grow 6.5% YoY to Rs8.6b. Margins would decline 450bp YoY to 27.6% due to mounting raw material cost pressures. PAT should grow 11.9% YoY to Rs4.2b.
- ✎ We have revised our earnings estimate downward by 7% to Rs117.6 for FY09 after factoring in higher steel prices and increased coal and iron ore costs. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales (tons)	543,000	656,000	688,000	784,000	635,000	730,000	775,000	835,000	2,672,759	2,975,000
Change (YoY %)	21.5	15.7	33.1	33.0	16.9	11.3	12.6	6.5	26.2	11.3
Realisation (Rs per ton)	28,902	33,454	33,452	31,869	34,500	32,644	33,072	37,069	32,042	34,394
Change (YoY %)	-16.1	23.1	13.9	18.6	19.4	-2.4	-1.1	16.3	9.8	7.3
Net Sales	15,694	21,946	23,015	24,985	21,907	23,830	25,631	30,953	85,640	102,321
Change (YoY %)	2.0	42.5	51.6	57.8	39.6	8.6	11.4	23.9	38.6	19.5
Total Expenditure	11,136	14,983	15,318	16,954	14,428	17,046	18,712	22,400	58,390	72,585
EBITDA	4,558	6,963	7,697	8,032	7,479	6,784	6,919	8,553	27,250	29,736
Change (YoY %)	-6.9	86.2	83.4	100.2	64.1	-2.6	-10.1	6.5	-40.2	9.1
As % of Net Sales	29.0	31.7	33.4	32.1	34.1	28.5	27.0	27.6	31.8	29.1
EBITDA (Rs per ton)	8,394	10,614	11,188	10,245	11,778	9,293	8,928	10,243	10,196	9,995
Interest	887	967	1,107	1,016	860	681	953	1,100	3,978	3,593
Depreciation	1,025	1,164	1,295	1,498	1,322	1,354	1,698	1,686	4,982	6,060
Other Income	16	84	64	245	215	1,247	351	650	409	2,462
PBT (before EO Item)	2,662	4,915	5,360	5,762	5,512	5,996	4,620	6,417	18,699	22,545
EO Items	0	0	0	447	620	1,111	0	0	447	1,731
PBT (after EO Item)	2,662	4,915	5,360	6,209	6,132	7,107	4,620	6,417	19,146	24,276
Total Tax	959	1,452	1,738	2,077	1,854	1,995	1,338	2,135	6,226	7,322
% Tax	36.0	29.5	32.4	33.4	30.2	28.1	29.0	33.3	32.5	30.2
Reported PAT	1,703	3,463	3,622	4,133	4,278	5,112	3,282	4,282	12,920	16,954
Preference Dividend	70	70	70	70	70	70	70	70	279	279
Adjusted PAT	1,633	3,393	3,552	3,765	3,775	4,243	3,212	4,212	12,339	15,466
Change (YoY %)	-18.5	219.2	146.6	143.5	131.2	25.1	-9.6	11.9	-63.2	25.3

E: MOST Estimates

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Nalco

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	NACL IN
	REUTERS CODE
S&P CNX: 4,942	NALU.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs463

Equity Shares (m)	644.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	547/222	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/59/73	3/07A	59,402	23,926	37.1	55.1	12.5	3.9	31.1	38.9	4.4	7.4
MCap. (Rs b)	298.2	3/08E	49,495	17,216	26.7	-28.0	17.3	3.4	19.4	21.4	5.5	11.8
MCap. (US\$ b)	7.5	3/09E	55,983	22,405	34.8	30.1	13.3	2.8	21.2	26.1	4.8	8.4
		3/10E	70,162	27,739	43.1	23.8	10.8	2.3	21.7	27.8	3.5	6.0

Standalone

- ✎ We expect net sales to decline 12.8% YoY to Rs13.7b. Revenue from the chemicals segment is expected to increase 15% YoY due to higher alumina prices. Revenue from the aluminum segment is expected to decline 10% YoY, owing to rupee appreciation by 10% YoY.
- ✎ EBITDA is expected to decline 23.6% YoY to Rs6.7b primarily on account of weak metal prices. Profit after tax is likely to decline 14.4% YoY to Rs5.1b.
- ✎ We are revising our EPS estimate for FY09E to Rs34.8 (earlier Rs30.6) and for FY10E to Rs43.1 (earlier Rs38.1) factoring higher aluminum prices at the LME of US\$2,750/ton (against the earlier US\$2,500/ton), owing to the improved outlook for the metal due to supply constraints.
- ✎ The stock is now trading at 13.3x FY09E EPS. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	14,855	14,416	14,486	15,668	11,652	13,082	11,093	13,668	59,425	49,495
Change (YoY %)	51.8	37.7	9.3	1.9	-21.6	-9.3	-23.4	-12.8	21.6	-16.7
Total Expenditure	5,512	5,665	6,037	6,870	5,488	7,397	6,693	6,950	24,083	26,528
EBITDA	9,344	8,751	8,449	8,798	6,164	5,685	4,401	6,718	35,341	22,967
Change (YoY %)	90.9	90.7	27.2	-9.3	-34.0	-35.0	-47.9	-23.6	36.8	-35.0
As % of Net Sales	62.9	60.7	58.3	56.2	52.9	43.5	39.7	49.1	59.5	46.4
Interest	0	0	0	0	1	6	0	0	0	7
Depreciation	787	771	744	819	692	683	662	698	3,121	2,735
Other Income	834	1,014	978	1,199	1,310	1,644	1,380	1,634	4,025	5,967
PBT (before EO Item)	9,391	8,994	8,684	9,178	6,782	6,639	5,118	7,653	36,246	26,192
Extra-ordinary Exp.									-170	0
PBT (after EO Item)	9,391	8,994	8,684	9,178	6,782	6,639	5,118	7,653	36,076	26,192
Total Tax	3,168	3,044	2,958	3,270	2,315	2,242	1,824	2,596	12,440	8,976
% Tax	33.7	33.8	34.1	35.6	34.1	33.8	35.6	33.9	34.5	34.3
Reported PAT	6,223	5,950	5,726	5,908	4,467	4,397	3,294	5,057	23,636	17,216
Change (YoY %)	121.8	110.2	45.7	-2.8	-28.2	-26.1	-42.5	-14.4	50.8	-27.5

E: MOST Estimates

Sterlite Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	STLT IN
	REUTERS CODE
S&P CNX: 4,942	STRL.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs756

Equity Shares (m)	708.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,140/415	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-3/6/35	3/07A	243,868	45,005	80.6	34	9.4	4.3	45.8	48.7	1.7	4.4
M.Cap. (Rs b)	535.9	3/08E	239,592	40,198	56.7	-30	13.3	2.4	18.3	21.7	1.6	5.2
M.Cap. (US\$ b)	13.6	3/09E	264,662	43,970	62.0	9	12.2	2.1	17.0	20.2	1.3	4.2
		3/10E	277,561	41,558	58.6	-5	12.9	1.8	13.8	16.4	1.0	3.5

Consolidated

- ☞ We expect net sales to decline 3.7% YoY to Rs60.2b, due to fall in zinc prices at the LME, rupee appreciation, and falling TcRc margins in the copper business.
- ☞ EBITDA is expected to decline 24% YoY and the margin would contract 760bp to 28.7%.
- ☞ Profit after tax is likely to decrease 18.2% YoY to Rs9.4b.
- ☞ The stock trades at an EV of 4.2x FY09E EBITDA. We have revised our EPS estimates upward marginally by 3.3% for FY09E and 3.5% for FY10E due to the change in aluminum price assumption to US\$2750/ton (earlier US\$2500/ton). Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	46,030	67,180	68,143	62,516	61,391	65,671	52,332	60,197	243,868	239,592
Change (YoY %)	146.3	153.8	94.1	22.6	33.4	-2.2	-23.2	-3.7	86.1	-1.8
Total Expenditure	27,531	41,434	40,515	39,799	39,830	46,013	36,616	42,947	149,280	165,406
EBITDA	18,499	25,746	27,628	22,716	21,561	19,658	15,717	17,250	94,589	74,186
Change (YoY %)	379.1	392.4	215.7	19.3	16.6	-23.6	-43.1	-24.1	156.5	-21.6
As % of Net Sales	40.2	38.3	40.5	36.3	35.1	29.9	30.0	28.7	38.8	31.0
Interest	898	1,163	856	874	955	643	681	300	3,791	2,578
Depreciation	1,834	1,871	1,888	2,446	2,031	2,046	2,142	1,941	8,039	8,160
Other Income	1,355	1,112	1,864	2,485	3,501	3,233	3,009	3,377	6,817	13,120
PBT (before XO item)	17,122	23,825	26,749	21,881	22,076	20,202	15,904	18,387	89,576	76,569
Extra-ordinary Exp.	(122)	(1,362)	(25)	(63)	-	-	-	-	(1,572)	-
PBT (after XO item)	17,000	22,463	26,724	21,818	22,076	20,202	15,904	18,387	88,004	76,569
Total Tax	4,790	6,862	7,763	4,702	5,247	4,465	4,138	4,317	24,118	18,166
% Tax	28.2	30.6	29.0	21.5	23.8	22.1	26.0	23.5	27.4	23.7
Reported PAT	12,209	15,600	18,960	17,117	16,829	15,737	11,766	14,070	63,887	58,402
Minority interest	3,419	4,890	6,030	5,683	5,400	4,911	3,213	4,680	20,023	18,204
Adjusted PAT	8,878	11,656	12,948	11,483	11,429	10,826	8,553	9,390	45,005	40,198
Change (YoY %)	435.7	348.2	226.3	41.0	28.7	-7.1	-33.9	-18.2	168.5	-10.7

E: MOST Estimates

Steel Authority of India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	SAIL IN
	REUTERS CODE
S&P CNX: 4,942	SAIL.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs198

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	4,130.4	3/07A	343,331	62,135	15.0	54.5	13.1	4.7	36.2	42.7	2.2	8.1
52-Week Range	293/106	3/08E	399,117	84,264	20.4	35.6	9.7	3.4	34.9	45.5	1.7	5.3
1,6,12 Rel. Perf. (%)	-14/1/53	3/09E	467,569	95,874	23.2	13.8	8.5	2.5	29.7	39.6	1.4	4.7
MCap. (Rs b)	816	3/10E	490,948	101,309	24.5	5.7	8.1	2.0	24.7	33.8	1.4	4.6
MCap. (US\$ b)	20.5											

Standalone

- ✍ We expect net sales to grow 28.3% YoY to Rs131.8b driven by 16.5% growth in average realization and 10.1% growth in sales volume.
- ✍ EBITDA margin is likely to expand 760bp YoY to 38.3%, driven largely by strong growth in volumes and higher realizations.
- ✍ Post-tax adjusted profit is likely to increase 64.3% YoY to Rs32.7b.
- ✍ SAIL remains insulated from iron ore prices due to its captive mines. We expect re-rating of the stock to continue due to its US\$12b capex plan, with full iron ore security, which would expand margins, improve product mix, and deliver strong volume growth in the next 3-5 years. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales (m tons)	2.47	2.95	3.01	3.45	2.53	3.00	3.01	3.80	11.88	12.34
Change (YoY %)	31.0	5.1	8.6	-10.3	2.4	1.8	-0.1	10.1	5.1	3.9
Realization (Rs per ton)	27,766	28,976	28,325	29,763	31,777	30,545	31,672	34,672	28,788	32,343
Change (YoY %)	-7.2	12.5	24.1	24.2	14.4	5.4	11.8	16.5	13.0	12.4
Net Sales	68,583	85,391	85,371	102,681	80,395	91,635	95,333	131,754	342,025	399,117
Change (%)	21.6	18.3	34.8	11.4	17.2	7.3	11.7	28.3	18.8	16.7
EBITDA	17,803	23,333	26,226	31,566	23,829	26,293	29,834	50,401	98,928	130,356
Change (YoY %)	-10.8	18.9	91.1	108.2	33.8	12.7	13.8	59.7	44.5	31.8
As % of Net Sales	26.0	27.3	30.7	30.7	29.6	28.7	31.3	38.3	28.9	32.7
EBITDA per ton	7,208	7,918	8,701	9,149	9,418	8,764	9,912	13,263	8,327	10,564
Interest	937	924	906	555	796	594	598	800	3,321	2,788
Depreciation	2,959	3,035	3,299	2,822	3,012	3,012	3,160	3,682	12,115	12,866
Other Income	1,513	2,261	2,231	2,388	3,069	3,043	3,143	3,494	8,392	12,750
PBT (before EO Inc.)	15,421	21,635	24,252	30,577	23,090	25,730	29,219	49,414	91,884	127,452
EO Income(exp)	5,582		-1,910	-1,330					2,342	
PBT (after EO Inc.)	21,002	21,635	22,342	29,247	23,090	25,730	29,219	49,414	94,226	127,452
Total Tax	7,138	7,207	7,630	10,228	7,839	8,726	9,873	16,751	32,203	43,188
% Tax	34.0	33.3	34.2	35.0	33.9	33.9	33.8	33.9	34.2	33.9
Reported PAT	13,864	14,428	14,712	19,019	15,251	17,004	19,347	32,662	62,023	84,264
Adjusted PAT	10,179	14,428	15,969	19,884	15,251	17,004	19,347	32,662	60,481	84,264
Change (YoY %)	-9.6	28.0	133.3	80.2	49.8	17.9	21.1	64.3	50.7	39.3

E: MOST Estimates; Quarterly results don't add up with full year results due to restating of past quarter results.

Tata Steel

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TATA IN
	REUTERS CODE
S&P CNX: 4,942	TISC.BO

28 March 2008

Buy

Rs717

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	822.4										
52-Week Range	970/352										
1,6,12 Rel. Perf. (%)	-5/1/57										
M.Cap. (Rs b)	589.4										
M.Cap. (US\$ b)	14.6										
	3/07A	251,197	42,786	70.2	3.1	10.2	2.8	27.9	31.8	1.6	5.6
	3/08E	1,284,994	68,131	82.8	18.0	8.7	1.3	14.5	15.3	0.7	5.2
	3/09E	1,464,866	94,020	114.3	38.0	6.3	1.1	17.2	17.4	0.6	4.5
	3/10E	1,492,812	105,617	128.4	12.3	5.6	0.9	16.7	17.2	0.6	4.1

Consolidated

- ☞ We expect standalone net sales to increase 8.4% YoY to Rs54b, driven by 5.9% YoY growth in realizations and 1.5% YoY growth in volumes.
- ☞ We expect consolidated EPS to grow at a CAGR of 22.3% during FY07-10, driven by overall volume growth in India.
- ☞ Expansion to 6.8m tpa at Jamshedpur is expected by June 2008 and will deliver 20% volume growth in FY09 for Indian operations. Number of price increases since January 2008 will result in expansion of margins as cost increases will be few due to iron ore and coking coal integration. Corus too has announced several price hikes to cover increase in costs and the performance improvement program is expected to deliver a benefit of GBP300m in CY08. Lower interest due to repaying of bridge loan through the proceeds of rights issue will drive bottomline.
- ☞ The stock trades at an EV of 4.5x FY09E EBITDA – at a substantial discount to Indian peers. We reiterate **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Standalone Financials										
Sales (000 tons)	1,115	1,184	1,234	1,261	1,041	1,218	1,244	1,280	4,794	4,783
Change (YoY %)	27.4	0.4	11.5	0.4	-6.6	2.9	0.7	1.5	8.5	-0.2
Realisation (Rs per ton)	31,133	31,656	32,236	35,135	36,665	35,280	35,201	37,200	32,599	36,075
Change (YoY %)	-10.1	6.0	8.5	21.8	17.8	11.4	9.2	5.9	6.9	10.7
Net Sales	39,159	41,858	44,700	49,804	41,976	47,851	49,739	53,972	175,520	193,538
Change (YoY %)	13.0	8.3	21.4	20.6	7.2	14.3	11.3	8.4	15.9	10.3
EBITDA	15,813	17,048	17,836	19,035	16,992	20,254	20,966	24,442	69,733	82,655
Change (YoY %)	-0.4	3.2	28.2	46.3	7.5	18.8	17.5	28.4	17.6	18.5
(% of Net Sales)	40.4	40.7	39.9	38.2	40.5	42.3	42.2	45.3	39.7	42.7
EBITDA(Rs/tss)	12,871	13,236	13,398	13,977	15,204	15,220	15,023	17,311	13,387	16,126
Interest	293	478	520	448	800	2,022	3,627	1,524	1,739	7,972
Depreciation	1,951	1,957	1,991	2,294	2,112	2,050	2,092	2,240	8,193	8,495
Other Income	779	1,772	987	798	1,461	943	670	798	4,337	3,872
PBT (after EO Inc.)	14,164	15,943	15,820	16,690	19,025	17,466	15,747	21,118	62,617	73,356
Total Tax	4,630	4,928	5,183	5,655	6,804	5,558	5,061	7,225	20,395	24,648
% Tax	32.7	30.9	32.8	33.9	35.8	31.8	32.1	34.2	32.6	33.6
Reported PAT	9,534	11,015	10,638	11,035	12,221	11,908	10,686	13,893	42,222	48,708
Adjusted PAT	9,658	11,321	10,969	11,300	9,983	11,676	10,802	14,129	43,247	46,520
Change (YoY %)	2.3	6.3	41.9	48.6	3.4	3.1	-1.5	25.0	22.1	7.6
Consolidated Financials										
Net Sales	57,641	60,083	59,712	74,697	311,542	324,249	318,985	330,217	251,197	1,284,994
EBITDA	17,414	18,504	18,905	19,679	49,043	47,227	39,428	45,340	74,502	181,039
Adjusted PAT	10,318	11,696	10,872	9,894	20,406	18,412	13,350	20,766	42,782	68,131

E: MOSt Estimates; tss=ton of steel sales; Exchange rate assumed GBP=1.98 USD, USD=40.4 INR

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Oil & Gas

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.	
BPCL	208	<p>Very high oil prices hurting downstream companies</p> <p>YoY comparative (v/s 4QFY07)</p> <ul style="list-style-type: none"> ✂ Brent up by 66% at US\$96.7/bbl v/s US\$58.1/bbl; Dubai crude up 64% at US\$91.3/bbl v/s US\$55.6/bbl. ✂ Benchmark Singapore complex refining margins flat: US\$6.9/bbl (v/s US\$6.8/bbl in 4QFY07) ✂ Declined petrochemical (excl. MEG) spreads over naphtha Polymers; PE down 9%; PP down 15%; Polyester intermediates: PTA down 44%; and MEG up 25%; Integrated polyesters down: POY down 18%, PSF down 29%; <p>QoQ comparative (v/s 3QFY08)</p> <ul style="list-style-type: none"> ✂ Brent up by 9% from US\$89/bbl; Dubai up by 10% from US\$83/bbl. ✂ Singapore complex margins down 10% from US\$7.7/bbl in 3QFY08. ✂ Mixed trend in petrochemical spreads over naphtha; Polymers: PE up 3.5%; PP up 3.3%; Polyester intermediates: PTA down 13%; MEG down 22%; Integrated polyesters: POY down 14% and PSF down 18%. <p>Factors to watch for</p> <ul style="list-style-type: none"> ✂ Key data to watch for apart from global oil prices would be quantum of oil bonds for Oil Marketing Companies. Underrecoveries for OMCs have ballooned and retail price hike is very marginal. ✂ The government has indicated that the quantum of oil bonds would increase from 42.7% to 57%. As the quantum for first three quarters has already been decided, we assume 57% sharing would commence from 4QFY08. However, if the 57% formula is applied for full FY08, oil bonds issuance for 4QFY08 could be much higher, and will be positive for PSU OMCs.
Cairn India	209	
Chennai Petroleum	210	
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HPCL	212	
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MRPL	215	
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EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Oil & Gas							
BPCL	Buy	302,273	25.3	7,312	-42.6	3,465	-48.3
Cairn India	Buy	3,119	31.9	2,335	58.6	1,047	178.8
Chennai Petroleum	Buy	78,787	39.4	4,127	2.7	2,248	18.9
GAIL	Buy	43,754	12.7	10,010	66.2	7,020	106.0
HPCL	Buy	315,268	44.3	5,397	-47.4	2,639	-52.0
Indraprastha Gas	Not Rated	1,981	20.6	848	19.2	477	19.2
IOC	Buy	702,750	32.9	37,120	-24.3	27,047	-4.1
MRPL	Sell	97,117	42.9	5,415	-7.3	2,890	58.9
ONGC	Buy	146,827	18.4	78,484	46.1	42,754	59.4
Reliance Inds.	Buy	349,480	27.3	57,643	11.5	38,177	21.0
Sector Aggregate		2,041,356	31.3	208,690	6.8	127,765	19.8

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Heated oil prices: Crossed US\$110/bbl in 4QFY08

4QFY08 highlights

- ✂ Brent up 66% YoY at US\$96.7/bbl (v/s US\$58.1/bbl in 4QFY07)
- ✂ Brent up by 9% QoQ (v/s US\$89/bbl in 3QFY08)

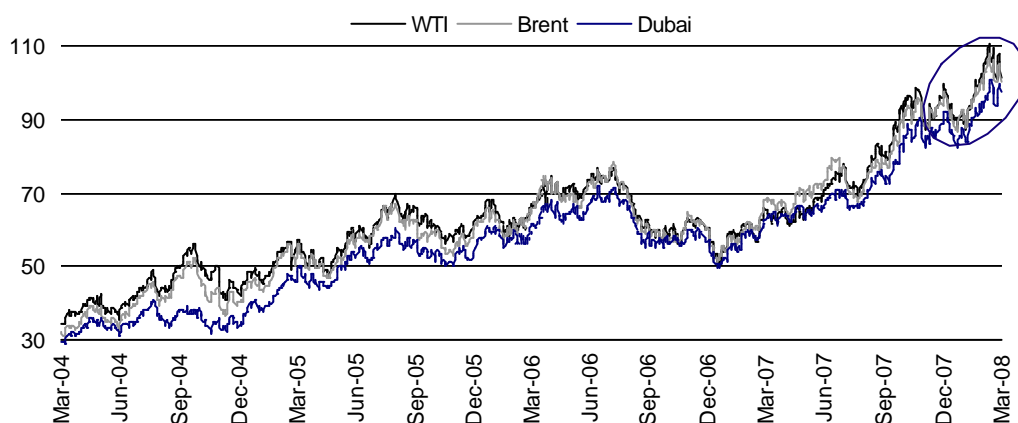
Crude oil prices continued their northward journey in the quarter. The WTI spot prices crossed the US\$100/bbl mark in mid-Feb. OPEC at its Vienna meeting highlighted that economic slowdown in the USA, together with the deepening credit crisis in financial markets, is increasing the downside risks for world economic growth and, consequently, demand for crude oil. Thus OPEC decided not to increase production. Prices further fuelled upward post the OPEC meeting, reaching record high levels of above US\$110/bbl by mid-March. Though prices declined in third week of March to US\$100/bbl, the prices again firmed up in last week as inventory levels in the US fell below expected levels.

Structural problems reflected by low surplus capacity, combined with geo-political concerns in several oil exporter countries are continuing to put upward pressure on oil prices. In addition, depreciation of the dollar over last one year and increased capital flows into commodity markets are also playing an increased role in increasing oil prices.

Despite the very high prices, demand growth continues. In its latest projections IEA has revised down its demand forecast for 2008 only marginally by 80kbb/d to 87.5mmbbl/d reflecting a growth of 1.7mmbbl/d (2%).

With marginal cost of production in non-OPEC areas reaching the levels of US\$50-70/bbl, non-OPEC incremental production not able to meet incremental demand, and OPEC's continuing stance of not raising supplies, we believe that oil prices will continue to remain at high levels in the short to medium term.

HIGH AND RISING OIL PRICES (US\$/BBL):



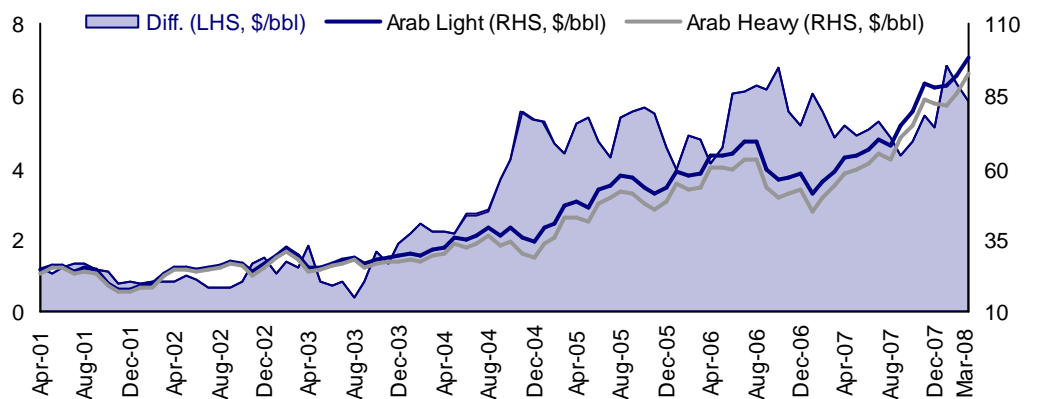
Source: Bloomberg/Motilal Oswal Securities

Light – Heavy differentials firmed up

With rising oil prices, the light-heavy oil differential also firmed up during 4QFY08. Arab Light Heavy differential at US\$6.3/bbl was up 24% QoQ (US\$5.1 in 3QFY08) and 16% YoY (US\$5.5/bbl in 4QFY07). With expected commissioning of nearly 1.2 to 1.5mmbbl/day of refining capacity over next 6-8 months, most of which is skewed toward processing heavies and sour (including RPL’s refinery) we would expect some moderation in differential in forthcoming quarters.

ARAB LIGHT – HEAVY DIFFERENTIALS (US\$/BBL)

Light heavy differentials increased during the quarter; though slightly declined towards end

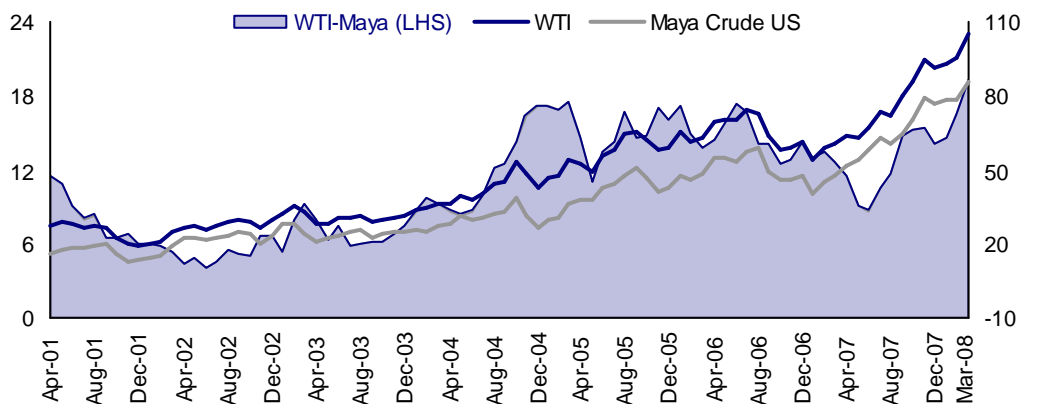


Source: Bloomberg/Motilal Oswal Securities

WTI-Maya (Sweet –Sour) spreads continued their uptrend since July 2007

WTI-Maya spreads, which saw their recent lows in June 2007, have continued their upward trend. The spread at US\$16.8/bbl were up 12% QoQ (from US\$15/bbl in 3QFY08) and up 28% YoY (US\$13.1/bbl in 4QFY07).

WTI - MAYA DIFFERENTIAL (US\$/BBL)



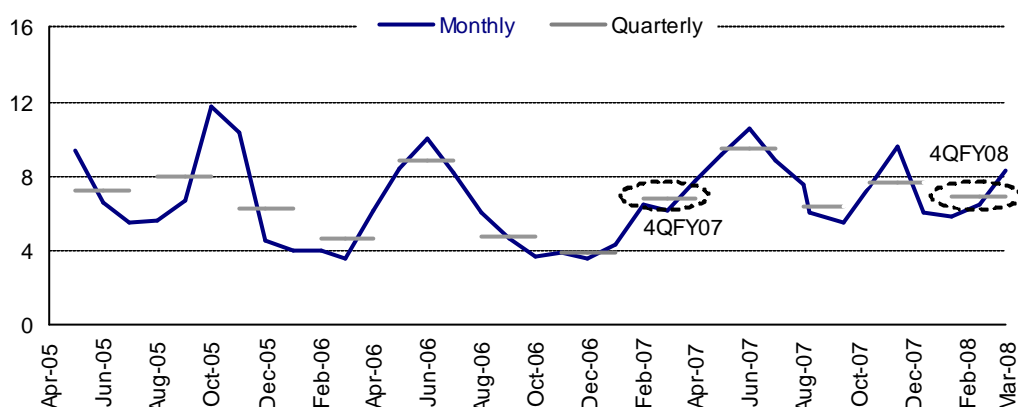
Source: Bloomberg/Motilal Oswal Securities

Refining margins: Declined QoQ, flat YoY

4QFY08 highlights

- ⌘ Benchmark Singapore complex refining margins at US\$6.9/bbl were flat YoY (v/s US\$6.8/bbl in 4QFY07)
- ⌘ QoQ down by 10% (v/s US\$7.7/bbl in 3QFY08)

SINGAPORE REFINING MARGINS (US\$/BBL)



Source: Industry/Motilal Oswal Securities

Refining margins were rather subdued in January and early February, driven by rising gasoline stocks in the US and comparatively warm weather in Europe and Japan. Even Asian margins were down as Chinese imports declined from their December/January highs.

But margins took an upward trend in mid-February driven by strong middle distillate and jet/kerosene demand. Middle distillate cracks reached new peaks on weather related demand and tight supplies. Crack margins for gasoline continue to remain subdued with record high gasoline inventories in US and excess production in Europe.

Late surge in middle-distillate cracks implied that overall Singapore complex margins declined only 10% QoQ to US\$6.9/bbl from US\$7.7/bbl. On a YoY basis the margins remained flat.

Overall Singapore region GRMs continue to remain significantly higher than historic averages of US\$6.1/bbl for five years, US\$3.8/bbl for 10 years and US\$3.6/bbl for 15 years. With a large chunk of new capacity (1.2 to 1.5mmbbl/day) coming online over next few quarters, we would expect some moderation in refining margins in the coming quarters.

Increased fuel underrecoveries; despite fuel price hikes

With record high prices of crude oil, the gross underrecoveries of PSU oil marketing companies have further ballooned. We expect gross underrecoveries for 4QFY08 at Rs304b, up 43% QoQ from already very high levels of Rs213b in 3QFY08. Though, there was a retail price hike announcement effective 15 February, but the announced hike (Rs2/liter on

petrol, and Re1/liter on diesel) were woefully short of what was required. For FY08 we estimate total fuel underrecoveries to increase 58% YoY to Rs780b from Rs494b in FY07.

There were no significant announcements in the budget also. With burgeoning underrecoveries on account of large underrecoveries, there was a need for duties reduction both on crude oil and petroleum products. However, it being a populist budget in view of forthcoming elections, nothing significant to reduce the problem was announced. The announced change of excise duty rationalization from ad-valorem to specific was revenue neutral.

FUEL UNDER-RECOVERIES (POST GOI SUBSIDY) - (RS M)

	FY07A	1QFY08A	2QFY08A	3QFY08A	4QFY08E	FY08E
Petrol	20,270	15,530	10,850	19,260	33,956	79,596
Diesel	187,758	46,330	52,780	102,440	158,810	360,360
LPG	107,011	26,980	29,100	38,510	51,783	146,373
SKO	178,827	40,280	41,780	52,350	59,465	193,875
Total	493,866	129,120	134,510	212,560	304,014	780,204

Source: Industry/Motilal Oswal Securities

Clarity on subsidy sharing formula likely post 4Q oil bonds issue

At the time of retail price hike in February, GoI had also indicated that oil bonds sharing would increase from earlier 42.7% to 57%. However, there is still no clarity that the 57% oil bond issue will be for only 4QFY08 or for full year FY08. As the oil bonds quantum for first 3 quarters are already announced (based on 42.7% formula, we assume that 57% oil bond sharing at 57% would commence only from 4QFY08. We expect that upstream sharing will continue to remain at one-thirds levels.

Net underrecovery for PSU OMCs will drastically decline from earlier 24% to just 10% in 4QFY08, as the 57% oil bond formula is applied.

SHARING OF UNDER RECOVERIES ASSUMING 57% OIL BONDS ONLY FOR 4QFY08

	FY07A	SHARING %	9MF08A	SHARING	4QFY08E	SHARING	FY08E	SHARING%
Oil Bonds	241,207	48.8	203,328	42.7	173,288	57.0	376,616	48.3
Upstream	205,069	41.5	158,726	33.3	101,334	33.3	260,059	33.3
OMC' s sharing	47,590	9.6	114,137	24.0	29,392	9.7	143,529	18.4
Total	493,866	100.0	476,190	100	304,014	100	780,204	100.0

Source: Industry/Motilal Oswal Securities

57% sharing for full FY08 will be even more positive for OMCs

If government decides to issue oil bonds to the extent of 57% for full year FY08, quantum of oil bonds will increase significantly. Also OMC' s sharing of fuel under recoveries will decline from 18% to 9.7% for full year FY08. Thus, OMCs will have a gain of Rs39b in 4QFY08 v/s underrecovery of Rs29b if 57% bonds are issued only for 4QFY08. We do not build this scenario in our estimates for OMCs.

SHARING ASSUMING 57% OIL BONDS FOR FULL YEAR FY08 (RS M)

	FY07	SHARING %	1QFY08	2QFY08	3QFY08	4QFY08E	FY08E	SHARING%
Oil Bonds	241,207	48.8	0	112,564	90,764	241,388	444,716	57.0
Upstream	205,069	41.5	43,040	44,831	70,855	101,334	260,059	33.3
OMC' s sharing	47,590	9.6	86,081	-22,885	50,941	-38,708	75,429	9.7
Total	493,866	100.0	129,120	134,510	212,560	304,014	780,204	100.0

Source: Industry/Motilal Oswal Securities

Higher oil bonds sharing to benefit OMCs

OMCs' combined average quarterly net underrecoveries for the first three quarters were at Rs38b. Despite the 43% higher gross underrecoveries in 4Q, we estimate OMCs' total net underrecoveries for 4Q will be much lower at Rs29b. However, for full year FY08 OMCs burden will triple at Rs144b from Rs48b in FY07.

NET UNDER-RECOVERIES OF OMCS (RS M)

	FY07	1QFY08	2QFY08	3QFY08	4QFY08E	FY08	YOY CHANGE	
							RS M	(%)
IOC	27,539	48,097	-12,694	28,214	16,054	79,672	52,133	189.3
BPCL	10,355	19,614	-5,108	12,044	7,149	33,700	23,345	225.4
HPCL	9,696	18,369	-5,084	10,687	6,189	30,161	20,465	211.1
Total	47,590	86,080	-22,885	50,946	29,392	143,533	95,943	201.6

Source: Industry/Motilal Oswal Securities

Lower increase in upstream discounts vis a vis overall under recoveries

Despite 58% increase in overall under recoveries we estimate upstream sharing to increase only by 27% from Rs205b in FY07 to Rs260b, primarily due to higher sharing of 42% by upstream companies in FY07.

SHARING BY UPSTREAM COMPANIES (RS M)

	FY07A	1QFY08	2QFY08	3QFY08	4QFY08E	FY08	YOY CHANGE	
							RS M	(%)
ONGC	170,252	36,490	37,990	60,800	87,996	223,276	53,024	31.1
OIL	19,938	3,830	4,241	6,380	8,839	23,290	3,353	16.8
GAIL	14,880	2,720	2,600	3,675	4,499	13,494	-1,386	-9.3
Total	205,069	43,040	44,831	70,855	101,334	260,060	54,991	26.8

Source: Industry/Motilal Oswal Securities

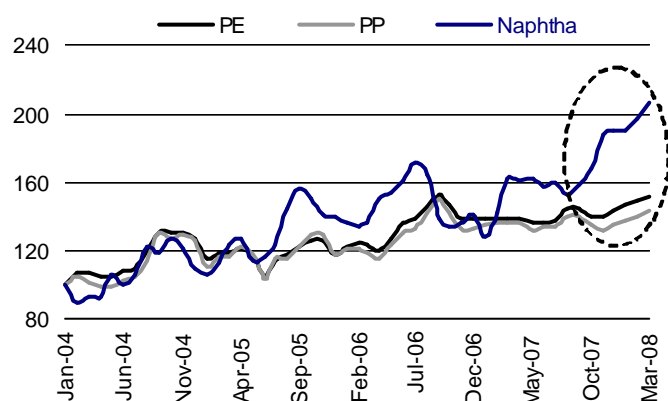
Petrochemical: Continued pressure due to higher naphtha prices

Most key petrochemical product spreads remain negatively impacted due to high oil price environment. Naphtha prices continued upward trajectory of last 3-4 quarters led by high crude prices. In rupee terms, naphtha prices increased 9% QoQ and 37% YoY.

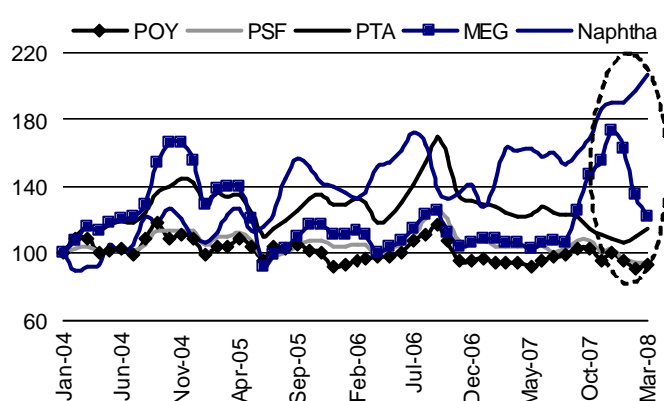
In the recent budget, government corrected an earlier anomaly by introducing an import duty of 5% on naphtha imports for petrochemical production. Earlier custom duty exemption on naphtha was encouraging integrated refining and petrochemical players to export naphtha from refineries and import naphtha for petrochemical consumption. This measure will be marginally negative for RIL.

MEG prices have been extremely volatile in the last two quarters with prices peaking by end of 3QFY08 due to supply side glitches. With supplies restoring during the quarter, MEG prices saw a sharp 12% downward correction during the quarter.

RELATIVE PRICES - NAPHTHA V/S POLYMERS



RELATIVE PRICES - NAPHTHA V/S POLYESTER CHAIN



Source: Industry/ Motilal Oswal Securities

Domestic prices of key polymers were up 5-6% QoQ and 4-12% YoY. However, naphtha prices saw much higher increase of 9% QoQ and 37% YoY. Thus we estimate polymer spreads to marginally increase by 3-4% QoQ and decline by 9-15% YoY.

Domestic prices of polyester declined QoQ (POY 6%, PSF 8%) and YoY (POY 2%, PSF 9%). Among the intermediates PTA prices were down 1% QoQ and 13% YoY. The prices of MEG which had shot up in 3QFY08, declined 12% QoQ, but remained 30% higher on a YoY basis. We anticipate a large decrease in polyester chain margins from 13-22% on a QoQ basis, due to a large increase in feedstock costs.

