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Event

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RESEARCH

Day two - highlights

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Key presentation highlights

Asian Paints: The impact of economy slowdown should persist in the short term. But Asian Paints' core competitive strengths - market leadership, innovation, distribution - continue to stand out in our view.

Bajaj Auto reiterated focus on pricier, high-end bikes as a long term alternative to 100cc motorcycles.

DRL indicated having better visibility on base business front with at least one upside opportunity expected for the next 5 years.

Educomp Solutions: Growth trajectory to continue in FY10. Could surprise on 4Q Smart Class additions given pipeline at 700 schools is extremely strong.

Grasim acknowledged downside risk to pricing in VSF and Cement but said the company's overall margins in FY10 will remain ~FY09 levels due to falling input costs.

Godrej Consumer: Sales growth in the month of January has been better than Dec quarter, which saw strong growth in FMCG.

ICICI Bank highlighted as a strategy the bank's focus in coming year will be on capital preservation, risk containment and improving CASA

Infosys CFO reiterates overall volume softness but does not expect volume growth to be negative next year. Relatively confident on ability to manage margins. Key risk is increasing pressure on bill rates.

IVRC highlighted that launch of projects such as Madhya Pradesh's Rs200bn Narmada water project to A.P. and Gujarat Govt.'s water initiatives, reinforces our belief of continued growth in water capex in India.

M&M management did not appear confident of near term growth, especially in tractors.

ONGC expects that it may not have to pay any subsidy in 4Q FY09. This was stated by the petroleum secretary (main bureaucrat in ministry) recently.

Reliance Com said customer response to its GSM launch has exceeded expectations but reaffirmed that the current offer is for a limited period only. The Co targets to keep its wireless margins in the current range.

Tata Power said that it has visibility of only Rs27bn (internal accruals) of the total Rs51bn equity required to complete the 5GW expansion in IPP capacity over FY09-12E.

Tech Mahindra: Focus on long term deals to pay off. Expect deal from BT global services to ramp as per plan.

Refer to important disclosures on page 28 to 32. Analyst Certification on Page 26. Price Objective Basis/Risk on page 23.

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Key takeaways from presentations

Keynote address - India Admist Global Crisis - by Akhil Gupta, Deputy Group CEO and MD, Bharti Enterprises

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Akhil Gupta argued that India's macro fundamentals - low inflation, a manageable fiscal deficit, high fx reserves, softer rates, deep domestic demand - should help weather the global credit crisis. It would, however, be naïve to expect that India would not be affected by the global recession. It is, nonetheless, necessary to recognize that the economy is going through a slowdown rather than the recession raging through the rest of the world. What's helped? Policy cautiousness, a conservative culture, timely RBI/ government intervention and finally, deep domestic demand. At the same time, the present slowdown is certainly a major setback to a historic opportunity. What needs fixing? Increasingly high corporate cost, overreaction to events, over cautious approach by banks and FIs in lending. There is also a need to develop and reward corporate standards.

Asian Paints (XAPNF, Rs771, C-2-7)

Key Takeaway – Macro environment is weakening; Company fundamentals remain strong

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The impact of economy slowdown should persist in the short term. But Asian Paints' core competitive strengths - market leadership, innovation, distribution - continue to stand out in our view.

Other Highlights

- **Sales growth expectation pegged to economic revival:** Historically, industry paint volumes have growth at ~2x GDP. With GDP forecast at 6% in FY10, we believe volume slowdown can potentially be sharp. Volume growth could come down to single digits vs the 17-18% trend growth in the recent past. The downturn in the real estate sector, albeit a small share of Asian Paints' sales is another negative.

- **Long term growth intact:** With rising income levels, first time users are up-trading to higher quality branded paints. In the case of mass market consumers, they are up-trading to premium paints as focus on better lifestyle is increasing. Asian Paints with its well diversified portfolio is well positioned to ride on these trends. Also the housing stock constructed over last few years should come for re-painting in next three years time and will likely be a potential new market for Asian Paints.

- **Margin pressures are expected to ease:** Historically, Asian Paints has benefited from an averaging influence of mixed trends in input-cost inflation. However, in FY09, it faced simultaneous steep cost increases across most raw materials. This resulted in sharp EBITDA margin declines. We believe the situation has now improved with sharp falls in crude and vegetable oils. Also rupee depreciation and rising TiO_2 prices are appear to have stabilized now.

- **International business to focus on profitability:** Asian Paints has shifted its focus in international business to improving profitability. To this extent some restructuring was carried out to streamline operations and non profitable operations in Australia were sold down. Going forward, achieving significant scale of operations has been identified as the key. Middle East and South Asia continue to do well. But South East Asia is still not making profits.

Our main conclusion

We believe concerns relating to discretionary demand slowdown, poor Dec Q results and promoter share pledge are largely priced in. But the continuing weak economic environment makes us unexcited about the paints category. We maintain our Neutral on the stock due to lack of catalysts.

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Bajaj Auto Ltd. (XBJBF, Rs457, C-2-7)

Key takeaway- Demand stress, commodity relief

Bajaj Auto reiterated focus on pricier, high-end bikes as a long term alternative to 100cc motorcycles. Management believes that recovery would take 3-4 months, but expects a better FY10 compared to the last 2 years. The company also cautioned on slowing export growth, and discussed some new growth avenues. We have a Neutral rating on the stock.

Other Highlights

- **Domestic recovery early next fiscal:** Bajaj Auto believes that its strategic focus on 125cc-plus bikes and improving brand visibility will start paying off next fiscal. The management also expects declining interest rates and easier finance availability to help them recover sales. On three wheelers, the company expects steady volumes, with improvement again next fiscal, thanks to opening up of quotas in at least 2 metros.

- **Exports to slow, but still grow:** Bajaj Auto recognizes the global slowdown, and therefore expects exports to some of its existing markets to be impacted. However, the company sounded confident on growth, thanks to Africa (~25% of exports), as well as Asia.

- **New growth avenues:** Management highlighted contribution from KTM bikes by H2 FY10 (distribution through pro-biking showrooms) as well launch of light commercial vehicle next year. Management was non-committal on capex regarding the low-cost car, but indicated that plans were on track.

