

Earnings Review

Quarter ending September 2006

Full steam ahead



SSKI Research

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November 2006

India Inc...growth momentum continues

Q2FY07 saw Sensex earnings surge by 33.5% (against our expectations of 27.5%), validating our stance of a sustained momentum in corporate earnings

Outperformance driven by better than expected numbers from software, telecom, petrochemical and metal stocks

SSKI universe earnings growth came in at 45.8% marginally higher than our estimate of 43.5% growth

Strength in the quarterly performance has led us to marginally upgrade our FY07 & FY08 earnings estimates for the Sensex by 2.2% and 1.4% respectively

In October, we had upgraded our Sensex target range to 12,500 to 13,400 (17-18x FY08 earnings) based on a reduced cost of capital. We further upgrade the range to 12,800 - 13,600 factoring in earnings upgrade

Sensex target range at 12,800-13,600; limited upside from current levels

Q2FY07 Sensex ahead of expectations

- ✓ Sensex earnings grew 33.5% yoy in Q2FY07; impressively ahead of our expectations of 27.3% yoy rise
- ✓ While commodity earnings growth, at 21.8% yoy, is marginally ahead of expectations (16.9% rise yoy), non-commodity earnings stole the limelight with 42.2% yoy increase (34.7% yoy)
- ✓ Strong performance exhibited by software (higher than estimated volume growth), metals (better than expected realizations), pharma, financials and petrochemical sectors

Sensex Adj. FF Q2FY07

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E	FY08E
Automobiles	81,309	(0.1)	25.6	353,728	428,160	10,427	(7.6)	19.4	47,475	58,823	7,521	0.2	19.2	31,337	37,600
Cement	31,882	4.0	32.5	146,012	186,212	9,215	(1.8)	96.7	42,052	57,951	5,951	(2.0)	129.7	23,300	32,044
Construction	33,625	(9.1)	10.8	159,543	193,691	2,144	(22.5)	25.9	13,916	17,051	1,811	(10.3)	30.1	10,709	12,871
Consumer goods	35,544	4.6	22.8	144,716	168,628	8,824	1.4	18.3	36,381	42,691	6,672	1.0	18.5	27,351	32,619
Metals	66,150	(1.5)	35.2	266,944	268,689	20,184	4.7	25.8	82,123	64,027	12,743	7.7	28.5	50,743	37,613
Oil & Gas	28,137	(1.0)	11.0	96,593	106,070	14,080	(8.9)	(1.6)	56,534	63,723	8,348	10.5	0.9	38,159	41,203
Petrochemicals	156,607	7.3	37.4	561,102	535,423	25,108	7.1	23.0	90,547	93,332	14,900	5.4	9.2	56,132	57,022
Pharmaceuticals	32,041	7.5	81.9	112,306	116,745	6,457	29.3	352.1	21,591	22,443	4,404	24.6	176.2	13,859	15,038
Power Equipment	11,694	(1.9)	33.1	62,632	78,430	1,597	(13.0)	23.7	12,191	15,406	1,260	(3.3)	38.4	8,222	10,370
Power Utilities	20,670	11.4	23.7	84,230	93,524	3,985	(8.0)	6.7	18,506	20,492	3,539	1.3	14.9	16,494	17,916
Software	58,818	2.5	46.2	237,087	305,324	16,462	6.3	44.7	66,290	82,733	13,846	9.0	47.4	55,586	68,554
Telecoms	36,406	(1.1)	47.9	148,260	187,275	14,074	0.3	131.8	55,112	76,109	7,482	6.6	336.1	26,333	37,972
				NII					Pre-provisioning profit					Profit After Tax	
Financial	44,595	(0.9)	24.5	185,857	226,509	36,835	10.8	38.4	148,043	178,590	18,296	7.4	17.6	75,578	95,604
Commodities	282,776	3.9	33.2	1,070,651	1,096,394	68,587	1.5	23.7	271,256	279,033	41,942	5.9	21.8	168,333	167,882
Non-commodities	354,701	0.8	32.5	1,488,360	1,798,287	100,804	4.3	47.3	419,505	514,338	64,831	5.9	42.2	265,469	328,546
Sensex	637,477	2.2	32.8	2,559,011	2,894,680	169,390	3.1	36.7	690,761	793,372	106,773	5.9	33.5	433,802	496,428

Source: SSKI Research

...as also SSKI Universe Q2FY07 earnings

- ✓ Compared to a robust 33.5% yoy rise in Sensex earnings, earnings of SSKI universe rose 45.8% yoy - is marginally ahead of expectations of 43.5% yoy
- ✓ Due to higher than anticipated inventory losses oil & gas earnings were lower than anticipated. Excluding oil and gas SSKI universe earnings growth at 36.5% yoy were significantly ahead of expectations (28.3%)
- ✓ Strong performance by alcoholic beverages, logistics, auto components, software and metal companies

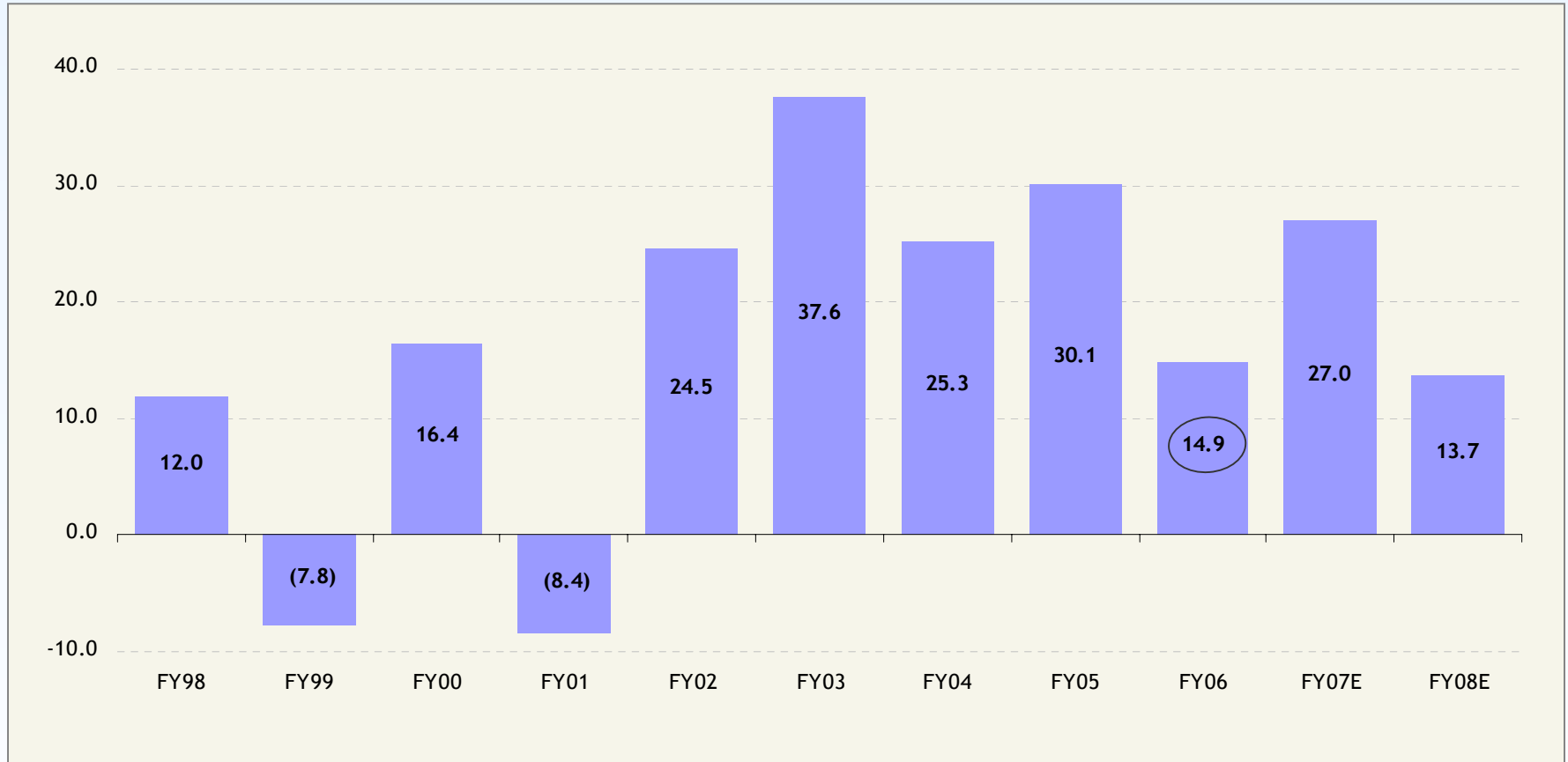
SSKI Universe quarterly earnings summary

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E	FY08E
Alcoholic Beverages	10,050	65.2	135.7	46,749	54,648	1,941	112.7	301.1	7,626	9,390	800	122.0	726.1	3,501	4,883
Auto Components	34,838	2.4	24.1	194,815	230,559	6,062	2.5	23.4	31,068	37,597	3,230	11.2	33.0	14,770	18,537
Automobiles	198,607	0.9	25.6	901,392	1,080,268	24,029	(5.0)	22.9	116,335	142,861	17,272	3.8	23.7	74,149	88,796
Cement	53,729	5.5	36.6	247,280	307,138	15,083	(4.3)	116.4	71,262	95,701	9,345	(4.6)	166.2	39,292	52,896
Construction	64,151	(5.3)	20.6	324,362	410,312	6,256	(6.8)	34.3	40,207	51,161	3,878	(7.1)	27.5	23,026	29,685
Consumer goods	91,442	4.8	22.0	361,903	412,455	19,565	2.5	19.7	78,429	91,235	14,304	1.5	17.9	58,115	69,509
Engineering	9,509	(5.5)	45.1	65,626	86,417	1,052	(4.8)	80.8	7,777	11,105	805	11.0	83.0	5,150	7,516
Logistics	9,025	1.2	31.6	36,598	44,178	2,634	15.9	43.2	10,059	11,769	1,951	22.5	54.2	7,291	8,636
Media	9,077	4.8	42.9	34,040	37,566	1,248	(8.1)	16.1	8,031	9,652	914	16.3	40.1	5,455	6,647
Metals	134,922	5.6	52.4	725,059	765,871	57,308	15.7	81.9	291,624	285,536	37,493	18.1	92.6	175,646	167,637
Oil & Gas	1,349,263	19.3	39.5	4,910,959	4,438,040	155,671	(23.0)	53.3	512,045	539,321	103,951	(8.6)	74.8	263,089	282,128
Others	69,101	13.6	38.0	316,978	395,167	9,044	(0.5)	(7.3)	52,332	71,965	5,068	13.0	20.9	23,486	28,435
Petrochemicals	315,220	8.6	38.5	1,123,648	1,077,398	52,020	7.0	26.0	181,636	183,579	30,600	5.0	14.9	112,782	111,355
Pharmaceuticals	71,017	4.9	55.6	260,392	289,526	15,599	13.7	101.0	56,002	63,764	11,482	10.6	65.5	40,044	46,928
Power Equipment	58,339	4.3	36.8	300,337	377,200	7,152	(6.6)	29.5	46,759	59,886	5,132	0.5	41.9	30,735	39,546
Power Utilities	101,391	2.2	19.2	493,822	547,283	20,959	(4.4)	13.6	111,274	122,893	16,910	1.6	15.3	84,558	90,016
Retail	15,060	0.5	51.6	80,239	114,064	1,270	(2.0)	22.1	6,432	9,211	864	16.5	51.2	3,663	5,421
Software	163,916	2.4	44.9	664,831	851,259	42,199	6.8	44.6	167,788	211,299	34,491	10.1	47.3	134,348	168,532
Telecoms	55,775	0.8	40.2	222,744	276,992	18,953	(2.2)	49.9	80,166	104,239	10,547	1.3	53.1	43,494	56,446
Textiles	18,961	9.2	16.3	81,566	95,756	3,694	7.2	12.0	15,603	19,824	1,230	0.3	(3.3)	6,675	7,975
	Nil					Pre-provisioning profit					Profit After Tax				
Financial	129,506	(3.9)	18.0	549,869	650,334	93,335	2.7	25.8	392,794	460,440	49,511	2.7	17.5	201,488	248,979
Commodities	1,853,134	15.8	40.1	7,006,945	6,588,447	280,082	(11.4)	54.5	1,056,568	1,104,138	181,389	(1.6)	66.3	590,808	614,016
Non-commodities	1,109,763	2.2	30.5	4,936,263	5,953,985	274,993	2.0	30.2	1,228,685	1,488,292	178,389	5.0	29.5	759,948	926,487
SSKI Universe	2,962,898	10.3	36.3	11,943,208	12,542,432	555,075	(5.2)	41.4	2,285,252	2,592,429	359,778	1.6	45.8	1,350,756	1,540,503