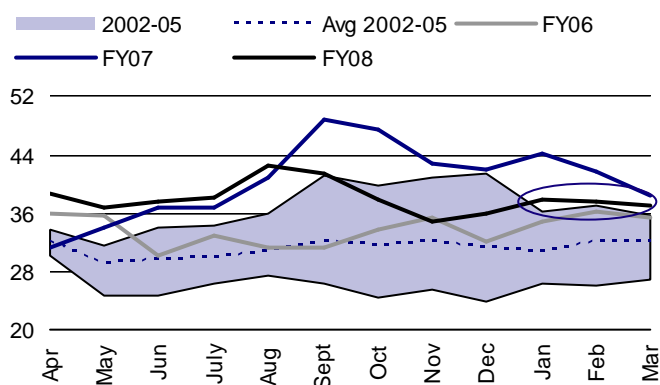
KEY PRODUCT SPREADS OVER NAPHTHA(RS/KG)

	4QFY08	3QFY08	QOQ CH (%)	4QFY07	YOY CH (%)
PE	37.4	36.2	3.5	41.4	-9.5
PP	35.6	34.4	3.3	41.7	-14.8
PTA	15.1	17.3	-12.9	26.9	-43.9
MEG	34.1	43.4	-21.6	27.2	25.5
POY integrated	38.9	45.4	-14.4	47.6	-18.3
PSF integrated	33.5	40.9	-18.2	47.2	-29.1

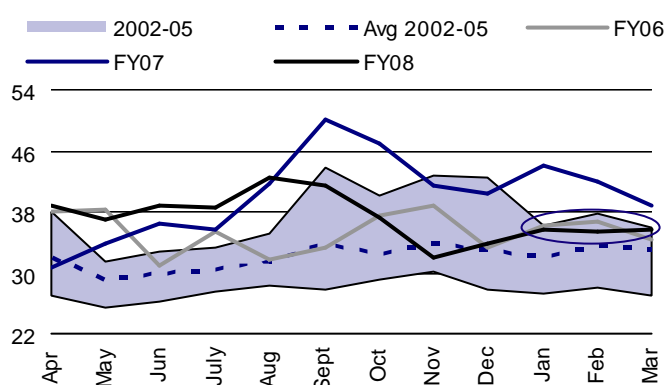
*PE,PP,PTA and MEG spreads over naphtha, POY & PSF spreads over PTA-MEG adjusted for consumption norms

Source: Industry/ Motilal Oswal Securities

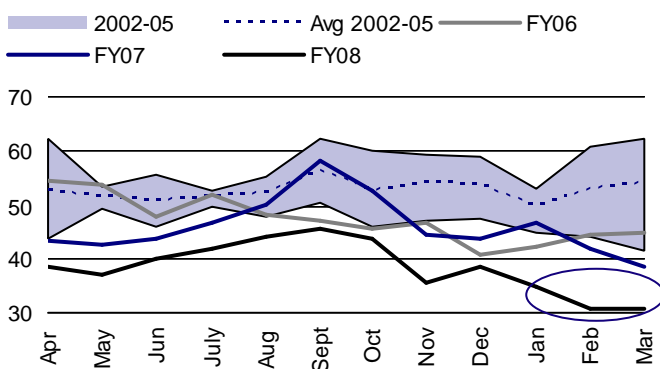
PE SPREAD OVER NAPHTHA (RS/KG)



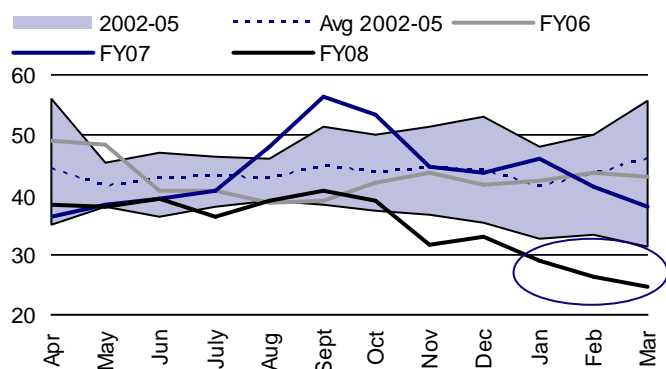
PP SPREAD OVER NAPHTHA (RS/KG)



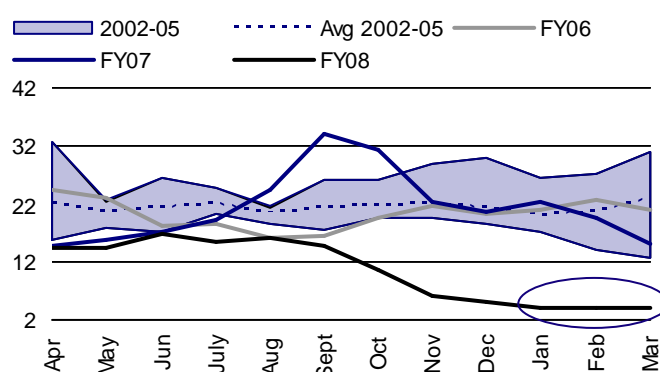
POY SPREAD OVER NAPHTHA (RS/KG)



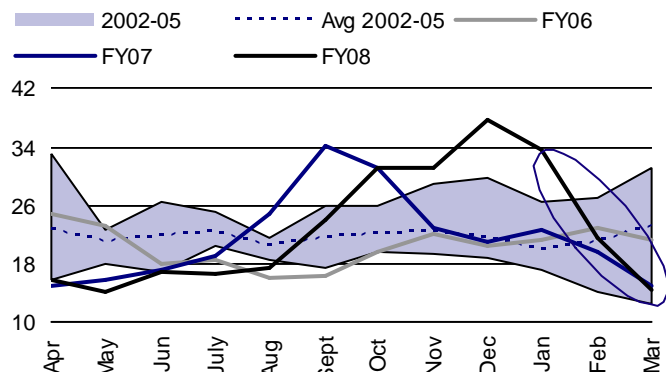
PSF SPREAD OVER NAPHTHA (RS/KG)



PTA SPREAD OVER NAPHTHA (RS/KG)



MEG SPREAD OVER NAPHTHA (RS/KG)



Source: Industry/ Motilal Oswal Securities

Valuation and view

GAIL and Cairn India are our top picks in the oil and gas space. We also remain very positive on RIL and ONGC in view of large E&P upside potential. With likely 57% oil bonds issued to oil marketing companies, we expect net underrecoveries to decline significantly in FY09. This would lead to a large increase in reported earnings making valuation even more attractive in the range of 4-5x P/E FY09E.

Gail: Transmission volumes to grow by 60%; maintain Buy

GAIL's transmission volumes are expected to increase significantly going forward as it would be one of the key beneficiaries of several large-scale gas finds in India in recent years. We expect GAIL's transmission volumes to grow by 60% to 136mmscmd by FY10 from 85mmscmd currently.

We believe there is little threat of further reduction in tariffs for GAIL. Its transmission tariffs for most of its network were reduced over last two years. As GAIL is ramping up investments significantly to upgrade and expand its network, we do not expect any further tariff cuts in the near term.

GAIL's petrochemical capacity has increased by 32% post commissioning of 100kta HDPE expansion in 4QFY08. While we remain bearish on the polymer cycle and expect prices to decline from 2HFY09, volume growth will remain strong.

GAIL already operates the city gas distribution network in several key cities via nine JVs and plans to add a further 130 cities over the next 6-7years. It has stakes in 29 E&P blocks in India and overseas, and has encountered hydrocarbon finds in five of its blocks. We believe significant value could accrue to GAIL from these businesses, going forward.

We believe that GAIL offers value at current valuations of 9x PE FY09 (adjusting for value of E&P and investments). We maintain **Buy**.

Cairn India: Maintain Buy

Rajasthan field development is on schedule and the company has already awarded all the major contracts for the pipeline and for civil and consolidated construction works. We expect production to begin in July 2009 with a peak plateau rate of 180kbpd.

We believe that final approval from the government allowing inclusion of evacuation pipeline, as part of Field Development Plan will come soon. Empowered Committee of Secretaries (ECS) has also cleared the proposal, after earlier clearance by Law Ministry. Some delays in announcement could have been due to the Rajasthan government expressing concern over its losing CST revenue if the delivery point is shifted out of state. Cairn has already submitted the expert opinion that Rajasthan government's revenue will not be affected and also ECS has directed the Ministry of Petroleum to ensure that the Rajasthan government's revenues are not impacted. We believe this issue will be resolved soon, paving way for the issue of notification approving pipeline inclusion in FDP.

Cairn recently announced a US\$625m preferential issue to Petronas and Oriental Global Tamarind. We believe this development though 6% equity dilutive is a positive development as:

- ✘ a large strategic partner like Petronas is showing further commitment; and
- ✘ the issue proceeds will ensure adequate funds availability for development of Rajasthan as capex is likely to escalate because of increase of scope and all-round cost increases in the business.

We believe Cairn's valuation has significant potential upside from:

- 1) Rajasthan block a) upside from current area under development, b) adding new development area into development phase, c) development of smaller fields and
- 2) Other exploration assets: Cairn also has large exploration acreage of about 94,800sq km in 12 other blocks, including five as operator. The most promising of these is ONGC operated (Cairn 10%) deep-water block KG-DWN-98/2.

Maintain Buy on ONGC

ONGC is adopting multi-pronged efforts to sustain and increase its production and reserves. We expect its total production to increase at a significantly higher rate than its historical averages owing to its IOR/EOR initiatives, marginal field developments, joint ventures, and increasing contribution from ONGC Videsh.

ONGC has increased its capital expenditure to boost exploration and production activities. The benefits of increased capex are already visible in improved reserve accretion and production.

ONGC has more than 50% of NELP acreage and we believe this will provide long term growth for the company. Initial success has already been seen in the KG block – the country's first ultra-deep water discovery. With increased efforts towards E&P, we expect the company to report more oil and gas finds going forward.

The tariff commission had revised the producer price of ONGC from Rs3,200 to Rs3,600/MSCM in 1QFY08. Adjusted for WPI increase, the current producer price works out to Rs3,710/MSCM, a rise of 16%. Implementation of the revised pricing had been considerably delayed. Early implementation of revised pricing will be positive for ONGC.

The concern remains on high upstream discounts and lack of clarity on the subsidy sharing mechanism going forward.

Reliance Industries: Maintain Buy

We believe that E&P is the new growth engine in RIL's successful strategy of backward integration. RIL is the largest exploration acreage holder in the private sector in India. It had its world-scale gas find in 2002, and since then has nearly 40 discoveries. In our view, as its KG-D6 gas comes on line later this year, E&P will soon become the key growth

driver. Apart from KG-D6, RIL has a large inventory of high potential blocks, in several of which it has reported exploration success. There remains large potential upside from these blocks, which is not quantifiable at this juncture.

In the medium to longer term, we expect refining margins to remain high, as the global demand for refined products is robust and not enough capacity is coming on line. However, in the shorter term we would expect some moderation in margins in the coming quarter as a large chunk of capacity (1.2-1.5mmbbls/day including RPL) gets commissioned over coming quarters. Margins in petrochemicals business have declined in recent quarters, primarily due to rise in Naphtha prices and no commensurate increase in product prices. With oil prices continuing to remain very high, we would expect high naphtha prices also to continue, putting pressure on overall petrochemical margins.

We believe that organized retailing in India offers a huge growth opportunity and RIL would be able to make the most of this opportunity. Its deep pockets would help sustain a relatively long gestation involved in building a pan-India retailing giant.

Approval of the gas pricing formula is a key positive. Near term upside could come from: (1) marketing tie-ups with potential gas buyers, (2) the updates on actual progress on KG-D6 field development and pipeline, (3) update on progress of RPL refinery completion, and (4) progress on the retail front.

Maintain Buy on oil marketing companies – BPCL, HPCL and IOC

With record high prices of crude oil, the gross underrecoveries of oil marketing companies have further ballooned. With not much in the recent budget in terms of reduction in duties, and very marginal price hikes during the quarter, we expect high gross underrecoveries to continue.

However, the silver lining for PSU OMCs could come in the form of higher sharing of oil bonds by the Government of India. At the time of retail price hike in February, GoI has also indicated that oil bonds sharing would increase from earlier 42.7% to 57%. There remains no clarity on whether the oil bonds issuance would be effective from 4QFY08 (we assume this) or for the full year FY08. However, for FY09 we believe the 57% formula will apply, leading to large reduction in net underrecoveries borne by OMCs from earlier 24% to just 10% of total gross underrecoveries.

Higher oil bonds for FY09, leads to a significant increase in our earnings estimates for PSU OMC. Our EPS estimates are revised upward by 53% for BPCL, 104% for HPCL, and 74% for IOC. The large revision in our earnings estimates would mean that valuation for PSU OMCs have become even more attractive. On PE multiples for FY09E, BPCL trades at 4.6x, HPCL at 5.1x, and IOCL at 4.4x. On EV/EBITDA multiples for FY09E, BPCL trades at 4.3x, HPCL at 4.7x, and IOCL at 4.2x. On P/book value the stock continues to trade in the band of 0.8 to 1x for FY09.

On business fundamentals, refining margins continue to remain strong and are expected to remain so in the short to medium term. OMCs are also implementing several upgradation projects for their capacity, which will enable them to: (1) produce higher share of middle distillates, (2) produce Euro-III/IV compliant fuels and (3) to process larger share of sour/heavy crudes. Completion of these projects, in time and within schedules, will be margin accretive in our view.

We maintain **Buy** on PSU OMCs on attractive valuations and continuing strong refining fundamentals. However, concerns remain on the large and non-transparent underrecovery sharing mechanism

We maintain Buy on Chennai Petro

Chennai Petroleum (CPCL) has been reporting a premium over Singapore benchmark in recent quarters, reversing the earlier trend of discounts. Apart from some inventory gains, we believe this is also because of increasing share of middle and light distillates. We expect CPCL to report premium of ~US\$0.5/bbl to 3QFY10, beyond which premiums would further increase by US\$1-1.5/bbl, as its Rs19b auto fuel upgradation projects start coming on line.

CPCL is also increasing capacity of its one crude unit from 3mmtpa to 4mmtpa, which will increase refining capacity by 9.5% to 11.5mmtpa (likely by May 2009). Post-completion, we expect refining throughput to increase by 7% in FY10.

We recently upgraded our rating on CPCL from **Neutral** to **Buy**. Post-recent correction in overall markets, CPCL's valuations have become very attractive. On PE basis CPCL trades at 4.8x FY09E and on EV/EBITDA basis it trades at 3.5x FY09E. Valuations also look attractive compared with its peer MRPL (which like CPCL does not have much subsidy concern) which trades at 12.2x FY09 PE and 8.3x FY09 EV/EBITDA.

MRPL: Despite recent large correction in stock price and continued strong refining fundamentals we believe MRPL's valuations continue to remain stretched compared with peers. We maintain **Sell**.

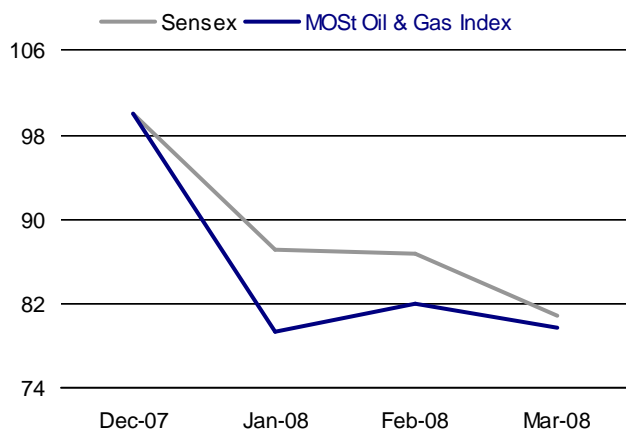
Indraprastha Gas (IGL): We also present estimates of Indraprastha Gas (IGL) in this preview compendium. We currently do not have a rating on the stock.

Stock performance and valuations

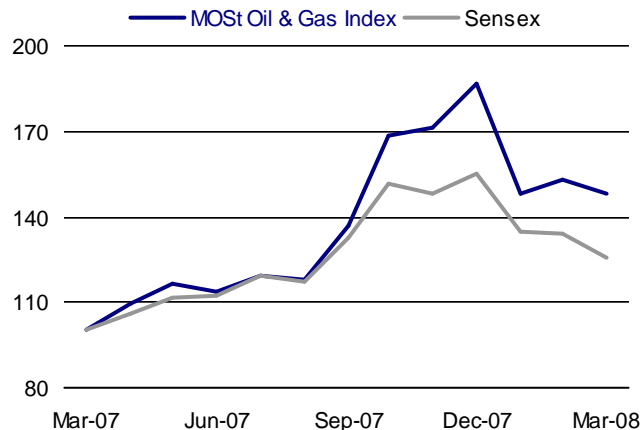
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Oil & Gas						
BPCL	-8	44	11	17	11	-6
Caim India	-7	85	12	58	12	35
Chennai Petroleum	-35	55	-16	28	-16	5
GAIL	-17	65	2	38	3	15
HPCL	-23	3	-4	-24	-4	-47
Indraprastha Gas	-15	36	4	9	4	-14
IOC	-37	15	-18	-12	-18	-36
MRPL	-44	123	-25	96	-25	72
ONGC	-14	21	5	-6	5	-29
Reliance	-19	74	0	47	0	24

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Oil & Gas														
BPCL	434	Buy	62.2	93.6	103.9	7.0	4.6	4.2	6.6	4.3	3.9	17.5	21.9	24.3
Caim India	230	Buy	-0.1	1.5	7.3	-	152.7	31.6	56.5	44.7	16.4	0.1	0.9	4.0
Chennai Petroleum	274	Buy	67.4	57.6	52.5	4.1	4.8	5.2	3.3	3.5	3.8	33.4	23.3	18.5
GAIL	442	Buy	30.5	35.1	38.0	14.5	12.6	11.6	9.9	7.9	7.2	19.9	20.1	19.3
HPCL	263	Buy	30.0	51.2	54.3	8.8	5.1	4.8	8.0	4.7	4.4	10.2	15.8	16.8
Indraprastha Gas	136	Not Rated	12.4	13.2	13.4	10.9	10.3	10.1	5.9	5.2	4.7	33.1	28.7	24.7
IOC	464	Buy	88.8	105.2	107.0	5.2	4.4	4.3	5.0	4.2	4.2	23.0	21.9	18.5
MRPL	76	Sell	7.6	6.2	5.4	9.9	12.2	13.9	7.1	8.3	9.6	40.8	26.0	19.4
ONGC	1,052	Buy	107.4	119.8	119.1	9.8	8.8	8.8	4.5	3.7	3.5	31.3	29.0	24.5
Reliance Inds.	2,348	Buy	104.4	109.1	238.4	22.5	21.5	9.8	15.7	15.5	7.4	21.4	18.0	27.8
Sector Aggregate						13.0	11.3	8.5	8.1	7.1	5.5	20.9	19.7	21.6

BPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BPCL IN
	REUTERS CODE
S&P CNX: 4,942	BPCL.BO

28 March 2008

Buy

Rs434

Previous Recommendation: Buy

	YEAR END *	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI SALES	EVI EBITDA
Equity Shares (m)	361.5										
52-Week Range (Rs)	560/291										
1,6,12 Rel. Perf. (%)	1/27/17										
M.Cap. (Rs b)	156.8										
M.Cap. (US\$ b)	3.9										
	03/07A	982,049	21,395	59.2	633.7	7.3	1.4	18.8	14.1	0.28	6.3
	03/08E	1,091,405	22,492	62.2	5.1	7.0	1.2	17.5	10.7	0.23	6.6
	03/09E	1,086,648	33,829	93.6	50.4	4.6	1.0	21.9	18.3	0.23	4.3
	03/10E	1,030,011	37,542	103.9	11.0	4.2	1.0	24.3	20.8	0.24	3.9

* Consolidated

- ✍ We expect PAT at Rs3.5b v/s Rs6.7b in 4QFY07. The oil bonds and upstream subsidies quantum, rather than operating fundamentals, would continue to be the key determinant of reported numbers.
- ✍ We estimate overall underrecoveries at Rs74b (v/s Rs50b in 3Q and Rs58b in 1HFY08). As oil bonds for the first three quarters have been finalized, we assume 57% issuance will be only for 4QFY08. We build in 4Q oil bonds at Rs42b (v/s Rs9b in 4QFY07 and Rs20.7b in 3QFY08). However, if the 57% formula is applied for full FY08, oil bonds issuance for 4Q could be much higher at Rs59b.
- ✍ We estimate one-thirds discount from upstream at Rs24.6b (v/s Rs11.8b in 4QFY07 and Rs16.2b in 3QFY08).
- ✍ On the operating front, we expect 6-7% YoY lower throughput at 5mmt due to maintenance shutdown at Kochi.
- ✍ For FY09, we now factor in 57% oil bonds and 33% upstream discounts with net underrecoveries at just 10% v/s the earlier 24%. Our consolidated EPS for FY09 has been revised upward by 53% to 93.6.
- ✍ BPCL currently trades at just 4.6x FY09E consolidated earnings. We maintain **Buy** in view of attractive valuations and continuing strong refining fundamentals. However, concerns remain on the large fuel underrecoveries and lack of transparency in the sharing mechanism.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	227,107	265,174	242,056	241,265	238,694	251,704	289,284	302,273	975,602	1,081,956
Change (%)	32.8	55.6	19.5	6.6	5.1	-5.1	19.5	25.3	26.6	10.9
Raw Material Consumed	105,979	120,207	98,250	97,597	111,518	125,863	125,911	124,715	422,033	488,007
Staff Cost	2,414	2,087	2,651	2,885	2,800	2,825	2,798	2,818	10,037	11,241
Finished Goods Purchase	105,801	118,179	126,491	113,433	113,551	107,840	137,893	158,628	463,904	517,912
Other Exp (incl Stock Adj)	15,522	7,563	7,772	14,612	8,765	-473	18,311	8,800	45,469	35,403
EBITDA	-2,609	17,138	6,892	12,738	2,060	15,649	4,371	7,312	34,159	29,392
Change (%)	nm	1,302.5	nm	-33.5	nm	-8.7	-36.6	-42.6	256.8	-14.0
% of Sales	-1.1	6.5	2.8	5.3	0.9	6.2	1.5	2.4	3.5	2.7
Depreciation	1,814	1,964	2,484	2,778	2,276	2,322	3,065	3,000	9,040	10,663
Interest	908	920	1,298	1,648	1,240	1,228	1,620	1,545	4,774	5,633
Other Income	1,091	2,207	1,487	2,547	4,341	3,652	1,904	2,475	7,332	12,372
PBT	-4,240	16,461	4,597	10,859	2,885	15,751	1,590	5,242	27,677	25,468
Tax	25	3,876	1,562	4,159	958	5,369	-44	1,777	9,622	8,060
Rate (%)	-0.6	23.5	34.0	38.3	33.2	34.1	-2.8	33.9	34.8	31.6
Adj. PAT	-4,265	12,585	3,035	6,700	1,927	10,382	1,634	3,465	18,055	17,408
Change (%)	nm	6,594.1	nm	-60.2	nm	-17.5	-46.1	-48.3	519.2	-3.6
Exceptional Item							1,279.0			1,279
PAT	-4,265	12,585	3,035	6,700	1,927	10,382	2,913	3,465	18,055	18,687

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

Cairn India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CAIR IN
	REUTERS CODE
S&P CNX: 4,942	CAIL.BO

28 March 2008

Buy

Rs230

Previous Recommendation: Buy

Equity Shares (m)	1,778.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	269/121	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	11/32/58	12/07A	10,123	-245	-0.1	-	-	1.4	0.1	1.3	39.8	56.5
MCap. (Rs b)	409.2	12/08E	11,954	2,679	1.5	-	152.7	1.4	0.9	1.5	34.6	47.7
MCap. (US\$ b)	10.3	12/09E	28,409	12,958	7.3	383.6	31.6	1.3	4.0	5.2	14.9	17.5
		12/10E	71,064	44,360	24.9	242.3	9.2	1.2	13.0	15.0	5.7	6.3

- ✎ We estimate net sales of Rs3.1b v/s (Rs2.4b in 1QCY07, and Rs2.7b in 4Q), driven by higher oil prices though moderated by lower overall production. Our expected net profit is Rs1b (v/s Rs376m in 1QCY07 and loss of Rs139m in 4Q).
- ✎ We expect gross oil and gas production at 70kboepd (v/s 75kboepd in 1Q and 65kboepd in 4QCY07). We estimate that production at Ravva would return to normal levels post the work on two work-over wells in 4Q; however the gas production at Cambay continues to remain lower.
- ✎ Cairn's net working interest production is estimated at 17.5kboepd (down 12% YoY and up 7% QoQ). Average realization at US\$78/boe (v/s US\$42.3 in 1QCY07 and US\$71.1/boe in 4QCY07) are expected to increase significantly by 85% YoY and 10% QoQ, driven by higher oil price.
- ✎ We would expect Cairn to report about Rs 240m of forex currency gain (against reported loss of Rs138m in 1Q and Rs276m in 4Q) on its balanced forex reserves.
- ✎ Cairn has awarded all the major contracts for Rajasthan field development and pipeline is progressing as planned and on schedule. We expect production from Rajasthan block to commence in July 2009 with a peak plateau rate of 180kbpd.
- ✎ Cairn currently trades at 9.2x CY10E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE		
Net Sales	2,364	2,433	2,658	2,667	3,119	3,028	2,921	2,886	10,123	11,954
Change (%)					31.9	24.5	9.9	10.0		18.1
Inc/Dec in Stock	95	-157	0	-51	0	0	0	0	-112	
Staff Cost	309	288	238	423	255	267	281	295	1,257	1,098
Operating Expenses	488	407	555	856	529	531	555	560	2,305	2,174
EBITDA	1,472	1,895	1,865	1,439	2,335	2,230	2,085	2,031	6,672	8,682
% of Net Sales	62.3	77.9	70.2	54.0	74.9	73.6	71.4	70.4	65.9	72.6
% Change					58.6	17.7	11.8	8.5		30.1
Depreciation & Exploration write-off	1,002	1,145	1,233	1,210	1,270	1,305	1,345	1,366	4,589	5,286
Interest	2	8	1	17	50	150	250	263	27	713
Other Income (Net)	362	351	343	268	360	365	380	385	1,324	1,490
Forex Fluctuations	-138	-1,406	-300	-276	245	0	0	0	-2,120	245
PBT	692	-312	674	205	1,620	1,140	870	788	1,259	4,418
Tax	317	402	442	344	573	475	363	328	1,505	1,739
Rate* (%)	38.2	36.8	45.3	71.6	41.7	41.7	41.7	41.7	44.5	39.4
PAT	376	-714	232	-139	1,047	665	508	460	-245	2,680

E: MOST Estimates; * Excluding forex fluctuations

Chennai Petroleum Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	MRL IN
	REUTERS CODE
S&P CNX: 4,942	CHPC.BO

28 March 2008

Buy

Previous Recommendation: Neutral

Rs274

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	149.0										
52-Week Range	490/173										
1,6,12 Rel. Perf. (%)	-1/3/28										
M.Cap. (Rs b)	40.8										
M.Cap. (US\$ b)	1.0										
	03/07A	246,533	5,653	37.9	16.1	7.2	1.5	23.0	20.1	0.3	5.2
	03/08E	277,176	10,038	67.4	77.6	4.1	1.2	33.4	32.4	0.2	3.3
	03/09E	270,935	8,585	57.6	-14.5	4.8	1.0	23.3	25.7	0.2	3.5
	03/10E	268,361	7,824	52.5	-8.9	5.2	0.9	18.5	21.9	0.2	3.8

- ✍ We expect CPCL's net profit at Rs2.2b v/s Rs1.9b in 4QFY07 and Rs2.3b in 3QFY08.
- ✍ We estimate reported GRM at US\$7.4/bbl (v/s US\$6.4/bbl in 4QFY07 and US\$8.75/pbl in 3QFY08) indicating a premium of US\$0.5/bbl to Singapore benchmark GRM of US\$6.9/bbl for 4Q.
- ✍ We expect CPCL to report premium of ~US\$0.5/bbl over the Singapore benchmark until its fuel upgradation project comes online (expected in 3QFY10); beyond which we expect premiums to expand further by US\$1-1.5/bbl.
- ✍ 15% YoY gains in GRM will be moderated by 10% appreciation of rupee.
- ✍ We expect refinery throughput at 2.5mmt (v/s 2.67mmt in 4QFY07 and 2.27mmt in 3QFY08), due to ongoing maintenance work at PYIII fields.
- ✍ Post-recent correction in overall markets, CPCL's valuations have become very attractive. On a PE basis CPCL trades at 4.8x FY09E and 5.2x FY10E. On EV/EBITDA basis it trades at 3.5x FY09E and 3.8x FY10E. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	64,656	66,527	58,819	56,531	62,966	62,816	72,606	78,787	246,533	277,176
Change (%)	38.7	21.6	7.5	2.9	-2.6	-5.6	23.4	39.4	16.8	12.4
Raw Materials (incl Stock Adj)	57,820	62,432	56,095	51,253	55,767	57,210	66,870	73,214	227,600	253,061
Employee Costs	245	353	302	607	303	384	290	330	1,506	1,307
Other Exp	1,803	1,362	1,204	652	982	934	1,335	1,116	5,020	4,368
EBITDA	4,789	2,381	1,218	4,019	5,914	4,288	4,112	4,127	12,407	18,440
% of Sales	7.4	3.6	2.1	7.1	9.4	6.8	5.7	5.2	5.0	6.7
% Change	10.8	(39.1)	(7.2)	194.3	23.5	80.1	237.5	2.7	13.7	48.6
Depreciation	586	586	586	662	637	616	603	621	2,419	2,477
Interest	426	468	412	577	460	561	409	450	1,883	1,880
Other Income	69	146	152	338	83	386	421	350	705	1,240
PBT	3,845	1,473	373	3,118	4,900	3,497	3,521	3,406	8,809	15,323
Tax	1,300	500	129	1,227	1,668	1,194	1,264	1,158	3,156	5,285
Rate (%)	33.8	34.0	34.6	39.4	34.0	34.2	35.9	34.0	35.8	34.5
PAT	2,546	973	243	1,891	3,232	2,303	2,256	2,248	5,653	10,038
Change (%)	8.8	-50.5	14.4	434.3	26.9	136.8	826.6	18.9	16.1	77.6

E: MOST Estimates

GAIL (India)

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	GAIL IN
	REUTERS CODE
S&P CNX: 4,942	GAIL.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs442

Equity Shares (m)	845.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	555/257	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	12/22/38	03/07A	160,472	20,468	24.2	-11.4	18.3	3.3	20.9	21.1	2.2	12.0
MCap. (Rs b)	373.9	03/08E	174,483	25,811	30.5	26.1	14.5	2.9	19.9	24.4	2.1	9.9
MCap. (US\$ b)	9.4	03/09E	243,721	29,660	35.1	14.9	12.6	2.5	20.1	25.9	1.5	7.9
		03/10E	302,966	32,101	38.0	8.2	11.6	2.2	19.3	25.1	1.2	7.2

- ☞ We expect PAT of Rs7b v/s Rs6.2b in 3QFY08 and adjusted net profit of Rs3.4b in 4QFY07. GAIL's reported profit of Rs6.8b in 4QFY07 included tax provision writeback of Rs3.4b.
- ☞ YoY increase in profits is primarily due to 5% higher transmission and production volumes, ~8% higher petchem and LPG prices and Rs0.5b decline in subsidy burden at Rs4.5b.
- ☞ While on a QoQ basis increase in profit is primarily due to 30% higher petchem production at 105kt (v/s 81kt in 3QFY08), and 14% higher LPG production. GAIL's production volumes in 3Q were affected due to a three-week shutdown as well as lower gas availability. Petchem volumes are also expected to increase post commissioning of 100kta expansion in 4QFY08.
- ☞ Transmission volumes are expected to decline marginally at 84mmscmd v/s 85.3mmscmd, due to shutdown at Mumbai High, though moderated by increased availability of PMT gas to GAIL during the quarter.
- ☞ We remain very positive on GAIL, as we expect transmission volumes to increase by ~60% over the next two years. GAIL's existing and large plans for city gas distribution and E&P will provide added upsides. The stock currently trades at 12.6x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	40,784	37,070	43,784	38,834	42,457	45,289	42,983	43,754	160,472	174,483
Change (%)	24.1	2.9	12.0	6.1	4.1	22.2	-1.8	12.7	11.0	8.7
Finished Gds Purchase	24,720	22,130	24,072	23,368	23,529	25,398	24,190	24,940	94,290	98,056
Raw Materials Cons	4,342	4,224	4,759	4,527	4,314	4,503	4,725	5,119	17,851	18,661
Employee Costs	551	907	649	816	688	824	985	867	2,923	3,364
Other Exp (incl Stock Adj)	1,755	3,919	5,662	4,099	3,540	5,782	4,360	2,818	15,435	16,499
EBITDA	9,416	5,891	8,641	6,024	10,387	8,783	8,723	10,010	29,973	37,903
% of Net Sales	23.1	15.9	19.7	15.5	24.5	19.4	20.3	22.9	18.7	21.7
% Change	-0.7	-37.0	-5.2	-14.5	10.3	49.1	0.9	66.2	-14.3	26.5
Depreciation	1,408	1,436	1,439	1,471	1,407	1,492	1,387	1,500	5,754	5,786
Interest	288	291	271	221	204	201	196	200	1,071	800
Other Income	801	1,674	1,846	1,129	913	1,806	1,848	1,864	5,450	6,430
PBT	8,521	5,838	8,778	5,461	9,689	8,897	8,989	10,174	28,598	37,748
Tax	2,600	1,354	2,124	2,053	2,837	3,171	2,775	3,154	8,130	11,937
Rate (%)	30.5	23.2	24.2	37.6	29.3	35.6	30.9	31.0	28.4	31.6
PAT	5,921	4,484	6,655	3,408	6,852	5,725	6,214	7,020	20,468	25,811
Change (%)	22.5	-42.1	3.5	-16.7	15.7	27.7	-6.6	106.0	-11.4	26.1
Extraord.: Tax Prov. Write Back				3,399	0	0	0	0	3,399	
Reported PAT	5,921	4,484	6,655	6,807	6,852	5,725	6,214	7,020	23,867	25,811

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

HPCL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HPCL IN
	REUTERS CODE
S&P CNX: 4,942	HPCL.BO

28 March 2008

Buy

Rs263

Previous Recommendation: Buy

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	338.8	03/07E	890,413	12,682	37.4	212.7	7.0	0.9	13.2	10.2	0.17	6.6
52-Week Range	406/218	03/08E	1,047,622	10,166	30.0	-19.8	8.8	0.9	10.2	5.0	0.14	8.0
1,6,12 Rel. Perf. (%)	-5/4/-24	03/09E	1,137,639	17,348	51.2	70.7	5.1	0.8	15.8	10.2	0.13	4.7
MCap. (Rs b)	89.1	03/10E	1,074,956	18,401	54.3	6.1	4.8	0.7	16.8	11.0	0.13	4.4
MCap. (US\$ b)	2.2											

- ✎ We expect PAT at Rs2.6b v/s Rs5.5b in 4QFY07 and losses of Rs157m in 3Q. Like other OMCs, the oil bonds and upstream subsidy quantum would continue to be the key determinant of reported numbers.
- ✎ We estimate overall underrecoveries at Rs64b (v/s Rs45b in 3Q and Rs55b in 1HFY08). As for BPCL, we assume 57% oil bond issuance will be only for 4QFY08. We build in 4Q oil bonds at Rs36b (v/s Rs10b in 4QFY07 and Rs19b in 3QFY08). However, if the 57% formula is applied for full FY08, oil bonds for 4Q could be Rs51b.
- ✎ We estimate one-thirds discount from upstream at Rs21b (v/s Rs1.4b in 4QFY07 and Rs14.8b in 3QFY08).
- ✎ On the operational front, we expect refinery throughput of 4.32mmt in line with 3Q and reported GRM at US\$5.4/bbl (v/s US\$6.3 in 3Q and US\$4.2/bbl in 4QFY07).
- ✎ For FY09, we now factor in 57% oil bonds and 33% upstream discounts with net underrecoveries at just 10% from the earlier 24%. Our revised EPS for FY09 at Rs51 is up 104%.
- ✎ HPCL currently trades at just 5.1x FY09E consolidated earnings. We maintain **Buy** in view of attractive valuations and continuing strong refining fundamentals. However, concerns remain on the large and non-transparent underrecovery sharing mechanism.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	206,741	243,675	221,502	218,495	218,817	242,367	271,170	315,268	890,413	1,047,622
Change (%)	26	36	11	-3.9	6	-1	22	44.3	15.8	17.7
Raw Material Consumed	90,409	100,016	86,610	81,133	78,157	90,004	100,611	107,078	358,168	375,850
Staff Cost	1,657	2,202	1,930	1,619	1,805	2,067	2,174	2,473	7,407	8,518
Finished Goods Purchase	114,243	121,223	118,300	114,736	128,882	150,771	150,430	191,569	468,502	621,651
Other Exp, levies and stock adj	5,599	3,771	12,722	10,757	11,259	-13,673	16,474	8,752	32,848	22,812
EBITDA	-5,166	16,462	1,940	10,251	-1,285	13,199	1,481	5,397	23,487	18,791
% of Net Sales	-2.5	6.8	0.9	4.7	-0.6	5.4	0.5	1.7	2.6	1.8
% Change	nm	1,964	nm	-47.8	nm	-20	-24	-47	191.1	-20.0
Depreciation	1,701	1,742	1,733	1,864	1,798	2,017	2,161	2,107	7,040	8,083
Interest	596	983	1,046	1,527	1,334	1,399	2,184	1,850	4,152	6,766
Other Income	1,021	1,925	2,466	1,964	3,351	2,808	2,645	2,500	7,377	11,304
PBT	-6,442	15,663	1,627	8,824	-1,066	12,591	-219	3,939	19,672	15,246
Tax	-366	3,443	584	3,329	-197	4,038	-61	1,300	6,990	5,080
Rate (%)	6	22	36	37.7	18	32		33	35.5	33.3
PAT	-6,077	12,220	1,043	5,495	-869	8,553	-157	2,639	12,682	10,166
Change (%)	nm	nm	nm	-72.7	nm	-30.0	-115.1	-52.0	212.7	-19.8
Extraordinary - Tax Prov Write back	0	0	3,030	0	0	0	0	0	3,030	0
Reported PAT	-6,077	12,220	4,073	5,495	-869	8,553	-157	2,639	15,712	10,166

E: MOST Estimates

Anil Sharma (AnilSharma@MotilalOswal.com); Tel: +91 22 39825413/Harshad Borawake (HarshadBorawake@MotilalOswal.com) Tel: 39825432

Indian Oil Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	IOC IN
	REUTERS CODE
S&P CNX: 4,942	IOC.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs464

Equity Shares (m)	1,192.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range (Rs)	810/355	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-7/4/-12	03/07A	1,999,308	59,887	50.2	18.9	9.2	1.5	16.4	12.6	0.4	6.4
MCap. (Rs b)	552.7	03/08E	2,575,058	105,911	88.8	76.9	5.2	1.2	23.1	15.7	0.3	5.0
MCap. (US\$ b)	13.8	03/09E	2,502,280	125,481	105.2	18.5	4.4	1.0	21.9	16.8	0.3	4.2
		03/10E	2,367,161	127,569	107.0	1.7	4.3	0.8	18.5	15.1	0.3	4.2

*Consolidated

- ✍ We expect PAT at Rs27b v/s Rs28.2b in 4QFY07 and Rs21b in 3Q. Like other OMCs, the oil bonds and upstream subsidy quantum would continue to be the key determinant of reported numbers.
- ✍ We estimate overall underrecoveries at Rs166b (v/s Rs121b in 3Q and Rs154b in 1HFY08). Like other OMCs, we assume 57% oil bond issuance will be only for 4QFY08. We build in 4Q oil bonds at Rs95b (v/s Rs42b in 4QFY07 and Rs51b in 3QFY08). However, if the 57% formula is applied for full FY08, oil bonds for 4Q could be Rs132b.
- ✍ We estimate one-thirds discount from upstream at Rs55b (v/s Rs34b in 4QFY07 and Rs40b in 3QFY08).
- ✍ On the operational front, we expect refinery throughput of 12.5mmt (up 6% YoY and 4% QoQ) and GRM at US\$8.9/bbl (v/s US\$10.4/bbl in 3Q and US\$5.7/bbl in 4QFY07).
- ✍ For FY09, we now factor in 57% oil bonds and 33% upstream discounts with net underrecoveries at just 10% from earlier 24%. Our revised EPS for FY09 at Rs105 is up 74%.
- ✍ IOC currently trades at just 4.4x FY09E consolidated earnings. We maintain **Buy** in view of attractive valuations and continuing strong refining fundamentals. However, concerns remain on the large and non-transparent underrecovery sharing mechanism.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	484,996	578,305	556,472	528,890	528,620	561,487	640,585	702,750	2,148,663	2,433,443
Change (%)	25.5	44.3	25.6	4.4	9.0	-2.9	15.1	32.9	23.7	13.3
Raw Material Consumed	200,627	250,034	234,099	200,839	230,738	224,399	262,522	307,055	885,598	1,024,715
Staff Cost	5,232	6,548	5,388	9,041	6,838	7,502	6,954	7,330	26,209	28,625
Finished Goods Purchase	264,627	273,744	263,690	238,226	253,246	269,770	301,254	323,405	1,040,288	1,147,675
Other Exp (incl Stock Adj)	27,392	8,994	28,090	31,759	23,611	8,603	40,180	27,839	96,235	100,233
EBITDA	-12,882	38,985	25,205	49,026	14,187	51,213	29,675	37,120	100,333	132,194
% of Net Sales	-2.7	6.7	4.5	9.3	2.7	9.1	4.6	5.3	4.7	5.4
% Change	-370.2	157.5	1,309.0	-6.0	nm	31.4	17.7	-24.3	35.8	31.8
Depreciation	5,894	6,688	6,597	6,723	6,748	6,765	6,663	6,882	25,903	27,057
Interest	3,385	3,760	3,963	3,947	3,374	3,335	3,880	3,600	15,055	14,189
Other Income	3,201	6,066	7,910	9,243	16,911	12,783	13,463	12,000	26,419	55,156
PBT	-18,960	34,602	22,555	47,598	20,975	53,895	32,595	38,638	85,795	146,104
Tax	60	5,767	4,641	19,388	6,291	15,718	11,689	11,592	29,855	45,289
Rate (%)	-0.3	16.7	20.6	40.7	30.0	29.2	35.9	30.0	34.8	31.0
PAT	-19,020	28,836	17,914	28,210	14,684	38,178	20,907	27,047	55,940	100,815
Change (%)	nm	203.9	nm	-21.0	nm	32.4	16.7	-4.1	25.5	80.2
Extraordinary Items	32,238	0	0	-13,183	0.0	0.0	0	0.0	19,055	0
PAT incl extra-ordinaries	13,218	28,836	17,914	15,027	14,684	38,178	20,907	27,047	74,995	100,815

