

## India Update

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### Highlights

Sector/event	Impact
<b>Oil&amp;Gas and Petrochemicals: GAIL – Q4FY07 results review</b>	GAIL's recurring net income dipped 16.7% YoY to Rs3.4bn, 42% below our expectations. Reported net income significantly improved 87.6% YoY to Rs6.8bn on the back of excess tax write-backs of Rs3.4bn. The fall in recurring earnings was driven by a steep 59.4% <i>ad hoc</i> increase in LPG subsidies at Rs5bn. The risk of similar trend in subsidies in the absence of Government reforms could hit our FY08E forecast and sum-of-the-parts valuations. Despite these concerns, we believe GAIL's long-term prospects remain attractive based on the growth in India's gas market and the company's gas grid expansion plans. <b>BUY.</b>

### News Snippets

#### Economy

- Taking advantage of lower interest rates in the global money market, India Inc has borrowed close to US\$4.5bn to fund domestic business between January and February this year. (The Economic Times)

#### Sectoral

- IT exports grew 39.05% for the year ended March '07 as per Electronics and Software Export Promotion Council's estimates, touching US\$36.65bn. (Business Line)
- The high-level committee on manufacturing has approved an action plan for setting up five food parks on a fast-track mode through public-private partnership route. (The Economic Times)

#### Corporate

- Reliance Industries is set to ink a five-year communications solutions deal with Bharat Sanchar Nigam projected to be worth Rs5bn. (The Economic Times)
- Essar Oil is in the final stages of negotiations to mop up US\$100mn via external commercial borrowings for expansion and upgradation of its crude refinery in Khambalia, Gujarat. (Business Standard)

#### Market data as on May 8, 2007

INDICES		
		% chg (DoD)
BSE Sensex	13765	(0.82)
S&P CNX Nifty	4077	(0.83)
BSE 100	7015	(0.84)
BSE 200	1661	(0.89)
Instanex Skindia DR	2467	(1.09)
Mindex	5790	(1.50)

OVERSEAS MARKETS		
		% chg (DoD)
Dow Jones	13309	(0.03)
Nasdaq Comp.	2572	0.03
S&P 500	1508	(0.12)
Hang Seng	20706	(0.91)
Nikkei	17657	(0.07)

ADVANCES/DECLINES (BSE)			
Group	A	B1	B2
Advances	43	174	291
Declines	160	524	506
Unchanged	2	12	24

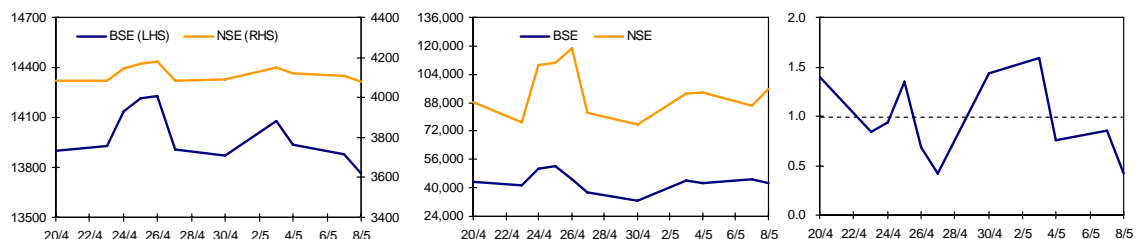
FII TURNOVER (BSE+NSE)* (Rs mn)		
Bought	Sold	Net
21,514	19,394	2,120