Conclusion

- We rate Neutral: Despite undemanding valuations, our rating is based on concerns over the company's eroding domestic franchise, which is expected to restrict top-line growth.

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Dr Reddy's Laboratories (DRYBF, Rs435, C-3-7)

Key Takeaway

DRL indicated having better visibility on base business front with at least one upside opportunity expected for the next 5 years. While Indian formulations business is expected to show positive traction on the back of new product launches, changes in supply chain model is likely to show impact in the next 2-3 qtrs. German market now appears to be leaning more towards tender based model and the company now working on low margins high volume business strategy.

Other Highlights

- The company is so far tracking head of its guidance (25% revenue growth) and would be able to provide FY10 outlook by end of 4Q. Improving cash flow and profitability would the key focus areas for the company.

- Outcome of the AOK tender would be known shortly and with the business model now becoming clearer, uncertainty has reduced substantially in our view. The company would not be able to meet its EBITDA guidance for Betapharm (US$39mn) for FY09 owing to tender contracts impact and one-off charges. While there is scope for sales force reduction (from 120 to 60) in medium term, the company may have to report write-offs (intangibles related) in the next qtr. Future strategy on this business is to focus on absolute profitability.

- Expect to launch 2 biologic products in FY10 and 1 product every year, thereafter. It has a pipeline of 9 products in biologics space. Domestic business is likely to revive on back on niche product focus and new launches.

- Russia- Focus on strong credit controls to manage risks related to receivables. Expect US$120mn revenues from Russian business in FY09E. No risk on the receivables so far, receivable days of 70-90 days, kept under control.

- In the PSAI division, the company has shifted focus from custom synthesis to contract manufacturing. It expects to use its DMF pipeline as competitive edge.

- The company expects to maintain traction in US business, partly gaining from loss in competitor's market share in some products. With 133 ANDA filings and 69 ANDAs pending approval, the US generics pipeline is robust with 32 Para IV's and 19 FTFs (US$9bn)

Conclusion

We await visibility on upside triggers in the near term and expect the stock to remain range bound in the near term. We believe that pressures in the domestic formulation business and Germany would continue to weigh on valuations. The stock is trading at 14x FY09E EPS and 12x FY10E EPS. Maintain Underperform.

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Educomp Solutions (EUSOF, Rs1424, C-1-7)

Key takeaway

Buoyancy in core business likely to continue. Mgt highlighted that traction in Smart Class is high with strong pipeline of 700 schools for 4Q. We believe company could surprise on 4Q smart class additions. In Government school business, it expects a few large tenders to be up for bid in Feb 09.

Other key highlights

- Robust growth in core business likely to continue: Management highlighted that both smart class and government school business was seeing strong traction. In Smart Class it has pipeline of 700 schools for 4Q. In government school business a few large tenders are likely to be up for bid in 4Q and FY10. It is likely to participate in 4500 school tender shortly.

- FCF to turn positive in FY12. Management reiterated that FCF would turn positive in FY12 driven by strong growth in Smart Class and increasing adoption of asset light model in K-12 Schools. On K-12 business it is seeing increasing traction for its school management program, where in the capex is incurred by its partner and Educomp would just bring in its expertise for running school on revenue sharing basis. Also it has now tied up with HP and Dell for financing its capex in Smart Class.

- Debt funding secured : Mgt reiterated that its debt funding for K-12 schools is secured with debt line of Rs7.5bn from a consortium led by Axis bank. It is open to buy back FCCB, if it trades at discount of over 40%.

- Ventures in to budget school model: Educomp recently also unveiled its plan for setting up budget school. Branded Vidya Prabhat, these schools would offer fee structure of Rs700p.m and would be set up in tier 3 cities. It expects to set up 5 schools by July 2009.

Conclusion

We reiterate our Buy on the stock given Educomp's positioning in high growth education space and strong growth prospects. Stock is trading at 12x FY10E which is attractive given strong EPS CAGR of 54% over next two years.

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Grasim Industries (GRSJF, Rs1291, C-3-7)

Key takeaway

Grasim acknowledged downside risk to pricing in VSF and Cement but said the company's overall margins in FY10 will remain ~FY09 levels due to falling input costs.

Other key highlights

- The Co expects cement demand to grow between 6-8% despite the macro-slowdown. Grasim said recent demand recovery over Nov-Jan is in line with the top-end (8%) of the Co's demand expectations. The Co believes that demand for individual housing and from state government projects continues to be strong. However, organised housing (developer-led) has slowed due to working capital issues.

- Grasim expects 30-35mn tpa per annum of new capacity additions over FY09-11. The Co believes that impact of lower cement prices due to new supplies will be offset by lower input costs esp. coal.

- Grasim does not see any immediate M&A opportunities in the cement industry. Although equity market valuations have fallen, seller expectations are still high likely due to strong cashflows of the business.

- In the VSF business, pricing and demand are weak due to poor textile demand. However, the Co feels its margins in 3Q FY09 mark a bottom and margins are unlikely to fall further.

- Notwithstanding the operating risks in its businesses, Grasim highlighted that the Co is insulated from any financial risks due to low net debt/equity of ~0.43x.

Stock outlook

We have an Underperform rating on Grasim due to forecast margin pressure led by weak outlook for cement prices. We expect margin expansion in 4Q FY09 to be temporary.

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Godrej Consumer (XGOCF, Rs131, C-1-7

Key takeaway - Strong margin outlook; Jan sales stronger than Dec Q

Sales growth in the month of January has been better than Dec quarter, which saw strong growth in FMCG. Management expects EBIDTA margins to improve substantially from March quarter and be the best ever in FY10 based on fall in key input costs including palm oil prices. We expect sharp acceleration in earnings growth (>30%) on sharp margin expansion and decent volume growth in soaps and hair color from 4Q onwards.

Other highlights

- Soaps witnessing sharp volume growth (19% in 3Q). Godrej No. 1, positioned at the value segment, growing at a faster pace. The new variant launches in both Godrej No.1 and Cinthol have turned out to be extremely successful. Rural / small town economy has been doing very well and has remained insulated from the slowdown impact. We believe Godrej could continue to see 10-11% volume growth in soaps (ahead of industry growth) based on strong brand portfolio in value segment and competition focus on premium products and aggressive pricing.

