

March 19, 2007

FOR PRIVATE CIRCULATION

**Equity**

	16 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	12,430	(0.9)	(13.7)	(7.1)
Nifty	3,609	(1.0)	(13.4)	(5.8)
Banking	6,108	(1.4)	(16.2)	(11.6)
IT	3,432	(1.2)	(12.6)	(1.6)
Healthcare	3,459	(0.5)	(9.1)	(6.1)
FMCG	1,626	(1.0)	(14.0)	(14.6)
PSU	5,444	(1.0)	(12.3)	(7.4)
CNX Midcap	4,599	(0.7)	(12.2)	(6.9)
<b>World indices</b>				
Nasdaq	2,372.7	(0.3)	(5.0)	(2.3)
Nikkei	16,744	(0.7)	(5.9)	0.6
Hangseng	18,954	(0.1)	(7.4)	0.4

**Value traded (Rs cr)**

	16 Mar 07	% Chg - 1 Day
Cash BSE	3,500	(5.0)
Cash NSE	7,777	(10.3)
Derivatives	30,436	13.9

**Net inflows (Rs cr)**

	15 Mar 07	% Chg	MTD	YTD
FII	19	(102)	(1,124)	4,632
Mutual Fund	(206)	(640)	(1,194)	(2,642)

**FII open interest (Rs cr)**

	15 Mar 07	% chg
FII Index Futures	14,762	1.3
FII Index Options	8,561	0.2
FII Stock Futures	15,576	0.4
FII Stock Options	50	0.1

**Advances/Declines (BSE)**

	16 Mar 07	A	B1	B2	Total	% Total
Advances	57	163	310	530	30	
Declines	152	529	540	1,221	68	
Unchanged	4	13	24	41	2	

**Commodity**

	16 Mar 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	57.1	(0.8)	(3.8)	(10.0)
Gold (US\$/OZ)	653.4	1.1	(2.2)	5.3
Silver (US\$/OZ)	13.2	1.3	(6.0)	3.9

**Debt/forex market**

	16 Mar 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.03	8.00	8.02	7.59
Re/US\$	44.11	44.20	44.10	44.64

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- ❑ Tax administration at the state level is likely to get a major facelift soon with a common VAT form, procedures and tariff codes. States have finally yielded to the Center's proposal to bring about uniformity and standardization in the VAT structure. (ET)
- ❑ The Government is finalizing a policy that seeks to levy a 2% 'vacant land tax' on unused urban land. The tax component would be calculated on the value of land registered with the respective area development authority. (ET)
- ❑ Not heeding the directives of the proposed new Competition Commission of India or appellate tribunal may cost companies dearly. The Government is likely to make penalties for contravention of the orders of the commission and tribunal more stringent. (ET)
- ❑ Industry body Ficci has demanded rationalization of cut in peak customs duties proposed in Budget 2007-08 claiming that it is affecting manufacturing of around 20 consumer durables. (BS)
- ❑ The Commerce Ministry has projected Rs.216.32 bn worth of exports from the 63 SEZs, which have been notified since February 2006. Till date, Rs.134.35 bn has been invested in these zones. (BS)

**CORPORATE NEWS**

- ❑ **Bharti Group** has said it may consider an initial public offering for its telecom equipment company, but ruled out going public for the retail, agriculture and finance businesses for at least five years. (BS)
- ❑ Pune-based **Zensar Technologies**, an IT service provider, is planning partnerships, joint ventures or acquisitions to strengthen its focus in the language markets of Brazil, Japan, South Africa and Germany in the next three months. (BS)
- ❑ The Board of Directors of **Bajaj Auto** has met but the issue of demerger of its investment and financial services business did not figure in the deliberations. The issue of demerger was not discussed in Sunday's meeting, Bajaj Auto Chairman Rahul Bajaj said. (BS)
- ❑ **UTI Bank** is planning to set up a \$500-mn offshore fund. The bank, which had earlier received Sebi approval to start a PE fund in India as a domestic venture capital, will now file for a fresh application as a foreign venture capital investor. (ET)
- ❑ In a bid to leverage their oil exploration and production expertise, **Reliance Industries** and ONGC Videsh, the overseas investment arm of **Oil and Natural Gas Corporation**, are planning to jointly bid for oil and gas blocks in Iraq. (BS)
- ❑ The Wadia family of **Bombay Dyeing** and France-based dairy product giant Groupe Danone, equal partners in biscuit maker **Britannia Industries**, may soon decide to go separate ways, albeit amicably. (BS)
- ❑ The consortium led by **Reliance** is among seven firms to qualify for Saudi Arabia's third mobile phone license, while MTNL-Al Shoula is out of the fray. (ET)
- ❑ Vodafone, which outbid multiple rivals to pick up 67% stake in **Hutch-Essar** and then managed to placate local partner **Essar**, faces the last and crucial hurdle on March 20 - that of receiving Foreign Investment Promotion Board clearance. (BS)