NEW HIGHS AND LOWS (BSE)			
Group	A	B1	B2
Highs	6	12	17
Lows	-	9	5

CURRENCY
US\$1 = Rs40.85

\* FII turnover (BSE + NSE) as on May 7, 2007

**Market movement over last fortnight      Volumes in Rs mn (BSE and NSE)      Advances & Declines ratio (BSE)**



## GAIL (Buy)

## Oil&amp;Gas and Petrochemicals

## Q4FY07 RESULTS REVIEW

## Ad hoc subsidies hit earnings

Rs293

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GAIL's recurring net income dipped 16.7% YoY to Rs3.4bn, 42% below our expectations. Reported net income significantly improved 87.6% YoY to Rs6.8bn on the back of excess tax write-backs of Rs3.4bn. The fall in recurring earnings was driven by a steep 59.4% *ad hoc* increase in LPG subsidies at Rs5bn versus our expectations of Rs3.1bn. The risk of similar trend in subsidies in the absence of Government reforms could hit our FY08E forecast and sum-of-the-parts valuations. Despite these concerns, we believe that GAIL's long-term prospects remain attractive based on the growth in India's gas market and the company's gas grid expansion plans. Maintain BUY.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (08/05/07) (Rs)	293	2005	23.1	12.7	6.4	BSE Sensex	13765
52 Week Range	326/205	2006	27.3	10.7	6.2	Market Cap. (Rs bn)	247.8
Dividend FY08E (Rs/sh)	12.0	2007P	24.2	12.1	7.7	Market Cap. (US\$ bn)	6.0
Dividend yield (%)	4.1	2008E	34.0	8.6	5.7	Shares Out. (mn)	846
Face value (Rs)	10.0	2009E	32.3	9.1	5.7	Free float (%)	42.7

Source: Company data, i-SEC Research

- **Net revenues rose 6.1% YoY to Rs38.8bn.** Key growth drivers were 16.5% YoY and 10.5% YoY increase in natural gas trading and petchem revenues respectively. These offset the 15.5% YoY decline in gas transmission revenues.
- **Q4FY07 EBITDA margin, including subsidies, dipped 374bps to 15.5%** due to 13.3% rise each in raw material costs and gas purchases. Other damper was a steep 54.7% YoY increase in personnel cost. Core EBITDA margin, excluding subsidy, dipped 441bps to 25.2%. As a result, EBITDA fell 14.5% YoY to Rs6bn.
- **Recurring net income dipped 16.7% YoY to Rs3.4bn.** Reported net income significantly improved 87.6% YoY to Rs6.8bn on the back of excess tax write-backs of Rs3.4bn. Apart from the subsidies, recurring income was hurt by a 5.8% YoY increase in depreciation, which was partially offset by the 24.4% YoY fall in interest costs and 33.7% YoY rise in other income. The company declared Rs2/share final dividend for FY07 taking the full year dividend to Rs10.5/share, implying a payout of 37.2%.
- **Maintain Buy despite interim worries on subsidies.** There is a potential downside of 28.2% to our base case FY08E EPS forecast at Rs24.4/share assuming subsidies at FY07 levels. This would also result in FY08E dividend yield falling to 2.9% versus our base case yield of 4.1%. This would imply 12.1% downside to our base case NPV (excluding gas grid) at Rs332/share compared to our NPV estimate of Rs385/share (excluding gas grid) assuming base case subsidies of Rs4.2bn in FY08E.

Despite concerns over the subsidy overhang, which is negative for GAIL's short-term outlook, we remain positive on the company over the next 12-18 months. The stock has risen 1.3% YoY, but has underperformed the market 8.7%, which has partly priced in concerns on subsidies. We believe that the future roll-out of the regulatory framework as per the Gas Policy and robust fundamentals of the gas business can trigger a re-rating in the long run despite the subsidy concern and cyclical risk in LPG & petchem. Future growth in city gas, potential windfall through oil & gas finds and clean-up of subsidies offer added upside.