- Hair color growth revives in 3Q. Mgmt has undertaken a number of steps to increase the growth momentum including increasing retailer margins, full benefits of which should show in the ensuing quarters.

- Overseas subsidiary performance remain satisfactory, despite slowdown in those markets. Mgmt sounded enthusiastic about the outlook for South African Kinky business. They opened 5 new Kinky stores in 3Q.

- Mgmt is on the lookout for suitable acquisition opportunities both overseas and in India and expects to close one acquisition in the next fiscal (FY10).

Conclusion

Godrej is our top pick in the mid-cap consumer space. The stock is trading at 10-12% discount to its peer-group as well as historic avg. We expect this discount to narrow down as earnings growth accelerates. Maintain Buy with PO of Rs150.

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ICICI Bank Ltd. (ICIJF, Rs390, C-1-7)

Key Takeaway - Capital preservation; Improving liability franchise

ICICI Bank in its presentation elucidated the key issues impacting the Indian banking sector and macro. In particular it highlighted emerging NPL concerns at sector level, especially in SME as growth slows. As a strategy the bank's focus in coming year will be on capital preservation, risk containment and improving CASA as it expands distribution and acquisition of fresh customers. Asset growth likely to be weak.

Other Highlights

ICICI Bank expects loan growth to be 0 to 5 pct this year. Its focus would be on raising CASA through repaying high cost deposits and expanding savings customer base, especially as it is expanding distribution. Further, we believe the bank is also a key beneficiary of falling rates as almost 45% of its deposits are wholesale that would get re-priced (by almost 400bps). It has substantially reduced dependence on its DSA model and using 'own sales' model. Hence cost containment and margin expansion should drive profitability.

On the asset quality front, ICICI Bank highlighted that SME especially textiles and chemicals are very vulnerable to NPL spike. The encouraging aspect is that it does not expect negative surprises on its mortgage NPLs; and delinquency levels in other retail loans also in sync with banks' estimated.

On the international front, it will continue to pursue its revised strategy of shifting to term deposits (especially in UK) that it can on-lend. Asset growth to be muted; focus on NRI fees. Asset quality should be manageable as per bank; though MTM hits remain the wild card.

Our main conclusion

In our view ICICI Bank is likely to be amongst the better positioned banks in coming year. It should be less impacted from expected spike in SME NPLs due to its lower SME exposure at < 5 pct of loans and minimal growth in past 2 yrs. Also muted growth may work in its favor.

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Info Edge (Not Rated, Rs413)

Key takeaways - Near term outlook cloudy

The company expects Q409 to be a muted at best in terms of topline given a sharp slowdown in the recruitment market across sectors particularly IT (25% of revenues). Further it expects investments in the new verticals- JeevanSaathi.com (matrimonial portal) and 99acres.com (property portal) would pull down overall profitability. War chest of Rs3.25bn may be utilized to consolidate position in verticals like matrimony.

Other Highlights

- **Recruitment solutions business could decline qoq in 4Q09:** Slowdown in the economy has not only hit the volumes in this business but also pricing. The average ARPU has declined from Rs 45,000 in FY08 to Rs40, 000 in 9M FY09 as number of clients have downgraded. All the sectors are witnessing pressures however IT has been the worst hit. The company has however not witnessed any loss in market shares.

- **Slowdown in other verticals to delay break even:** Sales growth in JeevanSaathi.com has declined from 37% in 9M FY09 to 27% in 3QFY09, while 99acres's sales growth has slowed down from 98% in H1 to 37% in 3Q. On combined basis, they have made a loss of Rs125mn. The losses on the matrimonial portal are expected to come down, while the losses on the property site could increase on the back of increased advertising expenditure in the coming quarters. The management would use this current slowdown as an opportunity to grab shares in the backdrop of slowing market activity from the competitors. This would delay the break even for both the portals.

- **Cash may be utilized for acquisitions:** The company has a cash balance of Rs3.25bn which the company expects to utilize to consolidate its position in the matrimonial space. Further, it has committed to spend Rs200mn on policybazaar.com to acquire 49% stake while Rs60mn for a 40% stake in Applect. Of this only Rs50-60mn has been invested to date.

Conclusion

Naukri.com (74% of revenues) continues to maintain its leadership position in the online recruitment market in the country. However, the current slowdown may lead to sequential decline in revenues. Further, delayed profitability in new portals may impact near term earnings. We do not have a rating on the stock.

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Infosys Technologies (INFYF, Rs1282, C-2-7)

Key Takeaway

Infosys CFO reiterates overall volume softness but does not expect volume growth to be negative next year. It is relatively confident on its ability to manage margins. We believe key risk is increasing pressure on bill rates. Company will maintain its practice of giving guidance.

Other Highlights

- Extent of bill rate correction, key risk in our view.
- Volume outlook remains foggy, with softness across verticals and geos. Infact, today demand challenges in Europe could exceed that in US. However, volume growth may not be negative next year. CY09 IT spending plans will be known earliest in March and even where clients discussing budgets, these are moving targets.
- Company will continue with the practice of giving annual guidance.
- Medium to long term 10 to 20pc USD rev growth looks feasible, given huge market opportunity in new verticals, geos and services.
- Some Satyam clients have approached Infy. Transition should not take more than a quarter, in general.
- On hiring and utilisation, management reiterated that it would honour all offers made and believes that with attrition and stringent performance management, it should be able to manage utilisation.
- Company is confident of managing margins, key levers being variable compensation, which provide 300 to 400bps margin buffer and another 50 to 100bps in Selling, General and Administration costs. There will also likely be no annual wage hike or minimal wage hike.
- Acquisition opportunities would be evaluated carefully. Keen on opportunities that could strengthen front facing skills particularly in Continental Europe and specific IP or skills. Not much interest in Indian captives.
- Dividend payout continues to be determined by evaluating acquisition opportunities and maintaining targeted ROCE and ROIC.
- Emphasised strong Balance Sheet with no debt, nearly USD2bn cash, 87 pc of receivables less than 60 days, dividend payout of upto 30pc and industry leading ROCE and ROIC.
- Company believes protectionist moves unlikely by US, given the vicious cycle that it would create from a trade perspective and the economic benefits of offshoring. Curtailing H1B visas would only accelerate offshoring, in Infy's view. Hiring locals onsite also a viable option today.
- Tax holiday extension for big IT companies beyond FY10 difficult to predict, specially given impending elections etc.

