

India Update


Merrill Lynch

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Highlights from the previous week

Delhi will soon have a second airport in suburban Greater Noida. Uttar Pradesh Chief Minister Mayawati today met Prime Minister Manmohan Singh and requested him to revive the Taj International Airport and Aviation Hub project, which her government had conceived in 2003-04, before Mulayam Singh Yadav ousted her from power.

Corporate Highlights This Week

ITC Ltd.: FY08 – to be trend changing in many ways

IOC: Oil bonds drive FY07 EPS up 31% YoY

IVRCL: Strong Results; Visible Trigger

HPCL: Attractive dividend yield

NTPC: Building Platform For Faster Growth

Idea Cellular: Spice telecom to merge

Tata Power: One more unexciting quarter

Ratings/ Estimates Change

BHEL: Powerful FY07, Exciting FY08

M&M: Capex surge increases risk, rated Neutral

Gokaldas Exports Ltd.: Slower growth as rupee strengthens

VSNL: Right direction, challenging path

L&T: Raising PO to Rs2,150

Bharat Forge: Estimates Slashed, Rating cut

Economic Overview

Forex reserves fell US\$952mn to US\$204.934bn as on 25 May 2007.

Inflation fell to 5.06% for week ended 19 May 2007.

Stock Market Overview

The BSE Sensex was up by 1.6% last week. Trading volumes were up by 1.8% and the Advance/Drop ratio was 1.1 at BSE.

Top performers of the week: L&T, BEL, Cipla, HDFC Bank & Jet Airways. Worst performers: Colgate, Nicholas, ITC, Zee Ent. Reliance Energy.

New Reports Published

Idea Cellular Ltd.: Spice Telecom to Merge?

M&M: Capex surge increases risk, rate Neutral

VSNL: Right direction, challenging path

Bharat Forge: Estimates Slashed, Rating cut

HPCL: Attractive dividend yield

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Table 1: Model Portfolio

	MSCI Wt	Recommended ML Wt
Telecom	4.7%	11.0%
: Bharti Tele		6.0%
: Reliance Com		5.0%
Industrials/Cement	9.9%	17.0%
: Grasim		5.5%
: BHEL		6.0%
: L&T		5.5%
Software	20.8%	24.0%
: TCS		10.0%
: Infosys		8.0%
: Satyam		6.0%
Financials	21.2%	21.0%
: ICICI Bank		9.0%
: SBI		7.0%
Energy	17.8%	15.0%
: Reliance		15.0%
Pharma	5.1%	4.0%
: Ranbaxy		4.0%
Consumer Discretionary	7.1%	5.0%
: Maruti Udyog		5.0%
Consumer Staples	6.0%	3.0%
: ITC		3.0%
Metals	3.2%	0.0%
Others	4.2%	0.0%

Source: ML Research

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Refer to important disclosures on page 26 to 27. Analyst Certification on page 25. Price Objective Basis/Risk on page 23.

News This Week

Economics

- India needs an investment equivalent to 35.1% of its GDP to maintain a growth rate of 9% over the next five years starting this fiscal, Commerce and Industry Minister Kamal Nath said on Tuesday.
- India aims to bring down inflation to 4.0-4.5%, Finance Minister Palaniappan Chidambaram said on Tuesday, urging states to maintain adequate supplies of food to ensure price stability
- Consistent double-digit growth in manufacturing, services and sizeable upward revisions saw the country record a 19-year high in gross domestic product (GDP) growth at 9.4% for 2006-07.

Politics

- Delhi will soon have a second airport in suburban Greater Noida. Uttar Pradesh Chief Minister Mayawati today met Prime Minister Manmohan Singh and requested him to revive the Taj International Airport and Aviation Hub project, which her government had conceived in 2003-04, before Mulayam Singh Yadav ousted her from power.