**Table 2: Q4FY07 results review***(Rs mn, Year ending March 31)*

	Q4FY07	Q4FY06	% chg. (YoY)	% chg. (QoQ)	FY07	FY06	% chg. (YoY)
Net Sales before subsidy	43,854	41,978	4.5	(19.1)	175,352	155,234	13.0
Subsidy	5,020	5,380	(6.7)	59.4	14,880	10,640	39.8
<b>Net Sales</b>	<b>38,834</b>	<b>36,598</b>	<b>6.1</b>	<b>(23.9)</b>	<b>160,472</b>	<b>144,594</b>	<b>11.0</b>
Raw Materials	4,243	3,746	13.3	(31.0)	17,099	12,036	42.1
Gas Purchased	23,368	20,618	13.3	(23.6)	94,290	82,543	14.2
Personnel Cost	816	528	54.7	25.4	2,923	2,213	32.1
Other Expenses	4,383	4,661	(6.0)	(13.3)	16,187	12,824	26.2
Total Expenses	32,810	29,554	11.0	(22.7)	130,499	109,615	19.1
<b>EBITDA</b>	<b>6,024</b>	<b>7,044</b>	<b>(14.5)</b>	<b>(30.3)</b>	<b>29,973</b>	<b>34,979</b>	<b>(14.3)</b>
Interest	221	292	(24.4)	(18.3)	1,071	1,173	(8.7)
Depreciation	1,471	1,391	5.8	2.3	5,754	5,595	2.8
Other Income	1,129	844	33.7	(38.9)	5,450	4,555	19.6
<b>Recurring pre-tax income</b>	<b>5,461</b>	<b>6,205</b>	<b>(12.0)</b>	<b>(37.8)</b>	<b>28,598</b>	<b>32,766</b>	<b>(12.7)</b>
Extraordinary income/(expense)	3,399	(464)	NA	NA	3,399	-	NA
Taxation							
Current	1,779	1,729	2.9	(17.6)	7,941	9,221	(13.9)
Deferred	274	383	(28.6)	(905.0)	190	445	(57.3)
<b>Recurring Net Income</b>	<b>3,408</b>	<b>4,093</b>	<b>(16.7)</b>	<b>(48.8)</b>	<b>20,468</b>	<b>23,101</b>	<b>(11.4)</b>
<b>Reported Net Income</b>	<b>6,807</b>	<b>3,628</b>	<b>87.6</b>	<b>2.3</b>	<b>23,867</b>	<b>23,101</b>	<b>3.3</b>
<b>Ratios (%)</b>							
Core EBITDA Margins	25.2	29.6	(441)	343	25.6	29.4	(381)
EBITDA Margins	15.5	19.2	(374)	(141)	18.7	24.2	(551)
Net Profit Margins	17.5	9.9	762	450	14.9	16.0	(110)
Effective tax rate	37.6	34.0	355	1,340	28.4	29.5	(107)