SSKI Research

Marginally upgrading our Sensex earnings

Sensex earnings growth (%)



Our Sensex earnings growth expectations remain largely unchanged

The earnings revision list

	EPS (Rs)			EPS upgrade/(downgrade) (%)		Comment
	FY06	FY07E	FY08E	FY07E	FY08E	
Bajaj Auto	111.1	123.4	143.3	-7.3	-6.4	Operating margins below expectations. Margin assumptions for FY07 and FY08 revised downwards
Hero Honda Motors	48.7	46.6	54.0	-3.5	-1.2	Operating margins below expectations. Margin assumptions for FY07 and FY08 revised downwards
Grasim Industries	98.7	194.2	235.7	2.0	4.6	Stronger than expected VSF performance
Larsen & Toubro	32.8	41.7	49.0	-4.4	-6.2	Better than expected performance of IT and Finance subsidiary
State Bank of India	83.7	91.9	112.1	-2.5	-3.3	Lower expectations of NII growth considering 1HFY07 performance
Reliance Industries	65.1	73.3	74.4	5.3	6.6	Better petrochemical margins
Dr Reddys Laboratories	8.9	44.6	34.3	27.0	(0.3)	Higher revenue & profitability of authorized generics
Ranbaxy Laboratories	6.1	13.3	18.3	(11.5)	(12.3)	Reduction in revenue growth estimates
Infosys Technologies	43.7	64.8	81.2	3.3	2.4	Good hiring coupled with guidance upgrade has led to earnings upgrade
Satyam Computer Services	14.7	20.1	24.2	3.7	3.7	Good hiring coupled with guidance upgrade has led to earnings upgrade

Sensex earnings driven by non-commodity stocks

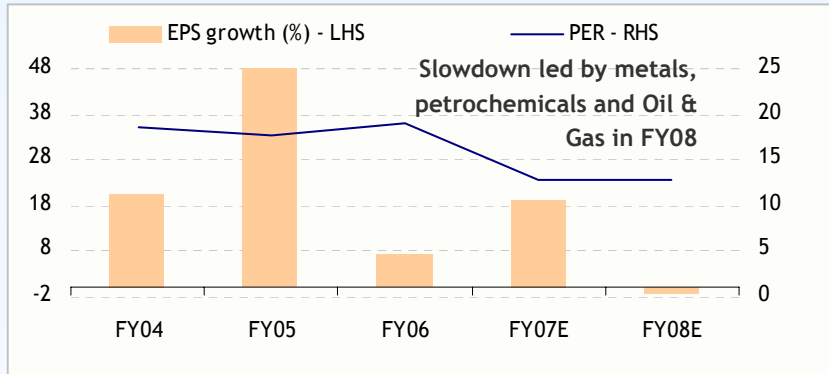
Sensex earnings growth

	EPS growth (%)				EPS CAGR (%)	PE (x)			
	FY05	FY06	FY07E	FY08E	FY06-08E	FY05	FY06	FY07E	FY08E
Automobiles	22.8	27.5	10.0	20.0	14.9	25.1	19.6	17.7	14.7
Financial	17.0	6.5	10.2	26.5	18.1	24.9	23.3	20.8	16.5
Cement	50.0	5.0	47.9	33.4	40.5	32.9	29.0	19.7	14.5
Construction	11.8	37.1	27.0	17.7	22.3	54.8	39.9	31.5	26.7
Consumer goods	(7.0)	20.3	20.2	19.3	19.7	40.6	33.7	28.1	23.5
Metals	200.4	3.5	17.5	(25.9)	(6.7)	9.3	8.8	7.2	9.8
Oil & Gas	53.2	10.8	19.8	8.0	13.7	12.9	11.7	9.8	9.0
Petrochemicals	47.0	19.8	12.5	1.6	6.9	23.2	19.4	17.2	17.0
Pharmaceuticals	(11.3)	(24.8)	121.3	8.5	55.0	40.7	54.2	24.4	22.5
Power Equipment	8.5	70.4	39.9	26.1	32.8	59.2	34.7	24.8	19.7
Power Utilities	8.6	19.9	15.6	8.6	7.0	21.8	18.3	14.6	13.5
Software	43.9	29.0	39.7	22.3	30.7	52.3	40.4	28.9	23.7
Telecoms	188.5	50.0	52.5	45.2	88.2	67.5	45.0	31.6	21.7
Commodities	72.4	7.5	19.3	(1.3)	8.5	17.6	19.2	12.9	12.9
Non-commodities	19.6	19.2	31.6	23.7	28.8	35.3	34.7	24.3	19.7
Sensex adj. FF	37.7	14.9	27.0	13.7	20.1	27.8	27.0	19.8	17.4

Earnings of non-commodity stocks expected to be on a HIGHER GROWTH TRAJECTORY over FY06-08

Decomposing Sensex earnings

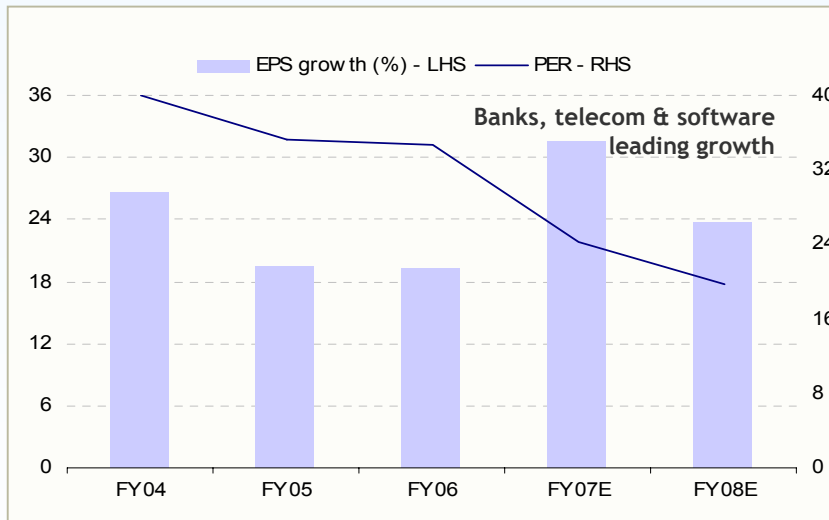
Sensex commodities EPS growth (%) and PER (x)



Commodity earnings growth to slow down...

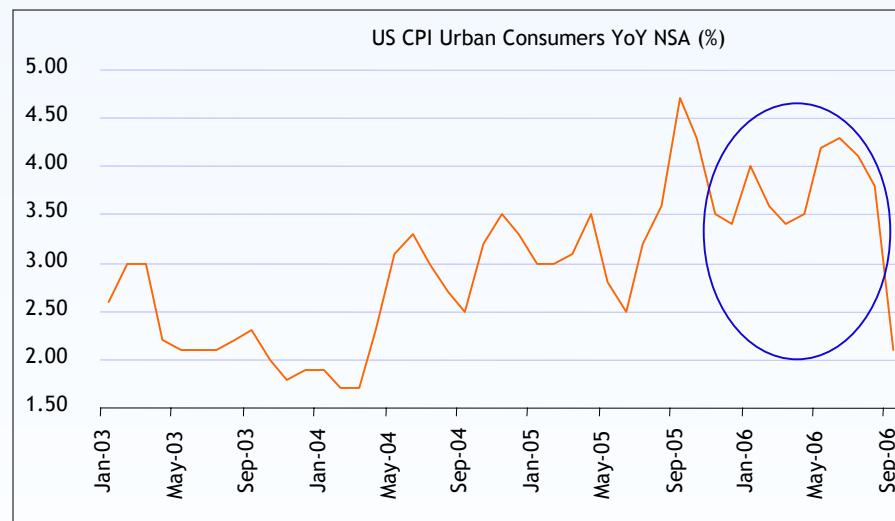
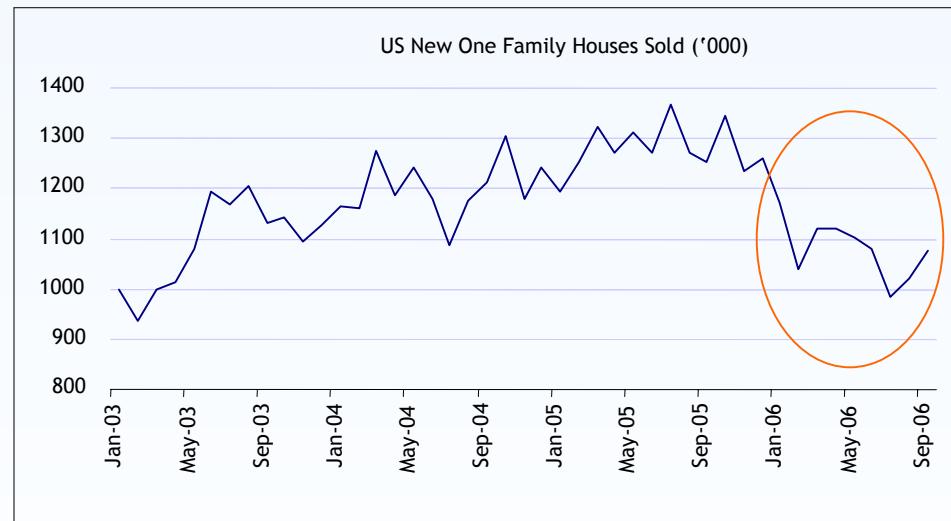
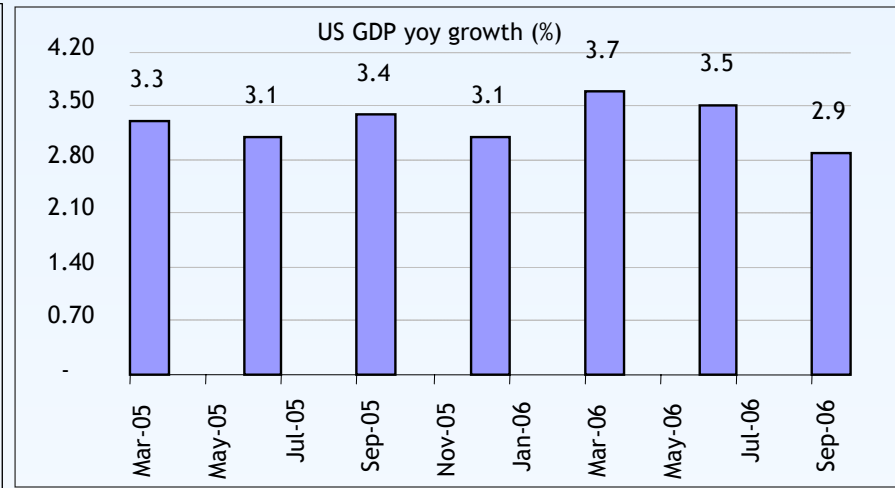
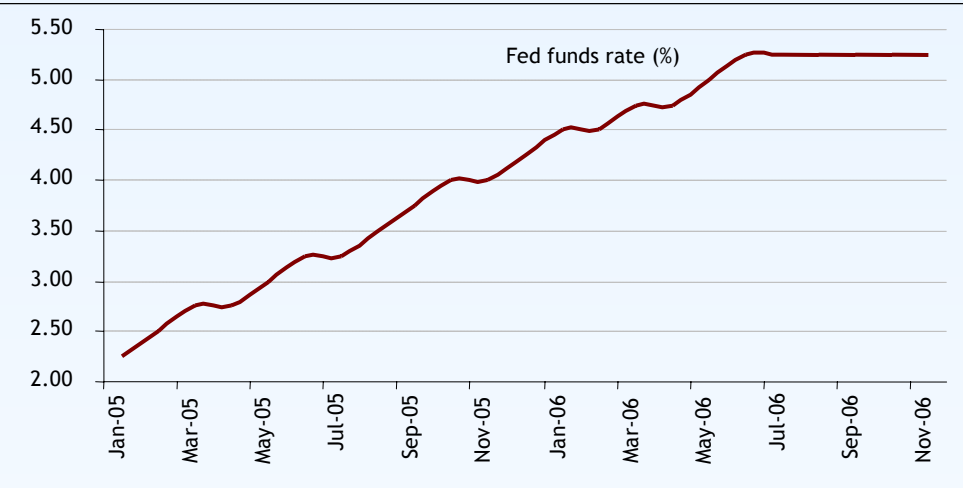
	EPS growth (%)				
	FY04	FY05	FY06	FY07E	FY08E
Cement	25.2	38.6	5.0	47.9	33.4
Metals	51.3	53.0	3.5	17.5	(25.9)
Oil & Gas	(10.6)	53.2	10.8	19.8	8.0
Petrochemicals	25.7	47.0	19.8	12.5	1.6