Corporate

- UB Holding, the parent company of Kingfisher Airlines, is acquiring 26% of Bangalore-based Deccan Aviation's equity for close to Rs 550 crore, valuing it at Rs 2,200 crore.
- Bharti Airtel would buy out its 5.6% stake held by British telecom giant Vodafone, by November next year for \$1.6 billion. Vodafone had acquired 10 per cent stake in Airtel in 2005 in an all-cash deal aggregating to about \$1.5 billion.
- Tata Power Company (TPC), the country's biggest private power utility, will raise up to Rs 14,000 crore in loans to fund the Rs 18,000 crore ultra mega power project in Mundra in coastal Gujarat.
- Jupiter Bioscience, a manufacturer of specialised organic compounds, said on Tuesday that it had allotted 14.91% stake to Ranbaxy Laboratories through an issue of share warrants on a preferential basis for Rs 46.70 crore.
- The Reserve Bank of India (RBI) has rejected Essar Communications' application to pledge its equity in Hutchison Essar Ltd to Standard Chartered Bank, London, on the ground that the proposal would result in the transfer of equity holding of a resident entity from one non-resident entity to another.
- After making big-ticket acquisitions abroad, leading Indian pharmaceutical companies like Dr Reddy's Laboratories, Ranbaxy Laboratories, and Aurobindo Pharma are rapidly shifting production to their Indian facilities.

Source: Collated from Bloomberg and the following news papers-Economic Times, Business Standard & Financial Express dated 29 May-01 June 2007

Corporate Highlights This week

NTPC Ltd. — Building Platform For Faster Growth

Table 2: Stock Data

Price	Rs160.30
Price Objective	Rs180.00
Date Established	4-Dec-06
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs95.50-Rs166.50
Mrkt Val / Shares Out (mn)	US\$32,640 / 8,245.5
Average Daily Volume	717,266
ML Symbol / Exchange	NTHPF / BSE
Bloomberg / Reuters	NATP IN / NTPC.BO
ROE (2007E)	13.70%
Net Dbt to Eqty (Mar-2006A)	25.20%
Est. 5-Yr EPS / DPS Growth	14.0% / 14.0%
Free Float	10.50%

Source: ML research

Earnings Review

FY07 In line: Sales +17%, Rec. PAT +18%; PO - Rs180

NTPC's rec. PAT growth of 18% YoY reinforces our view of strong double digit growth continuing at this utility. Net Sales at Rs306bn (+17%YoY) & rec. PAT was Rs65.6bn (ex-one time income of Rs3bn) – 2% higher v/s provisional results. Efficiency gains (PLF of 89.4% vs 87.5%) led the PAT growth. Overall, NTPC is building a platform for faster growth, with 64% growth in FY08E capex. Potential triggers: capacity add, higher utilization rates & efficiency gains led by increased fuel security. NTPC remains one of the top picks in BRIC utilities. Buy, PO Rs180.

Key drivers of the 18% YoY Rec. PAT growth in FY07 were:

- Generation linked incentives +40%YoY, led by 89.4% plant load factor (PLF) at older coal plants driving up PLF-linked profits & 1.7GW of new capacity.
- Better heat rates/thermal efficiency compensated for flat sales in spot market (UI charge) due to improvement in grid discipline in North India.

Value Accretive Capex ramped up: FY08 Capex Up 64% YoY

NTPC upped capex for FY08E to Rs127.9bn (+63.6%YoY). Co. has received mine plan approval for its first 15mtpa coal block (in production early FY09E). We think incremental power capex is value accretive, as it aids NTPC convert low yield (8%) cash to higher-yield power assets - potentially make RoE of 19-20%.

Capacity addition likely up 94%YoY in FY08E to 3.3GW

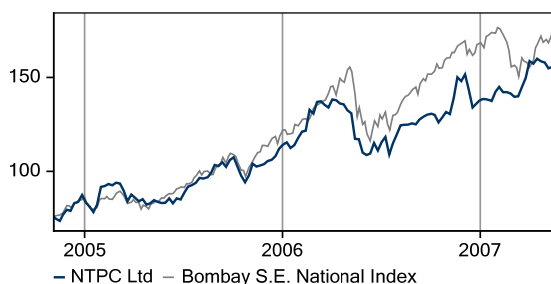
NTPC commissioned 1.7GW in FY07 (3.4x FY06). The co. has accelerated new order placements for XI Plan and MLe all the projects ex-gas & super-critical to be ordered in FY08, improving the visibility of double-digit growth. MLe its capacity adds of 3.3GW in FY08E (+94%YoY) of the 11.3GW under construction.