Source: Company data, i-SEC Research

**Table 3: Segment-wise details***(Year ending March 31)*

	Q4FY07	Q4FY06	% chg. (YoY)	% chg. (QoQ)	FY07	FY06	% chg. (YoY)
<b>Sales (Rs mn)</b>							
Natural Gas Transmission	4,762	5,635	(15.5)	(25.7)	23,797	23,461	1.4
LPG Transmission	915	944	(3.1)	(7.9)	3,513	2,905	20.9
Natural Gas Trading	29,701	25,495	16.5	(5.7)	122,005	102,071	19.5
Petrochemicals	7,437	6,729	10.5	1.8	25,568	17,488	46.2
LPG & Liquid Hydrocarbons	4,332	4,682	(7.5)	(30.8)	23,151	24,269	(4.6)
Telecom	69	45	55.3	(1.8)	255	185	37.5
Unallocated	984	740	33.0	(44.2)	5,878	4,628	27.0
<b>Total</b>	<b>48,200</b>	<b>44,270</b>	<b>8.9</b>	<b>(11.2)</b>	<b>204,166</b>	<b>175,008</b>	<b>16.6</b>
<b>EBIT (Rs mn)</b>							
Natural Gas Transmission	2,767	4,011	(31.0)	(39.1)	16,930	17,852	(5.2)
LPG Transmission	487	497	(2.0)	(19.2)	2,024	1,488	36.0
Natural Gas Trading	492	(615)	(180.1)	(12.6)	2,010	583	245.1
Petrochemicals	3,008	2,645	13.7	8.4	9,312	6,287	48.1
LPG & Liquid Hydrocarbons	(732)	249	(394.1)	(180.9)	2,654	8,198	(67.6)
Telecom	5	(4)	NM	980.0	5	(21)	NM
<b>Total</b>	<b>6,022</b>	<b>6,786</b>	<b>(11.3)</b>	<b>(35.9)</b>	<b>32,935</b>	<b>34,386</b>	<b>(4.2)</b>
<b>Capital Employed (Rs mn)</b>							
Natural Gas							
Transmission/Trading	37,011	27,568	34.3	3.7	37011.3	27,568	34.3
LPG Transmission	10,510	11,079	(5.1)	(1.5)	10509.5	11,079	(5.1)
Petrochemicals	19,128	19,753	(3.2)	0.3	19128.4	19,753	(3.2)
LPG & Liquid Hydrocarbons	8,970	9,374	(4.3)	(12.2)	8970	9,374	(4.3)
Telecom	475	308	54.2	61.7	474.5	308	54.2
<b>Total</b>	<b>76,094</b>	<b>68,081</b>	<b>11.8</b>	<b>0.2</b>	<b>76,094</b>	<b>68,081</b>	<b>11.8</b>
<b>EBIT/Sales (%)</b>							
Natural Gas Transmission	58.1	71.2	(1,306.0)	(1,280.3)	71.1	76.1	(495)
LPG Transmission	53.2	52.6	56.4	(746.2)	57.6	51.2	639
Natural Gas Trading	1.7	(2.4)	406.9	(13.1)	1.6	0.6	108
Petrochemicals	40.4	39.3	113.8	246.4	36.4	35.9	47
LPG & Liquid Hydrocarbons	(16.9)	5.3	(2,221.1)	(3,134.6)	11.5	33.8	(2,231)
Telecom	7.8	(9.4)	1,717.7	707.4	1.9	(11.5)	1,337
<b>Total</b>	<b>12.5</b>	<b>15.3</b>	<b>(283.5)</b>	<b>(480.5)</b>	<b>16.1</b>	<b>19.6</b>	<b>(352)</b>
<b>EBIT/Capital Employed (%)</b>							
Natural Gas Transmission	35.2	49.3	(1,404.0)	(2,206.5)	51.2	66.9	(1,569.5)
LPG Transmission	18.5	17.9	58.7	(406.7)	19.3	13.4	582.7
Petrochemicals	62.9	53.6	933.9	469.7	48.7	31.8	1,685.1
LPG & Liquid Hydrocarbons	(32.6)	10.6	(4,325.9)	(6,805.8)	29.6	87.5	(5,786.7)
Telecom	4.6	(5.5)	1,001.0	387.0	1.0	(6.9)	793.2
<b>Total</b>	<b>31.7</b>	<b>39.9</b>	<b>(821.4)</b>	<b>(1,782.5)</b>	<b>43.3</b>	<b>50.5</b>	<b>(722.6)</b>

# annualised

Source: Company data, i-SEC Research

## Hero Honda (Buy)

## AUTOMOBILES

## Q4FY07 RESULTS PREVIEW

Rs680

Shilpa Gupta

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- We expect Hero Honda (HHML) to register 11.2% YoY revenue growth in Q4FY07E on the back of a 10.8% YoY volume growth – motorcycles (up 10% YoY) and scooters (up 52.4% YoY)
- We estimate margins to contract a sharp 590bps YoY and 230 bps QoQ to 10.2% in Q4FY07E due to price cuts, promotional & advertising expenses (including sponsorship costs during the World Cup ) and rising input costs.
- The key factor to watch for is that margin pressures are likely to continue in FY08, given the company's key segment (100cc motorcycles) continuing to get commoditised and the increasing trend of value offering to customers at the same price point, in a bid to gain market share.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (8/05/07) (Rs)	680	2005	40.6	16.8	11.4	BSE Sensex	13765
52 Week Range	898/565	2006	48.6	14.0	8.6	Market Cap. (Rs bn)	136
Dividend FY07E (Rs/sh.)	23.9	2007E	54.6	12.5	7.5	Market Cap. (US\$ bn)	3.3
Dividend yield (%)	3.5	2008E	61.7	11.0	6.1	Shares Out. (mn)	199.7
Face value (Rs)	2.0	2009E	68.0	10.0	5.1	Free float (%)	45.1

Source: Company data, i-SEC Research

Table 2: Quarterly estimates

(Rs mn, year ending March 31)