Sensex non-commodities EPS growth (%) and PER (x)



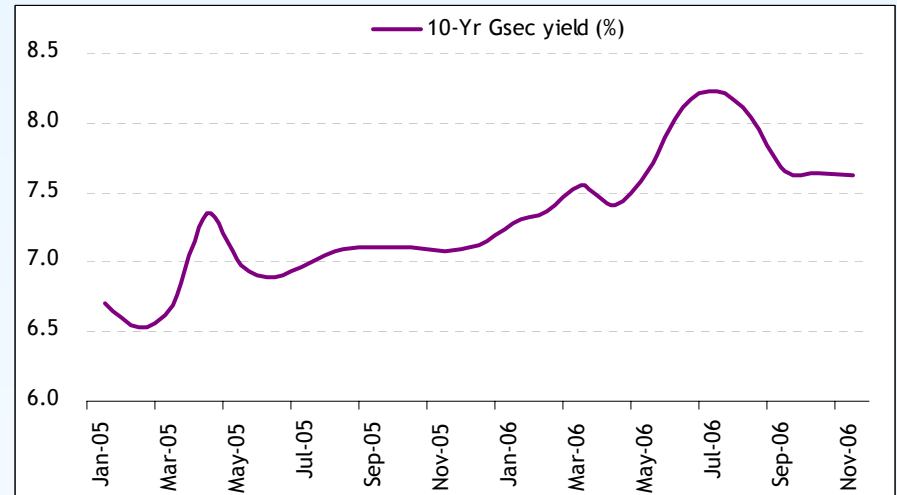
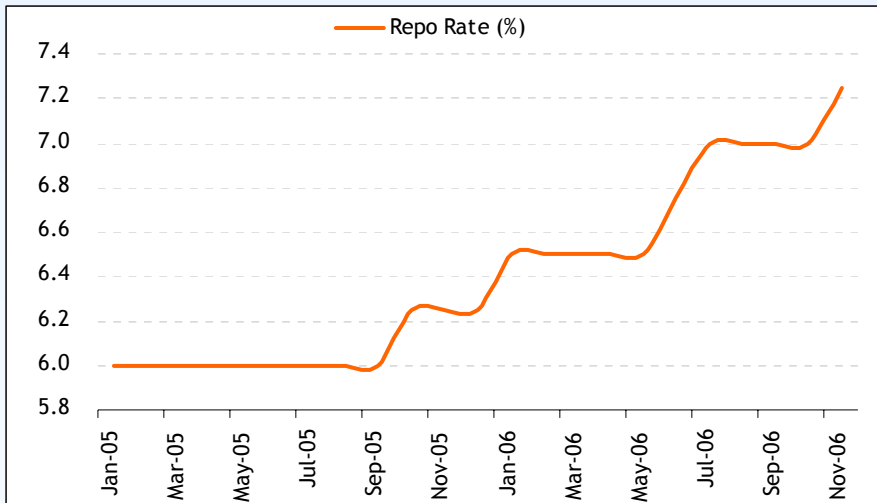
	EPS growth (%)				
	FY04	FY05	FY06	FY07E	FY08E
Automobiles	66.7	22.8	27.5	10.0	20.0
Financial	23.8	17.1	6.5	10.2	26.5
Construction	23.0	11.8	37.1	27.0	17.7
Consumer goods	9.1	(7.0)	20.3	20.2	19.3
Pharmaceuticals	10.0	(12.0)	(24.8)	121.3	8.5
Power Equip.	34.7	8.5	70.4	39.9	26.1
Power Utilities	13.4	6.4	19.9	15.6	8.6
Software	n/a	43.8	29.0	39.7	22.3
Telecoms	n/a	188.5	50.0	52.5	45.2

Fed pauses...



With signs of slowdown in the US economy and easing crude prices, the US Fed has paused the interest rate hikes;

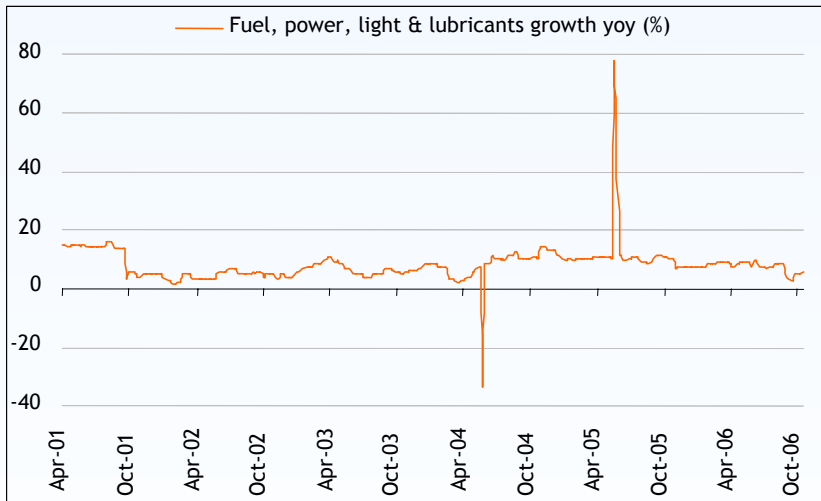
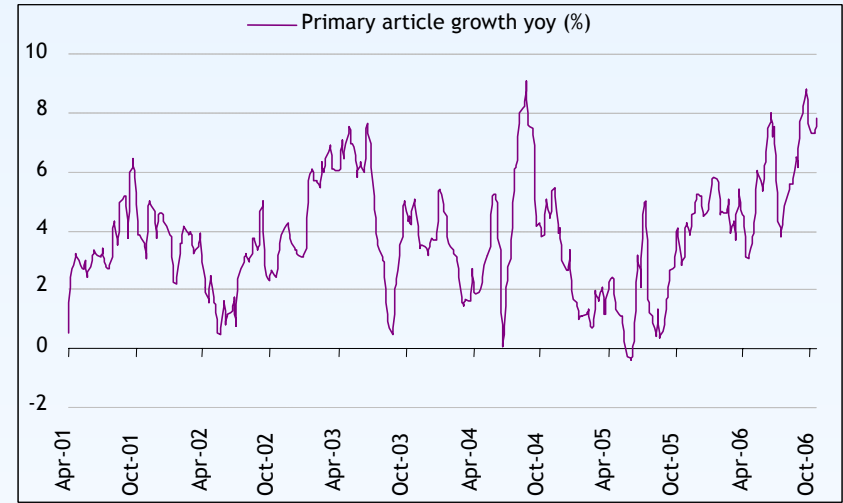
RBI has followed suit



- ✓ In its mid-term review of monetary policy, increased the Repo rate by 25 bps to 7.25%
- ✓ However, it kept all other key rates unchanged
- ✓ We believe the action is with a view to moderate in loan growth rather than bias towards overall rising interest rates

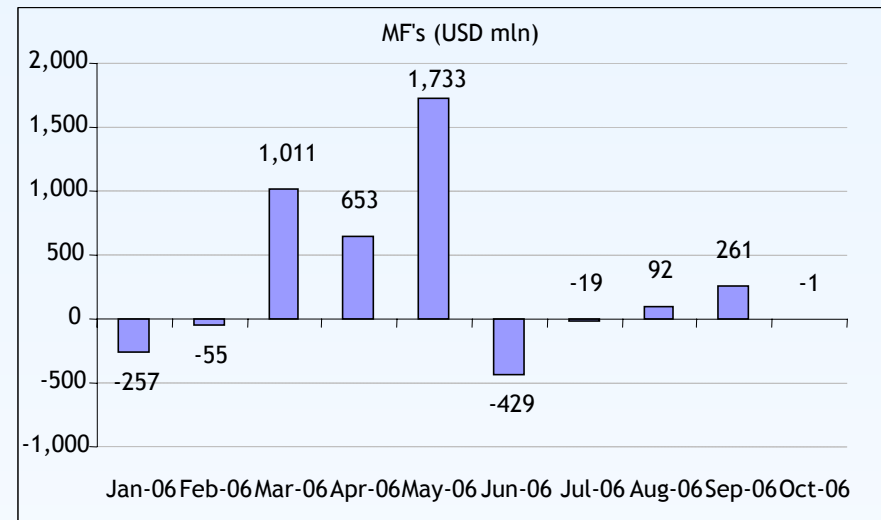
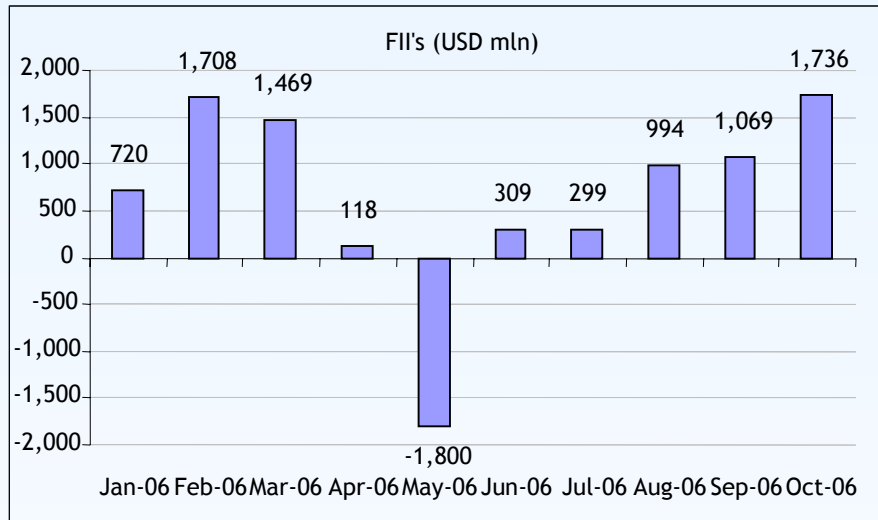
We do not see upside in interest rates in the near term

Upturn in domestic inflation..checked!