Table 3: Estimates/ Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	49,834	55,710	64,218	78,623	85,430
EPS	6.21	6.76	7.79	9.54	10.36
EPS Change (YoY)	21.60%	8.90%	15.30%	22.40%	8.70%
Dividend / Share	2.46	2.8	3.31	4.02	4.36
Free Cash Flow / Share	0.299	0.075	-5.45	-6.2	-13.55
P/E	25.83x	23.73x	20.58x	16.81x	15.47x
Dividend Yield	1.54%	1.75%	2.06%	2.51%	2.72%
EV / EBITDA*	24.29x	22.12x	17.88x	14.04x	11.03x
Free Cash Flow Yield*	0.18%	0.05%	-3.40%	-3.87%	-8.45%
Price/Book Value	3.2	2.9	2.7	2.5	2.3

Source: ML Estimates

Chart 1: NTPC vs. BSE National Index



Source: ML Research

Bharat Parekh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report NTPC Ltd. — Building Platform For Faster Growth by Bharat Parekh >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 4: Stock Data

Price	Rs278.85
Price Objective	Rs372.00
Date Established	27-Oct-06
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs206.00-Rs337.00
Mrkt Val / Shares Out (mn)	US\$2,328 / 338.9
Average Daily Volume	214,981
ML Symbol / Exchange	XHTPF / BSE
Bloomberg / Reuters	HPCL IN / HPCL.BO
ROE (2008E)	14.10%
Net Dbt to Eqty (Mar-2007A)	61.30%
Est. 5-Yr EPS / DPS Growth	35.0% / 35.0%
Free Float	49.00%

Source: ML Research

Hindustan Petroleum Corp. Ltd. – Attractive dividend yield

Earnings Review

Attractive dividend yield, P/BV of 0.99; retain Buy

HPCL's FY07 EPS, at Rs46.4, is almost 4x FY06 EPS of Rs12. Quality of FY07 earnings is admittedly poor as it is entirely attributable to oil bonds. There is also uncertainty on FY08E earnings. However, recent government decisions suggest bond issue may be generous even in FY08. HPCL's dividend yield is attractive – 6.5% for FY07 and 5.4% for FY08E. It is also cheaper than peers on PE and is trading marginally below estimated NAV. We retain our Buy rating on HPCL.

Generous oil bonds drive four-fold EPS jump in FY07

The surge in FY07 earnings has been driven by generous issue of oil bonds by the government. HPCL received Rs49.3bn of oil bonds in FY07 vis-à-vis just Rs23.4bn in FY06. The oil bonds boosted its FY07 EPS by Rs101.8. HPCL would have been in the red if it had not been for the oil bonds.

FY07 EPS is 14% below MLe

HPCL's FY07 EPS of Rs46.4 is 14% below our forecast of Rs54.3. Higher than expected auto fuel subsidy, interest cost and depreciation in 4Q were the problems. The bright spot in FY07 was the doubling of refining EBITDA driven by 42% YoY jump in refining margins and 21% YoY rise in crude throughput.

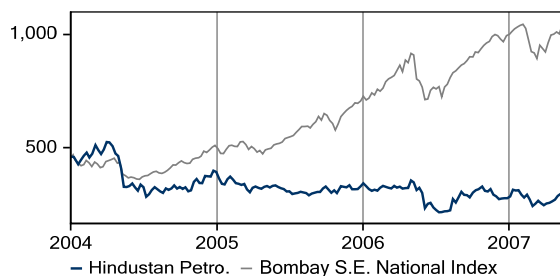
FY08E EPS kept unchanged; clarity possible in 2 months

We are keeping our FY08E earning forecast unchanged at Rs41.8/share, which implies 10% YoY earnings decline. There could be upside risk to our earnings forecast if the government is generous in the issue of oil bonds to R&M companies even in FY08E. Clarity on earnings outlook for FY08E is possible in the next two months. The government may announce a subsidy sharing plan for FY08E as it did in June 2006 for FY07. The fact that it stuck to its announced subsidy sharing plan in FY07 would lend credibility to any such plan for FY08E.

