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April 2007

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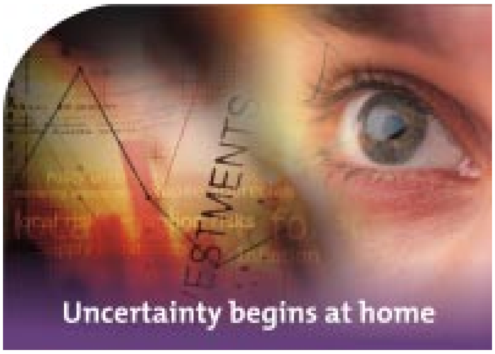

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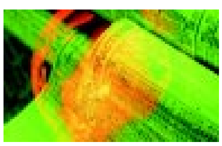

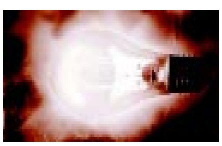

STOCK IDEAS STANDING (AS ON APRIL 02, 2007)														
COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 02-APR-07	GAIN-LOSS (%)	ABSOLUTE PERFORMANCE 1M	3M	6M	12M	RELATIVE TO SENSEX 1M	3M	6M	12M
EVERGREEN														
HDFC Bank	358.0	1,200.0	23-Dec-03	Buy	901.6	151.8	1.8	(11.3)	2.5	24.0	0.5	(6.6)	(2.7)	5.5
Infosys Technologies	689.1	2,670.0	30-Dec-03	Buy	1,921.2	178.8	(3.2)	(10.2)	9.2	34.8	(4.4)	(5.5)	3.6	14.7
Reliance Ind	567.0	1,530.0	5-Feb-04	Buy	1,313.5	131.7	1.8	8.6	17.8	75.4	0.6	14.2	11.8	49.3
Tata Consultancy Services	852.5	1,508.0	6-Mar-06	Buy	1,188.8	39.4	3.6	1.3	21.1	26.3	2.3	6.5	14.9	7.5
APPLE GREEN														
ACC	260.0	**	10-Aug-04	Buy	704.7	171.0	(16.7)	(31.0)	(24.6)	(4.4)	(17.8)	(27.4)	(28.4)	(18.6)
Aditya Birla Nuvo	714.0	1,600.0	6-Dec-05	Buy	1,017.5	42.5	(10.7)	(14.4)	27.2	50.2	(11.8)	(10.0)	20.7	27.8
Apollo Tyres	344.0	425.0	28-Nov-06	Buy	276.1	(19.7)	(7.1)	(19.4)	(12.4)	0.5	(8.3)	(15.2)	(16.9)	(14.5)
Bajaj Auto	1,873.0	3,300.0	15-Nov-05	Buy	2,300.6	22.8	(7.3)	(7.4)	(19.1)	(8.6)	(8.5)	(2.6)	(23.3)	(22.3)
Bank of Baroda	239.0	327.0	25-Aug-06	Buy	201.0	(15.9)	(0.7)	(9.0)	(24.3)	0.3	(1.9)	(4.3)	(28.2)	(14.6)
Bank of India	135.0	220.0	25-Aug-06	Buy	154.1	14.1	3.7	(19.3)	4.6	32.2	2.4	(15.1)	(0.8)	12.5
Bharat Bijlee	192.3	1,730.0	29-Nov-04	Buy	1,180.1	513.7	1.6	3.5	3.9	(11.4)	0.4	8.9	(1.4)	(24.6)
Bharat Electronics	1,108.0	1,715.0	25-Sep-06	Buy	1,456.5	31.4	(1.5)	12.1	30.5	17.7	(2.8)	17.9	23.8	0.1
Bharat Heavy Electricals	1,203.0	2,650.0	11-Nov-05	Buy	2,153.6	79.0	3.9	(1.1)	(5.0)	6.5	2.6	4.0	(9.9)	(9.4)
Bharti Airtel	625.0	820.0	8-Jan-07	Buy	730.6	16.9	6.2	21.4	62.8	83.7	4.9	27.7	54.4	56.4
Canara Bank	213.0	320.0	25-Aug-06	Buy	183.1	(14.0)	(7.5)	(29.5)	(31.5)	(25.8)	(8.6)	(25.9)	(35.0)	(36.8)
Corp Bank	218.0	380.0	19-Dec-03	Buy	258.7	18.7	10.9	(16.6)	(30.3)	(20.4)	9.5	(12.2)	(33.8)	(32.2)
Crompton Greaves	88.1	225.0	19-Aug-05	Buy	190.6	116.2	1.3	(4.0)	14.2	35.7	0.0	1.0	8.4	15.5
Elder Pharma	298.0	508.0	26-Apr-06	Buy	407.1	36.6	5.0	13.0	13.4	48.4	3.7	18.9	7.6	26.3
Grasim	1,119.0	3,350.0	30-Aug-04	Buy	2,054.6	83.6	(4.2)	(24.0)	(15.9)	4.9	(5.4)	(20.1)	(20.2)	(10.7)
Hindustan Lever	172.0	280.0	24-Nov-05	Buy	195.8	13.8	16.5	(5.2)	(19.9)	(23.2)	15.1	(0.3)	(24.0)	(34.7)
Hyderabad Industries	163.0	**	10-Feb-05	Buy	140.0	(14.1)	(21.3)	(42.2)	(52.0)	(64.5)	(22.2)	(39.2)	(54.4)	(69.8)
ICICI Bank	284.0	1,240.0	23-Dec-03	Buy	804.5	183.3	2.5	(4.2)	22.0	46.6	1.3	0.8	15.8	24.8
Indian Hotel Company	76.6	175.0	17-Nov-05	Buy	140.1	82.8	2.0	(5.7)	5.0	10.0	0.7	(0.8)	(0.4)	(6.4)
ITC	69.5	200.0	12-Aug-04	Buy	146.6	110.9	(12.5)	(14.5)	(19.9)	(23.2)	(13.6)	(10.1)	(24.0)	(34.7)
Lupin	403.5	670.0	6-Jan-06	Buy	603.2	49.5	0.4	(1.0)	31.3	22.1	(0.9)	4.1	24.6	3.9
M&M	232.0	1,050.0	1-Apr-04	Buy	715.3	208.3	(2.3)	(13.1)	15.7	27.6	(3.5)	(8.6)	9.8	8.6
Marico	77.0	63.4	22-Aug-02	Buy	59.6	(22.6)	0.1	14.3	19.0	13.9	(1.2)	20.2	12.9	(3.1)
Maruti Udyog	360.0	1,050.0	23-Dec-03	Buy	753.4	109.3	(2.4)	(11.6)	(16.5)	(3.7)	(3.6)	(7.0)	(20.7)	(18.1)
Nicholas Piramal	146.0	393.0	16-Mar-04	Buy	241.1	65.1	10.1	(6.1)	5.0	0.0	8.7	(1.3)	(0.4)	(14.9)
Omax Auto	128.0	134.0	19-Jul-05	Buy	92.0	(28.2)	8.3	3.2	(10.4)	(22.6)	7.0	8.5	(15.0)	(34.1)
Ranbaxy	533.5	558.0	24-Dec-03	Buy	341.3	(36.0)	4.4	(10.0)	(19.3)	(20.2)	3.2	(5.4)	(23.5)	(32.1)
Satyam Computers	181.5	550.0	30-Dec-03	Buy	446.3	145.9	14.0	(2.9)	15.1	12.2	12.6	2.2	9.2	(4.5)
SKF India	141.0	406.0	23-Dec-04	Buy	310.2	120.0	1.1	17.3	4.7	7.8	(0.1)	23.4	(0.7)	(8.3)
SBI	476.0	1,380.0	19-Dec-03	Buy	930.3	95.4	(4.5)	(20.3)	(3.4)	4.8	(5.6)	(16.2)	(8.4)	(10.9)
Sundaram Clayton	1,178.0	1,550.0	15-May-06	Buy	912.0	(22.6)	(13.6)	(30.4)	(18.9)	2.4	(14.6)	(26.8)	(23.0)	(12.9)
Tata Motors	473.0	1,075.0	29-Mar-04	Buy	669.3	41.5	(7.2)	(19.2)	(15.6)	(18.5)	(8.3)	(15.0)	(19.9)	(30.6)
Tata Tea	789.0	**	12-Aug-05	Buy	593.0	(24.8)	(1.5)	(15.6)	(18.9)	(28.3)	(2.7)	(11.2)	(23.0)	(39.0)
Unichem Laboratories	248.0	360.0	12-Dec-05	Buy	241.9	(2.5)	0.0	(5.5)	7.8	(9.6)	(1.2)	(0.6)	2.3	(23.1)
Wipro	418.0	700.0	9-Jun-06	Buy	518.3	24.0	0.4	(6.9)	7.2	0.9	(0.8)	(2.0)	1.7	(14.1)
EMERGING STAR														
3i Infotech	132.0	375.0	6-Oct-05	Buy	230.0	74.2	(0.2)	28.6	45.0	33.6	(1.4)	35.3	37.6	13.7
Aban Offshore	330.4	2,430.0	3-Mar-05	Buy	1,956.1	492.0	12.8	46.0	61.6	81.6	11.5	53.5	53.3	54.5
Alphageo india	150.0	270.0	29-Nov-06	Buy	223.6	49.0	17.6	47.6	89.9	78.3	16.2	55.3	80.1	51.8
Cadila Healthcare	297.5	425.0	21-Mar-06	Buy	330.7	11.1	4.8	(4.5)	4.1	1.6	3.5	0.4	(1.2)	(13.5)
Federal-Mogul Goetze	385.0	559.0	18-Jan-07	Buy	252.6	(34.4)	(24.7)	(41.2)	(27.1)	8.2	(25.7)	(38.2)	(30.8)	(7.9)
KSB Pumps	399.0	650.0	3-Oct-05	Buy	485.0	21.6	(4.3)	(27.1)	(9.2)	13.9	(5.4)	(23.3)	(13.8)	(3.1)
Marksans Pharma	236.0	360.0	7-Mar-06	Buy	49.3	(79.1)	(37.4)	(52.7)	(50.9)	(77.6)	(38.1)	(50.2)	(53.4)	(80.9)
Navneet Publications	56.8	67.0	22-Aug-05	Buy	53.0	(6.8)	(2.3)	(5.7)	(12.7)	(7.8)	(3.5)	(0.8)	(17.1)	(21.5)
NDTV	180.9	348.0	10-Feb-05	Buy	290.4	60.6	(2.4)	35.0	40.9	27.6	(3.6)	42.0	33.7	8.6
Nucleus Software Exports	497.0	**	12-Dec-06	Buy	920.1	85.1	(6.8)	40.2	113.2	171.1	(7.9)	47.5	102.3	130.8

STOCK IDEAS STANDING (AS ON APRIL 02, 2007)														
COMPANY	RECO PRICE	PRICE TARGET	RECO DATE	CURRENT RECO	PRICE AS ON 02-APR-07	GAIN/ LOSS (%)	ABSOLUTE PERFORMANCE				RELATIVE TO SENSEX			
							1M	3M	6M	12M	1M	3M	6M	12M
Orchid Chemicals	254.0	390.0	16-Jan-06	Buy	255.5	0.6	15.2	33.6	25.6	(27.8)	13.8	40.6	19.1	(38.5)
ORG Informatics	130.0	190.0	16-Dec-05	Buy	128.9	(0.9)	(2.1)	(18.8)	11.5	(6.6)	(3.3)	(14.6)	5.8	(20.5)
Tata Elxsi	232.0	356.0	14-Dec-06	Buy	274.3	18.2	5.0	10.2	30.8	55.1	3.7	15.9	24.1	32.0
Television Eighteen India	219.0	**	23-May-05	Buy	590.2	169.5	5.9	6.1	42.8	38.6	4.6	11.6	35.5	18.0
Thermax	124.2	433.0	14-Jun-05	Buy	370.2	198.0	1.8	(0.0)	23.7	32.7	0.5	5.2	17.4	13.0
UTI Bank	229.4	580.0	24-Feb-05	Buy	460.0	100.6	6.6	4.5	29.3	45.5	5.2	9.9	22.6	23.8
Ugly Duckling														
Ahmednagar Forgings	250.0	380.0	10-Oct-06	Buy	228.7	(8.5)	(8.6)	(12.0)	(6.4)	14.3	(9.7)	(7.5)	(11.2)	(2.7)
Ashok Leyland	38.0	56.0	23-May-06	Buy	36.3	(4.5)	0.3	(12.1)	(11.3)	6.7	(0.9)	(7.6)	(15.8)	(9.2)
BASF	220.0	300.0	18-Sep-06	Buy	186.0	(15.5)	(6.6)	(17.0)	(18.5)	(10.1)	(7.8)	(12.7)	(22.7)	(23.5)
Ceat	122.0	190.0	28-Nov-06	Buy	107.2	(12.1)	(8.4)	(13.4)	(11.1)	70.9	(9.5)	(8.9)	(15.7)	45.4
Deepak Fert	50.6	126.0	17-Mar-05	Buy	81.5	61.1	(1.5)	(3.1)	(1.6)	(9.2)	(2.7)	1.9	(6.7)	(22.7)
Fem Care Pharma	358.0	500.0	13-Dec-06	Buy	366.5	2.4	(0.5)	(2.3)	17.2	(6.1)	(1.8)	2.8	11.2	(20.1)
Genus Overseas	101.0	345.0	6-Jul-05	Buy	249.4	146.9	(2.4)	27.5	23.0	52.8	(3.6)	34.1	16.6	30.1
Hexaware Technologies	159.0	220.0	30-Mar-07	Buy	168.0	5.6	11.8	(15.8)	3.9	1.9	10.4	(11.4)	(1.4)	(13.3)
HCL Technologies	103.0	410.0	30-Dec-03	Buy	272.3	164.4	(2.3)	(9.7)	7.9	(9.7)	(3.5)	(5.0)	2.3	(23.1)
ICI India	250.0	550.0	26-May-05	Buy	452.2	80.9	7.0	7.6	32.9	23.6	5.6	13.1	26.1	5.2
India Cements	220.0	315.0	28-Sep-06	Buy	153.9	(30.1)	(9.5)	(31.1)	(26.9)	2.7	(10.6)	(27.5)	(30.6)	(12.6)
Indo Tech Transformer	199.0	335.0	28-Nov-06	Buy	265.2	33.3	(0.5)	9.1	69.3	27.9	(1.7)	14.7	60.6	8.8
JM Financial	214.0	**	29-Aug-05	Buy	946.2	342.1	5.5	21.1	26.2	103.3	4.2	27.4	19.7	73.0
Jaiprakash Associates	125.0	850.0	30-Dec-03	Buy	533.8	327.0	(1.6)	(25.6)	13.8	17.5	(2.8)	(21.8)	8.0	(0.0)
KEI Industries	39.4	140.0	30-Aug-05	Buy	67.1	70.2	(12.7)	(22.3)	5.4	(8.4)	(13.8)	(18.3)	0.0	(22.1)
NIIT Technologies	204.0	570.0	31-Mar-06	Buy	424.6	108.1	9.9	43.4	132.5	120.9	8.5	50.9	120.6	88.0
Punjab National Bank	180.0	600.0	19-Dec-03	Buy	427.6	137.5	11.2	(6.2)	(9.6)	1.7	9.8	(1.3)	(14.2)	(13.4)
Ratnamani Metals	270.0	700.0	8-Dec-05	Buy	653.9	142.2	(5.0)	51.9	65.0	120.5	(6.2)	59.7	56.5	87.7
Sanghvi Movers	265.0	1,050.0	5-Aug-05	Buy	630.7	138.0	(13.0)	(20.3)	(12.1)	(18.6)	(14.1)	(16.2)	(16.6)	(30.7)
Saregama India	149.0	375.0	4-Jul-05	Buy	188.0	26.2	(11.4)	(8.0)	3.3	(33.9)	(12.5)	(3.2)	(2.0)	(43.8)
Selan Exploration	58.0	94.0	20-Mar-06	Buy	72.0	24.1	(5.6)	(10.9)	(7.5)	3.2	(6.8)	(6.3)	(12.3)	(12.2)
South East Asia Marine	190.0	300.0	12-Oct-06	Buy	174.4	(8.2)	(7.2)	(6.5)	9.4	66.5	(8.4)	(1.7)	3.8	41.7
Subros	206.0	370.0	26-Apr-06	Buy	230.1	11.7	4.8	(2.7)	2.1	46.8	3.5	2.4	(3.2)	25.0
Sun Pharmaceutical	302.0	1,341.0	24-Dec-03	Buy	1,043.1	245.4	14.4	8.4	14.1	20.0	13.0	14.0	8.2	2.2
Surya Pharma	139.0	205.0	2-Dec-05	Buy	65.0	(53.3)	(10.7)	(29.3)	(23.7)	(57.5)	(11.8)	(25.7)	(27.7)	(63.9)
UltraTech Cement	384.0	1,365.0	10-Aug-05	Buy	722.2	88.1	(13.1)	(29.4)	(13.1)	15.5	(14.2)	(25.7)	(17.5)	(1.7)
Union Bank of India	46.0	150.0	19-Dec-03	Buy	96.1	108.9	6.1	(14.2)	(22.8)	(9.7)	4.8	(9.8)	(26.8)	(23.1)
Universal Cables	123.0	179.0	30-Aug-05	Buy	91.6	(25.6)	(12.0)	(14.4)	(15.2)	(25.4)	(13.1)	(10.0)	(19.5)	(36.5)
Wockhardt	248.0	552.0	24-Dec-03	Buy	378.3	52.5	13.6	15.0	0.3	(17.4)	12.2	20.9	(4.8)	(29.7)
Vulture's Pick														
Esab India	60.0	575.0	21-May-04	Buy	297.7	396.2	(12.2)	(15.4)	(8.2)	(35.1)	(13.2)	(11.0)	(12.9)	(44.8)
Orient Paper	214.0	800.0	30-Aug-05	Buy	402.5	88.1	(2.2)	(22.4)	(26.3)	53.1	(3.5)	(18.4)	(30.0)	30.3
WS Industries	51.0	87.0	2-Dec-05	Buy	41.3	(19.0)	(15.2)	(14.0)	(28.8)	(32.3)	(16.3)	(9.5)	(32.4)	(42.4)
Cannonball														
Allahabad Bank	73.0	106.0	25-Aug-06	Buy	69.2	(5.3)	(4.5)	(18.1)	(17.7)	(0.3)	(5.6)	(13.9)	(21.9)	(15.1)
Andhra Bank	85.0	109.0	25-Aug-06	Buy	71.7	(15.6)	1.0	(10.0)	(18.1)	2.3	(0.2)	(5.3)	(22.3)	(13.0)
Cipla	101.2	300.0	24-Dec-03	Buy	225.8	123.1	1.0	(6.0)	(10.1)	(6.8)	(0.2)	(1.1)	(14.7)	(20.6)
Gateway Distriparks	190.0	250.0	11-Aug-05	Buy	160.7	(15.4)	1.8	(19.2)	2.7	(32.9)	0.6	(15.0)	(2.6)	(42.9)
International Combustion	350.0	519.0	20-Sep-05	Buy	267.2	(23.7)	(6.1)	(13.5)	(10.5)	(25.6)	(7.2)	(9.1)	(15.1)	(36.7)
J K Cement	149.0	295.0	17-Nov-05	Buy	143.8	(3.5)	(10.3)	(18.2)	(26.8)	(11.5)	(11.4)	(14.0)	(30.6)	(24.7)
Madras Cement	1,498.0	4,000.0	17-Nov-05	Buy	2,607.8	74.1	(5.4)	(19.0)	(18.3)	27.6	(6.6)	(14.8)	(22.5)	8.6
Shree Cement	445.0	1,700.0	17-Nov-05	Buy	909.8	104.4	(19.2)	(36.4)	(7.2)	3.8	(20.2)	(33.1)	(12.0)	(11.7)
Transport Corporation	52.2	86.0	9-Dec-05	Buy	58.0	11.1	(7.4)	(35.0)	(12.4)	(5.8)	(8.5)	(31.6)	(16.9)	(19.9)

** Price under review

Uncertainty begins at home

The market's cup of woes seems to be overflowing all at once. In a matter of two months the Sensex has lost almost two thousand points. In addition to the global uncertainties the market now has to deal with certain local risks as well. Till yesterday, every time the market stumbled and fell on global concerns, such as the possibility of recession in the USA, higher crude prices or unwinding of yen carry trades, it was the promise of India's long-term growth story that helped it get back on its feet. Alas, today, there hangs a big question mark on this source of strength itself. Inflation has raised its ugly head again, you see. It has stubbornly remained well above 6% for four weeks now. This inflation, about 6.39% for the week ended March 24, is driven by supply-side constraints and abundance of liquidity.

The government is trying its best to increase the supply of the items that are driving inflation, viz food articles like wheat and pulses. It has reduced import duties on several items. It has also banned export of wheat. It may even extend duty-free import of wheat till December 2007 as against till February 28 decided earlier. It has also taken some forced measures as in the case of cement. Cement prices have risen by over 40% in the past 12 months, prompting the government to slap a dual duty structure on cement companies. But despite the government's desperate attempts at controlling cement prices, cement makers have stuck to their guns and refused to lower the prices, though they have promised not to effect any more hikes for a year. The government has also scrapped the 16% countervailing duty and the 4% special additional duty on cement imports. Notwithstanding its unsuccessful attempts to tame inflation, the government is likely to attempt some more, drastic, measures to curb inflation. These attempts could lead to further negative surprises, given the number of state elections lined up over the next eighteen months.

Alongside the RBI has been using every conventional trick in its bag to control money supply, which has been growing at a healthy rate of 22%, propelled by the surging foreign exchange reserves ($197.7 billion as on March 23; $20 billion brought into the country in the last three months alone) and growing deposits (a growth of 24.8% up to March 16, 2007 against that of 18% a year ago). Despite the central bank's efforts to slow down credit offtake, the non-food bank credit too has seen a strong growth of 29.5% up to March 16, 2007 and that too over a higher base of 32.7% a year ago. To rein in the galloping growth in money supply and credit, the RBI has raised the repo rate six times since January 2006 and increased the cash reserve ratio (CRR) three times in three months. Most of these measures have been unscheduled and hence have caught the market on the wrong foot. We feel the aggressive stance of the RBI is likely to continue for some more time due to political exigencies. The central bank is slated to announce its annual monetary policy statement for FY2008 on April 24 and since inflation is showing no signs of abating, another rate hike could be in the offing. With inflation being largely driven by food and international metal prices, unsurprisingly there has not been much effect on inflation. However, this aggressive stance would definitely lead to several collateral damages.

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For one, the CRR hike and the reduction in the interest rate on the CRR from 1% to 0.5% are expected to hurt the profitability of banks, shaving 2-3% off their net profit in FY2008. We have several banks under our coverage, to know how each may be affected read our Banking Sector Update on page 34. As a result of the CRR hike, liquidity conditions are expected to tighten further, resulting in higher deposit and lending rates. Private banks like ICICI Bank and HDFC Bank have been prompt in raising their prime lending rates, more banks are likely to follow. The rising interest rates can make retail credit and, in the process, working capital finance that much costlier. For smaller companies that do not generate enough internal accruals or cannot raise funds by way of external commercial borrowings, the higher cost of funds can act as a deterrent to investments towards expanding capacities. The hardening of interest rates has already begun to hurt rate-sensitive sectors like housing and automobiles. The March sales of automobiles, for instance, were lower than expected despite the month containing a number of auspicious days like *Gudi Padwa* and *Navratri* (read details on page 32). To that extent, the central bank's efforts are concerning.

As a matter of fact, there has been a noticeable shift in the RBI's focus away from *striking a balance between containing inflation and maintaining growth to curbing inflation at any cost* (even at the cost of growth). The same is evident from the RBI's recent statement: "The stance of monetary policy has progressively shifted from an equal emphasis on price stability along with growth to one of reinforcing price stability with immediate monetary measures and to take recourse to all possible measures promptly in response to evolving circumstances." *However, any more increase in the interest rates would surely and very visibly hurt economic growth and hit corporate earnings.*

The rupee too may grow stronger because of the persisting liquidity crunch. The local currency has already appreciated by 9.5% in the past eight months, it touched its eight-year high at 42.925/935 against the dollar on April 4, 2007. A rising rupee could be bad news for our export industry as it would not only affect the sales but also hit the other income of exporters. Besides adversely affecting the financial performance of the software companies, the unexpected sharp rise in the rupee is feared to influence their annual growth guidance for FY2008 (read more about it in our IT Sector Update on page 35). On the other hand, if inflation moderates in the days ahead, there is a chance that the rupee may end its forward march, providing some respite to our export industry.