Rising domestic inflation (on the back of oil and food prices), reigned in by normal rainfall and government polices

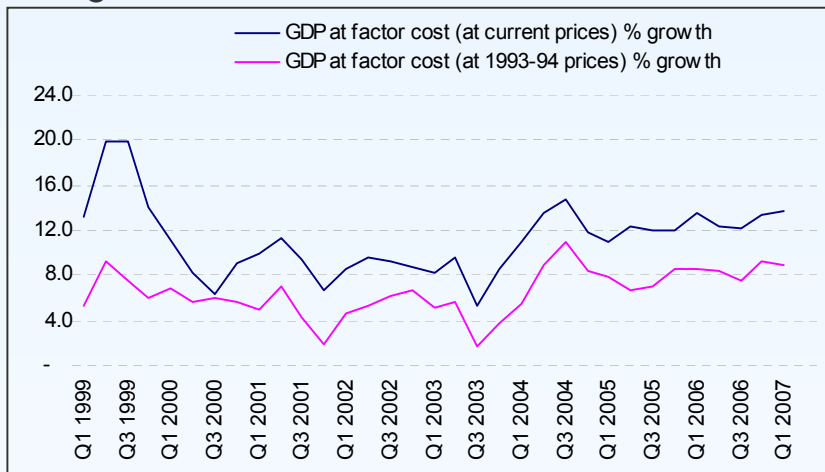
Increasing inflows



With the Sensex gaining 47.1% from its bottom, inflows have accelerated; especially foreign flows

Key growth indicators remain positive...

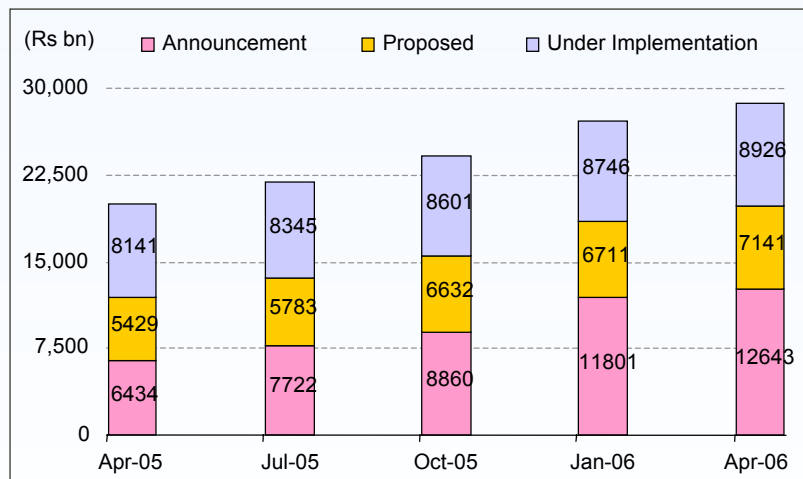
GDP growth has been robust....



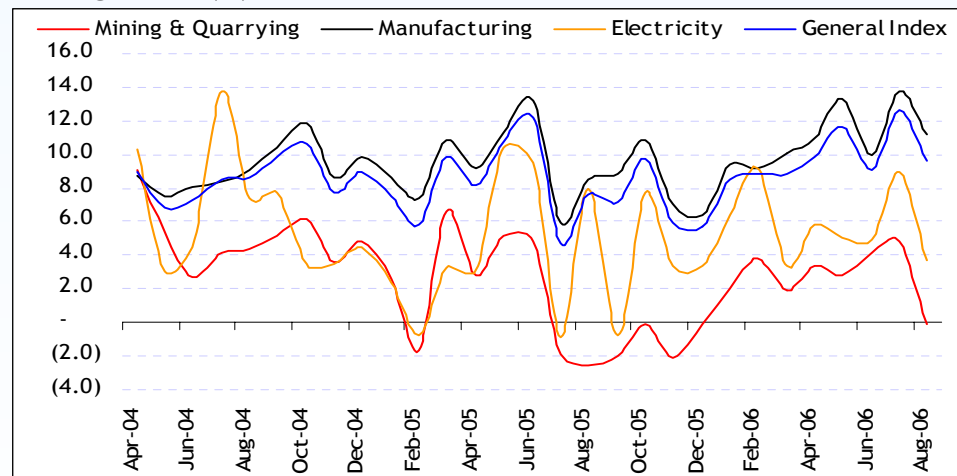
...will continue to be so

	FY05	FY06	FY07E
Agriculture, forestry & fishing	0.7	2.3	1.0
Mining & quarrying	5.8	1.0	6.5
Manufacturing	8.1	9.4	8.5
Electricity, gas & water supply	4.3	5.4	5.5
Construction	12.5	12.1	12.0
Industry*	8.6%	9.0%	9.0%
Trade, hotels, transport & communication	10.6	11.1	10.5
Finance, insurance, real estate & business services	9.2	9.5	9.5
Community, social & personal services	9.2	7.9	7.0
Services*	9.9%	9.8%	9.3%
GDP at factor cost	7.5%	8.1%	7.6%

Capex - rapid build-up



IIP growth (%)



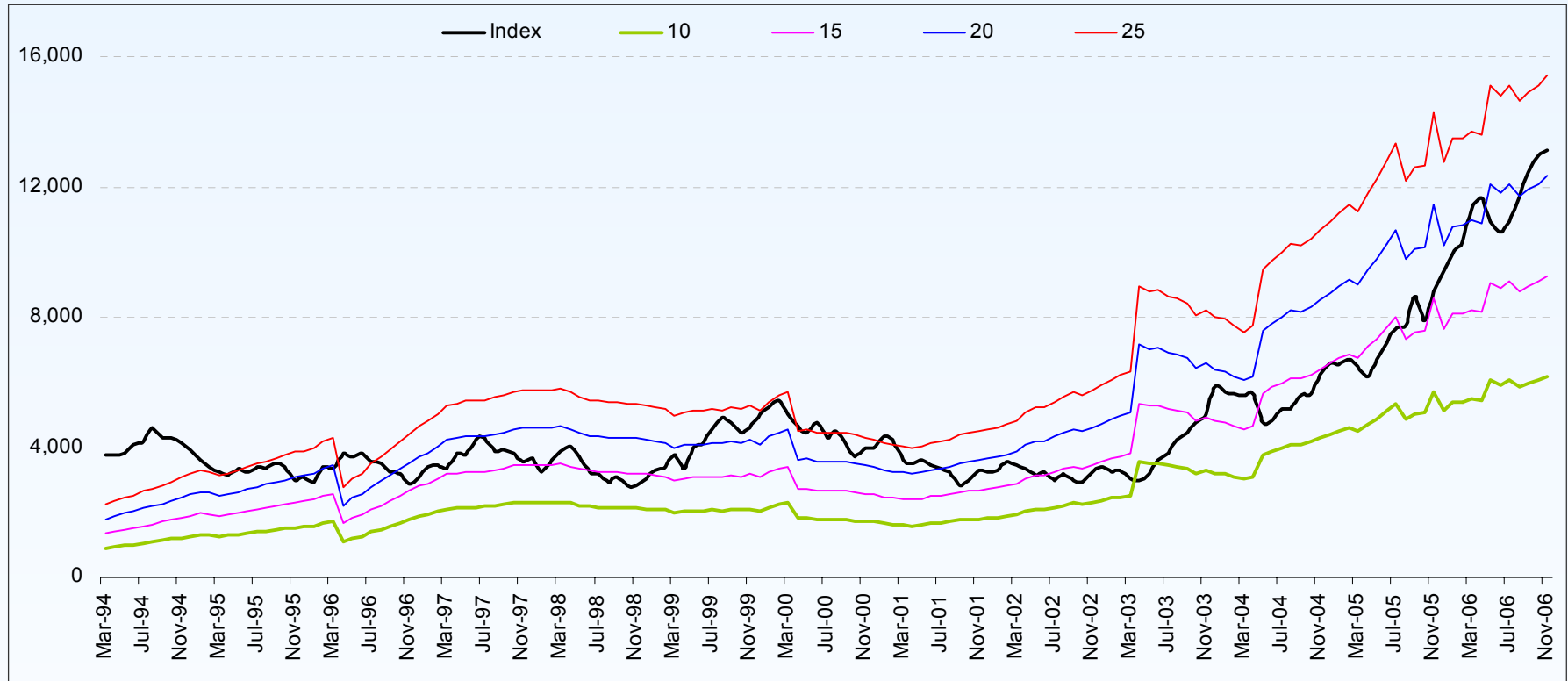
...and the long-term story is intact



Macro environment largely positive for long-term corporate earnings growth

Market to be range-bound with a positive bias

Sensex PER trading band (x)



- ✓ In October, we had upgraded our Sensex target to 12,500 to 13,400 (17-18x FY08E), based on a 50bps reduction in our cost of capital assumptions
- ✓ We maintain our rationale for Sensex target and marginally upgrade the range to 12,800 -13,600 factoring in earnings upgrade
- ✓ The Sensex currently trades at 17.4x FY08 earnings

With a Sensex target range of 12,800-13,600 we don't see significant upside from current levels

What are the medium-term risks?

Liquidity could dry up in the busy season, prompting a short-term spike in interest rates

We may not have seen the last of Fed hikes

A sharper-than-expected correction in commodity prices

Our sector stance

	Weights (%)										Model portfolio stocks
	Sensex	BSE100	Jan-06	Feb-06	Apr-06	May-06	Jun-06	Aug-06	Oct-06	Nov-06	
Auto/Auto components	7.6	6.7	8.0	8.0	8.0	8.0	8.0	6.0	8.0	8.0	Tata Motors, Mahindra & Mahindra, Bharat Forge
Banking	17.9	12.8	20.0	20.0	20.0	20.0	17.0	17.0	18.0	19.0	ICICI Bank, HDFC, Centurion Bank, SBI, Andhra Bank
Cement/Construction	5.6	3.5	10.0	10.0	12.0	12.0	8.0	8.0	8.0	9.0	Gammon, Jaiprakash Associates, Grasim
FMCG	9.4	6.7	8.0	8.0	8.0	6.0	9.0	9.0	9.0	9.0	ITC, Marico
IT	17.8	15.2	19.0	19.0	19.0	19.0	19.0	20.0	17.0	17.0	Infosys, Satyam, HCL Tech
Metals	4.8	6.2	3.0	3.0	3.0	5.0	4.0	4.0	-	-	
Oil & Gas	3.1	12.7	-	-	-	-	2.0	2.0	5.0	5.0	ONGC
Petrochemicals	11.0	7.9	5.0	5.0	8.0	8.0	7.0	7.0	5.0	3.0	Reliance Industries
Pharmaceuticals	3.9	4.6	5.0	5.0	3.0	4.0	5.0	5.0	4.0	4.0	Cipla, Glaxo Smithkline
Telecom	9.6	8.2	-	-	-	-	-	-	-	-	-
Capital goods	6.6	5.4	11.0	11.0	11.0	11.0	9.0	9.0	9.0	9.0	BHEL, L&T
Others	2.6	5.7	3.0	3.0	-	4.0	6.0	7.0	7.0	7.0	NTPC, Zee, TV18
Mid caps	-	4.5	8.0	8.0	8.0	3.0	6.0	6.0	10.0	10.0	United Phosphorus, Sintex, Jain Irrigation, Shriram Transport, JSPL
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

*Cutting weight on Reliance; increasing weight on Banks, Construction
Replacing Tata Tea with Marico; Bajaj Auto with M&M*

Top large caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	EPS (Rs)			EPS CAGR (%)	PER (x)			Comment
			FY06	FY07E	FY08E		FY06-08E	FY06	FY07E	
BHEL	2,384	583	68.6	96.0	121.1	32.8	34.7	24.8	19.7	Preferred capex play; strong pipeline; order backlog and operating leverage lend high visibility to earnings
Bharat Forge	376	88	11.3	14.7	19.9	32.9	33.3	25.5	18.9	Volumes likely to ramp up significantly from Q4FY07 onwards as new capacity becomes fully operational. Favorable changes in product mix - higher share of high margin non-automotive components. Expect 32% revenue CAGR, 33% earnings CAGR over FY06-08 for consolidated entity. Maintain Outperformer. Price target Rs408
Infosys	2,138	1,214	43.7	64.8	81.2	36.2	48.9	33.0	26.3	Strong visibility on growth going forward - reflected by the strong guidance of 45-46% growth in topline. At 36% EPS CAGR over FY06-FY08E and 100%+ RoCE (ex-cash), Infosys continues to be a preferred bet
ITC	187	702	6.1	7.3	8.8	20.2	30.8	25.6	21.3	Strong growth momentum and high cash generation in cigarettes to fund new businesses. Has appetite and willingness to stay invested in long gestation businesses like agri, hotel, food and paper. As ITC attains scale, significant scope for margin improvement in all businesses. We believe ITC is building multiple growth engines
Grasim Industries	2,695	247	98.7	194.2	235.7	54.5	27.3	13.9	11.4	Strong performance of the cement business, led by firm realisations and significant improvement in VSF margins on the back of increasing realisations. Current valuations are attractive, considering the strong earnings growth led by the cement and VSF businesses and the relative discount to peers like Gujarat Ambuja on EV / ton basis.