IVRCL Infra (IIFRF, Rs100, C-1-7)

Key takeaway- New states join water spends; FY10 sales +30%

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IVRC highlighted that launch of projects such as Madhya Pradesh's Rs200bn Narmada water project to A.P. and Gujarat Govt.'s water initiatives, reinforces our belief of continued growth in water capex in India. Management indicated potential sales growth of ~30% for FY10 and confirmed that they haven't pledged any stock.

Other highlights

Water capex spreads – positive for IVRC: IVRC highlighted that the state of Madhya Pradesh has launched a Rs200bn Narmada project, reinforces our belief of continued growth in water capex in India. Management indicated that this project could add ~10% to backlog by FY09. IVRC expects potential sales growth of ~30% for FY10 based on backlog of Rs143bn and likely new order inflow pipeline.

Management has not pledged stock. IVRC management confirmed that they haven't pledged any stock.

Comfortable on funding, margins to improve ahead. Company confirmed that it doesn't need any equity for the next two years with net D/E of 0.6 in FY09. With fall in material prices, margins should stabilize and higher priced new orders, which factor-in 12% interest costs, should boost margins ahead.

Conclusion

Reiterate Buy on IVRC with PO of Rs215. We believe the stock is inexpensive at 5.2x FY09E even assuming zero value to all subs. Commissioning of all four SPVs by 1QFY10E should also de-risk the business and improve cash-flows.

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JSW Steel (XJWJF, Rs199, C-3-7)

Key Takeaway

Seeing some uptick in activity in the domestic market compared to depressed Dec Q mainly in the long product segments. This is mainly driven by infra sector and government purchase. Demand in flat products remains weak due to weak auto sector.

Other Highlights

- JSW Steel plans to commission its 3mtpa brown field expansion in March 09. This includes 1.5mtpa of flat product and 1.5mtpa of long products.
- JSW Steel has renegotiated coking coal prices of US$175/t (prev US$305/t) with Rio Tinto for the last 3 months of the current FY09 contract. Rio accounts for ~75% of JSW Steel's coking coal requirement. JSW Steel expects lower coking coal costs to cushion impact of lower steel prices to some extent over the next few months.
- US Plates and Pipes business is hit by the US slowdown, sharp decline in crude prices and fall in investments in oil and gas sector. The units are operating at low capacity utilizations of 20-30% currently.
- JSW Steel has deferred its project implementation schedule in order to prevent further rise in gearing. Proposed capex for FY10 is ~US$580mn. This includes US$200mn for its recently completed 6.8mtpa expansion, US$300m for proposed hot strip mill expansion and US$80mn for other projects. This excludes capex for its 3mtpa brown field expansion (phase 2). The company has now put the project on hold now due to high net gearing and weak steel demand.
- JSW Steel's standalone net debt (long term) was Rs97bn and standalone net gearing was 1.2x as on Dec-08. Its consolidated net debt was ~Rs140bn and consolidated net gearing was 1.8x as on Dec Q.
- Total repayment obligation for JSW Steel is ~US$498mn in FY10. Repayment obligation for its standalone Indian operations is US$197mn and for its US acquisition is US$300mn in FY10.

Investment Conclusion- Maintain Underperform

We expect JSW Steel to witness continuing margin pressure due to lower steel prices. We believe fall in steel prices will outpace fall in costs for JSW Steel. Also high net gearing remains a key concern given the current steel downturn.

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Mahindra & Mahindra (MAHHF, Rs281, C-3-7)

Key takeaway- Demand stress, commodity relief

M&M management did not appear confident of near term growth, especially in tractors. However, the company appeared more bullish on autos, post new launch, and likely foray into US. Given the tough environment, capital outlay has been pruned. We maintain our Underperform rating.

Other Highlights

- **Tractor sluggishness to continue:** M&M believes that the slowdown may continue for another year, being in the mid-point of a typical 2-3 year trough. Segment margins will likely benefit from lower commodity prices, but possible increase in discounts to prop sales may partially negate this.

- **New launch and US entry to drive growth:** Tough business environment has hurt the UV segment this fiscal. The recent launch of Xylo (sales 1,800units in first month) is expected to drive domestic recovery. The company's plan to enter the US market with Scorpio is on track for CY09. Segment margins should remain under pressure, despite lower raw material prices.

- **Capex modified slightly:** The company has revised plans to Rs85bn over 4 years (i.e. FY09-12) from earlier Rs90bn capital outlay over a 3 year period. Most of this will be towards the autos business, including capacity increases and new product development. On queried about possible funding gap, management indicated that new resource raising was likely through debt option.

Conclusion

We rate Underperform: Our rating is largely due to muted growth prospects in its core business. Also, we believe visibility on several subsidiaries remains weak, and there is no positive trigger for the M&M stock (e.g. indefinite delay of Mahindra Holiday Resorts listing).

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Mundra Port & SEZ (Not rated, Rs367)

Key Takeaway – Scale-up across port & SEZ on-track

Mundra Port & SEZ expects to close FY09 with cargo volumes of 35mt +21.5%YoY and grow to 45mt in FY10. Scale-up at SEZ is also on-track with talks with prospective buyers for leasing >500 acres, currently on.

Other Highlights

- **Financing:** Key capex is Rs20bn coal terminal, which is likely to commission in Oct., 2010. This project is fully funded with Rs12bn debt and Rs8bn equity (IPO + internal accruals). Potential new projects include LNG terminal and expansion of Mundra Port, which may be taken up from FY11.

- **New terminal and existing capacity to drive volumes**. MPSEZ's new 31mt coal terminal and existing spare capacity (55mt v/s volume of 35mt) should drive its volumes despite economic slowdown. Coal terminal is already sold-out on 'take-or-pay' with Mundra UMPP and Adani Power, so a protracted economic slowdown should have limited impact on MPSEZ. Also coal terminal is likely to have EBITDA margin of ~85% due to mechanization v/s current 65%.