In its war against inflation the government may find an ally in the monsoon. It may be recalled that in our January Market Outlook report, "Setting sights on 16000", we had voiced fears that *El Nino* conditions may affect the south-west monsoon in 2007. Our fears stemmed from the January forecast of the US National Oceanographic and Atmospheric Administration (NOAA) that *El Nino* conditions would deteriorate in the following three months (historically, in majority of *El Nino* years, the rainfall had been below normal). However the latest NOAA estimate suggests that *El Nino* indicators have visibly weakened

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in recent weeks, implying that the 2006-07 *El Nino* events have ended. Thus we may have a normal monsoon this year which may help moderate inflation in the economy.

But would inflation really moderate? There is that small degree of doubt since the resurgence of tension in the Middle East over Iran's detention of 15 British soldiers has spiked crude prices to above $60 levels. Iran is not only the fourth largest producer and exporter of crude in the world, but also the holder of the world's second-largest oil reserves at 132.5 billion barrels. Therefore any disruption of the Iranian oil exports could affect the global crude market, given the inability of global supplies to keep pace with the surging global demand. However, considering that oil exports constitute half of Iranian government's total budget, it is unlikely that the country would withhold supplies even in the event of sanctions. The Organization of Petroleum Exporting Countries (OPEC) also announced that it would reduce its oil output by 200,000 barrel per day in March. The Iran issue and the tight OPEC supply are likely to keep crude prices firm in the near future.

To add to the market's woes, the spectre of recession still hovers over the world's largest economy, which is currently reeling under a housing slump. Many fear that the housing sector slump may spill over to the other sectors as well and together with the sub-prime mortgage defaults may slow down the US economy more than expected. The US gross domestic product expanded at an annual rate of 2.5% in the last quarter and at 2% in the previous quarter. But even as the US economy is slowing down, inflation remains at 2.4%, above the US Federal Reserve's (Fed) comfort zone of 1% to 2%. As a result, the Fed's policy is "still oriented toward control of inflation, which [it] considers at this time to be the greater risk than a slowdown". Hence it is still uncertain whether the Fed's next move would be a rate hike or a rate cut. In its last meeting held on March 21, the Fed had kept the benchmark overnight lending rate unchanged at 5.25% for the sixth time in a row. Its next meeting is scheduled to take place in May. A rate cut would augur well for our markets, as it would allay the concerns of any large-scale withdrawal of foreign funds in favour of US treasury bills.

Foreign investors, the main drivers of the market so far, were net sellers to the tune of Rs1,082 crore in March. They seem to be adopting the wait-and-watch policy now. We too are advising our clients to be a little cautious for a few weeks. April shall bring the initial monsoon forecast as well as the RBI's credit policy. The fourth quarter results too would start rolling in soon. The early results are likely to be a fair indicator of the shape of things to come with respect to the financial performances of the corporate sector as a whole. Reports of good earnings growth would no doubt boost market sentiment; on the other hand, any lower than expected guidance for FY2008 may dampen mood and result in more volatility. So far, India Inc has not been affected by the rising interest rates but if the cost of funds increases on a sustained basis, its future performance may indeed take a hit. ■

Sharekhan top picks

In the March 2007 issue, we had recommended the best 12 of our Stock Ideas as Sharekhan Top Picks. As on April 2, 2007, the basket of stocks has gained 3.7% as compared with the decline of 3.3% and 2.6% in the Sensex and the S&P CNX Nifty respectively during the period.

There are three changes in the portfolio. We have replaced Infosys Technologies, NIIT Technologies and Tata Consultancy Services with three new stocks—Hindustan Lever, Indo Tech Transformers and South East Asia Marine Engineering and Construction (SEAMAC)—in the portfolio. The adjustments are driven by the fact that the tech stocks are likely to underperform the broader markets in the near term due to the continued strengthening of the rupee coupled with the seasonal weakness in the quarterly performance. ■

NAME	CMP* (RS)	PER FY06	PER FY07E	PER FY08E	ROE (%) FY06	ROE (%) FY07E	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
Aditya Birla Nuvo	1,017.5	46.5	34.8	18.9	12.8	15.5	15.5	1,600.0	57.0
Alphageo India	223.6	26.3	16.4	9.1	20.4	27.9	33.1	270.0	21.0
Bharti Airtel	730.6	61.4	32.9	23.5	20.7	28.8	31.4	820.0	12.0
Bharat Electronics	1,456.5	20.0	17.3	15.3	29.7	25.6	22.5	1,715.0	18.0
Bharat Heavy Electricals	2,153.6	31.4	21.8	17.2	23.0	26.2	26.4	2,650.0	23.0
Hindustan Lever#	195.8	32.6	28.0	23.0	56.8	61.0	60.8	280.0	43.0
ICICI Bank	804.5	28.2	21.2	17.7	13.6	14.4	15.5	1,240.0	54.0
Indo Tech Transformer	265.2	25.3	13.7	10.3	23.3	25.8	27.0	335.0	26.0
Mahindra & Mahindra	715.3	25.5	19.6	16.8	22.8	25.3	24.7	1,050	47.0
South East Asia Marine#	174.4	10.1	7.1	4.9	25.0	26.0	27.0	300.0	72.0
Sun Pharmaceutical	1,043.1	33.8	27.3	21.8	42.2	26.9	20.8	1,341.0	29.0
Thermax	370.2	43.7	22.3	16.2	22.3	31.8	31.8	433.0	17.0

* CMP as on April 02, 2007 # Calendar year ending company

NAME	CMP (RS)	PER FY06	PER FY07E	PER FY08E	ROE (%) FY06	ROE (%) FY07E	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
ADITYA BIRLA NUVO	**1,017.5**	46.5	34.8	18.9	12.8	15.5	15.5	**1,600.0**	57.0

Remarks:

- ABN participates in India's four most exciting sectors: garments, insurance, telecom and IT/IT enabled services. It has a perfect strategy: to earn cash from its cash cow businesses, such as carbon black, rayon and fertilisers, and invest in high-growth businesses, such as garments, insurance, telecom and IT/IT enabled services.
- At the current market price, the stock trades at a price/earnings ratio of 18.9x FY2008E consolidated earnings and EV/EBIDTA of 9.6x FY2008E.
- Given the diverse businesses of ABN, the company is best valued using the sum-of-parts method. Based on the sum-of-parts valuation, we estimate the fair value of ABN to be Rs1,600 per share. Out of the above telecom, insurance and BPO contribute close to Rs1,400.

NAME	CMP (RS)	PER FY06	PER FY07E	PER FY08E	ROE (%) FY06	ROE (%) FY07E	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
ALPHAGEO INDIA	**223.6**	26.3	16.4	9.1	20.4	27.9	33.1	**270.0**	21.0

Remarks:

- Alphageo India is engaged in providing all kinds of seismic survey services (ie data acquisition, data processing and data interpretation) to oil exploration companies and has the distinction of being the only domestic company that has capabilities to carry out 3D (three-dimensional) seismic surveys.
- It had a pending order book position of Rs110 crore (around 4x its FY2006 revenues) as on December 2006 and has bagged an order of Rs60 crore in Q4 which provide a strong revenue growth visibility for FY2008.
- At the current market price the stock trades attractively at 16.4x FY2007 and 9.1x FY2008 earning estimates.

NAME	CMP (RS)	PER FY06	PER FY07E	PER FY08E	ROE (%) FY06	ROE (%) FY07E	ROE (%) FY08E	TARGET PRICE	UPSIDE (%)
BHARTI AIRTEL	**730.6**	61.4	32.9	23.5	20.7	28.8	31.4	**820.0**	12.0

Remarks:

- Bharti Airtel, the largest wireless telephony service operator, is one of the key beneficiaries of the consumption boom in the country. It has reportedly added subscribers at a healthy CAGR of over 75% in the past three years and is expected to increase its subscriber base at a CAGR of over 35% over the next two years.
- The company's focus on introducing innovative services, cost control measures and growing economies of scale is resulting in an improvement in its margins, despite the continued pressure on the average revenue per unit (ARPU). Consequently, the earnings are estimated to grow at CAGR of over 46% over the three-year period FY2006-09.
- At the current market price the stock trades attractively at 32.9x FY2007 and 23.5x FY2008 earning estimates.

BHARAT ELECTRONICS	**1,456.5**	20.0	17.3	15.3	29.7	25.6	22.5	**1,715.0**	18.0

Remarks:

- Given its wide range of products, research & development capabilities and proven track record, Bharat Electronics is well poised to effectively tap the huge opportunity in the defence sector.
- It has announced a pending order backlog of Rs9,100 crore as on March end 2007 and would benefit from the over 64% increase in the capital outlay for security and other equipment used by defence forces. Moreover, the recent alliances/tie-ups with leading defence contractors such as Northrop Grumman would further boost the overall growth in the long term.
- At the current market price the stock trades attractively at 17.3x FY2007 and 15.3x FY2008 earning estimates.

BHARAT HEAVY ELECTRICALS	**2,153.6**	31.4	21.8	17.2	23.0	26.2	26.4	**2,650.0**	23.0

Remarks:

- Bharat Heavy Electricals Ltd (BHEL), a leading supplier of power equipment, will be the prime beneficiary of a four-fold increase in the investments (Rs500,000 crore in the 11th Five-Year Plan as against Rs112,000 crore in the 9th Five-Year Plan) being made in the power sector.
- BHEL's current order book of Rs55,000 crore, ie 3x its FY2007 revenue, provides high earnings visibility.
- The power ministry has proposed around five ultra mega power projects entailing a capacity addition of 20,000MW (4,000MWx5) with the combined turnkey value of at least Rs80,000 crore.
- BHEL's recent technology transfer agreement with Alstom for design and manufacture of large-sized (500MW+) super-critical boilers will enable it to bid for the ultra mega power projects. We expect BHEL to bag a fair share out of this huge Rs80,000-crore potential investment, which in turn will maintain the growth momentum in the company's order book.
- The stock trades at a PER of 17.2x its FY2008E earnings. BHEL's valuation looks attractive as compared with that of its peers, such as Siemens, ABB and Larsen and Toubro.

HINDUSTAN LEVER	**195.8**	32.6	28.0	23.0	56.8	61.0	60.8	**280.0**	43.0

Remarks:

- HLL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HLL is likely to be a key beneficiary.
- The company has regained the pricing power in all the product segments. We believe better pricing power and improved product mix will be the revenue drivers. The turn-around of loss-making businesses, cost-cutting initiatives and increased focus on its food business should help it to improve its profitability.
- At the current market price the stock is quoting at 23x its CY2007E earnings per share (EPS) of Rs8.5. We maintain our Buy recommendation on the stock with a price target of Rs280.

ICICI BANK	**804.5**	28.2	21.2	17.7	13.6	14.4	15.5	**1,240.0**	54.0

Remarks:

- ICICI Bank is India's second-largest bank. Its strong positioning in the retail advance segment gives it dual advantages of a healthy growth in both loans and fee income.
- The Bank expects to improve margins and moderate business growth. It has no plans to raise fresh equity, which would improve its return on equity going forward. Its international operations are also gaining momentum, the only challenge would be to manage the uptick in non-performing assets.
- Various subsidiaries (life insurance, general insurance, ICICI Securities) add Rs400 to the overall valuation.
- The stock trades at a PER of 17.7x its FY2008E earnings and 2.6x its FY2008E book value. ICICI Bank's valuation looks attractive as compared with that of its peers, such as HDFC Bank.

<table>
<tr><th>NAME</th><th>CMP (RS)</th><th>FY06</th><th>PER FY07E</th><th>FY08E</th><th>FY06</th><th>ROE (%) FY07E</th><th>FY08E</th><th>TARGET PRICE</th><th>UPSIDE (%)</th></tr>
<tr><td>INDO TECH TRANSFORMERS</td><td>265.2</td><td>25.3</td><td>13.7</td><td>10.3</td><td>23.3</td><td>25.8</td><td>27.0</td><td>335.0</td><td>26.0</td></tr>
<tr><td colspan="10">Remarks:
Indo Tech Transformers is among the leading manufacturers of transformers and is benefiting from the robust demand environment. It is expanding its manufacturing capacity from 2,450MVA to 7,450MVA to cater to the strong demand emerging from the government's stated policy and mission of providing power for all by 2012.
The strong order book of around Rs200 crore (2x FY2006 revenues) and high operating margins in the range of 18-20% (the highest in the industry) make it one of our top picks.
At the current market price, the stock trades attractively at 13.7x FY2007 and 10.3x FY2008 earnings estimates.</td></tr>
<tr><td>MAHINDRA & MAHINDRA</td><td>715.3</td><td>25.5</td><td>19.6</td><td>16.8</td><td>22.8</td><td>25.3</td><td>24.7</td><td>1,050</td><td>47.0</td></tr>
<tr><td colspan="10">Remarks:
The government's increasing thrust on agriculture and the easy availability of credit would benefit M&M's tractor sales.
Its product mix would be further enriched with a number of new launches, including a new UV platform, a mid-sized car Logan (in collaboration with Renault) and other products in collaboration with International Trucks. Another multi-purpose vehicle (code named Ingenio) is slated for a launch in FY2008.
A better product mix and higher operating efficiencies have helped improve the margins of the company.
Subsidiaries like Tech Mahindra, Mahindra Gesco, and MMFSL are rendering strong performances.
Currently M&M is quoting at 10.4x FY2008 its consolidated earnings.</td></tr>
<tr><td>SOUTH EAST ASIA MARINE</td><td>174.4</td><td>10.1</td><td>7.1</td><td>4.9</td><td>25.0</td><td>26.0</td><td>27.0</td><td>300.0</td><td>72.0</td></tr>
<tr><td colspan="10">Remarks:
SEAMAC is among the few Indian companies that own and operate multi-support vessels. It is benefiting from the firm charter day rates due to favourable demand-supply situation.
Going forward, the deployment of its recently acquired vessel would also add to the overall growth in revenues. Consequently, revenues and earnings are estimated to grow at CAGR of 32.9% and 43% respectively over CY2006-08E.
SEAMAC is a debt-free company with strong free cash flows. It is expected to have cash & cash equivalents of around Rs225 crore (or close to Rs68 per share) at the end of CY2008.
The valuations are quite attractive at 7.1x CY2007 and 4.9x CY2008 estimated earnings and relatively lower than some of its peers that trade at 10x FY2009 consensus earnings estimates.</td></tr>
<tr><td>SUN PHARMACEUTICAL</td><td>1,043.1</td><td>33.8</td><td>27.3</td><td>21.8</td><td>42.2</td><td>26.9</td><td>20.8</td><td>1,341.0</td><td>29.0</td></tr>
<tr><td colspan="10">Remarks:
Sun Pharma maintains the numero uno ranking with neurologists, cardiologists, diabetologists and orthopedics.
With 56 abbreviated new drug applications (ANDAs) pending US FDA approval and a filing rate of 30+ ANDAs per year, Sun Pharma has one of the strongest product pipelines for the US market. The company is amongst the top three players in around 15 of the 25 products that it sells in the US market.
Sun Pharma is likely to show a CAGR of about 60% in ROW markets in FY2006-08. It has 750 products registered and another 300+ products pending approval in these markets.
With a strong cash position of over Rs1,500 crore, Sun Pharma is well placed to unlock value from potential acquisitions. The demerger of its innovative research and development research unit into a separate arm is likely to trigger substantial value unlocking going forward. The company's disclosed innovative R&D pipeline consists of one new chemical entity and two novel drug delivery system products.</td></tr>
<tr><td>THERMAX</td><td>370.2</td><td>43.7</td><td>22.3</td><td>16.2</td><td>22.3</td><td>31.8</td><td>31.8</td><td>433.0</td><td>17.0</td></tr>
<tr><td colspan="10">Remarks:
Thermax, with its diversified product and application range, is riding on a sustainable capital expenditure (capex) boom in the industrial and infrastructure sectors.
The capacity expansion and related projects in the core sectors are leading to higher order intake for Thermax. Thermax' current order book of Rs3,024 crore, ie 1.9x its FY2006 revenue, provides high earnings visibility.
The robust traction across divisions and a burgeoning order book would drive a 28.9% CAGR in Thermax' consolidated revenues over FY2006-08.
The improving operating leverage from cost rationalisation measures and economies of scale will lead to a 260-basis-point margin expansion over FY2006-08.
At the current market price of Rs378, the stock trades at a PER of 16.2x its FY2008E earnings. Rs43 per share of cash and cash equivalent on the company's books as on December31, 2006 provides a margin of safety.</td></tr>
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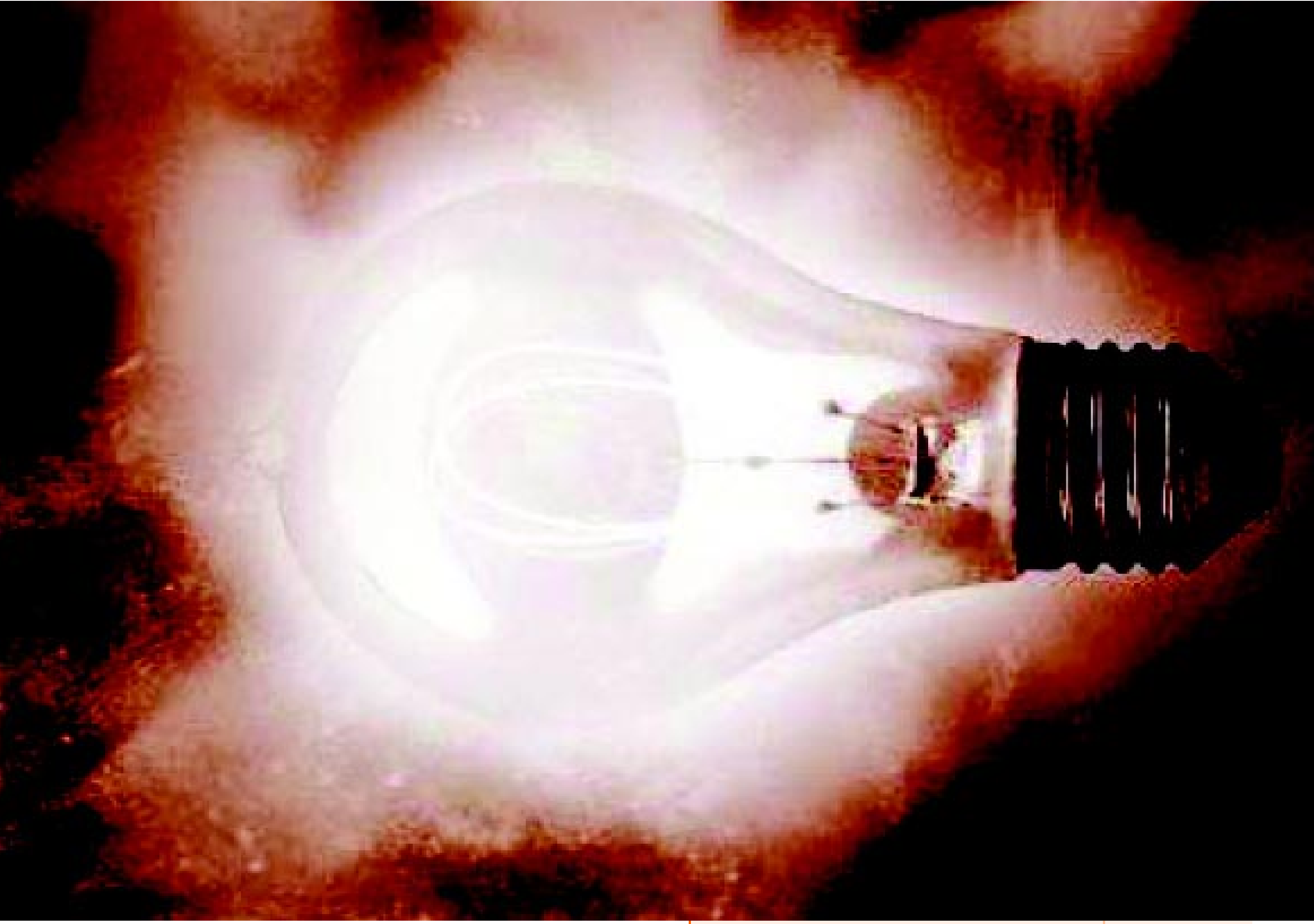


Stock Idea

Hexaware Technologies

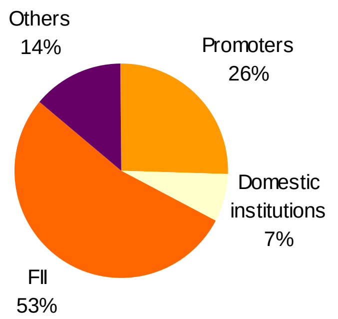
Ugly Duckling	Buy; CMP: Rs159	March 30, 2007

Growth at attractive valuations

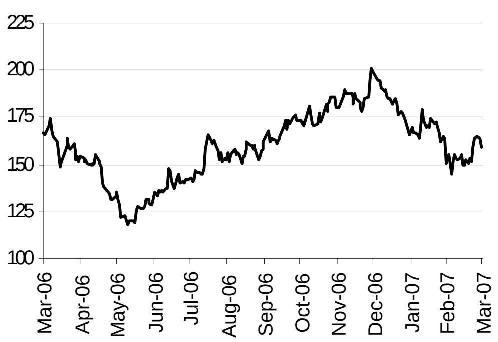
COMPANY DETAILS

Price target:	Rs220
Market cap:	Rs2,258 cr
52 week high/low:	Rs205/110
NSE volume: (No of shares)	2.3 lakh
BSE code:	532129
NSE code:	HEXAWARE
Sharekhan code:	HEXTECH
Free float: (No of shares)	10.6 cr

SHAREHOLDING PATTERN



PRICE CHART



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	5.8	-20.4	-1.7	-2.0
Relative to Sensex	5.2	-15.6	-6.1	-16.9

KEY POINTS

- **Strong presence in niche areas:** Hexaware Technologies Ltd (HTL) is a mid-cap company with a differentiated strategy of focusing on the fast-growing niche areas of enterprise package implementation and HR IT services. It has dominant share in the PeopleSoft implementation market and is growing its presence in Oracle and SAP space. Even in terms of verticals, it is focused on three key industry domains—transportation, BSFI and manufacturing—that account for over 95% of its revenues.

- **Better mining of clients by expanding portfolio of service offerings:** HTL is using a combination of organic and inorganic initiatives to expand its portfolio of service offerings that would enable it to enhance the share of business from its existing clients. One such initiative has been to build capabilities in the fast growing testing and quality assurance service practice, by developing manual testing services in-house and gaining a foothold in automated testing solution and consulting business through acquisition of US-based FocusFrame Inc. HTL aims to scale up the revenues from this practice to over $100 million per year in the next three years.

- **Strong growth visibility with sustainable margins:** The strong order book position of $250 million (of this $170 million is executable in CY2007), improving range of service offerings and a growing support for PeopleSoft by Oracle are some of the key drivers of the significant improvement in HTL's revenue growth visibility. Moreover, it has a number of levers to cushion it against the severe cost pressures and is expected to maintain its OPM in a narrow band of 15.5-16% over the next two years.

- **Attractive valuations:** The consolidated revenues and earnings are estimated to grow at a healthy rate of 31.6% and 28.5% respectively but the same is not reflected in the stock's prevailing valuations of 14.2x CY2007E and 11.2x CY2008E earnings. We recommend Buy on HTL with a price target of Rs220.

COMPANY BACKGROUND

HTL, promoted by the Atul Nishar group, is a niche information technology service vendor with strong presence in the package implementation service practice, especially in PeopleSoft products. It employs over 6,000 people and has established presence in the fast-growing European market.

KEY FINANCIALS

Particulars	CY2005	CY2006	CY2007E	CY2008E
Net sales (Rs cr)	678.7	848.2	1,124.2	1,469.5
Net profit (Rs cr)	91.6	124.2	158.6	205.2
No of shares (crore)	11.9	13.9	14.2	14.5
EPS* (Rs)	7.7	8.9	11.2	14.2
y-o-y change (%)	-	*16.3*	*25.2*	*26.9*
PER (x)	20.7	17.8	14.2	11.2
Price/BV (x)	5.5	4.8	3.8	3.0
EV/EBIDTA(x)	16.5	15.5	12.4	9.0
Dividend yield (%)	0.7	1.0	1.3	1.5
RoCE (%)	32.3	33.2	32.9	33.4
RoNW (%)	28.3	28.6	27.9	27.6

*Fully diluted EPS

In Germany it has the distinction of being the first mid-sized company to have bagged large contracts. Its key clients include reputed names like Citibank, Deutsche Leasing, NorthWest Airlines, Alliance Capital, Air Canada and AXA.

In March 2006, HTL had raised Rs300 core through a preferential allotment of equity shares (1.06 crore equity shares at Rs142 a share amounting to proceeds of Rs150.2 crore) and optional convertible preference shares (worth Rs150 crore convertible within 18 months from the date of allotment in April 2006). The company is utilising the proceeds from the same to enhance its delivery capabilities, improve its physical infrastructure and grow inorganically.