Top large caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	EPS (Rs)			EPS CAGR (%)	PER (x)			Comment
			FY06	FY07E	FY08E		FY06-08E	FY06	FY07E	
ONGC	870	1,861	74.4	89.3	96.3	13.7	11.7	9.8	9.0	Increase in ONGC Videsh's production along with restoration of Bombay High output will be a major positive driver going forward along with firm crude prices
ZEE	324	134	5.3	6.8	9.7	35.1	60.8	47.8	33.3	Zee scales up efforts on content enhancement. Results visible as Zee gaining significant rating points and has overtaken Star in prime time (9-10pm) band. Zee is also scaling up investment in distribution businesses (cable & DTH). Restructuring of business will also unlock significant value and help fund distribution business
Tata Motors	804	322	45.4	50.6	63.6	18.4	17.7	15.9	12.6	Strong volume momentum in both CV and PV segments. Operator profitability intact with freight rates remaining robust. Upgraded volume estimates for MHCV & LCV segment expect 26% revenue CAGR and 18% earnings CAGR. SOTP target price Rs939

Top large caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	PER (x)			P / Adj BV(x)			Comment
			FY06	FY07E	FY08E	FY06	FY07E	FY08E	
ICICI Bank	799	713	24.4	22.8	17.4	3.2	2.8	2.5	Largest retail lender; leadership enables it to pass on cost increases and protect margins; fee income among the best in industry. Proven track record of ramping up RoE post dilution, substantial value in subsidiaries
SBI	1,130	595	13.5	12.3	10.1	1.7	1.4	1.2	Play on Indian economy; enjoys pricing power in loan market. Scope for margin expansion with IMD deposits out of balance sheet. Substantial balance sheet liquidity in the form of excess SLR. Stable interest rates to help avert MTM losses

Top mid caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	EPS (Rs)			EPS CAGR (%)	PER (x)			Comment
			FY06	FY07E	FY08E		FY06-08E	FY06	FY07E	
Madhucon	321	12	10.6	18.3	31.6	72.4	30.2	17.5	10.2	Strong order backlog of Rs47bn (14x FY06E revenues) lends visibility to revenues and earnings over next 2- 3 years; trading at steep discount to peers after factoring in value of its attractive BOT portfolio
Jindal Steel & Power	2,001	62	186.0	239.2	252.0	16.4	10.8	8.4	7.9	Rapid change in business mix towards value added products, strong volume growth and continued cost competitiveness to keep profitability intact in steel business. Power business to contribute 33% to FY08 profitability, which should drive a strong re-rating
Sintex	182	22	9.3	12.3	14.5	24.6	19.5	14.8	12.5	Sintex offers strong growth visibility led by geographical expansion, new product introduction and penetration in existing clients. Acquisition, for which funds have been earmarked, would drive the next phase of growth

Top mid caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	EPS (Rs)			EPS CAGR (%)	PER (x)			Comment
			FY06	FY07E	FY08E		FY06-08E	FY06	FY07E	
Jain Irrigation	351	22	10.8	15.6	22.2	43.5	32.5	22.5	15.8	Rs615bn Micro Irrigation opportunity to drive sharp growth, well backed by strong momentum in every other business (pipes, plastic sheets, food processing); JISL in a rapid expansion phase (organic as well as inorganic route)
Ashapura Minechem	221	9	24.6	34.6	38.8	25.7	9.0	6.4	5.7	With 100m tonnes of bauxite reserves and an 8% share of the global trading market, Ashapura is a perfect play to ride the expected demand surge for bauxite. Ashapura not only dominates the existing business space with pricing power, but is also adding new growth avenues. The company is entering into new minerals (Kaolin) and setting up a 1m tpa (500,000 tonnes in the first phase) alumina refinery to be operational in 2009. Attractive valuations.
Amtek Auto	330	45	20.5	25.9	30.3	21.6	16.1	12.7	10.9	Rapidly acquiring scale through acquisitions in forging and machined components space. Company has initiated the process of reducing costs at its overseas subsidiaries by outsourcing work to Indian entities. 22% CAGR in consolidated earnings. Stock highly undervalued at 10.9x FY08E consolidated earnings.
United Phosphorus	288	54	12.0	17.6	22.8	37.6	24.0	16.4	12.6	Strong growth in generic agrochemical markets; management consistently acquiring new registrations through inorganic route; entry into the highly profitable seeds business

Top mid caps buys

Companies	Price (Rs)	Mkt Cap (Rs bn)	PER (x)			P / Adj BV(x)			Comment
			FY06	FY07E	FY08E	FY06	FY07E	FY08E	
Centurion Bank of Punjab	27	49	44.8	34.3	22.8	4.1	2.9	2.6	Expertise in high yielding retail, SME lending and wealth management to provide multiple growth drivers. Excellent management quality with proven track record of turnaround and scale up. Ideally placed to become consolidator in the banking system
M&M Financial	243	21	15.9	15.6	12.5	3.2	2.8	2.4	Play on India's rural economy. Will become diversified financial services provider in rural India. Distribution of insurance and MF to drive fee income. Competent management with sound experience of operating in rural India
Shriram Transport	116	20	12.1	10.8	8.7	2.3	2.0	1.6	Huge potential in pre-owned CV financing. Shriram is the largest organized sector player in it. Origination, valuation of pre-owned trucks and high collection efficiency are key strengths. Adequately capitalized to capture growth potential

Sector-wise earnings review (Q2FY07)

Q2FY07 earnings review

Agri related

- ✓ Jain Irrigation Systems Limited
 - JISL continued to report sharp revenue growth of 46% at Rs2.26bn, with MIS business growing at 78%, fruit processing at 112% and vegetable dehydration 95%
 - Margins expanded by 170bp on account of improved product mix
 - Besides sustained momentum in JISL's continuing business, we also expect JSIL to make few more acquisitions in the global market
 - Reiterate Outperformer
- ✓ Ruchi Soya
 - For the first time, Ruchi Soya reports consolidated results (except for Param industries)
 - Ruchi Soya has reported Rs15.5bn of revenues with manufactured portfolio accounting for 70% of the revenues
 - Branded portfolio for H1FY07 stood at Rs8.8bn (~30% of the revenues)
 - EBITDA for the quarter stood at 3.14% and PAT stood at Rs187m
 - Reiterate Outperformer

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Jain Irrigation Systems Ltd	2,263	4.0	45.5	12,021	15,380	404	9.6	61.6	2,106	2,791	163	1.9	103.0	960	1,365
Ruchi Soya	15,554	44.9	62.3	81,664	87,502	489	47.4	86.2	2,665	2,959	187	53.5	92.7	1,051	1,306

Q2FY07 earnings review

Alcoholic beverages

- ✓ Alcoholic beverages witnessed sharp growth on the back of easing regulatory framework in North Indian states. Beer industry in particular has grown at 38%
- ✓ United Spirits reported consolidated numbers excluding SWDL
- ✓ USL (erstwhile McDowell) has grown on the back of 15% volume growth of the lead brands and has seen sharp margin expansion of 840bp
- ✓ USL has entered into JV with Russian Vodka brand - Russian Standard
- ✓ UB's 'Kingfisher Strong' grew by 48%, while mild segment grew at 22%
- ✓ Radico is also ramping up its portfolio through new launches like vodka brand 'Magic Moments' and JV with Diageo
- ✓ Initiated coverage on Wine industry including Champagne Indage
- ✓ Top pick: McDowell, Champagne Indage

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Company	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E	FY08E	Sep-06	% var	% chg yoy	FY07E
McDowell & Co	7,535	63.2	147.7	30,370	35,181	1,614	133.1	372.3	4,496	5,515	668	146.3	1,088.2	1,802	2,687
Radico Khaitan	1,391	(8.0)	10.3	6,589	7,803	195	(22.3)	10.5	1,137	1,391	105	(9.9)	21.8	626	748
United Breweries	2,515	71.5	105.8	9,942	12,474	327	48.5	129.9	1,829	2,401	132	48.0	224.9	929	1,325

Note: McDowell reported consolidated numbers excluding Shaw Wallace

UB reported consolidated numbers

Q2FY07 earnings review

Auto

- ✓ Strong 26% top line growth (in line) for the auto universe led by strong volume growth
- ✓ Margin disappointment by Bajaj Auto, Ashok Leyland
- ✓ Positive margin surprise by M&M led by strong revenue growth, product mix
- ✓ Tata Motors' margins impacted by one-offs, recovery likely going forward
- ✓ Bajaj Auto's margins likely to be capped at current levels
- ✓ Top picks - M&M & Tata Motors. Bajaj Auto downgraded to Neutral.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Ashok Leyland	16,757	0.9	34.0	64,141	73,734	1,350	(18.5)	16.1	5,803	6,998	984	0.8	28.2	3,611	4,123
Bajaj Auto	24,360	(1.6)	30.5	96,136	114,326	3,652	(13.2)	15.7	15,010	18,019	3,315	(0.5)	14.0	12,482	14,498
Hero Honda	22,300	(0.3)	2.9	98,258	110,058	2,835	(4.7)	(15.0)	12,863	14,842	2,160	4.8	(9.2)	9,302	10,764
Mah. & Mah	24,501	5.4	28.0	159,726	190,131	3,292	16.7	50.9	22,989	27,652	2,472	33.3	57.2	12,906	15,429
Maruti Udyog	34,192	(1.4)	12.5	142,290	169,189	4,756	(3.0)	36.0	19,905	23,668	3,674	3.2	39.9	14,422	16,935
Tata Motors	65,718	1.1	37.4	300,647	375,712	7,584	(6.9)	31.7	37,623	48,869	4,419	(2.4)	30.4	20,298	25,493
TVS Motor	10,779	5.4	36.6	40,194	47,119	560	(5.0)	21.9	2,142	2,813	248	(24.1)	(22.3)	1,127	1,554

Q2FY07 earnings review

Auto ancillaries

- ✓ Positive surprise by Amtek Auto, Sundram Fasteners & MICO
- ✓ Bharat Forge & Omax Auto results in line with expectations
- ✓ Balkrishna's margins impacted due to usage of higher priced raw material inventory
- ✓ Exports, margin disappointment by RICO Auto, downgraded to Underperformer
- ✓ Margins for auto component universe likely to remain under pressure going forward
- ✓ Price target achieved for Sona Koyo, downgraded to Neutral
- ✓ Top picks - Bharat Forge & Amtek Auto

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Amtek Auto	2,363	(4.5)	14.2	36,904	42,452	727	(4.3)	18.0	6,842	7,983	509	12.1	41.7	3,571	4,174
Apollo Tyres	7,673	(3.6)	21.3	31,753	37,246	597	(6.2)	0.5	2,757	3,311	194	(7.1)	(12.1)	914	1,189
Balkrishna Ind.	2,103	7.3	55.0	8,379	10,479	373	(9.9)	21.6	1,714	2,283	178	(13.2)	15.8	835	1,171
Bharat Forge	4,507	(0.2)	19.7	43,142	52,346	1,177	6.6	21.2	7,286	9,133	622	(2.3)	20.1	3,458	4,680
MICO	10,132	8.6	27.5	38,439	46,063	2,195	9.5	26.4	8,274	9,862	1,257	28.9	48.8	4,410	5,123
Omax Autos	1,686	(0.4)	12.1	6,954	8,422	167	(0.6)	44.5	682	831	58	(2.0)	22.2	234	304
Rico Auto Ind.	1,860	(1.2)	14.1	8,928	10,588	180	(21.8)	(0.9)	1,193	1,443	98	6.0	(10.6)	409	517
Sona Koyo	1,385	17.1	65.6	5,346	6,874	133	(7.9)	53.3	555	895	60	(1.2)	59.6	235	375
Sundram Fast	3,129	3.2	18.7	15,868	18,773	514	13.9	68.9	1,963	2,380	254	18.5	85.4	906	1,133