E: MOST Estimates

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Indraprastha Gas

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	IGL IN
	REUTERS CODE
S&P CNX: 4,942	IGAS.BO

28 March 2008

Not Rated

Rs136

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	140.0	03/07E	6,141	1,380	9.9	29.7	13.8	4.1	32.6	44.8	3.0	7.3
52-Week Range	183/89	03/08E	7,167	1,740	12.4	26.2	10.9	3.3	33.1	46.5	2.5	5.9
1,6,12 Rel. Perf. (%)	-1/10/9	03/09E	8,552	1,851	13.2	6.3	10.3	2.7	28.7	41.2	2.0	5.2
MCap. (Rs b)	19.0	03/10E	10,070	1,879	13.4	1.5	10.1	2.3	24.7	35.6	1.6	4.7
MCap. (US\$ b)	0.5											

- ✍ We expect reported PAT at Rs477m (v/s Rs401m in 4QFY07 and Rs450m in 3QFY08) driven by volume growth.
- ✍ We expect EBITDA margin at 42.8% (similar to 3QFY08) and 43.3% in 4QFY07.
- ✍ IGL currently operates 156 CNG stations and the volumes at its current stations continue to grow at 12-13%, led by regulatory as well as discretionary conversion of vehicles to CNG.
- ✍ We expect CNG volumes to grow 6% QoQ to 138.6mmscm and PNG volumes to grow by significantly higher rate of 23% to 13.1mmscm.
- ✍ Medium term growth for IGL is expected to come from expansion of its network in Delhi region as well as in new areas such as Greater Noida, Ghaziabad, Panipat and Sonipat and from addition of a new bus fleet (~2,000-2,500 new buses) for the Commonwealth Games.
- ✍ IGL is currently trading at 10.3X FY09E. We have no rating on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	1,358	1,542	1,599	1,643	1,618	1,741	1,827	1,981	6,141	7,167
Change (%)	19.1	15.0	16.7	21.1	19.1	12.9	14.3	20.6	17.9	16.7
Raw Material Consumed	586	675	721	696	693	746	780	846	2,677	3,065
Staff Cost	31	36	36	38	36	35	40	41	141	152
Other Exp (incl Stock Adj)	199	186	188	198	202	211	227	246	771	884
EBITDA	541	645	654	711	687	750	780	848	2,552	3,065
% of Net Sales	39.9	41.9	40.9	43.3	42.5	43.1	42.7	42.8	41.6	42.8
% Change	23.8	20.1	12.4	22.5	27.0	16.2	19.4	19.2	19.4	20.1
Depreciation	150	150	150	149	156	158	161	171	598	645
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	22	23	24	34	40	47	58	45	102	190
PBT	413	518	528	596	571	639	678	722	2,056	2,611
Tax	137	170	173	196	187	211	227	245	676	870
Rate (%)	33.1	32.9	32.8	32.8	32.8	33.0	33.6	33.9	32.9	33.0
PAT	276	348	355	401	384	429	450	477	1,380	1,740
Change (%)	36.5	28.7	21.0	34.6	39.0	23.2	26.9	19.2	29.7	26.2

E: MOST Estimates

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MRPL

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	MRPL IN
	REUTERS CODE
S&P CNX: 4,942	MRPL.BO

28 March 2008

Sell

Rs76

Previous Recommendation: Sell

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,752.6										
52-Week Range	149/32										
1,6,12 Rel. Perf. (%)	-3/9/96										
M.Cap. (Rs b)	132.4										
M.Cap. (US\$ b)	3.3										
	03/07A	286,331	5,255	3.0	41.4	25.2	4.8	20.4	20.0	0.5	10.3
	03/08E	329,295	13,359	7.6	154.2	9.9	3.5	40.8	26.4	0.5	7.1
	03/09E	316,669	10,859	6.2	-18.7	12.2	2.9	26.0	18.0	0.5	8.3
	03/10E	296,006	9,503	5.4	-12.5	13.9	2.5	19.4	13.0	0.6	9.6

- ✍ We expect reported EBITDA at Rs5.4b (Rs5.8b in 4QFY07 and Rs5.5b in 3QFY08) down 7% YoY and 1% QoQ.
- ✍ Reported PAT estimate at Rs2.9b (Rs1.8b in 4QFY07) is up 59% YoY and down 2% QoQ.
- ✍ Though we expect lower EBITDA on a YoY basis, we estimate MRPL to report higher net profit at Rs2.9b v/s Rs1.8b in 4QFY07, primarily because MRPL had paid higher tax in 4QFY07. (effective tax rate of 62% in 4QFY07)
- ✍ Unlike last two quarters we do not expect any MAT credit reversal in this quarter as we understand MRPL has exhausted all its available MAT credit of ~Rs1b.
- ✍ On the operational front we expect throughput to remain flat on a YoY basis at 3.22mmt. We expect reported GRM at US\$7.4/bbl (v/s US\$6.8 for 4QFY07 and US\$7.7/bbl for 3QFY08).
- ✍ MRPL trades at PE of 12.2x and EV/EBITDA of 8.3x on FY09E. Despite recent large correction and continued strong refining fundamentals we believe MRPL's valuations continue to remain stretched compared with peers. We maintain **Sell**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	64,698	80,522	73,133	67,979	74,391	76,404	81,383	97,117	286,331	329,295
Change (%)	16	30	8	6.4	15	-5	11	43	14.7	15.0
Raw Material Cons. (incl. inv chg)	57,412	77,504	68,785	59,388	66,664	70,467	73,777	89,344	263,089	300,252
Staff Cost	126	148	131	143	143	354	253	220	548	970
Other Expenditure	2,055	1,453	1,480	2,610	1,400	1,084	1,872	2,138	7,598	6,494
EBITDA	5,104	1,417	2,737	5,839	6,186	4,499	5,480	5,415	15,097	21,579
% of Net Sales	7.9	1.8	3.7	8.6	8.3	5.9	6.7	5.6	5.3	6.6
% Change	12	-64	72	1,140.7	21	217	100	-7	42.6	42.9
Depreciation	854	872	888	934	938	947	948	982	3,549	3,814
Interest	579	588	511	468	398	358	362	361	2,145	1,478
Other Income	83	182	841	380	1,333	386	308	300	1,487	2,327
PBT	3,755	139	2,179	4,817	6,183	3,580	4,479	4,372	10,889	18,614
Tax	1,596	46	994	2,998	2,498	785	1,534	1,482	5,634	6,300
MAT Credit entitlement adjusted					0	-523	-522	0		-1,044
Rate (%)	43	33	46	62.2	40	7	23	34	51.7	28.2
PAT	2,159	93	1,185	1,819	3,686	3,317	3,466	2,890	5,255	13,359
Change (%)	0	-94	512	nm	70.7	3,470.9	192.6	58.9	41.4	154.2
Adj. PAT	2,159	93	1,185	1,819	3,686	2,795	2,944	2,890	5,255	12,315

E: MOST Estimates

ONGC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ONGC IN
	REUTERS CODE
S&P CNX: 4,942	ONGC.BO

28 March 2008

Buy

Rs1,052

Previous Recommendation: Buy

Equity Shares (m)	2,138.9
52-Week Range (Rs)	1,387/770
1,6,12 Rel. Perf. (%)	9/15/-6
M.Cap. (Rs b)	2,249.1
M.Cap. (US\$ b)	56.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	823	178	83.1	15.4	12.7	3.4	29.0	27.9	2.5	5.6
03/08E	1,004	230	107.4	29.3	9.8	2.8	31.3	30.7	1.9	4.5
03/09E	1,062	256	119.8	11.6	8.8	2.3	29.0	28.5	1.7	3.7
03/10E	1,065	255	119.1	-0.6	8.8	2.0	24.5	24.0	1.6	3.5

Consolidated

- ✎ We estimate ONGC's EBITDA at Rs78.5b (v/s Rs53.7b in 4QFY07 and Rs80.3b in 3QFY08).
- ✎ We expect a marginal decline in production due to shutdowns taken at Mumbai High during the quarter. We estimate oil production (excl. JV) at 6.3mmt (v/s 6.6mmt in 3QFY08) and gas production (excl. JV) at 5.4bcm (v/s 5.8bcm in 3QFY08).
- ✎ Price of benchmark crude for ONGC, Bonny Light increased 64% YoY to US\$99/bbl from US\$60.5/bbl in 4QFY07 and 9% QoQ from US\$90.7/bbl in 3QFY08.
- ✎ We factor in upstream discounts to the tune of 33.3% of total underrecoveries and ONGC's share to be Rs88b v/s Rs46.7b in 4QFY07 and Rs60.8b in 3QFY08.
- ✎ Implementation of revised gas prices as per the Tariff Commission recommendation remains pending, as notification is yet to be issued by the GoI. The gas price hike is unlikely to be with retrospective effect; hence continued delay in implementation remains a concern.
- ✎ ONGC trades at 8.8x FY09 consolidated earnings. We remain positive on ONGC in view of continued high oil prices, impending gas price hike, and likely production increase from IOR/EOR, marginal field developments. Added upsides would accrue from large prospective NELP acreage and also growing portfolio of OVL. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS BILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	146.0	140.7	155.6	124.0	136.9	154.1	151.2	146.8	566.3	589.1
Change (%)	34.3	11.0	24.8	4.2	-6.3	9.6	-2.9	18.4	18.2	4.0
Raw Material and Purchases	17.5	17.0	15.4	13.4	13.6	16.1	16.4	16.2	63.3	62.2
Statutory Levies	31.1	29.8	30.6	28.4	29.0	32.0	32.3	30.2	119.9	123.5
Employee Costs	3.0	3.2	5.0	6.0	2.5	3.7	3.6	3.6	17.2	13.4
Other Exp (incl Stock Adj)	13.3	17.2	15.5	22.4	12.6	18.2	18.6	18.4	68.5	67.7
EBITDA	81.1	73.4	89.1	53.7	79.2	84.2	80.3	78.5	297.3	322.2
% of Net Sales	55.5	52.2	57.2	43.3	57.9	54.6	53.1	53.5	52.5	54.7
% Change	32.8	2.6	21.0	-20.1	-2.3	14.6	-9.8	46.1	8.7	8.4
Depreciation	22.3	18.5	25.6	28.6	17.5	19.9	22.1	21.7	95.0	81.2
Interest	0.0	0.0	0.1	0.1	0.0	0.3	0.1	0.3	0.2	0.7
Other Income	4.2	9.4	7.0	16.0	8.4	12.1	8.6	8.4	36.6	37.5
PBT	63.0	64.3	70.5	41.0	70.0	76.1	66.7	65.0	238.8	277.8
Tax	21.8	19.5	23.8	15.2	23.9	25.1	23.1	22.2	80.3	94.3
Rate (%)	34.6	30.4	33.8	37.0	34.2	33.0	34.6	34.2	33.6	33.9
PAT	41.2	44.8	46.7	25.8	46.1	51.0	43.7	42.8	158.5	183.5
Change (%)	24.1	8.2	20.0	5.7	11.9	13.8	-6.4	65.5	14.9	15.8
Extraordinary Items	0.0	-3.1	0.0	1.0	0.0	0.0	0.0	0.0	-2.0	0.0
Reported PAT	41.2	41.7	46.7	26.8	46.1	51.0	43.7	42.8	156.4	183.5

E: MOST Estimates

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Reliance Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	RIL IN
	REUTERS CODE
S&P CNX: 4,942	RELI.BO

28 March 2008

Buy

Rs2,348

Previous Recommendation: Buy

Equity Shares (m)	1,453.4
52-Week Range	3,252/1,305
1,6,12 Rel. Perf. (%)	1/8/47
MCap. (Rs b)	3,411.8
MCap. (US\$ b)	85.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS B)	(RS B)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	1,117	119	82.2	31.7	28.6	5.3	22.4	18.7	3.3	18.3
03/08E	1,311	152	104.4	27.0	22.5	4.1	21.4	18.0	2.8	15.7
03/09E	1,338	172	109.1	4.6	21.5	3.3	18.0	16.1	2.8	15.5
03/10E*	2,046	377	238.4	118.5	9.8	2.6	27.8	25.3	1.8	7.4

* FY10E includes RPL financials

- ✎ We estimate reported PAT at Rs38.2b v/s Rs31.6b in 4QFY07 and adj. PAT of Rs38.8b in 3QFY08.
- ✎ Singapore GRM at US\$6.9/bbl declined 10% QoQ (US\$7.7/bbl in 3QFY08) and was flat YoY (US\$6.9/bbl in 4QFY07). We estimate RIL's reported GRM at ~US\$13.9/bbl, assuming a premium of US\$7 /bbl (v/s reported premium of US\$7.7/bbl in 3Q and US\$6.2/bbl in 4QFY07).
- ✎ Prices of the polymer chain firmed up by 5-6% QoQ during the quarter, while decline was 6-8% QoQ in polyester end products. Prices of MEG, which had heated up in 3Q declined by 12%. We expect pressure on overall petchem margins to continue due to continued cost pressure from naphtha.
- ✎ Apart from its core business, we believe RIL's stock performance will continue to be boosted by updates/newsflow from its E&P business segment and progress on KG-D6 gas production and marketing tie-ups and progress on RPL's refinery and Reliance Retail.
- ✎ Currently the stock is trading at 21.5x FY09E and 9.8x FY10E. We include RIL's gas business and RPL only for our FY10 estimates and not for FY09. We continue to remain positive primarily due to large potential upsides from E&P. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	259,940	300,560	281,950	274,480	295,240	320,430	345,900	349,480	1,116,930	1,311,050
Change (%)	46.2	45.1	55.2	11.8	13.6	6.6	22.7	27.3	37.5	17.4
Raw Material Consumed	178,100	216,330	194,690	191,260	208,880	233,540	258,380	264,093	780,380	964,893
Staff Cost	5,530	4,960	5,040	5,410	4,960	4,710	5,770	5,516	20,940	20,956
Other Expenses	29,980	28,630	30,420	26,120	24,670	24,370	23,420	22,229	115,150	94,689
EBITDA	46,330	50,640	51,800	51,690	56,730	57,810	58,330	57,643	200,460	230,513
% of Net Sales	17.8	16.8	18.4	18.8	19.2	18	16.9	16.5	17.9	17.6
Change (%)	NM	NM	NM	NM	22.4	14.2	12.6	11.5	40.2	15
Depreciation	11,010	12,130	12,740	12,270	11,250	11,290	12,130	12,187	48,150	46,857
Interest	2,980	2,970	3,060	2,880	2,950	2,570	2,530	2,519	11,890	10,569
Other Income	1,080	1,250	1,200	1,250	1,970	1,680	2,410	2,491	4,780	8,551
PBT	33,420	36,790	37,200	37,790	44,500	45,630	46,080	45,428	145,200	181,638
Tax	6,360	6,790	6,390	6,230	8,200	7,260	7,260	7,250	25,770	29,970
Rate (%)	19	18.5	17.2	16.5	18.4	15.9	15.8	16	17.7	16.5
Adjusted PAT	27,060	30,000	30,810	31,560	36,300	38,370	38,820	38,177	119,430	151,667
Change (%)	NM	NM	NM	NM	34.1	27.9	26	21	31.7	27
Extra-ordinary Gains							41,970			41,970
Reported PAT	27,060	30,000	30,810	31,560	36,300	38,370	80,790	38,177	119,430	193,637

E: MOST Estimates

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Pharmaceuticals

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

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Higher base effect and currency appreciation to drag down bottomline growth

MOST Pharma universe sales growth for 4QFY08E is likely to be tempered to 10.8% YoY, mainly due to the higher base effect resulting from one-time opportunities last year, currency appreciation and lackluster performance from the larger generic companies and MNCs. The Big-3 generic companies (by sales) are likely to report a 4.7% decline in topline mainly due to 24.5% sales decline for Dr. Reddy's Labs. (because of the higher base effect of Ondansetron exclusivity). Other Indian companies are expected to record 26% topline growth, led mainly by commercialization of their product pipeline in regulated markets, traction in CRAMS business and consolidation of acquired companies.

We expect MNC Pharma to report only 1% growth in topline, due to part-divestment of the consumer healthcare business for Pfizer, fine chemicals business for GSK Pharma and lower sales of Rabipur and Soframycin for Aventis. Overall EBITDA margins for MOST Pharma universe are expected to decline by 86bp YoY, as the MNC companies report 62bp margin decline over last year. EBITDA margins for the Big-3 generic companies are expected to decline by 710bp (mainly due to Ondansetron base effect for DRL), while that for other Indian companies would witness an improvement of 367bp. Overall, we expect MOST Pharma universe's PAT to decline by 9.1% YoY, with MNC Pharma reporting growth of 2.6% YoY and other Indian Pharma group's PAT growing

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Pharmaceuticals							
Aurobindo Pharma	Sell	6,265	12.4	954	46.5	638	-18.3
Aventis Pharma	Buy	2,026	-4.8	395	-20.0	332	-23.4
Biocon	Buy	2,937	5.6	838	-2.2	650	7.1
Cadila Health	Buy	5,459	25.3	793	11.5	388	-0.2
Cipla	Neutral	9,532	2.3	2,082	42.7	1,422	-0.6
Dishman Pharma	Buy	2,084	1.3	410	88.3	291	-12.6
Divis Labs	Neutral	2,924	15.8	1,266	11.1	1,108	9.5
Dr Reddy's Labs	Buy	11,761	-24.5	1,169	-78.6	915	-71.9
GSK Pharma	Buy	4,411	4.9	1,501	3.5	1,223	9.9
Jubilant Organosys	Buy	6,635	43.2	1,251	56.9	796	24.8
Lupin	Buy	7,509	41.2	1,250	61.1	854	30.8
Nicholas Piramal	Buy	7,600	17.8	1,419	67.2	980	59.4
Pfizer	Neutral	1,678	-1.4	430	5.4	364	12.2
Ranbaxy Labs	Buy	17,488	10.5	2,413	26.5	1,038	-18.7
Shasun Chemicals	Buy	2,521	8.3	268	135.0	141	16.1
Sun Pharma	Buy	6,812	28.2	2,984	93.1	2,282	7.6
Wockhardt	Neutral	7,945	52.0	1,835	58.3	799	44.7
Sector Aggregate		105,590	10.8	21,257	6.3	14,220	-9.1

by 14.1%. The Big-3 generic companies are expected to record 43% PAT de-growth mainly due to a 72% decline in PAT for DRL and a 18.7% decline for Ranbaxy (due to lower forex gains). PAT for Sun Pharma will be partly boosted due to shared exclusivity for Oxcarbazepine while that for NPIL will be boosted by savings on NCE research. Topline performance of MNCs is likely to be impacted by company-specific factors — divestment of fine chemicals business for GSK and part-divestment of consumer healthcare business for Pfizer.

Patent expiries to drive generics growth in regulated markets

We expect US\$45b-US\$50b worth of products to go off-patent in the US alone by 2010. At an average of 97% price discount, this is likely to result in a potential market worth US\$1.5b for generics players over the next three years. Western Europe will witness patent expiries worth about US\$6b in the same period. Many countries (for e.g. Japan) are likely to encourage generics to reduce their healthcare costs. All this will ensure that generic volumes continue to expand further.

US generic prices already at 97-99% discount, further declines insignificant

Prices for patent-expired products in the US are already at 97-99% discount to the innovator's price. While we do not expect any significant improvement in the competitive landscape in the short-to-medium term, we believe that further price declines may not be very significant. Price deflation commenced in CY04 and we are already into the fourth year of successive price decline.

Low penetration to drive double-digit growth in many European markets

We believe that the generic penetration in several European markets is extremely low. Barring Germany and the UK, generic penetration in most of the regulated markets in Europe (France, Spain, Italy, Belgium) is in single digits. Japan, the second largest pharmaceutical market, also has a generic penetration of merely 5%. This implies that as more drugs go off-patent in these markets and as respective governments enact favorable legislation, generic penetration in these markets is likely to improve significantly. The larger Indian generic players have already entered these markets (either via the inorganic route or via partnerships), which should augur well for these companies in the long term.

RoW markets offer an attractive opportunity with higher margins

The size of the semi-regulated markets is expected to increase from US\$40b in 2005 to US\$50b-US\$60b by 2009. The opportunity spans more than 150 markets through Latin America, Asia, Eastern Europe and Australia. The current market share of Indian companies is merely about 6%, implying that there is substantial room for growth. Secondly, most of these markets are branded generic markets, thus, resulting in better margins compared with the US generic market (GPM of about 60-70% compared with about 40-50% for the US). Indian generic companies have already established a reasonable presence in some of these markets (like Russia, Latam) while they are in the process of strengthening their presence in some of the other markets (like China, Australia, New Zealand).

Cost structures are being re-aligned/de-risked

To counter the pricing pressure in regulated markets, Indian generic companies have embarked on a cost control cum de-risking drive. Costs are being reduced by focusing on conducting in-house bioequivalence studies; controlling SG&A costs and adopting a pragmatic approach towards patent challenges (leading to out-of-court settlements thus capping litigation costs and leading to confirmed upsides from the patent challenges). Ranbaxy is a typical example of this approach. Dr. Reddy's Labs has de-risked its fixed costs by resorting to external funding and partnering with private equity investors. Sun Pharma and Nicholas Piramal have de-merged their NCE/NDDS research. Ranbaxy has also proposed a de-risking of its NCE research through a de-merger of its research unit.

Consolidation to gain further steam ahead, risks of extended payback remain

Intense price competition in the traditional generic market of the US and UK has forced most generic players to expand geographically and also focus on backward integration. This has led to a big consolidation wave in the global generic industry with large players such as Teva and Sandoz successfully polarizing the market in their favor (via big ticket acquisitions). While acquisitions are imperative to gain scale, we believe that current valuations for generic assets are extremely demanding implying that inorganic growth for Indian players is likely to come at the cost of extended paybacks of about 8-10 years.

Which generic models will succeed?

In our opinion, the winning business model will include a combination of:

1. Vertical integration
2. Low cost of manufacture
3. Geographically diversified presence
4. Wide product basket with pragmatic mix of FTF/niche and normal products
5. Strong balance sheet

The table below indicates the status of Indian players vis-à-vis each of the above parameters:

PARAMETER	PRE-REQUISITE	STATUS OF INDIAN PLAYERS
Vertical Integration	Complete integration from manufacturing of intermediates to formulations	Most Indian players are vertically integrated
Manufacturing locations	Access to low-cost manufacturing base like India	Most Indian players have a strong manufacturing base in India
Geographical Diversification	Right mix of regulated and semi-regulated markets	Ranbaxy & Cipla have a fairly diversified geographical portfolio
Product Basket	Wide product basket including various dosage forms with some niche products & FTFs	The top four generic Indian players have large product baskets. Other Indian companies in the process of widening their portfolios
Financial Health	Strong balance sheet to manage litigation risks, acquisitions etc.	Amongst the leading players only Sun Pharma has the balance sheet strength to fund large acquisitions without significantly diluting equity capital

Source: Motilal Oswal Securities

US pricing pressure, costly acquisitions – already discounted in current valuations

While valuations for Ranbaxy and Dr Reddy's reflect extreme pessimism led by intense generics, pricing pressure and expensive acquisitions made by these companies, that for Sun Pharma reflect the consistency of performance over the past seven years and the conservative stance of its management.

Sensitivity to US revenues likely to reduce in future for Ranbaxy and DRL

We believe that markets are currently discounting the 97-99% price erosion in the US generic markets despite the fact that the sensitivity to US generic revenues is likely to decline (particularly for Ranbaxy and DRL) in the coming years as initiatives in other markets (which enjoy better margins) start contributing to revenues and profits.

Outsourcing opportunity gaining traction

More MNCs are visiting India for CRAMS tie-ups. We believe that India offers a unique combination of skilled labor (at low costs), international regulatory compliance, IPR protection, presence across CRAMS value chain and good quality. Most of the CRAMS players are expecting a ramp-up in their contract manufacturing revenues.

Large pharmaceutical companies like Pfizer, Merck (USA), AstraZeneca etc., have undertaken a restructuring of their manufacturing operations and are likely to focus on outsourcing to reduce costs. We believe that India could be a significant beneficiary of the increased outsourcing.

Indian CRAMS players are also looking at acquisitions

Most of the Indian CRAMS players are looking at acquisitions to acquire more customer relationships and contracts as well as get access to critical technologies. Nicholas Piramal has already announced two acquisitions (Avecia and Pfizer's UK unit at Morpeth) while Shasun has acquired Rhodia's custom manufacturing unit in the UK. Dishman Pharma has acquired Carbogen-AMCIS in Switzerland while Jubilant Organosys has acquired Hollister in the US.

Most of the acquired companies were divested by their existing owners (mostly large pharmaceutical/chemicals companies) as a part of their strategy of divesting non-core assets. It is pertinent to note that most of these companies had invested significant resources some years ago to establish their presence in the CRAMS space. Failure/withdrawal of some large molecules, intense generic competition and low R&D productivity (at the customer's end) has adversely impacted most CRAMS players in Europe and USA over the past three years. This coupled with high fixed costs forced the owners to divest these assets, which have been purchased by Indian CRAMS players at very reasonable valuations (0.5-1x sales).

Topline growth is imperative for turnaround of acquired CRAMS companies

Although, Indian CRAMS players have acquired these assets at very reasonable valuations (0.5-1x sales), high fixed costs mandate that a turnaround is not feasible without topline growth. It is also important to note that most of these CRAMS assets were divested post restructuring (by their existing owners) implying that; there may not be very significant room to cut costs further. Hence the challenge for Indian companies which acquire such players, will be to grow the topline by getting more manufacturing contracts.

Significant appreciation of the INR could have an adverse impact

The INR has appreciated significantly against the US\$ since March 2007. Being an export-oriented business model, currency appreciation is likely to have an adverse impact on the generic and the CRAMS players. We believe that the current valuations of these players have already discounted this significant currency appreciation. It has also been factored into our earnings estimates for these companies. Our estimates also take into account a further gradual appreciation of the INR v/s the US\$ for the next three years. However, any significant appreciation will have an adverse impact on operational performance of some of these companies with high net exposure to the US\$. These include Ranbaxy, Shasun, Dishman Pharma, Aurobindo and Cipla. Sun Pharma, Cadila Healthcare, MNC Pharma, and Nicholas Piramal will not be significantly impacted as they have lower net exposure to the US\$. However, if the INR were to appreciate against the Euro and the GBP, it will impact companies like Nicholas Piramal, Shasun and Wockhardt due to their exposure to the European markets. We note that the INR has, in fact, depreciated against the US\$ in the past few weeks.

New Pharma Policy: Uncertainty continues

The outlook on the New Pharmaceutical Policy continues to be uncertain as the government is yet to announce the final policy. We believe that there are still differences between the government and the pharmaceutical industry which need to be worked out. Major differences concern the span and extent of price control on pharmaceutical products. Media reports suggest that the government is not fully satisfied with the price cuts implemented by the pharmaceutical industry in the generic-generics segment.

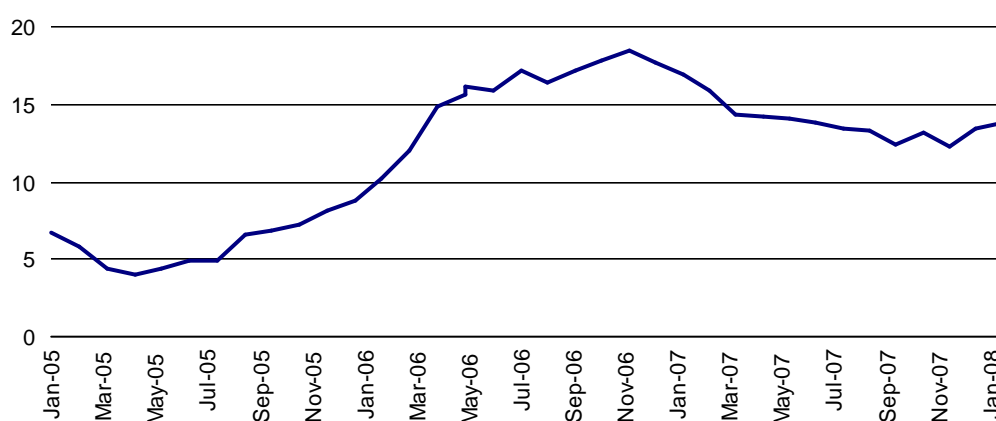
The new policy proposes to significantly increase the span of control by bringing in additional 354 drugs under price control. This could severely impact profitability of the domestic formulations business. Industry has taken strong objection to the proposed policy and we believe that the policy is unlikely to be implemented in the current form. Given strong opposition from industry, the government has formed a Group of Ministers (GoM), which would give final recommendations to the government regarding the new pharmaceutical policy. However, the uncertainty related to this will remain until the government finally notifies the new pharmaceutical policy.

It is important to note that these are only recommendations, pending announcement of the final new drug policy. These recommendations may or may not undergo a change in the final policy when the proposed policy is tabled in the Union Cabinet for approval.

Domestic market – showing double-digit growth

The domestic formulation industry, has maintained its double-digit growth trajectory at 13.6% for 12 months ended January 2008. While higher volumes have primarily driven the growth, we also note that the industry is witnessing a minor positive price contribution.

TREND IN DOMESTIC MARKET GROWTH (% MAT)



Source: ORG IMS

Outlook

Generics

We believe that the worst is over for Indian generic companies and expect gradual improvement in their performance over the next two years. CY05-CY07 was the worst period for generics mainly due to:

- ✘ Increased competition due to aggressive filings from Indian companies and entry of new players
- ✘ Innovators have adopted an aggressive stance including price cuts (on branded products), introduction of authorized generics, patent delisting, and defending IPRs vigorously.
- ✘ Combined impact of intense competition, currency appreciation and very few new launches due to lesser number of patent expiries.
- ✘ **What has changed over CY05-CY06?**
 - ✘ We expect US\$45b-US\$50b worth of products to go offpatent in the US alone by 2010 – takes care of one of the key impediments for generics
 - ✘ Pricing to remain intensely competitive due to entry of more players and government pressure – however, significant price deterioration unlikely as generic prices are already at 1-3% of the innovator price

- ✍ Expect more consolidation as generics gain scale and expand geographical reach
- ✍ Indian generic companies have initiated cost-cutting measures (including R&D hive-off)
- ✍ Generics and innovators adopting a more pragmatic stance on patent litigations leading to settlements and resulting in monetization of the Para-IV pipeline for some of these companies (especially Ranbaxy, Sun Pharma and DRL).
- ✍ Governments worldwide trying to reduce healthcare costs – expect regulation to remain favorable

Our top picks in the generic space are **Ranbaxy, Sun Pharma and Lupin**.

MNC Pharma

We remain favorably inclined towards MNC Pharma stocks in the long term. In our view, the current risk-reward equation is stacked in favor of MNC stocks. Leading Pharma MNCs are geared to gain from the opportunities arising in the stronger patent regime post 2005. We remain bullish on the long-term prospects of these companies. The potential upside from product patents would create ‘option value’ in these stocks over the longer term. It should be noted that some of the patented products may be launched by the parent through the 100% subsidiary route. However, we believe that most of the mass-market products (which need a large field force for promotion) are likely to be launched through the listed entities. **GSK Pharma** remains our top pick amongst the MNCs.

CRAMS

We also believe that the Indian contract-manufacturing segment will see strong double-digit secular growth (given India’s advantages) with the financial impact visible from FY09 onwards. **Piramal Healthcare** remains our top pick amongst the CRAMS players.

TREND IN GROWTH / PROFITABILITY OF DIFFERENT SEGMENTS OF THE INDUSTRY (JANUARY-MARCH QUARTER)

INQUIRE PHARMA UNIVERSE	YOY GROWTH (%)			EBITDA MARGIN (%)			NET PROFIT MARGIN (%)		
	SALES	EBITDA	ADJ PAT	MAR-08	MAR-07	CHG (BPS)	MAR-08	MAR-07	CHG (BPS)
AGGREGATES									
MNC Pharma (Aventis, GSK Pharma, Pfizer)	1.0	-1.1	2.6	28.7	29.3	-62	23.6	23.3	36
Indian Big-3 (Cipla, DRL, Ranbaxy) **	-4.7	-35.9	-43.4	14.6	21.7	-710	8.7	14.6	-594
Other Indian Pharma	26.0	50.5	14.1	22.6	18.9	367	15.2	16.8	-159
Sector Aggregate	10.8	6.3	-9.1	20.1	21.0	-86	13.5	16.4	-295

** Ranked according to revenues

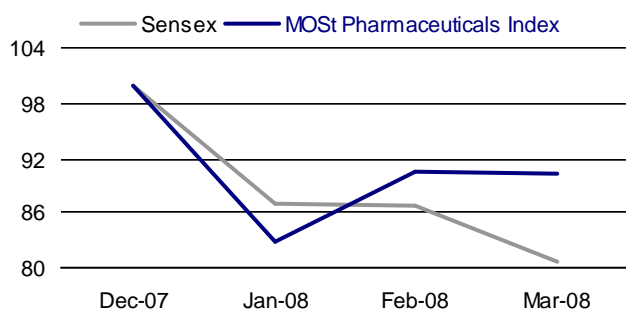
Source: Motilal Oswal Securities

Stock performance and valuations

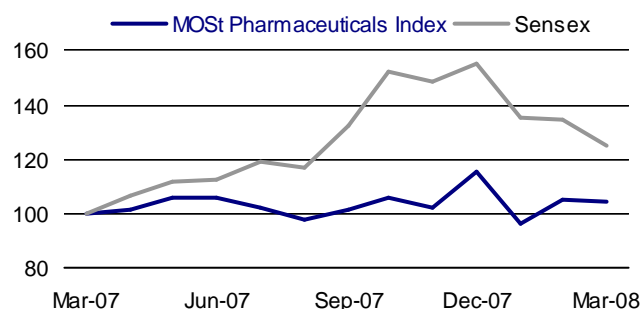
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Pharmaceuticals						
Aurobindo Pharma	-45	-55	-26	-82	-36	-62
Aventis Pharma	-33	-38	-14	-65	-24	-45
Biocon	-25	-8	-6	-35	-17	-15
Cadila Health	-19	-23	0	-50	-10	-30
Cipla	1	-7	20	-34	10	-15
Dishman Pharma	-10	47	9	20	-1	39
Divis Labs	-28	131	-9	104	-19	123
Dr Reddy's Labs	-17	-15	2	-42	-8	-22
GSK Pharma	2	-5	21	-32	11	-12
Jubilant Organosys	-3	31	16	4	6	24
Lupin	-23	-17	-4	-44	-14	-25
Piramal Healthcare	-14	24	5	-3	-5	16
Pfizer	-17	-17	2	-44	-8	-24
Ranbaxy Labs	6	30	25	3	14	22
Shasun Chemicals	-50	-55	-31	-82	-41	-63
Sun Pharma	4	26	23	-2	12	18
Wockhardt	-34	-33	-15	-60	-25	-40

RELATIVE PERFORMANCE - 3 MONTHS (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Pharmaceuticals														
Aurobindo Pharma	294	Sell	33.9	36.1	49.2	8.7	8.1	6.0	8.1	6.8	5.3	21.0	18.5	20.3
Aventis Pharma	750	Buy	62.7	63.5	67.6	12.0	11.8	11.1	7.4	6.4	5.1	21.5	19.6	18.9
Biocon	432	Buy	22.5	26.4	31.3	19.2	16.3	13.8	13.7	10.7	8.6	14.9	15.4	16.0
Cadila Health	250	Buy	19.5	24.3	33.2	12.9	10.3	7.5	7.9	6.5	5.0	26.0	25.9	28.6
Cipla	218	Neutral	8.5	9.8	11.7	25.5	22.3	18.5	19.8	17.5	14.4	17.7	17.4	17.9
Dishman Pharma	311	Buy	13.6	17.8	21.3	22.8	17.4	14.6	21.0	15.5	12.6	30.3	30.3	28.0
Divis Labs	1,361	Neutral	57.3	70.8	85.1	23.8	19.2	16.0	20.7	16.5	12.6	53.6	44.8	38.6
Dr Reddy's Labs	591	Buy	27.2	34.6	42.3	21.7	17.1	14.0	17.1	13.4	11.1	10.1	11.8	13.0
GSK Pharma	1,044	Buy	47.2	51.7	59.1	22.1	20.2	17.7	14.9	13.7	11.7	28.9	26.5	25.5
Jubilant Organosys	332	Buy	23.0	22.1	26.0	14.4	15.0	12.8	11.6	9.1	7.3	36.1	25.1	24.0
Lupin	483	Buy	36.8	44.4	56.6	13.1	10.9	8.5	10.2	8.6	6.7	31.1	28.8	29.5
Nicholas Piramal	301	Buy	14.7	19.8	23.2	20.5	15.2	13.0	14.5	11.1	9.5	25.7	27.9	26.9
Pfizer	661	Neutral	42.5	48.5	53.0	15.6	13.6	12.5	8.8	6.5	5.4	18.6	15.5	15.4
Ranbaxy Labs	439	Buy	19.2	19.5	22.2	22.8	22.5	19.7	19.5	15.7	12.6	25.9	23.2	23.3
Shasun Chemicals	44	Buy	2.7	6.2	7.0	16.7	7.1	6.3	12.1	5.2	4.9	5.6	12.3	12.9
Sun Pharma	1,251	Buy	47.9	48.5	57.3	26.1	25.8	21.9	19.1	19.0	15.3	26.0	19.0	19.1
Wockhardt	267	Neutral	29.0	33.4	38.1	9.2	8.0	7.0	7.4	6.0	5.1	28.5	26.0	24.1
Sector Aggregate						19.2	17.1	14.3	15.1	12.6	10.3	22.5	20.8	21.0

Aurobindo Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	ARBP IN
	REUTERS CODE
S&P CNX: 4,942	ARBN.BO

28 March 2008

Sell

Rs294

Previous Recommendation: Sell

Equity Shares (m)	53.3
52-Week Range	820/233
1,6,12 Rel. Perf. (%)	3/-46/-82
M.Cap. (Rs b)	15.7
M.Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	21,229	2,010	29.4	262.0	10.0	1.8	22.7	8.3	1.4	10.1
03/08E	23,568	2,322	33.9	15.5	8.7	1.4	21.0	9.2	1.2	8.1
03/09E	26,994	2,470	36.1	6.4	8.1	1.2	18.5	9.1	1.0	6.8
03/10E	32,209	3,367	49.2	36.3	6.0	0.9	20.3	10.7	0.8	5.3

* Consolidated results

- Sales are expected to grow by 12.4% to Rs6.2b, on account of improved traction in USA as well as higher ARV sales. EBITDA margins are expected to improve by 354bp to 15.2% due to improvement in market and product mix.
- We do not expect any significant contribution from the Cefdinir launch in the US as it is likely to have contributed for not more than a week's revenues.
- While the company has aggressively ramped up its filings in the regulated markets, we believe that being a late entrant it will have to play the price game to gain share. We believe that it is currently in an investment mode as far as some of the European markets are concerned. The company continues to be exposed to the cyclicity of Pen-G prices as products based on Pen-G contribute about 18% to revenues. The stock is currently valued at 8.1x and 6x FY09E and FY109 earnings respectively. We maintain **Sell**.
- Our quarterly estimates are standalone, while annual estimates are on a consolidated basis.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07**				FY08				FY07**	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,141	4,800	5,284	5,572	5,323	6,284	5,696	6,265	19,797	23,568
YoY Change (%)	47.6	50.2	29.2	20.3	28.5	30.9	7.8	12.4	34.5	19.0
Total Expenditure	3,483	4,109	4,499	4,920	4,629	5,350	4,908	5,311	17,011	20,197
EBITDA	659	691	785	652	695	934	788	954	2,786	3,371
Margins (%)	15.9	14.4	14.9	11.7	13.1	14.9	13.8	15.2	14.1	14.3
Depreciation	143	150	163	263	234	250	256	275	718	1,014
Interest	70	202	197	30	106	116	101	128	187	451
Other Income	60	267	263	152	335	270	175	81	431	862
PBT	506	606	688	511	690	838	606	633	2,312	2,767
Tax	7	48	52	-68	78	204	155	-133	39	304
Deferred Tax	137	12	44	-234	-8	11	6	129	-41	138
Rate (%)	28.5	9.8	14.0	-58.9	10.2	25.7	26.7	-0.6	-0.1	16.0
PAT	362	546	601	781	617	621	446	638	2,291	2,322
Adjusted PAT	362	546	592	781	618	621	445	638	2,263	2,322
YoY Change (%)	1,701.5	1,401.1	126.0	108.1					226.2	2.6
Margins (%)	8.7	11.4	11.2	14.0	11.6	9.9	7.8	10.2	11.4	9.9