INVESTMENT ARGUMENTS

Strong presence in the chosen niche markets

HTL has established a strong foothold in its chosen niche areas both in terms of service practices and industry domains. It is among the leaders in the package implementation of PeopleSoft enterprise solutions and has a dedicated team of over 1,000 people for the same. It has also built a team of 450-500 people for the enterprise products of Oracle and SAP.

In terms of verticals, the company has a strong focus on transportation (largely airlines), manufacturing and banking, financial services and insurance (BSFI) industry domains that together contributed over 95% of its total turnover in CY2006. The strategy is to maintain the domain focus and make continuous investments in deepening the domain knowledge.

FocusFrame acquisition, a shot in the arm

In November 2006, HTL acquired 100% stake in US-based FocusFrame Inc (FF) that specialises in providing high-end automated testing solutions and consulting services. FF is a premier partner for Mercury, one of the highest selling vendors of automated testing products. FF has developed a patented product "Accelerator" that substantially brings down the cost of implementation of enterprise packaged software solutions. The Accelerator modules for implementation of Siebel and SAP packages have been deployed successfully. HTL aims to extend the same to PeopleSoft technology now.

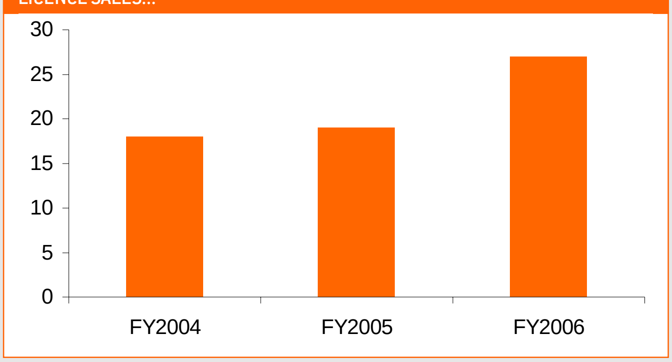
In terms of operational metrics, FF has over 200 employees and commands premium billing rates of over $125 per hour. It also has an established client base that includes nine Fortune 500 companies.

Roadmap for PeopleSoft suite

In its clearly defined strategy christened "Application unlimited", Oracle has announced that it would continue to invest in enhancements to its Oracle E-Business Suite, PeopleSoft, JD Edwards and Siebel application products even after the delivery of Oracle Fusion Applications. This strategy eliminates all concerns related to customers either migrating to Oracle Fusion Applications or continuing with their existing product lines like PeopleSoft, JD Edwards and Siebel as these products would continue to have dedicated development and support lines. This essentially means that there is no deadline for Oracle to discontinue providing support for acquired products such as PeopleSoft.

In fact, PeopleSoft is emerging as a high growth product for Oracle as it contributed the bulk of the growth in the company's new licence revenues in the application product segment in FY2006. So it's not surprising that Oracle has already announced its plans to introduce the version 9.1 upgrade for PeopleSoft when it has still not fully released the version 9.0 upgrade modules. This clearly outlines Oracle's growth plan for the next four to five years for its PeopleSoft suite of products.

INCREASING CONTRIBUTION FROM APPLICATION SOFTWARE AS % OF TOTAL NEW LICENCE SALES...



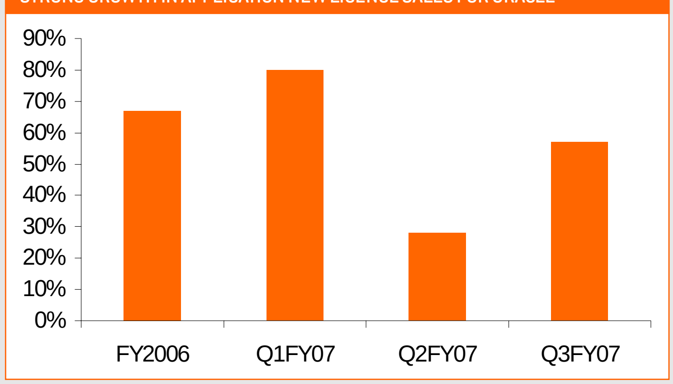
Source: Sharekhan Research

...LARGELY AIDED BY PEOPLESOFT PRODUCT SUITE

Application software	$ mln	% contribution
PeopleSoft	220	42.5
Oracle	154	29.7
Siebel	103	19.9
Retek	41	7.9
Incremental revenues in FY2006	518	

In terms of the near-term growth outlook, Oracle is witnessing a strong growth of over 30% (around 67% to $1.37 billion in FY2006 which was aided by inorganic revenues) in its new licence sales in the application space. In fact, product update and support revenues are also one of the key revenue streams for enterprise software solution companies such as Oracle (this stream contributes around 44-45% of Oracle's total revenues). This essentially means that the introduction of the version 9.0 in the coming months would result in a huge opportunity in the product update implementation business for HTL over the next few quarters and should start getting reflected in its numbers from Q2CY2007 onwards.

STRONG GROWTH IN APPLICATION NEW LICENCE SALES FOR ORACLE



Source: Sharekhan Research

What's more, the acquisition has been done at reasonably attractive valuations. The total consideration of $34.3 million (including around $9 million of earn-out payable over a period of 24 months) works out to 1.4x its CY2006 revenues. FF is a profitable company (profit before tax margin of around 14%) with no debt on its books. Thus, the acquisition is going to be earnings accretive right from the first full quarter.

That's not all. FF brings along the capability to provide comprehensive services across the entire testing service value chain. Moreover, its high-end automated testing services complement the manual testing services already offered by HTL (through a team of over 400 consultants; a revenue base of $12 million in CY2006). The combined entity would have testing revenues of around $36 million. This would provide an edge to HTL and enable it to effectively tap the potential in the fast-growing testing service market. Consequently, mindful of the offshore capabilities of HTL and the strengths of FF in the testing service space, the HTL management aims to scale up the practice to around $100 million per year over the next three years.

There are other benefits too. For instance, the acquisition would also enable HTL to scale up its near shore development capabilities as FF already has an operational centre with 75 employees in Mexico.

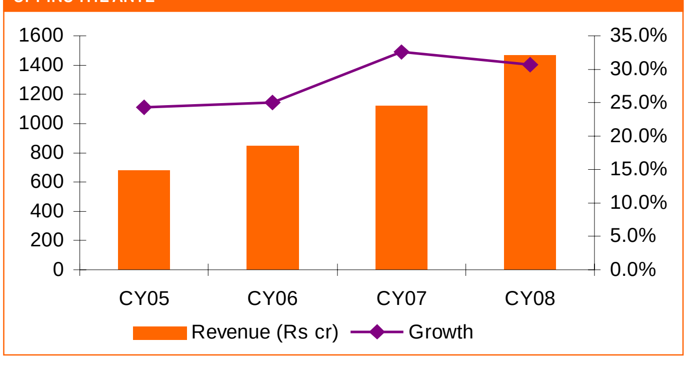
Strong growth visibility

A strong order book of $250 million of which around $170 million is executable in CY2007 provides reasonably strong revenue growth visibility for HTL. Moreover, the "Application unlimited" strategy unveiled by Oracle—wherein the US company would provide ongoing enhancements and support for PeopleSoft beyond the earlier indicated deadline of 2013—gives a clear roadmap for future and eliminates the concerns related to the discontinuance of the same.

Apart from this, the addition and scaling up of capabilities in service lines with huge growth potential, eg testing services, and possibly more inorganic initiatives (given HTL's comfortable cash position) would also aid the overall revenue growth in the coming years.

The company's ability to effectively mine the business from its large customers is also a comforting factor. At the end of CY2006, the company had 41 clients with a revenue run rate of over $1 million as compared to 30 and 25 such clients in CY2005 and CY2004 respectively. Consequently, the consolidated revenues are estimated to grow at a compounded annual growth rate (CAGR) of 31.6% over the two-year period CY2006-08 (much higher than the CAGR of 24.7% reported in CY2004-06).

UPPING THE ANTE



Source: Sharekhan Research

Margins are sustainable

HTL has enough levers of margin improvement that can not only cushion it against any cost pressures (especially wage inflation) but are also likely to result in an improvement in the operating profit margin over the next two years. With the revenue base over the critical threshold limit of over $200 million at present, HTL is likely to benefit from the economies of scale in terms of leveraging the sales, general and administrative (SG&A) cost (currently at a relatively high level of 21.7% as a percentage of sales) and better employee utilisation (68.2% in Q4CY2006 which leaves scope for an improvement of 200-300-basis points from here).

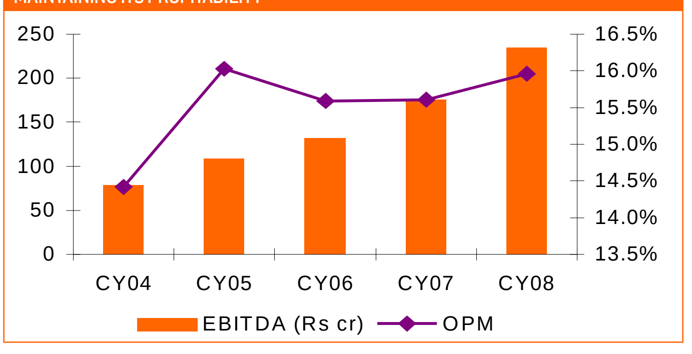
Apart from this, HTL is taking steps to broaden its employee pyramid to smoothen the impact of wage inflation on its gross margin. The company aims to gradually reduce the fairly high proportion of employees with over five years of work experience from 28-29% currently. Lastly, there is also enough scope for improvement in the revenue mix toward high-margin offshore services that accounted for less than 40% of revenues in CY2006. The management is also exploring ways to shift offshore some of the onsite business of FF.

MARGIN LEVERS

Reduction in SG&A cost, which is relatively high at 21.7% of the sales	Leaves enough scope for improvement as economies of scale kick in. The management expects an improvement of 100-150-basis points in CY2007.
Improvement in employee utilisation	Utilisation levels are targeted to improve to around 72% (up from 68.25% in Q4CY2006) over the next six to eight quarters; would aid gross margin.
Broadening of the eployee pyramid	Employees with over five years of experience at comfortable level of around 28% of the total work force; this leaves enough scope for improvement by aggressive addition of freshers. Would aid gross margin.
Improvement in contribution from offshore services (38.8% reported in CY2006)	To begin with, a substantial part of FF's business can be shifted offshore.

Consequently, the company is expected to maintain it margins in the 15.5-16% band over the next couple of years, in spite of the obvious cost pressures. Thus, the strong growth in the revenues is largely expected to percolate down to its bottom line. The consolidated earnings are estimated to grow at a CAGR of 28.5% over the two-year period CY2006-08.

MAINTAINING ITS PROFITABILITY



Source: Sharekhan Research

INVESTMENT CONCERNS

The key external risks are: higher than expected exchange rate fluctuation, a slowdown in the US economy and the phasing out of PeopleSoft products by Oracle. The internal risk includes the company's ability to manage and integrate acquired entities, scale up its employee base and control wage inflation.

In the short term, the company is expected to incur a one-time cost of around Rs5 crore related to the acquisition and integration of FF. However, the same is already anticipated by the markets and has been factored in our estimates.

VALUATION

In view of the recent encouraging developments within the company, its strong order backlog and healthy order pipeline, the HTL management is quite optimistic about the future growth prospects of HTL and has given a broad guidance of doubling the revenues and earnings over the next eight to ten quarters. The same, however, does not seem to have been factored in the stock's current valuations of 14.2x CY2007 and 11.2x CY2008 estimated earnings. We recommend a Buy call on the HTL stock with a price target of Rs220 (15.5x CY2008E earnings in line with the other mid-cap stocks under our coverage).

FINANCIALS

EARNINGS TABLE Rs (cr)

Particulars	CY05	CY06	CY07E	CY08E
Net sales	678.7	848.2	1124.2	1469.5
Total expenditure	569.9	716.0	948.8	1234.9
EBITDA	108.8	132.2	175.4	234.5
Other income	14.6	24.1	28.0	31.9
Depreciation	22.1	20.0	27.2	35.8
PBT	101.3	136.3	176.2	230.6
Tax	9.7	12.0	17.6	25.4
Net profit	91.6	124.2	158.6	205.2

BALANCE SHEET Rs (cr)

Particulars	CY05	CY06	CY07E	CY08E
Share capital	23.9	27.9	28.4	29.0
Reserves and surplus	323.6	433.7	569.0	743.6
Networth	347.4	461.5	597.4	772.6
Total debt	6.2	5.0	5.0	5.0
Deferred tax liabilities	0.7	0.6	0.5	0.4
Capital employed	354.3	467.1	602.9	777.9
Net fixed assets	93.1	108.3	270.1	269.3
CWIP	0.2	5.0	5.0	5.0
Investments	65.3	88.8	81.5	111.5
Deferred tax assets	3.7	4.6	5.7	7.2
Net current assets	192.0	260.4	240.6	385.0
Capital deployed	354.3	467.1	602.9	777.9

KEY RATIOS

Particulars	CY05	CY06	CY07E	CY08E
OPM (%)	16.0	15.6	15.6	16.0
NPM (%)	13.5	14.6	14.1	14.0
RoCE (%)	32.3	33.2	32.9	33.4
RoNW (%)	28.3	28.6	27.9	27.6

VALUATION

Particulars	CY05	CY06	CY07E	CY08E
EPS (Rs)	7.7	8.9	11.2	14.2
P/E	20.7	17.8	14.2	11.2
Book value	29.1	33.1	42.1	53.3
Price/BV	5.5	4.8	3.8	3.0
EV/sales	2.6	2.4	1.9	1.4
Market Cap/sales	2.8	2.6	2.0	1.6
EV/EBIDTA	16.5	15.5	12.4	9.0
Dividend yield (%)	0.8	1.0	1.3	1.5

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

Stock Update

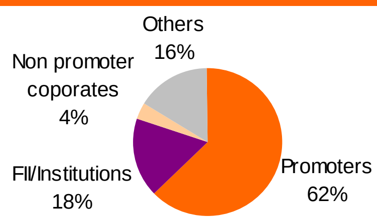
Aban Offshore

Emerging Star	Buy; CMP: Rs1,780	March 07, 2007

COMPANY DETAILS

Price target:	Rs2,430
Market cap:	Rs7,120 cr
52 week high/low:	Rs2,008/645
NSE volume (No of shares):	86,963
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float (No of shares):	1.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.1	57.5	45.4	92.4
Relative to Sensex	13.9	72.8	36.3	60.4

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

Price target revised to Rs2,430

Aban Offshore Ltd (AOL) has announced the signing of a contract with affiliates of Addax Petroleum and Sinopec to deploy its deepwater drill ship, Aban Abraham, in the offshore block located at the Gulf of Guinea. The contract to drill five firm wells (with an option to drill another five wells) over a duration of 300 days is worth $123 million (can be increased to $246 million). It works out to a charter rate of $410,000 per day (around 36.6% higher than the charter rate of $300,000 for its contract starting from July 2007). The recently acquired contract is effective from end of May 2008 and would positively affect the earnings of FY2009.

Sinvest stake hiked to 100%

AOL also announced recently that it has already hiked its stake in Sinvest ASA to over 98% under the mandatory open offer made by its subsidiaries. Further, the Aban group has decided to carry out a compulsory acquisition of the remaining 1.99% shares as per the section 4-25 of the Norwegian Public Ltd Companies Act. Consequently, AOL is clearly set to increase its stake to 100% in Sinvest.

Revision of earnings

To factor in the impact of both these developments, we have revised the consolidated earnings estimate of FY2009 by 1.7% to Rs303.6 per share. Accordingly, the price target has been revised to Rs2,430 (8x FY2009E earnings which is at a slight premium to the valuations of the other comparable global players due to the company's strong cash flows and a relatively higher return on equity). ■

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

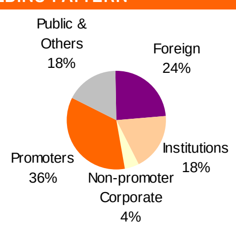
ACC

Apple Green	Buy; CMP: Rs753	March 22, 2007

COMPANY DETAILS

Price target:	Under review
Market cap:	Rs14,149 cr
52 week high/low:	Rs1,194/625
BSE volume (No of shares):	8.4 lakh
BSE code:	500410
NSE code:	ACC
Sharekhan code:	ACC
Free float (No of shares):	12.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-23.8	-25.4	-20.8	2.5
Relative to Sensex	-16.7	-23.2	-25.1	-15.0

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

Annual report review

We went through the Annual Report of ACC Limited for the year ended December 2006. The highlights of the same are presented below.

Cement business witnesses the highest growth in the company's history

Riding on the back of a cement boom in the economy, ACC's sales volumes grew by 8% year on year (yoy) to 18.76MMT whereas the cement realisations grew by a whopping 32% yoy to Rs2,866 per tonne resulting in a top line growth of 43% yoy to Rs5,405.35 crore. The overall revenues stood at Rs5,803 crore with the ready mix concrete (RMC) business contributing Rs300 crore.

Higher leverage to prices boosts cement EBITDA as well as Net margins

The company's earnings before interest, tax, depreciation and amortisation (EBITDA) witnessed a whopping 140% year-on-year (y-o-y) growth to Rs1,623 cr whereas net profits witnessed a 51% y-o-y jump to Rs1,062 crore on the back of lower interest cost and excellent performance at the operating level.

Expansion projects to drive total capacity to 27MMT by 2009

In order to boost its volume growth going ahead, the company is carrying out a slew of measures, which will lead to its capacities getting augmented to 27.50 at the end of CY09.

Outlook

We believe that in FY2009, ACC would be able to tide over the cement price glut in the northern region on account of its pan Indian presence. We are in the process of revising our earnings estimates as well as the price target. Once we get a clear stand on the cement prices from the government, we will update you with the revised earnings and price target. ■

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

Alphageo India

Emerging Star	Buy; CMP: Rs202	March 14, 2007

Bags Rs60-crore contract from ONGC

COMPANY DETAILS

Price target:	Rs270
Market cap:	Rs100 cr
52 week high/low:	Rs219/89
BSE volume (No of shares):	28,542
BSE code:	526397
Sharekhan code:	ALPHAGEO
Free float (No of shares):	0.32 cr

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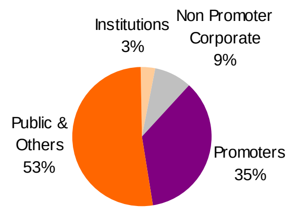

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-2.0	27.9	47.0	69.2
Relative to Sensex	6.4	29.7	34.4	38.8

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

Alphageo India has bagged a 3D (three-dimensional) survey contract worth Rs60 crore from Oil & Natural Gas Corporation (ONGC). With this order in hand, the company is likely to opt out of the low-margin 2D (two-dimensional) survey order of Oil India. Thus, the effective increase in the order backlog works out to Rs40 crore. This essentially means that the company is likely to begin the next fiscal with a pending order backlog of around Rs120 crore after taking into account the estimated revenue booking of Rs30 crore during the last quarter of FY2007.

Location advantage

The recently bagged ONGC contract is located in the Cauvery Basin (ie close to the south-east coast of India) as against the current concentration of order backlog in the tough terrain of the north-east region. This should enable the company to smoothen out the seasonality pattern in its financial performance due to the closure of work during the monsoons in the north-east region.

The management intends to deploy two out of the three functional 3D crew for the recently bagged ONGC contract during the lean period of July-October. This essentially means that the company might not have to set up another crew which could have resulted in equity dilution.

Valuation

At the current price the stock trades at 14.9x FY2007 and 8.3x FY2008 earnings. We maintain our Buy call on the stock with a price target of Rs270.

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

Ashok Leyland

Ugly Duckling	Buy; CMP: Rs39	March 07, 2007

Good growth at attractive valuations

COMPANY DETAILS

Price target:	Rs56
Market cap:	Rs5,108 cr
52 week high/low:	Rs54/29
NSE volume (No of shares):	51.4 lakh
BSE code:	500477
NSE code:	ASHOKLEY
Sharekhan code:	ASHOKLEY
Free float (No of shares):	61.7 cr

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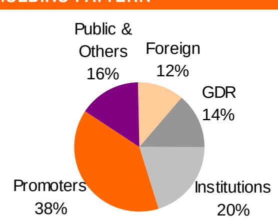

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-23.4	-11.8	-12.4	-7.1
Relative to Sensex	-12.7	-3.2	-17.8	-22.6

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

Ashok Leyland Ltd (ALL) has reported good vehicle sales numbers for the month of February 2007 with an overall growth of 33%. The truck segment recorded a 33% growth and the bus segment grew by 27% during the month.

The company is all set to surpass its sales target of 80,000 vehicles for the current fiscal. We maintain our positive outlook on the growth prospects of Ashok Leyland on the back of the continuing buoyancy in the commercial vehicle segment.

The company is expected to spend about Rs4,000 crore in the next three-four years, including about Rs1,200 crore for setting up a plant in Uttaranchal.

ALL is also a front runner for the acquisition of a stake in Punjab Tractors Ltd (PTL). The acquisition, in case it goes through, would give ALL an entry into the fast growing tractor market in India, and the acquirer would also be able to take advantage of the strong brand equity of PTL and its strong distribution network. However, the acquisition would come at a high price, and the acquirer would have to shell out anything between Rs1,200 crore and Rs1,500 crore, which would necessitate further raising of funds by the company.

A sharp correction on the bourses following a global meltdown has seen the stock price of Ashok Leyland take a heavy beating. Considering its strong growth outlook, we believe that this is a good buying opportunity, as the stock is available at very attractive valuations, which are at a considerable discount to its peers. At the current market price of Rs39, the stock discounts its FY2008E earnings by 9.5x and quotes at an enterprise value/earnings before interest, depreciation, tax and amortisation of 5.3x. We maintain our Buy recommendation on the stock with a price target of Rs56.

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

Bharat Electronics

Apple Green

Buy; CMP: Rs1,550 | **March 01, 2007**

COMPANY DETAILS

Price target:	Rs1,715
Market cap:	12,400 cr
52 week high/low:	Rs1,748/815
NSE volume (No of shares):	1.3 lakh
BSE code:	500049
NSE code:	BEL
Sharekhan code:	BEL
Free float (No of shares):	1.9 cr

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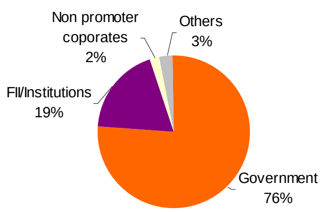

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	10.9	31.9	30.1	37.7
Relative to Sensex	18.3	35.2	17.7	13.2

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

Budget positive for BEL

The budgetary allocation for the defence sector has been pegged at Rs96,000 crore for 2007-08, growth of 7.9% over Rs89,000 crore in the last year's budget. The same is 11.6% higher than the Rs86,000 crore shown in the revised estimate for 2006-07. The growth in the total defence allocation is in line with the trend seen in the past couple of years.

The government has also maintained the proportion of the capital outlay at 43.7% of the total budget allocation. However, there has been a significant jump in the capital outlay for equipment in the 2007-08 budget to Rs13,673 crore, which translates into a growth of 32.1% over the budgeted figure in 2006-07 and a huge jump of 64.6% on the revised estimate of Rs8,305 crore in 2006-07.

Improving growth visibility

The huge jump in the capital outlay for equipment is likely to benefit a company like Bharat Electronics Ltd (BEL), which has emerged as one of the key suppliers of electronic and other high tech equipment to the defence forces. This coupled with the order backlog of around Rs7,300 crore and a strong traction in civilian business provides a reasonably strong revenue growth visibility. Moreover, the recent alliances with leading defence contractors would also add to the overall growth in revenues over the coming years.

Valuation

At the current market price the stock trades at 15.1x FY2007 and 12.3x FY2008 estimated earnings. We maintain our Buy call on the stock with a price target of Rs1,715.

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

Bharat Heavy Electricals

Apple Green

Buy; CMP: Rs2,255 | **March 26, 2007**

COMPANY DETAILS

Price target:	Rs2,650
Market cap:	Rs55,805 cr
52 week high/low:	Rs2,668/1,531
BSE volume (No of shares):	493,712
BSE code:	500103
NSE code:	BHEL
Sharekhan code:	BHEL
Free float (No of shares):	7.8 cr

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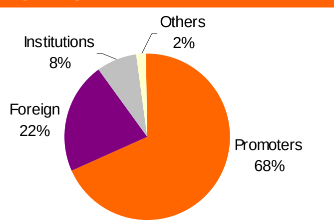


PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	0.0	-0.4	-0.9	4.4
Relative to Sensex	2.5	0.7	-9.1	-16.1

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

Foray into defence equipment space

Bharat Heavy Electricals Ltd (BHEL) is planning to produce defence equipment, including weapons. It has already applied for a licence to produce defence products. It is likely to manufacture all types of guns, including field guns, air defence guns, and mortars for the Indian defence sector and para-military forces.