Q2FY07 earnings review

Cement

- ✓ Cement companies in our universe (except Grasim) reported lower than estimated earnings in Q2FY07, mainly on account of higher expenses:
 - Higher one-time repairs and maintenance expenses in case of ACC and UTCL
 - Higher power and fuel expenses in case of GACL
- ✓ Grasim reported higher than estimated earnings on account of strong performance of its VSF division
- ✓ Cement companies' revenues were up 36.6% on account of a robust 30-35% yoy increase in cement realisations during the quarter
- ✓ Net earnings (pre-exceptional) of our cement universe increased by 166.2% during the quarter
- ✓ We remain Overweight on the sector with Grasim and UltraTech as top picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
ACC *	13,735	6.1	36.7	54,751	63,028	3,660	(7.6)	161.3	15,097	18,464	2,244	(9.5)	173.0	9,759	11,352
Grasim Industries	20,108	3.4	22.7	128,015	145,208	5,322	5.3	65.4	35,938	43,520	3,378	8.6	80.0	17,807	21,612
Guj. Ambuja ®*	9,841	2.9	50.3	18,015	45,423	3,556	(5.8)	108.8	6,607	16,636	2,449	(8.0)	201.7	4,501	10,571
UltraTech CemCo	10,045	12.1	58.3	46,498	53,480	2,545	(14.2)	291.9	13,620	17,081	1,274	(17.4)	NA	7,224	9,362

* FY07E is an 18 month period ending Dec 31 2006

® Year end Dec 31

Q2FY07 earnings review

Construction

- ✓ Construction companies reported strong revenue growth of 21% yoy for the quarter, driven by strong order backlog of 3-4x FY06 annual revenues
- ✓ Operating margins of construction companies improved on yoy basis as the impact of higher raw material prices was compensated by cost escalation clauses and projects crossing the profit booking threshold limit
- ✓ Earnings (pre-exceptionals) grew by 28% yoy due to higher than expected margin improvement and strong revenue growth
- ✓ We maintain our Overweight stance on the sector with Jaiprakash, HCC and Madhucon as top picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Gammon India Ltd	3,793	(8.6)	31.2	18,967	26,130	418	15.1	(6.6)	1,711	2,409	262	30.9	5.7	1,039	1,501
Hindustan Construction	4,203	21.1	39.2	26,872	36,284	395	42.2	55.1	2,425	3,357	42	(29.0)	18.2	1,143	1,744
IVRCL Infrastructures	3,644	5.2	42.0	21,656	30,074	315	1.0	49.7	2,073	2,883	156	(12.6)	39.3	1,347	1,920
Jaiprakash Associates	7,700	(4.1)	14.6	42,000	49,237	1,980	2.7	42.4	14,821	18,243	900	(12.9)	4.7	5,178	6,660
Larsen & Toubro	37,361	(9.1)	10.8	177,270	215,213	2,382	(22.5)	25.9	15,462	18,946	2,012	(10.3)	30.1	11,899	14,301
Nagarjuna Construction	6,517	(0.6)	77.0	29,558	39,950	618	(0.8)	63.0	2,669	3,578	393	(1.2)	88.1	1,745	2,392
Madhucon Project	934	(2.0)	54.3	8,039	13,425	149	13.4	74.3	1,046	1,745	113	86.6	252.5	676	1,166

Q2FY07 earnings review

Engineering

- ✓ AIA Engg- Margin improvement continues unabated on the back of improving product mix
- ✓ Elecon- strong all round performance with material handling division leading the charge
- ✓ Carborundum- growth momentum continues across divisions driven by strong demand from all verticals
- ✓ Voltas - sedate quarter as Electromechanical division revenues fail to reach billable position
- ✓ BILT- improved realizations coupled with robust demand drives earnings growth

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
AIAE	1,311	12.2	n/a	5,339	8,414	331	18.1	n/a	1,157	1,915	244	22.1	n/a	826	1,401
Carborundum Universal	1,145	(5.4)	22.6	6,556	8,600	235	(7.6)	21.7	1,369	1,885	157	(1.3)	35.3	797	1,119
Elecon Engineering	1,755	18.2	85.3	6,907	9,314	285	34.5	135.7	929	1,330	163	58.2	185.8	479	750
Voltas	5,299	(14.5)	13.4	25,819	33,588	201	(43.9)	(24.9)	1,834	2,533	241	(8.4)	(9.7)	1,411	1,972
BILT	5,270	3.9	20.9	19,287	20,349	1,308	7.5	14.2	5,460	5,953	583	11.2	31.8	2,350	2,487

Q2FY07 earnings review

Financials

- ✓ Differentiation in margin behavior of PSU banks based on loan growth
- ✓ Banks going for high loan growth suffering margin pressure
- ✓ Deposit repricing happening faster than expected
- ✓ Encouraging other income growth driven by fees and recoveries
- ✓ Marked increase in credit provisioning of private banks (HDFC and ICICI) - early warning or prudent provisioning??. Jury is not yet out.
- ✓ Which ones we like - Banks having either pricing power / strong deposit franchisee / sensible loan growth strategy
- ✓ Top picks: ICICI, Centurion Bank of Punjab, PNB, SBI and Andhra Bank.

Q2FY07 earnings review

Financials (Contd)

(Rs m)	NII					Pre-Provisioning Profit					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Allahabad Bank	3,899	(6.4)	6.1	18,273	21,202	2,542	(9.4)	(9.5)	11,147	12,969	2,100	1.7	24.8	7,569	8,870
Andhra Bank	3,309	(5.2)	14.7	13,443	15,940	2,231	(0.0)	11.3	8,433	10,049	1,464	(7.5)	10.2	5,645	6,712
Bank of Baroda	8,908	(4.8)	13.9	37,503	42,911	6,157	5.2	24.3	22,186	26,186	2,884	(6.9)	11.3	10,587	13,110
Canara Bank	9,811	(1.0)	21.6	40,920	47,130	6,152	(2.6)	5.9	27,673	32,055	3,618	(0.4)	18.0	15,506	19,182
Centurion Bank Ltd	1,351	(1.6)	43.5	6,055	7,574	623	(10.2)	130.0	2,952	4,605	311	(5.0)	48.9	1,312	2,204
Corporation Bank	3,167	(12.7)	3.3	13,668	15,958	2,357	(11.6)	(10.7)	9,583	10,991	1,270	0.1	20.3	4,963	6,096
HDFC Bank Ltd	8,456	(2.6)	38.1	32,620	39,076	6,642	1.9	41.1	26,946	34,150	2,629	1.8	31.7	11,347	14,791
HDFC	3,973	(6.9)	21.0	17,815	22,167	4,751	2.0	22.6	19,002	22,757	3,680	2.6	23.1	15,002	17,966
ICICI Bank Ltd	16,710	6.8	42.4	70,490	92,341	16,119	22.1	54.4	60,977	75,749	7,550	4.4	30.2	31,230	41,053
IDBI	1,349	(5.6)	NA	7,740	11,907	1,332	(42.8)	6.7	8,776	11,055	1,394	(16.8)	5.7	6,973	8,336
M&M Finance	1,187	10.1	28.9	4,934	6,484	758	11.9	17.6	3,230	4,257	303	13.5	8.4	1,343	1,668
PNB	13,628	(3.5)	14.4	54,398	62,046	8,888	(2.4)	30.0	38,236	41,124	5,050	(8.3)	19.7	17,444	21,046
State Bank of India	38,987	(5.6)	8.1	162,751	184,349	24,726	4.8	24.7	107,571	122,311	11,845	18.1	(2.5)	48,376	58,998
Syndicate Bank	4,846	(13.6)	1.0	20,840	23,015	3,031	(1.1)	40.0	11,908	12,411	2,051	4.7	17.1	6,832	7,269
Union Bank of India	6,275	(11.0)	4.2	26,437	30,457	4,283	(1.8)	19.9	17,136	19,206	1,942	(2.4)	217.8	9,141	11,245
UTI Bank	3,652	0.6	43.0	15,268	18,907	2,745	(1.3)	16.3	12,940	15,150	1,420	0.6	30.2	6,361	7,993

Q2FY07 earnings review

FMCG

- ✓ Consumer space witnesses strong growth (22%) on the back of volume offtake, price hikes and series of acquisitions
- ✓ ITC led with 32.3% growth, cigarettes grew at 14% (~8% volume growth) and 50% growth in non-cigarettes portfolio
- ✓ HLL reported 12% revenue growth with soaps and detergents growth at 12% and personal products at 17%
- ✓ increasing inflationary cost pressure on margins, but partly offset by lowering ASP spends (Colgate, Dabur, GCPL) - EBITDA margins at 21.4% (down by 40bp)
- ✓ GCPL - downgrade to Neutral - EPS downgrade of by 9% for FY07 and FY08 on the back of slower growth in hair colour and cost pressure in soaps business
- ✓ Tata Tea - Rating under review
 - ✓ We continue to like Tata Tea's directional move to become global beverage play
 - ✓ Difficult to evaluate financial merit in acquisition - ambiguity over operational and financial details of Energy Brands (acquired for 75% of own market capitalization)
- ✓ Top pick: ITC, while Neutral on HLL

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Colgate-Palmolive (India)	3,200	(2.5)	15.1	12,964	14,450	608	20.3	40.9	2,377	2,711	232	(39.8)	(24.9)	1,977	2,327
Dabur India Ltd	5,641	4.5	20.7	21,645	24,644	973	(2.1)	22.5	3,541	4,161	787	(0.5)	25.4	2,869	3,450
Godrej Consumer	2,318	6.9	47.6	9,459	10,835	397	2.1	46.5	1,765	2,062	310	(2.0)	11.5	1,475	1,800
Hindustan Lever	30,660	0.2	12.2	122,657	135,287	4,029	0.4	17.0	17,837	20,598	3,830	0.3	17.7	16,323	19,093
ITC	28,876	8.1	32.3	119,125	144,264	9,727	1.7	18.7	39,232	46,274	6,796	1.3	18.7	27,414	32,961
Marico Industries	3,780	6.6	36.4	15,077	16,975	605	19.4	95.9	2,132	2,516	306	8.7	53.4	1,147	1,680
Nestle India	7,227	4.2	15.7	27,863	31,231	1,425	3.2	11.4	5,515	6,495	830	(0.4)	11.2	3,472	4,357
Tata Tea	9,740	12.7	25.1	33,114	34,769	1,801	4.2	11.5	6,029	6,418	1,214	26.3	22.1	3,438	3,842

Q2FY07 earnings review

Logistics

Concor

- ✓ Net sales grew by 31% yoy driven by strong volume and realization growth as Concor passed on the hike in freight rates and maintenance charges of wagons to clients
- ✓ EBITDA margins improved by 290bps as Concor was able to pass on the entire freight hike by Indian Railways
- ✓ Consequently earnings grew by 55% during the quarter, sharply higher than our estimates.