E: MOST Estimates; **-Denotes standalone financials

Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	HOEC IN
	REUTERS CODE
S&P CNX: 4,942	HOEC.BO

28 March 2008

Buy

Rs750

Previous Recommendation: Buy

Equity Shares (m)	23.0
52-Week Range	1,495/725
1,6,12 Rel. Perf. (%)	-10/-30/-65
M.Cap. (Rs b)	17.3
M.Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/06A	8,821	1,693	73.5	3.2	10.2	2.9	28.6	42.0	1.5	6.1
12/07A	8,735	1,444	62.7	-14.7	12.0	2.6	21.5	33.1	1.4	7.4
12/08E	9,087	1,462	63.5	1.3	11.8	2.3	19.6	29.7	1.3	6.4
12/09E	9,926	1,557	67.6	6.5	11.1	2.1	18.9	28.7	1.1	5.1

* Standalone results

- Sales are expected to decline by 5% YoY to Rs2b due to lower Rabipur and Soframycin revenues in the domestic market. Exports are also expected to decline due to removal of some of the company's products from the federal reimbursement list in Russia and appreciation of the INR versus the US\$. The parent has commenced sourcing more products from APL and has identified it as a global sourcing base for some of its patent-expired products like Paracetamol. This is likely to lead to better performance on the export front over the long-term.
- EBITDA margins are likely to decline by 370bp to 19.5% due to higher contribution from mature brands like Combiflam and higher expenses related to increasing filed force for penetration in non-urban areas.
- PAT is expected to record 23% de-growth due to lower EBITDA margins and reduced other income. Higher tax rates are also likely to adversely impact the bottomline.
- We believe that APL will be one of the key beneficiaries of the patent regime in the long term. The parent has a strong R&D pipeline with a total of 125 products under development, of which 25 are in Phase-III. It plans to file 40 NDAs by CY10E. We continue to remain positive on APL's long-term prospects. However, we believe that, the stock price performance will remain muted until more clarity emerges on supply issues related to Rabipur and Soframycin. The stock is currently valued at 11.8x CY08E and 11.1x CY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	2,129	2,302	2,264	2,040	2,026	2,360	2,397	2,304	8,735	9,087
YoY Change (%)	6.2	3.3	-6.9	-6.2	-4.8	2.5	5.9	12.9	328.2	4.0
Total Expenditure	1,635	1,857	1,818	1,750	1,631	1,845	1,895	1,879	7,060	7,250
EBITDA	494	445	446	290	395	515	502	425	1,675	1,837
Margins (%)	23.2	19.3	19.7	14.2	19.5	21.8	20.9	18.5	19.2	20.2
Depreciation	45	47	47	46	46	52	52	55	185	205
Interest	0	0	2	0	0	0	0	0	2	0
Other Income	200	182	176	182	154	117	206	110	740	587
PBT before EO Items	649	580	573	426	503	580	655	481	2,228	2,219
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0
PBT after EO Items	649	580	573	426	503	580	655	481	2,228	2,219
Tax	216	207	205	156	172	198	223	164	784	757
Effective tax Rate (%)	33.3	35.7	35.8	36.6	34.1	34.1	34.1	34.1	35.2	34.1
Reported PAT	433	373	368	270	332	382	432	317	1,444	1,462
Adj PAT	433	373	368	270	332	382	432	317	1,444	1,462
YoY Change (%)	17.3	-15.0	-31.6	-22.2	-23.4	2.5	17.3	17.3	434.7	1.3
Margins (%)	20.3	16.2	16.3	13.2	16.4	16.2	18.0	13.7	16.5	16.1

E: MOST Estimates

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Biocon

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	BIOS IN
	REUTERS CODE
S&P CNX: 4,942	BION.BO

28 March 2008

Buy

Rs432

Previous Recommendation: Buy

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	100.0	03/07A	9,863	2,002	20.0	15.1	21.6	4.0	18.7	17.0	4.5	15.5
52-Week Range	663/345	03/08E	10,807	2,250	22.5	12.4	19.2	2.9	14.9	14.2	3.8	13.7
1,6,12 Rel. Perf. (%)	4/-4/-35	03/09E	17,917	2,645	26.4	17.5	16.3	2.5	15.4	16.1	2.4	10.7
M.Cap. (Rs b)	43.2	03/10E	21,178	3,127	31.3	18.3	13.8	2.2	16.0	16.4	1.9	8.6
M.Cap. (US\$ b)	1.1											

- Biocon's 4QFY08 sales are expected to grow by only 5.6% YoY to Rs2.9b mainly due to divestment of the enzyme business and lower growth in the contract research business.
- EBITDA margins are likely to reduce by 227bp (to 28.5%) due to higher R&D and promotional spend as well as currency appreciation.
- Higher depreciation (up by 30% YoY) on account of commencement of new facility, is likely to restrict PAT growth to 7% at Rs650m.
- Biocon has divested its enzymes business to Novozymes for US\$115m. Since the sale is effective from 3QFY08, our estimates take into account the revenue impact of this divestment.
- While some of Biocon's initiatives appear promising, their visibility is poor. Biocon is currently valued at 16.3x FY09E and 13.8x FY10E earnings. Launch of bio-generics in regulated markets remains the key long-term trigger; however, clarity on the regulatory pathway is still awaited from the US FDA. In the interim, Biocon's initiatives in the Insulin space are likely to be key growth drivers. Another re-rating trigger is the proposed listing of its contract research business over the next 12 months. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	2,120	2,490	2,470	2,782	2,710	2,790	2,370	2,937	9,862	10,807
YoY Change (%)	21.9	24.2	24.0	29.8	27.8	12.0	-4.0	5.6	25.1	9.6
Total Expenditure	1,577	1,831	1,693	1,925	1,945	1,985	1,779	2,099	7,022	7,809
EBITDA	544	659	777	857	765	805	591	838	2,840	2,998
Margins (%)	25.6	26.5	31.5	30.8	28.2	28.8	24.9	28.5	28.8	27.7
Depreciation	109.7	177.5	182.8	195.3	216.4	233.6	240.0	253.0	665.3	943.0
Interest	16.7	21.6	21.6	34.5	27.5	26.7	25.8	27.5	94.5	107.5
Other Income	13.6	8.6	2.8	11.9	9.9	19.2	210.9	106.9	31.9	346.9
PBT	431	469	576	639	531	564	536	665	2,112	2,295
Tax	42	22	36	65	15	38	18	44	165	114
Rate (%)	9.8	4.8	6.2	10.2	2.8	6.7	3.3	6.7	7.8	5.0
Minority Interest	-5	-7	-20	-33	-14	-14	-12	-30	-63	-70
PAT	394	453	560	607	530	540	530	650	2,010	2,250
YoY Change (%)	1.8	4.1	27.7	26.9	34.5	19.0	-5.3	7.1	15.5	12.0
Margins (%)	18.6	18.2	22.7	21.8	19.6	19.3	22.4	22.1	20.4	20.8

E: MOST Estimates

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Cadila Healthcare

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CDH IN
	REUTERS CODE
S&P CNX: 4,942	CADI.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs250

Equity Shares (m)	125.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	412/203	END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-7/-14/-50	03/07A	18,288	2,343	18.7	43.5	13.4	3.6	29.9	24.1	1.9	9.9
MCap. (Rs b)	31.5	03/08E	23,072	2,503	19.5	4.3	12.9	3.0	25.4	21.0	1.5	8.3
MCap. (US\$ b)	0.8	03/09E	27,048	3,052	24.3	24.9	10.3	2.4	25.9	19.7	1.3	6.9
		03/10E	31,713	4,172	33.2	36.7	7.5	1.9	28.6	22.7	1.1	5.3

- Cadila's 4QFY08 revenue is expected to grow by 25.3% to Rs5.5b, driven by 40% growth in formulation exports and 33% growth in domestic business (on a low base).
- EBITDA margins are expected to decline by 180bp to 14.5%, mainly due to reduced sourcing of Pantoprazole intermediates by Nycomed (a high-margin product). This coupled with higher interest cost (up by 44%) and increased depreciation (up 40%) is likely to result in flat PAT growth.
- Teva and Sun Pharma have recently launched their generic versions of Protonix (Pantoprazole) in the US thus adversely impacting Nycomed's revenues. Cadila management has, in the past, indicated that this is likely to adversely impact the bottomline by about Rs170-200m on an annualized basis.
- Cadila is currently valued at 10.3x FY09E and 7.5x FY10E consolidated earnings. Higher growth in the international business, turnaround in French operations and commencement of supplies to Hospira coupled with a de-risked business model should augur well for the company. We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Revenues	4,458	4,748	4,724	4,357	5,722	6,097	5,794	5,459	18,288	23,072
YoY Change (%)	19.5	27.3	27.8	25.9	28.4	28.4	22.7	25.3	23.2	26.2
Total Expenditure	3,560	3,658	3,901	3,646	4,610	4,780	4,759	4,667	14,767	18,816
EBITDA	898	1,090	823	711	1,112	1,317	1,035	793	3,521	4,257
Margins (%)	20.1	23.0	17.4	16.3	19.4	21.6	17.9	14.5	19.3	18.4
Depreciation	197	213	212	200	239	235	270	279	823	1,023
Interest	69	54	49	52	73	127	66	75	223	341
Other Income	49	3	0	15	94	0	2	4	264	100
PBT before EO Income	681	826	562	474	894	955	701	443	2,739	2,993
EO Exp/(Inc)	0	0	-196	0	0	24	45	0	0	69
PBT after EO Income	681	826	758	474	894	931	656	443	2,739	2,924
Tax	76	100	98	50	121	114	177	27	324	439
Rate (%)	11.2	12.1	12.9	10.5	13.5	12.2	27.0	6.0	11.8	15.0
Minority Int/Adj on Consol	21	21	1	35	34	16	-37	28	77	41
Reported PAT	584	705	659	389	739	801	516	388	2,338	2,444
Adj PAT	584	705	488	389	739	822	549	388	2,338	2,503
YoY Change (%)	47.2	38.8	18.4	13.0	26.5	16.6	12.4	-0.2	40.7	7.0
Margins (%)	13.1	14.8	10.3	8.9	12.9	13.5	9.5	7.1	12.8	10.8

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Cipla

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	CIPLA IN
	REUTERS CODE
S&P CNX: 4,942	CIPL.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs218

Equity Shares (m)	777.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	260/160	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	14/25/-34	03/07A	35,618	6,679	8.6	5.9	25.3	5.2	20.7	23.7	4.8	20.9
MCap. (Rs b)	169.1	03/08E	40,579	6,633	8.5	-0.7	25.5	4.5	17.7	19.6	4.2	19.8
MCap. (US\$ b)	4.2	03/09E	46,309	7,588	9.8	14.3	22.3	3.9	17.4	18.8	3.6	17.5
		03/10E	53,319	9,126	11.7	20.1	18.5	3.3	17.9	19.6	3.1	14.4

- Cipla's 4QFY08 revenues are expected to grow by only 2.3% YoY to Rs9.5b, mainly due to a 2.7% decline in exports. Sequentially, Cipla's topline will record 14% decline due to the higher base effect of increased technology licensing income and higher supplies of Alendronate Sodium to the US.
- EBITDA margin is expected to improve by 619bp to 21.8% mainly due to the significantly lower base of 4QFY07. However, higher tax rate (at 25% v/s 10% for 4QFY07) is likely to restrict PAT to Rs1.42b (flat growth).
- Cipla has one of the strongest generic pipelines with tie-ups for 108 products for the US (across 10 partners). The company is spending a significant amount (about Rs19b) to expand manufacturing facilities in the FY05-09 period. While we remain positive on Cipla's business prospects in the long term, we expect the stock price performance to remain muted in the short term in line with the company's muted guidance for FY08E. At 22.3x FY09E and 18.5x FY10E EPS, we maintain our **Neutral** recommendation on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	8,636	8,961	8,805	9,319	9,018	10,984	11,045	9,532	35,618	40,579
YoY Change (%)	30.3	33.4	12.8	7.0	4.4	22.6	25.4	2.3	19.0	13.9
Total Expenditure	6,347	6,685	6,613	7,860	7,411	8,744	8,422	7,450	27,505	32,028
EBITDA	2,289	2,276	2,193	1,459	1,607	2,240	2,623	2,082	8,114	8,552
Margins (%)	26.5	25.4	24.9	15.7	17.8	20.4	23.7	21.8	22.8	21.1
Depreciation	260	245	275	254	303	328	330	345	1,034	1,305
Interest	28	16	13	13	8	24	38	42	70	113
Other Income	220	190	261	397	185	418	242	208	1,068	1,054
Profit before Tax	2,220	2,205	2,166	1,590	1,482	2,307	2,497	1,903	8,078	8,188
Tax	516	403	322	159	284	401	390	481	1,400	1,556
Rate (%)	23.2	18.3	14.9	10.0	19.2	17.4	15.6	25.3	17.3	19.0
Reported PAT	1,704	1,803	1,844	1,431	1,198	1,906	2,107	1,422	6,679	6,633
YoY Change (%)	53.0	47.0	5.2	-25.0	-29.7	5.7	14.2	-0.6	9.9	-0.7
Margins (%)	19.7	20.1	20.9	15.4	13.3	17.4	19.1	14.9	18.8	16.3

E: MOST Estimates

Dishman Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	DISH IN
	REUTERS CODE
S&P CNX: 4,942	DISH.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs311

Equity Shares (m)	81.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	427/198	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	21/12/20	03/07A	5,750	893	11.0	94.1	28.3	7.1	35.4	15.6	5.3	27.4
MCap. (Rs b)	25.4	03/08E	7,696	1,107	13.6	24.0	22.8	5.4	30.3	15.7	4.1	21.0
MCap. (US\$ b)	0.6	03/09E	9,371	1,449	17.8	30.9	17.4	4.1	30.3	16.3	3.3	15.5
		03/10E	11,057	1,727	21.3	19.2	14.6	3.2	28.0	17.7	2.8	12.6

- ☞ Dishman's 4QFY08 revenues are expected to grow by only 1.3% YoY to Rs2.1b on a high base of 4QFY07.
- ☞ EBITDA margins are expected to improve by 910bp to 19.7% mainly due to adjustments for 4QFY07 which had led to significantly lower margins compared with normalized margins.
- ☞ Higher depreciation and interest cost coupled with higher tax outgo is likely to result in PAT decline of 12.6% to Rs291m.
- ☞ We believe that Dishman will be one of the key beneficiaries of the increased pharmaceutical outsourcing from India. Expansion of customer base (to reduce dependence on Solvay) and ability to offer the complete range of services across the CRAMS value chain should benefit the company in the long term. The stock is currently valued at 17.4x FY09E and 14.6x FY10E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	822	1,170	1,736	2,057	1,680	1,866	2,066	2,084	5,786	7,696
YoY Change (%)	34.7	71.0	180.3	139.1	104.2	59.5	19.0	1.3	108.5	33.0
Total Expenditure	620	924	1,248	1,840	1,406	1,461	1,667	1,674	4,632	6,208
EBITDA	202	246	488	218	274	405	398	410	1,154	1,488
Margins (%)	24.6	21.0	28.1	10.6	16.3	21.7	19.3	19.7	19.9	19.3
Depreciation	34	41	156	31	89	111	104	108	263	412
Interest	9	38	72	44	61	72	77	80	162	289
Other Income	34	42	34	122	107	91	125	107	232	430
PBT after EO Income	193	209	294	265	230	314	342	330	961	1,217
Tax	8	39	43	-77	4	32	22	39	13	97
Deferred Tax	0	2	7	9	12	0	0	0	19	12
Rate (%)	4.3	19.6	17.1	-25.4	7.0	10.3	6.4	11.9	3.3	9.0
Reported PAT	185	168	244	332	214	282	321	291	929	1,107
YoY Change (%)	96.4	23.4	25.8	634.1	15.7	67.8	31.3	-12.6	97.9	19.1
Margins (%)	22.5	14.3	14.1	16.2	12.7	15.1	15.5	13.9	16.1	14.4

E: MOST Estimates

Divi's Laboratories

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	DIVI IN
	REUTERS CODE
S&P CNX: 4,942	DIVI.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs1,361

Equity Shares (m)	64.6	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,930/584	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	5/17/104	03/07A	7,244	1,919	29.7	172.1	45.8	16.2	43.5	40.0	12.3	36.3
MCap. (Rs b)	87.9	03/08E	10,472	3,699	57.3	92.8	23.8	10.5	53.6	49.6	8.5	20.7
MCap. (US\$ b)	2.2	03/09E	12,717	4,572	70.8	23.6	19.2	7.3	44.8	44.7	6.8	16.5
		03/10E	15,613	5,491	85.1	20.1	16.0	5.3	38.6	41.4	5.4	12.6

- Divi's 4QFY08 revenues are expected to grow by 16% YoY to Rs2.9b (on a high base), led by continued momentum in both the generics and custom chemical synthesis (CCS) business. EBITDA margins are expected to decline by 180bp to 43.3% mainly due to higher RM costs.
- 4QFY07 was the first quarter when Divi's recorded exponential growth taking the quarterly PAT run-rate to over Rs1b. The company is nearing optimum capacity utilization and hence growth in the coming quarters will be more moderate compared to the 100-200% growth recorded in previous quarters. We expect 4QFY08 PAT growth at 9.5% to Rs1.1b.
- We believe that Divi's will be one of the key beneficiaries of the increased pharmaceutical outsourcing from India. Established relationships with the top 20 innovator pharmaceutical companies should help the company in procuring more outsourcing business as well as in spreading the business risk across customers. We believe that low cost of operations is a significant driver for Divi's profitability. The stock is currently valued at 19.2x FY09E and 16x FY10E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Op Revenue	1,608	1,614	1,496	2,526	2,281	2,425	2,842	2,924	7,244	10,472
YoY Change (%)	148.8	98.3	38.6	98.8	41.8	50.3	90.0	15.8	90.1	44.6
Total Expenditure	1,148	1,179	1,071	1,387	1,438	1,375	1,721	1,659	4,784	6,193
EBITDA	461	435	425	1,139	843	1,050	1,121	1,266	2,460	4,279
Margins (%)	28.6	26.9	28.4	45.1	36.9	43.3	39.4	43.3	34.0	40.9
Depreciation	43	42	59	80	86	78	91	92	223	347
Interest	21	6	38	41	34	32	18	33	106	117
Other Income	44	34	25	34	34	15	45	25	136	120
PBT	441	421	353	1,052	757	956	1,057	1,165	2,267	3,936
Tax	167	114	-1	54	49	1	62	125	334	236
Deferred Tax	6	-6	27	-14	36	42	-11	-67	14	0
Rate (%)	39.4	25.7	7.3	3.8	11.1	4.5	4.8	5.0	15.3	6.0
Adj PAT	267	313	327	1,012	673	913	1,007	1,108	1,919	3,699
YoY Change (%)	109.6	96.2	73.2	341.9	151.6	191.7	207.5	9.5	172.3	92.8
Margins (%)	16.6	19.4	21.9	40.0	29.5	37.6	35.4	37.9	26.5	35.3

E: MOST Estimates

Dr Reddy's Laboratories

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	DR IN
	REUTERS CODE
S&P CNX: 4,942	REDY.BO

28 March 2008

Buy

Rs591

Previous Recommendation: Buy

Equity Shares (m)	167.9
52-Week Range (Rs)	760/501
1,6,12 Rel. Perf. (%)	12/-4/-42
M.Cap. (Rs b)	99.2
M.Cap. (US\$ b)	2.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	65,095	9,323	55.5	521.1	10.6	2.4	22.4	14.3	1.6	7.3
03/08E	48,769	4,569	27.2	-51.0	21.7	2.2	10.1	4.4	2.2	17.1
03/09E	54,815	5,809	34.6	27.1	17.1	2.0	11.8	8.8	1.9	13.4
03/10E	61,352	7,095	42.3	22.1	14.0	1.8	13.0	10.0	1.6	11.1

- Dr Reddy's 4QFY08 sales are expected to decline by 24.5% YoY to Rs11.7b, mainly due to absence of one-time Ondansetron exclusivity revenues (which contributed about Rs2.7b to 4QFY07 sales). Excluding this one-time impact revenues are expected to record 8.6% de-growth, mainly due to pressure on German operations, seasonal slowdown in Russian and Indian formulation businesses and currency appreciation.
- Overall gross margins are expected at 48.8% for the quarter, tempered down by the pressure on German operations. EBITDA margins are also likely to be under pressure at 10%. A tax writeback is likely to partly compensate for this decline resulting in 44% decline in core PAT (excluding impact of Ondansetron for 4QFY07).
- DRL is currently valued at 17.1x FY09E and 14x FY10E earnings (excl FTF upsides). We believe that stock price performance may remain muted until the company is able to demonstrate a significant improvement in its German operations. We maintain **Buy**.

GLOBAL QUARTERLY PERFORMANCE (US GAAP)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Sales	14,049	20,039	15,434	15,573	12,018	12,669	12,321	11,761	65,095	48,769
YoY Change (%)	151.3	247.1	161.7	124.7	-14.5	-36.8	-20.2	-24.5	168.2	-25.1
EBITDA	2,210	4,220	2,464	5,470	2,132	1,461	1,383	1,169	14,361	6,145
Margins (%)	15.7	21.1	16.0	35.1	17.7	11.5	11.2	9.9	22.1	12.6
Depreciation & Amortization	388	402	330	2,221	351	410	2,740	360	3,341	3,861
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	-216	-287	-281	264	231	372	129	96	-520	828
Profit before Tax	1,606	3,531	1,853	3,513	2,012	1,423	-1,228	905	10,500	3,112
Tax	208	737	-27	260	181	-1,248	-380	-10	1,177	-1,457
Rate (%)	13.0	20.9	-1.5	7.4	9.0	-87.7	30.9	-1.1	11.2	-46.8
Reported PAT	1,398	2,794	1,880	3,253	1,831	2,671	-848	915	9,323	4,569
Minority Interest	0	-4	0	-1	3	1	3	0	-4	7
EO (Exp)/Inc	42	0	0	0	0	0	0	0	42	0
Adjusted PAT	1,356	2,798	1,880	3,254	1,828	2,670	-851	915	9,285	4,562
YoY Change (%)	255.0	215.4	407.6	-	34.8	-4.6	-145.3	-71.9	576.6	-50.9
Margins (%)	9.7	14.0	12.2	20.9	15.2	21.1	-6.9	7.8	14.3	9.4

E: MOST Estimates

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GlaxoSmithKline Pharmaceuticals

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	GLXO IN
	REUTERS CODE
S&P CNX: 4,942	GLAX.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs1,044

Equity Shares (m)	84.7	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range (Rs)	1,340/800	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	7/-1/-32	12/06A	15,384	3,617	42.7	18.1	24.5	7.4	30.3	46.4	5.0	16.1
MCap. (Rs b)	88.5	12/07A	15,703	3,997	47.2	10.5	22.1	6.4	28.9	44.0	4.7	14.9
MCap. (US\$ b)	2.2	12/08E	16,488	4,375	51.7	9.5	20.2	5.4	26.5	40.0	4.3	13.7
		12/09E	18,467	5,003	59.1	14.3	17.7	4.5	25.5	38.6	3.7	11.7

- GSK Pharma's 1QCY08 net sales are expected to grow by only 4% to Rs4.4b, due to the recent divestment of fine chemicals business. On a like-to-like basis, we believe that topline growth will be about 7-8% with Priority Products portfolio growing in line with average industry growth of 13-14%.
- PAT is expected to record 10% growth to Rs1.2b partly boosted by a 43% jump in other income.
- GSK is focused on strengthening its presence in the lifestyle disease segment of CVS, CNS, diabetes etc., by in-licensing products and evaluating brand acquisitions in the domestic market.
- GSK Pharma is one of the best plays on the IPR regime with planned launches of 9 patented/exclusive products in CY08-09 period. Our estimates for CY08E take into account the additional marketing and promotional expenditure linked to launch of patented products and the divestment of fine chemicals division. Valuations at 20.2x CY08E and 17.7x CY09E earnings do not fully reflect the strong parentage, cash-rich operations and the 'option value' created from product patent regime in the long term. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	4,203	3,915	4,193	3,392	4,411	4,122	4,287	3,669	15,703	16,488
YoY Change (%)	-1.2	-3.1	5.6	8.8	4.9	5.3	2.2	8.1	2.1	5.0
Total Expenditure	2,753	2,692	2,826	2,460	2,910	2,867	2,932	2,546	10,731	11,254
EBITDA	1,450	1,223	1,366	932	1,501	1,255	1,355	1,123	4,972	5,234
Margins (%)	34.5	31.2	32.6	27.5	34.0	30.5	31.6	30.6	31.7	31.7
Depreciation	37	37	38	50	35	36	36	48	162	156
Other Income	272	312	339	379	388	388	388	388	1,301	1,551
PBT before EO Expense	1,686	1,498	1,667	1,261	1,853	1,607	1,707	1,462	6,112	6,629
Tax	563	502	555	374	630	546	580	497	1,993	2,254
Deferred Tax	10	32	22	59	0	0	0	0	122	0
Rate (%)	34.0	35.6	34.6	34.3	34.0	34.0	34.0	34.0	34.6	34.0
Adjusted PAT	1,113	964	1,091	829	1,223	1,061	1,126	965	3,997	4,375
YoY Change (%)	7.6	5.9	10.1	21.6	9.9	10.0	3.2	16.5	10.5	9.5
Margins (%)	26.5	24.6	26.0	24.4	27.7	25.7	26.3	26.3	25.5	26.5
Extra-Ord Expense	0	0	-1,399	20	0	0	0	0	-1,379	0
Reported PAT	1,113	964	2,490	809	1,223	1,061	1,126	965	5,377	4,375

E: MOST Estimates

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Jubilant Organosys

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	JOL IN
	REUTERS CODE
S&P CNX: 4,942	JUBO.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs332

Equity Shares (m)	144.0	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	378/244	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	1/12/4	03/07A	18,097	2,280	12.4	44.0	26.9	5.3	26.4	15.4	3.1	17.4
MCap. (Rs b)	47.8	03/08E	24,634	4,240	23.0	85.9	14.4	3.3	36.1	17.8	2.2	11.6
MCap. (US\$ b)	1.2	03/09E	30,435	4,074	22.1	-3.9	15.0	2.7	25.1	15.0	1.7	9.1
		03/10E	35,598	4,799	26.0	17.8	12.8	2.2	24.0	15.7	1.4	7.3

- Jubilant's 4QFY08 sales are expected to grow by 43% to Rs6.6b, driven by robust growth in the CRAMS business and consolidation of the Hollister acquisition, resulting in Pharma and Life Sciences business (PLSP) growing by 72% to Rs4b.
- EBITDA margins are expected to improve by 160bp to 18.8%, reflecting higher contribution from the PLSP business.
- Despite better topline growth, higher depreciation and interest cost coupled with lower other income, is likely to temper down PAT growth to 25% at Rs796m.
- We expect 28% CAGR in fully diluted earnings over FY07-10E. Valuations of 15x FY09E and 12.8x FY10E earnings do not reflect the higher growth potential of the CRAMS business and upside from acquisitions. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,112	4,659	4,693	4,633	5,400	6,183	6,416	6,635	18,097	24,634
YoY Change (%)	25.9	40.5	10.8	9.6	31.3	32.7	36.7	43.2	20.7	36.1
Total Expenditure	3,367	3,858	3,795	3,836	4,448	5,050	5,121	5,385	14,902	20,004
EBITDA	745	801	898	797	952	1,133	1,295	1,251	3,195	4,631
Margins (%)	18.1	17.2	19.1	17.2	17.6	18.3	20.2	18.8	17.7	18.8
Depreciation	146	153	158	166	194	237	247	262	623	940
Interest	55	37	49	54	84	109	123	137	195	453
Other Income	44	145	168	173	996	385	231	108	576	1,720
PBT after EO Expense	588	756	859	750	1,670	1,172	1,131	960	2,953	4,933
Tax	139	215	236	122	273	76	244	151	712	744
Rate (%)	23.6	28.4	27.5	16.3	16.3	6.5	21.6	15.7	24.1	15.1
PAT	449	541	623	628	1,397	1,096	887	809	2,241	4,189
Minority Interest	-12	-3	-14	-10	-32	-4	-7	13	-39	-30
Adjusted PAT	461	544	637	638	1,429	1,100	914	796	2,280	4,240
YoY Change (%)	116.4	118.5	74.0	32.4	210.0	102.2	43.4	24.8	75.8	86.0
Margins (%)	11.2	11.7	13.6	13.8	26.5	17.8	14.2	12.0	12.6	17.2

E: MOST Estimates

Lupin

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	LPC IN
	REUTERS CODE
S&P CNX: 4,942	LUPN.BO

28 March 2008

Buy

Rs483

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	80.3										
52-Week Range	755/430										
1,6,12 Rel. Perf. (%)	-3/-12/-44										
M.Cap. (Rs b)	38.8										
M.Cap. (US\$ b)	1.0										
	03/07A	20,057	2,327	26.4	23.0	18.3	4.4	31.1	20.1	2.2	14.9
	03/08E	27,069	3,244	36.8	39.4	13.1	3.2	31.1	28.9	1.7	10.2
	03/09E	31,788	3,919	44.4	20.8	10.9	2.6	28.8	22.7	1.4	8.6
	03/10E	36,356	4,989	56.6	27.3	8.5	2.1	29.5	24.7	1.2	6.7

- Lupin's 4QFY08 revenues are expected to grow by 41.2% YoY to Rs7.5b, driven by continued momentum in domestic formulations business, as well as formulation exports (both regulated and unregulated markets). The company has piled up significant inventory (in the past quarters) for its US operations to cater to the higher winter demand (for Cephalosporins) thus leading to higher growth for its regulated market portfolio. Topline growth is also likely to be boosted by consolidation of the Kyowa acquisition, which is likely to contribute about Rs600m in revenues.
- EBITDA margins are expected to improve by 200bp YoY to 16.6% despite currency appreciation, mainly due to the high-margin revenues from Suprax and Cefdinir in the US. The bottomline is expected to record 31% growth YoY.
- We expect 22% sales and 30% EPS CAGR in the FY07-10 period for Lupin. We expect 20+% RoCE for the next few years led by traction in regulated markets, steady contribution from domestic portfolio, lower capex requirement and incremental savings from tax-exempt zones. Lupin is currently valued at 10.9x FY09E and 8.5x FY10E consolidated earnings. We maintain **Buy** rating.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	5,044	4,886	5,054	5,318	5,757	6,590	7,213	7,509	20,137	27,069
YoY Change (%)	-	-	-	-	14.1	34.9	42.7	41.2	18.8	34.4
Total Expenditure	4,395	4,123	4,154	4,542	4,936	5,464	5,998	6,259	17,215	22,657
EBITDA	649	763	901	776	821	1,126	1,215	1,250	2,922	4,411
Margins (%)	12.9	15.6	17.8	14.6	14.3	17.1	16.8	16.6	14.5	16.3
Depreciation	107	112	121	126	127	140	175	184	466	625
Interest	92	93	89	98	89	80	101	115	372	385
Other Income	217	171	99	1,338	159	188	1,389	165	1,991	1,901
PBT	667	728	789	1,890	764	1,094	2,329	1,116	4,075	5,302
Tax	131	210	169	479	206	338	520	262	988	1,326
Rate (%)	19.6	28.8	21.4	25.3	26.9	30.9	22.3	23.5	24.3	25.0
Reported PAT	536	518	620	1,411	558	756	1,809	854	3,086	3,977
Extra-Ordinary Exp/(Inc)	0	0	0	-759	0	0	-733	0	-759	-733
Recurring PAT	536	518	620	652	559	756	1,076	854	2,327	3,244
YoY Change (%)	-	-	-	-	4.4	45.9	73.5	30.8	34.5	39.4
Margins (%)	10.6	10.6	12.3	12.3	9.7	11.5	14.9	11.4	11.6	12.0

E: MOST Estimates

Nicholas Piramal

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	NP IN
	REUTERS CODE
S&P CNX: 4,942	NICH.BO

28 March 2008

Buy

Rs301

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	209.0										
52-Week Range	383/231										
1,6,12 Rel. Perf. (%)	15/12/-3										
M.Cap. (Rs b)	62.9										
M.Cap. (US\$ b)	1.6										
	03/07A	24,202	2,319	11.0	85.4	27.4	6.0	23.1	19.8	2.8	20.7
	03/08E	28,570	3,068	14.7	33.8	20.5	4.7	25.7	20.3	2.4	14.5
	03/09E	31,704	4,134	19.8	34.8	15.2	3.9	27.9	23.3	2.1	11.1
	03/10E	34,259	4,841	23.2	17.1	13.0	3.2	26.9	24.0	1.9	9.5

- NPIL is expected to report revenue growth of 17.8% to Rs7.6b in 4QFY08, driven mainly by higher growth in CRAMS supplies from India.
- EBITDA margins are expected to expand by 550bp YoY to 18.7% driven by higher traction in India-based CRAMS revenues as well as savings in R&D cost (as NCE research operations have been de-merged). This will be the first quarter post the NCE de-merger and is likely to witness part-benefits of the cost savings linked to demerger. Full impact of this saving will be reflected from 1QFY09 onwards.
- Higher depreciation and interest costs are likely to partly temper the impact of EBITDA margin expansion, resulting in PAT growth of 59% at Rs980m. **Our estimates do not take into account the expected large one-time restructuring charges, which the company is likely to record in the current quarter.**
- Increasing visibility in CRAMS, turnaround at Avecia, margin expansion from restructuring of UK operations and higher growth in the domestic portfolio, would serve as catalysts for the stock. Valuations at 15.2x FY09E and 13x FY10E do not fully reflect these triggers. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	5,226	6,547	6,495	6,452	6,081	7,566	7,323	7,600	24,719	28,570
YoY Change (%)	31.2	79.3	61.3	52.9	16.4	15.6	12.8	17.8	55.0	15.6
Total Expenditure	4,348	5,409	5,525	5,603	5,240	6,317	6,112	6,181	20,885	23,849
EBITDA	877	1,138	971	849	841	1,249	1,212	1,419	3,835	4,720
Margins (%)	16.8	17.4	14.9	13.2	13.8	16.5	16.5	18.7	15.5	16.5
Depreciation	228	244	222	158	249	263	269	333	818	1,114
Interest	46	76	88	96	111	111	122	115	305	459
Other Income	0	2	2	54	20	80	40	84	58	224
PBT before EO Expense	604	820	663	649	500	955	861	1,055	2,770	3,371
Extra-Ord Expense	0	-76	-2	12	3	27	56	0	43	86
PBT after EO Expense	604	896	665	638	497	928	805	1,055	2,727	3,285
Tax	13	172	59	-2	18	127	79	77	231	302
Deferred Tax	51	9	51	36	45	-47	0	-4	158	-6
Rate (%)	10.7	20.2	16.5	5.3	12.7	8.6	9.8	7.0	14.3	9.0
PAT	539	715	556	604	434	848	726	981	2,338	2,989
Less: Minority Interest	1	0	0	0	0	0	-1	1	1	0
Reported PAT	539	715	556	604	434	848	728	980	2,337	2,989
Adj PAT	539	654	554	615	437	872	778	980	2,374	3,068
YoY Change (%)	11.9	22.8	129.9	318.8	-18.8	33.3	40.5	59.4	87.0	29.2

E: MOST Estimates; Quarterly numbers don't add up to full year numbers due to restatement

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Pfizer

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	PFIZ IN
	REUTERS CODE
S&P CNX: 4,942	PFIZ.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs661

Equity Shares (m)	29.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	893/580	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	8/-2/-44	11/06A	6,859	1,210	40.5	46.3	16.3	4.5	27.5	43.6	2.4	10.1
MCap. (Rs b)	19.72	11/07A	6,939	1,267	42.5	4.8	15.6	2.9	18.6	29.0	2.0	8.8
MCap. (US\$ b)	0.5	11/08E	6,907	1,447	48.5	14.2	13.6	2.1	15.5	23.9	1.6	6.5
		11/09E	7,598	1,583	53.0	9.3	12.5	1.9	15.4	23.5	1.4	5.4

- Pfizer's revenues for 2QFY08 (year end November 2008) are expected to de-grow by 1.4% to Rs1.7b, reflecting part divestment of the consumer healthcare brands and sale/discontinuation of certain products like Protinex, Abdec and Pyridium.
- Pfizer recently announced the long-pending divestment of its consumer business to J&J. The company has sold the exclusive licenses relating to some of its consumer brands (Benadryl, Caladryl, Benylin and Listerine) and certain related assets for a total consideration of Rs2.14b. It has retained one of the key brands - Gelusil with revenues of about Rs500m - within the company. The consumer business generates annualized sales of about Rs1.1b with the divested brands contributing about Rs0.5-0.6b.
- While valuations at 13.6x FY08E and 12.5x FY09E (after adjusting for a divestment of the Consumer Healthcare division in FY08E) do not adequately reflect Pfizer's business fundamentals, uncertainty still exists on the existence of the parent's 100% subsidiary and potential launch of patented products through this company. We maintain **Neutral** rating.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E NOVEMBER	FY07				FY08E				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Revenues	1,603	1,703	1,800	1,834	1,544	1,678	1,828	1,856	6,939	6,907
YoY Change (%)	4.4	-1.5	-3.0	3.9	-3.6	-1.4	1.6	1.2	1.2	-0.5
Total Expenditure	1,176	1,295	1,327	1,586	1,166	1,248	1,290	1,486	5,383	5,189
EBITDA	427	408	474	248	379	430	538	371	1,556	1,718
Margins (%)	26.6	24.0	26.3	13.5	24.5	25.6	29.4	20.0	22.4	24.9
Depreciation	27	30	23	15	22	33	35	48	96	139
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	67	118	130	163	140	160	150	184	478	634
PBT before EO Items	467	496	580	395	497	557	653	507	1,938	2,213
EO Expense/(Income)	26	-2,711	96	26	-2,099	20	20	-12	-2,563	-2,071
PBT after EO items	441	3,207	484	369	2,596	537	633	518	4,501	4,284
Tax	158	629	176	149	667	186	220	33	1,112	1,107
Deferred Tax	0	0	0	0	0	0	0	89	0	89
Rate (%)	35.9	19.6	36.3	40.2	25.7	34.7	34.7	23.5	24.7	27.9
Reported PAT	283	2,578	308	221	1,929	350	413	396	3,389	3,089
YoY Change (%)	14.1	618.2	9.8	29.7	582.3	-86.4	34.0	79.5	220.6	-8.9
PAT adj. for Excep Items	305	324	379	259	325	364	427	331	1,267	1,447
YoY Change (%)	5.2	11.6	17.2	13.2	6.4	12.2	12.7	28.1	4.8	14.2
Margins (%)	19.0	19.1	21.1	14.1	21.0	21.7	23.4	17.9	18.3	21.0

E: MOST Estimates; FY08 estimates adjusted for consumer healthcare divestment. Historic numbers include consumer healthcare

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Ranbaxy Laboratories

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	RBXY IN
	REUTERS CODE
S&P CNX: 4,942	RANB.BO

28 March 2008

Buy

Rs439

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	372.7										
52-Week Range (Rs)	490/300										
1,6,12 Rel. Perf. (%)	7/6/3										
M.Cap. (Rs b)	163.6										
M.Cap. (US\$ b)	4.1										
	12/06A	61,377	5,103	12.8	135.8	34.4	6.4	19.8	11.4	3.3	22.7
	12/07A	69,427	7,689	19.2	50.7	22.8	5.5	25.9	11.2	2.8	19.5
	12/08E*	75,557	7,807	19.5	1.5	22.5	4.9	23.2	12.3	2.5	15.7
	12/09E*	87,794	8,893	22.2	13.9	19.7	4.3	23.3	14.7	2.1	12.6