Table 5: Estimates/ Valuation (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	4,056	15,712	14,172	13,639	15,950
EPS	11.97	46.36	41.81	40.24	47.06
EPS Change (YoY)	-68.30%	287.40%	-9.80%	-3.80%	16.90%
Dividend / Share	3	18	15	15	17
Free Cash Flow / Share	45.18	52.36	-41.32	19.61	58.87
P/E	23.30x	6.02x	6.67x	6.93x	5.93x
Dividend Yield	1.08%	6.46%	5.38%	5.38%	6.10%
EV / EBITDA*	18.26x	6.10x	5.86x	5.52x	4.85x
Free Cash Flow Yield*	16.20%	18.78%	-14.82%	7.03%	21.11%

Source: ML Estimates

Chart 2: HPCL vs. BSE National Index


Source: ML Research

Vidhyadhar Ginde >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Hindustan Petroleum Corp. Ltd. — Attractive dividend yield by Vidyadhar Ginde >> 29 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 6: Stock Data

Price	Rs365.05
Price Objective	Rs450.00
Date Established	28-Feb-07
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs164.00-Rs460.00
Mrkt Val / Shares Out (mn)	US\$1,161 / 129.1
Average Daily Volume	623,478
ML Symbol / Exchange	IIFRF / BSE
Bloomberg / Reuters	IVRC IN / IVRC.BO
ROE (2007E)	13.80%
Net Dbt to Eqty (Mar-2006A)	91.00%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	87.00%

Source: ML Research

IVRCL Infrastructure & Proj – Strong Results; Visible Trigger

Earnings Review

Key Triggers: Growth, Margin Expansion & IVR Prime IPO

IVRC, our top pick in the mid-cap E&C space, reported solid 4QFY07 on all fronts. Sales were up Rs10bn +67%YoY; EBITDA margin expanded by 140bpsYoY & PAT of Rs732mn, +67%YoY. PAT was ahead of MLe due to better margins & non-prov of full tax (25% v/s MLe 32%) pending appeal in tribunal. Order backlog remains robust at ~3x FY07 sales. Value creation through the listing of IVR Prime, and 42% earnings CAGR in core business are potential triggers ahead. Buy, PO Rs450.

SPV Execution / Value Creation On Track

IVRC's 80% subsidiary, IVR Prime Urban Developer (IVR-PUDL), has a land bank of ~2,200 acres and is in the process of developing >56mn sq. ft. over FY07-12E. Its prospectus has been cleared by the regulator, paving the way for an IPO likely by 2QFY08. MLe Rs143/share of IVRCL for IVR-PUDL (@ 15% discount to NAV).

IVRC's SPVs have commenced the execution of the Jalandhar-Amritsar toll road project in Punjab and Salem-Kumarapalayam-Chengapally in Tamil Nadu. Besides, the work has commenced on its Chennai desalination project in collaboration with BEFESA, Spain. Further, with its equity funding, IVRCL is geared to bid for ensuing big infra project tenders especially in roads domain.

Hindustan Dorr's turnaround is on track: FY07 sales at Rs2.1bn (+47%YoY) and PAT Rs153mn (+136%YoY) were led by improved capacity utilization.

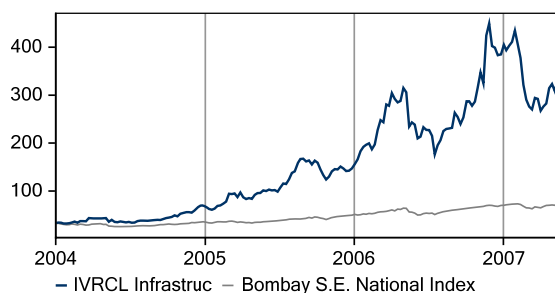
Remain Buyers With Price Target Of Rs450

Our PO of Rs450 is based on an SOTP approach. We have valued IVRCL's core construction business at PER 14x FY09E - a 30% discount to E&C majors despite its faster growth. Risk: Unrelated acquisitions (oil & gas), project execution.