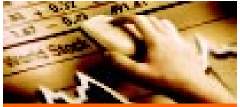
Fierce competition but huge opportunity

In the defence space, BHEL will have to compete with leading private players such as Larsen & Toubro, Tata Power, Mahindra & Mahindra, Godrej Industries. But the size of the opportunity is also huge. According to India's newly introduced offsets policy, overseas players bagging Indian defence contracts will have to source 30% of their defence requirements through Indian companies. This is likely to bring in USD10 billion during the 11th Five-Year Plan period (2007-11).

Valuation and view

BHEL's Q3FY2007 results were sharply above our and the street's expectations, primarily because of a sharp jump in the margins. The order backlog grew by 38.2% year on year to Rs46,700 crore. Going forward, huge orders from generation companies like NTPC and Reliance Energy, and the company's planned foray into defence products would drive the company's order book and earnings. At the current levels, the stock is trading at 18.0x its FY2008E earnings and 10.7x its FY2008E earnings before interest, depreciation, tax and amortisation. Given the expectations of continued growth in its order book and a strong earnings growth, we believe the valuations are attractive. We maintain our Buy recommendation on the stock with a price target of Rs2,650.

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



STOCK UPDATE

Cadila Healthcare

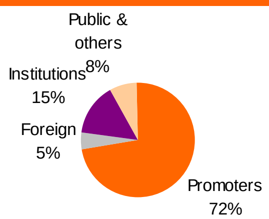
Emerging Star | **Buy; CMP: Rs311** | **March 09, 2007**

Remains strong and stout

COMPANY DETAILS

Price target:	Rs425
Market cap:	Rs3,906 cr
52 week high/low:	Rs400/225
NSE volume (No of shares) :	50,666
BSE code:	532321
NSE code:	CADILAHC
Sharekhan code:	CADILAHEAL
Free float (No of shares) :	3.5 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-7.4	-4.6	-6.7	11.6
Relative to Sensex	4.0	0.7	-15.0	-11.4

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

- Cadila aims to become a $1 billion company by December 2010, of which $800 million will come through organic growth and the remaining $200 million from inorganic initiatives. From estimated sales of approximately $400 million in FY2007E, this implies a doubling of the organic revenues over the next 4 years.
- For the USA, Cadila plans to file 20-25 ANDAs every year and launch 6-7 new products. We believe Cadila's US business will grow at a CAGR of 65% to over $50 million in FY2009E.
- Through a stream of new launches and an increasing market share, we believe Cadila's French business will grow at a CAGR of 43.5% to over 31 million euros in FY2009E.
- With an increased thrust on rural areas, a continued focus on the lifestyle segments and a target of 35+ new launches per year, we expect Cadila's domestic formulation business to grow at a CAGR of 10.4% to Rs1,317 crore in FY2009E.
- We are introducing our FY2009E estimates for Cadila. We estimate the sales to grow at a CAGR of 18.5% over FY2006-09E and profits to grow at a CAGR of 26.7%, translating into earnings of Rs26.7 per share in FY2009E.
- At the current market price of Rs311, Cadila is trading at 14.1x its estimated FY2008E earnings and at 11.7x its estimated FY2009E earnings. Considering the strong growth momentum of the company, we maintain our Buy recommendation on the stock with a price target of Rs425.

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

Canara Bank

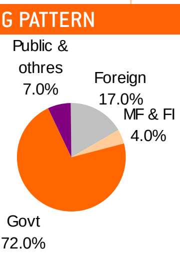
Apple Green | **Buy; CMP: Rs186** | **March 20, 2007**

AMC JV between Canara Bank and Robeco

COMPANY DETAILS

Price target:	Rs320
Market cap:	Rs7,626 cr
52 week high/low:	Rs320/165
NSE volume (No of shares) :	5.5 lakh
BSE code:	532483
NSE code:	CANBK
Sharekhan code:	CANBNK
Free float (No of shares) :	11.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-17.6	-33.5	-31.1	-31.9
Relative to Sensex	-6.3	-29.8	-34.9	-42.4

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

- Canara Bank has decided to sell its 49% stake in its asset management arm, Canbank Investment Management Services (CIMS), to the Netherlands-based Robeco Groep NV for Rs115 crore.
- The proposed venture has got the nod of the Reserve Bank of India. However approval from the capital market regulator, Securities and Exchange Board of India, and the Foreign Investment Promotion Board are awaited.
- The company plans to float five new equity-based products and aims to capture 5% market share in the next five years.
- The assets under management (AUM) of the bank stood at Rs2,200 crore, which is comparatively lower than that of industry leaders like Prudential ICICI (AUM of Rs43,280 crore as on February 2007).

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

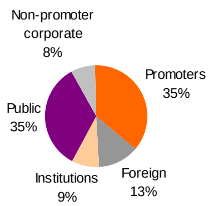
Elder Pharmaceuticals

Apple Green | Buy; CMP: Rs392 | March 21, 2007

COMPANY DETAILS

Price target:	Rs508
Market cap:	Rs686 cr
52 week high/low:	Rs438/223
BSE volume (No of shares):	7,808
BSE code:	532322
NSE code:	ELDERPHARM
Sharekhan code:	ELDERPHARM
Free float (No of shares):	1.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-7.7	11.8	16.2	37.0
Relative to Sensex	3.4	17.2	10.4	16.2

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

Angellini hikes stake in Elder

Elder Pharmaceuticals (Elder) has entered into an in-licencing alliance with Laboratorios Farmaceuticos Rovi of Spain to market heparins in India for treatment of thrombo-embolic diseases.

As part of the deal, Elder will introduce in India a patented, US FDA approved product Bemiparin. Bemiparin has consolidated its position in Spain with a market share of 25% during 2006. In India, Elder will launch Bemiparin under the brand name of HIBOR. The total anti-thrombotic market in India is worth Rs130 crore with products mainly from the multinationals. Elder hopes to garner between 8% and 10% market share in the first year itself.

Italian pharma company Angellini has hiked its stake in Elder by 5% to 15%. This would strengthen the business tie-up between the two companies. During FY2006, Elder had entered into an ownership deal with Angellini, whereby the Italian company had out-licenced three products to Elder and picked up a 10% stake in the company. The stake increase by the out-licencing partner can prove to be a positive development for Elder, as Angellini has might out-licence the manufacturing rights to Elder for its products.

Valuation & view

With a widespread sales force of over 2,000 people and a reputation of protecting patent rights, Elder has positioned itself as a partner of choice for global companies to market their products in the Indian market.

In view of its strong growth potential, we remain positive on Elder's future growth prospects. We maintain our Buy recommendation on Elder with a price target of Rs508.■

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

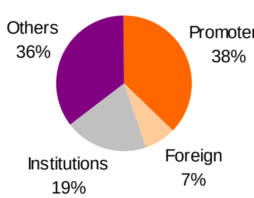
Esab India

Vulture's Pick | Buy; CMP: Rs328 | March 13, 2007

COMPANY DETAILS

Price target:	Rs575
Market cap:	Rs505 cr
52 week high/low:	Rs552/237
NSE volume (No of shares):	17,293
BSE code:	500133
NSE code:	ESABINDIA
Sharekhan code:	ESAB
Free float (No of shares):	1.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-12.7	-3.4	-3.8	-26.1
Relative to Sensex	-4.0	-2.8	-13.3	-39.3

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

Top line growth ahead of expectations

RESULT HIGHLIGHTS

- Esab India's Q4CY2006 results are good. Its top line grew by 32.4% which was ahead of our expectations. The profit before tax grew by an impressive 50%. However due to a higher tax rate vis-à-vis Q4CY2005, the net profit growth of 21.7% was below our expectations.
- The higher top line growth was aided by the company's new facility in Chennai. This facility, on a fully operational basis, can contribute additional Rs60 crore to the top line. The revenues for the quarter recorded an impressive 32.4% growth as the equipment division's revenue increased by a whopping 98% and the consumable division's revenue grew by 16%.
- The operating profit for the quarter grew by 49.6% to Rs14.4 crore as the operating profit margin (OPM) improved by 211 basis points to 18.4%.
- The improvement in the OPM was on account of the better profitability of the equipment division. The earnings before interest and tax margin of the equipment division improved by 1,200 basis points to 17.5%.
- The depreciation for the quarter increased by 35% as the company has commissioned its new plant in Chennai.
- The tax rate for the quarter stood at 33.3% as against 18% in the same quarter last year.
- Consequently, the net profit grew at a lower rate of 21.7% to Rs10.1 crore.■

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

Gateway Distriparks

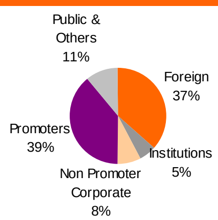
Cannonball | Buy; CMP: Rs160 | March 29, 2007

Gateway forms a 51:49 JV with Concor

COMPANY DETAILS

Price target:	Rs250
Market cap:	Rs1,475 cr
52 week high/low:	Rs267/138
BSE volume (No of shares):	3.9 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GATEWAY
Free float (No of shares):	5.6 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.1	-20.6	1.6	-32.3
Relative to Sensex	0.1	-14.9	-2.8	-42.7

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

- Gateway Distriparks Ltd (GDL) through its subsidiary Gateway Rail has formed a 51:49 joint venture with Container Corporation of India (Concor) to construct and operate a rail-linked double-stack container terminal at Garhi-Harsaru, 7 kilometre from Gurgaon in Haryana.
- The rail-linked inland container depot (ICD) currently operated by GDL will be transferred to the joint venture. The excess land (approximately 70 acre) owned by GDL will also be transferred to the joint venture and GDL will earn lease rentals on the same.
- The total cost of setting up the joint venture will be Rs70 crore which will be funded in the debt/equity ratio of 2:1.
- The revenues (handling charges and ground rent) arising from the joint venture will be shared in the ratio of the stakes held by the two companies.
- The profits from the rail operations for the movement of container rakes from the Garhi ICD to the ports will be equally shared between GDL and Concor.
- We maintain our bullish stance on the company as it will be the direct beneficiary of the growth in container traffic, which currently accounts for just 10% of the total cargo.
- The stock has significantly underperformed the Sensex in the last three months, declining by 21% over the period. So we believe this to be a good buying opportunity for the investors and thus maintain our Buy recommendation with a price target of Rs250.

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

ICI India

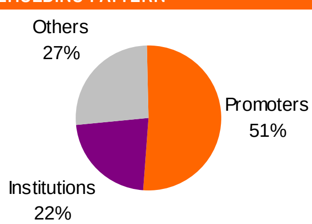
Ugly Duckling | Buy; CMP: Rs435 | March 05, 2007

ICI sells Quest International

COMPANY DETAILS

Price target:	Rs550
Market cap:	Rs1,774 cr
52 week high/low:	Rs495/243
NSE volume (No of shares):	11,429
BSE code:	500710
NSE code:	ICI
Sharekhan code:	ICI
Free float (No of shares):	2.0 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-2.0	10.9	42.5	13.7
Relative to Sensex	9.6	19.0	29.9	-7.6

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

ICI India (ICI) on March 02, 2007 sold its 100% equity share holding in Quest International India to Givaudari (India) Pvt Ltd for Rs320 crore. The company had also received an interim dividend of about Rs31 crore prior to the sale of Quest International India. Further, it expects an additional consideration of about Rs35 crore for various agreed adjustments in the next quarter.

Cash to be utilised to grow inorganically

At the end of March 2006, ICI had Rs350 crore of investments on book. With an additional cash inflow of Rs250 crore from the sale of the surfactant business, Rs355 crore as sales consideration from Quest International India and Rs50 crore from the sale of the auto refinish paint business, the company is sitting on a cash pile of Rs1,000 crore (cash per share of Rs245). We believe these resources would be utilised by the company to grow inorganically.

Valuations

We have revised our EPS estimate for the stock for FY2008, from Rs24.2 to Rs29.7, taking into account the sale of Quest International India as well as the higher non-operating income.

At the current market price of Rs435, the stock trades at 14.7x its FY2008E EPS of Rs29.7. We maintain our Buy recommendation on the stock with a price target of Rs550.

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

ICICI Bank

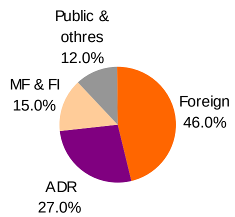
Apple Green | Buy; CMP: Rs820 | March 05, 2007

New holding structure to unlock value

COMPANY DETAILS

Price target:	Rs1,240
Market cap:	Rs72,980 cr
52 week high/low:	Rs1,006/440
NSE volume (No of shares):	13 lakh
BSE code:	532174
NSE code:	ICICIBANK
Sharekhan code:	ICICIBANK
Free float (No of shares):	65.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-10.4	-3.5	38.9	38.8
Relative to Sensex	0.1	3.5	26.6	12.8

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

- Key investments in insurance and asset management businesses to be transferred: ICICI Bank has decided to transfer its 74% stake in the insurance and 51% stake in the asset management businesses to a separate wholly owned subsidiary company called ICICI Holdings. It plans to further list ICICI Holdings separately in CY2007. The independent listing should unlock significant value for its life insurance business and provide further visibility to its stock's valuation. The bank plans to transfer the investments at the current book value, which stands at Rs1,950 crore.
- Listing will provide insurance companies greater access to capital: The insurance business needs a huge amount of capital infusion and ICICI Bank could not have met the capital demands without having to go for another equity issue. The transfer of stakes to a holding company was done with the idea of providing insurance companies greater access to capital.
- Significant value to be unlocked in the insurance business: Currently there are no listed insurance companies in the Indian market and the valuation provided to certain stocks like ICICI Bank and Bajaj Auto based on the new business adjusted profit (NBAP) multiple varies across the analyst community. The analyst community has taken a cue from comparable valuations given to the Chinese insurers which in the past year had been re-rated to 30-40x NBAP multiples. The listing of the holding company will provide a valuation benchmark for these high-growth businesses of the bank and unlock significant value for the insurance businesses. We have valued the life insurance business at 21x FY2009E NBAP, which we feel is a fair multiple for such a high-growth business.

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

ITC

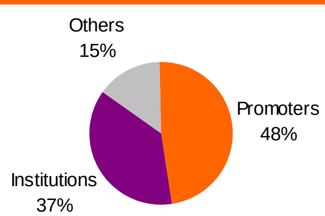
Apple Green | Buy; CMP: Rs142 | March 14, 2007

VAT on cigarettes

COMPANY DETAILS

Price target:	Rs200
Market cap:	Rs53,321 cr
52 week high/low:	Rs213/140
NSE volume (No of shares):	46.4 lakh
BSE code:	500875
NSE code:	ITC
Sharekhan code:	ITC
Free float (No of shares):	198 cr

SHAREHOLDING PATTERN



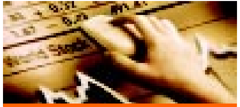
PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-14.4	-14.0	-18.5	-13.6
Relative to Sensex	-7.1	-12.8	-25.5	-29.1

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

- ITC has been underperforming the market for quite some time owing to fears of the implementation of the value added tax (VAT). We believe the stock would continue to underperform till clarity emerges on how VAT would be implemented and how the subsequent price hike would affect the company's volumes.
- Historical data shows that whenever there has been a price hike in the range of 10-12%, cigarette volumes have dipped. We believe that a 12.5% VAT may result in a 8-10% price hike across segments. Consequently, we may see lower growth or no growth in volumes in 2008.
- We believe that with VAT getting implemented, our earnings per share (EPS) estimate for FY2008 would change by 9% from Rs8.8 to Rs8, which is still a 9.6% growth over the FY2007 EPS. At the current market price of Rs142, the stock is quoting at 17.7x its FY2008E EPS and 10.7x FY2008E enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA). We maintain our Buy recommendation on the stock with a revised price target of Rs200.

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



KSB Pumps

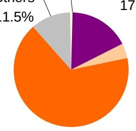
Emerging Star | Buy; CMP: Rs518 | March 23, 2007

Strong performance

COMPANY DETAILS

Price target:	Rs650
Market cap:	Rs901 cr
52 week high/low:	Rs680/360
BSE volume (No of shares):	2,199
BSE code:	500249
NSE code:	KSBPUMPS
Sharekhan code:	KSBPUMPS
Free float (No of shares):	58 lakh

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-8.8	-21.1	-5.2	18.5
Relative to Sensex	-4.1	-20.4	-13.2	-5.0

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

RESULT HIGHLIGHTS

- KSB Pumps delivered good results for Q4CY2006. Its net sales grew by 24.9% to Rs108.3 crore during the quarter. There was a delay in the dispatch of certain orders in the previous quarter; the delayed sales got reflected in the fourth quarter, boosting the Q4CY2006 performance.
- On segmental basis, the revenues of the pump business went up by 16.2% to Rs78.9 crore while that of the valve business grew by a strong 57.7% to Rs28.7 crore. However, the margin in the pump business declined to 13.4% from 15.3% last year, while the profit before interest and tax (PBIT) margin in the valve business grew by 120 basis points to 25.4%.
- The profit after tax (PAT) for Q4CY2006 rose by 42.4% to Rs12.1 crore. For CY2006, the OPM grew to 20.4% from 18.1%, while the full years' PAT grew by 38.3% to Rs51.6 crore.
- The pumps industry is set to benefit from the huge investments being planned in the user industries, particularly power and petrochemicals. KSB Pumps, enjoying a 12% market share, would be one of the key beneficiaries of the same and hence we expect the growth momentum to sustain going forward. We are introducing our CY2008 earnings per share (EPS) estimate at Rs46 for KSB Pumps. At the current market price of Rs518, the stock quotes at CY2007E price/earnings ratio (PER) of 11.3x and at an enterprise value (EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 6.2x. We maintain our Buy recommendation on the stock with a price target of Rs650.

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

Lupin

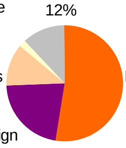
Apple Green | Buy; CMP: Rs570 | March 14, 2007

Building momentum in EU business

COMPANY DETAILS

Price target:	Rs670
Market cap:	Rs4,579 cr
52 week high/low:	Rs679/402
NSE volume (No of shares):	51,661
BSE code:	500257
NSE code:	LUPIN
Sharekhan code:	LUPLTD
Free float (No of shares):	3.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	0.0	6.0	24.3	23.3
Relative to Sensex	8.5	7.5	13.6	1.1

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

Lupin receives approval for Cefpodoxime Proxetil in France

Lupin received the marketing approval for generic Cefpodoxime Proxetil 100mg tablets in France. Cefpodoxime Proxetil is a cephalosporin antibiotic used to treat a variety of bacterial infections. Lupin's Cefpodoxime Proxetil tablets (the generic equivalent of Sanofi-Aventis's Orelox tablets and expires in August 2007 in France). The sales of Orelox tablets in France are close to 75 million euros as per IMS.

Lupin has recently started formulation exports to the European countries namely the UK and Croatia. Lupin is planning to replicate its US portfolio in the European markets using a partnership model. The company has already filed 11 dossiers in FY2006 and plans to file another 10-12 dossiers every year. Based on its filings, Lupin plans to launch 6-8 products in Europe in FY2008.

Wyeth sues Lupin for generic Effexor

Wyeth, which markets the Prevnar meningitis vaccine and Enbrel arthritis drug, has sued Lupin Ltd to block sales of a generic, extended-release form of the antidepressant Venlafaxine. Venlafaxine is the generic version of Wyeth's Effexor, an anti-depressant molecule. Wyeth's patent on venlafaxine, the key ingredient in the drug, expires in 2008. Lupin had made a Para IV filing to the US Food and Drug Administration (US FDA). While we believe that litigation is a normal business process in relation to Para IV filings, any favourable outcome of the ongoing Effexor litigation or an out-of-court settlement between Teva and Lupin for the same would benefit Lupin.

Valuation & view

At the current market price of Rs570, Lupin is trading at 15.3x its estimated FY2008 earnings. we maintain Buy with a price target of Rs670.

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

Mahindra & Mahindra

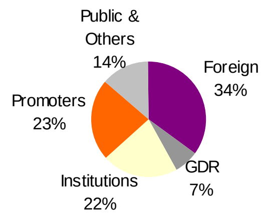
Apple Green | Buy; CMP: Rs731 | March 16, 2007

Acquisition marginally earnings accretive

COMPANY DETAILS

Price target:	Rs1,050
Market cap:	Rs17,836 cr
52 week high/low:	Rs1,002/488
BSE volume (No of shares):	7.4 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float (No of shares):	17.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-17.2	-7.7	15.9	24.3
Relative to Sensex	-5.3	0.0	10.7	5.4

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

Key take-aways of M&M's conference call on Punjab Tractor's acquisition

- M&M had won the bid to acquire a 43.5% stake in Punjab Tractors at Rs360 a share in an all-cash deal. Private equity fund Actis and the Burman family are selling their respective stakes of 29% and 14.5% in Punjab Tractors.
- M&M's management expects a number of strategic benefits and synergies from the acquisition. Several benefits are expected to come from the brand Swaraj, a well-respected brand that enjoys a good brand loyalty, particularly in the northern states.
- The acquisition would make M&M an undisputed leader in the tractor segment, with an overall market share of about 40%. It would help it consolidate its presence in the 31-40 horsepower (hp) category and help it to acquire a dominant status in the >51hp category.
- Punjab Tractors, having an installed capacity of 60,000 tractors, is operating at almost 50% utililsation level. M&M would look to make a better use of this capacity and may even utilise the spare capacity to manufacture its own brand of tractors. Punjab Tractors also has a foundry with a capacity of 20,000 tonne per annum (operating at just about 40% utilisation level), which would be of great help to M&M's auto component business. The combined entity of M&M and Punjab Tractors would also increase the bargaining power of both the companies, particularly in material procurement.
- We believe that the acquisition would have a marginal impact on M&M's earnings for FY2008. The management has indicated that it will use a mix of internal resources and debt to fund the acquisition. We expect that about 40-50% of the acquisition cost would be financed through debt. Considering this, our calculations suggest that the deal would be marginally earnings accretive for M&M for FY2008. However, we believe that the deal is a good strategic move by M&M, which would yield substantial long-term benefits for M&M. ■

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

New Delhi Television

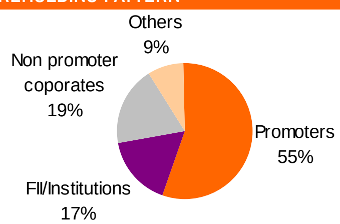
Emerging Star | Buy; CMP: Rs304 | March 13, 2007

Fund mobilisation begins for new channels

COMPANY DETAILS

Price target:	Rs348
Market cap:	Rs1,867 cr
52 week high/low:	Rs354/129
NSE volume (No of shares):	1.6 lakh
BSE code:	532529
NSE code:	NDTV
Sharekhan code:	NDTV
Free float (No of shares):	2.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.7	50.3	35.9	30.6
Relative to Sensex	9.2	51.1	22.6	7.4

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

New Delhi Television (NDTV) received the approval of the Foreign Investment Promotion Board to raise foreign investment of Rs585 crore (~$130 million) through its UK-based subsidiary NDTV Network Plc for its proposed general entertainment and lifestyle channels. Taking a step forward, it has entered into an agreement with Com Ventures for infusing $20 million in NDTV Network Plc. We believe the company will expedite the fund raising process by roping in strategic/financial investors or go for a listing on AIM.

After proving its metal in the news space, NDTV is well poised to enter the large but highly competitive Indian general entertainment space. It also plans to launch niche lifestyle channels dedicated to travel, food, fashion, shopping and health & wellness along with "Metronations" (city-centric channels) to garner local advertising. Apart from broadcasting we see value in its media outsourcing joint venture with Genpact, Internet portal (www.ndtv.com) and consulting businesses.