* Excludes upsides from FTF products

- Ranbaxy is expected to report 10.5% YoY growth in revenues to Rs17.4b in 1QCY08 mainly impacted by currency appreciation. In fact, in US\$-terms, revenues are expected to grow by 21% driven primarily by higher growth in semi-regulated markets and a recovery in the US portfolio (led by new launches).
- EBITDA margins are expected to improve by 170bp to 13.8% due to higher traction in semi-regulated markets, which enjoy higher margins and forward cover gains.
- Higher interest cost (up 33%) coupled with lower other income (mainly due to translation losses on FCCB) is likely to result in PAT de-growth of 18.7% to Rs1b for the quarter.
- We believe that the worst is over for Ranbaxy and expect a gradual improvement in performance. Ranbaxy's current stock price is not factoring-in the potential leverage arising out of a strong product pipeline, the profitable growth from semi-regulated markets, value unlocking from its Para-IV pipeline and the incremental upsides from a potential demerger of NCE/NDDS research (incremental EPS of Rs1.5/share). Ranbaxy is currently valued at 22.5x CY08E and 19.7x CY09E earnings (excluding patent challenge upsides). An appreciating currency and possibility of expensive acquisitions remain key risks. Our estimates do not include upsides from FTF opportunities. Reiterate **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Income	15,821	16,853	17,746	19,007	17,488	17,924	19,323	20,822	69,427	75,557
YoY Change (%)	22.4	15.7	10.3	7.0	10.5	6.4	8.9	9.6	13.2	8.8
EBITDA	1,908	2,265	2,847	2,961	2,413	2,599	3,285	3,661	9,981	11,958
Margins (%)	12.1	13.4	16.0	15.6	13.8	14.5	17.0	17.6	14.4	15.8
Depreciation	557	565	613	493	630	658	712	740	2,228	2,740
Interest	313	351	394	385	418	418	387	325	1,443	1,547
Other Income	604	2,051	543	196	-22	1,902	80	178	3,394	2,138
PBT before EO Expense	1,642	3,400	2,383	2,279	1,344	3,426	2,265	2,774	9,704	9,809
Extra-Ord Expense	0	0	-223	-44	0	0	0	0	-267	0
PBT after EO Expense	1,642	3,400	2,606	2,323	1,344	3,426	2,265	2,774	9,971	9,809
Tax	355	738	516	461	296	754	453	459	2,070	1,962
Rate (%)	21.6	21.7	19.8	19.8	22.0	22.0	20.0	16.6	20.8	20.0
Reported PAT	1,287	2,662	2,090	1,862	1,048	2,672	1,812	2,315	7,901	7,847
Minority Interest	11	27	0	0	10	11	10	9	38	40
Adj PAT after Minority Int.	1,276	2,635	1,911	1,818	1,038	2,662	1,802	2,306	7,651	7,807
YoY Change (%)	78.7	117.6	21.7	-0.8	-18.7	1.0	-5.7	26.8	49.9	2.0
Margins (%)	8.1	15.6	10.8	9.6	5.9	14.8	9.3	11.1	11.0	10.3

E: MOST Estimates

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Shasun Chemicals

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SSCD IN
	REUTERS CODE
S&P CNX: 4,942	SHAS.BO

28 March 2008

Buy

Rs44

Previous Recommendation: Buy

Equity Shares (m)	48.2	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
52-Week Range	157/37	END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-21/-46/-82	03/07A	7,719	14	0.3	N.A.	-	1.0	0.7	3.1	0.5	14.0
MCap. (Rs b)	2.1	03/08E	8,726	128	2.7	837.0	16.7	0.9	5.6	7.3	0.5	12.1
MCap. (US\$ b)	0.1	03/09E	10,000	299	6.2	134.0	7.1	0.8	12.3	11.1	0.5	5.2
		03/10E	11,353	339	7.0	13.4	6.3	0.8	12.9	11.1	0.5	4.9

- Shasun is expected to report 8.3% YoY growth in revenues to Rs2.5b in 4QFY08, impacted mainly by the higher base of 4QFY07 and currency appreciation.
- EBITDA margins are expected to improve by 570bp to 10.6% on a significantly low base of last year. Margin expansion will be partly tempered by currency appreciation. However, higher depreciation and interest costs coupled with lower other income is likely to temper the positive impact of a better margin profile resulting in PAT growth of 16.1% to Rs141m.
- Shasun's operations are likely to undergo a gradual transformation, led by higher revenues from CRAMS and commercialization of the company's generics pipeline. Although, the decline in Nizatidine supplies and the recent currency appreciation is likely to negatively impact Shasun's standalone earnings for FY08/09E, we believe that its CRAMS initiatives (both in UK and India) can bring in long-term benefits.
- At 7.1x FY09E and 6.3x FY10E consolidated EPS, we believe valuations are attractive and already discount the de-growth in India operations. Any further appreciation of INR and GBP versus the US\$ remains a key risk. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	1,485	2,033	1,882	2,328	1,952	1,829	2,423	2,521	7,729	8,726
YoY Change (%)	98.0	140.9	89.6	134.8	31.4	-10.0	28.8	8.3	116.0	12.9
Total Expenditure	1,553	1,926	1,747	2,214	1,861	1,993	2,270	2,254	7,440	8,378
EBITDA	-68	108	135	114	91	-164	153	268	289	347
Margins (%)	-4.6	5.3	7.2	4.9	4.7	-9.0	6.3	10.6	3.7	4.0
Depreciation	69	67	70	53	79	79	84	94	259	336
Interest	14	27	25	25	31	36	48	52	91	167
Other Income	4	5	-8	76	76	115	90	15	76	296
PBT before EO expense	-146	18	32	111	57	-164	111	137	15	141
EO Exp	-230	-180	-97	-50	0	-55	-13	-2	-557	-70
PBT	84	199	128	161	57	-109	124	139	572	211
Tax	9	39	12	-15	9	11	9	-13	23	16
Deferred Tax	0	0	0	0	-1	-1	-4	9	23	4
Rate (%)	11.2	19.6	9.2	-9.3	14.7		4.3	-2.8	7.9	9.4
Adj. PAT	-130	15	29	121	49	-164	107	141	14	128
YoY Change (%)	-397.9	-77.0	-79.2	-14.6	-137.7	-1,224.0	271.7	16.1	-95.8	836.9
Margins (%)	-8.7	0.7	1.5	5.2	2.5	-9.0	4.4	5.6	0.2	1.5

E: MOST Estimates

Sun Pharmaceuticals Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	SUNP IN
	REUTERS CODE
S&P CNX: 4,942	SUN.BO

28 March 2008

Buy

Previous Recommendation: Buy

Rs1,251

Equity Shares (m)	193.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,352/886	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	8/35/-2	03/07A	20,792	7,842	37.9	36.8	33.0	8.7	35.9	22.7	11.4	35.2
M.Cap. (Rs b)	242.0	03/08E	27,333	9,923	47.9	26.5	26.1	5.3	26.0	24.8	7.7	19.1
M.Cap. (US\$ b)	6.1	03/09E	30,743	10,055	48.5	1.3	25.8	4.5	19.0	20.1	6.7	19.0
		03/10E	36,704	11,858	57.3	17.9	21.9	3.9	19.1	20.2	5.3	15.3

- ☞ Sun's 4QFY08 revenues are expected to grow by 28% YoY to Rs6.8b, driven by 36% YoY growth in international sales and 18.4% growth in domestic sales.
- ☞ EBITDA margins are expected to improve by 1470bp to 43.8% due to lower material and R&D expenses (due to merger of NCE research) and Oxcarbazepine sales in the US, which currently enjoy the benefit of limited competition. However, lower other income and higher tax outgo (tax rate of 2.2% of PBT v/s tax writeback for 3QFY07) is likely to temper down PAT growth to 7.6% to Rs2.2b.
- ☞ **Our estimates do not include upsides from the January 2008 launch of generic Protonix (Pantoprazole) under shared exclusivity with Teva.** Since Teva had launched its version much before SPIL's launch, we believe that the latter will take time to ramp-up market share and hence we expect the company to record only US\$10-15m in sales from this exclusivity-based product in 4QFY08.
- ☞ SPIL's ability to sustain high growth rates at superior margins even on a high base is a clear positive. With the domestic business progressing well and increasing traction on the US front (both in Caraco and from India), the possibility of a rapid scale-up over the next couple of years is high. While valuations at 25.8x FY09E and 21.9x FY10E EPS (excl. Taro acquisition) appear rich, they do not fully factor in ramp-up in the US and the expected value unlocking by leveraging acquired companies (Taro, Able Labs & Valeant). Stock performance in the short term may remain muted until further clarity on the Taro acquisition emerges. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Revenues	4,987	5,239	5,263	5,313	6,153	6,465	7,902	6,812	20,792	27,333
YoY Change (%)	31.8	27.4	24.2	33.5	23.4	23.4	50.1	28.2	30.4	31.5
EBITDA	1,811	1,708	1,733	1,545	2,148	2,409	3,547	2,984	6,798	11,088
Margins (%)	36.3	32.6	32.9	29.1	34.9	37.3	44.9	43.8	32.7	40.6
Depreciation	202	204	212	201	226	230	245	259	818	959
Net Other Income	274	402	636	942	606	111	179	-187	2,253	709
PBT	1,883	1,906	2,157	2,286	2,528	2,290	3,481	2,538	8,233	10,837
Tax	2	-22	-29	-18	98	1	116	56	-67	271
Rate (%)	0.1	-1.1	-1.3	-0.8	3.9	0.0	3.3	2.2	-0.8	2.5
Profit after Tax	1,882	1,928	2,186	2,304	2,430	2,289	3,365	2,482	8,300	10,566
Share of Minority Partner	115	64	198	183	158	104	181	200	559	643
Adj Net Profit	1,767	1,864	1,989	2,121	2,272	2,185	3,184	2,282	7,741	9,923
YoY Change (%)	29.9	26.1	35.8	48.4	28.6	17.2	60.1	7.6	35.0	28.2
Margins (%)	35.4	35.6	37.8	39.9	36.9	33.8	40.3	33.5	37.2	36.3

E: MOST Estimates; Quarterly results have been recasted and hence do not tally with full year results

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Wockhardt

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	WOCK IN
	REUTERS CODE
S&P CNX: 4,942	WCKH.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs267

Equity Shares (m)	109.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	448/245	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-12/-31/-60	12/06A	17,290	2,558	21.4	-0.5	12.5	2.7	27.2	15.0	2.3	9.8
MCap. (Rs b)	29.2	12/07E	26,531	3,459	29.0	35.3	9.2	2.1	28.5	16.9	1.8	7.4
MCap. (US\$ b)	0.7	12/08E	33,892	3,984	33.4	15.2	8.0	1.7	26.0	17.2	1.4	6.0
		12/09E	38,067	4,550	38.1	14.2	7.0	1.4	24.1	17.1	1.1	5.1

- Wockhardt's 1QCY08 revenues are expected to grow by 52% YoY to Rs7.9b, driven by higher growth in domestic business and consolidation of Negma acquisition.
- EBITDA margins are expected to improve by 110bp to 23.1% on a low base of 1QCY07. While the company has commenced capitalizing a part of its R&D expenses beginning 3QCY06, we continue to expense R&D costs fully. Higher interest costs (linked to acquisitions) will restrict adjusted PAT growth to 45% YoY at Rs799m. Reported PAT growth is expected to be higher due to R&D capitalization.
- We believe that Wockhardt still has to display the ability to fully leverage its assets (particularly the biotech facilities) and scale up substantially in regulated markets, for a further re-rating in its valuation multiples. While valuations at 8x CY08E and 7x CY09E fully diluted earnings appear cheap, they do not take into account the proposed US\$200m of equity dilution (28% of current market capitalization). Maintain **Neutral**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E DECEMBER	CY07				CY08E				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Sales	5,228	6,303	7,381	7,620	7,945	7,855	8,993	9,099	26,531	33,892
YoY Change (%)	48.7	52.7	68.6	44.7	52.0	24.6	21.8	19.4	53.4	27.7
Total Expenditure	4,069	4,781	5,572	5,719	6,110	6,090	6,840	7,058	20,141	26,098
EBITDA	1,159	1,522	1,809	1,901	1,835	1,765	2,153	2,041	6,390	7,794
Margins (%)	22.2	24.1	24.5	24.9	23.1	22.5	23.9	22.4	24.1	23.0
Depreciation	181	172	196	236	260	280	285	287	785	1,112
Interest	129	85	268	492	435	300	300	168	974	1,203
Other Income	22	25	26	37	30	25	30	51	110	136
PBT before EO Items	871	1,290	1,371	1,210	1,170	1,210	1,598	1,636	4,741	5,614
EO Income	0	0	0	0	0	0	0	0	0	0
PBT after EO Items	871	1,290	1,371	1,210	1,170	1,210	1,598	1,636	4,741	5,614
Tax	208	266	288	155	260	226	360	333	917	1,179
Rate (%)	23.9	20.6	21.0	12.8	22.2	18.7	22.5	20.4	19.3	21.0
Reported PAT	663	1,024	1,083	1,055	910	984	1,238	1,303	3,824	4,435
R&D Capitalized	180	170	180	118	180	170	180	270	648	800
Adjusted PAT	552	870	972	997	799	880	1,127	1,152	3,459	3,984
YoY Change (%)	1.8	37.2	53.0	29.2	44.7	1.2	15.9	15.5	35.2	15.2
Margins (%)	10.6	13.8	13.2	13.1	10.1	11.2	12.5	12.7	13.0	11.8

E: MOST Estimates; Quarterly numbers don't add up to annual numbers due to re-classification

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Real Estate

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
DLF	247
Unitech	248

The pricing game in the real estate (RE) industry seems to be over and most big developers are now focusing on pushing the volumes. Over the last few months, the RE industry has witnessed several new launches in the mid-income housing segment across the country. The response to these launches has been encouraging, as these launches have been at a 20-25% discount to the prevailing market rate.

Access to institutional finance dried up

Access to institutional finance has been curtailed due to the global turmoil in financial markets and negative outlook on the housing sector. Also, the cap rates have moved up significantly to 8.5-9.0% v/s 6.0% in November-December 2007. This has delayed the monetization plans of most of the large companies targeting the Singapore REIT market. In the event these companies are unable to find viable alternate financing vehicles, financial position of companies exposed to the commercial segment (office, retail, hotels, etc) would become stretched, which could impact their future development plans. Over the last one month, fund raising plans in the form of IPO, REIT listings and QIPs of ~US\$8b by large RE companies have been delayed or curtailed.

REAL ESTATE SECTOR ISSUES CANCELLED

COMPANY	MODE	AMOUNT (US\$ M)
DLF	REIT	2,000
Unitech	REIT	700
Unitech	QIP	1,500
IBREL	REIT	1,500
HDIL	QIP	250
Omaxe	QIP	385
Emaar MGF	IPO	1,667
Total		8,001

Source: Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Real Estate							
DLF	UR*	39,751		22,237	-	18,445	-
Unitech	UR*	14,592	71.9	6,073	19.1	4,051	13.5
Sector Aggregate		14,592	71.9	6,073	19.1	4,051	13.5

*Under Review

Possible price correction in RE prices

The festival period of November-February 2008 (comprising Dassera, Diwali, Christmas, and marriage season) was supposed to be the acid test for the RE industry, as developers have been holding on to prices for almost a year now, even though the transactions have dried up considerably. Our feedback suggests that demand pick up during the last few months has not met the expectations of developers in several markets. Hence developers, who are now desperate for a pick up in volumes to meet their inventory pile up, could resort to moderation of RE prices in the near term. This could negatively impact all RE players, especially those who have higher exposure to the middle income residential segment.

Wave towards mid-housing

Over the last few months, large real estate (RE) players have launched projects classified as affordable housing, mid-income housing or low-income housing. They have priced properties under these projects at 20-25% discount to the prices prevailing in the surrounding areas, and have received encouraging response from the market. We believe that this trend is more than just product re-classification and signals price corrections in the RE market. Considering the current slowdown in volumes and stringent financing norms, we also expect the proportion of plots in the development plans of RE players to increase, as plots offer the advantage of early monetization.

Sufficient demand, but at lower prices

DLF started the trend in 3QFY08 by launching mid-income housing projects across several cities such as Chennai, Gurgaon and Kolkata. Unitech followed by launching its mid-income housing in Greater Noida, where the marketing is directly done by the company and not through brokers or any other channels.

*Mid-income housing –
catalyst to boost the
dampened volumes in
RE sector*

MID-INCOME RESIDENTIAL LAUNCHES BY MAJOR RE PLAYERS

LOCATION	PROJECT	TOTAL UNITS	SOLD UNITS	SOLD (%)	SOFT LAUNCH	OFFICIAL LAUNCH	BASE RATE (RS/SF)
DLF							
~550 units sold in two days →	Kolkata	New Town Heights	798	748	93.7	26th Nov 07 Rs2,500/sf	18th Jan-08 3,275
	Kochi	DLF Riverside	176	96	55.0	-	- 3,495
	Chennai	DLF Garden City, OMR	3,500	2,800	80.0	8-18th Jan Rs2,700/sf	Feb-08 3,400
Sold out within hours of launch →	Gurgaon	New Town Heights, Sector 90, Nr Manesar	1,000	1,000	100.0	-	Feb-08 2,350
Unitech							
	Greater Noida	Greater Noida	-	-	-	March 08 Rs2,700/sf	- 2,700
Puravankara							
	Chennai	Purva Windemere Palikami nr Vellachari	2,092	300	14.3	14th Jan 08 Rs2,790/sf	Apr-08 3,050

Source: Industry/Motilal Oswal Securities

Both DLF and Unitech's mid-income residential projects have received good response. DLF's mid-income housing project consisting of 1,000 apartments in Gurgaon was fully sold within hours of its launch and the next 1,000 apartments are expected to be launched soon. DLF's project in Kolkata also received a good response with Phase I, consisting of 550 units, being sold in just two days time. Almost ~94% of Phase II of this project has been sold.

DLF also made an aggressive entry in Chennai by launching apartments at rates ~20% lower than rates quoted by competitors in the same region and its project is ~80% sold. We believe other developers would also launch similar products going forward, mainly on account of the huge demand potential in the mid-income housing segment.

Expect greater focus on plots

Most of the real estate companies have majority of their residential plans focused on apartments, which enjoy very high realizations, and very little exposure to plots. However, considering the current slowdown in the RE industry, we believe RE players may shift focus from apartments to plot developments, as they offer early monetization. However, as plots do not attract lucrative returns like FSI development, the NAVs for RE companies are expected to plummet with change in development plans skewed towards plots.

PLOTS AS % OF TOTAL RESIDENTIAL (MSF)

COMPANY	TOTAL RESIDENTIAL DEVELOPMENT PLANS	PLOTS	PLOTS AS % OF TOTAL RESIDENTIAL
DLF	492.0	110.0 *	22.4
Unitech	519.5	34.5	6.6
Sobha	106.0	26.0	24.5
Parsvnath	112.0	29.0	25.9
Omaxe	122.8	32.1	26.2
Puravankara	113.0	0.0	0.0
Ansal Property	111.0	77.0	69.4
Emaar MGF	435.0	135.0	31.0
Total	1,933.3	447.6	23.2

* as per July 2007 presentation

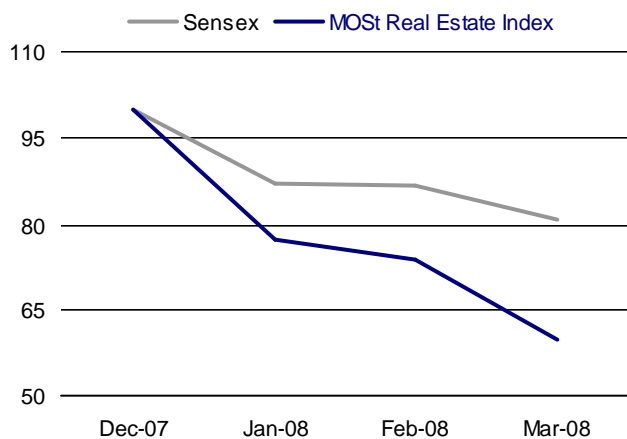
Source: Company/Motilal Oswal Securities

Stock performance and valuations

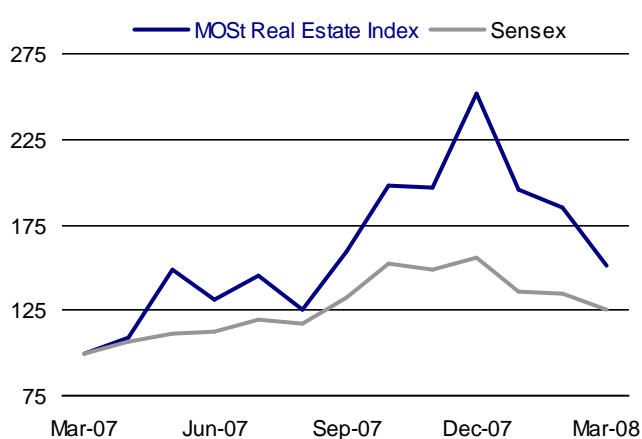
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Real Estate						
DLF	-35	-	-16	-	2	-
Unitech	-40	49	-21	22	-4	-

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Real Estate														
DLF	696	UR*	44.1	48.5	55.8	15.8	14.3	12.5	13.6	10.8	8.7	43.2	35.8	31.9
Unitech	292	UR*	10.6	17.2	33.3	27.5	17.0	8.8	22.4	12.1	6.0	56.8	57.4	60.0
Sector Aggregate						18.0	15.0	11.2	15.4	11.5	7.9	45.2	39.4	38.4

*Under Review

DLF

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	DLFU IN
	REUTERS CODE
S&P CNX: 4,942	DLF.BO

28 March 2008

Under Review

Previous Recommendation: Buy

Rs696

		YEAR	NET SALES	PAT	EPS*	EPS	P/E*	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	1,704.8	3/07A	26,344	19,366	12.7	56.2	54.7	26.8	49.0	30.0	32.5	45.4
52-Week Range	1,225/506	3/08E	138,972	75,259	44.1	247.4	15.8	6.8	43.2	45.9	9.0	13.6
1,6,12 Rel. Perf. (%)	-5/-3/-	3/09E	185,769	82,736	48.5	9.9	14.3	5.1	35.8	38.7	6.4	10.8
MCap. (Rs b)	1,186.0	3/10E	195,252	95,087	55.8	14.9	12.5	4.0	31.9	39.3	5.7	8.7
MCap. (US\$ b)	29.7											

- ☞ We expect DLF to report a robust performance in 4QFY08 with revenue of Rs39.8b and net profit of Rs18.4b (no YoY comparison available). We estimate EBITDA margin to reduce 1,357bp at 56%, mainly owing to change in its product offering (mid-income housing).
- ☞ During 4QFY08, DLF successfully launched mid-income residential apartments, ranging from Rs4.5m to Rs7.5m/unit, in Kolkata, Kochi, Chennai and Gurgaon. The company has successfully sold ~4,700 units during 4QFY08 at these locations.
- ☞ New projects are expected to be launched in Chandigarh, Hyderabad, Bangalore, Kochi, Jaipur and Lucknow over the next few quarters.
- ☞ We estimate DLF's revenue to increase from Rs26.3b in FY07 to Rs195.3b in FY10, a CAGR of 94.5% and net profit to increase from Rs19.4b in FY07 to Rs95.1b in FY10, a CAGR of 69.8%.
- ☞ Our FY10 NAV for DLF is Rs624/share. The residential vertical accounts for ~36% of GAV, commercial ~28% of GAV and retail ~25% of GAV.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY08				FY07	FY08E
	1Q	2Q	3Q	4QE		
Sales	30,738	32,499	35,984	39,751	26,344	138,972
Change (%)						427.5
Total Expenditure	8,699	9,863	10,970	17,514	11,477	47,046
Cost of land/construction	7,263	8,326	9,512	15,964	6,394	41,065
Staff Cost	526	606	609	639	1,051	2,380
Others	909	930	850	911	4,032	3,600
EBITDA	22,039	22,637	25,014	22,237	14,866	91,926
As % of Sales	71.7	69.7	69.5	55.94	56.4	66.1
Depreciation	166	110	148	193	578	616
Interest	1,077	36	788	935	3,076	2,837
Other Income	472	993	528	438	14,190	2,431
PBT	21,268	23,484	24,606	21,547	25,402	90,905
Tax	6,024	3301	3,218	3,102	6,036	15,645
Effective Tax Rate (%)	28.3	14.1	13.1	14.40	23.8	17.2
Reported PAT	15,244	20,182	21,389	18,445	19,366	75,259
Minority Interest			4.3			
Adj. PAT	15,244	20,182	21,450	18,445	19366	75,259

E: MOST Estimates; Comparable quarterly numbers are not available, as 1QFY08 is the first quarter post listing

Unitech

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	UT IN
	REUTERS CODE
S&P CNX: 4,942	UNTE.BO

28 March 2008

Under Review

Previous Recommendation: Buy

Rs292

Equity Shares (m)	1,623.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	547/165	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-14/0/22	3/07A	32,883	13,055	8.1	1,846.7	36.2	11.9	65.7	46.5	15.8	25.9
MCap. (Rs b)	473.5	3/08E	44,804	17,052	10.6	31.6	27.5	15.6	56.8	28.1	11.7	22.4
MCap. (US\$ b)	11.9	3/09E	72,894	27,582	17.2	62.0	17.0	9.7	57.4	41.3	6.5	12.1
		3/10E	144,288	53,640	33.3	93.8	8.8	5.3	60.0	64.8	3.1	6.0

- ☞ We expect Unitech to report revenue of Rs14.6b (up 72% YoY) and net profit of Rs4.1b (up 13.5% YoY) in 4QFY08. We expect EBITDA margin at 41.6% in 4QFY08, 2,270bp lower than 64.3% in 3QFY08.
- ☞ During 4QFY08, Unitech announced its new land bank and development plans. Its land bank has increased from 14,638 acres to 18,512 acres between September 2006 to January 2008 and its share has increased from 10,585 acres to 13,763 acres over the same period. Unitech's saleable area has increased from 472msf in September 2006 to 690.3msf in January 2008 with increased focus on commercial offices and IT park development.
- ☞ Unitech has formed a JV christened Shivalik Ventures for its foray in the Mumbai RE market with two local Mumbai developers - Rohan Group and Shivalik Ventures. While Unitech's investment is ~Rs8b for its 50% stake in the JV, the other partners have transferred their land holdings as their consideration for their 50% stake in the JV.
- ☞ Unitech has shifted its focus towards affordable homes segment and launched projects starting at Rs3.5m/unit (1,200sf @Rs2,700/sf) in Greater Noida.
- ☞ Unitech has put its US\$1.2b QIP on hold owing to the volatility in stock markets. This QIP was mainly to increase its net worth in order to qualify for project tenders floated by the government.
- ☞ We estimate Unitech's revenues to increase from Rs32.9b in FY07 to Rs144.3b in FY10, a CAGR of 63.7% and net profit to increase from Rs13b in FY07 to Rs53.6b in FY10, a CAGR of 60.2%. Our FY10E NAV for Unitech is Rs315. The residential vertical accounts for ~39% of GAV, commercial ~27% of GAV and retail ~17% of GAV.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY08				FY07	FY08E
	1Q	2Q	3Q	4QE		
Sales	8,656	10,135	11,421	14,592	33,183	44,804
Change (%)	223.3	135.4	13.9	71.9	114.6	35.0
Total Expenditure	3,651	5,064	4,077	8,519	12,865	21,311
EBITDA	5,005	5,071	7,344	6,073	20,318	23,492
Change (%)	558.6	259.5	5.7	19.1		
As of % Sales	57.8	50.0	64.3	41.6	61.2	52.4
Depreciation	32	30	55	60	80	176
Interest	601	790	980	1,021	3,020	3,391
Other Income	341	508	230	385	700	1,463
PBT	4,714	4,759	6,539	5,377	17,919	21,389
Tax	1,044	660	1,307	1,326	4,864	4,336
Effective Tax Rate (%)	22.1	13.9	20.0	24.7	27.1	20.3
Reported PAT	3,670	4,099	5,232	4,051	13,055	17,052
Adj PAT	3,670	4,099	5,232	4,051	13,055	17,052
Change (%)	396.0	296.3	15.7	13.5	206.7	31.6

E: MOSSt Estimates; *Standalone, # Consolidated

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Retailing

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
Pantaloon Retail	253
Shopper' s Stop	254
Titan Industries	255

Organized retail is getting increasing acceptance by the consumers but opposition from small retailers has intensified. The scale is delicately balanced with small retailers on one side and farming community on the other; particularly as we are approaching general elections in coming 9-12 months. Rising lease rentals, service tax, power tariff and manpower costs are adding to the woes of the retailers. We foresee early phase of consolidation in the retail sector as large groups try to achieve critical scale. Specialty formats are attracting heightened interest from both local and global players due to better brand recall. Long-term prospects for the sector remain bright, although short term cost pressures and other challenges remain. We maintain **Pantaloon Retail** as our top pick.

Income tax concessions to boost demand

Tax concessions given during Budget 2008 will lead to increase in disposable income. This augurs well for the organized retail as time spent by consumers inside malls has been steadily increasing. Increase in time spent coupled with higher disposable income can convert a window shopper into a consumer. The increase in disposable income will increase sales of general merchandise, clothing and other specialty segments like watches, furniture and fixture, footwear, books, music and durables. We don' t foresee much of an impact on the food and grocery segment where the overall sales increase might be confined to upgrading and increased sales volume in processed foods.

CHANGE IN TAX SLAB (RS IN LAC)

OLD SLABS	%	NEW SLABS	%
Rs110,000 to Rs150,000	10	Rs150,000 to Rs300,000	10
Rs150,000 to Rs250,000	20	Rs300,000 to Rs500,000	20
Rs250,000 and above	30	Rs500,000 and above	30

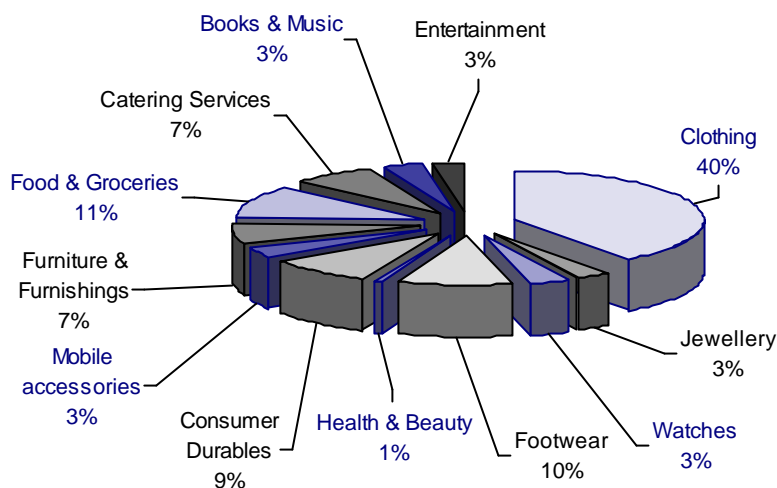
Source: Budget 2008

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Retailing							
Pantaloon Retail	Buy	14,250	65.5	1,140	89.1	359	91.6
Shopper' s Stop	Neutral	2,876	33.8	174	14.6	18	-73.3
Titan Industries	Neutral	7,643	28.1	796	14.9	542	14.0
Sector Aggregate		24,769	48.1	2,110	45.8	919	25.9

MODERN RETAIL PIE



Source: India Retail Report 2007

Policy initiatives to remain on the backburner

We believe major policy initiatives regarding retail sector will be put on the backburner for the coming 12-15 months, as we are approaching general elections. Large retailers like Reliance have also slowed down rollout of small format stores like Reliance fresh, which we believe will continue in the coming year. Industry believes the model to penetrate the street corner stores would have to be defined in a novel manner so as to involve small shopkeeper in the process. This, we believe, would involve creating a mutually beneficial franchisee or partnership that would be beneficial to the small grocer. However, we expect the small formats to continue facing stiff opposition. We are of the firm view that the development of organized retail, agriculture, food processing, manufacturing and real estate is interlinked, which has significant spill over effect on the entire economy. However, status quo will be maintained for major policy initiatives in this sector.

Specialty retail segment to see more action

Specialty retail segment is witnessing lot of activity as many global giants are planning single brand retail outlets. Luxury goods, garments, personal accessories and watches are likely to see entry of players like LVMH. Even existing players like Titan, Rajesh Exports, Gitanjali Gems, Raymond's, Bata, Kuttans, Liberty and Samsung have huge expansion plans. Large retail groups like Reliance, Tata and Pantaloon have lined up forays in durables, personal accessories, electronics etc targeting the premium-end consumer with high quality sales, service and ambience. Specialty stores are likely to be used for launch of premium products and brand re-positioning strategies. Sharp increase in gold prices is likely to impact the volume growth of jewellery industry. This might slow down the growth plans of branded jewellery retailers like Titan, Rajesh Exports, Gitanjali Gems and others.

Rising operating costs amid lack of pricing power

The retail sector is reeling under all round cost escalation due to a combination of rising lease rentals, manpower, and power costs. Severe competition impairs the ability of these players to increase gross margins. Real estate costs have been the major cost push factor due to:

- ✍ 35-40% increase in lease rentals
- ✍ Imposition of service tax on lease rentals; full set off is not available
- ✍ Deposit costs for obtaining the lease has increased from an average of three months of rentals to six months of rentals.
- ✍ There is a delay of 9-12 months in getting the properties, even as other resource costs like manpower, logistics etc start impacting.

Leading retailers have slowed down fresh booking of properties and some of the real estate developers are revising their plans to set up malls in their upcoming properties. The industry expects 9-12 months of delay in getting the properties. However, the lease rentals are expected to come down in the coming 18-24 months.

Valuation and view

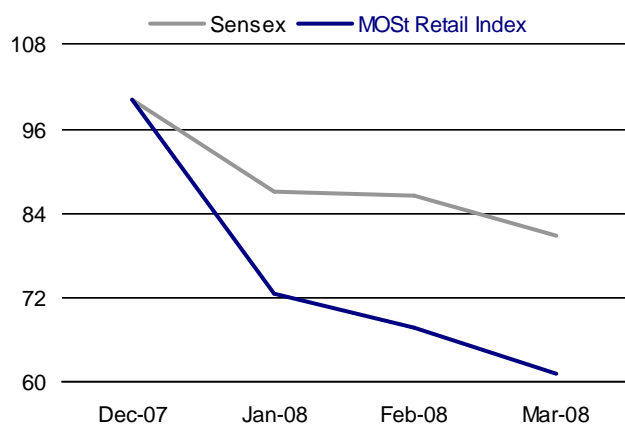
We believe the existing retailers will continue to grow topline and attract footfalls due to low penetration although same store sales growth will be lower. EBITDA margin is unlikely to expand due to rising lease rentals and manpower costs. We expect specialty stores to flourish due to committed customers and strong brand recall. We believe that scale of operations and cost control initiatives would be a key to survival in the long term. We expect the sector to enjoy premium valuations due to huge growth potential. We maintain a cautiously positive view on the sector with **Pantaloon Retail** as our top pick.