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

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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## MARUTI UDYOG LTD (Rs.780, FY08 P/E 12.7x, BUY)

We had given a BUY recommendation on Maruti Udyog post the company's excellent performance in the third quarter. However, since then the stock price has corrected by around 15% although the broader markets have fallen by 11% on concerns of rising interest rates. According to us, such concerns have already been discounted in the current prices. Hence, we believe the correction offers a good opportunity for investors to enter the stock at present levels.

### Strong demand growth

The company has reported a 21% rise in sales so far for FY07 backed by strong growth in the A2 segment. During the year the company replaced the Zen model with Estilo and also introduced the diesel model of Swift. Due to superior engine technology the share of diesel car sales in total car sales in India is gradually expected to increase and the success of the diesel Swift could plug an important gap in Maruti's product portfolio.

We continue to remain positive on the domestic car sector since we believe demand for cars would continue to grow at steady rates of 13-15% in the next three years largely on the back of key demand drivers such as rising disposable incomes, newer offerings and growth in demand for a second car. Our conviction is backed by the fact that the current car penetration levels in India remain at one of the lowest levels globally (8 per 1000 people) and is expected to rise along with rising per capita income.

### Strong product pipeline

Maruti has announced the launch of five new models by 2010 as part of its expansion strategy to consolidate its market share. The company is also looking to increase its presence in the mid-sized market where it trails Honda in terms of market share. Maruti is expected to launch one new sedan in 2007 (christened SX4) most possibly to replace the Baleno in the mid-sized market. Besides new models, Maruti is also expected to launch variants of existing models like Omni and Gypsy in the same period.

Summary table			
(Rs mn)	FY06	FY07E	FY08E
Sales	120,035	143,507	164,404
Growth (%)	10.0	20.0	15.0
EBITDA	15,786	20,176	23,433
EBITDA margin (%)	13.2	14.1	14.3
Net profit	11,897	15,401	17,727
Net cash (debt)	17,213	14,969	19,688
EPS (Rs)	41.2	53.3	61.3
Growth (%)	39.0	29.0	15.0
ROE (%)	24.2	25.0	23.0
ROCE (%)	22.3	23.2	22.8
EV/Sales (x)	1.61	1.29	1.07
EV/EBITDA (x)	9.4	7.2	5.9
P/E (x)	18.9	14.6	12.7
P/BV (x)	4.1	3.3	2.6

Source: Company & Kotak Securities - Private Client Research

### Industry Demand Growth

	2004-05	2009-10P	CAGR (5 yr)
A1	116,262	270,438	18.4
C, A2	496,219	985,937	14.7
A3	178,605	398,943	17.4
A4-A6	28,602	81,605	23.3
Total Passenger cars	819,688	1,736,923	16.2
UV	243,875	399,956	10.4
Domestic	1,063,563	2,136,879	15

Source: Cris Infac

### Exports to rise from FY09

In the past couple of years, Maruti's exports had foundered as Suzuki phased out Alto from the European market and replaced it with Swift, produced at its Hungary plant. However, now the company is developing a new export specific model and intends to export around 1,50,000 units by 2010. This would include about 50,000 cars per year to be supplied to Nissan under a contractual agreement from FY09. Besides, another 50,000 would be sold under its own brand name to re-enter Europe. The car is also likely to be launched in the domestic market.

### Rising interest rates scenario:

With interest rates rising in the last one year (300 bps in the last three months) there have been concerns that growth in auto sales may be impacted given that at least 75% of cars are financed through term loans. However, in our opinion, rising salaries, favorable demographic factors, innovative financing structures and marginal increase in EMIs should support demand growth.

A 100 bps interest rate hike results in an increase in EMI of 1.37% (assuming a three-year loan of Rs.275,000). The recommendations of the Sixth Pay Commission are expected towards the end of CY2007. A hike in salaries of the 3.3-mn central government employees could give a further fillip to auto loans in 2008.