	Q4FY07E	Q4FY06	YoY (%)	QoQ (%)	YTDFY07*	YTDFY06*	YoY (%)
Revenues	25,080	22,559	11.2	(5.9)	72,604	64,581	12.4
EBITDA	2,558	3,632	(29.6)	(15.3)	9,044	10,048	(10.0)
PBT	2,618	3,797	(31.0)	(13.7)	9,608	10,178	(5.6)
PAT	1,833	2,672	(31.4)	(12.4)	6,629	6,941	(4.5)

Source: Company data, i-SEC Research; \* April - December

Details in our results preview dated April 12, 2007

Recent reports/updates		
Analyst	Company/Sector	Date
Anand / Shilpa Yadav	Britannia Industries: When going gets tough...	May 7
S. Ramesh / Amit	Indraprastha Gas: Refuelling for growth	May 3
S. Ramesh / Amit	Gujarat Gas: In the fast lane	May 3
Anand / Shilpa Yadav	Hindustan Lever: Muted tempo	May 3
Anand / Shilpa Yadav	GSK Consumer: Surprise packet	Apr 30
S. Ramesh/Amit	Reliance Industries: Growth plans on track	Apr 27
Rajesh Vora	Cipla: Sluggish gait	Apr 27
Anand /Shilpa Yadav	Godrej Consumer Products: Of waning hue	Apr 26
S Ramesh	BPCL: Piping hot	Apr 26
Rajesh Vora	Pharma: Theme note on Sun Pharma & Glenmark	Apr 24
Anand / Shilpa Yadav	Kansai Nerolac: Radiant hues	Apr 24
Anand / Shilpa Yadav	Colgate-Palmolive: Tranquil tone	Apr 23
S. Ramesh / Amit	Netback: Refining on a winning streak	Apr 19
Shilpa Gupta	Speedometer: Subdued pace	Apr 16
S. Ramesh / Amit	GAIL (India): Stepping up the gas	Apr 16
Shilpa Gupta	Automobiles Quarterly results preview: Mixed bag	Apr 12
Rajesh Vora	Pharma Quarterly results preview: In full bloom	Apr 11
S. Ramesh / Amit	Oil&Gas Quarterly results preview: Full blast ahead	Apr 9
Anand / Shilpa Yadav	FMCG Quarterly results preview: On a promising note	Apr 9
Rajesh Vora	Wockhardt: On come-back trail	Apr 5
Poonam Nishal	Utilities Quarterly results preview: Waiting for Godot	Apr 5
Amar Kedia	Aviation Quarterly results preview: Mixed bag	Apr 3
Rajesh Vora	Glenmark Pharma: Raising the bar	Apr 3
Amar Kedia	SpiceJet: Tempest to blow past	Apr 3
Poonam Nishal	Telecom Quarterly results preview: Swelling volumes to script success	Apr 2
S. Ramesh	Gujarat Gas: Set for new highs	Mar 30
Rajesh Vora	Cadila Healthcare: Run to form	Mar 26
Amar Kedia	Balmer Lawrie: Stirring up	Mar 23
Anand Shah	Nestle: On an accelerated growth path	Mar 22
S. Ramesh	Netback margin monthly: Refining, the lone star shining	Mar 19
Rajesh Vora	Sun Pharma: The Sun SPARCles	Mar 16
Vikash Mantri	Jagran Prakashan (Unrated): Augmenting clout	Mar 15
Shilpa Gupta	Speedometer (Mar '07) – Balanced manoeuvre	Mar 14
Eq. Research Team	Union Budget Review 2007-08	Mar 1

## Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	April 26	1	Adlabs Films	April 26
2	ACC	April 19	2	Alembic Limited	-
3	Bajaj Auto	May 17	3	Apollo Hospitals Enterprise	-
4	Bharat Heavy Electricals	-	4	Arvind Mills	May 12
5	Bharat Petroleum Corporation	-	5	Ashok Leyland	May 4
6	Bharti Airtel	April 27	6	Asian Paints	May 10
7	Cipla	April 26	7	Aventis Pharma	April 16
8	Dabur India	May 8	8	Balaji Telefilms	May 16
9	Dr. Reddy's Laboratories	May 18	9	Bank of Baroda	April 28
10	GAIL (India)	May 8	10	Bharat Forge	-
11	GlaxoSmithKline Pharmaceuticals	April 27	11	Britannia Industries	-
12	Grasim Industries	April 25	12	Cadila Healthcare	April 26
13	Gujarat Ambuja Cements	April 20	13	Canara Bank	May 2
14	HCL Technologies	April 17	14	Colgate-Palmolive	May 3
15	HDFC Bank	April 24	15	Corporation Bank	April 28
16	Hero Honda Motors	May 11	16	GlaxoSmithKline Consumer	-
17	Hindalco Industries	May 4	17	Glenmark Pharma	April 25
18	Hindustan Lever	April 30	18	Godrej Consumer Products	April 25
19	Hindustan Petroleum Corporation	-	19	Gujarat Gas Company	April 30
20	Housing Development Finance Corporation	May 3	20	IDBI	April 20
21	ITC	-	21	Indian Hotels Co.	-
22	ICICI Bank	April 28	22	Indraprastha Gas	-
23	Indian Petrochemicals Corporation	-	23	Info Edge (India)	May 3
24	Infosys Technologies	April 13	24	Infotech Enterprises	-
25	Larsen & Toubro	-	25	Jammu & Kashmir Bank	May 7
26	Mahanagar Telephone Nigam	April 24	26	Jet Airways	-
27	Mahindra & Mahindra	May 28	27	JSW Steel	April 30
28	Maruti Udyog	April 24	28	Kansai Nerolac Paints	May 3
29	National Aluminium Company	April 25	29	Madras Cements	May 30
30	Oil & Natural Gas Corporation	-	30	Marico	April 26
31	Punjab National Bank	May 23	31	Mphasis	April 30
32	Ranbaxy Laboratories	April 27	32	National Thermal Power Corp.	-
33	Reliance Communications	April 30	33	Nestle India	April 30
34	Reliance Energy	April 25	34	Oriental Bank of Commerce	April 28
35	Reliance Industries	April 26	35	Patni Computer Systems	April 25
36	Reliance Petroleum	April 25	36	Polaris Software Lab	April 27
37	Satyam Computer Services	April 20	37	Procter & Gamble	April 30
38	Siemens	April 23	38	Punjab Tractors	-
39	State Bank of India	May 12	39	Raymond	April 26
40	Steel Authority of India	May 21	40	Sasken Communication Technologies	-
41	Sterlite Industries (India)	May 3	41	SpiceJet	-
42	Sun Pharmaceutical Industries	May 15	42	Tata Tea	-
43	Suzlon Energy	May 14	43	TVS Motor Company	-
44	Tata Consultancy Services	April 16	44	Union Bank of India	May 7
45	Tata Motors	May 18	45	UTI Bank	April 17
46	Tata Power Co.	May 30	46	Wockhardt	April 26
47	Tata Steel	May 17			
48	Videsh Sanchar Nigam	-			
49	Wipro	-			
50	Zee Entertainment	April 21			

Note: Result dates in calendar format on Page 8

### Quarterly results date reckoner

#### MAY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	.	1 .	2 .	3 Kansai Nerolac, Info Edge, Colgate-Palmolive	4 Ashok Leyland	5 .
6 .	7 Union Bank of India, J&K	8 GAIL	9 .	10 Asian Paints	11 Hero Honda	12 SBI
13	14 .	15 Sun Pharma	16 Balaji Telefilms	17 Bajaj Auto	18 Tata Motors, DRL	19 .
20	21 .	22 .	23 PNB	24 .	25 .	26 .
27	28 M&M	29 .	30 Madras Cement, Tata Power	31 .		



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**ANALYST CERTIFICATION**

We /I, *S. Ramesh, PGDM, BTech*; Shilpa Gupta, PGDM, BTech and *Amit Mishra, PGDM, BE* research analyst(s) and the author(s) of this report, hereby certify that all of the views expressed in this research report accurately reflect my/our personal views about any and all of the subject issuer(s) or securities. We/I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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