Table 7: Estimates/ Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	567	930	1,185	1,824	2,400
EPS	6.68	8.69	9.17	14.12	18.58
EPS Change (YoY)	16.70%	30.10%	5.50%	54.00%	31.60%
Dividend / Share	0.742	1.03	0.854	2.82	3.72
Free Cash Flow / Share	-8.74	-14.76	-0.139	1.5	4.45
P/E	54.65x	42.00x	39.80x	25.85x	19.64x
Dividend Yield	0.20%	0.28%	0.23%	0.77%	1.02%
EV / EBITDA*	55.01x	35.43x	21.97x	15.58x	11.88x
Free Cash Flow Yield*	-1.57%	-3.35%	-0.04%	0.41%	1.22%

Source: ML Estimates

Chart 3: IVRCL vs. BSE National Index


Source: ML Research

Bharat Parekh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report IVRCL Infrastructure & Proj – Strong Results; Visible Trigger by Bharat Parekh >> 29 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 8: Stock Data

Price	Rs481.10
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs310.00-Rs585.00
Mrkt Val / Shares Out (mn)	US\$13,844 / 1,168.0
Average Daily Volume	75,317
ML Symbol / Exchange	IOCOF / BSE
Bloomberg / Reuters	IOCL IN / IOC.BO
ROE (2008E)	15.50%
Net Dbt to Eqty (Mar-2006A)	82.20%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	28.00%

Source: ML Research

Indian Oil Corp.— Oil bonds drive FY07 EPS up 31% YoY

Earnings Review

31% YoY rise in FY07 EPS; remain Neutral

IOC has attained a recurring consolidated EPS of Rs50.2/share in FY07, which implies 31% YoY earnings growth. The rise in earnings has been driven by generous issue of oil bonds in FY07 by the government. IOC received Rs139bn of oil bonds in FY07, which is almost twice the Rs70bn of oil bonds received in FY06. FY08E earnings outlook is uncertain. It is entirely dependent on the government decision on oil bonds. We remain Neutral on IOC.

Oil bonds boosted FY07 EPS by Rs76; otherwise in the red

IOC received Rs139bn of oil bonds in FY07. The oil bonds boosted its EPS by Rs75.7. IOC would have been in the red if it had not been for the oil bonds.

FY07 recurring EPS 3% below MLE

IOC's FY07 recurring consolidated EPS is 3% below our forecast of Rs51.7. The main reason for the negative surprise was inventory gain in 4Q being lower than expected.

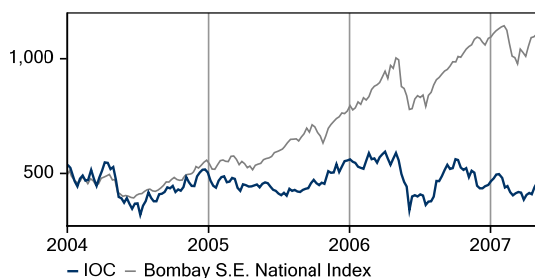
FY08E EPS kept unchanged; clarity possible in 2 months

We are keeping our FY08E earning forecast unchanged at Rs49/share, which implies 2.5% YoY earnings decline. There could be upside risk to our earnings forecast if the government is generous in the issue of oil bonds to R&M companies even in FY08E. Clarity on earnings outlook for FY08E is possible in the next two months. The government may announce a subsidy sharing plan for FY08E as it did in June 2006 for FY07. The fact that it stuck to its announced subsidy sharing plan in FY07 would lend credibility to any such plan for FY08E.