- **SEZ – In nascent stage**: MPSEZ has an active pipeline of 2,000 acres of which it could conclude ~500 acres of land lease in FY10. In YTD FY09, MPSEZ has booked SEZ income of Rs980mn on lease of ~165 acres.

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Oil & Natural Gas Corpn. (ONGCF,Rs666, C-1-7)

Key takeaways

ONGC expects that it may not have to pay any subsidy in 4Q FY09. This was stated by the petroleum secretary recently. We believe that the probability of no subsidy for ONGC in 4Q is reasonably high. This is because in 4Q over-recovery on auto fuels may fully neutralize LPG and kerosene subsidy

Other Highlights

- Finding cost of ONGC was USD2.56/bbl in FY08, USD2.07/bbl in FY07 and USD2.33/bbl in FY06
- Lifting cost of ONGC was USD4.73/bbl in FY08, USD3.34/bbl in FY07 and USD2.7/bbl in FY0
- ONGC has contracted 2 ultra deep water rigs, which are to be delivered in 4Q 2010E. The day rate on these rigs is USD525-636k per day
- Capex likely in current year (FY09) is Rs196bn (USD4.2bn) and proposed for FY10 is Rs209bn (USD4.5bn). Of this overall capex Rs60bn (USD1.3bn) is likely exploration capex in FY09 and Rs61bn (USD1.3bn) in FY10. Development drilling capex in FY09-FY10 is Rs39-42bn (USD900m)
- ONGC had Rs230bn of net cash as at end of December 2008
- Recovery rate in 15 major fields accounting for 60% of India oil production for 30 years has risen from 27.5% in 2000 to 30.5% in 2007. This is due to implementation of 12 EOR and IOR projects costing Rs118bn. ONGC now has under implementation 6 IOR and EOR projects with cost of Rs86bn (USD1.9bn) to further increase recovery rate. The extra oil recovery till date is 40mmt and is expected to rise to 110mmt by 2030.
- OVL's production in 9M FY09 is 6.53mmtoe (oil of 4.94mmtoe and 1.59mmtoe of gas). FY09 production is likely to be flat (FY08 was 8.8mmtoe)

Reliance Communication (RLCMF,Rs163, C-2-7)

Key takeaways

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Reliance Com (RCom) said customer response to its GSM launch has exceeded expectations but reaffirmed that the current offer is for a limited period only. The Co targets to keep its wireless margins in the current range.

Other key highlights:

- RCom acknowledged that they have made some changes to the original promotional offer based on customer acceptance. RCom has raised the one-time subscription amount from Rs25 to Rs49 and introduced a compulsory upfront recharge of Rs50. The per minute tariffs and unlimited night calling stay unchanged. The per day free talktime offer varies between Rs5-10 across circles.

- The Co reminded investors that their recent results (2Q & 3Q FY09) have already reflected most of the rise in network opex associated with GSM launch. From FY10 onwards, revenue accretion on GSM should cushion margins.

- RCom's CDMA strategy is to continue in products that are not handset dependent viz. FWPs, PCOs and data services. RCom already enjoys market leadership in these segments. RCom believes its CDMA customers are not disgruntled; the Co has explained to them that its promotional GSM offering is for a limited period only.

- On the capex front, RCom said there will be no slowdown in coverage capex. Capacity capex which is incremental will be a function of subscriber and traffic growth over a period of time.

- Regarding 3G auctions, RCom re-iterated that it has the financial capacity to bid for 3G. Based on the announced availability of 3G blocks for the industry so far, the Co does not foresee any significant demand-supply mismatch for 3G if only the existing operators were to participate in the auctions. RCom said its 3G keenness is driven by the need to future-proof its business.

Stock outlook:

We have a Neutral rating on RCom due to its narrow valuation discount versus Bharti and low visibility on returns from GSM.

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Reliance Power (Not rated, Rs99)

Key Takeaway – Scale-up ahead of expectations

With Reliance Power winning Talaiya UMPP and execution of Sasan UMPP ahead of schedule, Mr. Chalasani highlighted that execution at RPWR is well on-track. RPWR has secured of 2bt of domestic coal reserves and rising domestic merchant power prices augur well for integrated and diversified IPP such as RPWR.

Other Highlights

- **Financing:** RPWR appears well funded for 30GW projects for D/E mix of 75:25 and expects surplus from FY15 after equity investments in SPVs assuming only 4GW of Talaiya. Sasan UMPP has secured funding of Rs120bn of the 145bn debt and balance likely close in 4-6 weeks.

- **Sasan & Talaiya UMPP.** Execution of Sasan UMPP has started and financial closure in likely in 4QFY09. Execution of Sasan UMPP has been advanced by 3 years to Dec, 2011 to March, 2013. Talaiya UMPP should earn ~25% RoE given weak equipment price environment and low stripping ratio (2:1). This is assuming no expansion of Talaiya and use of surplus coal.

- **Merchant power pricing moving-up on lack of equity.** As indicated by Talaiya UMPP bid of Rs1.77/kWh v/s Sasan at Rs1.19, merchant power prices have also been moving higher if recent Gujarat Case I bid of Rs3.25/kWh (Adani) and Rs3.42/kWh (RPWR) is any indication. This should materially boost return for RPWR projects such as Chatarangi 4GW and potentially, Talaiya extension.

Rolta India Limited (RLTAF, Rs89, C-1-7)

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Key takeaway

As per the management there is a slowdown in new orders in engineering services business. Moreover, it expects to grow its GIS business and expects business from defense to be a key driver in this.

Other Highlights

- **Power projects to help growth in FY10**: As per the company, growth in engineering services will be led by business arising from power projects whereas orders from oil and gas will slow down. In oil and gas new refining capacity creation has come to a standstill and given low capex possibility, order bookings in this segment will slow down but will be supported by scale up in Piocon clients. In case of power generation the company expects order bookings to continue though at a lower pace. Over long term it expects upside to come from nuclear power.