Valuation and view

At the current market price of Rs304 the stock trades at 44.3x its FY2008E earnings. We maintain our Buy recommendation on the stock with a price target of Rs348. ■

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

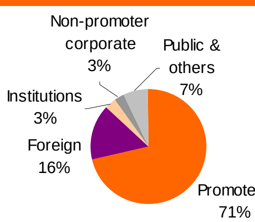
Sun Pharmaceutical Industries

Ugly Duckling | Buy; CMP: Rs1,012 | March 16, 2007

COMPANY DETAILS

Price target:	Rs1,341
Market cap:	Rs20,961 cr
52 week high/low:	Rs1,082/640
BSE volume (No of shares):	1.6 lakh
BSE code:	524715
NSE code:	SUNPHARMA
Sharekhan code:	SUNPHARM
Free float (No of shares):	5.4 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-0.8	4.4	10.1	31.7
Relative to Sensex	13.5	13.1	5.1	11.8

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

R&D pipeline adds sheen

- Sun Pharma Industries has de-merged its innovative research division into a separate company called Sun Pharma Advanced Research Company (SPARC) Ltd.
- As anticipated Sun Pharma has unfolded the innovative research pipeline for SPARC Ltd, which comprises of 4 new chemical entities (NCE) and 4 novel drug delivery systems (NDDS). The lead molecule—SUN 1334H—that targets anti-allergic disorders is undergoing Phase-II clinical studies in the USA and is likely to enter Phase-III trials in 2008.
- On the NDDS technology front, Sun is working on four platforms including controlled release system (which covers gastro retentive innovative device and WRAP matrix system), dry powder inhalers (DPI), targeted delivery by Nanoemulsion and biodegradable injections/implants.
- Sun Pharma's NCE research is analogue-based which means that the research is for creating newer drugs by modifying the existing ones. Hence, the risks of uncertainty about the molecules are minimal.
- The de-merger would positively affect Sun Pharma Industries, as Sun Pharma currently spends 35-40% of its research and development (R&D) expenses for innovative research, which will be saved on the de-merger. On the other hand, the NDDS technologies developed by SPARC would help Sun Pharma to launch new NDDS products in various markets where it has a presence.
- For lack of information, we are maintaining our earlier estimate for SPARC at Rs54 per share. And as per our earlier estimate, the base business is valued at Rs1,287 per share. Hence, our target value for Sun Pharma remains at Rs1,341 per share.

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

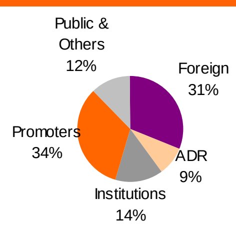
Tata Motors

Apple Green | Buy; CMP: Rs774 | March 02, 2007

COMPANY DETAILS

Price target:	Rs1,075
Market cap:	Rs29,812 cr
52 week high/low:	Rs997/610
NSE volume (No of shares):	14.5 cr
BSE code:	500570
NSE code:	TATAMOTORS
Sharekhan code:	TELCO
Free float (No of shares):	22.2 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-12.9	-6.4	-8.6	-5.2
Relative to Sensex	-5.6	-1.6	-18.4	-24.9

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

Good performance

- Tata Motors (TAMO) has reported decent numbers for February with an overall growth of 19% as its total sales rose to 53,707 units in the month from 45,113 units last February.
- The growth in the commercial vehicle segment continues to be strong despite the high base of last year. The segment recorded a 22% growth in February. The medium and heavy commercial vehicle segment saw a growth of 19.4% while the light commercial vehicle sales grew by 25.3% year on year (yoy).
- The passenger car sales were slower in February compared with that in the earlier months, with an overall growth of 12.8%. Indica reported sales of 12,580 units (up 19% yoy) while the Indigo family registered a decline of 6% in sales.
- The utility vehicle segment reported a phenomenal growth of 40.7% during the month, led by the strong sales of both Sumo and Safari. Safari sales grew by a staggering 258% to 2,009 units.
- TAMO's exports for the month stood at 4,526 vehicles as compared with 4,257 vehicles in February 2006. That's a growth of 6% yoy.
- At the current market price the stock is trading at 12.3x its consolidated FY2008E earnings and at an enterprise value/earnings before interest, depreciation, tax and amortisation of 6.4x. We remain bullish on the stock and maintain our Buy recommendation with a price target of Rs1,075.

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

Transport Corporation of India

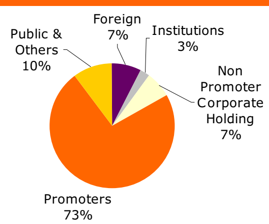
Cannonball | **Buy; CMP: Rs62** | **March 08, 2007**

Results ahead of our expectations

COMPANY DETAILS

Price target:	Rs86
Market cap:	Rs418 cr
52 week high/low:	Rs102/41
NSE volume (No of shares):	5,866
BSE code:	532349
NSE code:	TRANSPORTCO
Sharekhan code:	TCIL
Free float (No of shares):	1.8 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-19.2	-33.3	5.4	6.9
Relative to Sensex	-6.0	-26.1	-0.9	-10.2

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

RESULT HIGHLIGHTS

- The net revenues (excluding trading revenues) grew by 32.7% year on year (yoy) to Rs257.8 crore on the back of a 30.6% y-o-y growth in the combined revenues of the transport and supply chain divisions to Rs178.6 crore.
- The earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 59% yoy to Rs18.3 crore on account of a significant decline in its raw material costs arising from the closure of its petrol pumps. Consequently the EBITDA margins grew by 140 basis points yoy to 6.6%.
- The net profit at Rs8 crore grew by 54% yoy whereas the net margins improved by 80 basis points yoy to 2.9%.
- To capitalise on the growth opportunity, the company has lined up a huge capital expenditure (capex) plan of Rs430 crore to be implemented over the next four years. The capex plan broadly includes Rs150 crore for setting up warehouses, Rs120 crore for acquiring trucks and Rs100 crore for buying ships.The company plans to fund this capex through debt, internal accruals and fresh equity in equal measures.
- We are upgrading our FY2007 and FY2008 profit after tax (PAT) estimates by 4.9% to Rs32.1 crore and 8.8% to Rs44.2 crore respectively. On the revised numbers, the earnings per share (EPS) would stand at Rs4.8 per share for FY2007 and Rs5.6 per share for FY2008.
- At the current market price of Rs62, the stock trades at 13x FY2007E earnings and 11x FY2008E earnings. Considering the bullish outlook for the company as well as higher profitability, we maintain our Buy recommendation with a price target of Rs86. ■

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

Wockhardt

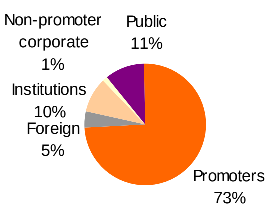
Ugly Duckling | **Buy; CMP: Rs362** | **March 20, 2007**

Beating expectations

COMPANY DETAILS

Price target:	Rs552
Market cap:	Rs3,960 cr
52 week high/low:	Rs562/316
NSE volume (No of shares):	73,683
BSE code:	532300
NSE code:	WOCKPHARMA
Sharekhan code:	WOCKLTD
Free float (No of shares):	2.9 cr

SHAREHOLDING PATTERN



PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	4.3	7.7	-8.5	-28.7
Relative to Sensex	18.8	13.7	-13.6	-39.7

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

RESULT HIGHLIGHTS

- Wockhardt's Q4CY2006 net sales grew by 43.7% to Rs526.4 crore, with flat operating margins at 23.2% (due to to the lower R&D expenses, which were capitalised instead of being expensed) and just 19.5% growth in net profit to Rs87.1 crore in Q4CY2006.
- For CY2006, Wockhardt's net sales grew by 22.4% to Rs1,729.1 crore, but due to the extraordinary expenses of Rs60 crore, the adjusted net profit declined by 6.1% to Rs241.3 crore.
- Wockhardt plans to achieve sales of $1 billion by 2009. For CY2007, the company is targeting to cross sales of $500 million and maintain the net margins in the range of 16-18%.
- Wockhardt has received the US FDA approval for painkiller tablets, containing a combination of Dextropropoxyphene napsylate and Acetaminophen (DPN+APAP). The US market for the DPN+APAP combination is over $100 million, the product has been off patent for years and so any significant price erosion is less likely. However it is highly competitive product with 14 competitors Assuming a 5% market share for Wockhardt and marginal price erosion, we estimate this product would result in incremental earnings per share (EPS) of just Rs0.50 per share in CY07.
- Based on the management's vision and strategy presented at the recently held analyst meet, we believe that Wockhardt's sales and profit will grow at a compounded annual growth rate (CAGR) of 21.3% and 31.3% over CY2006-08E to Rs2,544.3 crore and Rs415.8 crore respectively. The EPS stands at Rs34.8 per share.
- At the current market price of Rs362, the stock is available at 10.4x its estimated CY2008 earnings, on a fully diluted basis. We maintain our Buy recommendation on the stock with a price target of Rs552. ■

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

Q4FY2007 IT earnings preview

The steep appreciation of the rupee has further added to the seasonal weakness in the fourth quarter which would limit the revenue growth of the information technology (IT) companies to 5-6.6% on a sequential basis. The margins would be under pressure, especially in case of Wipro (because of a relatively lower forward cover and the impact of annual salary hikes to its onsite employees in Q4) and Satyam Computer Services (Satyam; due to an incremental cost of $4.5 million related to stock-based compensation). The earnings growth is expected to vary substantially for the various companies with a wide range of 1.3% to 6% sequentially.

Rupee rage

The average exchange rate of Rs44.2 against the dollar is quite close to the assumption of Rs44.1-44.3 made by the domestic companies (Infosys Technologies [Infosys]: Rs44.1; Satyam: Rs44.3) in their Q4 guidance. The other major currencies such as the euro and pound sterling were more or less flat on an average basis.

However, the steep appreciation of the rupee at the fag end of the quarter has resulted in a weighted average appreciation of around 1.2% in the rupee in terms of the end-of-period rates. This is likely to adversely affect the non-operating income (or the other income component) in the fourth quarter results of companies like Infosys and Satyam that use the fair value method of accounting for the currencies hedges.

On the other hand, the other income component of Tata Consultancy Services (TCS) and Wipro would not be affected by the appreciation of the rupee as they use the cash flow hedging method of accounting for the bulk of the exchange rate cover. However, in the cash flow hedging method, the impact would be more pronounced on the revenue growth as the end-of-period exchange rates are used for the conversion.

EXCHANGE RATE MOVEMENT

INR vs	End of period rates		Average rates	
	31-Dec-06	31-Mar-07	31-Dec-06	31-Mar-07
US Dollar	44.3	43.5	45.0	44.2
% qoq chg		*-1.6*		*-1.7*
Euro	58.3	58.2	58.0	57.9
% qoq chg		*-0.2*		*-0.2*
Pound sterling	86.9	85.5	86.2	86.3
% qoq chg		*-1.6*		*0.1*

In terms of the forward cover, TCS and HCL Tech are more comfortably placed with hedged positions for the next three to four months of revenues. On the other hand, Wipro had considerably reduced its forward cover to around one month revenues as on December 2006 and runs the risk of getting caught on the wrong foot if timely actions have not been initiated during the quarter.

FOREX COVER

($ million)	Sep-06	Dec-06	FY2007E revenues	% forex hedge
Infosys Tech	373	360	3102	11.6
Satyam Computer	158	254	1448	17.5
HCL Tech	451	515	1336	38.5
Wipro (Global IT)	377	188	2461	7.6
TCS	1100	1250	4165	30.0

QUARTERLY ESTIMATES

	Net sales			Net profit			EPS	OPM
(Rs crore)	Q4FY07	% qoq	% yoy	Q4FY07	% qoq	% yoy	(Rs)	(%)
Infosys Tech	3877.0	6.1	47.8	1031.3	4.9	53.2	18.5	32.6
Guidance	*3789-3798*			*977-978*			*17.9*	
Satyam Computer	1751.5	5.4	33.3	353.1	4.7	23.9	5.4	24.6
Guidance	*1728-1736*			*355.0*			*5.4*	
HCL Tech#	1552.6	6.0	38.4	290.0	1.3	50.2	4.5	21.7
Wipro (cons)	4181.7	5.5	36.9	775.4	4.1	29.8	5.5	19.4
Wipro (global IT)	3044.8	5.5	33.0					
Guidance (global IT)	*$685 mn*							
TCS	5183.7	6.6	39.2	1170.6	6.0	46.3	12.0	26.3

Please note HCL Tech is a June ending company.

Ahead of consensus in case of Infosys

Our estimates are slightly ahead of consensus in case of Infosys and behind consensus estimates for Satyam. The consensus estimates already factor in a much sober performance in Q4 and the same is also reflected in the recent underperformance of the BSE IT Index as compared to the benchmark indices.

CONSENSUS VS OUR ESTIMATES

(Sequential growth in %)	Net sales		Net profit	
	Consensus	Our estimates	Consensus	Our estimates
Infosys Tech	5.3	6.1	3.7	4.9
Satyam Computer	5.7	5.4	6.3	4.7
HCL Tech	6.0	6.0	2.4	1.3
Wipro (Cons)	7.2	5.5	3.2	4.1
TCS	5.5	6.6	6.7	6.0

Scope for positive surprise in FY2008 guidance

In terms of the FY2008 guidance also, the street expectations are a lot more conservative now. Most analysts expect Infosys to give an earnings guidance of 23-24% in rupee terms. It is much lower than the 26.5-28.5% earnings growth guidance given at the beginning of FY2007 and implies a less than 5% sequential growth in the earnings over the four quarters.

We believe that the street expectations are over conservative and leave enough room for positive surprises. Notwithstanding the obvious concerns related to rupee appreciation, a possible slowdown in the USA and wage inflation, the recent surveys don't indicate any slowdown in IT spending of US companies but hint at further momentum in offshore outsourcing by major global corporations and increasing penetration in newer markets (especially in parts of Europe). Moreover, the annual growth guidance given by Congnizant Solutions (a Nasdaq-listed Indian offshore vendor) for CY2007 is quite robust (more or less similar to the one given by the company in February 2006) and doesn't indicate any serious concerns related to growth in the current year.

COGNIZANT—ROBUST GUIDANCE FOR CY2007

	CY2006G	CY2006A	CY2007G
Revenues	42%	61%	43%
PAT	36%	48%	35%

Valuation

The street expectations have toned down considerably in terms of both Q4 performance and the annual guidance for FY2008, and the recent underperformance of the tech stocks indicates that the same has already been factored in the valuations. This essentially means that the negatives have been priced in, leaving limited scope for downside. But positive surprises, especially in terms of higher than expected annual guidance by Infosys, are not ruled out. However, the continued strengthening of the rupee and seasonal weakness in Q1 (due to wage hikes and additional visa related cost) would continue to influence sentiments on tech counters in the short run. We believe that any further weakness would be an opportunity to accumulate the front-line tech stocks and prefer Infosys and TCS.

VALUATION MATRIX

	EPS (Rs)		P/E	
	FY07	FY08	FY07	FY08
Infosys	67.8	89.8	29.0	21.9
TCS	42.1	53.6	28.5	22.4
Wipro	20.1	24.9	26.6	21.4
Satyam	21.0	25.0	21.9	18.4
HCL Tech	16.8	20.5	17.3	14.1

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

MUTUAL GAINS MARCH 12, 2007

Sharekhan's top equity fund picks

The market reversed its upward trend in February 2007. Both the Sensex and the Nifty lost over 8% of their values during the month. Unfavourable global cues, along with a mixed Union Budget, have caused the Sensex to tumble by over 2,000 points from its closing high of 14,652 achieved on February 8, 2007. Even its rival index, the Nifty, has lost almost 500 points from its high of 4,224. During the month, the foreign institutional investors (FIIs) sold equities to the tune of $370 million, while the domestic mutual funds were sellers to the extent of Rs274 crore.

February was the month of the much-awaited Union Budget. On the one hand, the finance minister, P Chidambaram, increased his thrust on the social, rural and agricultural sectors, and left the securities transaction tax, long-term capital gains tax and service tax rates unchanged. On the other hand, the budget lacked any major reformist measures. If reforms were given a miss, populism too did not find much favour with the finance minister this time. The market's initial reaction to the budget was a big thumbs down, it fell by 540 points on the budget day. Policy changes like a hike in the dividend distribution tax, imposition of an additional cess of 1% for secondary education, inclusion of employee stock option schemes in the fringed benefit tax net, creation of a dual excise duty structure on cement and imposition of minimum alternate tax on information technology companies were not well accepted by the market.

However, we believe that the increased focus on agriculture would aid economic growth in the long term. The agricultural sector grew by only 1.5% in Q3FY2007 vs 8.7% in Q3FY2006. The growth was low due to a decline in production of some major crops like rice, coarse cereals and oil seeds. The growth of this sector therefore needs to pick up if India has to maintain the prevailing levels of high growth rates. The thrust on agriculture would also help combat inflation by increasing production, especially of pulses and oil seeds. Meanwhile inflation has already come down to 6.05% levels. We expect it to fall further and moderate by mid May on the back of large-scale imports of food grains, lower fuel prices and the duty cuts. Thus the budget was a mixed bag for the market. However, we believe that the market has already factored in the budget.

The other major factor that triggered the market meltdown even prior to the budget was unfavourable global cues. China's attempts at controlling speculative flows had caused the Chinese market to plunge by almost 9% on February 27. This in turn had ignited a global sell-off that had wiped off more than $1.5 trillion from global stock indices. Further, the rise in interest rates announced by the Bank of Japan led to the unwinding of a lot of yen carry trades during the recent global sell-off.

In the middle term, the outcome of the state elections in Uttar Pradesh would be one key trigger for the market. Another important trigger would be the announcement of India Inc's fourth quarter and annual results. This trigger too would unfold itself over the April-May period. The upsurge in merger and acquisition activities of Indian companies seen during the previous quarter leads us to believe that all is well on the corporate front and corporate earnings should beat market expectations.

The market has corrected significantly on concerns that the FIIs might withdraw en masse from India in the wake of a global crash. However, we believe that foreign investors, the key driver of our market so far, would find it very difficult to ignore Indian equities for long. Despite a slower growth in the gross domestic product (GDP) in the third quarter (the GDP grew by 8.6% in Q3FY2007 vs 9% in Q2FY2007), the Indian economy is expected to grow by 9.2% in FY2007. In fact, the country's GDP is expected to touch the magic figure of one trillion dollars in FY2008! Unfortunately, the sentiment is rather weak at present globally. Once this corrects, our markets too will start reviving.

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

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

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

We have selected the top 10 schemes upon ranking on each of the above 3 parameters and then calculated the mean value of each of the 3 parameters for the top 10 schemes. Thereafter, we have calculated the percentage underperformance or over performance of each scheme (relative performance) in each of the 3 parameters vis-à-vis their respective mean values.

For our final selection of schemes, we have generated a total score for each scheme giving 50% weightage to the relative performance as indicated by the returns, 25% weightage to the relative performance as indicated by the Sharpe ratio and the remaining 25% to the relative performance as indicated by the FAMA of the scheme.

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

We present below our recommendations in the equity-oriented mutual fund category.

AGGRESSIVE FUNDS

MID-CAP CATEGORY

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
Sundaram BNP Paribas Select Midcap	87.85	-1.89	33.05	52.25
Prudential ICICI Emerging STAR	27.45	2.50	24.55	51.69
Reliance Growth	260.73	2.01	26.73	47.40
Birla Mid Cap	61.52	-0.93	21.65	38.20
Kotak Midcap	19.31	3.45	12.48	37.79
Franklin India Prima	194.89	-4.48	6.88	29.01
HDFC Capital Builder	61.26	-1.88	10.79	29.87
UTI Thematic Mid Cap	20.63	-7.61	-6.44	24.03
Indices				
BSE Sensex	12938.09	-4.88	24.76	38.82

OPPORTUNITIES CATEGORY

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
Prudential ICICI Dynamic Plan	62.90	2.30	36.06	52.25
Kotak Opportunities	27.69	1.04	19.22	45.61
DSP ML Opportunities	52.16	-4.41	19.93	38.35
ING Vysya Domestic Opportunities	25.82	-1.56	23.13	38.50
Franklin India Opportunity	23.91	-8.91	27.52	44.38
Birla India Opportunities	50.31	0.48	22.38	34.94
HSBC India Opportunities	26.58	-4.76	30.12	39.09
Tata Equity Opportunities	54.90	-2.70	15.23	37.65
Prudential ICICI Discovery	25.04	-6.95	11.89	35.69
PRINCIPAL Global Opportunities	14.41	4.41	13.17	13.77
Indices				
BSE Sensex	12938.09	-4.88	24.76	38.82

EQUITY DIVERSIFIED/CONSERVATIVE FUNDS

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
SBI Magnum Global Fund 94	42.10	-2.25	33.06	56.59
SBI Magnum Multiplier Plus 93	50.61	-1.00	22.72	51.71
HDFC Equity	141.23	-1.88	20.87	43.38
Birla SunLife Frontline Equity	47.77	-2.77	29.42	40.12
Birla SunLife Equity	170.55	-3.23	22.27	44.86
Franklin India Prima Plus	132.62	0.36	28.69	43.06
SBI Magnum Equity	26.49	-2.61	29.13	43.29
HDFC Top 200	103.27	-5.17	18.36	39.31
Prudential ICICI Power	77.66	-1.13	24.74	43.00
DSP ML Top 100 Equity	54.56	-1.76	26.33	40.30
Indices				
BSE Sensex	12938.09	-4.88	24.76	38.82

THEMATIC/EMERGING TREND FUNDS

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
Prudential ICICI Service Industries	14.98	6.70	37.94	--
Prudential ICICI Infrastructure	17.45	-3.59	32.40	--
DSP ML India Tiger	31.44	-2.09	28.55	48.39
Tata Infrastructure	22.06	-6.52	26.79	44.67
SBI Magnum Sector Umbrella - Contra	35.69	-3.80	25.54	49.87
Sundaram BNP Paribas CAPEX Opportunities	16.08	-4.87	21.72	--
Templeton India Growth	62.30	-3.31	17.84	28.69
Birla India GenNext	15.13	0.20	16.38	--
Kotak Global India	25.27	0.42	13.94	34.11
Tata Equity P/E	23.97	-3.21	14.00	29.63
Indices				
BSE Sensex	12938.09	-4.88	24.76	38.82

BALANCED FUNDS

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
HDFC Prudence	111.49	1.22	24.63	36.45
FT India Balanced	31.87	-0.64	21.00	28.37
Birla SunLife 95	173.29	-1.01	20.50	30.69
DSP ML Balanced	37.01	-1.63	16.99	27.85
Birla Balance	27.15	-2.69	16.22	23.64
SBI Magnum Balanced	33.88	-3.70	18.67	35.44
Tata Balanced	48.14	-0.56	18.92	27.90
Prudential ICICI Balanced	33.33	-0.95	17.48	29.25
UTI Balanced	52.65	-4.91	12.60	20.72
Kotak Balance	22.74	-1.15	10.32	29.82
Indices				
Crisil Balanced Fund Index	2344.49	-3.12	14.67	21.10

TAX PLANNING FUNDS

Scheme Name	NAV	Returns as on Feb 28, 07(%)		
		3 Months	1 Year	2 Years
SBI Magnum Tax 93 Gain Scheme	53.97	-0.15	29.12	58.01
HDFC Taxsaver	135.13	-6.11	16.35	41.89
HDFC Long Term Advantage	87.78	-1.72	10.90	35.18
PRINCIPAL Tax Savings	74.04	-0.05	26.12	41.81
Birla SunLife Tax Relief 96	138.74	-2.26	25.06	38.46
Franklin India Taxshield	119.45	-4.39	8.09	30.93
Sundaram BNP Paribas Taxsaver	25.99	-2.32	13.69	37.51
Prudential ICICI Taxplan	84.97	-6.90	8.96	33.66
UTI Equity Tax Savings Plan	28.35	-8.10	1.47	23.59
Tata Tax Saving	40.39	-1.89	6.21	25.72
Indices				
BSE Sensex	12938.09	-4.88	24.76	38.82

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

AUTOMOBILES APRIL 02, 2007

High interest rates affect two-wheeler sales

Hardening interest rates seem to be having a dampening impact on automobile sales, as the sales during March were lower than expectations despite the month containing a number of auspicious days like *Gudi Padwa* and *Navratri*. The impact seems to be more severe in the two-wheeler segment, particularly motorcycles, while four-wheelers continued to record decent growth.

Our checks also reveal that the auto finance companies have been extra careful while disbursing loans, hence the rejection rates have gone up in the past few months. To counter the effect of rising interest rates, auto-manufacturers are partnering with auto finance firms to offer loans at a lower rate to consumers. The cost of the same is being borne by the manufacturers, financers and the dealers. However, the same shall have a negative impact on the earnings of the companies.

Hero Honda

- Hero Honda witnessed a growth of 2.1% to 277,915 vehicles for the month of March from a year ago. However, the retail sales are believed to be stronger, closer to 300,000 units.
- The company's vehicles like *Super Splendour* and *Glamour* did well during the month, but the overall performance was below expectations considering the auspicious season.
- The company was offering a discount of Rs1,000 on selected models in the last month, while it also offered attractive dealer incentives, which seem to have had a positive effect on its sales in the past few months.
- The dealers of Hero Honda have been carrying a higher than usual inventory for quite some time now, particularly in anticipation of strong sales during the auspicious season. However, with lower than expected sales in March, the inventory levels continue to be high.

Bajaj Auto

- Bajaj Auto's overall sales declined 9% in March to 193,562 vehicles, as compared with 212,419 a year earlier.
- The motorcycle sales declined by 10% to 165,524 vehicles while the overall two-wheeler sales stood at 168,986 units, down 9%. The company's share in the 100cc segment has been declining since the *Diwali* season as the market leader Hero Honda continued to gain back its market share in this segment.
- Seeing this Bajaj Auto has reduced the prices of *Platina* by about Rs2,000 towards the end of the month in order to spur its sales.
- Its three-wheeler sales also marked a decline of 1% to 24,576 vehicles. The exports however remained strong as the company recorded a year-on-year growth of 23% with exports of 35,600 vehicles.
- Going forward, the company expects to grow by 10% with sales of about 3 million units in FY2007. Also, its new plant at Pantnagar would commence production during this month.