Table 9: Estimates/Valuation (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	44,944	59,887	58,392	53,322	52,050
EPS	38.48	50.24	48.99	44.73	43.67
EPS Change (YoY)	-17.20%	30.60%	-2.50%	-8.70%	-2.40%
Dividend / Share	12.5	19	17	15	14
Free Cash Flow / Share	26.05	53.85	20.12	7.75	8.79
P/E	12.50x	9.58x	9.82x	10.75x	11.02x
Dividend Yield	2.60%	3.95%	3.53%	3.12%	2.91%
EV / EBITDA*	8.56x	6.39x	6.84x	6.97x	6.98x
Free Cash Flow Yield*	5.42%	11.42%	4.27%	1.64%	1.87%

Source: ML Estimates

Chart 4: IOC vs. BSE National Index


Source: ML Research

Vidyadhar Ginde >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Indian Oil Corp.— Oil bonds drive FY07 EPS up 31% YoY by Vidyadhar Ginde >> 28 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 10: Stock Data

Price	Rs365.35
Price Objective	Rs450.00
Date Established	18-Apr-07
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs126.67-Rs447.00
Mrkt Val / Shares Out (mn)	US\$408 / 45.7
Average Daily Volume	36,236
ML Symbol / Exchange	IFKFF / BSE
Bloomberg / Reuters	INFTEC IN / INFE.BO
ROE (2007E)	33.70%
Net Dbt to Eqty (Mar-2006A)	-15.10%
Est. 5-Yr EPS / DPS Growth	24.0% / 18.0%
Free Float	60.00%

Source: ML Research

Infotech Enterprises Ltd. — Private equity funding to spur growth

Company Update

Private equity takes stake; Could spur growth; Buy

Infotech proposes to offer 13.1% stake (7.14m fully converted shares) to an entity of General Atlantic Partners. Simultaneously it plans to issue 1.17m shares to a Pratt and Whitney entity to maintain stake at 14.4%. On a full conversion basis it would raise US\$73m by issuing 8.3m equity shares at Rs360/share, at market, including 2.72m Compulsorily Convertible Preference Shares, 1.77m equity shares & 3.81m shares as underlying for ADRs. EGM is scheduled for Jun 23, 07. Believe this could spur acquisition plans & help branding. Buy with PO of Rs450.

Could facilitate acquisition plans; May not be EPS dilutive

The company has been actively searching for an accretive acquisition in engineering services for autos. It is also scouting for acquisitions in Geo-spatial design consulting. Recently it took a majority stake in Geospatial Integrated Solutions, to strengthen their position in India and Middle East. We believe the PE funding could hasten the acquisition process and may not therefore be EPS dilutive. Assuming no acquisition, it could dilute FY08 EPS by 7 to 8%.

Strengthens branding and management credibility

The GAP funding as well as possible ADR listing in the future point would likely strengthen the brand and endorse management credibility.

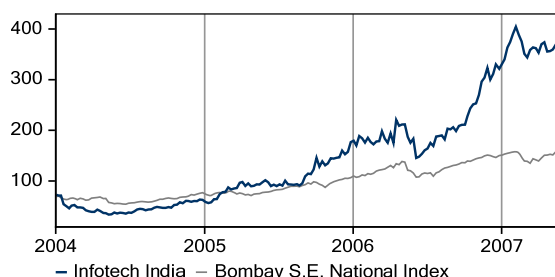
Buy with PO of Rs450; Forex exposure key risk

Our PO of Rs450, at a target FY09 PE of 15x implies 20% upside. Currently it is trading at 15x FY08E. We see similar upside for both Infotech and peer Rolta. An accretive acquisition over next 6 months could be a trigger for Infotech. Key risk compared to Rolta is higher exposure to forex fluctuation given primarily export revenues vs Rolta's 60% India revenues. Hedging is also low at sub USD20m.