- **Orders in the Thales JV getting delayed due to long sales cycles:** Company mentioned that sales cycles in defense are long and this was the main reason for the delay in getting orders in the Thales JV. Moreover, given winning of offset related business needs technology transfer to the Indian entity, it expects less competition in winning such orders.

- **FCCB Buyback to be EPS accretive:** Company reiterated that it will buy back FCCB given current high discounts. For this it will partly utilize its cash on the balance sheet and may raise ECB to retire FCCB. Moreover, it expects such a buyback to be EPS accretive.

Conclusion

- We have a Buy on Rolta India with a PO of INR150. The stock currently trades at 4xFY10e EPS for over 20% EPS CAGR over FY09E-11E.

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Tata Chemicals Ltd (TTCXF, Rs146, C-1-7)

Key takeaway- To focus on cash flow led deleveraging

Tata Chemicals management confirmed of slowness in soda ash demand. But at the same time it maintained that free cash flow will be strong given next 2 years capex will largely be maintenance capex of INR150-200cr and also that it will focus on cash retention. Moreover, cash flow of GCIP will mainly be used to de-leverage GCIP balance sheet.

Other Highlights

- **Confirms slowdown in the soda ash business:** Company has confirmed that there is a slowdown in the soda ash demand driven by demand destruction in China as well as from the flat glass segment. Moreover, it also said that it is gearing up for a 3yr slowdown scenario.

- **Fertilizers business to remain a stabilizer:** With 30% increase in the urea capacity and capex behind it, the company expects to benefit from the higher realizations in the de-bottlenecked capacity. Moreover, appreciated USD should help it improve it urea realization in INR, helping margins.

- **New business growth can be delayed in the absence of high capex:** Company will clearly focus on cash conservation and hence will likely delay big ticket investments in its new initiatives like Khet Se and Biofuel. This will likely delay the scale up in these businesses. Our estimates factor in negligible contribution from these businesses.

Conclusion

- We have a Buy on Tata Chemicals with a PO of INR180. The stock currently trades at 6xFY10e EPS, 0.75xFY10e P/B and 3.45xFY10e EV/EBITDA.

Tata Power Company (XTAWF, Rs749, C-2-7)

Key Takeaway – Generation scale-up depends on equity funds

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Tata Power said that it has visibility of only Rs27bn (internal accruals) of the total Rs51bn equity required to complete the 5GW expansion in IPP capacity over FY09-12E. Another 5GW of IPP projects have been delayed due to delay in Govt. clearances and lack of equity. Bumi mines paid US$225mn dividend in 2008 v/s its debt of ~US$850mn, so is self-sustaining.

Other Highlights

- **Financing:** Tata Power said that it has visibility of only Rs27bn (internal accruals) of the total Rs51bn equity required to complete the 5GW expansion in IPP capacity over FY09-12E at Mundra UMPP and Maithon. Potential source of the balance equity will be firmed-up by Oct., 2009, which may include divestment of its telecom investments. Another 5GW of IPP projects incl. 2GW costal Maharashtra project have been delayed due to delay in Govt. clearances and lack of equity.

- **Bumi mines are performing well.** We believe Bumi mines have a very good 'cash waterfall' transaction structure with monthly pay-outs. Mines paid US$225mn of dividend in 2008 v/s its debt of ~US$850mn, so is self-sustaining in our view. It is not considering hiking stake in Bumi mines given that TPC is well hedged for its imported coal projects.

Conclusion

Reiterate Neutral on Tata Power with PO of Rs1047 as we believe the stock lacks sustainable growth catalysts.

Tech Mahindra Ltd (TMHAF, Rs231, C-1-7)

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Key takeaway

Expect revenue growth rates to pick up from 1Q FY10 driven by ramp in BT global services deals. 4Q as highlighted earlier likely to be subdued due to appreciating rupee vs GBP and decline in core BT revenues.

Other key highlights

- Reassures on BT Global services ramp: Management highlighted that visibility with both deals- US$1bn Barcelona deal and GBP350mn Andes deal remains strong. Andes deal would ramp from 1Q and nearly 65%of the deal would be booked in first three years. In Barcelona, it is currently transitioning a few processes and a step up in growth is likely two quarters down the line. As per management, it has successfully positioned itself within high growth areas of BT.

- Focus on margins to continue: Management highlighted that it is going slow on hiring and has deferred joining date for freshers. Utilisation levels would be tightened further and expects marginal wage increases next year.

Conclusion

We expect 4Q to be muted given likely subdued growth in core BT. Margins too likely to be under pressure given sharp appreciation of rupee against pound in 4Q. Retain Buy as we believe valuations are attractive with 3x FY10E and strong FCF yield of 24% on FY10E.

Price objective basis & risk

Asian Paints (XAPNF)

Our preferred valuation methodology is a target P/E multiple on one year forward EPS. Our target multiple for A Paints is 18x which on CY09E EPS of Rs58.4 gives us our price objective of Rs1050. Our target multiple is slightly lower than what A Paints is currently trading at and is also slightly lower than its last five year average trading multiple. We believe the discount is justified given slowing construction demand and likely also slower consumer demand. Hence we expect earnings growth to be slower than the trend of the last few years. Upside risks are better than expected topline growth. Downside risks are stronger Rupee depreciation and slowdown in the international business.

Bajaj Auto (XBJBF)

Our PO of Rs525 is based on 5.5x EV/EBITDA FY10E (15% higher than earlier) and reflects (1) revised forecasts implying better earnings visibility, and therefore (2) higher valuation multiple, which represents narrower discount both, to Bajaj Auto's 10-year historic average, and Hero Honda's assigned multiple.Company specific risk is competition in two and three wheeler businesses.Macro risks are global slowdown, and higher commodity prices.

Dr Reddy's Lab (DRYBF)

Our PO of Rs470 (US$9.53 for ADR) is based on 13x FY10E EPS which is in line with the large cap Indian generics sector average as well as with the stock's two year historical average. On our PO, in terms of PEG, the stock would likely trade nearly in line to sector PEG (0.65x) for FY09E based on 20pc EPS CAGR (FY08-10E). Downside risks are (a) concerns on German generics business (b) lower margin profile and supply issues in CPS business, (c) concerns on further writedowns in Betapharm. Upside risks are (a) improved growth outlook for Betapharm generics operations in Germany (b) increased visibility on generic FTF exclusivities and (c) positive progress in research programs.