TVS Motors

- TVS Motors recorded motorcycle sales of 73,239 units during the month as against 83,896 in March 2006, reporting a decline of 12.7%.
- However, both the moped and scooter sales were pretty strong during the month, reporting a growth of 16.6% and 25.8% respectively.
- During the month, the company launched *StaR Sport*, a new and compact styled motorcycle for the economy segment. The initial response has been pretty encouraging, but it will take at least a month to have any impact on the market.
- The exports continued to witness a strong growth momentum recording sales of 8,508 units as against 6,032 units recorded last year (rising by 41%). The company plans a number of new launches in the coming year.

Maruti Udyog

- Maruti Udyog rendered a strong performance in March 2007. The sales in March are traditionally strong, spurred by the year-end sales, as buyers can claim benefit of depreciation for six months.
- Overall, the sales grew by 13.6% to 71,772 vehicles, as its domestic sales grew by 5.6% to 64,556 vehicles, while the exports jumped by 251% to 7,216 vehicles. The growth is very credible as it comes on a high base of last year when the sales were spurred by excise cut in the budget.
- The growth in the A2 segment (comprising of *Alto*, *WagonR*, *Zen* and *Swift*) continued as all its brands under the segment performed well.
- The A3 segment recorded a decline of 35.4% in its sales as the company had discontinued *Baleno* a couple of months back. The sales of *Omni* and *Versa* grew by a marginal 3% while the company continued to lose its share in the multi-utility vehicle (MUV) segment, as the sales dropped by 66%.
- The exports registered a very strong growth of 251% to 7,216 vehicles during the month.

Mahindra & Mahindra

- Mahindra & Mahindra (M&M) reported strong numbers for the month of March as its automotive division (including exports) marked a growth of 26% while the tractor division grew by 6.5%. The automotive division reported its higher ever monthly sales of 19,869 vehicles.
- The utility vehicle sales marked a strong growth of 23.6% to 15,210 vehicles led by the brilliant sales performance of the *Scorpio*, which grew by 61.7% to 4,769 vehicles.
- The light commercial vehicle (LCV) segment reported a growth of 70.5% while the three-wheelers too continued to report good numbers, rising by 35.8%.

- The tractor segment marked a growth of 6.5% during the month, though the domestic sales grew well by 12%.
- During the month, the company launched its new *Bolero* with a 2523cc turbo charged diesel engine. The vehicle has been priced competitively between Rs4.58 lakh and Rs5.6 lakh. Towards the end of the month, M&M also launched its new *Scorpio* in Morocco by appointing MediAuto as its distributor.

Tata Motors

- Tata Motors (TAMO) has reported decent numbers for March with an overall growth of 11.3% as its total sales rose to 62,779 units, up from 56,406 units in March 2006.
- The growth in the commercial vehicle segment continued to be strong despite the high base of the last year. The segment recorded a 12.6% domestic growth in March. The medium and heavy commercial vehicle segment saw a growth of 8.3% while the light commercial vehicle sales grew by 18.9% year on year (yoy).
- The passenger vehicle sales recorded a growth of 13.9% in March. *Indica* reported sales of 15,283 units (up 18% yoy) while the *Indigo* family registered a decline of 6% in sales. The utility vehicle segment recorded its highest ever monthly sales at 6,109 vehicles, registering a growth of 23%. *Safari* sales at 2,150 were the highest in any month.
- TAMO's exports for the month stood at 6,299 vehicles as compared with 6,508 vehicles in February 2006, declining by 3.2% yoy.

SALES NUMBER FOR MARCH 2007

	Mar-07	Mar-06	% growth	FY2007	FY2006	% growth
Hero Honda						
Total sales	277,915	272,312	2.1	3,336,756	3,000,751	11.2
Bajaj Auto						
Motorcycles	165,524	183,927	-10.0	2,376,518	1,912,224	24.3
Total two-wheelers	**168,986**	**187,696**	**-10.0**	**2,399,400**	**2,027,856**	**18.3**
Three-wheelers	24,576	24,723	-0.6	321,778	252,006	27.7
Grand total	**193,562**	**212,419**	**-8.9**	**2,721,178**	**2,279,862**	**19.4**
TVS Motors						
Motorcycle	73,239	83,896	-12.7	920,123	806,655	14.1
Scooters	20,297	17,410	16.6	258,967	245,276	5.6
Mopeds	34,671	27,551	25.8	349,513	290,272	20.4
Total	**128,207**	**128,857**	**-0.5**	**1,528,603**	**1,342,203**	**13.9**
Maruti Udyog						
A1-(M800)	6,141	10,937	-43.9	79,245	89,223	-11.2
A2-(Alto, Wagon R, Zen, Swift)	47,068	37,279	26.3	440,375	335,136	31.4
A3-(Baleno, Esteem)	2,414	3,735	-35.4	29,697	31,939	-7.0
C-(Omni,Versa)	8,661	8,390	3.2	83,091	66,366	25.2
Total cars	**64,284**	**60,341**	**6.5**	**632,408**	**522,664**	**21.0**
MUVs-(Gypsy,Vitara)	272	800	-66.0	3,221	4,374	-26.4
Total domestic sales	**64,556**	**61,141**	**5.6**	**635,629**	**527,038**	**20.6**
Exports	7,216	2,055	251.1	39,295	34,781	13.0
Total	**71,772**	**63,196**	**13.6**	**674,924**	**561,819**	**20.1**
Mahindra & Mahindra						
Utility vehicles	15,210	12,305	23.6	127,913	114,694	11.5
Scorpio	4,769	2,949	61.7	38,029	31,661	20.1
LCVs	1,011	593	70.5	8,652	6,777	27.7
Three-wheelers	3,648	2,686	35.8	33,700	22,419	50.3
Total automotive	**19,869**	**15,584**	**27.5**	**170,265**	**143,890**	**18.3**
Exports	754	816	-7.6	8,023	5,534	45.0
Tractors	7,805	7,326	6.5	102,536	85,029	20.6
Total	**28,428**	**23,726**	**19.8**	**280,824**	**234,453**	**19.8**
Tata Motors						
M&HCV	17,673	16,312	8.3	172,889	128,715	34.3
LCV	13,047	10,977	18.9	125,792	86,236	45.9
Passenger vehicles	25,760	22,609	13.9	226,893	188,854	20.1
Domestic sales	**56,480**	**49,898**	**13.2**	**525,574**	**403,805**	**30.2**
Exports	6,229	6,508	-4.3	53,301	50,032	6.5
Total sales	**62,709**	**56,406**	**11.2**	**578,875**	**453,837**	**27.6**

CRR hike—negative for banks

REVISED GUIDELINES ON CAR OF BANKS

The revised guidelines on the capital adequacy requirements of banks are broadly in line with the previous guidelines issued in February 2005. However, certain changes have been made which include the introduction of a prudential floor for capital adequacy, increase in the Tier-I ratio and a change in the risk weights for corporate and non-banking finance company (NBFC) exposures. The major changes have been highlighted in a tabular form given below. The revised guidelines would impact some private banks like ICICI Bank, HDFC Bank and UTI Bank as the release of capital has been delayed. An increase in the risk weights for exposure to NBFCs would make the borrowing costs higher for companies like IDFC.

Banks would need to raise Tier-1 in FY2008

The revised guidelines on Basel-II norms look a bit regressive, as the same do not allow strong banks to take advantage of their superior risk management capabilities. The introduction of the prudential limit would not allow strong banks to enjoy the release in capital due to the implementation of the Basel-II norms. The private sector banks were hopeful that they would not be required to dilute equity in the near term as the release in the capital due to the implementation of the Basel-II norms coupled with hybrid capital would be sufficient to take care of the growth in assets for another financial year. However, banks like UTI Bank will now have to seriously think of raising equity soon. A bigger player like ICICI Bank was very hopeful that it would not need to dilute equity for another 15-18 months but now we feel that view could change.

RBI SEEKS TO LIMIT INTER-BANK LENDINGS

No material impact on banks' liability structure

The Reserve Bank of India (RBI) has asked banks to put in place a comprehensive framework for managing its inter-bank liabilities (IBL). Banks have been asked to limit their IBL to 200% of their net worth as on March 31 of the previous year. Banks having a capital adequacy ratio (CAR) of at least 25% more than the minimum requirement of 9% (ie CAR of 11.25% as on March 31, the previous year) have been allowed a higher limit of up to 300% of their net worth for IBL. The guidelines will be applicable from April 1, 2007.

CRR HIKE—NEGATIVE FOR BANKS

RBI surprises the market again with another 50bps CRR hike

The Reserve Bank of India (RBI) has surprised the market with another 50-basis-point hike in the cash reserve ratio (CRR) to 6.5% from 6.0% at present and a 25-basis-point hike in the repo rate to 7.75%. The CRR hike would be in two stages of 25 basis points each (effective from April 14 and April 28 of this year). The hike is expected to absorb Rs15,500 crore of liquidity from the banking system. The RBI has also reduced the interest on CRR balances from 1% to 0.5%.

Why the sudden hike?: For the past three weeks inflation has been hovering around the 6.5% level, which is far above the RBI's comfort zone of 5.0-5.5%, and hence the sudden hike in the CRR and repo rates to curb inflation. The other economic parameters like the non-food credit and money supply have seen a growth of 29.5% and 22% up to March 16, 2007 against the RBI's comfort zone of 20% and 15% respectively. The RBI's latest actions make it clear that it would not allow excess liquidity in the system, caused mainly by foreign inflows; nor would it let inflation remain above its comfort zone of 5.0-5.5%.

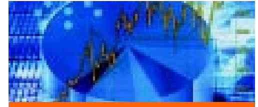
Impact on banks' margins and PAT: Banks' net interest margins are expected to contract by four to five basis points and their FY2008 profit after tax (PAT) is expected to be affected by 2-3% due to the RBI's decisions to hike the CRR by 50 basis points and reduce the interest on the CRR from 1% to 0.5%.

Private players hike rates: ICICI Bank, Yes Bank and HDFC have already announced lending rate hikes. The credit growth normally slows down after the March quarter and hence the deposit war could also taper off. If this happens then with another round of prime lending rate hikes and stable deposit rates banks could look to get some reprieve after having got hit by the recent rate hikes that would definitely affect their growth and margins.

Outlook: We expect inflation to moderate from the current levels of 6.46% going forward as the high base effect kicks in and inflation settles within the RBI's comfort zone by mid May 2007. The non-food credit and money supply growth should also slow down but whether the same will enter the RBI's comfort zone remains to be seen. The FY2008 annual policy statement due later this month thus assumes greater significance in light of how the RBI perceives the above three factors—inflation, credit growth and money supply— in FY2008. The upward bias on interest rates may get checked once the above mentioned three parameters (inflation, credit growth and money supply) start converging within the RBI's comfort zone. Till then the uncertainty on interest rates will loom large and the banking sector will underperform the broader market.

HIGHLIGHTS OF REVISED CAPITAL ADEQUACY FRAMEWORK

Particulars	Previous guidelines	Revised guidelines
Approaches for calculating credit and operational risk.	Standardised approach for measuring credit risk and basic indicator approach for operational risk.	No change.
Introduction of prudential floor.	No such limits.	As a percentage of existing Basel-I guidelines.
Change in risk weights for claims on corporates.	See discussion below.	
Definition of small businesses for classification under retail portfolio.	Total annual turnover of less than Rs50 crore.	Total annual average turnover for the last three years of less than Rs50 crore.
Increase in risk weights for non-deposit taking NBFCs.	100%.	125%.
Increase in Tier-I capital ratio.	Currently at 4.5%.	Achieve minimum 6% by March 2010.



INFORMATION TECHNOLOGY — MARCH 28, 2007

Rupee plays spoilsport

The sharp appreciation of the rupee against all the other major currencies in the past couple of weeks has dented the sentiments towards the tech stocks and rightly so. That's because the unexpected sharp appreciation in the rupee at the end of the quarter would not only adversely affect the fourth quarter's financial performance of the information technology (IT) companies but also have a strong influence on their annual growth guidance for FY2008.

Translation losses to mount

The average exchange rate of Rs44.2 is close to the assumption taken by the domestic companies in their Q4 guidance. The other major currencies such as the euro and pound sterling were more or less flat on an average basis. However, the steep appreciation at the fag end of the quarter has resulted in a weighted average appreciation of around 2.3% in the rupee in terms of the end-of-period rates. This is likely to adversely affect the non-operating income (or the other income component) in the fourth quarter results of companies like Infosys and Satyam that use the fair value method of accounting for the currencies hedges. For instance, in case of Infosys, the translation losses (calculated on the outstanding debtors) work out to around Rs49-50 crore in Q4 (almost double from around Rs27 crore in Q3).

On the other hand, the other income component of Tata Consultancy Services and Wipro would not be affected by the appreciation of the rupee as they use the cash flow hedging method of accounting for bulk of the exchange rate cover. However, in the cash flow hedging method, the impact would be more pronounced on the revenue growth as the end-of-period exchange rates are used for the conversion.

Adverse factors to influence guidance

The high volatility in the exchange rates, rising concerns of a slowdown in the USA (subdued economic growth indicators) and wage inflation (hike in salary for fresh engineering graduates by leading domestic vendors) are some of the key issues that would influence the much-awaited annual growth guidance to be announced along with the Q4 results next month.

Muted Q1 outlook could further aggravate the pessimism

Given the increasing shortage of quality manpower, the domestic IT companies are likely to maintain the aggressive annual salary hike of 13-15% (for offshore employees) and 4-5% (for onshore employees) in FY2008 as well. Add to this, the additional hit of $12-15 million of visa cost in Q1 (for Infosys) that would lead to muted earning growth outlook for Q1.

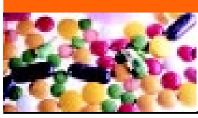
Surprises up its sleeves

Notwithstanding the several adverse factors influencing the annual guidance this year, a higher than expected performance in Q4 (a sequential earnings growth of over 7-8% as compared with expectations of a 3-4% growth and a guidance of a flat growth in FY2008) would mean a higher annual growth in the earnings even on a conservative basis. ■

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

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

PHARMACEUTICALS — MARCH 16, 2007



Strong competition to limit gains from Zolpidem

Event

Ranbaxy Laboratories has received a tentative approval from the US Food and Drug Administration (US FDA) to manufacture and market Zolpidem Tartrate tablets, of 5mg and 10mg strength.Zolpidem Tartrate is the generic version of Sanofi Aventis' blockbuster drug, Ambien (Used for treatment of insomnia and other related disorders). The total annual market sales for the tablets were $2.12 billion in 2006 (as per IMS). Sanofi Aventis' Ambien lost patent protection in October 2006, but is currently under paediatric exclusivity, which expires in April 2007.

Competitive scenario

Apart from Ranbaxy Laboratories, there are 13 other players who have got the tentative approval from the US FDA for Zolpidem Tartrate tablets. These include other Indian companies like Cipla and Sun Pharmaceuticals, and foreign companies like Mylan, Apotex, Teva, Pliva, Roxane and Watson. This leads us to believe that the launch of generic Zolpidem Tartrate will be a very competitive one, with the market witnessing erosions to the tune of 98-99%.

Valuation & view

Even though Zolpidem Tartrate is a huge opportunity in terms of the addressable market size, the likely entry of 13+ players on Day 1 of exclusivity expiry will very much limit the gains for the individual companies. Amongst the Indian companies, we believe that Ranbaxy Laboratories will derive the major gains from Zolpidem Tartrate. However, due to a large equity base, the impact on the earnings is likely to be minimal. We present below our revenue and earnings estimates from Zolpidem Tartrate for Ranbaxy Laboratories, Cipla and Sun Pharmaceuticals. ■

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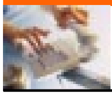
TELECOMMUNICATION SERVICES — MARCH 21, 2007



TRAI reduces ADC burden

The Telecom Regulatory Authority of India (TRAI) has announced a reduction in the access deficit charge (ADC) levied on the private sector operators to provide support to Bharat Sanchar Nigam Ltd (BSNL) for its operations in unviable rural areas. The ADC levy on annual aggregate gross revenues (AGR) has been reduced to 0.75% (from 1.5%), the ADC on incoming international calls stands at Rs1 per minute (from Rs1.6/minute) whereas the outgoing calls would not be charged any ADC (from Rs0.8/minute). The regulator estimates that the move would reduce the ADC burden on the private sector operators from Rs3,200 crore to Rs2,000 crore in FY2007-08.

Long-term benefits for private sector players

Given the competitive environment, we expect the telecom operators to pass on a substantial part of the benefits to the customers. Consequently, the tariff on international calls is likely to reduce further with effect from April 2007, which would be positive for the private sector operators for the following reasons.

- Lower tariffs are likely to result in higher usage and faster growth in traffic volumes.
- A level playing field in the outgoing international call business as compared to Internet telephony would result in better revenues for the telecom service providers.
- A reduction in arbitrage for the incoming international calls would discourage the grey market in the international long distance business. ■

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TYRES — MARCH 06, 2007

Rubber's loss, tyre's gain

- Rubber prices have witnessed a high degree of volatility in the past one year. After a volatile year, rubber prices firmed up to Rs100 per kilogram level in January 2007. Since then, the prices have drifted down again to around Rs90 per kilogram now. Though it is difficult to take a call on the direction of the rubber prices, there is a growing consensus that the prices would at best stabilise at the current level or slide down further going forward.
- The domestic natural rubber output rose 6% yoy to 806,385 tonne in April-February; whereas the rubber consumption in the April-February period increased slightly to 751,000 tonne versus 733,000 tonne last year (up 2.4%). Considering the strong output, higher imports and lower exports, there are expectations that the rubber prices may stabilise at the current level or even slide down going forward.
- The easing of the rubber prices is a positive development for tyre makers, given the fact that rubber accounts for around 39% of the total raw material cost. In the past, owing to a buoyant demand scenario, the tyre manufacturers had been able to pass on a large part of the increased cost of inputs to user industries. The price hikes has limited the adverse impact of the rising input costs on the margins of the tyre manufacturers. We have also noticed that the tyre prices tend to remain sticky and do not come down as sharply with a fall in the raw material prices.
- Apollo Tyres and Ceat remain our top picks in the tyre sector. We maintain our Buy call on Apollo Tyres with a price target of Rs425 and on Ceat with a price target of Rs190. ■

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

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ABC Bearings

Viewpoint | CMP: Rs141 | March 26, 2007

Expansion to drive growth

ABC is one of the leading manufacturers of taper and cylindrical bearings. Established in 1961, ABC has a technological tie-up with NSK of Japan. ABC basically caters to the bearing requirements of the commercial vehicles, multi-utility vehicles and the tractor segment, with an impressive clientele.

In October 2005, ABC decided to close its Lonavala manufacturing unit and shifted its operations to a single location in Bharuch, in an effort to rationalise its production costs and achieve economies of scale. To cater to the strong demand, the company is expanding its capacity from the current 6.5 million units to about 8.0 million units by October 2007. ABC and its collaborator NSK have formed a 25:75 joint venture company to manufacture ball bearings for the automotive industry. This new joint venture will set up its manufacturing facility near Sriperumbudur in Tamil Nadu at an investment of Rs50 crore. ABC is also planning to venture into the rail bearing market. It would receive the technology for the same from its partner NSK.

In the last three years its (FY2004-2006) sales have grown at a compounded annual growth rate of 28%. On the other hand, the profit after tax (PAT) has more than doubled from Rs6.2 crore in FY2004 to Rs15.6 crore in FY2006. At the current market price the stock trades at 8.1x on its estimated earnings per share of Rs17.7 for FY2007 and 7.1x on FY2008 rough earnings estimate. Considering the substantial discount to industry leaders such as SKF India and FAG bearings, there could be room for some upside from the current levels. ■

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Garware Offshore Services

Viewpoint | CMP: Rs188 | March 23, 2007

Fleet expansion to drive growth

Incorporated in 1976, Garware Offshore Services Ltd (GOSL) is part of the Garware group of companies and involved in providing supply and support vessels to oil exploration & production (E&P) companies operating in offshore blocks.

The management expects the anchor handling tugs (AHTs) deployed with ONGC to get re-priced at 50-60% higher day rates after the completion of its on-going contract in May 2007. Moreover, the company expects to take delivery of its third platform support vessel (PSV), which would contribute incremental revenues of $9-10 million in CY2007. The management has guided for revenues of Rs90 crore and earnings of Rs28-30 crore in CY2007.

In terms of its expansion plans, the management already has a pipeline of two more PSVs that would be delivered in CY2008. The company plans to take its fleet size to 13-14 vessels by the end of CY2009. The total capital expenditure (capex) on fleet expansion is estimated to be around Rs635 crore spread over the next three years. The company is also looking at generating a fee-based revenue stream through a tie-up with Havyard, Norway to act as the latter's selling agent in India.

At the current market price the stock trades 15.1x CY2007 and 10.4x CY2008 rough earnings estimates (on fully diluted equity of Rs23.8 crore). GOSL is currently trading at an unjustified premium to some of the larger players in the business like Great Offshore and South East Asia Marine, which are also expected to show an equally healthy growth over the next couple of years. ■

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

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

Glenmark Pharmaceuticals

Viewpoint	CMP: Rs614	March 29, 2007

An all-round growth

Glenmark Pharmaceuticals Ltd is a research-led, global, fully integrated pharmaceutical company. The company is a leader in India in the discovery of new molecules. The company has generic formulation and active pharmaceutical ingredient (API) business interests in over 80 countries across the world including the highly regulated markets of the USA and Europe.

Glenmark Pharmaceuticals, through its wholly-owned Swiss subsidiary Glenmark Holdings, has acquired a majority stake (>90%) in the Czech-based Medicamenta a.s. (Medicamenta). Medicamanta is a Czech-based company, which has sales and marketing operations in both the Czech Republic and Slovakia. The acquisition provides Glenmark with a strategic entry point into two of the fastest growing and attractive markets in Europe.

Glenmark's US business has reported a stupendous 465% jump in sales in M9FY2007. Glenmark has just disclosed and confirmed its Para IV ANDA filing for Schering Plough's generic Ezetimibe. A favourable outcome of the patent challenge litigation in relation to generic Ezetimibe alone can result in windfall gains to Glenmark.

The company is targeting to achieve a 100% growth in Latin America. For this, Glenmark plans to expand its presence in the oncology segment to the other Latin American markets.

The recent developments on Glenmark are indicative of the management's aggressiveness in growing the company. At the current market price of Rs614, the stock is trading at 19.4x its consensus FY2008 earnings. Strong growth triggers exist in terms of the anticipated milestone payments from Forest Laboratories for Oglemilast and from Merck KgA for GRC 8200, the potential outlicencing of GRC 6211 and further acquisitions in Europe. ■

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

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

Matrix Laboratories

Viewpoint	CMP: Rs173	March 28, 2007

Mylan's exclusivity for Norvasc to benefit Matrix

Event

Mylan has been awarded 180-day exclusivity to market Amlodipine Besylate, the generic version of Pfizer's $2.7 billion anti-hypertensive, Norvasc. India's Matrix Laboratories, in which Mylan had acquired a controlling interest in 2006, is the supplier of the APIs to Mylan.

Background

Mylan had filed a Para IV abbreviated new drug application (ANDA) for Pfizer's Norvasc, which was protected by a patent until March 25, 2007. Since Mylan was the first to file a Para IV ANDA for Norvasc, Mylan was awarded the 180-day exclusivity to market generic Norvasc in the USA, starting March 23, 2007.

Valuation & view

Mylan has already launched the generic version of Norvasc in the USA, starting March 23, 2007. Based on the recent court rulings, we have analysed two scenarios of the potential exclusivity period for Mylan/Matrix.

In the event that the future court order allows generic companies to launch Amlodipine Besylate after April 13, 2007, Mylan will be able to notch up $35.4 million in revenues within three weeks, of which approximately 40% ($14.2 million) will be the API cost and accrue to Matrix. Assuming a 5% margin for Matrix, this will yield earnings of Rs0.20 per share.