Table 11: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	274	503	837	1,132	1,442
EPS	6.2	11.02	18.33	24.5	31.21
EPS Change (YoY)	201.30%	77.80%	66.20%	33.70%	27.40%
Dividend / Share	0.375	0.563	1.13	1.5	1.5
Free Cash Flow / Share	1.14	0.174	-3	0.482	12.08
P/E	58.93x	33.14x	19.94x	14.91x	11.71x
Dividend Yield	0.10%	0.15%	0.31%	0.41%	0.41%
EV / EBITDA*	35.09x	24.53x	14.54x	10.19x	7.71x
Free Cash Flow Yield*	0.30%	0.05%	-0.82%	0.13%	3.35%

Source: ML Estimates

Chart 5: Infotech India vs. BSE National Index


Source: ML Research

Mitali B Ghosh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Infotech Enterprises Ltd. — Private equity funding to spur growth by Mitali B Ghosh >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 12: Stock Data

Price	Rs122.90
Price Objective	Rs145.00
Date Established	24-May-07
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs75.00-Rs129.95
Mrkt Val / Shares Out (mn)	US\$7,998 / 2,635.4
Average Daily Volume	2,680,323
ML Symbol / Exchange	IDEAF / BSE
Bloomberg / Reuters	IDEA IN / IDEA.BO
ROE (2008E)	30.60%
Net Dbt to Eqty (Mar-2007A)	122.10%
Est. 5-Yr EPS / DPS Growth	40.0% / NA
Free Float	43.00%

Source: ML Research

Idea Cellular Ltd. — Spice Telecom to merge? Merger Acquisition Divestiture

Media says Spice Tele to merge with Idea; confirm awaited

Media (CNBC) has flashed that Spice Telecom will likely merge with Idea Cellular. Spice shareholders would reportedly own ~12% of the merged entity. As per media the deal values Spice at Rs45-50bn. Idea is yet to confirm the news.

Spice - 2 circle presence; No.2 in Punjab; weak in K'taka

Spice operates in 2 circles - Punjab & Karnataka. The Co's wireless sub base totaled ~2.8mn subs as of Apr '07 i.e ~1.7% subscriber mkt share on a pan-India basis. In Punjab, Spice is ranked No.2 (behind Bharti) with ~23% share of total subs. In Karnataka, Spice is ranked No.6 with ~7% mkt share. Latest (Sep '06) financials indicate Spice is EBITDA positive but makes net loss.

EV/EBITDA valuation reportedly at premium versus Idea

The deal appears to value Spice ~30x historical-EV/E vs Idea's EV/E of ~24-25x FY07 i.e. ~20-25% premium likely attributable to mgt. control. Deal valuations compare with Hutch's exit multiple of ~30x EV/E when it sold its controlling stake in India to Vodafone, earlier this year. The scale of Hutch's India ops was stronger but market valuations (esp. of Bharti) appear to have risen since the Hutch deal.

EV/sub likely cheaper due to lower profit of Spice subs

On an EV/sub basis, the potential deal appears to value Spice at ~US\$428/sub vs Idea's valuation at ~US\$610/sub. This likely reflects lower profitability of Spice subs; EBITDA margin was ~33.5% for Idea in FY07 vs ~22% for Spice in Sep '06 qtr.

Good strategic fitment with Idea

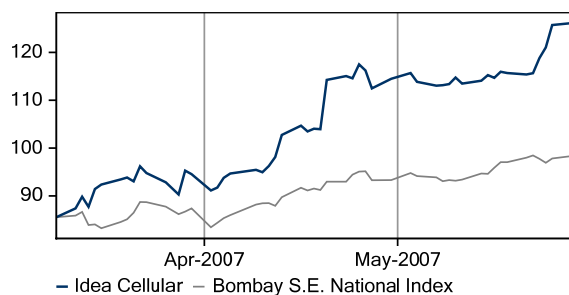
A merger with Spice would take Idea a step closer to becoming a pan-India operator. Currently, Idea does not have any presence in Spice's circles.