Educomp Solu (EUSOF)

Our PO of Rs3400 is at PEG of 0.9 (FY09/FY09-11e), lower than historical PEG of 1.2, and implies a PE of 30x FY10e. We believe premium valuations are fair considering the high 64 percent earnings growth over FY08-11E and derisked revenue model given focus on non discretionary education spend and high exposure to domestic economy.

Risks to our valuation are delays in execution of contracts in government schools, acquisition related risks and managing multiple growth initiatives.

Grasim (GRSJF)

We have a price objective of Rs1285 (GDR of US$26.5) for Grasim. We value the company's dominant cement business at 40% discount to the industry's current replacement cost of US$125/ton. The VSF business is pegged at an FY10E-PE of about 5x, broadly on par with Lenzing AG which is one of the few listed VSF plays globally, outside of the Aditya Birla group. We also value Grasim's 5 percent stake in Idea using DCF (WACC of 12%, terminal growth of 5%). Sharper than expected slowdown in VSF demand and unforeseen rise in energy prices for the cement business present downside risks to our PO. Upside risk could stem from unexpected recovery in textile and cement demand, or further policy concessions.

ICICI Bank (ICIJF)

Our PO is Rs570. ICICI Bank, while exposed to the global market vagaries, appears much better positioned, relative to its peers to brace the challenges in CY09 in the domestic market. Beginning with having the lowest % exposure to SME and also the lowest loan growth in the past 2 years, it should, in our view, be the least impacted from a possible spike in SME NPLs. Further, despite having only 20% G-secs in its AFS portfolio, it is a key beneficiary of falling rates owing to high % of wholesale deposits and also benefits from the expanded branch distribution (+1400 currently, has got license for 587 new branches) that should further help the bank to expand its customer base (and CASA deposits). The stock trades at 0.9x FY10E book on adj. book without assigning any value to its subs. While these multiples appear fair (given its low ROE of <10%), it implies that the subsidiaries are being bought essentially for free.Adjusting for the subs value, we reckon the risk/return is still attractive at 0.5x FY10E book given its better positioning, strong franchise and better visibility for earnings in FY10E. Hence, we believe the stock could still trade up to 1.0x book on a standalone basis. Risks are a sharp rise in NPLs or the investment hits arising from the CDO/domestic investment book or inability to grow.

Infosys Tech (INFYF)

Our PO of Rs1,300 (US$30 for ADR) is at about13x FY10E PE in line with trough valuations seen in 2001. Risks are steeper and longer than anticipated global slowdown in the US economy, greater competition from global and Indian vendors, and Rupee appreciation. Upside risks to estimates stem from any large deal wins or lower-than-expected Rupee.

IVRCL Infrastruc (IIFRF)

Our PO of Rs215 is based on SOTP valuation. We have valued IVRCL core construction business 7x FY10E EPS, a 50pct discount to E&C majors at Rs147 per share. Hind-dorr-Oliver where IVRCL has 52.8pct stake is valued at CMP giving a per share value of Rs4 IVR Prime where IVRCL has 62.3pct stake is valued at 70pct discount to NPV at Rs25 per share in line with Mid Cap real estate companies. Chennai desalination plant where IVRCL has 75pct stake is valued on a DCF basis at Rs8 per share. Similarly, Jalandhar-Amritsar project, Kumarapalayam-Chengapally project, and Salem-Kumarapalayam project where IVRCL has 100pct stake are valued based on DCF of Rs6, Rs11 and Rs16 per share respectively. We arrive at an SOTP value of Rs217 per share. Risks: Unrelated acquisition in Oil & Gas space, Government capex, raw material costs, competition, traffic/interest rate risk in toll/annuity projects and project execution risk.

JSW Steel (XJWJF)

Our PO of Rs144 is set at a 50% discount to our NPV. We believe a discount is justified because of sharp near term demand slowdown, cyclical downturn in the steel sector and higher earnings from falling steel prices. Also, investor risk aversion is likely to be higher given the challenging macro environment and prospects of recession.

Our NPV calculation assumes a WACC of 13.7% and perpetuity gorwht rate of 0%. We assume steel volumes of 3.5mn tons in FY09 and 4.6mn tons in FY10. We now forecast benchmark HR realizations of Rs35,326/t in FY09 and Rs28,000/t in FY10.

Upside risks are higher than expected steel prices owing to better steel fundamentals, lower raw material costs, commissioninng of mines and higher import duties. Downside risks are lower than expected steel prices, delays in commissioning of capacities and mines, higher than expected raw material costs and potential government intervention.

M & M (MAHHF)

Our PO of Rs316 (US$6.3 for GDR) is based on our estimate of the sum-of-the-parts of constituent businesses. We value the core business at 4.5x FY10E EV/EBITDA, close to trough valuations given sharply lower growth, and in line with peers. We have imputed a holding company discount of 30pct to subsidiaries, which have been valued using book values (M&M Financial, Mahindra Life Space Dev), peer multiples (Tech Mahindra) or DCF (Mahindra Holidays, with WACC of 13% and terminal growth rate of 2.5%). Mahindra Forgings has been excluded from our valuation due to low visibility of the auto parts business. Upside risks: Higher than expected moderation of commodity prices during the year. Downside Risks: Further slowdown in the economy which would adversely affect volume growth, and rising input costs.

ONGC (ONGCF)

Our DCF-based PO of Rs1,168 incorporates the DCF of 2P reserves (Rs965) and exploration upside (Rs44), as well as net cash (Rs113) and market value of investments (Rs46). We have assumed WACC of 14pct and a long-term oil price forecast of US$90/bbl (Brent) while calculating DCF of ONGC. We assumed that the current scenario of a rise in subsidy taking away most of gains from rise in oil price continues in perpetuity. Thus we believe our subsidy assumptions are conservative. We think that DCF is the most appropriate measure to value E&P assets. Risks are (1) Standard oil and gas industry operating risks which include exploration, development and production risks, oil price fluctuations, currency risk and reserve estimation, (2) lower-than-expected gas price rise which may adversely hit our valuation of ONGC, and (3) sovereign risks, which include changes in the government and/or policies (eg, withdrawal of the tax holiday) which may have a direct impact on the business, cashflow and profit.