Stock performance and valuations

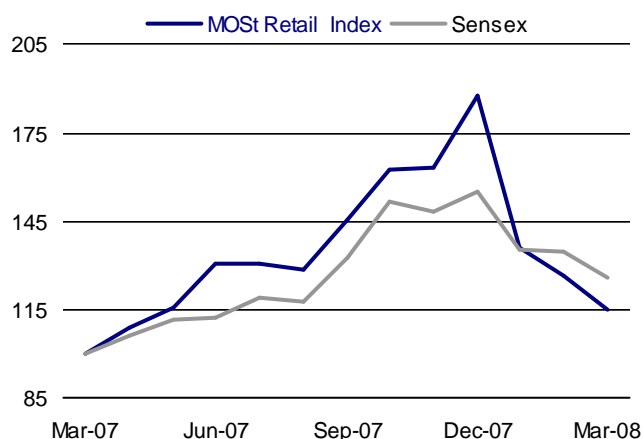
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Retailing						
Pantaloon Retail	-47	8	-28	-19	-9	-7
Shoppers Stop	-25	-32	-6	-59	13	-47
Titan Industries	-27	37	-8	10	11	22

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS)	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
	28.03.08													
Retailing														
Pantaloon Retail	434	Buy	9.3	16.0	25.5	46.9	27.2	17.0	18.2	12.3	7.9	10.3	15.6	14.5
Shopper's Stop	417	Neutral	1.3	2.9	9.9	311.5	146.1	42.3	25.1	17.3	11.2	1.3	3.3	10.9
Titan Industries	1,115	Neutral	32.4	43.8	57.7	34.4	25.5	19.3	19.7	15.3	11.8	32.7	33.2	33.0
Sector Aggregate						44.8	28.6	17.5	19.2	13.6	9.3	13.8	18.4	17.7

Pantaloon Retail

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	PF IN
	REUTERS CODE
S&P CNX: 4,942	PART.BO

28 March 2008

Buy

Rs434

Previous Recommendation: Buy

Equity Shares (m)	151.0
52-Week Range (Rs)	875/365
1,6,12 Rel. Perf. (%)	-8/-14/-19
MCap. (Rs b)	65.6
MCap. (US\$ b)	1.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/07A	32,367	611	4.2	-11.2	104.4	5.8	5.6	7.4	2.3	34.5
06/08E	55,156	1,360	9.3	122.7	46.9	4.8	10.3	10.4	1.4	18.2
06/09E	83,873	2,408	16.0	72.3	27.2	4.2	15.6	13.9	1.0	12.3
06/10E	116,089	4,358	25.5	59.7	17.0	2.5	14.5	16.0	0.7	7.9

- Pantaloon's revenues are expected to grow 65.5% YoY in 3QFY08 to Rs14.3b, driven by value retailing.
- EBITDA margin is expected to expand 100bp to 8.0% while PAT is expected at Rs359m, up 91.6%.
- Pantaloon is expected to end the year with 11msf of retail space by June 2008. The company targets to increase the retail space to 16msf by FY09 and 24msf by FY10. The total capex plan spread over three years stands at US\$1.5b (US\$500m internal accruals; US\$700m debt; US\$300m equity)
- Pantaloon is focusing on building brands by increasing its private label in its hypermarket. The company plans to have its private label in food, electronics, apparel and cosmetics. It has identified three brands for sale in other multiband stores. These include Dreamline for home products, John Miller for shirts and Buffalo for jeans.
- Pantaloon Retail is expected to take a one-time hit of US\$20m in valuation of closing stock. The company is likely to provide the same in 4QFY08 results as an exceptional one time write-off.
- The stock is currently trading at 46.9x FY08E EPS and 27.2x FY09E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E JUNE	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	6,034	7,527	8,610	10,196	10,864	12,268	14,250	17,774	32,367	55,156
YoY Change (%)	65.4	59.5	89.1	77.3	80.1	63.0	65.5	74.3	73.3	70.4
Total Exp	5,618	6,957	8,008	9,629	9,908	11,171	13,110	16,587	30,211	50,777
EBITDA	415	570	603	568	956	1,096	1,140	1,187	2,156	4,379
Margins (%)	6.9	7.6	7.0	5.6	8.8	8.9	8.0	6.7	6.7	7.9
Depreciation	67	82	93	126	153	204	185	189	369	731
Interest	125	207	229	337	352	418	420	430	898	1,619
Other Income	17	5	9	0	7	13	8	4	32	32
PBT	241	286	290	105	459	487	543	572	921	2,061
Tax	79	94	103	36	162	171	185	183	311	701
Rate (%)	32.7	33.0	35.5	34.0	35.3	35.1	34.0	32.0	33.7	34.0
Adjusted PAT	162	191	187	69	297	317	359	388	611	1,360
YoY Change (%)	19.6	3.1	15.3	-56.2	82.9	65.3	91.6	460.2	-3.0	122.8
Exceptional Income	224	249	0	117	0	0	0	0	589	0
Reported PAT	386	440	187	187	297	317	359	388	1,200	1,360

E: MOST Estimates

Shopper's Stop

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	SHOP IN
	REUTERS CODE
S&P CNX: 4,942	SHOP.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs417

Equity Shares (m)	34.8
52-Week Range	703/350
1,6,12 Rel. Perf. (%)	3/-23/-59
MCap. (Rs b)	14.5
MCap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	8,280	343	9.8	39.8	42.3	4.9	11.5	14.4	1.7	20.6
03/08E	10,938	47	1.3	-86.4	311.5	4.9	1.3	4.9	1.3	24.8
03/09E	14,751	99	2.9	113.3	146.1	4.9	3.3	8.3	1.0	17.1
03/10E	20,369	343	9.9	245.3	42.3	4.6	10.9	14.2	0.8	11.1

- Shopper's Stop is expected to report revenues of Rs2.9b in 4QFY08, an increase of 33.8%, driven by strong same store sales growth in existing stores.
- EBITDA margin is expected at 6% for 4QFY08, a decline of 110bp. Adjusted PAT at Rs18m would decline of 73% YoY.
- We expect profit margins to remain under pressure due to change in method of depreciation and rising overheads due to staff costs, lease rentals and new store openings.
- The company's subsidiary Gateway Multichannel Retail (India) Ltd has opened its first store Hypercity Argos at Thane.
- We expect the company to raise Rs3-3.5b to fund the various expansion plans in the coming 2-3 years. The company plans to achieve economies of scale in another 2-3 years which would increase the EBITDA margin to 7-8%.
- The stock is currently trading at 311.5x FY08E EPS and 146.1x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	1,720	2,013	2,398	2,149	2,188	2,774	3,100	2,876	8,280	10,938
YoY Change (%)	35.0	32.9	24.6	31.5	27.2	37.8	29.3	33.8	30.5	32.1
Total Exp	1,600	1,852	2,150	1,997	2,050	2,640	2,954	2,702	7,599	10,346
EBITDA	119	162	248	152	138	134	146	174	681	592
Margins (%)	6.9	8.0	10.3	7.1	6.3	4.8	4.7	6.0	8.2	5.4
Depreciation	41	55	43	50	93	115	113	108	189	429
Interest	9	11	11	-4	12	17	13	29	-41	71
Other Income	25	31	37	11	5	19	3	30	36	56
PBT	95	126	231	117	38	20	22	68	569	148
Tax	41	46	90	49	19	19	21	50	226	109
Rate (%)	43.0	36.4	38.8	42.4	48.6	96.9	95.4	73.4	39.7	73.4
PAT	54	80	142	67	20	1	1	18	343	39
YoY Change (%)	95.8	148.0	21.0	9.7	-63.5	-99.2	-99.3	-73	44.0	-88.5
Minority Interest Exceptionals	0	0	0	-101	0	0	7	0	-101	7
Reported PAT	54	80	142	-34	20	1	8	18	242	47

E: MOST Estimates

Titan Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TTAN IN
	REUTERS CODE
S&P CNX: 4,942	TITN.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs1,115

Equity Shares (m)	42.3	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	1,795/805	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	6/-19/10	03/07A	20,902	1,158	26.5	21.0	42.0	20.6	35.4	29.7	2.3	23.5
MCap. (Rs b)	47.1	03/08E	29,355	1,440	32.4	22.3	37.1	14.4	32.7	30.0	1.8	21.4
MCap. (US\$ b)	1.2	03/09E	38,921	1,943	43.8	34.9	25.1	8.1	33.2	35.9	1.4	15.2
		03/10E	47,269	2,560	57.7	31.8	19.3	6.1	33.0	38.1	1.0	11.8

- ✎ We expect Titan to register a 28.1% growth in revenue to Rs7.64b in 4QFY08. Jewellery and watches are expected to be the major growth drivers. EBIDTA margin is likely to dip by 120bp to 10.4% in 4QFY08 due to rising store operating expenses, sharp increases in gold prices and strong volume growth in lower margin Sonata watches in the current quarter. Adjusted PAT is expected to grow 14% to Rs542m.
- ✎ Titan has ended the year with 22 *Gold Plus* and 103 *Tanishq* stores in jewellery retailing. Gold prices have increased 19% QoQ and 28% YoY. We expect this to impact the volume growth in the jewellery segment. Diamond studded jewellery is expected to show strong growth momentum due to sales promotion scheme during the quarter. However, we expect the company to scale down expansion plan in the *Gold Plus* format due to lower volume growth.
- ✎ Titan Eye+ is performing as per expectations. We expect the company to undertake plans to scale up the model in the coming months from the current level of 10 stores.
- ✎ Precision engineering is expected to sustain the turnaround; growth rate is expected to accelerate from FY09.
- ✎ The stock is currently trading at 37.1x FY08E and 25.1x FY09E. Although we are positive on long term prospects, current stock price factors in the near term growth potential. We maintain neutral rating due to high valuations.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Sales	4,410	5,235	5,291	5,966	6,575	7,114	8,024	7,643	20,902	29,355
YoY Change (%)	54.1	47.9	42.9	41.0	49.1	35.9	51.6	28.1	45.5	40.4
Total Exp	4,245	4,690	4,711	5,273	6,206	6,318	7,523	6,847	18,918	26,894
EBITDA	165	546	581	693	369	797	501	796	1,984	2,462
Margins (%)	3.7	10.4	11.0	11.6	5.6	11.2	6.2	10.4	9.5	8.4
Depreciation	49	66	70	72	72	72	74	101	256	319
Interest	49	43	47	66	48	39	51	70	204	209
Other Income	14	5	9	4	5	4	5	24	32	38
PBT	81	442	473	560	254	689	381	649	1,556	1,973
Tax	12	100	177	85	127	226	72	107	398	533
Rate (%)	14.4	22.6	37.4	15.1	50.2	32.8	19.0	16.5	25.6	27.0
PAT	70	342	296	475	126	463	308	542	1,158	1,440
YoY Change (%)	-7.4	-7.1	122.9	13.5	81.6	35.3	4.2	14.0	20.3	24.3
Extraordinary Items	29	21	17	172	0	0	0	45	240	45
Reported PAT	41	322	279	303	126	463	308	497	918	1,395

E: MOST Estimates

Telecom

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

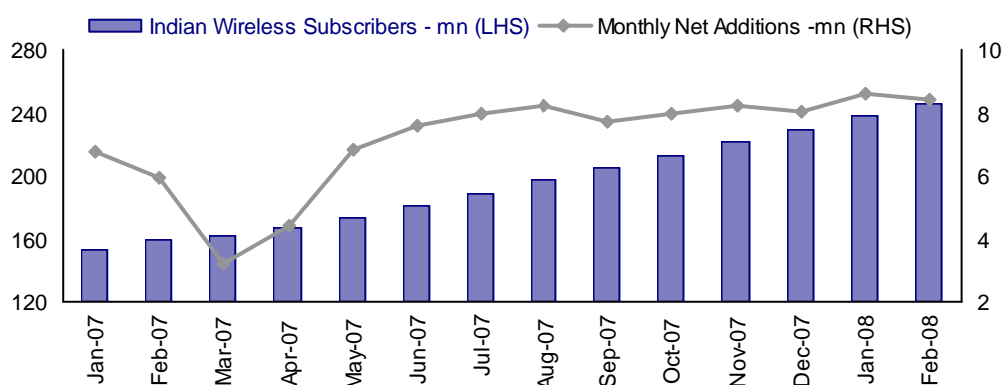
COMPANY NAME	PG.
Bharti Airtel	262
Idea Cellular	263
Reliance Communication	264

We expect robust 4QFY08 operating performance from the listed telecom majors - Bharti, RCOM, and Idea - with EBITDA growth of ~8-9% QoQ and ~40-42% YoY. However earnings are likely to be dragged by higher finance costs (forex losses due to Re depreciation v/s US\$; increased net debt). We expect flat earnings for Bharti and RCOM while Idea's net profit is likely to decline ~11% QoQ.

We expect wireless EBITDA margins to remain stable QoQ. Scope for an upward tick in EBITDA margins appears limited given selective tariff cuts undertaken by the companies. However, positive demand elasticity is likely to expand MOU and restrict ARPU decline to ~3-4% QoQ.

The momentum in subscriber net additions continued to be strong during 4QFY08. Industry is expected to add ~26m subscribers in 4QFY08 v/s 24.2m subscribers in 3QFY08. Sustained subscriber momentum would support ~12-13% quarterly average subscriber growth for Bharti, RCOM, and Idea.

WIRELESS SUBSCRIBER ADDITIONS



Source: Industry/Motilal Oswal Securities

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

RECO		SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Telecom							
Bharti Airtel	Buy	74,677	38.5	31,924	42.5	17,288	27.8
Idea Cellular	Not Rated	18,688	42.8	6,165	41.3	2,108	9.0
Reliance Comm	Buy	53,113	34.9	22,863	39.8	13,737	34.5
Sector Aggregate		146,478	37.7	60,951	41.3	33,132	29.0

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Several new players receive Lols

121 LOIs issued across circles: In January 2008, Department of Telecom (DOT) issued 121 Letters of Intent (LOIs) for Unified Access Service Licence (UASL) across the 22 service areas (circles). We believe that licence agreements have also been signed with majority of these LoI holders. The companies which received LOIs include Datacom (all 22 circles), Idea (9 circles), Loop (21 circles, part of Essar group), Spice (4 circles), Shyam Telelink (21 circles, except Rajasthan, where it has licence), Swan (13 circles), S Tel (6 circles), Tata Teleservices (3 circles), and Unitech (22 circles).

UASL licence will not automatically entitle companies for spectrum allocation:

The government has clarified that UASL licence is an umbrella licence for all access services irrespective of technology (CDMA, GSM etc) or access mode (wireline or wireless). For spectrum allocation, licencees will have to obtain another licence - Wireless Operating Licence - which would be granted on First-Come-First-Serve basis.

No major competitive threat as yet: Although LOIs for UASL have been issued, the applicants are not assured of wireless spectrum allocation. We believe actual entry of these applicants into wireless market remains uncertain, given the current spectrum crunch, and on-going disputes on allocation. Apart from spectrum constraints, these players would also face risks related to financing and severe competition - given that they would be late entrants and are likely to enter simultaneously in an already crowded market place.

DETAILS OF LOIS ISSUED

	UNI TECH	DATA COM	IDEA TEL	S (ESSAR)	LOOP TELELINK	SHYAM	SPICE	SWAN TELE	TATA	TOTAL
Delhi	☛	☛			☛	☛	☛	☛		6
Mumbai	☛	☛				☛		☛		4
Tamil Nadu (incl. Chennai)	☛	☛	☛		☛	☛		☛		6
Kolkata	☛	☛	☛		☛	☛				5
Maharashtra	☛	☛			☛	☛	☛	☛		6
Gujarat	☛	☛			☛	☛		☛		5
A.P.	☛	☛			☛	☛	☛	☛		6
Karnataka	☛	☛	☛		☛	☛		☛		6
Kerala	☛	☛			☛	☛		☛		5
Punjab	☛	☛	☛		☛	☛		☛		6
Haryana	☛	☛			☛	☛	☛	☛		6
U.P.(W)	☛	☛			☛	☛		☛		5
U.P.(E)	☛	☛			☛	☛		☛		5
Rajasthan	☛	☛			☛			☛		4
MP.	☛	☛			☛	☛				4
W.B. & A&N	☛	☛	☛		☛	☛				5
H.P.	☛	☛		☛	☛	☛				5
Bihar	☛	☛		☛	☛	☛				5
Orissa	☛	☛	☛	☛	☛	☛				6
Assam	☛	☛	☛	☛	☛	☛			☛	7
N.E.	☛	☛	☛	☛	☛	☛			☛	7
Jammu & Kashmir	☛	☛	☛	☛	☛	☛			☛	7
Total	22	22	9	6	21	21	4	13	3	121

Source: DoT/Motilal Oswal Securities

Awaiting licences awarded start-up spectrum

Spectrum windfall for awaiting licences: In January 2008, all the awaiting licences received start-up spectrum from the government. These include Aircel (14 circles), Idea (2 circles), RCOM (14 circles) and Vodafone (6 circles). The companies are set for a commercial launch later this year. Post the launch by these operators, average number of operators on a pan-India basis will increase from 5.6 to 6.6. However, with RCOM's GSM launch into 14 circles, average number of GSM operators will increase from 4.0 to 5.7.

CIRCLE WISE PRESENCE OF OPERATORS (AS OF DEC-07)

	BHARTI	BSNL	RCOM	VODA FONE	IDEA	TAT TELE	AIRCEL	MTNL (GSM)	SPICE	OTHERS	RCOM (GSM)
Delhi	24	x	15	20	12	19	SR	9	LOI	x	SR
Mumbai	18	x	21	25	SR	13	SR	13	x	10	SR
Chennai	24	14	13	17	LOI	5	27	x	x	x	SR
Kolkata	23	12	23	26	LOI	16	SR	x	x	x	Present
Maharashtra	21	15	15	12	23	15	SR	x	LOI	x	SR
Gujarat	15	12	15	37	16	6	SR	x	x	x	SR
A.P.	29	12	18	13	16	12	SR	x	LOI	x	SR
Karnataka	41	11	15	17	LOI	7	SR	x	10	x	SR
T.N.	22	14	15	17	LOI	4	29	x	x	x	SR
Kerala	14	21	18	17	24	6	SR	x	x	x	SR
Punjab	29	15	9	15	LOI	8	SR	x	22	2	SR
Haryana	16	21	13	20	16	14	SR	x	LOI	x	SR
U.P.(W)	12	16	18	23	20	11	SR	x	x	x	SR
U.P.(E)	18	28	18	25	5	6	SR	x	x	x	SR
Rajasthan	28	19	13	21	6	12	SR	x	x	1	SR
MP.	22	14	32	x	24	6	SR	x	x	x	Present
W.B. & A&N	21	14	21	30	LOI	7	6	x	x	x	Present
H.P.	38	26	26	SR	3	5	2	x	x	x	Present
Bihar	38	15	33	SR	SR	8	5	x	x	x	Present
Orissa	34	22	27	SR	LOI	9	9	x	x	x	Present
Assam	25	19	24	SR	LOI	LOI	32	x	x	x	Present
N.E.	23	31	16	SR	LOI	LOI	30	x	x	x	Present
Jammu & Kashmir	46	43	0	SR	LOI	LOI	11	x	x	x	SR

Note: Numbers indicate market share (%) in respective circles; SR: Spectrum Received; LOI: Letter of Intent received
Source: AUSPI/COAI/Motilal Oswal Securities

Incumbents also get some allocation: Existing GSM operators - Bharti, Idea, and Vodafone - have also been allotted incremental spectrum in some circles. We believe this reflects spectrum allotment as per newly accepted TRAI subscriber criteria and expect incumbents to be eligible for more spectrum over the coming months as they hit subscriber thresholds for incremental spectrum in other circles as well.

RCOM's GSM expansion to open new opportunities: We believe RCOM's footprint expansion on the GSM technology would be positive for company's incremental growth. RCOM has been in the midst of an intense regulatory battle and has finally received start-up GSM spectrum in 14 CDMA - only circles almost two years after its application for GSM spectrum under the UASL licence. RCOM already has significant scale (All India

subscriber share of 17.8%), a pan-India distribution network, and is currently deploying huge capex in passive infrastructure to increase its tower base to ~40,000. We believe the GSM scale-up will provide RCOM an opportunity to target floating GSM subscriber base (given significant GSM churn), and further deepen its distribution (advantage of selling SIMs v/s handsets for new connections). RCOM has indicated a timeline of around one year from the date of spectrum allocation for its commercial launch. Key challenges for RCOM would be to maintain a dual network and limit cannibalization of its CDMA users.

Aircel to become a pan-India GSM operator, Idea's footprint expands to 13 circles:

Aircel would now be able to scale-up its GSM footprint from current 8 circles to pan-India (22 circles). Idea Cellular would now have presence in 13 circles and is expected to launch operations in Mumbai and Bihar over the next 6-9 months.

Tata Teleservices gets in-principle nod for GSM: CDMA operator Tata Teleservices has also been given an in-principle approval for allotment of start-up GSM spectrum. We expect Tata Tele to receive spectrum before others (who have received LoIs) in the queue, as precedent has already been set by allocation to RCOM.

Other aspirants could be in for a long wait: The government recently issued as many as 121 LoIs for UASL across circles to nine applicants. If these players receive start-up spectrum, the number of operators could increase further by 4-7 in each circle.

Development had been widely expected; its back-to-basics for now: We believe that start-up spectrum allocation to awaiting licencees was widely expected by the market and has put to rest the long-drawn uncertainty over this key issue. Although competitive intensity in the market is set to increase, we note that all these rollouts would be done by existing operators either for their footprint expansion (Idea, Vodafone, Aircel) or alternate technology strategy (for RCOM). We believe that chances of new players entering into the sector in the short to medium term are currently low due to significant regulatory, market, and execution challenges. We now expect the focus to head back towards core operations as spectrum row has settled for the interim.

Competitive intensity set to rise

With the entry of 1-3 GSM operators in all circles (except West Bengal) over the next one year, the competitive intensity in the GSM space is set to rise. The new entrants will not only eye incremental subscribers but also target existing subscribers of incumbents (current high churn rate of ~4% per month in GSM provides enough opportunity). The competition could further increase once Mobile Number Portability (MNP) is introduced. The telecom regulator TRAI is currently working on detailed guidelines for MNP implementation. We expect MNP to be introduced in a phased manner starting from metros in H2CY08.

Valuation and view

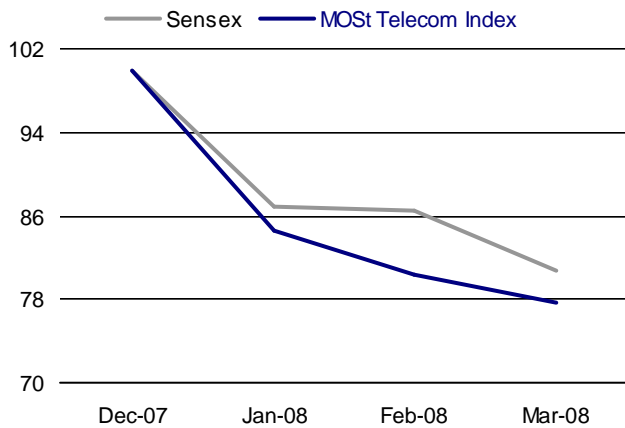
Momentum in subscriber additions continues to be strong, primarily driven by higher coverage and attractive tariffs. We expect strong near-term earnings momentum to shield against concerns on the regulatory front. We believe that ongoing value-unlocking initiatives, good response from new projects like DTH/IPTV/retail broadband, and news flow on international expansion/industry consolidation could be positive triggers while adverse regulatory environment and increase in competitive activity pose key risks. Valuations at ~10.5-12x FY09E EV/EBITDA and ~8.5-10x FY10E EV/EBITDA are attractive.

Stock performance and valuations

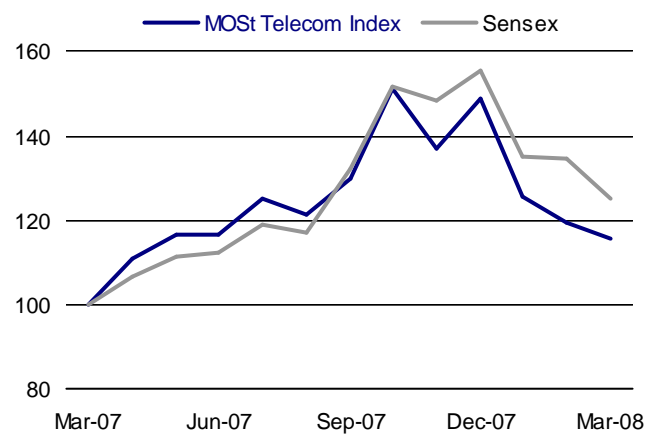
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Telecom						
Bharti Airtel	-12	9	7	-18	7	-8
Reliance Communication	-27	28	-8	1	-8	11
Idea Cellular	-21	15	-2	-12	-2	-2

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10	FY08E	FY09E	FY10	FY08E	FY09E	FY10
Telecommunication														
Bharti Airtel	826	Buy	34.7	44.5	52.6	23.8	18.5	15.7	14.4	10.5	8.6	38.6	35.5	31.9
Idea Cellular	104	Not Rated	3.7	4.8	6.4	28.0	21.5	16.1	14.8	10.6	8.3	29.6	32.9	33.1
Reliance Comm	536	Buy	26.1	31.4	38.0	20.5	17.1	14.1	14.4	11.7	9.0	22.2	21.2	21.7
Sector Aggregate						22.8	18.2	15.1	14.4	11.0	8.7	26.5	26.1	25.2

Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	BHARTI IN
	REUTERS CODE
S&P CNX: 4,942	BRTI.BO

28 March 2008

Buy

Rs826

Previous Recommendation: Buy

Equity Shares (m)	1,896
52-Week Range (Rs)	1,149/700
1,6,12 Rel. Perf. (%)	6/-7/-18
MCap. (Rs b)	1,565.1
MCap. (US\$ b)	39.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	185,196	42,572	22.5	88.0	36.8	11.4	37.0	26.6	8.7	21.6
3/08E	266,736	65,768	34.7	54.5	23.8	7.7	38.6	29.2	6.1	14.3
3/09E	345,126	84,422	44.5	28.4	18.5	5.7	35.5	29.1	4.6	10.4
3/10E	408,976	99,703	52.6	18.1	15.7	4.4	31.9	27.5	3.9	8.7

- ✎ We expect revenue to grow 38% YoY and 7% QoQ, driven by healthy mobile subscriber additions.
- ✎ EBITDA margin is expected to expand 20 basis points QoQ to 42.7 % on the back of modest margin accretions in B&T and long-distance segments. We expect an overall EBITDA growth of 42% YoY and 8% QoQ.
- ✎ Mobility revenues are expected to grow 8% QoQ, implying an ARPU decline of ~4% to Rs343. EBITDA margin for mobile telephony business is expected to remain stable.
- ✎ Net profit is expected to grow 31% YoY and 0.4% QoQ to Rs17.6b. QoQ earnings growth will remain subdued due to higher finance cost from likely derivative and exchange fluctuation losses on rupee depreciation against the US dollar. We have factored in a Rs0.5b derivative loss due to forex fluctuation in 4QFY08. There was a gain of 24m in 3QFY08.
- ✎ Bharti is expected to report results for its tower subsidiary Bharti Infratel separately in Q4FY08 numbers. The results of Indus Towers (42% stake) will not be consolidated but will likely be accounted as profit/loss from associate.
- ✎ The stock is currently trading at 10.4x FY09E EV/EBITDA and 18.5x FY09E earnings. We expect Bharti to maintain its leadership in the mobility markets, while continuing to invest aggressively. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Revenue	38,564	43,571	49,129	53,932	59,046	63,374	69,639	74,677	185,196	266,736
YoY Growth (%)	53.2	60.8	62.4	58.1	53.1	45.4	41.7	38.5	58.8	44.0
QoQ Growth (%)	13.0	13.0	12.8	9.8	9.5	7.3	9.9	7.2		
Net Revenue	31,952	36,381	40,887	44,597	49,975	54,057	59,215	74,677	153,817	237,924
Total Operating Expenses	16,931	19,356	20,832	22,189	25,509	26,960	29,581	42,753	79,309	124,805
EBITDA	15,021	17,025	20,055	22,408	24,466	27,097	29,634	31,924	74,508	113,119
Margin (%)	39.0	39.1	40.8	41.5	41.4	42.8	42.6	42.7	40.2	42.4
Net Finance Costs	1,691	587	-1,318	477	-1,752	1,126	810	1,423	1,438	1,607
Cash Profit from Operations	13,330	16,438	21,373	21,931	26,218	25,971	28,824	30,501	73,070	111,512
Depreciation & Amortisation	4,972	5,926	7,072	7,239	8,120	9,062	10,377	11,069	25,208	38,628
Profit before Tax	8,599	10,782	14,412	15,068	18,901	17,472	19,033	19,862	48,861	75,264
Income Tax Expense / (Income)	952	1,378	2,139	1,353	3,594	1,135	1,564	2,383	5,822	8,676
P/L to Minority Shareholders	96	66	122	184	191	197	244	190	468	822
Reported Net Profit / (Loss)	7,551	9,338	12,151	13,531	15,116	16,139	17,224	17,288	42,571	64,420
QoQ Growth (%)	10.7	23.7	30.1	11.4	11.7	6.8	6.7	0.4	88.5	51.3

E: MOST Estimates; Financials as per US GAAP

Idea Cellular

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	IDEA IN
	REUTERS CODE
S&P CNX: 4,942	IDEA.BO

28 March 2008

Not Rated

Rs104

Equity Shares (m)	2,635.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	161/89	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	0/-12/-12	3/07A	43,664	5,032	2.2	137.6	46.6	7.0	25.2	11.7	6.8	20.4
MCap. (Rs b)	273.4	3/08E	66,164	9,762	3.7	66.7	28.0	8.4	29.6	13.5	4.9	14.8
MCap. (US\$ b)	6.9	3/09E	89,710	12,713	4.8	30.0	21.5	6.1	32.9	15.3	3.8	10.6
		3/10E	112,175	16,990	6.4	33.6	16.1	4.8	33.1	17.2	3.0	8.3

- ☞ We expect revenue to grow 43% YoY and 9% QoQ, driven by sustained subscriber additions.
- ☞ We expect ARPU decline of ~3% in 4QFY08. MOU is expected to exhibit elasticity driven by tariff cuts taken during the quarter.
- ☞ EBITDA margin is likely to decline ~20bp to 33%, led by likely margin pressure in 8 established circles on continued higher network costs while EBITDA losses in the 3 newly-launched circles are expected to climb down further.
- ☞ Net profit is expected to remain muted with an expected growth of 9% YoY and a decline of 11% QoQ. While EBITDA growth would remain robust at ~41% YoY and 9% QoQ, continued aggressive network rollout would result in higher depreciation cost (+43% YoY and 10% QoQ).
- ☞ Finance cost is also likely to increase sharply by 56% QoQ led by 1) higher net debt on continued aggressive capex and ~Rs7b outlay as licence fee for 9 circles 2) lower treasury income on further utilization of IPO funds and likely forex losses due to rupee depreciation against the US dollar.
- ☞ The stock is currently trading at 10.6x FY09E EV/EBITDA and 21.5x FY09E earnings. We currently do not have rating on the stock.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Revenue	9,002	10,096	11,482	13,085	14,773	15,622	17,081	18,688	43,664	66,164
YoY Growth (%)					64.1	54.7	48.8	42.8	47.2	51.5
QoQ Growth (%)		12.1	13.7	14.0	12.9	5.7	9.3	9.4		
Total Operating Expenses	5,982	6,548	7,776	8,722	9,645	10,515	11,407	12,523	29,028	44,094
EBITDA	3,020	3,548	3,706	4,363	5,128	5,107	5,674	6,165	14,636	22,070
QoQ Growth (%)		17.5	4.4	17.7	17.5	-0.4	11.1	8.6		
Margin (%)	33.5	35.1	32.3	33.3	34.7	32.7	33.2	33.0	33.5	33.4
Net Finance Costs	721	790	806	975	143	641	782	1,217	3,292	2,783
Cash Profit from Operations	2,299	2,758	2,900	3,388	4,985	4,466	4,892	4,947	11,344	19,287
Non-Operating Income	20	51	68	326	3	21	22	19	465	65
Depreciation & Amortisation	1,456	1,700	1,800	1,761	1,887	2,007	2,277	2,515	6,718	8,686
Profit before Tax	863	1,108	1,168	1,953	3,101	2,480	2,637	2,451	5,091	10,665
Income Tax Expense / (Income)	4	6	31	19	16	277	268	343	60	904
Adjusted Net Profit / (Loss)	859	1,102	1,137	1,934	3,085	2,203	2,369	2,108	5,032	9,762
QoQ Growth (%)		28.2	3.2	70.1	59.5	-28.6	7.5	-11.0		

E: MOST Estimates

Reliance Communication

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	RCOM IN
	REUTERS CODE
S&P CNX: 4,942	RLCM.BO

28 March 2008

Buy

Rs536

Previous Recommendation: Buy

Equity Shares (m)	2,045.0
52-Week Range (Rs)	844/389
1,6,12 Rel. Perf. (%)	0/-3/1
MCap. (Rs b)	1,096.9
MCap. (US\$ b)	27.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	144,684	4,813	15.6	564	34.3	5.4	19.9	11.1	7.7	19.5
3/08E	190,677	53,392	26.1	67	20.5	4.0	22.2	12.1	6.2	14.4
3/09E	256,650	64,175	31.4	20	17.1	3.4	21.2	11.5	5.1	11.7
3/10E	316,707	77,747	38.0	21	14.1	2.8	21.7	11.8	4.4	9.8

- ✍ We expect revenues to grow 35% YoY and 9% QoQ, driven by healthy growth across all the three segments. The results of the acquired ethernet based service provider Yipes would be consolidated as a part of Global segment. Yipes has an EBITDA margin of ~10% and annualized revenues of ~US\$100m.
- ✍ We expect wireless ARPU to decline by ~4% QoQ to Rs326. While RPM is expected to decline by ~5% QoQ led by tariff cuts undertaken during the quarter, we expect MOU trend to reverse and witness elasticity.
- ✍ Overall EBITDA margins are expected to decline by ~20bps QoQ led by flat wireless margins but lower margins in the global business (due to consolidation of Yipes).
- ✍ Recurring net profit for the company is expected to grow by 35% YoY but remain flat QoQ. The YoY growth reflects strong top line growth accompanied with EBITDA margin expansion while QoQ growth will be adversely impacted by likely forex losses from rupee depreciation against the US dollar. We are modeling for NIL net finance charges in 4QFY08 v/s gain of Rs1.5b in 3QFY08.
- ✍ The stock is currently trading at 11.7x FY09E EV/EBITDA and 17.1x FY09E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Revenue	32,501	35,260	37,554	39,369	43,037	45,785	48,742	53,113	144,684	190,677
YoY Growth (%)	42.4	39.8	25.6	32.5	32.4	29.8	29.8	34.9	34.4	31.8
QoQ Growth (%)	9.4	8.5	6.5	4.8	9.3	6.4	6.5	9.0		
Total Operating Expenses	20,440	21,736	22,283	23,017	24,895	26,166	27,677	30,250	87,479	108,992
EBITDA	12,062	13,524	15,271	16,352	18,142	19,618	21,065	22,863	57,205	81,685
Margin (%)	37.1	38.4	40.7	41.5	42.2	42.8	43.2	43.0	39.5	42.8
Net Finance Costs	999	53	-657	-391	-1,274	-1,125	-1,518	0	4	-3,917
Cash Profit from Operations	11,063	13,471	15,927	16,743	19,416	20,743	22,583	22,863	57,200	85,602
Depreciation & Amortisation	5,514	6,237	6,524	6,378	6,192	6,754	7,252	7,523	24,653	27,721
Profit before Tax	5,549	7,234	9,404	10,365	13,224	13,989	15,331	15,340	32,548	57,881
Income Tax Expense / (Income)	272	61	130	148	1,031	698	1,379	1,381	611	4,489
Adjusted Net Profit / (Loss)	5,277	7,173	9,274	10,217	12,193	13,291	13,952	13,960	31,937	53,392
QoQ Growth (%)	19.2	35.9	29.3	10.2	19.3	9.0	5.0	0.1		
Margin (%)	16.2	20.3	24.7	26.0	28.3	29.0	28.6	26.3	22.1	28.0
Extraordinary Expen./Minority Int.	150	150	30	-27	-15	245	223	223	303	676
Reported Net Profit / (Loss)	5,127	7,023	9,244	10,244	12,208	13,046	13,729	13,737	31,634	52,716

E: MOST Estimates; Financials as per US GAAP

Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Textiles

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
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Arvind Mills	271
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Himatsingka Seide	273
Raymond	274
Vardhman Textiles	275
Welspun India	276

Indian textiles continue to reel under pressure

The Indian textile industry continues to reel under pressure from rising rupee and higher cotton prices. The sector growth, which had slowed down to 7% in FY07 from 25% in FY06, is expected to fall further in FY08. During 1QFY08, Indian textile exports were down 3.3% YoY. The worst hit export segment has been the Readymade Garments (RMG), which accounts for almost 43% of the total exports from India.

INDIAN TEXTILE EXPORTS BREAK-UP (US\$ B)

	FY05	FY06	FY07	FY07 SHARE (%)
RMG	6.0	8.0	8.1	43.1
Cotton Textiles	3.5	4.6	5.5	29.3
Woolen Textiles	0.4	0.5	0.4	2.4
Man made Textiles	2.1	2.0	2.4	12.6
Silk	0.6	0.7	0.7	3.7
Handicrafts	1.0	1.3	1.3	6.7
Coir Manufacturers	0.1	0.1	0.2	0.8
Jute Goods	0.3	0.3	0.3	1.4
Grand Total	14.0	17.5	18.7	100.0
% Change		25.0	7.0	

Source: DGCIS Kolkata

Textile companies striving to remain competitive

Indian textile companies have been taking steps to cope with the rising rupee and remain competitive in the exports markets: (1) Shifting focus to European countries, (2) increasing focus on innovations, (3) accepting orders only in euros, and (4) sourcing raw material and machineries from US, etc.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Textiles							
Alok Ind	Buy	6,552	14.1	1,509	14.3	475	5.0
Arvind Mills	Neutral	5,856	21.2	710	5.6	96	142.8
Gokaldas Exports	Neutral	3,024	9.4	309	-15.9	164	-9.5
Himatsingka Seide	Neutral	742	71.9	93	60.4	18	-79.8
Raymond	Neutral	6,110	75.7	801	83.1	229	68.6
Vardhman Textiles	Buy	6,704	24.2	845	10.1	168	-54.5
Welspun Ind	Neutral	3,070	23.6	367	4.4	27	-73.8
Sector Aggregate		32,058	27.6	4,634	16.6	1,177	-14.1

Surge in Chinese exports to EU seen in 1HCY08

We expect garment exports from China to EU to surge due to lifting of quotas on textile exports (key categories) in CY08. However, under the WTO rules, EU retains the right to reimpose quotas on Chinese exports until the end of 2008. Hence, a surge in Chinese exports could lead to reimposition of quotas on China till December 2008.

Removal of trade restrictions on China poses threat for Indian textiles

We believe the removal of quota restrictions on China would be particularly negative for India (as compared to competitors such as Pakistan, Bangladesh and Sri Lanka) due to the sharp appreciation of the Indian rupee against the US dollar. Though there is a possibility of reimposition of quotas on China for a year by mid-CY08 (in case of any major upsurge in Chinese textile exports to EU), this would only be a temporary reprieve for the Indian textile industry, as the US quota on Chinese exports would be lifted from CY09, which would again exert severe price pressure on the Indian textile industry.

RESTRICTION ON CHINA BY EU-25: GROWTH RATES IN KEY CATEGORIES (%)

	CY05	CY06	CY07
Jersey and Pullovers	8	10	10
Men's and Boy' s Bottomwear	8	10	10
Women and Girl' s Shirt/Blouses	8	10	10
T-Shirts and Vests	10	10	10
Women' s and Girl' s Dresses	10	10	10

Source: Industry/CRISIL Research

RESTRICTION ON CHINA BY USA: GROWTH RATES IN KEY CATEGORIES (%)

	2006	2007	2008
Growth Rate Cap			
Men' and Boys' Cotton Knit Shirts	10	12.5	15
Men' and Boys' MMF Knit Shirts	10	12.5	15
Women' and Girls' Cotton Knit Shirts/Blouses	10	12.5	15
Women' and Girls' MMF Knit Shirts/Blouses	10	12.5	15
Men's and Boys' Cotton Woven Shirts	10	12.5	15
Men' s and Boys' MMF Woven Shirts	10	12.5	15
Men's and Boys' Cotton Bottom-wear	10	12.5	15
Women' s and Girls' Cotton Bottom-wear	10	12.5	15
Cotton Bras	10	12.5	15
MMF Bras	10	12.5	15
Cotton Underwear	10	12.5	15
MMF Underwear	10	12.5	15
Sweaters	10	12.5	15

Source: Industry/CRISIL Research

Trade shift to developing countries slower than anticipated

World textile trade was expected to shift from the artificially protected developed countries to the low-cost developing countries in the post quota era. Though the initial trade data in the post-quota period confirms the above prognosis, the pace of trade shift has been substantially slower than anticipated due to: (1) tariff differentials, (2) preferential agreements, (3) reimposition of quotas on China by the US and EU, and (4) transition time required by large buyers. Going forward, though tariff differentials and preferential agreements may continue to be a deterrent to growth, we expect trade shifts to accelerate as a result of aggressive outsourcing ramp-up by global retailers from key sourcing countries such as India.

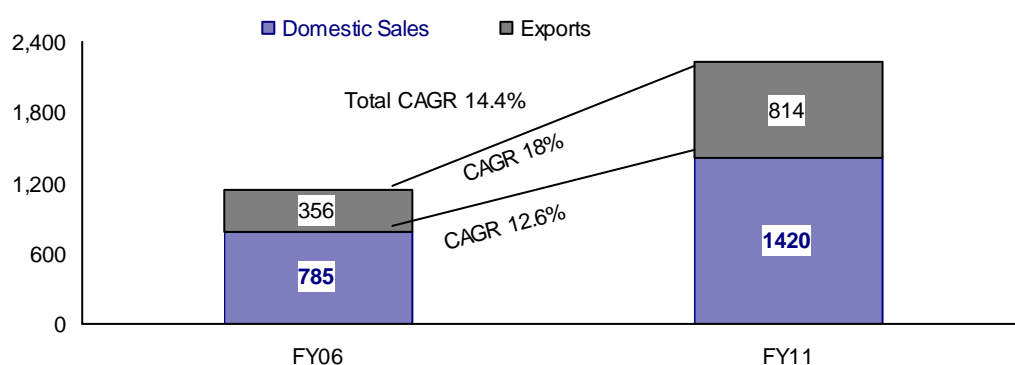
Textile players shift focus from exports to domestic markets

A clear trend seems to be emerging in the domestic textile industry, wherein players are shifting their focus from the export market to the domestic market. This shift in strategy has been driven by two key factors. Firstly, the export market has become less attractive due to the appreciating rupee, raw material and labor cost-push and the relative competitive advantage enjoyed by neighboring countries. Secondly, domestic market has become extremely attractive, on the back of rising per capita income and emergence of organized retail. This has resulted in large companies such as Arvind, Raymond, Alok etc trying to forward integrate into branding and retail.

Domestic RMG market to emerge as a big opportunity

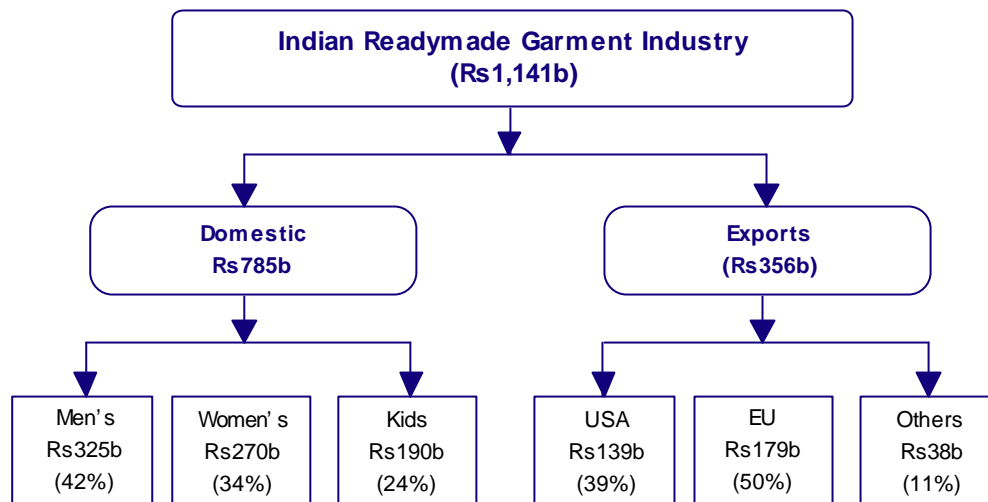
CRISIL estimates RMG market to grow at a CAGR of 14.4%, over FY06-FY11, to US\$50.4b in FY11 from around US\$25.8b in FY06. CRISIL estimates the domestic RMG market to grow at a CAGR of 12.6% to US\$32b in FY11 from around US\$17.7b in FY06. This growth will primarily be led by increasing income levels and a shift in consumption pattern from tailored to readymade garments. We believe with the consolidation of retail industry in India, the domestic RMG market would present a big opportunity for the Indian garment manufacturers.