On the other hand, if Mylan is granted the exclusivity for a period of 180 days, it will be able to garner revenues of approximately $283.5 million of which approximately 40% ($113.4 million) will accrue to Matrix as the API cost. This is likely to turn in incremental earnings of Rs1.6 per share. ■

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

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SHAREKHAN EARNINGS GUIDE

Prices as on April 02, 2007

Company	Price (Rs)	Sales FY06	Sales FY07E	Sales FY08E	Net Profit FY06	Net Profit FY07E	Net Profit FY08E	EPS FY06	EPS FY07E	EPS FY08E	(%) EPS Growth FY08/FY06	PE (x) FY06	PE (x) FY07E	PE (x) FY08E	ROCE (%) FY06	ROCE (%) FY07E	RONW (%) FY06	RONW (%) FY07E	DPS (Rs)	Div Yield (%)
Evergreen																				
HDFC Bank	901.6	3,670.3	5,118.7	6,619.6	871.2	1,140.9	1,499.8	27.8	36.4	45.6	28%	32.4	24.7	19.8	-	-	17.7	19.9	5.5	0.6
Infosys Tech	1,921.2	9,521.0	14,081.0	19,469.0	2,458.0	3,783.0	5,105.0	44.6	67.8	89.8	42%	43.1	28.3	21.4	39.7	44.8	35.3	39.6	45.0	2.3
Reliance Ind	1,313.5	81,211.0	105,701.0	91,354.0	9,069.0	10,386.0	10,499.9	65.0	74.4	75.2	8%	20.2	17.7	17.5	20.1	25.1	20.1	19.4	10.0	0.8
TCS	1,188.8	13,245.0	18,733.0	24,483.0	2,911.0	4,124.0	5,242.0	29.7	42.1	53.6	34%	40.0	28.2	22.2	40.1	39.6	49.4	45.2	6.8	0.6
Applegreen																				
ACC	704.7	3,160.2	5,803.5	6,813.2	310.5	1,062.2	1,317.9	16.8	56.4	70.0	104%	41.9	12.5	10.1	12.0	34.0	14.5	34.0	8.0	1.1
Aditya Birla Nuvo	1,017.5	4,830.3	8,474.3	10,782.4	204.9	272.6	501.0	21.9	29.2	53.7	57%	46.5	34.8	18.9	7.8	7.5	12.8	15.5	5.0	0.5
Apollo Tyres	276.1	2,613.6	3,230.8	3,741.0	78.2	101.3	158.0	15.5	20.1	31.3	42%	17.8	13.7	8.8	12.7	13.5	11.6	10.5	4.5	1.6
Bajaj Auto	2,300.6	7,469.4	9,717.9	12,608.1	1,117.5	1,265.3	1,533.1	110.4	125.1	151.5	17%	20.8	18.4	15.2	19.1	19.6	18.6	18.9	25.0	1.1
Bank of Baroda	201.0	4,416.6	4,975.9	5,851.9	827.0	1,015.6	1,369.5	22.6	27.8	37.5	29%	8.9	7.2	5.4	-	-	11.2	12.4	5.0	2.5
Bank of India	154.1	4,059.8	4,998.1	5,910.5	701.2	978.3	1,178.4	14.4	20.0	24.1	30%	10.7	7.7	6.4	-	-	14.8	18.3	3.0	1.9
Bharat Bijlee	1,180.1	301.1	405.8	479.1	31.0	43.1	52.2	54.8	76.3	92.4	30%	21.5	15.5	12.8	45.1	42.3	40.1	37.6	13.0	1.1
BEL	1,456.5	3,502.0	4,149.3	4,741.4	583.0	672.6	759.6	72.9	84.1	95.0	14%	20.0	17.3	15.3	41.7	36.7	29.7	25.6	11.5	0.8
BHEL	2,153.6	13,442.6	18,405.2	22,699.6	1,679.3	2,416.8	3,066.0	68.6	98.7	125.3	35%	31.4	21.8	17.2	36.4	42.3	23.0	26.2	14.5	0.7
Bharti Airtel	730.6	11,662.5	18,667.4	25,978.3	2,257.6	4,214.0	5,894.6	11.9	22.2	31.1	62%	61.4	32.9	23.5	24.6	31.4	20.7	28.8		0.0
Canara Bank	183.1	4,959.5	5,410.4	6,331.2	1,343.9	1,424.3	1,880.5	32.8	34.7	45.9	18%	5.6	5.3	4.0	-	-	20.3	18.5	6.6	3.6
Corp Bank	258.7	1,798.3	1,891.8	2,131.1	444.5	524.3	628.5	31.0	36.5	43.8	19%	8.3	7.1	5.9	-	-	13.8	14.7	7.0	2.7
Crompton Greaves	190.6	4,131.4	5,653.8	7,064.6	227.9	221.7	392.2	6.2	6.0	10.7	31%	30.7	31.5	17.8	32.2	31.2	29.4	22.8	1.0	0.5
Elder Pharma	407.1	352.4	457.5	562.1	36.7	55.7	74.8	21.0	29.9	40.2	38%	19.4	13.6	10.1	13.4	17.0	14.2	18.4	2.5	0.6
Grasim	2,054.6	9,715.8	12,006.3	13,587.6	928.7	1,824.3	2,168.1	101.3	199.0	236.5	53%	20.3	10.3	8.7	17.8	33.3	16.6	27.5	16.0	0.8
HLL *	195.8	11,060.5	12,103.4	13,545.9	1,310.7	1,539.6	1,870.4	6.0	7.0	8.5	19%	32.6	28.0	23.0	68.7	72.4	56.8	61.0	6.0	3.1
Hyderabad Ind	140.0	450.3	440.8	489.4	40.3	15.4	8.6	53.8	20.5	11.5	-54%	2.6	6.8	12.2	34.3	12.8	30.4	10.5	5.0	3.6
ICICI Bank	804.5	9,691.8	13,762.3	17,907.3	2,540.1	3,375.7	4,041.9	28.5	37.9	45.4	26%	28.2	21.2	17.7	-	-	13.6	14.4	8.5	1.1
Indian Hotel Co	140.1	1,084.3	1,385.0	1,546.0	181.2	267.0	297.0	3.1	4.6	5.1	28%	45.2	30.4	27.5	14.0	18.4	10.6	13.9	1.3	0.9
ITC	146.6	9,790.5	12,196.7	14,322.7	2,239.9	2,756.9	3,007.3	6.0	7.3	8.0	15%	24.4	20.1	18.3	33.8	36.4	26.4	27.9	2.7	1.8
Lupin	603.2	1,606.1	1,934.1	2,511.2	182.7	236.8	327.7	20.7	26.8	37.2	34%	29.1	22.5	16.2	19.4	18.9	31.9	24.0	3.3	0.5
M&M	715.3	7,945.8	10,272.5	11,805.4	663.3	866.7	1,012.7	28.0	36.5	42.7	23%	25.5	19.6	16.8	27.3	30.5	22.8	25.3	6.5	0.9
Marico	59.6	1,143.9	1,558.5	1,824.7	86.4	112.9	147.1	1.5	1.9	2.4	29%	41.1	32.2	24.8	26.1	28.0	33.3	23.2	6.2	10.4
Maruti Udyog	753.4	12,052.2	14,368.9	18,001.3	1,189.2	1,514.4	1,884.4	41.1	52.4	65.2	26%	18.3	14.4	11.6	34.5	31.7	24.7	20.0	1.5	0.2
Nicholas Piramal	241.1	1,582.5	2,347.8	2,770.1	124.2	232.8	345.0	6.0	11.0	16.4	65%	40.2	21.9	14.7	14.1	19.1	15.9	21.4	3.0	1.2
Omax Auto	92.0	578.6	664.8	764.6	20.0	24.6	30.5	9.4	11.5	14.2	23%	9.8	8.0	6.5	13.3	18.9	18.8	22.0	2.0	2.2
Ranbaxy*	341.3	5,281.6	6,021.6	6,932.9	261.7	515.1	831.9	7.0	12.9	20.8	72%	48.8	26.5	16.4	17.5	19.2	21.2	22.2	8.5	2.5
Satyam Computers	446.3	4,793.0	6,457.0	8,269.0	982.0	1,377.0	1,661.4	15.2	21.0	25.0	28%	29.4	21.3	17.9	26.9	27.8	25.7	25.9	8.0	1.8
SKF India*	310.2	775.0	1,342.5	1,596.9	84.7	102.0	137.9	16.1	19.3	26.2	28%	19.3	16.1	11.8	40.9	40.1	24.4	24.1	3.5	1.1
SBI	930.3	23,024.3	22,779.0	25,180.6	4,406.7	4,594.7	5,880.0	83.7	87.3	102.9	11%	11.1	10.7	9.0	-	-	17.0	15.5	14.0	1.5
Sundaram Clayton	912.0	629.3	822.0	1,035.1	68.6	96.3	139.2	36.2	50.7	73.4	42%	25.2	18.0	12.4	27.8	29.8	23.7	27.2	9.0	1.0
Tata Motors	669.3	23,587.3	31,842.9	39,166.8	1,563.5	2,177.2	2,685.8	44.6	56.9	70.1	25%	15.0	11.8	9.5	31.5	32.6	27.9	28.1	13.0	1.9
Tata Tea	593.0	3,106.5	3,905.2	4,124.0	293.9	345.6	380.4	52.5	58.7	61.5	8%	11.3	10.1	9.6	19.0	18.6	13.9	12.5	12.0	2.0
Unichem Lab	241.9	455.8	535.8	638.9	70.0	85.6	102.5	19.5	23.8	28.5	21%	12.4	10.2	8.5	30.1	28.8	29.0	25.7	5.0	2.1
Wipro	518.3	10,611.0	14,718.0	18,644.0	2,027.0	2,867.0	3,563.0	14.2	20.1	24.9	32%	36.5	25.8	20.8	23.5	26.3	25.7	28.7	5.0	1.0
Emerging Star																				
3i Infotech	230.0	417.8	648.5	825.8	50.2	97.7	136.2	9.5	14.5	20.2	46%	24.2	15.9	11.4	9.4	14.9	9.8	13.3	1.5	0.7
Aban Offshore	1,956.1	490.1	564.5	1,101.0	76.8	73.0	489.9	20.8	18.2	122.3	142%	94.0	107.5	16.0	15.9	7.2	26.3	7.7	2.6	0.1
Alphageo India	223.6	23.9	55.0	80.0	4.2	7.5	13.5	8.5	13.6	24.5	70%	26.3	16.4	9.1	27.0	30.7	20.4	27.9	0.5	0.2
Cadila Healthcare	330.7	1,484.5	1,808.1	2,127.5	164.9	223.4	276.9	13.1	17.8	22.0	30%	25.2	18.6	15.0	17.0	19.8	23.6	26.4	6.0	1.8
F-M Goetze*	252.6	449.2	380.0	644.4	13.5	18.6	55.6	5.3	7.3	18.6	87%	47.7	34.6	13.6	10.9	9.2	14.0	16.1	0.0	-
KSB Pumps	485.0	358.6	406.4	488.3	38.1	51.6	64.9	21.9	29.6	37.3	31%	22.1	16.4	13.0	44.2	45.8	23.4	25.7	4.0	0.8
Marksans Pharma	49.3	297.4	391.3	535.5	22.9	37.9	73.5	6.4	10.5	20.4	79%	7.7	4.7	2.4	10.5	13.8	23.3	27.2	-	-
Navneet Pub	53.0	294.3	325.0	365.3	35.6	44.0	53.1	3.7	4.6	5.6	22%	14.2	11.5	9.5	16.0	19.0	19.0	21.0	1.7	3.2
NDTV	290.4	221.0	283.5	356.3	24.1	26.4	43.2	4.0	4.2	6.9	32%	73.2	69.1	42.1	0.1	11.5	11.6	12.3	0.8	0.3
Nucleus Software	920.1	148.2	222.4	303.4	37.0	57.4	79.5	23.0	35.5	49.0	46%	40.0	25.9	18.8	38.0	39.3	32.3	35.0	3.5	0.4

* Year CY instead of FY

** June Ending Company

Company	Price (Rs)	Sales			Net Profit			EPS			(%) EPS Growth	PE (x)			ROCE (%)		RONW (%)		DPS	Div Yield
		FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY08/FY06	FY06	FY07E	FY08E	FY06	FY07E	FY06	FY07E	(Rs)	(%)
Orchid Chemicals	255.5	821.5	907.4	1,181.1	82.9	92.3	248.3	12.8	13.3	26.1	43%	20.0	19.2	9.8	10.4	10.4	10.6	9.4	3.0	1.2
ORG Infomatics	128.9	155.2	331.5	426.2	8.1	17.7	25.7	5.9	10.1	14.5	57%	21.8	12.8	8.9	37.5	39.0	43.2	27.7	-	-
Tata Elxsi	274.3	235.6	303.9	390.5	34.5	51.0	64.5	11.0	16.2	19.6	33%	24.9	16.9	14.0	57.5	60.5	98.6	82.7	6.5	2.4
TV18 India	590.2	152.0	237.6	322.4	37.2	64.1	90.6	18.2	11.7#	16.7#	-	32.4	50.4	35.3	15.4	16.9	21.7	23.2	1.3	0.2
Thermax	370.2	1,624.3	2,186.4	2,836.8	100.9	197.3	272.4	8.5	16.6	22.9	64%	43.7	22.3	16.2	37.2	53.3	22.3	31.8	3.4	0.9
UTI Bank	460.0	1,807.9	2,556.7	3,369.6	485.1	645.6	829.2	17.4	23.2	26.4	23%	26.4	19.8	17.4	-	-	18.2	20.7	3.5	0.8
Ugly Duckling																				
Ahmed Forging	228.7	357.9	635.0	934.2	40.5	72.6	126.7	12.2	21.3	38.1	77%	18.7	10.7	6.0	24.5	29	15.7	21.8	-	-
Ashok Leyland	36.3	5,247.7	6,902.5	8,379.8	305.6	426.1	534.7	2.5	3.2	4.0	26%	14.5	11.3	9.1	21.8	27.1	23.6	21.1	1.2	3.3
BASF	186.0	683.0	836.7	1,165.5	45.4	56.2	80.1	16.1	20.0	28.4	33%	11.5	9.3	6.5	24.8	27.5	17.1	19.2	7.0	3.8
Ceat	107.2	1,744.1	2,122.1	2,458.9	0.5	27.9	71.1	0.1	6.1	15.6	1149%	1,072.0	17.6	6.9	8.4	12.3	0.2	7.5		
Deepak Fert	81.5	608.7	692.4	891.9	74.6	93.7	135.3	8.5	10.6	15.4	35%	9.6	7.7	5.3	11.3	11.5	14.2	13.9	3.0	3.7
Fem Care Pharma	366.5	70.4	82.3	97.2	6.1	11.3	13.8	20.3	37.5	45.8	50%	18.0	10.0	8.0	58.7	52.3	43.6	48.0	6.5	1.8
Genus Overseas	249.4	212.1	351.0	474.1	14.8	23.0	35.3	14.2	18.9	29.0	43%	17.6	13.2	8.6	23.3	23.1	36.4	24.0	1.5	0.6
Hexaware Tech*	168.0	678.7	848.2	1,124.2	91.6	124.2	158.6	7.7	8.9	11.2	21%	21.8	18.9	15.0	32.3	33.2	28.3	28.6		0.0
HCL Tech**	272.3	4,388.3	6,051.7	7,843.0	773.9	1,088.9	1,338.4	12.1	16.7	20.5	30%	22.5	16.3	13.3	21.4	25.5	19.5	21.7	8.0	2.9
ICI India	452.2	992.4	931.2	945.1	53.7	86.7	118.9	13.1	21.2	29.1	49%	34.5	21.3	15.5	11.0	10.0	10.0	13.0	6.0	1.3
India Cements	153.9	1,541.8	2,041.7	2,436.2	35.8	430.1	624.3	1.9	19.5	28.3	288%	82.0	7.9	5.4	8.0	26.1	4.3	30.9	-	-
Indo Tech Trans	265.2	92.7	140.9	219.9	11.1	20.6	27.2	10.5	19.4	25.7	56%	25.3	13.7	10.3	23.0	32.3	23.3	25.8	2.0	0.8
JM Financial	946.2	335.0	452.3	565.3	67.2	102.6	145.1	23.4	31.6	44.7	38%	40.4	29.9	21.2	-	-	21.8	17.2	2.5	0.3
Jaiprakash Asso	533.8	3,791.4	4,384.2	5,235.2	379.4	443.6	638.2	19.5	22.8	32.8	30%	27.4	23.4	16.3	12.4	14.3	24.4	22.8	2.5	0.5
KEI Industries	67.1	299.4	576.0	837.2	26.0	45.2	69.5	5.2	7.7	11.8	51%	12.9	8.7	5.7	32.6	36.9	42.3	38.5	2.0	3.0
NIIT Technologies	424.6	607.5	891.0	1,100.5	66.3	120.8	141.0	17.2	31.3	35.9	44%	24.7	13.6	11.8	25.9	40.5	30.3	37.6	6.0	1.4
PNB	427.6	6,147.6	7,172.7	8,080.1	1,439.0	1,737.2	2,076.9	45.6	55.1	65.9	20%	9.4	7.8	6.5	-	-	16.4	17.2	9.0	2.1
Ratnamani Metals	653.9	319.1	557.9	695.7	33.5	59.6	70.4	37.3	63.1	74.5	41%	17.5	10.4	8.8	38.7	47.8	50.5	54.1	2.5	0.4
Sanghvi Movers	630.7	149.0	181.9	237.1	31.9	46.3	62.2	44.5	53.5	71.9	27%	14.2	11.8	8.8	26.4	23.3	39.6	19.9	10.0	1.6
Saregama India	188.0	126.6	153.1	178.4	6.4	16.9	24.3	4.3	9.9	16.6	95%	43.4	19.0	11.4	5.2	19.6	11.5	18.8	-	-
Selan Exploration	72.0	18.7	21.3	38.4	6.6	9.1	16.3	4.6	6.3	11.3	57%	15.6	11.4	6.4	26.0	20.7	19.5	19.3	-	-
SE Asia Marine*	174.4	82.3	127.9	236.7	58.7	83.4	119.6	17.3	24.6	35.3	43%	10.1	7.1	4.9	29.0	31.0	25.0	26.0	-	-
Subros	230.1	565.1	667.6	793.5	24.3	32.9	48.4	20.3	27.4	40.3	41%	11.3	8.4	5.7	20.6	22.6	18.9	19.9	3.0	1.3
Sun Pharma	1,043.1	1,637.2	2,145.8	2,791.2	573.6	748.6	936.5	30.9	38.3	47.9	25%	33.8	27.3	21.8	17.7	25.6	42.2	26.9	5.5	0.5
Surya Pharma	65.0	257.7	401.8	462.1	22.0	36.8	42.4	19.8	33.2	38.3	39%	3.3	2.0	1.7	13.0	15.6	20.1	23.9	-	-
UltraTech Cement	722.2	3,302.8	4,623.2	5,696.5	229.8	722.9	1,132.7	18.5	61.5	91.0	122%	39.1	11.7	7.9	14.7	42.6	22.1	42.7	0.8	0.1
Union Bank of India	96.1	2,999.4	3,442.1	4,007.9	675.2	919.4	1,132.6	13.4	18.2	22.4	30%	7.2	5.3	4.3	-	-	15.8	18.8	3.5	3.6
Universal Cables	91.6	297.5	345.0	472.6	16.6	21.6	30.5	8.3	9.3	13.1	26%	11.0	9.8	7.0	18.1	15.9	11.9	13.5	1.0	1.1
Wockhardt*	378.3	1,413.1	1,729.0	2,272.8	257.1	301.7	360.9	23.5	27.6	30.2	13%	16.1	13.7	12.5	15.3	13.6	31.5	28.6	5.0	1.3
Vulure's Pick																				
Esab India	297.7	237.6	287.2	325.6	36.6	42.7	52.2	23.7	27.7	33.9	20%	12.6	10.7	8.8	111.0	102.0	100.0	56.0	26.0	8.7
Orient Paper	402.5	867.1	1,053.8	1,287.9	39.1	122.7	182.4	26.3	63.9	94.9	90%	15.3	6.3	4.2	18.0	32.6	92.9	36.4	-	-
WS Industries	41.3	147.1	166.0	200.5	4.3	8.5	12.2	2.4	4.0	5.8	55%	17.2	10.3	7.1	13.0	15.2	10.6	12.0	-	-
Cannonball																				
Allahabad Bank	69.2	2,184.4	2,340.9	2,670.3	706.4	770.3	854.7	15.8	17.2	19.1	10%	4.4	4.0	3.6	-	-	26.8	23.2	4.0	5.8
Andhra Bank	71.7	1,627.1	1,927.1	2,171.4	485.5	546.8	644.2	10.0	11.3	13.3	15%	7.2	6.3	5.4	-	-	19.0	17.8	3.5	4.9
Cipla	225.8	2,897.4	3,651.1	4,344.8	607.6	759.4	934.1	7.8	9.8	12.0	24%	28.9	23.0	18.8	26.0	25.5	30.6	22.2	1.2	0.5
Gateway Distri	160.7	138.6	165.0	227.2	73.0	79.6	111.5	7.9	8.6	12.1	24%	20.3	18.7	13.3	20.0	14.4	12.7	12.2	2.0	1.2
ICIL	267.2	66.8	81.7	99.8	5.7	9.5	11.3	24.0	39.9	47.2	40%	11.1	6.7	5.7	28.9	33.9	17.5	22.9	2.5	0.9
J K Cements	143.8	872.3	1,258.1	1,454.0	32.5	167.6	222.8	4.7	24.3	31.9	161%	30.6	5.9	4.5	9.6	20.3	4.8	18.6	-	-
Madras Cements	2,607.8	1,008.4	1,584.7	1,958.1	79.9	333.5	405.0	66.2	276.1	335.3	125%	39.4	9.4	7.8	14.9	43.6	20.3	48.1	10.0	0.4
Shree Cement	909.8	694.8	1,222.1	1,623.2	152.6	332.6	445.0	43.8	95.5	127.7	71%	20.8	9.5	7.1	26.5	43.3	51.5	54.3	4.0	0.4
TCI	58.0	904.8	1,079.4	1,239.6	20.7	32.1	44.2	4.0	4.8	5.6	18%	14.5	12.1	10.4	17.8	19.4	19.4	23.1	-	-

* Year CY instead of FY

** June Ending Company

#Not comparable with EPS of FY2006 due to restructuring.

	Remarks
Evergreen	
HDFC Bank	• The consistent growth of 31% quarter after quarter makes HDFC Bank, India's leading private sector bank, a safe bet. The risk from the interest rate volatility is low as its fee income/net income ratio is the highest in the industry at 30%. The bank has received approval for new branch licences, which would help sustain the growth momentum.
Infosys Tech	• Infosys is India's premier IT and IT-enabled service company. It is one of the key beneficiaries of the strong trend of offshore outsourcing. Moreover, despite the cost pressures the company has proven its ability to maintain its profitability.
Reliance Ind	• RIL's refining business remains strong. The upswing in the petrochemical cycle is likely to continue for the next 18-24 months. Upstream assets are valued at Rs580 per share. Its subsidiary, RPL, adds another Rs167 per share to the stock price.
TCS	• TCS pioneered the IT service outsourcing business from India and is the largest IT service firm in the country. It is a leader in most service offerings and is in the process of further consolidating its leadership position through the inorganic route.
Apple Green	
ACC	• ACC is India's largest cement maker and will be the primary beneficiary of the improving cement demand-supply equilibrium. The volume boost from the expanded capacity and the cost reduction through captive power plants shall boost its profitability. Holcim's strategic stake in it will result in the unlocking of value.
Aditya Birla Nuvo	• Aditya Birla Nuvo participates in India's four most exciting sectors: garments, insurance, telecom and IT/IT enabled services. It has a perfect strategy: to earn cash from its cash cow businesses, such as carbon black, rayon and fertilisers, and invest in high-growth businesses, such as garments, insurance, telecom and IT/IT enabled services.
Apollo Tyres	• Apollo Tyres is the market leader in the truck and bus tyre segment with a market share of 28%. We expect the replacement cycle to get triggered in a big way given the sharp rise in the commercial vehicle (CV) sales in the past one year. The margins improved substantially in Q3FY2007 and are expected to be sustained heron. Considering the strong growth opportunities and the powerful position of the company in the market, we believe that the stock is under valued.
Bajaj Auto	• Bajaj Auto is a leading two-wheeler automobile company. New product launches and capacity expansions are expected to trigger growth for Bajaj Auto going forward. The pick-up in three-wheeler segment should help in improving its profitability further. Its insurance subsidiaries and investment book add significant value to its stock price.
Bank of Baroda	• BOB, with a wide network of over 2,700 branches across the country, has a stronghold in the western and eastern parts of India. With only around 35% of its investment portfolio in the available-for-sale category and duration of 2.7 years, the bank has insulated its investment portfolio very well from the risk of rising interest rates. We expect a strong 18.3% growth in its core net revenue and a 28.7% growth in its earnings over FY2006-08E.
Bank of India	• BOI has a wide network of 2,644 branches across the country and 24 branches abroad. With only around 25% of its investment portfolio in the available-for-sale category and its duration below one year, the bank has insulated its investment portfolio very well from the risk of rising interest rates. With improving margins and steady asset growth, we expect a strong 20.4% growth in its core net revenues and a 29.6% growth in its earnings over FY2006-08E.
Bharat Bijlee	• Bharat Bijlee, a leading transformer manufacturing company, shall benefit from huge investments in the T&D sector. Its OPM and RoCE are all set to improve substantially on transfer of the low-margin elevator business.
Bharti Airtel	• Bharti Airtel is leading the wireless telephony revolution and has emerged as the largest mobile operator in the country. In addition to the robust growth in revenues, the focus on cost efficiencies and high-margin non-voice business are more than mitigating the impact of declining trend in the tariffs.
BEL	• BEL, a public sector unit involved in manufacturing of electronic, communication and defence equipment, is benefiting from the enhanced capital expenditure outlay in the budget to strengthen and modernise security systems. Moreover, civilian and export orders are also aiding the overall growth in revenues.
BHEL	• BHEL, India's biggest power equipment manufacturer, will be the prime beneficiary of a four-fold increase in the investments being made in the power sector. Its order book of Rs55,000 crore stands at around 3x FY2007 revenue and we expect it to maintain the growth momentum.
Canara Bank	• Canara Bank, with a wide network of 2,513 branches across the country, has a stronghold in the southern parts of India especially in states like Andhra Pradesh and Karnataka. With nearly 60% of its investment portfolio in the held-to-maturity category, the bank faces some risk from the rising interest rates. We expect a 13.9% growth in its core net revenues and an 18.3% growth in its earnings over FY2006-08E.
Corp Bank	• Corporation Bank has one of the lowest cost/income ratio and the highest Tier-I CAR. This leaves ample scope to leverage balance sheet without diluting equity, quite unlike the other state-owned banks. It is most aggressive on technology implementation with almost 100% of business and all the branches likely to be covered by core banking solution by FY2007. It has superior asset quality with NPAs at 0.48%.