RCVL (RLCMF)

Our PO of Rs225/sh for RCom is based on 15% discount to DCF using 12% WACC and 5% terminal growth. Our PO pegs RCom's FY10E-EV/EBITDA at about 15% discount versus our target valuation for Bharti at 8x FY10E. The discount versus DCF and Bharti allows for potential execution challenges in the current environment due to RCom's relatively leveraged balance sheet and dual technology (GSM) overlay. Upside surprise could be led by stronger-than-expected revenue market share post GSM-launch and unexpected easing in the credit environment allowing access to low-cost capital. Higher-than-expected cost pressures from GSM rollout and irrational bidding for 3G licences could present downside risk to our outlook.

Rolta India (RLTAF)

Our PO on local at Rs150 is at 7x FY10e PE, 2yr PEG of 0.45- in line with other mid cap IT peers. Our GDR PO, at USD3.2, is at par with the local PO. Risks: a) Non annuity nature of business b) risk related to possible acquisitions c) risk posed due to high dependence on partnerships d) industry wide risk of increasing wages, increasing taxes, rupee appreciation"

Tata Chemicals Ltd (TTCXF)

We set our PO of INR180 at 0.9x FY10E P/BV and 3.9x FY10E EV/EBTIDA, which are at an about 25% discount to the 7 year average. Given weakened soda ash demand, we believe the 25% discount is reasonable. Risks are drastic correction in soda ash prices can impact earnings, integration risk from new acquisition of General Chemicals and any adverse change in government policy.

Tata Pwr. Co. (XTAWF)

Our PO of Rs1047 (1300) is based on 5pct discount to SOTP. Power business is valued at Rs363 (375) per share. The parent business is valued at Rs284 (288) per share on DCF basis at WACC of 12.1pct (11.7) and Mundra UMPP at Rs78 (88) per share on DCF at cost of equity of 16.2pct. Its Telecom investments have been valued at Rs143 (171) per share at current market prices/deal valuations. Power related investments valued at Rs514 (742) per share on DCF (Bumi coal mines) or P/BV (NDPL, Powerlinkes) or PE (Tata BP Solar) based methods. Tata Sons/TCS is valued at Rs21 (30) per share based on CMP at 20pct discount for group holdings. Other Investments are valued at Rs62 (51) per share. Risks: project execution challenges, mismatch in imported coal price hike for Mundra project vs. rise in the coal index, availability of low price fuel for merchant power projects.

Tech Mahindra (TMHAF)

Our PO of Rs350 is set at 40% discount to Tier one vendors and implies one year forward PE of 6x on BAS-ML adjusted EPS. We believe this is fair given high client concentration and single vertical risk.

Downside risks to our price objective are rapid growth-related execution risks and sharp cut in IT spends by top client - BT. Industry-wide risks are growing competition, wage and attrition pressures and risk of rupee appreciation against GBP.

Analyst Certification

We, Jyotivardhan Jaipuria, Vandana Luthra, Rajeev Varma, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S.Arun, Prasad Deshmukh, Vidyadhar Ginde, Manish Sarawagi, Pratish Krishnan, Arvind Bothra and Bhaskar.N.Basu,CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Important Disclosures

Investment Rating Distribution: Autos Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	30	33.71%	Buy	3	10.34%
Neutral	17	19.10%	Neutral	6	46.15%
Sell	42	47.19%	Sell	10	29.41%

Investment Rating Distribution: Banks Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	28.57%	Buy	28	43.75%
Neutral	73	27.44%	Neutral	29	46.77%
Sell	117	43.98%	Sell	48	47.52%

Investment Rating Distribution: Building Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	25	26.04%	Buy	4	17.39%
Neutral	23	23.96%	Neutral	3	15.00%
Sell	48	50.00%	Sell	3	6.38%

Investment Rating Distribution: Chemicals Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	35	41.67%	Buy	5	16.67%
Neutral	19	22.62%	Neutral	2	14.29%
Sell	30	35.71%	Sell	3	11.11%

Investment Rating Distribution: Consumer Products Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	27	39.71%	Buy	5	20.00%
Neutral	19	27.94%	Neutral	4	23.53%
Sell	22	32.35%	Sell	5	25.00%

Investment Rating Distribution: Education & Training Services Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	14	82.35%	Buy	4	28.57%
Neutral	2	11.76%	Neutral	1	50.00%
Sell	1	5.88%	Sell	0	0.00%

Investment Rating Distribution: Energy Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	115	43.89%	Buy	37	36.63%
Neutral	60	22.90%	Neutral	19	36.54%
Sell	87	33.21%	Sell	12	15.79%

Investment Rating Distribution: Engineering & Construction Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	21	60.00%	Buy	4	23.53%
Neutral	7	20.00%	Neutral	1	16.67%
Sell	7	20.00%	Sell	2	28.57%

Investment Rating Distribution: Health Care Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	76	50.00%	Buy	15	22.06%
Neutral	35	23.03%	Neutral	8	26.67%
Sell	41	26.97%	Sell	7	17.50%

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	51	50.50%	Buy	10	21.74%
Neutral	20	19.80%	Neutral	3	17.65%
Sell	30	29.70%	Sell	3	12.00%

Investment Rating Distribution: Steel Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	18	39.13%	Buy	3	20.00%
Neutral	10	21.74%	Neutral	2	28.57%
Sell	18	39.13%	Sell	1	6.25%

Investment Rating Distribution: Technology Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	68	35.79%	Buy	4	6.35%
Neutral	49	25.79%	Neutral	9	23.68%
Sell	73	38.42%	Sell	12	18.18%

Investment Rating Distribution: Telecommunications Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	82	45.30%	Buy	12	18.18%
Neutral	51	28.18%	Neutral	12	30.77%
Sell	48	26.52%	Sell	7	17.50%

Investment Rating Distribution: Utilities Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	38.92%	Buy	23	39.66%
Neutral	42	25.15%	Neutral	16	42.11%
Sell	60	35.93%	Sell	16	29.09%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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