RMG MARKET: AN OUTLOOK (RS B)



Source: CRISIL

OVERVIEW OF INDIAN RMG MARKET



Source: CRISIL

Valuations

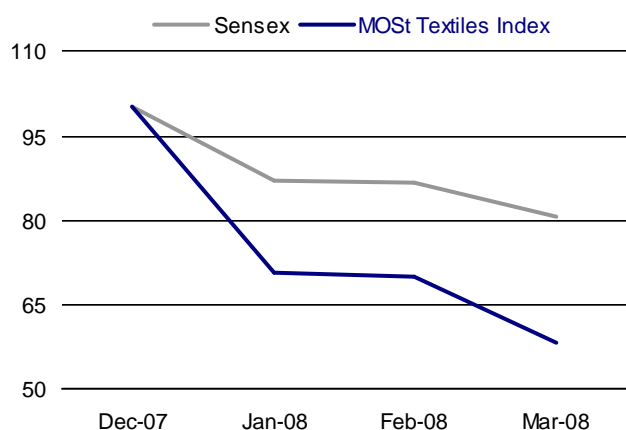
Most of the textile companies have expanded and modernized their capacities to reach critical size. Consequently, due to their modern plans and global capacities, they have also managed to attract large international institutional buyers with whom they now have established strategic relationships. This has allowed them to move their business from being a transitional-based model to a strategic vendor-based relationship model. At the same time, their financials are extremely healthy, as they have resorted to substantial withdrawals from the subsidized TUF scheme. Further, there is no immediate concern of large dilutions, as most companies have already completed a substantial portion of their capex plans. We maintain our **Neutral** rating on Arvind, Gokaldas, Welspun, Raymond and Himatsingka Seide. We remain bullish on Vardhman Textiles and Alok Textiles.

Stock performance and valuations

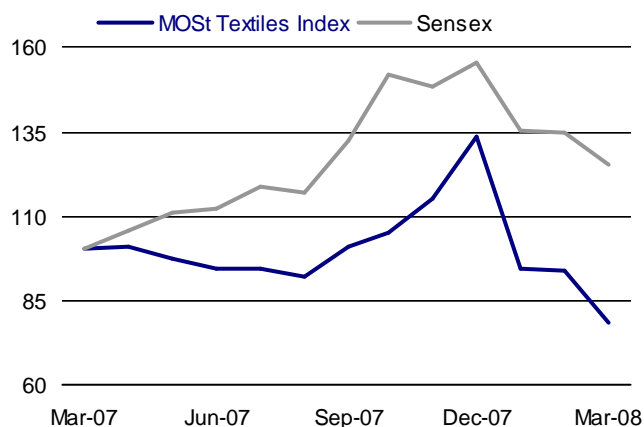
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Textiles						
Alok Industries	-43	4	-24	-23	-3	25
Arvind Mills	-57	-13	-38	-40	-17	8
Gokaldas Exports	-29	-21	-10	-48	11	0
Himatsingka Seide	-37	-45	-18	-72	3	-24
Raymond	-30	-10	-11	-37	10	11
Vardhman Textiles	-37	-46	-18	-73	3	-25
Welspun Industries	-57	-37	-38	-65	-17	-16

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Textiles														
Alok Ind	59	Buy	7.8	10.3	13.4	7.6	5.7	4.4	9.4	8.5	7.3	11.7	13.8	15.6
Arvind Mills	39	Neutral	1.2	4.0	6.8	33.2	9.6	5.7	9.2	7.2	5.6	1.5	5.1	8.0
Gokaldas Exports	184	Neutral	16.1	23.5	26.2	11.4	7.8	7.0	8.8	6.1	5.3	13.1	16.9	16.3
Himatsingka Seide	64	Neutral	6.7	11.4	12.2	9.6	5.6	5.2	6.7	4.1	3.6	10.4	16.3	15.6
Raymond	302	Neutral	10.6	27.9	31.0	28.5	10.8	9.7	10.6	5.2	4.7	4.5	11.4	11.6
Vardhman Textiles	106	Buy	19.7	24.9	38.8	5.4	4.3	2.7	9.2	6.8	5.7	10.8	12.4	17.1
Welspun Ind	44	Neutral	4.1	12.8	15.3	10.8	3.4	2.9	9.7	5.8	5.4	5.1	14.7	15.5
Sector Aggregate						11.7	6.7	5.2	9.3	6.8	5.8	7.1	11.3	13.0

Alok Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ALOK IN
	REUTERS CODE
S&P CNX: 4,942	ALOK.BO

28 March 2008

Buy

Rs59

Previous Recommendation: Neutral

Equity Shares	199.1
52-Week Range	108/49
1,6,12 Rel.Per. (%)	-10/-12/-23
MCap (Rs. b)	11.7
MCap (US\$ b)	0.3

YEAR	NET SALES	PAT	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	18,290	1,419	8.3	32.7	7.1	1.0	17.1	6.6	1.9	8.5
3/08E	20,897	1,548	7.8	9.1	7.7	0.9	11.7	6.6	2.2	9.1
3/09E	27,334	2,049	10.3	32.4	7.0	0.8	13.8	7.3	2.1	8.9
3/10E	35,220	2,678	13.4	30.7	4.4	0.7	15.6	8.4	1.7	7.3

*Fully Diluted EPS

- For 4QFY08, we expect Alok to post revenue of Rs6.5b, up 14.1% YoY, aided by higher capacities across all textile segments. We expect value added sales to increase from 21% of total sales in FY07 to 36% of total sales in FY09.
- EBITDA margin is likely to be 23%, led by higher sales from value added segments.
- In FY08, Alok announced several new initiatives, which include foray into real estate business and increased focus on the retail business.
- The management has drawn up restructuring plans, which include creating dedicated verticals for the textile and retail businesses.
- The company has ambitious expansion plans for its domestic retail business, which entails introducing international brands in India and opening ~500 H&A retail outlets over the next three years. Post restructuring, we expect Alok to emerge as a large retail play.
- Alok is trading at attractive valuations of 7.6x FY08E EPS of Rs9.3 and 5.7x FY09E EPS of Rs10.3. We believe the real estate vertical could lead to value creation of ~Rs36/share. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	3,579	4,172	4,799	5,741	4,189	4,648	5,508	6,552	18,290	20,897
Change (%)	19.6	20.8	31.0	40.8	17.1	11.4	14.8	14.1	28.9	14.2
Total Expenditure	2,772	3,204	3,726	4,420	3,173	3,562	4,160	5,043	14,123	15,939
EBITDA	806	968	1,073	1,321	1,016	1,086	1,348	1,509	4,168	4,958
Change (%)	37.1	36.7	32.5	50.8	26.0	12.3	25.6	14.3	40.7	19.0
As % of Sales	22.5	23.2	22.4	23.0	24.2	23.4	24.5	23.0	22.8	23.7
Depreciation	246	280	325	354	358	364	434	444	1,205	1,599
Interest	170	213	242	269	270	283	295	466	893	1,314
Other Income	-4	-16	32	19	2	139	89	36	32	265
Non Recurring Expense	0	0	0	334	396	0	0	0	334	396
PBT	386	459	539	1,051	785	579	707	635	2,435	2,705
Tax	117	132	168	265	235	149	219	160	682	762
Effective Tax Rate (%)	28.2	28.9	31.2	25.2	30.0	29.0	32.5	25.2	28.0	33.0
Reputed PAT	269	326	371	787	550	430	488	475	1,753	1,943
Change (%)	31.0	28.1	25.7	139.4	104.3	31.8	31.7	-39.6	61.8	10.8
Adj. PAT	269	326	371	452	285	430	488	475	1,419	1,548
Change (%)	31.0	28.1	25.7	30.4	5.9	31.8	31.7	5.0	30.9	9.1

E: MOST Estimates

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Arvind Mills

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ARVND IN
	REUTERS CODE
S&P CNX: 4,942	ARMI.BO

28 March 2008

Neutral

Rs39

Previous Recommendation: Neutral

Equity Shares (m)	209.4
52-Week Range (Rs)	94/34
1,6,12 Rel.Per. (%)	-16/-32/-40
MCap (Rs b)	8.1
MCap (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	18,449	1,196	0.8	-6.0	46.1	0.5	1.1	8.2	1.4	8.6
3/08E	21,965	244	1.2	38.9	33.2	0.5	1.5	4.6	1.2	9.2
3/09E	25,243	845	4.0	246.0	9.6	0.5	5.1	7.1	1.0	7.2
3/10E	31,985	1,421	6.8	68.1	5.7	0.4	8.0	9.3	0.8	5.6

- For 4QFY08, we expect Arvind to record revenue growth of 21.2% YoY to Rs5.8b, primarily driven by higher garment sales. However, 4QFY08 results are not comparable on a YoY basis, as the result for the quarter under consideration includes revenues from the merged Arvind Brands.
- EBITDA margin is likely to decline 180bp YoY to 12.1% v/s 13.9% in 4QFY07. EBITDA margin is likely to continue to be under pressure due to increasing raw material prices and rising energy costs.
- During 4QFY08, the denim scenario improved in the international markets. However, the domestic market continues to be plagued by a huge overcapacity situation. We do not expect domestic demand-supply equilibrium in the denim sector to emerge in the near-to-medium term. Hence, we expect pressure on denim margins.
- We expect Arvind to record brand/retail sales of Rs3.8b in FY08 (~180 stores in FY08; to increase to ~250 by FY09). It owns brands such as Newport, Excalibur, Flying Machine, Ruf and Tuf, retail hypermarket chain 'Megamart' and has perpetual licensee agreement with international apparel brands such as Arrow, Tommy Hilfiger, Diesel, Polo and Cherokee.
- Arvind is currently working on restructuring plans, which could include relocating a part of its commodity grade denim capacity to other countries and increasing its focus on branded apparel and garment manufacturing.
- The stock is trading at 33.2x FY08E and 9.6x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	4,208	4,931	4,479	4,831	5,103	5,637	5,368	5,856	18,449	21,965
Change (%)	0.1	15.2	14.8	35.0	21.3	14.3	19.9	21.2	15.6	19.1
Total Expenditure	3,376	4,094	3,769	4,159	4,382	4,854	4,750	5,146	15,398	19,131
EBITDA	832	837	710	672	721	783	619	710	3,051	2,834
Change (%)	-27.6	-21.2	-22.7	-22.1	-13.3	-6.4	-12.8	5.6	-23.6	-7.1
As % of Sales	19.8	17.0	15.8	13.9	14.1	13.9	11.5	12.1	16.5	12.9
Depreciation	404	380	347	302	355	351	352	365	1,434	1,423
Interest	373	407	399	407	438	337	268	279	1,579	1,322
Other Income	53	2	27	81	52	17	73	34	163	175
Non Recurring Expense	-56	0	1,068	15	83	0	-8	0	1,020	75
PBT	52	51	1,058	58	63	112	63	100	1,220	338
Tax	6	4	10	4	5	7	6	4	24	19
Effective Tax Rate (%)	11.3	8.0	1.0	7.2	5.0	5.0	5.0	4.0	2.0	5.6
Reported PAT	46	47	1,048	54	58	105	57	96	1,196	319
Adj. PAT	103	47	-20	39	-24	105	65	96	176	170
Change (%)	-77.2	-87.3	-108.5	-81.6	-123.9	121.5	427.8	142.8	-86.2	-3.4

E: MOST Estimates, * Restated Quarterly Numbers

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Gokaldas Exports

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	GOKL IN
	REUTERS CODE
S&P CNX: 4,942	GOKL.BO

28 March 2008

Neutral

Previous Recommendation: Buy

Rs184

Equity Shares (m)	34.4	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range (Rs)	299/160	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel.Per. (%)	-12/-21/-48	3/07A	10,344	703	17.7	15.6	9.0	1.6	18.9	15.7	0.8	7.0
MCap (Rs. b)	6.3	3/08E	11,704	554	16.1	-21.1	11.4	1.4	13.1	10.1	0.7	8.8
MCap (US\$ b)	0.2	3/09E	12,957	809	23.5	46.0	7.8	1.2	16.9	14.7	0.7	6.1
		3/10E	14,378	900	26.2	11.2	7.0	1.1	16.3	15.2	0.6	5.3

- ✍ We expect revenue to increase 9.4% YoY in 4QFY08 to Rs3b, primarily aided by rise in volumes. Revenue growth would have been higher but for the sharp rupee appreciation by 9-11%. Almost 92% of Gokaldas revenues are derived from exports.
- ✍ We expect EBITDA margin to decline 306bp YoY to 10.2% as a result of the sharp rupee appreciation against the US dollar.
- ✍ We expect PAT to decline 9.5% YoY to Rs164m v/s Rs181m in 4QFY07.
- ✍ During 2QFY08, the promoters of Gokaldas sold 50.1% stake in the company to Balckstone FP Capital Partners (Mauritius) at a price of Rs275/sh. Post this transaction, Blackstone would further make an open offer for another 20% of the equity capital from existing shareholders, implying a total investment of US\$165m.
- ✍ We expect the company to register revenue CAGR of 11.4% and profit CAGR of 8.6% over FY07-FY10. The stock is trading at 11.4x FY08E and 7.8x FY09E earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	2,216	2,810	2,553	2,766	2,619	2,499	2,811	3,024	10,344	10,954
Change (%)	23.8	13.7	16.4	15.7	18.2	-11.1	10.1	9.4	17.0	5.9
Total Expenditure	1,991	2,494	2,263	2,398	2,410	2,274	2,558	2,715	9,146	9,957
EBITDA	225	316	290	367	209	225	253	309	1,198	997
Change (%)	26	19	21	33	-7	-29	-13	-16	25	-16.8
As % of Sales	10.2	11.2	11.4	13.3	8.0	9.0	9.0	10.2	11.6	9.1
Depreciation	52	60	68	70	72	75	84	88	250	319
Interest	46	54	55	65	71	73	82	51	220	277
Other Income	22	16	12	1	51	43	105	16	51	215
PBT	150	218	179	234	116	120	193	186	780	616
Tax	14	10	1	52	11	8	21	22	77	62
Effective Tax Rate (%)	9.7	4.4	10.2	22.4	8.0	9.0	9.0	11.8	9.9	10.0
Reputed PAT	135	208	178	181	105	113	172	164	703	554
Change (%)	16.3	12.4	13.4	20.6	-22.1	-45.9	-3.6	-9.5	15.4	-21.1

E: MOST Estimates

Himatsingka Seide

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	HSS IN
	REUTERS CODE
S&P CNX: 4,942	HMSD.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs64

Equity Shares (m)	97.4
52-Week Range (Rs)	140/55
1,6,12 Rel.Per. (%)	-14/-32/-72
MCap (Rs. b)	6.2
MCap (US\$ b)	0.2

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS * (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/07A	1,742	546	5.6	12.3	11.4	1.0	9.3	7.4	3.1	11.3
3/08E	3,626	649	6.7	18.8	9.6	1.0	10.4	9.1	1.6	6.7
3/09E	6,355	1,109	11.4	70.9	5.6	0.9	16.3	15.5	1.0	4.1
3/10E	6,623	1,188	12.2	7.1	5.2	0.8	15.6	15.4	0.9	3.6

* Consolidated

- For 4QFY08, we expect Himatsingka's standalone revenue to increase 71.9% YoY to Rs742m on the back of higher contribution from the bed-linen segment.
- We expect EBITDA margin to drop 90bp YoY to 12.5% on the back of higher raw material cost and high start up cost in the bed-linen segment.
- PAT is likely to drop 79.8% YoY to Rs18m.
- The company 20m bed linen plant located at the Hassan special economic zone (SEZ), Karnataka, could post revenues of Rs4b once it is fully operational.
- We expect the company to post consolidated EPS of Rs6.7 for FY08 and Rs11.4 for FY09. The stock is trading at a P/E of 9.6x FY08E and 5.6x FY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	378	470	463	432	396	431	657	742	1,427	2,226
Change (%)	10.5	23.5	13.5	14.0	4.9	-8.3	42.0	71.9	-5.5	56.0
Total Expenditure	252	311	321	374	309	361	645	649	963	1,963
EBITDA	126	159	142	58	87	70	13	93	464	263
Change (%)	-4.9	7.8	7.4	-45.3	-30.6	-55.9	-91.0	60.4	-10.4	-43.4
As % of Sales	33.3	33.8	30.6	13.4	22.0	16.3	1.9	12.5	32.5	11.8
Depreciation	35	37	37	31	40	42	85	90	140	256
Interest	1	1	2	1	5	13	34	8	4	60
Other Income	62	69	68	71	59	35	45	36	271	175
PBT	151	190	171	98	102	51	-61	31	589	121
Tax	7.0	27.0	20.8	8.5	10.5	0.6	-42.3	13.0	63.3	-17.9
Effective Tax Rate (%)	4.6	14.2	12.2	8.7	10.3	1.2	7.5	41.9	10.7	-14.7
Reported PAT	144	163	150	89	92	50	-19	18	526	139
Adj. PAT	144	163	150	89	92	50	-19	18	526	139
Change (%)	27.8	22.7	25.5	-24.8	-36.4	-69.1	-112.7	-79.8	6.4	-73.5

E: MOST Estimates

Raymond

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	RW IN
	REUTERS CODE
S&P CNX: 4,942	RYMD.BO

28 March 2008

Neutral

Rs302

Previous Recommendation: Neutral

	YEAR	NET SALES	PAT*	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares	61.4										
52-Week Range	474/228										
1,6,12 Rel.Per. (%)	-2/-2/-37										
MCap (Rs. b)	18.5										
MCap (US\$ b)	0.5										
	3/07A	20,407	949	15.5	-27.4	19.5	1.3	10.5	8.4	1.1	9.2
	3/08E	22,830	649	10.6	-31.6	28.5	1.3	4.5	8.0	1.0	11.6
	3/09E	25,367	1,712	27.9	163.9	10.8	1.2	11.4	12.0	0.9	5.7
	3/10E	28,394	1,903	31.0	11.2	9.7	1.1	11.6	12.4	0.8	5.1

* Consolidated

- ✍ We expect Raymond to report consolidated revenue of Rs6.1b in 4QY08 compared to standalone revenue of Rs3.5b in 4QFY07.
- ✍ EBITDA for 4QFY08 is likely to be around Rs801m v/s standalone EBITDA of Rs437m in 4QFY07.
- ✍ Raymond's denim JV is facing cost pressures at its international plants in the US and Romania and is operating at low utilization rates of ~70-75%.
- ✍ Raymond expects to aggressively roll out 40-50 flagship stores in FY08. We feel these stores are unlikely to breakeven in the medium term, due to high rentals. Management has given guidance for its branded apparel business to register growth rates of 20% to 25% over the next two to three years.
- ✍ We expect Raymond Apparel and Color Plus to post revenues of Rs710m and Color Plus to post revenues of Rs345m.
- ✍ The stock is trading at 28.5x FY08E and 10.8x FY09E earnings and EV/EBITDA of 11.6x FY08E and 5.7x FY09E. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08 *				FY07*	FY08E*
	1Q*	2Q#	3Q#	4Q#	1Q	2Q	3Q	4QE		
Net Sales	3,688	3,586	2,973	3,477	4,609	6,003	6,108	6,110	20,407	22,830
Change (%)		2.6	-13.9	-9.5	25.0	67.4	105.5	75.7	54.0	11.9
Total Expenditure	3,361	2,945	2,483	3,040	4,378	5,412	5,692	5,309	17,934	20,791
EBITDA	327	641	489	437	231	591	416	801	2,473	2,039
Change (%)	2.8	16.4	-17.0	-17.7	-29.4	-7.8	-15.0	83.1	24.3	-17.6
As % of Sales	8.9	17.9	16.5	12.6	5.0	9.8	6.8	13.1	12.1	8.9
Depreciation	210	146	134	165	340	340	360	344	1,257	1,384
Interest	84	93	72	78	216	205	325	353	502	1,099
Other Income	196	160	268	94	375	412	299	214	780	1,300
Extra-ordinary Income	-14	859	43	-29	-36	-6	-44	0	451	-86
PBT	215	1,421	552	259	14	390	-14	318	1,945	769
Tax	46	6	165	153	22	43	73	89	549	227
Effective Tax Rate (%)	24.0	0.5	29.9	58.9	157.1	28.0	31.0	28.0	28.2	29.6
Reported PAT	135	1,415	387	107	-8	347	-87	229	1,396	542
Adj. PAT after MI	149	556	344	136	28	353	-43	229	949	649
Change (%)	-20.6	66.4	31.6	-61.0	-81.2	-36.5	-112.5	68.6	-13.8	-31.6

E: MOST Estimates, * Consolidated, # Standalone

Vardhman Textiles

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	VTEX IN
	REUTERS CODE
S&P CNX: 4,942	MHSP.BO

28 March 2008

Buy

Rs106

Previous Recommendation: Buy

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	64.1										
52-Week Range (Rs)	209/91										
1,6,12 Rel.Per. (%)	-5/-23/-73										
3/07A	20,876	1,717	26.8	-12.5	4.0	0.6	16.6	9.3	1.0	6.1	
3/08E	23,759	1,259	19.7	-26.7	6.3	0.7	10.8	6.1	1.4	9.3	
3/09E	29,817	1,592	24.9	26.5	5.2	0.6	12.4	7.5	1.2	7.1	
3/10E	41,147	2,487	38.8	56.2	2.7	0.4	17.1	9.4	0.9	5.7	

Vardhman Textiles has issued a bonus of 1:2

- For 4QFY08, Vardhman is likely to report revenue growth of 24.2% YoY to Rs6.7b. We expect EBITDA margin to decline 161bp to 12.6% v/s 14.2% in 4QFY07, as a result of higher cotton prices.
- Adjusted PAT is likely to register 54.5% YoY decline to Rs168m v/s Rs369m in 4QFY07, as a result of higher depreciation and interest cost.
- VTL is currently implementing an ambitious Rs16b capex plan, which would double its fabric capacity and increase spinning capacity by nearly 50%.
- We are lowering our PAT estimates for FY09 by 11.2% to Rs1.6b, due to margin pressure from higher fuel cost, raw material pressure and sharp appreciation in the rupee.
- We expect Vardhman Textiles' sales and earnings to witness CAGR of 25.3% and 13.1% respectively over FY07-FY10E.
- The stock is trading at 6.3x FY08E and 5.2x FY09E earnings. We maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	4,755	5,283	5,438	5,400	5,276	5,661	6,119	6,704	20,876	23,759
Change (%)	12.7	15.0	6.1	9.1	10.9	7.1	12.5	24.2	10.5	13.8
Total Expenditure	133	4,366	4,470	4,632	4,380	4,778	5,218	5,859	17,388	20,235
EBITDA	836	917	968	768	896	883	901	845	3,488	3,524
Change (%)	6.8	7.5	1.0	-8.2	7.2	-3.7	-7.0	10.1	1.7	1.0
As % of Sales	17.6	17.4	17.8	14.2	17.0	15.6	14.7	12.6	16.7	14.8
Depreciation	286	301	290	317	346	354	375	401	1,194	1,477
Interest	110	99	87	81	165	131	125	214	377	635
Other Income	62	37	77	129	66	116	94	24	340	300
Extra-ordinary Income	0	35	0	1	0	0	0	0	35	0
PBT	501	590	668	500	451	514	494	254	2,292	1,712
Tax	126	132	152	131	134	140	94	86	541	454
Effective Tax Rate (%)	25.2	22.4	22.8	26.2	23.7	25.1	24.2	33.9	23.6	26.5
Reported PAT	375	458	516	369	317	374	401	168	1,752	1,259
Adj. PAT	375	423	516	369	317	374	401	168	1,717	1,259
Change (%)	29.4	5.9	0.5	-24.9	-15.5	-11.6	-22.2	-54.5	1.4	-26.7

E: MOST Estimates

Welspun India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	WLSP IN
	REUTERS CODE
S&P CNX: 4,942	WLSP.BO

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs44

Equity Shares	76.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	115/38	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel.Per. (%)	-23/-29/-65	3/07A	9,736	521	6.8	25.3	6.5	0.6	8.8	5.4	1.6	9.6
MCap (Rs b)	3.4	3/08E	11,647	315	4.1	-40	10.8	0.5	5.1	4.1	1.4	9.7
MCap (US\$ b)	0.1	3/09E	13,209	984	12.8	212.7	3.4	0.5	14.7	8.5	1.2	5.8
		3/10E	14,233	1,173	15.3	19.3	2.9	0.4	15.5	9.3	1.2	5.4

- For 4QFY08, we expect Welspun to post revenue growth of 23.6% YoY to Rs3.1b.
- EBITDA margin is likely to decline 220bp YoY to 12%, as a result of higher raw material cost and rising rupee.
- PAT is likely to drop 74% YoY to Rs27m in 4QFY08. During 4QFY08, utilization rates for the bed linen plant improved to around 75%.
- During 3QFY08, Welspun acquired a 76% stake in bath rug major Sorema of Portugal at an EV of Rs600m. Sorema is a leading player in bath rugs and shower curtains around the world, with an estimated turnover of Rs570m.
- The margins in the bed linen segment are likely to remain under pressure due to over capacity in the domestic market but increased capacity utilization rates will act as a cushion.
- We expect Welspun's revenues and earnings to witness 13.4% and 31% CAGR (FY07-FY10) respectively. Welspun is trading at a P/E of 10.8x FY08E and 3.4x FY09E earnings. We are **Neutral** on the stock.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	1,989	2,764	2,554	2,485	2,647	2,938	2,992	3,070	9,736	11,647
Change (%)	38.1	78.7	65.4	21.1	33.1	6.3	17.1	23.6	47.9	19.6
Total Expenditure	1,576	2,342	2,110	2,133	2,281	2,470	2,540	2,703	8,213	9,993
EBITDA	413	423	444	352	367	468	452	367	1,523	1,654
Change (%)	31.5	32.2	16.7	11.9	-11.2	10.8	1.7	4.4	14.6	8.6
As % of Sales	20.8	15.3	17.4	14.2	13.8	15.9	15.1	12.0	15.6	14.2
Depreciation	144	157	166	183	195	207	220	233	651	855
Interest	112	122	129	123	155	157	178	184	478	675
Other Income	52	40	75	165	124	148	-6	84	429	350
Extra-ordinary Income	-90	88	0	0			4		-2	4
PBT	119	272	224	210	141	252	51	34	823	477
Tax	43	89	65	107	48	84	20	7	304	159
Effective Tax Rate (%)	36.2	32.6	28.8	51.0	33.9	33.9	39.3	20.6	36.9	33.4
Reputed PAT	76	183	159	103	92	168	31	27	519	318
Adj. PAT	166	95	159	103	92	168	27	27	521	315
Change (%)	53.7	-24.6	115.4	-3.8	-44.4	76.1	-82.9	-73.8	25.4	-39.6

E: MOST Estimates

Utilities

BSE Sensex: 16,371

S&P CNX: 4,942

28 March 2008

COMPANY NAME	PG.
CESC	280
NTPC	281
PTC India	282
Reliance Energy	283
Tata Power	284

Open access on transmission – focus on non-discriminatory access

The Central Electricity Regulatory Commission (CERC) has finalized the new Open Access Regulations for the Inter-State Transmission, 2008 to be effective from April 1, 2008. The new open access regulations on power transmission permits non-discriminatory access to inter state transmission on schedule basis (released by regional load dispatch centre) and then allocation of the lines. The approach is useful as compared to the earlier approach of allocation of lines in advance by the bidder and then subsequent un-utilization or sub-utilization of the same. The new regulation will enable to tap all the excess power from various sources like captive, merchant capacity, etc.

The framework will not only facilitate traditional bilateral transaction (negotiated directly or through electricity traders), but also cater to collective transactions discovered in a power exchange through competitive bidding by sellers and buyers.

Competitive based tariff – new benchmarks

The competitive based tariff (CBT) regime has seen several bids under Case 1 and Case 2, which have progressively set new benchmarks for the cost of per unit of power. The recent bid submitted by India Bulls Power Services in the bids invited by Government of Chattisgarh (Case 1) at Rs0.81/unit was the lowest in recent past. Similarly, the bids for the ultra mega power projects (Case 2) at Rs1.19/unit for Sasan (pit head) and Rs2.26/unit for Mundra (imported coal) have set new benchmarks tariffs.

EXPECTED QUARTERLY PERFORMANCE SUMMARY

(RS MILLION)

	RECO	SALES		EBITDA		NET PROFIT	
		MAR.08	CHG. (%)	MAR.08	CHG. (%)	MAR.08	CHG. (%)
Utilities							
CESC	Neutral	6,486	18.6	1,377	17.7	834	36.8
NTPC	Neutral	102,986	16.2	29,795	27.3	22,153	19.5
PTC India	Buy	7,219	19.8	73	39.5	61	5.0
Reliance Energy	UR*	14,183	-12.1	2,265	278.6	1,473	-20.3
Tata Power	Buy	14,841	26.7	2,175	-5.0	1,272	99.4
Sector Aggregate		145,716	13.9	35,685	29.7	25,794	18.9

*Under Review

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LIST OF PROJECTS AWARDED THROUGH CBT

STATE	BIDDERS	CAPACITY (MW)	BID (RS/UNIT)
Projects under Case 1 bidding			
Haryana	Lanco Power	390	2.35
Madhya Pradesh	Lanco Power	600	2.32
Projects under Case 2 bidding			
Jhajjar, Haryana	China Light and Power	1,320	2.996
Chhattisgarh	India Bulls Power Services	1,600	0.81*
Sasan, UMPP	Reliance Power	4,000	1.19
Mundra, UMPP	Tata Power	4,000	2.26
Krishnapatnam, UMPP	Reliance Power	4,000	2.37

*65% of power at Rs0.81/unit to State govt, 35% merchant; coal mine of 350m ton allotted, coal sales permitted in initial 4 years

Source: MoP/Motilal Oswal Securities

Extention of Rajiv Gandhi Grameen Vidyutikaran Yojana

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme has been extended for the Eleventh Plan with capital subsidy of Rs280b currently (v/s the total estimated expenditure of Rs418b). This shows the commitment of the government towards the rural electrification projects. Rural Electrification Corporation (REC) has been specified as the nodal agency for the scheme. According to the scheme, 90% capital subsidy would be provided towards overall cost of the projects under the scheme (excluding state or local levies, to be borne by State/State Utility) while the balance 10% of the project cost would be contributed by states through own resources/loan from financial institution.

The scheme will benefit companies like Power Grid Corporation of India, which are functional entities for execution of the scheme. PGCIL will receive 8-9% of the project cost as charges for implementing the scheme.

Section 80-IA benefit not extended; reduction in indirect duties

The Union Budget 2008-09 did not extend deadline for claiming Sec80IA deadline for power generation projects commissioned post FY10. Thus, a significant capacity in the Eleventh Plan, which is likely to be commissioned post FY10, will not be entitled to the tax benefit. The budget, however, recommended reduction in customs and excise duty for power projects, which will marginally lower the project cost. The customs duty on project import is reduced from 7.5% to 5.0%, while additional CVD of 4% is levied for select power project equipment. In addition, 4% additional customs duty exemption on power generation, transmission and distribution equipment has been withdrawn, which is a positive for the local power equipment companies.

Valuation and view

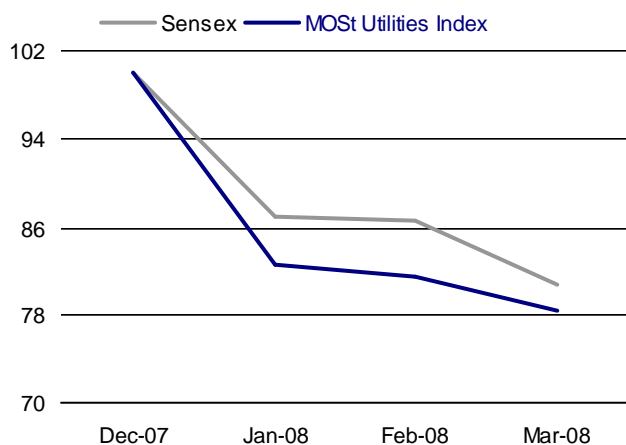
For 4QFY08, we expect utilities to report a steady performance in terms of revenues and profitability. The pace of reforms, achievement of the target capacity addition and attracting private sector investments in generation and privatization of distribution represent key challenges for the Indian power sector. However, the reforms are on track, albeit at a slower rate, which is reflected in UMPP projects, various initiatives by the government to ensure the fuel linkages, etc. We remain positive on the sector.

Stock performance and valuations

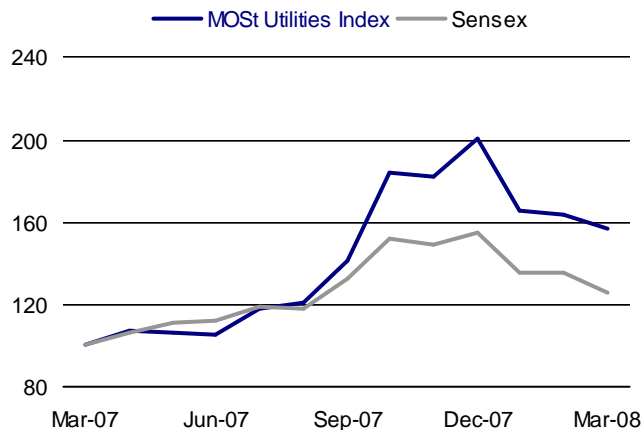
STOCK PERFORMANCE (%)

	ABSOLUTE PERF		REL PERF TO SENSEX		REL PERF TO SECTOR	
	3 M	1 YEAR	3 M	1 YEAR	3 M	1 YEAR
Utilities						
CESC	-32	17	-13	-10	-13	-46
NTPC	-15	43	4	16	4	-21
PTC India	-37	70	-18	43	-18	7
Reliance Energy	-38	176	-19	149	-19	113
Tata Power	-13	139	6	112	6	75

RELATIVE PERFORMANCE - 3 MONTH (%)



RELATIVE PERFORMANCE - 1 YEAR (%)



COMPARATIVE VALUATION

	CMP (RS) 28.03.08	RECO	EPS (RS)			P/E (X)			EV/EBITDA			ROE (%)		
			FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Utilities														
CESC	411	Neutral	25.4	27.5	30.3	16.2	14.9	13.5	10.3	10.4	9.5	11.9	11.5	11.4
NTPC	204	Neutral	9.2	10.1	10.5	23.0	21.1	20.2	14.4	13.4	12.3	14.8	14.7	14.0
PTC India	101	Buy	1.6	3.3	4.7	64.1	30.9	21.6	46.9	18.6	11.4	4.1	4.9	6.8
Reliance Energy	1,334	UR*	21.3	26.6	36.4	62.6	50.2	36.7	60.2	37.6	25.0	9.8	9.8	9.8
Tata Power	1,211	Buy	34.3	38.1	42.7	35.4	31.8	28.4	27.9	26.1	20.0	9.2	8.2	9.6
Sector Aggregate						25.9	23.4	21.6	17.1	15.3	13.4	11.8	11.2	11.2

*Under Review

CESC

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	CESC IN
	REUTERS CODE
S&P CNX: 4,942	CESC.BO

28 December 2007

Neutral

Previous Recommendation: Neutral

Rs411

Equity Shares (m)	124.9	YEAR	NET SALES	PAT	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	715/320	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf.(%)	-16/-10/-10	03/07A	24,843	2,257	28.2	30.9	14.6	2.1	13.5	12.2	2.5	10.8
MCap. (Rs b)	51.3	03/08E	27,716	3,169	25.4	-10.1	16.2	2.0	11.9	10.9	2.1	10.3
MCap. (US\$ b)	1.3	03/09E	29,678	3,437	27.5	8.5	14.9	1.8	11.5	10.8	2.3	10.4
		03/10E	31,395	3,789	30.3	10.2	13.5	1.6	11.4	10.5	2.4	9.5

* Excl Spencers; fully diluted

- For 4QFY08, we expect CESC to post revenue of Rs6.5b and net profit of Rs834m, up 36.8% YoY.
- CESC has been awarded Mahuagarhi coal block in Jharkhand (50% stake) with estimated reserves of 220m ton. CESC's share of 110m ton can support 1,000MW power plant, which would be on merchant basis.
- CESC is working on 1) 250MW Budge Budge Expansion (expected completion September 2009) and 2) 600MW Haldia power project (coal linkage received, project completion by FY11). Further, the 1,000MW merchant power project in Jharkhand would be commissioned by end of FY12. Thus, CESC's effective power capacity by end of FY12 should stand at 2,825MW, v/s 975MW currently. The total capex planned by company for the expansion is Rs54b.
- Spencer plans to expand its retail space from 0.6msf currently to 4.5msf by March 2010. The company has already tied up for 1.5msf to be commissioned in the coming 12-15 months.
- We expect CESC to report a net profit of Rs3.2b in FY08 (up 8.5% YoY), Rs3.4b in FY09 (up 8.5% YoY) and Rs3.8b in FY10 (up 10.2% YoY), excluding Spencer. At CMP, the stock is traded at a P/E of 16.2x FY08E, 14.9x FY09E and 13.5x FY10E. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	6,740	6,750	5,930	5,470	7,170	7,300	6,760	6,486	24,890	27,716
Change (%)	0.0	0.4	2.6	-6.3	6.4	8.1	14.0	18.6	-0.8	11.4
EBITDA	1,360	1,400	1,250	1,170	1,300	1,410	1,550	1,377	5,180	5,637
Change (%)	-9.9	-9.1	-6.0	-18.8	-4.4	0.7	24.0	17.7	-11.0	8.8
As of % Sales	20.2	20.7	21.1	21.4	18.1	19.3	22.9	21.2	20.8	20.3
Depreciation	410	410	410	410	410	400	430	448	1,640	1,688
Interest	540	420	370	360	390	340	330	361	1,690	1,421
Other Income	210	220	220	290	290	260	270	380	940	1,200
Extraordinary Income/(Expense)	0	0	0	0	140	120	0	0	0	0
PBT	620	790	690	690	930	1,050	1,060	948	2,790	3,728
Tax	70	100	80	80	110	120	130	114	390	559
Effective Tax Rate (%)	11.3	12.7	11.6	11.6	11.8	11.4	12.3	12.0	14.0	15.0
Reported PAT	550	690	610	610	820	930	930	834	2,400	3,169
Adjusted PAT	550	690	610	610	697	820	930	834	2,400	3,169
Change (%)	34.1	21.1	64.9	38.6	26.7	34.8	52.5	36.8	34.1	32.0

E: MOST Estimates, Standalone Numbers (excl Spencers Retail)

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National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	NTPC IN
	REUTERS CODE
S&P CNX: 4,942	NTPC.BO
Equity Shares (m)	8,245.5
52-Week Range	291/141
1,6,12 Rel. Perf. (%)	8/11/16
MCap. (Rs b)	1,684
MCap. (US\$ b)	42.2

28 March 2008

Neutral

Previous Recommendation: Neutral

Rs204

YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END*	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	326,317	65,681	8.0	23.6	26.6	3.6	13.9	21.2	5.2	14.5
03/08E	366,160	75,968	9.2	16.8	23.0	3.2	14.8	22.8	4.7	12.9
03/09E	418,646	83,042	10.1	9.3	21.1	3.0	14.7	21.3	4.4	12.1
03/10E	481,744	86,608	10.5	4.3	20.2	2.7	14.0	19.7	4.0	11.0

* Pre Exceptional Earnings; FY05 reported Net Profit Rs58.1b

- ✎ We expect NTPC to report revenue of Rs103b, up 16.2% YoY, and net profit of Rs22.2b, up 19.5% YoY, in 4QFY08.
- ✎ The power capacity as of December 2007 stood at 26,850MW (excluding JV capacity of 1,054MW), up from 26,350MW in March 2007. For the Eleventh Plan, NTPC plans to add 22,600MW and of this, capacity under construction stands at ~17,000MW. The company expects to issue the main plant award for the balance 5,600MW by March 2008.
- ✎ The expected ramp up for the targeted capacity of 22,600MW in the Eleventh plan: FY08- 2,740 MW, FY09- 2,580MW, FY10- 3,000MW, FY11 – 5,960MW and FY12 – 8,310MW. The management has indicated that expected capacity addition during FY08 will be 2,740MW (Kahalgaoon 500MW, Sipat 1,000MW, Dabhol 740MW and Bhilai JV 250MW) During FY09, capacity addition is expected at 2,580MW (Sipat 1,320MW, Barh 660MW and Koldam hydro power 600MW).
- ✎ NTPC has recently signed a JV agreement (50:50) with Bihar State Electricity Board to set up a 1,980MW power plant and with Uttar Pradesh Rajya Vidyut Utpadan Nigam to set up a 660MW power plant in UP (at Meja district in Allahabad).
- ✎ We expect NTPC to report net profit of Rs76b in FY08, Rs83.1b in FY09 and Rs86.6b in FY10. At CMP, NTPC quotes at a P/E of 23x FY08E, 21x FY09E and 20x FY10E. Maintain **Neutral**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	71,536	68,138	81,468	88,603	89,697	80,169	93,308	102,986	326,317	366,160
Change (%)	18.1	15.0	18.6	21.5	25.4	17.7	14.5	16.2	24.8	18.2
EBITDA	19,960	18,408	22,595	23,397	26,945	27,490	29,691	29,795	100,932	113,921
Change (%)	29.4	41.9	24.2	33.1	35.0	49.3	31.4	27.3	57.3	12.9
As of % Sales	27.9	27.0	27.7	26.4	30.0	34.3	31.8	28.9	30.9	31.1
Depreciation	4,755	4,780	5,138	6,081	4,914	5,134	5,266	5,484	20,754	20,798
Interest	5,238	4,630	2,807	5,919	278	4,964	4,665	5,349	18,594	15,256
Other Income	6,369	6,505	7,752	6,864	7,181	7,323	7,624	7,829	27,490	29,957
PBT	16,336	15,503	22,402	18,261	28,934	24,715	27,384	26,790	89,074	107,823
Tax	808	764	1,369	914	5,235	5,460	9,585	4,638	20,427	24,918
Effective Tax Rate (%)	4.9	4.9	6.1	5.0	18.1	22.1	35.0	17.3	22.9	23.1
Reported PAT	15,528	14,739	21,033	17,347	23,699	19,255	17,799	22,153	68,647	82,906
Adj.PAT (Pre Exceptional)	15,318	14,410	17,415	18,539	17,648	16,269	19,898	22,153	65,681	75,968
Change (%)	25.4	24.8	37.4	18.4	15.2	12.9	14.3	19.5	23.6	15.7