Gati

- ✓ Revenues to grow by 33% yoy driven by growth in express cargo distribution as well as shipping division
- ✓ However, operating margins fell by 40bps due to higher fixed costs of shipping division
- ✓ Net earnings witnessed a strong growth of 29% yoy during the quarter

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Container Corporation	7,693	(1.6)	31.3	31,573	37,228	2,522	16.3	44.0	9,562	11,003	1,895	23.0	55.1	7,021	8,197
Gati	1,332	20.9	33.0	5,025	6,949	112	8.8	26.4	497	767	56	6.9	28.6	270	439

Q2FY07 earnings review

Media

- ✓ Ahead of estimates, broadcast space grew at 38%, led by Zee and TV18
- ✓ Zee's revenues grew at 38% on the back of improved content, aided by cricket revenues. However, cricket losses of Rs622m led to PAT decline of 21% at Rs333m
- ✓ Restructuring of Zee has been delayed to January 2007
- ✓ TV18 reported 70% growth in revenues, including ~Rs60m of revenues from Awaaz. Internet venture continues to grow multifold - Rs57m of revenues during the quarter
- ✓ TV18 has announced 24th November 2006 as record date for restructuring
- ✓ NDTV plans to restructure its business and fund its various new ventures - entertainment and lifestyle channels, internet venture, MPO, global consulting, etc.
- ✓ ENIL has reported Rs411m of revenues (yoy growth of 48.6%) with same station growth at 21%
- ✓ We remain bullish on the broadcast space - Zee TV, TV18 and NDTV

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
HT Media	2,575	2.8	32.6	10,231	11,713	552	2.1	139.4	2,392	3,005	268	1.3	231.8	1,404	1,806
New Delhi TV	542	(1.2)	28.4	2,826	3,773	(37)	(433.3)	(222.3)	506	708	(56)*	(280)	(991)	320	490
ENIL	411	5.3	48.6	2,383	3,501	85	(5.6)	17.6	547	841	49	40.9	16.1	325	554
T.V. Today	381	5.4	21.2	1,769	1,950	61	50.1	7.1	501	574	33	63.2	38.4	282	342
Television 18	530	20.8	69.7	2,195	NA	249	2.2	44.2	956	NA	162	11.0	41.9	651	NA
Zee Telefilms Ltd	4,638	4.8	38.1	17,019	20,130	339	(21.7)	(42.1)	3,676	5,365	333	(0.3)	(21.6)	2,797	4,009

* Adjusted PAT

Q2FY07 earnings review

Metals

- ✓ Strong net profit growth led by sharp jump in realizations in non-ferrous and cost efficiencies in the steel segment
- ✓ Continued improvement in copper business profitability was the key highlight of Hindalco's results. We however, believe valuations for Hindalco are fair and hence have downgraded the stock to NEUTRAL.
- ✓ Hindustan Zinc - strong 562%yoy growth in profits. A confluence of volume growth, sharp jump in realizations and sale of concentrates led to better than expected profit growth.
- ✓ Jindal Steel & Power were broadly inline with our estimates. After a maintenance shutdown in last quarter, rail mill is back on track—ahead of schedule. Expansion in steel and power are on track. JSPL remains our top pick in the sector
- ✓ Tata Steel results were ahead of estimates on account of lower costs, better margins in Ferro alloy business and higher treasury income.
- ✓ Nalco's results were also higher than estimates on account of better realizations in alumina. Realizations likely to come off sharply in the ensuing quarters. We maintain SELL on NALCO

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Hindalco Industries	46,342	(1.0)	74.2	198,134	210,383	9,864	6.8	102.2	40,581	30,325	5,976	6.5	116.1	23,026	17,679
Hindustan Zinc Ltd	24,410	37.7	269.8	74,462	94,265	18,560	41.2	535.6	56,265	70,238	12,980	40.9	562.2	41,444	53,261
Jindal Steel & Power	7,896	22.8	27.1	41,287	46,765	3,085	9.0	18.5	13,573	15,617	1,572	5.6	8.0	7,368	7,761
NALCO	14,416	2.6	37.7	53,819	41,980	8,751	11.3	90.7	31,489	18,815	5,950	13.1	110.2	19,138	9,969
TISCO	41,858	(2.0)	8.3	157,791	147,869	17,048	3.6	3.2	68,916	55,044	11,015	8.4	5.4	44,631	32,472

Q2FY07 earnings review

Midcaps (Ashapura Minechem)

- ✓ Ashapura reported another quarter of steady growth. Ashapura posted a topline of Rs2.5bn (up 37%yoy) for Q2FY07, EBITDA of Rs324m (up 18%yoy) and net profit of Rs214m (up 19%yoy). The numbers were marginally below our expectations.
- ✓ While topline growth has been driven by higher alumina trading, bauxite export revenues were impacted by deferment of 3-4 bauxite shipments from Gujarat due to ports being closed for 3-4 days in the wake of a cyclone threat. However, this is only a deferment to Q3FY07.
- ✓ The company has witnessed an improvement in the quality of its earnings, which is the highlight of the quarter's performance. EBITDA growth was driven by businesses excluding alumina trading. On the back of a surge in margins, EBITDA (excluding alumina trading) jumped to Rs307m (up 50% yoy).
- ✓ Margins in alumina trading fell due to a sharp decline in alumina prices and alumina trading EBITDA declined from Rs72m in Q2FY06 to Rs21m. For 1HFY07, the company has posted a PAT of Rs561m - up 62%yoy.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Ashapura Minechem	2,510	(5.3)	37.3	13,392	15,878	324	(6.0)	17.9	2,013	2,399	214	(2.6)	19.3	1,351	1,514

Q2FY07 earnings review

Oil & Gas

- ✓ Upstream- Firm crude oil realisation and higher crude production drives profitability.
- ✓ Downstream- oil bonds more than compensate for weak GRM's(adjusted for inventory losses) and marketing under recoveries
- ✓ Chennai petro- Low GRM's and commercial discounts depress earnings
- ✓ Aban - earnings lack fireworks in the absence of new contracts
- ✓ Petronet- higher spot cargo regassification volumes boosts profits
- ✓ IGL- Strong vehicle conversion drives earnings
- ✓ RIL- Record petrochem margins compensate for weak GRM's
- ✓ IPCL- merger of six polyester units compensate for volume loss from floods and higher gas cost
- ✓ GAIL- floods and higher under recovery contribution dampens earnings
- ✓ Gujarat Gas- floods, rupee depreciation and higher gas cost purchase result in a weak quarter

Q2FY07 earnings review

Oil & Gas (Contd)

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E
Aban Loyd	1,289	3.1	1.1	6,085	11,077	612	(11.0)	(13.1)	3,332	7,042	222	2.2	(3.0)	1,131	3,429
BPCL	265,174	28.6	63.6	861,571	756,889	17,138	(37.5)	1,177.9	17,590	15,122	12,585	(27.2)	720.0	8,644	9,095
Chennai Petro	66,069	5.2	21.0	223,657	223,657	2,381	(3.0)	(39.1)	11,322	10,879	973	(2.2)	(50.5)	5,660	5,967
GAIL	37,070	(9.8)	(9.0)	162,354	169,715	5,891	(39.5)	(37.0)	36,479	38,445	4,484	(24.5)	(42.1)	23,292	24,354
Gujarat Gas	2,345	1.7	21.9	9,221	10,410	335	3.3	(11.5)	1,516	1,782	215	14.8	(10.6)	879	1,067
HPCL	243,675	23.9	44.5	853,950	726,192	16,462	(16.8)	2,070.4	26,208	21,923	12,220	(0.2)	5,619.3	10,580	8,851
IOC	577,665	23.7	44.3	2,260,046	1,958,926	40,360	(35.3)	171.9	124,689	116,612	30,503	(20.2)	221.2	62,964	60,375
Indraprastha Gas	1,542	9.8	15.0	6,491	7,548	646	10.8	20.1	2,596	3,022	348	17.3	28.8	1,288	1,525
ONGC	140,685	(1.0)	11.0	482,967	530,348	70,399	(8.9)	(1.6)	282,670	318,617	41,741	10.5	0.9	146,255	164,997
Petronet LNG	13,751	32.2	45.6	44,618	43,279	1,448	8.3	29.2	5,644	5,878	661	15.6	65.0	2,396	2,467
IPCL	30,480	21.4	49.0	103,462	103,901	6,370	6.0	52.4	17,005	13,884	3,510	2.3	91.8	10,724	7,679
RIL	284,740	7.3	37.4	1,020,186	973,497	45,650	7.1	23.0	164,631	169,695	27,090	5.4	9.2	102,058	103,676

Q2FY07 earnings review

Pharmaceuticals

- ✓ Pharma sector posted another strong quarter. Results broadly in line except DRL's positive surprise
- ✓ Sector's recent underperformance has considerably reduced concerns related to overvaluation
- ✓ Domestic growth stays robust aided by good monsoon and outbreak of dengue etc.
- ✓ Generic exports continues to be the main growth driver. Pricing pressure continue in key markets of US, UK etc. Non regulated markets like Russia and Romania increasingly driving most of the growth
- ✓ DRL was key positive surprise due to higher than expected Authorized Generics profits and revenues
- ✓ Ranbaxy's revenue growth was below expectations and remains a concern. Downgraded to Neutral
- ✓ Cipla's results marginally below estimates. Domestic growth surprises, Formulation exports disappoint
- ✓ Sun's results are in line with positive surprise on specialty bulks exports growth
- ✓ Glaxo's revenue growth impacted by loss of sales owing to capacity constraints
- ✓ Wockhardt's profitability propped by accounting changes. Negative move to boost short term profits
- ✓ Nicholas Piramal had strong showing on Revenue and EBITDA front. Profits depressed by higher tax rates
- ✓ Biocon results were ahead of expectations driven by strong revenue performance especially in Biopharma
- ✓ Dishman was impacted by postponement in Solvay supplies. Strong Carbogen contribution is positive
- ✓ Aventis results were encouraging with 15% growth in domestic business and recovery in exports growth

Q2FY07 earnings review

Pharmaceuticals (Contd)

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Aventis Pharma Ltd	2,431	0.4	8.7	8,716	9,601	687	(9.2)	(4.5)	2,418	2,697	538	0.3	8.2	1,789	2,000
Biocon	2,490	9.5	23.9	9,884	11,878	660	11.2	10.0	2,703	3,409	450	17.3	4.7	1,815	2,481
Cipla Ltd	8,650	(5.0)	31.2	37,193	44,102	1,965	(9.3)	19.4	8,833	10,773	1,803	(5.1)	47.1	7,698	9,175
Dr Reddys Labs	20,039	24.8	245.3	61,331	52,321	4,218	86.7	438.0	12,320	9,774	2,798	92.6	214.7	6,847	5,262
Dishman Pharma	1,170	(8.2)	71.1	5,570	9,157	246	(11.0)	43.7	1,206	1,968	168	(11.5)	23.5	801	1,277
Glaxosmithkline	3,991	(11.2)	(5.1)	15,870	17,260	1,303	(8.6)	(1.8)	4,800	5,472	1,011	(2.1)	6.5	3,654	4,124
Nicholas Piramal	6,369	8.7	75.5	23,937	27,058	960	11.4	54.3	3,765	4,952	491	(10.1)	(0.4)	2,186	3,061
Ranbaxy Labs	16,271	(3.7)	26.8	60,190	69,768	2,881	6.6	978.4	9,443	11,586	1,619	(6.4)	765.8	5,313	7,326
SUN Pharma	5,229	3.6	29.4	20,404	25,525	1,708	(0.5)	27.1	6,923	8,669	1,864	2.4	26.1	7,212	8,848
Wockhardt Ltd	4,377	2.1	21.7	17,298	22,855	971	1.7	10.8	3,592	4,464	740	(6.4)	13.7	2,729	3,374