### Valuation

We expect MUL sales volumes to grow at a CAGR of 14% over the next two years. We expect the company to record total revenues of Rs.149.1 bn in FY07 and Rs.170.7 bn in FY08 with net profits of Rs.15.4 bn and Rs.17.7 bn, respectively. This translates into an EPS of Rs.53 for FY07 and Rs.61 for FY08 with a price target of Rs.1083 based on the DCF analysis achievable over a 12-month period.

**We reiterate our BUY recommendation on Bajaj Auto with a target of Rs.1083**

The MUL stock trades at Rs.780, discounting FY08E earnings by 12.7x times. We expect valuations for MUL to be sustained considering its market leadership position, healthy earnings growth visibility and the benefits of excise duty differential on small cars. We reiterate our **BUY** on MUL with a target price of Rs.1083 that is based on DCF valuations offering an upside of 39% from the current price.

## Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
16-Mar	Ashco Indust	Ayodhyapati Investment	S	27,446	47.99
16-Mar	Camp Alli Pr	Primco Pvt.Ltd	B	41,000	86.60
16-Mar	Indiabulls	Morgan Stanley and Co Int	S	1,000,000	387.27
16-Mar	Jenburk Phar	Hemendra Ratilal Mehta	B	35,000	31.90
16-Mar	Mefcom Agr I	Cosmo Corporate Services	S	20,000	72.75
16-Mar	Mefcom Agr I	ISF Securities Ltd	S	36,000	73.21
16-Mar	Mefcom Agr I	Avisha Credit Capita	S	20,000	73.64
16-Mar	Mohit Indust	Shah Manish Ratilal	B	33,000	31.27
16-Mar	Mohit Indust	Chandrakant Bhogilal Shah	B	40,000	30.35
16-Mar	Nippo Batt	Jiwarjka Krishna Kumar HU	B	57,772	316.09
16-Mar	Nippo Batt	Sushilkumar Jiwarajka	S	50,272	316.00
16-Mar	Oriental	Shailesh Ved	B	165,000	25.61
16-Mar	Oriental	Ayodhyapati Investment	S	151,554	25.67
16-Mar	Pace Elec(P)	Clock Sign Trading Co.	B	150,000	7.08
16-Mar	Page Industr	Opg Securities Pvt Ltd	B	398,323	283.46
16-Mar	Pix Transmis	Shilpa R Sidhwani	B	50,000	32.50
16-Mar	Pix Transmis	Mahendrapal R Bahl	S	50,000	32.50
16-Mar	Samtex Fashi	Kirti J. Doshi	B	90,000	17.70
16-Mar	Shiva Cement	Sargam Tradelink	B	597,354	7.03
16-Mar	Sulzer India	Gandiv Investment	B	163,053	226.59
16-Mar	Sulzer India	Minal B Patel	S	129,703	227.00
16-Mar	Ucal Fuel Sy	Hardik B Patel	B	129,337	83.05
16-Mar	Ucal Fuel Sy	Minal B Patel	S	127,337	83.02
16-Mar	Wpil Ltd	Raghuvalika Trading	S	44,429	40.10
16-Mar	Wyeth Ltd	Reliance Capital Trustee	B	420,138	440.00
16-Mar	Wyeth Ltd	Citigroup Global Market M	S	422,000	440.03

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Reliance Ind	1,300	1.3	4.7	2.6
Tata Motors	748	3.1	1.7	1.1
Wipro	565	0.5	0.9	0.6
<b>Losers</b>				
ONGC	763	(1.8)	(5.8)	0.7
Reliance Com	377	(3.4)	(5.4)	9.9
Bharti Airtel	717	(1.5)	(4.1)	1.8

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
20-23 Mar	Public offer of ICRA Ltd opens
20-Mar	Nestle India to announce earnings and dividend; Wire & Wireless to consider rights offer
21-Mar	Mahindra & Mahindra, Ashok Leyland to announce interim dividend
22-Mar	Pfizer to announce earnings
23-Mar	Wipro to announce interim dividend; Thomas Cook to consider rights offer and dividend
24-Mar	Corporation Bank to announce interim dividend
26-Mar	Aventis Pharma to announce audited earnings and dividend
29-Mar	Ranbaxy Laboratories to announce earnings and dividend

Source: Bloomberg

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