E: MOST Estimates

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PTC India

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	PWTC IN
	REUTERS CODE
S&P CNX: 4,942	PTCI.BO

28 March 2008

Buy

Rs101

Previous Recommendation: Buy

	YEAR	NET SALES	PAT*	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	150.0										
52-Week Range	202/54										
1,6,12 Rel. Perf.(%)	-7/16/43										
MCap. (Rs b)	15.1										
MCap. (US\$ b)	0.4										
	03/07A	36,307	353	2.3	-13.7	43.1	5.7	13.8	17.7	0.4	52.4
	03/08E	40,815	357	1.6	-32.8	64.1	1.5	4.1	5.7	0.5	78.0
	03/09E	55,229	741	3.3	107.3	30.9	1.5	4.9	6.9	0.3	34.6
	03/10E	98,512	1,060	4.7	43.1	21.6	1.4	6.8	9.8	0.2	19.6

* Pre-exceptional

- For 4QFY08, we expect PTC to report revenue of Rs7.2b, up 19.8% YoY, and net profit of Rs61m, up 5% YoY.
- As of December 2007, the company has signed power purchase agreements (PPA) for 10,434MW and MoUs for 21,689MW of power capacity on a long term basis. PTC has also entered into back-to-back power sale agreement for 5,011MW.
- PTC India and Financial Technologies have received approval from the Central Electricity Regulatory Commission to set up India's first national level power exchange, Indian Energy Exchange Ltd (IEX), for trading electricity. PTC has a 26% stake in the company.
- It has completed the QIP offering aggregating Rs11.2b to fund investments of Rs1.6b in PTC Financial Services, Rs1.4b as equity commitment in Teestha (1,200MW), Rs1.5b equity in Athena Energy, Rs3-4b for acquisition of coal mines abroad and balance to maintain capital adequacy ratio for power trading.
- We expect PTC to report net profit of Rs357m in FY08 (up 1.2% YoY), Rs741m in FY09 (up 107.3% YoY) and Rs1.1b in FY10 (up 43.1% YoY). At CMP, the stock trades at a P/E of 29x FY09E and 20x FY10E. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Power Traded (MUs)	2,625	3,268	2,211	1,445	3,544	4,110	2,075	3,702	9,549	13,431
Sales	10,421	13,147	8,074	6,025	11,586	14,672	7,338	7,219	37,667	40,815
Change (%)	138.3	52.5	-23.4	-20.2	11.2	11.6	-9.1	19.8	21.2	8.4
EBITDA	88	95	82	53	58	103	16	73	318	251
Change (%)	8.0	-32.7	-55.3	-42.6	-34.0	8.3	-80.2	39.5	-36.3	-21.1
As of % Sales	1.3	0.7	1.0	0.9	0.5	0.7	0.2	1.0	0.8	0.6
Depreciation	8	8	8	9	7	8	7	10	33	33
Interest	3	7	7	2	3	6	6	6	20	21
Other Income	79	39	44	32	97	64	75	44	193	279
Extraordinary Income/(Expense)	-1	0	0	0	0	0	0	0	0	0
PBT	155	119	111	73	144	154	77	101	459	477
Tax	35	32	25	15	25	39	15	40	106	119
Effective Tax Rate (%)	22.3	27.1	22.2	20.5	17.4	25.3	19.9	39.3	23.2	25.0
Reported PAT	120	86	86	58	119	115	62	61	352	357
Adjusted PAT	120	86	86	58	119	115	62	61	352	357
Change (%)	6.3	-11.2	-32.7	-16.5	-0.8	33.3	-28.1	5.0	-13.7	1.5

E: MOST Estimates

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Reliance Energy

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	RELE IN
	REUTERS CODE
S&P CNX: 4,942	RLEN.BO

28 March 2008

Under Review

Equity Shares (m)	279.4
52-Week Range	2632/465
1,6,12 Rel. Perf. (%)	-9/16/149
MCap. (Rs b)	372.6
MCap. (US\$ b)	9.3

Previous Recommendation: Buy

Rs1,334

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS* (RS)	EPS GROWTH (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EVI/ SALES	EVI/ EBITDA
3/07A	56,930	8,015	28.7	3.5	46.5	3.5	10.2	8.7	5.6	66.8
3/08E	60,896	5,947	21.3	-25.8	62.6	3.7	9.8	9.2	5.1	60.2
3/09E	69,196	7,423	26.6	24.8	50.2	2.1	9.8	9.2	4.0	37.6
3/10E	85,021	10,163	36.4	36.9	36.7	2.0	9.8	9.2	2.7	25.0

* Consolidated, Fully Diluted

- For 4QFY08, we expect Reliance Energy to report revenue of Rs14.2b, down 12.1% YoY, and a net profit of Rs1.5b, down 20.3% YoY.
- Reliance Energy Board has approved share buy-back (up to 25% of the existing paid-up capital) of up to Rs20b (US\$500m), in two phases at maximum price of Rs2,000/sh. The first tranche of buy back up to Rs8b will be effective immediately while second tranche of Rs12b will be subject to approval of shareholders.
- Reliance Energy in consortium with Hyundai Engineering (Korea) has emerged as a successful bidder for Mumbai Trans-harbor sea-link project to be developed at a cost of US\$1.5b. The project involves construction of six lane dual carriageway linking Nhava to Sewri covering 25km.
- The order backlog for the EPC division stood at Rs83b (v/s Rs17.1b as of December 2006), which is expected to go up further with the booking of EPC orders for the project under execution by Reliance Power (48% stake).
- Reliance energy's EPC division will provide turnkey services for the proposed 28,200 MW of capacity planned by Reliance power (45% stake).
- We believe the stock is largely a play on the future growth opportunities rather than on existing assured return businesses.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales	11,549	14,076	15,337	16,143	16,240	15,417	15,055	14,183	56,930	60,896
Change (%)	21.6	35.0	55.2	55.5	40.6	9.5	-1.8	-12.1	41.6	7.0
EBITDA	1,334	1,775	827	598	376	1,813	741	2,265	4,804	5,195
Change (%)	-17.4	-12.8	-53.9	-68.5	-71.8	2.1	-10.4	278.6	-34.5	8.1
As of % Sales	11.6	12.6	5.4	3.7	2.3	11.8	4.9	16.0	8.4	8.5
Depreciation	619	635	612	535	581	556	566	573	2,401	2,276
Interest	459	671	551	823	693	854	854	905	2,503	3,306
Other Income	1,711	1,761	2,867	2,754	3,599	2,582	3,479	1,058	8,823	10,718
PBT	1,967	2,230	2,531	1,994	2,701	2,985	2,800	1,845	8,724	10,331
Tax (incl contingencies)	201	366	522	-380	485	484	-216	372	709	1,126
Effective Tax Rate (%)	10.2	16.4	20.6	-19.1	18.0	16.2	-7.7	20.2	8.1	10.9
Reported PAT	1,766	1,864	2,009	2,374	2,216	2,501	3,016	1,473	8,015	9,205
PAT (Pre Exceptionals)	1,666	1,864	2,009	1,848	1,341	1,599	1,505	1,473	7,388	5,947
Change (%)	12.7	16.8	22.0	40.1	-19.5	-14.2	-25.1	-20.3	23.2	-19.5

E: MOST Estimates; Quarterly numbers are on standalone basis

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Tata Power

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	TPWR IN
	REUTERS CODE
S&P CNX: 4,942	TTPW.BO

28 March 2008

Buy

Rs1,211

Previous Recommendation: Buy

Equity Shares (m)	232.9
52-Week Range	1,641/491
1,6,12 Rel. Perf.(%)	-4/47/112
MCap. (Rs b)	282.0
MCap. (US\$ b)	7.1

YEAR	NET SALES	PAT*	EPS*	EPS	P/E*	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	47,153	5,548	26.1	21.9	46.4	4.4	9.5	4.8	5.5	35.9
03/08E	57,656	7,281	34.3	31.2	35.4	3.5	9.2	7.2	5.1	28.6
03/09E	60,027	8,096	38.1	11.2	31.8	3.3	8.2	6.9	4.9	25.8
03/10E	65,398	9,930	42.6	12.0	28.4	3.1	9.6	8.8	4.6	19.8

* Consolidated excluding share of profit from Bumi Resources, Pre Exceptionals, Fully Diluted

- For 4QFY08, Tata Power is expected to report net profit of Rs1.3b, up 99.4% YoY.
- Power generation projects under implementation stands at 5,660MW, while projects under planning stage stands at 5,670 MW. Successful implementation will result in eventual capacity at 12,861MW (proportionate share) by FY14, from current 2,474MW. Projects currently under implementation includes: 4000MW Mundra power project, 1050MW Maithon project, 250MW Trombay project, 250MW Jojobera expansion, and 120MW Haldia project. Projects under planning stage includes: 2400MW Coastal Maharashtra project, 1000MW Naraj Marthapur (Mandakini coal block), 1270MW Naraj Marthapur (74% stake, CPP for Tata Steel), 500MW in JV with Hindalco (40% stake, Tubed CPP) and 500MW Jharkhand project (74% stake, CPP for Tata Steel).
- For projects under implementation stage (5,660 MW), Tata Power will require equity investment of Rs60b, to be funded as: Rs29b through internal accruals, Rs19b raised through preferential issue / warrants and balance by either disinvestment of holding or equity dilution.
- At CMP, the stock trades at a P/E of 32x FY09E and 28x FY10E. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Total Operating Income	13,766	12,008	12,005	11,713	15,115	13,506	14,194	14,841	49,393	57,656
Change (%)	25.3	13.1	-2.5	0.0	9.8	12.5	18.2	26.7	8.3	16.7
EBITDA	2,581	2,495	2,108	2,290	2,903	2,614	2,682	2,175	9,474	10,373
Change (%)	7.1	3.8	7.1	45.6	12.5	4.7	27.2	-5.0	13.4	9.5
As of % Sales	18.7	20.8	17.6	19.5	19.2	19.4	18.9	14.7	19.2	18.0
Depreciation	760	731	735	693	714	709	705	815	2,919	2,943
Interest	524	388	510	473	594	414	386	483	1,895	1,877
Other Income	410	783	460	1,787	685	1,404	368	1,223	3,440	3,680
Prior Period Income/(Expenses)				-2,239			0		-2,239	0
PBT	1,706	2,160	1,322	672	2,279	2,895	1,960	2,100	5,860	9,233
Tax	488	137	-1,477	-255	377	320	-13	828	-1,108	1,512
Effective Tax Rate (%)	28.6	6.3	-111.7	-38.0	16.5	11.1	-0.7	39.4	-18.9	16.4
Reported PAT	1,218	2,023	2,799	927	1,902	2,574	1,973	1,272	6,968	7,721
Adjusted PAT	1,130	1,682	1,205	638	1,832	1,634	1,496	1,272	5,548	7,281
Change (%)	3.1	33.8	26.0	-39.3	62.2	-2.8	24.2	99.4	27.2	31.2

E: MOST Estimates

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Ashapura Minechem

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	ASMN IN
	REUTERS CODE
S&P CNX: 4,942	ASHM.BO

28 March 2008

Buy

Rs220

Previous Recommendation: Neutral

Equity shares (m)	78.9
52-Week Range	445/105
1, 6, 12 Rel. Perf. (%)	-12/1/82
M. Cap. (Rs b)	17.3
M. Cap. (US\$ b)	0.4

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	12,724	1,302	16.6	37.0	13.2	4.2	47.4	45.4	1.4	9.2
03/08E	18,370	1,960	24.8	49.3	8.8	3.0	39.6	44.7	0.9	6.5
03/09E	32,378	4,137	52.4	111.0	4.2	1.8	53.7	66.7	0.5	3.1
03/10E	38,358	5,225	66.2	26.3	3.3	1.2	43.6	54.3	0.3	2.0

- Ashapura continues to benefit from buoyant demand for bauxite from alumina refineries in coastal China. FY09 will see full impact of higher bauxite volumes and prices, and contribution from other projects including kaolin, barites, mineral processing complex at Antwerp, etc.
- We expect 4QFY08 sales at Rs5.5b, up 61% YoY. The key driver will be bauxite volumes, which we expect at 2.2m tonnes.
- We have lowered our assumption for bauxite contribution to US\$9 per tonne for FY08E (US\$10 earlier), to factor in penalties for higher moisture content. We expect 4QFY08 EBITDA of Rs812m, up 24% YoY. Tax rate will be low due to EOU status for bauxite processing units. So, PAT growth should be strong at 57% to Rs637m.
- We have also lowered our FY09E bauxite contribution to US\$12 per tonne (US\$13 earlier). As a result, we have downgraded our FY09E PAT 7% to Rs4.14b.
- The stock trades at an attractive PE of 4.2x and EV/EBITDA of 3.3x FY09E. Our SOTP target price of Rs316 offers 44% upside from current levels. **Buy.**

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	4,614	2,510	2,157	3,444	4,270	4,459	4,115	5,527	12,724	18,370
Change (%)	89.0	37.3	20.9	38.3	-7.5	77.6	90.8	60.5	48.9	44.4
Total Expenses	4,123	2,186	1,621	2,791	3,688	3,753	3,588	4,715	10,721	15,744
EBITDA	491	324	537	653	581	706	527	812	2,004	2,626
Change (%)	97.7	17.8	44.1	84.8	18.4	118.1	-1.8	24.4	60.5	31.1
EBITDA Margin (%)	10.6	12.9	24.9	18.9	13.6	15.8	12.8	14.7	15.7	14.3
Depreciation	16	17	17	23	21	12	18	48	73	99
Interest	31	22	31	31	32	37	35	44	115	147
Other Income	2	5	15	25	9	19	45	17	46	90
PBT	446	290	503	623	538	676	519	738	1,862	2,470
Tax	98	75	168	207	154	142	77	103	549	476
Tax/PBT (%)	22.0	26.0	33.5	33.2	28.6	20.0	16.0	14.0	29.5	19.3
Prior period items	0	0	0	-7	-2	0	-16	0	-7	-18
Share from associate	0	0	0	-3	-4	-5	-10	4	-3	-15
Minority interest	0	0	0	0	0	0	0	-1	-1	-1
Consolidated PAT	348	214	334	406	378	530	415	637	1,302	1,960
Adjusted PAT	348	214	334	406	378	530	415	637	1,302	1,960
Change (%)	108.8	19.5	46.2	87.6	8.5	147.3	24.2	57.1	66.2	50.6
PAT Margin (%)	7.5	8.5	15.5	11.8	8.8	11.9	10.1	11.5	10.2	10.7

E: MOST Estimates

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Blue Star

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BLSTR IN
	REUTERS CODE
S&P CNX: 4,942	BLUS.BO

28 March 2008

Buy

Rs407

Previous Recommendation: Buy

Equity shares (m)	89.9
52-Week Range	548/197
1, 6, 12 Rel. Perf. (%)	-7/34/73
M. Cap. (Rs b)	36.6
M. Cap. (US\$ b)	0.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	16,013	712	7.9	45.6	51.4	17.2	36.9	36.1	2.3	32.0
03/08E	22,578	1,654	18.4	132.4	22.1	11.2	73.4	53.1	1.7	14.8
03/09E	30,480	2,311	25.7	39.7	15.8	8.1	59.3	66.7	1.2	10.3
03/10E	39,624	3,229	35.9	39.7	11.3	5.6	58.6	76.8	0.9	7.4

- Blue Star's order book at the beginning of 4QFY08 was Rs10.7b, up 29% YoY. Accordingly, we expect 4QFY08 revenue growth of 35% YoY to Rs7.3b.
- We expect EBITDA margins to improve sharply – 460bps higher at 12.8%. Of this, 200bps is due to benefits of scale, and increasing “dealer-ization” i.e. delegating installation and maintenance work to technically competent business partners. The balance 230bps is because in 4QFY07, Blue Star provided Rs116m towards employee incentives payable for FY07. In FY08, this has been provided in every quarter.
- In 4QFY08, Blue Star sold its 29% stake in Rolastar Pvt Ltd for Rs367.5m, which should lead to extraordinary income of Rs365m. Blue Star also completed its Rs420m acquisition of Naseer Electricals. We have not incorporated the revenue implications of the same in our estimates.
- We estimate adjusted PAT of Rs617m, up 82% YoY. For FY08, we expect adjusted PAT of Rs1.65b, up 132% YoY.
- The stock trades at a PE of 22.1x FY08E, 15.8x FY09E and 11.3x FY10E. We believe Blue Star will continue to enjoy premium valuation, given its high-quality growth. Maintain **Buy** with an 18-month target of Rs718 (20x FY10E), 76% upside.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Operating Income	3,123	3,759	3,701	5,429	4,623	5,478	5,149	7,329	16,013	22,578
Change (%)	35.8	33.0	40.4	36.4	48.0	45.7	39.1	35.0	36.3	41.0
Total Expenses	2,965	3,431	3,463	4,985	4,243	4,794	4,592	6,392	14,844	20,021
EBITDA	158	328	238	445	379	684	557	937	1,169	2,557
Change (%)	36.1	67.5	52.2	11.7	139.4	108.4	134.3	110.7	34.9	118.7
EBITDA Margin (%)	5.1	8.7	6.4	8.2	8.2	12.5	10.8	12.8	7.3	11.3
Depreciation	43	46	58	62	50	52	55	64	209	222
Interest	20	24	22	30	22	16	16	66	95	120
Other Income	5	8	4	44	1	8	1	40	61	50
Extraordinary Inc/ (Exp)	0	0	0	0	0	0	0	365	0	365
PBT	100	266	163	397	308	624	487	1,212	926	2,631
Tax	27	82	48	57	85	164	133	267	214	648
Tax/PBT (%)	27.1	30.9	29.2	14.4	27.5	26.3	27.3	22.0	23.1	24.6
Reported PAT	73	184	115	340	223	460	354	945	712	1,982
Adjusted PAT	73	184	115	340	223	460	354	617	712	1,654
Change (%)	44.6	58.8	66.4	34.0	205.8	149.8	208.2	81.6	45.6	132.4
PAT Margin (%)	2.3	4.9	3.1	6.3	4.8	8.4	6.9	8.4	4.4	7.3

E: MOST Estimates

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Bombay Rayon

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	BRFL IN
	REUTERS CODE
S&P CNX: 4,942	BRFL.BO

28 March 2008

Buy

Rs290

Previous Recommendation: Buy

		YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity shares (m)	63.0	03/07A	4,894	544	8.6	133.8	33.6	3.8	17.1	15.3	4.0	21.3
52-Week Range	401/152	03/08E	9,872	1,159	16.8	94.2	16.1	2.8	20.9	16.0	2.8	13.0
1, 6, 12 Rel. Perf. (%)	0/27/60	03/09E	15,172	1,796	26.0	54.9	11.2	2.3	22.9	15.6	2.2	9.7
M. Cap. (Rs b)	18.3	03/10E	23,440	3,066	44.4	70.7	6.5	1.8	31.1	20.7	1.5	5.9
M. Cap. (US\$ b)	0.5											

- ☞ We expect Bombay Rayon to clock EPS CAGR of 47% during FY08-12E, on the back of -
 - (1) full utilization at its integrated garment unit near Bangalore (30m garments per annum)
 - (2) acquisition of Leela Scottish Lace in August 2007 (15m garments per annum),
 - (3) acquisition of LNJ Apparels in October 2007 (1.8m trousers per annum), and
 - (4) mega expansion plan in Maharashtra, to be commissioned by mid-FY09 (30m garments and 180m meters fabric per annum).
- ☞ In 4QFY08, Bombay Rayon made yet another acquisition – a 2.4m garment factory in Kerala International Apparel Park. The Rs147m acquisition included Rs70m of TUF loan, and the balance was paid out of accruals.
- ☞ By March 2009, Bombay Rayon's consolidated capacity would be ~80m garments and 245m meters of fabric (FY07 capacity: 30m garments and 65m meters of fabric).
- ☞ In 4QFY08, we expect a high 86% YoY growth in sales, 150% growth in EBITDA and 74% growth in PAT. For full year FY08, we expect over 100% growth in standalone sales and PAT.
- ☞ We value standalone Bombay Rayon at Rs533 (12x FY10E), Leela Lace at Rs68 (12x FY10E) and LNJ Apparels at Rs11 (based on DCF). Our 18-month target of Rs612 offers 111% upside from current levels. Maintain **Buy**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	812	1,033	1,316	1,733	2,013	2,246	2,388	3,226	4,894	9,872
Change (%)	87.3	142.1	139.6	198.6	147.8	117.5	81.4	86.2	145.9	101.7
Total Expenses	659	833	1,042	1,440	1,617	1,754	1,858	2,496	3,974	7,725
EBITDA	153	200	275	293	396	492	529	730	920	2,147
Change (%)	134.4	199.5	213.7	153.6	158.1	146.8	92.7	149.5	174.6	133.5
EBITDA Margin (%)	18.9	19.3	20.9	16.9	19.7	21.9	22.2	22.6	18.8	21.7
Depreciation	13	15	35	42	65	66	76	80	105	287
Interest	20	31	43	36	54	67	77	87	130	285
Other Income	3	13	11	44	40	16	16	8	71	80
Extraordinary inc/ (exp)	0	0	0	0	0	78	50	0	0	128
PBT	123	167	208	258	317	454	442	571	756	1,784
Tax	43	56	71	42	97	147	96	195	212	535
Tax/PBT (%)	34.9	33.5	33.9	16.4	30.4	32.4	21.8	34.2	28.0	30.0
PAT	80	111	138	216	221	307	346	376	544	1,249
Adjusted PAT	80	111	138	216	221	252	311	376	544	1,159
Change (%)	69.1	162.6	145.3	498.6	174.6	127.4	125.8	74.4	199.3	113.0
PAT Margin (%)	9.9	10.7	10.5	12.4	11.0	11.2	13.0	11.7	11.1	11.7

E: MOST Estimates

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Everest Kanto Cylinders

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	EKCL IN
	REUTERS CODE
S&P CNX: 4,942	EKCL.BO

28 March 2008

Buy

Rs277

Previous Recommendation: Buy

Equity shares (m)	97.6
52-Week Range	385/158
1, 6, 12 Rel. Perf. (%)	-4/24/43
M. Cap. (Rs b)	27.1
M. Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EVI	EVI
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	4,251	718	7.4	95.5	37.7	9.0	31.7	34.4	6.0	23.8
03/08E	5,354	1,125	11.1	51.2	25.0	5.8	28.5	30.5	5.4	17.3
03/09E	9,314	1,551	14.7	31.9	18.9	3.9	24.9	27.2	3.5	11.9
03/10E	13,505	2,335	22.1	50.6	12.6	3.1	27.3	28.2	2.4	7.9

- Everest Kanto is timely expanding capacities to ride the booming global demand for CNG cylinders, including India and China. FY09 will see the full impact of recent expansions in Dubai, China, India, and also the US acquisition (see next point).
- In March 2008, Everest Kanto acquired CP Industries, the pressure vessels (i.e. jumbo cylinders) division of Reunion Industries of US. The US\$64.5m acquisition will be funded out of debt and accruals. For CY07, CPI's sales is about US\$38m and EBITDA of US\$7m.
- Though EPS neutral, we are convinced the acquisition is an excellent strategic fit - (1) It gives Everest Kanto presence in the developed markets, and completes its global footprint, (2) The company gets excellent access to global clients like Praxair who can be tapped into for sales from its other units in Dubai, India and China, and (3) The group gets to build relationships with at least one more large supplier of seamless tubes, namely US Steel.
- For 4QFY08, we expect sales of Rs1.7b, up 28% YoY, EBITDA margin to be in line with long-term guidance of 29-30% and PAT of Rs339m, up 29% YoY. For FY08E, we expect PAT growth of 57% to Rs1.1b.
- The stock is trading at 25x FY08E, 18.9x FY09E and 12.6x FY10E consolidated earnings. We believe Everest Kanto's high growth with healthy RoE will sustain rich valuation. We maintain **Buy** with an 18-month target of Rs442 (20x FY10E).

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Net Income	796	1,001	1,118	1,336	1,113	1,277	1,255	1,708	4,251	5,354
Change (%)	97.6	74.4	93.8	66.7	39.9	27.6	12.3	27.8	80.5	26.0
Total Expenses	575	738	800	994	805	881	796	1,208	3,106	3,689
EBITDA	221	263	318	343	309	397	460	500	1,145	1,665
Change (%)	116.7	60.6	98.9	110.3	39.6	50.8	44.4	46.0	94.5	45.4
EBITDA Margin (%)	27.8	26.3	28.5	25.6	27.7	31.0	36.6	29.3	26.9	31.1
Depreciation	42	44	48	43	43	49	83	70	178	246
Interest	9	17	12	16	16	26	29	43	53	114
Other Income	6	6	12	15	9	19	25	17	40	70
Extraordinary inc/ (exp)	0	0	0	0	0	12	3	0	0	15
PBT	176	208	270	299	259	353	375	403	953	1,390
Tax	62	72	66	36	36	69	80	65	236	250
Tax/PBT (%)	35.0	34.6	24.5	12.1	14.0	19.6	21.4	16.0	24.7	18.0
PAT	115	136	204	263	223	284	294	339	718	1,140
Adjusted PAT	115	136	204	263	223	272	292	339	718	1,125
Change (%)	144.6	45.9	133.4	144.6	94.0	99.6	43.2	28.8	114.2	56.7
PAT Margin (%)	14.4	13.6	18.2	19.7	20.0	21.3	23.2	19.8	16.9	21.0

E: MOST Estimates

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Great Offshore

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	GOFF IN
	REUTERS CODE
S&P CNX: 4,942	GOFS.BO

28 March 2008

Under Review

Previous Recommendation: Under Review

Rs642

	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	38.1										
52-Week Range	1,150/550										
1, 6 Rel. Perf. (%)	-15/-16/-14										
M. Cap. (Rs b)	24.5										
M. Cap. (US\$ b)	0.6										
	03/07A	5,822	1,452	38.1	49.6	16.8	4.0	23.5	14.1	5.4	11.9
	03/08E	7,198	1,930	50.6	32.9	12.7	3.1	29.4	11.7	4.6	9.1
	03/09E	8,345	3,313	79.4	56.9	8.1	2.0	24.6	14.8	3.9	6.5
	03/10E	10,604	3,441	82.5	3.9	7.8	1.7	21.6	16.1	2.7	4.7

- ✍ We expect 4QFY08 for Great Offshore to be the best quarter in terms of reported PAT. However, adjusted PAT would be dragged down due to Rs88m preference dividend and dividend tax on 10% preference shares worth Rs1.5b issued to Exim Bank in October 2007.
- ✍ In 4QFY08, Great Offshore made three asset-related announcements – (1) acquisition of a flat cargo carrier (named Malaviya Thirty-Three) for US\$14m, (2) Sale of an AHTSV (Malaviya Nine) for an undisclosed amount, and (3) Proposed acquisition of an overseas firm which has two ultra deep-water, semi-submersible rigs under construction worth US\$1.4b. This deal is under due diligence, and the full details are not yet made public.
- ✍ For FY08, we expect Great Offshore to report consolidated revenue of Rs7.2b, up 24%, and adjusted PAT of Rs1.9b, up 36%. Our current FY09 and FY10 estimates will need to be revised to incorporate the proposed mega acquisition.
- ✍ The stock trades at a PE of 12.7x FY08E. Considering the recent sharp drop in stock price, the company also plans to consider buyback of shares worth Rs552m at a price not exceeding Rs750. However, our target price and rating remains under review, as we believe the acquisition will have a major impact on earnings and the balance sheet.

QUARTERLY PERFORMANCE

(RS MILLION)

Y/E MARCH	FY07 *				FY08 #				FY07#	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Operating Income	1,122	1,271	1,483	1,493	1,450	1,523	2,080	2,144	5,822	7,198
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.9	23.6
Total Expenses	543	646	761	812	1,090	921	792	773	3,194	3,576
EBITDA	579	624	722	681	360	602	1,288	1,371	2,628	3,621
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	62.5	37.8
EBITDA Margin (%)	51.6	49.1	48.7	45.6	24.8	39.5	61.9	64.0	45.1	50.3
Depreciation	137	147	193	220	236	231	263	307	709	1,038
Interest	58	73	95	133	136	145	211	161	361	653
Other Income	36	9	6	27	83	90	58	69	79	300
Extraordinary Inc/ (Exp)	0	0	0	0	207	83	18	0	0	309
PBT	421	414	439	354	277	399	890	972	1,638	2,539
Tax	70	26	64	54	-4	23	89	105	186	213
Tax/PBT (%)	16.6	6.3	14.5	15.4	-1.6	5.8	10.0	10.8	11.3	8.4
Reported PAT	351	388	375	299	282	376	801	867	1,452	2,326
Adjusted PAT	351	388	375	299	74	293	783	779	1,452	1,930
Change (%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	49.6	32.9
PAT Margin (%)	31.3	30.5	25.3	20.0	5.1	19.2	37.6	36.3	24.9	26.8

E: MOST Estimates; * Standalone; # Consolidated

Greaves Cotton

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	GRV IN
	REUTERS CODE
S&P CNX: 4,942	GRVL.BO

28 March 2008

Buy

Rs220

Previous Recommendation: Buy

Equity shares (m)	48.8
52-Week Range	466/173
1, 6, 12 Rel. Perf. (%)	-9/-25/-57
M. Cap. (Rs b)	10.8
M. Cap. (US\$ b)	0.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
06/07A	10,867	1,216	24.9	63.3	8.8	3.6	48.0	47.7	0.8	6.3
06/08E	12,550	1,153	23.6	-5.2	9.3	2.9	34.7	40.3	0.7	6.0
06/09E	16,184	1,459	29.9	26.6	7.4	2.3	34.7	48.5	0.5	4.2
06/10E	19,653	1,869	38.3	28.1	5.8	1.8	35.1	48.6	0.4	3.1

- ✍ In 3QFY08, we expect engine sales to be down 9% YoY due to – (1) 6% degrowth in three-wheelers on account of higher interest rates and cannibalization by *Tata Ace*, and (2) 14% degrowth in non-auto engines sales due to high-base effect of defence orders in 3QFY07.
- ✍ Engine sales de-growth should be offset by high 75% YoY growth in infrastructure equipment, leading to total sales growth of 9% YoY to Rs3.1b.
- ✍ Given high operating leverage in the slowing auto engines business, we expect EBITDA margin to drop 350bps YoY to 13.3%. Expected PAT is Rs285m, down 16% YoY. The fall in PAT is lower than fall in the 19% fall in PBT due to MAT credit of Rs40m.
- ✍ Greaves has lined up new range of engines and infrastructure equipment. We expect the full benefit of this to be felt from 4QFY08.
- ✍ The stock is currently trading at 7.4x FY09E EPS of Rs29.9. We maintain **Buy** with a target of Rs359 (12x FY09E).

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E JUNE	FY07				FY08				FY07#	FY08E#
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales*	2,488	2,835	2,856	2,482	2,723	3,001	3,110	3,232	10,867	12,550
Change (%)	30.9	36.6	35.0	10.7	9.5	5.9	8.9	30.2	30.2	15.5
Total Expenses	2,093	2,361	2,377	2,208	2,374	2,571	2,695	2,815	9,237	10,875
EBITDA	395	474	478	273	350	429	414	417	1,630	1,675
Change (%)	33.5	39.8	54.0	-14.9	-11.5	-9.4	-13.4	52.5	22.1	2.8
EBITDA Margin (%)	15.9	16.7	16.8	11.0	12.8	14.3	13.3	12.9	15.0	13.3
Depreciation	37	39	42	42	50	51	60	67	176	239
Interest	32	51	41	32	55	49	53	38	187	200
Other Income	21	28	26	58	25	21	42	75	174	168
PBT	348	412	421	257	270	350	344	387	1,440	1,404
Tax	102	114	82	-84	32	56	59	105	224	251
Tax/PBT (%)	29.4	27.6	19.5	-32.6	11.8	15.9	17.0	27.2	15.6	17.9
Reported PAT	246	298	339	341	238	295	285	282	1,216	1,153
Adjusted PAT	246	298	339	341	238	295	285	282	1,216	1,153
Change (%)	66.4	66.3	59.3	53.1	-3.1	-1.2	-15.9	-17.2	63.3	-5.2
PAT Margin (%)	9.9	10.5	11.9	13.7	8.7	9.8	9.2	8.7	11.2	9.2

E: MOST Estimates; * - net of estimated excise; # Consolidated

TajGVK Hotels

STOCK INFO.	BLOOMBERG
BSE Sensex: 16,371	TAJGIN
	REUTERS CODE
S&P CNX: 4,942	TAJG.BO

28 March 2008

Buy

Rs107

Previous Recommendation: Buy

Equity shares (m)	62.7
52-Week Range	205/100
1, 6, 12 Rel. Perf. (%)	-12/-19/-67
M. Cap. (Rs b)	6.7
M. Cap. (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	2,429	644	10.3	39.7	10.4	3.5	37.3	41.2	3.0	6.2
03/08E	2,623	715	11.4	11.1	9.4	2.8	33.1	38.4	2.8	5.9
03/09E	3,295	933	14.9	30.5	7.2	2.2	34.3	40.0	2.3	4.7
03/10E	3,821	1,074	17.1	15.1	6.2	1.8	31.7	37.9	1.9	3.8

- TajGVK Hotels is the hotels market leader in Hyderabad. It operates three 5-star hotels in Hyderabad with 526 rooms out of 1,400 rooms in the city. It also operates one 5-star hotel in Chandigarh with 152 rooms out of 325 rooms in the city.
- We have lowered our FY08 PAT estimates by 2.7% to Rs715m due to delay in the Chennai hotel (expected to commence in 1QFY09 vs 4QFY08 earlier). Our FY09 estimate remains unchanged. We have lowered our FY10 PAT estimate by 6.4% to Rs1.07b, due to delay in Begumpet (Hyderabad) hotel, and change in the Amritsar plan from leased hotel to owned hotel, leading to a delay here as well.
- The demand in Hyderabad and Chandigarh continues to be healthy and hotel room supply still remains low. In 4QFY08, we expect TajGVK to post combined ARR of Rs8,800 and OR of 83%. EBITDA margin is expected to decrease mainly on account of higher growth rate in F&B revenue than growth in room revenue.
- The stock trades at a PE of 7.2x FY09E and 6.2x FY10E. We lowered our target price from Rs250 to Rs228 [average of (16x FY09-Rs238, DCF-Rs228 and EV/Room-Rs219)]. We maintain **Buy**, with an upside of 113%.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	610	566	579	678	565	591	705	762	2,429	2,623
Change (%)	74.0	67.8	38.0	30.3	-7.3	4.5	21.6	12.5	28.7	8.0
Total Expenses	326	300	311	342	306	315	377	403	1,291	1,401
EBITDA	284	266	269	336	259	277	328	359	1,139	1,222
Change (%)		85.0	49.5	36.9	-8.7	4.0	21.9	6.8	35.2	7.3
EBITDA Margin (%)	46.6	47.0	46.4	49.6	45.9	46.8	46.5	47.1	46.9	46.6
Depreciation	39	33	32	28	30	27	29	28	112	114
Interest	12	12	10	7	7	7	7	6	31	27
Other Income	0	3	2	7	7	3	4	5	13	18
PBT	233	224	229	308	229	246	295	329	1,008	1,099
Tax	80	76	78	120	78	86	103	117	364	384
Tax/PBT (%)	34.3	33.8	33.9	39.0	34.1	34.9	34.9	35.5	36.1	34.9
Reported PAT	153	148	152	188	151	160	192	212	644	715
Adjusted PAT	153	148	152	188	151	160	192	212	644	715
Change (%)	115.2	98.4	60.7	34.5	-1.4	8.1	26.7	12.7	39.7	11.1
PAT Margin (%)	25.1	26.1	26.2	27.8	26.7	27.1	27.3	27.8	26.5	27.3

E: MOST Estimates

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United Phosphorus

STOCK INFO.	BLOOMBERG
BSE SENSEX: 16,371	UNTP IN
	REUTERS CODE
S&P CNX: 4,942	UNPO.BO

28 March 2008

Buy

Rs265

Previous Recommendation: Buy

Equity Shares (m)	211.7
52-Week Range (Rs)	425/228
1,6,12 Rel. Perf. (%)	-9/-28/-44
MCap. (Rs b)	56.1
MCap. (US\$ b)	1.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	24,710	2,884	14.3	33.9	18.5	3.3	20.8	13.9	2.7	11.5
03/08E	36,931	3,975	15.5	8.1	17.1	2.1	19.4	14.1	1.6	7.5
03/09E	41,867	5,423	21.2	36.4	12.5	1.8	18.9	17.0	1.3	5.3
03/10E	46,419	6,968	27.2	28.5	9.7	1.5	20.3	19.9	1.0	4.0

Excluding Advanta & Cerexagri

- ✎ We expect United Phosphorus (UPL) to report 13% YoY growth in consolidated revenues to Rs11.2b, driven by 13.6% growth in domestic market and 20% in RoW markets. These results are not comparable due to consolidation of acquired product and ICONA. Our estimates do not factor in the Evofarms acquisition pending further details.
- ✎ EBITDA margins are likely to remain stable at 21.9%, impacted by consolidation of Cerexagri. Lower interest cost (down 21%) would boost recurring PAT growth to 14% to Rs1.55b. However, after accounting for Rs1.4b of restructuring cost for Cerexagri, the company would report a loss of Rs38m.
- ✎ The company is writing-off product registration/acquisition cost of Rs5.4b in standalone accounts against securities premium account. This financial restructuring would add around Rs1.25 to its EPS (~6% to FY09E EPS). Our estimates do not yet factor in this financial restructuring.
- ✎ We are revising our EPS estimates (fully diluted) up by 1.4% for FY09 to Rs21.2 and by 1% for FY10 to Rs27.2 to factor in lower than estimated depreciation. Valuations at 12.5x FY09E EPS and an EV of 5.3x EBITDA do not reflect the company's growth potential (both organic and inorganic). We maintain **Buy**.

QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08*				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Gross Revenues	4,804	5,169	4,840	9,897	8,450	8,867	8,094	11,205	24,709	36,931
YoY Change (%)	17.9	18.0	25.8	73.1	75.9	71.5	67.2	13.2	37.1	49.5
Total Expenditure	3,589	3,824	3,671	7,743	6,754	7,123	6,628	8,755	18,827	29,260
EBITDA	1,215	1,345	1,169	2,154	1,697	1,743	1,466	2,450	5,883	7,671
Margins (%)	25.3	26.0	24.1	21.8	20.1	19.7	18.1	21.9	23.8	20.8
Depreciation	360	370	409	517	505	503	487	495	1,656	1,989
Interest	241	219	183	403	320	331	294	320	1,046	1,265
PBT before EO Expense	614	755	577	1,234	872	910	685	1,635	3,181	4,417
Extra-Ord Expense	0	0	0	76	0	0	0	1,374	76	1,374
PBT after EO Expense	614	755	577	1,158	872	910	685	261	3,105	3,043
Tax	22	4	47	79	139	10	22	270	153	442
Deferred Tax	51	94	174	52	0	102	179	28	372	309
Rate (%)	12.0	13.1	38.2	11.4	15.9	12.3	29.4	114.5	16.9	24.7
Reported PAT	541	656	357	1,026	733	798	484	-38	2,580	2,292
Income from associate co	0	0	0	242	4	85	2	219	242	310
Adjusted PAT	541	656	357	1,335	738	883	485	1,554	2,885	3,975
YoY Change (%)	40.8	39.1	54.2	20.2	36.5	34.6	36.1	16.4	32.4	37.8
Margins (%)	11.3	12.7	7.4	13.5	8.7	10.0	6.0	13.9	11.7	10.8

E: MOST Estimates; *Excludes Cerexagri's restructuring cost

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