Q2FY07 earnings review

Power equipment

- ✓ Power equipment stocks reported strong revenues on account of strong backlog
- ✓ Order booking picked up significantly across companies during the quarter driven by industrial capex revival, new capacity addition coupled with execution of APDRP and rural electrification scheme
- ✓ Operating margins, however, fell due to higher export revenues, which do not have escalation clauses as well as change in revenue mix during the quarter.
- ✓ Consequently, profit after tax grew at a strong pace of 42% during the quarter.
- ✓ We maintain our Overweight stance on the sector with BHEL, EMCO and KEC as key picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
ABB Ltd	10,706	15.9	50.6	41,543	54,344	1,106	(1.9)	35.7	4,645	6,565	821	7.3	55.2	3,335	4,682
BHEL	33,412	(1.9)	33.1	178,949	224,087	4,563	(13.0)	23.7	34,832	44,018	3,600	(3.3)	38.4	23,492	29,629
Crompton Greaves	8,240	20.2	48.6	53,580	65,914	736	7.3	39.1	4,293	5,532	407	6.0	25.0	2,690	3,551
EMCO Ltd	1,305	7.1	71.4	6,219	8,718	177	11.6	79.5	808	1,131	87	10.3	71.3	406	596
KEC Int.	4,677	3.0	13.3	20,047	24,137	571	28.4	47.0	2,181	2,640	217	37.5	100.6	813	1,088

Q2FY07 earnings review

Power utilities

- ✓ Power generating companies reported strong revenue growth across the sector driven by higher demand (volumes) and pass through of higher fuel costs
- ✓ CESC's revenues were flat as it netted off the advance depreciation against revenues
- ✓ Operating margins fell on account of higher fuel prices
- ✓ Overall, reported profit grew by 15% for the sector driven by revenue growth and higher other income
- ✓ We maintain our Overweight stance on the sector with NTPC and CESC are our key picks

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
CESC	6,750	(1.7)	0.4	25,451	27,719	1,400	(2.9)	(9.1)	5,256	5,211	690	7.4	21.1	2,233	2,374
NTPC	67,418	0.2	13.8	320,460	347,794	17,688	(2.6)	20.1	89,459	99,918	14,271	1.7	15.4	68,524	72,460
PTC	13,147	(4.7)	52.5	48,352	61,584	95	(42.4)	(32.7)	410	510	85	(29.8)	(12.6)	396	495
Reliance Energy	14,076	24.8	35.0	48,215	55,139	1,775	(17.2)	(12.7)	6,782	7,340	1,864	0.6	14.3	8,287	9,396

Q2FY07 earnings review

Organized retail

- ✓ Indian organized retail space has grown at 56% on the back of 65% growth in Pantaloon Retail and 60% growth in Provogue's sales
- ✓ Pantaloon is readying for increasing competition - fund raising, rapid ramp up, management bandwidth, etc.
- ✓ UK based Liberty group has invested Rs2bn for 25% stake in Provogue's retail development and mall management business (Prozone)
- ✓ Shopper's Stop has witnessed robust growth of 32% on the back of floor space addition under specialty formats. 3 departmental stores expected to be set up by FY07
- ✓ Reliance kick starts its retail operations - began 11 pilot stores under the brand Reliance Fresh
- ✓ Nilkamal Plastic witnessed robust topline growth. However, profitability impacted by spike in raw materials and losses from the '@ home' venture
- ✓ Top Picks - Pantaloon, Provogue

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep-06	Var. %	y-o-y	FY07E	FY08E	Sep-06	Var. %	y-o-y	FY07E	FY08E	Sep-06	Var. %	y-o-y	FY07E	FY08E
Nilkamal Plastics	1,116	2.9	29.9	4,841	6,210	73	(16.0)	0.5	416	602	11	(48.0)	(34.4)	109	204
Provogue India	662	23.1	60.0	2,177	3,046	74	(4.9)	58.7	334	485	45	1.8	51.8	205	316
Pantaloon Retail*	6,033	3.4	65.4	37,653	59,209	415	1.6	48.3	2,572	3,938	176	(3.6)	30.2	1,287	2,039
Pyramid Retail	402	21.7	-	2,197	3,168	(99)	(147.4)	-	75	149	(122)	(143.2)	-	26	82
Shoppers' Stop	2,013	1.8	31.9	8,983	12,781	162	32.1	79.2	713	1,077	80	36.6	149.1	392	610
TRENT	1,203	(0.8)	38.9	5,475	7,229	98	0.8	22.2	410	561	80	4.7	39.9	401	511
Titan Industries	5,235	(5.7)	50.1	18,912	22,422	546	(8.9)	(0.9)	1,913	2,399	342	(21.7)	(4.5)	1,242	1,658

* Adjusted PAT

Q2FY07 earnings review

Software

- ✓ Strong volume growth was the key highlight of the quarter - leading companies reported 8-11% volume growth. The topline growth was also helped by rupee depreciation (1-1.9% impact)
- ✓ Margins improved sequentially on currency depreciation, lower visa cost and operational efficiencies kicking in (better utilization, increase in bulge etc). Wipro, Satyam and HCL Tech effected salary hike during the quarter.
- ✓ Pricing environment remains stable with a positive bias - new clients coming in at higher than average rates, while existing deals are getting renewed at better rate - selectively. Demand environment remains strong.
- ✓ Margin improvement is expected to continue with improvement in operational efficiencies in the coming quarter- however, currency will remain wild card (till date appreciated 2.3%+ qoq). Top picks are Infosys and Wipro.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Geodesic	391	1.5	89.5	1,736	2,756	287	44.6	137.6	1,010	1,555	217	46.8	121.6	724	1,088
HCL Technologies	13,795	3.1	42.1	59,445	74,300	2,989	4.7	38.5	12,821	15,877	2,502	15.6	49.4	10,064	12,257
I-Flex Solutions	5,009	9.8	39.4	20,068	25,634	970	3.0	76.0	4,214	5,820	804	13.9	99.0	3,078	4,192
iGate Global	2,026	5.2	30.1	8,267	10,381	201	(4.4)	34.5	940	1,557	101	(0.0)	80.2	436	892
Infosys Tech	34,510	3.2	50.4	139,757	182,900	11,090	7.4	51.1	44,459	56,712	9,290	8.9	53.3	36,844	46,601
KPIT	1,140	5.5	46.8	4,607	5,838	179	6.2	69.2	730	907	123	14.1	62.0	492	593
MPhasis BFL	2,919	8.3	28.3	11,785	15,015	485	2.0	(2.0)	2,079	3,191	234	(17.5)	(41.8)	1,281	2,145
Patni Computer	6,971	(0.5)	34.1	26,357	32,488	1,422	22.9	52.0	5,157	6,144	1,024	24.0	43.5	2,474	4,294
SACT	1,175	20.0	36.1	4,228*	5,626*	220	57.8	23.4	680*	1,058*	119	54.8	1.8	365*	587*
Satyam Computer	16,019	2.8	38.7	65,336	83,057	3,625	3.8	31.2	15,214	18,683	3,198	8.8	34.7	13,606	16,554
Tata Consultancy	44,822	1.0	51.9	184,136	232,015	12,294	8.6	44.5	48,771	59,481	9,915	9.2	47.2	39,907	49,823
Wipro	35,138	1.4	40.7	143,198	188,976	8,438	2.6	43.6	33,945	43,889	6,963	9.1	48.0	26,875	34,062

* Under review

Q2FY07 earnings review

Textiles

- ✓ Arvind Mills: Disappointing results for Q2FY07 (as expected) with 62%yoy drop in profit. Continuing pressure on denim prices, build-up in power costs and forex losses primarily responsible for the drop in profitability. We maintain NEUTRAL
- ✓ Mahavir Spinning results broadly in line with our estimates. Margins in the yarn business remain strong despite drop in excise duties on competing yarns
- ✓ Gokaldas Exports results reflect marginal tilt in pricing power towards large Indian garment exporters. Expected escalation in Chinese labour costs to provide further boost to margins
- ✓ Welspun India results ahead of estimates. Higher than expected capacity utilisation in the bed linen business led to better cost structure. Improving capacity utilisation in bed linen unit and stable realisations for terry towels to led to better
- ✓ profitability in the ensuing quarters
- ✓ Alok results were inline with our estimates. Concerns over lower volume growth in home textiles continued—though that was more than compensated by higher sales in apparel fabrics.

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Alok Industries Ltd	4,172	1.1	20.8	22,353	25,415	968	9.4	36.7	4,759	6,646	326	(0.6)	28.3	1,604	2,213
Arvind Mills	3,932	13.2	(8.1)	18,154	20,088	854	4.1	(19.4)	3,656	3,879	55	(62.3)	(82.0)	1,645	1,547
Gokaldas Exports	2,810	5.2	13.7	10,814	13,537	332	3.8	23.0	1,254	1,515	208	4.5	12.4	891	1,046
Mahavir Spinning	5,283	9.0	14.9	20,482	24,245	989	3.1	12.4	4,086	5,125	458	8.5	14.5	1,883	2,243
Welspun India Ltd	2,764	23.2	84.4	9,763	12,471	551	19.5	45.4	1,847	2,658	183	39.7	43.0	652	925

Q2FY07 earnings review

Transportation (Airlines)

- ✓ In line with our thesis for an underperformer call, Jet Airways continues to reel under competitive intensity and has posted a loss for the second consecutive quarter.
- ✓ For Q2FY07, Jet has reported a loss of Rs551m; however, the real damage is highlighted by an EBITDA loss of Rs1,242m (EBITDA profit of Rs2,198m in Q2FY06) and the fact that domestic operations have also slipped into the red with an EBITDA loss of Rs193m. The operating loss was significantly ahead of our expectations.
- ✓ This can be attributed to lower load factors, a higher proportion of discounted fare tickets (65% compared to 40% in Q2FY06), an unprecedented surge in ATF prices, limited ability to pass on the rise in fuel prices due to intense competition and losses from international operations. Q2 is typically the worst quarter for airlines and load factors tend to be lower compared to that in other quarters.
- ✓ However, the steep 620bp yoy decline in domestic load factors seen by Jet in Q2FY07 underlines that poor performance has been more a function of the tough business environment. Revenues in the domestic business grew 17% yoy on the back of an 8% yoy rise in passenger traffic and 8% increase in domestic yields (driven by fuel surcharges). Losses from international operations increased to US\$25.6m in Q2FY07 from US\$15.5m in Q1FY07 due to introduction of new routes and additional frequencies.
- ✓ At Rs609, the stock trades at 28.7x FY08E earnings and 7.6x EV/EBITDA. Maintain Underperformer

(Rs m)	Net Sales					EBITDA					Profit After Tax				
	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Jet Airways	16,150	5.6	26.2	71,525	112,982	(1,242)	(94.4)	(156.5)	9,260	21,211	(551)	(34.8)	(180.4)	695	1,831

Q2FY07 earnings review

Transportation (Shipping)

- ✓ Great Eastern Shipping (GESCO) reported strong Q2FY07 numbers ahead of our expectations. Revenues grew 31% at Rs6.4bn supported by a 240bps improvement in EBITDA margins, leading to net profit growth of 54% at Rs2.7bn.
- ✓ Driven by strength in tanker earnings, GES' (GE Shipping excluding offshore) revenues grew by 25% at Rs5.2bn. EBITDA margins expanded by 210bps leading to a PAT growth of 51% yoy at Rs2.3bn. Real strength in the performance is indicated by the fact that PBT excluding sale of ships and other income jumped 61% yoy.
- ✓ Great Offshore Limited (GOL- the offshore business) on the back of increased capacity, improved realizations and higher asset utilization reported revenues at Rs1.2bn, up 62% yoy. A 490 bps improvement in EBITDA margins supported a net profit growth of 81% at Rs388m.
- ✓ On the back of robust performance in 1HFY07, we have upgraded our FY07 and FY08 earnings estimates by 11% and 8% respectively.
- ✓ We believe that the de-merger of the offshore business will unlock considerable value. Using the sum-of-parts methodology, we have arrived at a fair value of Rs380 per share for GE Shipping. We have valued the shipping business at Rs240 per share (~75% of shipping NAV of Rs320) and the offshore business at Rs140 per share (20x FY07E offshore earnings and consolidated equity of 190m).

(Rs m)	Net Sales					EBITDA					Profit After Tax				
Company	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E	Sep 06	Var. %	y-o-y	FY07E	FY08E
Great Eastern Shipping	6,494	21.1	31.0	23,338	24,234	3,649	8.2	34.5	12,641	12,913	2,743	20.4	54.5	8,743	9,068

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