	Remarks
Crompton Greaves	• The outlook is buoyant for Crompton Greaves' key business of industrial and power systems. A strong order book of Rs4,537crore is equivalent to 1.1x FY2006 consolidated revenues and generates earnings visibility. The synergy from the acquisitions of Pauwels and GTV will drive its consolidated earnings.
Elder Pharma	• With leading big brands like Shelcal and Tiger Balm, pharma company Elder Pharma is set to make the most of the domestic demand with line extensions and new molecules. Partnership agreements with foreign companies will reap good rewards in the future. The fairness cream, Fairone, shall drive the earnings.
Grasim	• Going forward, the improved performance of the VSF business, continued concrete performance of its cement business and the steep uptrend in the earnings of its 51% subsidiary, Ultratech, would drive Grasim's consolidated earnings.
HLL	• HLL is India's largest fast moving consumer good (FMCG) company. The volume growth is picking up in FMCG sector and HLL is likely to be a key beneficiary. The rural demand growth will be icing on the cake. The company has regained the pricing power in all the product segments. That along with stable raw material prices, turn-around of loss-making businesses and cost reduction measures should help it improve its profitability.
Hyderabad Ind	• Hyderabad Industries is the leader in the Indian asbestos cement roofing industry. The company is expected to further increase its presence in the sector on the back of its capacity expansion plans.
ICICI Bank	• ICICI Bank is India's second-largest bank with a strong positioning in the retail advance segment gives it dual advantages of a healthy growth in both loans and fee income. Various subsidiaries add Rs400 to overall valuation. The bank has decided to transfer its holdings in the insurance (74%) and asset management (51%) businesses into a 100% subsidiary company called ICICI Holdings. The bank also plans to list this subsidiary, which should unlock significant value and improve the bank's overall valuations.
Indian Hotels Co	• The tight demand-supply scenario in the hotel industry will push up the ARRs in the short term and we expect Indian Hotels Co (India's largest hotel company) with its pedigree of hotels to be the key beneficiary of this trend. We expect its earnings to grow at a strong 27.3% CAGR over FY2006-08.
ITC	• ITC's plan to diversify from the key business of cigarettes is paying off with the non-cigarette businesses of hotels, paper and agri-products reporting a strong growth in revenues. The cigarette business would nurture the growth of the businesses that are at nascent stage. As ITC gains leadership position in each of these businesses, we expect its valuations to improve further, reducing the gap between its valuation and that of HLL.
Lupin	• Leading pharma company Lupin is set to take off in the export market by targeting the US market (primarily for formulations) while maintaining its dominance in the anti-TB segment globally. Alongside, its initiatives to expand base in European market either through partnerships or acquisitions would enhance the earnings visibility. Further, with an expanded field force and therapy focused marketing divisions, Lupin's branded formulation business in the domestic market has been performing better than the industry.
M&M	• M&M is a leading maker of tractors and utility vehicles in India. The growth momentum continues in the utility vehicle and tractor segment. Investments in the other businesses like passenger cars and commercial vehicles along with world majors will help the company diversify in various auto segments. Acquisitions by Systech will pay off over the coming three years. Value of its subsidiaries adds to the sum-of-parts valuation.
Marico	• Marico is India's leading FMCG company. Its core brands, Parachute and Saffola, have a strong footing in the market. It intends to play on the broader beauty and health platform. Its risk appetite is rising, as is evident from the five acquisitions made in eighteen months. It is also directing its energies to the high-margin businesses, viz value-added hair oil, *Kaya* and *Sundari*.
Maruti Udyog	• Maruti Udyog is India's largest small car manufacturer. This is the only pure passenger car play. With new launches the company is maintaining its growth rate in the domestic market. Suzuki has identified India as a hub for manufacture of small cars for its worldwide markets. Increased indigenisation and cost control measures to help improve margins.
Nicholas Piramal	• Pharma major Nicholas Piramal is ready to gain from the ramp-up in it contract manufacturing deals with MNCs. Further, the acquisition of Pfizer's Morpeth facility in the UK adds glory to its global contract manufacturing strength. The restructuring of its wide spread field force is likely to unlock value in terms of higher product acceptance and greater market share in domestic market.
Omax Auto	• A leading maker of auto components and auto ancillaries Omax has re-structured its revenue model by diversifying its domestic customer base, increasing the share of exports in revenues and broadening its product range. It is expanding its capacity to tap growth opportunities.
Ranbaxy	• Ranbaxy, apart from its inorganic growth strategy, has been maintaining an aggressive product introduction strategy in the domestic, regulated and other pharma markets. The product in-licencng and marketing pacts too support its growth. With such efforts, it maintains numero uno position in the domestic market. Going forward, it shall be driven by stronger expansion in the international business, new launches across the globe. Further the continued focus on inorganic growth would power Ranbaxy in foreseeable future.
Satyam Comp	• Satyam is among the top five Indian IT service companies. Despite the continued losses in its subsidiaries, it has shown a marked improvement in its performance and to an extent addressed the key concern of losses in its subsidiaries.

Remarks	
SKF India	• SKF, a leading bearing and engineering solution provider, enjoys good visibility in high-margin replacement market. It will be the primary beneficiary of growing volumes of Indian automobile industry and the huge industrial investment lined up by India Inc. It also plans to focus on its high-margin service division.
SBI	• Despite being the largest bank of India, SBI growing at a high rate is highly commendable. Its loan growth is likely to remain healthy at 20-25%. The net interest margins may see a marginal dip in the near future but will stabilise going forward. The asset quality has been improving with the net NPAs falling to 1.5% of the net advances.
Sundaram Clayton	• Sundaram Clayton, a strong player in the air brake and casting business, would benefit from the buoyancy in the CV industry. Huge outsourcing to its parent, WABCO, and its early entry into the anti-lock braking system are expected to augur well for the company.
Tata Motors	• Tata Motors is one of India's leading automobile companies with diverse product portfolios across commercial vehicles and cars. The commercial vehicle segment continues to grow well. The international operations and subsidiaries further add value to the company.
Tata Tea	• Over past two years Tata Tea has transformed itself from just a commodity (tea) seller to a branded tea maker. The latest acquisitions done by the company may act as a drag on the company's financials and stock price in short term. However, still its valuations are much cheaper than is peers. Also the acquisitions will leverage lot of value over long term.
Unichem Lab	• Big brands in the domestic pharma market and a strong marketing network are the distinguishing features of Unichem. Its domestic business is growing steadily while it is aggressively registering products in international markets (particularly in Europe). The recent acquisition of the balance 40% in subsidiary, UK-based Niche Generic, would boost its product registration and launches in the entire European region, and augment its exports.
Wipro	• Wipro is one of the leading Indian IT service companies. The revival in the BPO business, strong traction in its existing IT service business and the incremental growth from the recent inorganic initiatives have considerably improved the growth visibility in the global software service business.
Emerging Star	
3i Infotech	• 3i offers software products and solutions to the banking, financial services and insurance (BSFI) sector. The growth momentum is expected to continue due to a healthy order book and the growing visibility of its product business in the overseas markets. The benefits of the recent acquisitions will also get fully reflected in its performance in the coming quarters.
Aban Offshore	• Aban Offshore, one of Asia's largest oil drilling companies, is benefiting from the increase in oil exploration and production activities globally. The efforts taken to substantially ramp up its asset base through organic and inorganic routes would significantly improve its financial performance over the next few years.
Alphageo	• Alphageo provides seismic survey and other related support services to oil exploration & production companies in India. The recent order wins and a healthy pipeline of orders have considerably improved the company's revenue growth visibility for FY2008.
Cadila	• A giant in the domestic formulation space, Cadila is now moving to the high-margin market of US generics. Also, the steady progress in the CRAMS space enriches the company's earnings visibility. With key subsidiaries expected to turn profitable in the near future, Cadila is all set to start harvesting the fruits of its long-term investments.
F-M Goetze India	• Federal-Mogul Goetze India, a leading supplier of piston and piston rings, enjoys a 65% share of the OEM market and 70-80% penetration in the CV and tractor segments. It would benefit from continuing growth in the CV segment and increasing dieselisation in the car segment. There also exists a huge potential for outsourcing to its parent, who is looking to shift some of its manufacturing lines to low-cost countries.
KSB Pumps	• KSB Pumps, a leading maker of pumps and valves, is a beneficiary of the investments lined up in India's power and industrial sectors. The strong order inflow in the pump business and the capacity expansion would drive its growth.
Marksans Pharma	• Contract manufacturing orders and the lifestyle bulk drug business will drive the growth of pharma company, Marksans Pharma. The recent efforts to direct its product to regulated markets, particularly Europe and other newer ROW markets, would also boost growth. The inorganic growth trigger cannot be ruled out.
Navneet Pub	• Publishing major Navneet's earnings will continue to grow in FY2008 backed by the procedure of change in the syllabus in Gujarat and Maharashtra. The growth in stationary business would be aided by the introduction of non-paper stationary products.
NDTV	• NDTV is one of India's largest television production houses. With numerous revenue streams in its fold, such as a global consulting tie-up, a global subscription alliance, Internet ventures and its move to launch general entertainment and lifestyle channels, it has already put the building blocks in place for a long-term growth.
Nucleus Software	• Nucleus Software offers a comprehensive suite of software products to banking and financial service companies globally. Its flagship product "FinnOne" is rated as the highest selling retail banking product in the IBS annual ranking review 2006. The niche positioning and a robust order book provide a reasonably healthy growth outlook.

	Remarks
Orchid Chem	• Orchid will benefit the most in the bulk and formulation market for cephalosporins in the USA. Its entry into European and Canadian markets will further boost its sales in the coming years. With UK MHRA approval for its plants and marketing tie-ups in place, Orchid is all set to make its entry into the European market, which will catapult its growth to a different trajectory.
ORG Infomatics	• ORG Infomatics is focused on providing IT services in the convergent IT and telecom space. Driven by a restructured business model, it has shown an exponential growth over the past couple of years. The growth momentum is likely to be maintained due to a healthy order book and the reasonable size of its operations now.
Tata Elxsi	• Tata Elxsi has successfully transformed itself from a system integration company into an established player in the niche segment of product design and engineering services. It has built the required scale of operations and strong client relationships to effectively tap the huge emerging opportunity in this segment.
TV18 India	• TV18 is India's leading news media company. It owns the nation's top business news channels, CNBC TV-18 and Awaaz. It also owns a repertoire of web properties such as moneycontrol.com, poweryourtrade.com and commoditiescontrol.com. The buoyant economic fundamentals augur well for its media properties. With top-notch management it remains one of the best media companies in the country.
Thermax	• The continued rise in India Inc's capex will benefit Thermax' energy and environment businesses. It has a strong order book of Rs3,024 crore which is equivalent to 1.9x FY2006 revenues and ensures visibility of earnings. Better operational efficiencies coupled with cost management will lead to a 260-basis-point expansion in margin over the FY2006-08 period.
UTI Bank	• Over the last few years UTI Bank has grown its balance sheet aggressively. We expect the quality of its earnings to improve as the proportion of the fee income goes up. Its asset quality continues to remain healthy with the net NPAs at 0.68% despite the strong asset growth.
	Ugly Duckling
Ahmed Forging	• Ahmednagar Forgings, a very promising forgings company, has a strong order book of Rs850 crore, executable over next twelve months. It is more than trebling its forging capacity to 165,000tpa by FY2008 and is also increasing its machining capacity. It trades at very attractive valuations considering the stupendous increase in its size and improving product mix.
Ashok Leyland	• Ashok Leyland is purely a play on the boom in the country's CV industry. With diversified revenue streams, good product mix and strong distribution network, ALL is expected to outperform the industry. Initiatives on value engineering and e-sourcing of materials are likely to improve the margins going forward.
BASF India	• BASF India (BASF) is set to benefit from the changing demographics and the resulting consumption boom in India. BASF's products are used in industries like white goods, textiles, home furnishing, paper, construction and automobiles all of which have been growing at a fast pace in contemporary times. To capitalise on the resulting opportunity, BASF is expanding the capacity of its products. A dividend yield of over 3% provides a margin of safety to the investment.
Ceat	• Tyre maker Ceat has an overall market share of 12% across categories and ranks fourth in the industry. Exports account for 20% of its sales. It is improving its product mix with higher contribution expected from exports and specialty tyres where the profit margins are higher. Ceat has undertaken various initiatives in order to improve its productivity and this should lead to improvement in margins. We find the stock's valuations attractive.
Deepak Fert	• Deepak Fertiliser manufactures and supplies industrial chemicals. The industrial upsurge will increase the demand for bulk chemicals. A new 70,000MTPA capacity for producing IPA will act as an inflexion point for its top and bottom lines. It also has plans to expand its ammonium nitrate capacity at a cost of Rs400 crore. Despite a Rs700-crore capex, there is no equity dilution and the debt/equity ratio remains comfortable.
Fem Care	• Fem Care is a market leader in the niche segment of bleach cream; it is also among the leading players in the hand-wash liquid soap and hair-removing cream categories. The successful launch of high-end products and acquisition of an international brand are likely to boost its overall growth in the coming quarters.
Genus Overseas	• Genus, India's leading electric meter manufacturing company, is all set to reap the benefits of the APDRP initiatives like the 100% metering programme and the replacement of mechanical meters by electronic meters. A healthy order book of Rs470 crore will maintain growth in its revenue and profitability.
Hexaware Tech	• Hexaware Technologies is a mid-sized IT service company focused on the fast growing enterprise solutions market and HR IT services. It has a dominant position in PeopleSoft products and is scaling up its capabilities in Oracle and SAP. The strong revenue growth visibility and the ability to maintain margins would help its earnings to grow at a CAGR of 28.5% over CY2006-08.
HCL Tech	• HCL Tech is one of the leading Indian IT service vendors. It has been able to successfully ramp up the business from the large-sized deals bagged over the past few quarters, which has considerably improved its revenue growth visibility.
India Cements	• India Cements, the largest cement manufacturer in the southern region, is all set to see exponential growth because of its high leverage to cement prices. It plans to raise its capacity by 2 million tonne in the next one year at a cost of Rs350 crore. This shall take its total capacity to 11 million tonne.

	Remarks
Indo Tech	• The demand for transformers is on upswing, thanks to high power-generation targets of the government. The annual demand for transformer is expected to be around 95,000MVA whereas the current capacity of transformer Industry stands at around 75,000MVA. To cater to this opportunity transformer maker Indo Tech is tripling its capacity, which will result in a strong earnings growth.
ICI India	• We expect ICI's paint and starch business to grow at a CAGR of 20% over next two years. ICI has already sold all its subsidiaries to concentrate on its core business. That would translate into free cash and cash equivalents of around Rs245 per share.
JM Financial	• JM Financial is a non-banking financial company. After the recent split with Morgan Stanley (MS) the company is planning to set up its own institutional equity desk and expand its retail broking and margin funding businesses. It has a huge pool of cash after it raked in almost Rs1,900 crore for the deal in which it sold its 49% stake in the foreign institutional equities business to MS. Despite MS's exit we feel there is still significant value to be unlocked in the scrip in the medium to long term.
Jaiprakash Asso	• Jaiprakash Associate, India's leading cement and construction company, is all set to reap the benefits of the huge investments to be made in India's infrastructure. It has a strong order backlog of Rs7,200 crore.
KEI Industries	• KEI makes stainless steel wires, cables and winding wires. It is expected to be a major beneficiary of the pick-up in investments in the power generation as well as transmission and distribution sectors. On the back of these investments we expect its revenues and earnings to grow at a CAGR of 66% and 63% respectively over FY2006-08E.
NIIT Tech	• NIIT Tech was formed by hiving off the software service business of NIIT into a separate entity in June 2004. It is focused on three key industry domains and is benefiting from its inorganic initiatives and restructuring undertaken to consolidate the client base.
PNB	• PNB is the best in the banking industry in terms of deposit mix, with the low-cost deposits constituting 49% of its total deposits. It has the lowest NPAs amongst the public sector banks. A strong retail franchise and technology focus will help boost its loan and fee businesses. However a high level of AFS bond portfolio poses a risk in a rising interest rate scenario.
Ratnamani Metals	• Ratnamani is the largest maker of stainless steel (SS) tubes and pipes in the country. Given the buoyant demand for SS tubes and pipes from its clients including BHEL and L&T, and a strong order book of Rs376 crore, we expect its revenues and earnings to grow at a CAGR of 47% and 45% respectively over FY2006-08.
Sanghvi Movers	• Sanghvi Movers is the largest crane hiring company in Asia. It is a perfect asset play on the upsurge in the country's capex cycle. The usage of cranes is an essential part of investment spending and of the projects being undertaken by Indian companies; this bodes well for the company. Its strong cash flows make it an attractive investment.
Saregama India	• Saregama is in the business of music and home entertainment, and has a repertoire of around 3 lakh songs spread across a number of languages. We expect a strong growth in Saregama's earnings from the sale of music in non-physical format with tremendous growth in the value-added services in the telecom sector and the expansion of the radio broadcast sector.
Selan Exploration	• Selan is an oil exploration & production company with five oil fields in the oil rich Cambay Basin, Gujarat. The initiatives taken to develop and monitise the oil reserves in its Bakrol oil field are likely to significantly ramp up the production capacity and result in a re-rating of the stock.
SE Asia Marine	• SEAMEC with its fleet of three MSVs, which are deployed by oil companies for construction and maintenance of underwater pipelines, is a key beneficiary of the boom in E&P spends and higher rates for MSVs. It has recently acquired a vessel, which is being converted into diving support vessel and will commence operation by Q2CY2007, boosting the company's overall performance.
Subros	• Subros, the largest integrated manufacturer of automobile air conditioning systems in India, is expected to be a prime beneficiary of buoyancy in the passenger car segment. It is a strong play on growth plans of Maruti Udyog and Tata Motors, who are expanding their capacities. It plans to double its capacity in next two years which in turn will maintain momentum in its earnings growth.
Sun Pharma	• Sun Pharma has been a steady performer in domestic pharma market supported by its leading position in chronic therapies, which contribute 70% of its domestic formulation sales. Going forward, the robust growth in Caraco, the US outfit of the company, as well as in the domestic and ROW markets would maintain the growth momentum. Further, the recent disclosure of R&D pipeline will unlock value for investors.
Surya Pharma	• A shift to a high-margin product portfolio is the name of the game and Surya is well aware of it. The cephalosporin opportunity would result in sweet fruits for this pharma company.
UltraTech Cement	• Going forward, UCL should benefit from firm cement prices across the country as well as higher volumes owing to rising capacity utilisation and improving cost efficiency, as it commissions its captive power plants. Synergies with Grasim will reduce its freight cost. All this should improve its operating margins.

	Remarks
UBI	• Union Bank has a strong branch network and an all-India presence. The net NPAs are expected to go down to 1.2% by 2007. With the biggest chunk of its investment portfolio in the held-till-maturity segment, it is perfectly guarded against interest rate increases. With an average return on equity of 18.2% over FY2006-08E, the bank is available at attractive valuations.
Universal Cables	• Universal Cables is a leading player in the Indian power cable segment and hence would be one of the biggest beneficiaries of the huge demand for power cables over the next couple of years. It has investments that are worth Rs34 per share of its group companies.
Wockhardt	• Wockhardt's bio-pharmaceutical and generic businesses would generate growth over long term. The recent acquisition of Pinewood is expected to propel the company into a new growth trajectory as synergistic benefits start flowing in. Further, the likely approval of bio-similar in US, EU and other geographies would drive Wockhardt in the medium to longer term.
	Vultures's Pick
Esab India	• Change in positioning from low margin, high volume products to quality and high margin products. Double-digit manufacturing sector growth to help business of electrodes and welding equipment.
Orient Paper	• Orient Paper is set to benefit from the upswing in both its businesses: paper and cement. The volume growth in the cement business through increased blending and a captive power plant would drive the profitability of the cement division. Rising paper prices and increased capacity augur well for the paper division. It also has investments in excess of Rs100 crore in its books.
WS Industries	• WSI, a leading maker of insulators, is all set to reap the benefits of a three-fold increase in investment in the T&D segment in India. A strong order book of about Rs110 crore and a shift to higher-margin product of hollow insulators will drive the earnings. It plans to develop an IT park covering 10 lakh sq ft at Chennai. Taking WSI's current 59% stake in its realty venture, we arrive at a value of Rs29.1 per share for the realty venture alone.
	Cannonball
Allahabad Bank	• Allahabad Bank, with a wide network of 1,933 branches across the country, has a stronghold in the northern and eastern parts of India. With only around 35% of its investment portfolio in the available-for-sale category of duration of 3.7 years, the bank has insulated its investment portfolio from the risk of rising interest rates. With an average RoE of 23% over FY2006-08E, the bank is available at attractive valuations.
Andhra Bank	• Andhra Bank, with a wide network of over 1,200 branches across the country, has a stronghold in the southern parts of India, especially in Andhra Pradesh. With only around 39% of its investment portfolio in the available-for-sale category and its duration at 2.0 years, the bank has insulated its investment portfolio very well from the risk of rising interest rates. We expect a 16.2% growth in its core revenues and a 15.2% growth in its earnings over FY2006-08E.
Cipla	• Partnership agreements with major international firms and low R&D costs are what drive Cipla. This pharma company has a business model similar to that of only a few in the business. Also, Cipla--the cheapest manufacturer of ARVs--is well set to gain from the anti-AIDS focus worldwide.
Gateway Dist	• Gateway Distriparks, a port-based logistic facilitator, has strong presence at JNPT, the country's biggest port. It has a market share of 25%. The recently won contract from the Punjab state government to operate a CFS near JNPT for a period of 15 years will provide the much-needed trigger for the volume growth going ahead. The company's foray into the rail operation business will be a trigger for its earnings in the long term.
ICIL	• International Combustion, which makes gear motors & boxes, polymers, heavy engineering equipment etc, is a good play on India Inc's current capex plans, especially in the sugar and steel industries. The emerging outsourcing trend in the gear motor space should lead to an earnings surprise. Its strong order book of Rs64 crore is equivalent to 1.0x FY2006 revenues and ensures visibility of earnings.
J K Cements	• The firm cement prices and volume growth from the recent capacity expansion will drive JK Cement's top line. This coupled with the company's drive to bring down its power cost by installing a CPP and a waste heat recovery unit would result in substantial margin improvement.
Madras Cements	• Strong cement consumption in the southern region would continue to drive the earnings of Madras Cement, one of the most cost efficient producers of cement. The 4-million-tonne expansion of the company's existing facilities will provide the much needed volume growth in the future.
Shree Cement	• The firm cement prices in the wake of the narrowing demand-supply scenario in the country in general and the northern region in particular would drive Shree Cement's cement realisation. This and the continuous volume growth over the next two years would maintain the momentum in its earnings growth.
TCI	• TCI, a leading logistic solution provider, is rightly focusing on its high-growth logistic business and high-margin express cargo business. Driven by the exponential growth in the logistic business and the incremental revenue from the express cargo business, its earnings are expected to grow substantially.

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