Table 13: Estimates/Valuation (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	1,683	5,032	12,152	12,993	17,493
EPS	0.745	2.07	4.65	4.93	6.64
EPS Change (YoY)	617.20%	178.50%	124.10%	6.10%	34.60%
Dividend / Share	0	0	0	0	1.33
Free Cash Flow / Share	1.68	-5	-6.75	-3.91	3.71
P/E	165.02x	59.25x	26.44x	24.93x	18.52x
Dividend Yield	0%	0%	0%	0%	1.08%
EV / EBITDA*	34.36x	25.05x	15.58x	11.87x	9.58x
Free Cash Flow Yield*	1.17%	-3.75%	-5.45%	-3.18%	3.02%

Source: ML Estimates

Chart 6: Idea Cellular vs. BSE National Index



Source: ML Research

Reena Verma Bhasin, CFA >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Idea Cellular Ltd. — Spice Telecom to merge? by Reena Verma >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 14: Stock Data

Price	Rs580.25
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs390.00-Rs640.00
Mrkt Val / Shares Out (mn)	US\$2,810 / 197.9
Average Daily Volume	72,435
ML Symbol / Exchange	XTAWF / BSE
Bloomberg / Reuters	TPWR IN / TTPW.BO
ROE (2007E)	9.20%
Net Dbt to Eqty (Mar-2006A)	31.80%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	67.70%

Source: ML Research

Tata Power – One More Unexciting Quarter Earnings Review

4QFY07: Quality of Earnings An Issue; Worst Is Yet To Come

Tata Power's 4Q was below MLe, with PAT at Rs927mn vs MLe of Rs951mn. Quality of earnings was also an issue with 137%YoY rise in investment income & low tax rate supporting PAT. Also the company is yet to provide for many expenses, which the regulator has disallowed as an expense, which increases the risk to future earnings. With RoE approaching new lows till FY09E and PE near an all time high, we see little room for outperformance. Since early December 2006, the stock has under-performed by 10%. Maintain Neutral.

4Q: Regulatory challenges impact core-Mumbai license

TPC's 4QFY07 PAT was Rs927mn, +7%YoY, led by pressure on Mumbai area profits, with falling tariffs (down 4%YoY) & returns to customers, which we accounted as profits earlier. Sales (incl. rebates led by tax refund of Rs1.8bn) fell 2.4%YoY. PAT was led by +137%YoY in investment income (dividends by group cos) & low tax rate (wind power breaks) supported earnings. The only bright spot was the fall in AT&C losses in the Delhi JV to 23.7% v/s 26% in 3QFY07.

Capex & weak core business to maintain pressure on RoE

TPC lacks growth in core business as its capex plans announced in the past three years are either running late or uncertain. Consequently, as TPC executes its delayed capex over FY07-10E, RoE will be hit. As a quick fix, TPC has set up DG sets – exposing it to oil prices, as regulator allows limited fuel cost pass-through.

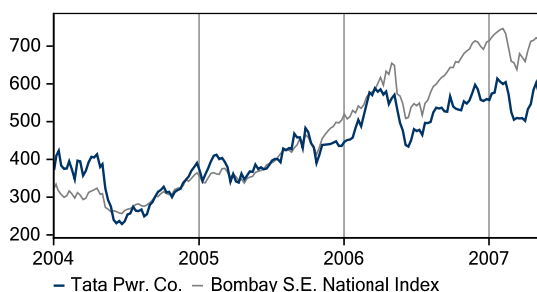
Stock lacks earnings triggers

While TPC's non-core investments and success at the Delhi JV provide some downside protection, the stock lacks potential triggers in its core business. Win of a 4GW Mundra power project is also fraught with risks given the competitive pricing.

Table 15: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	3,871	4,020	5,265	5,596	5,691
EPS	19.56	20.32	26.61	28.27	28.76
EPS Change (YoY)	-25.10%	3.90%	31.00%	6.30%	1.70%
Dividend / Share	7	7	7	7	7
Free Cash Flow / Share	26.05	15.3	-14.14	3.14	-2.36
P/E	29.66x	28.56x	21.81x	20.52x	20.18x
Dividend Yield	1.21%	1.21%	1.21%	1.21%	1.21%
EV / EBITDA*	13.49x	15.49x	14.89x	13.48x	11.89x
Free Cash Flow Yield*	4.49%	2.64%	-2.44%	0.54%	-0.41%
P/BV	2.26	2.09	1.93	1.74	1.57

Source: ML Estimates

Chart 7: Tata Power vs. BSE National Index


Source: ML Research

Bharat Parekh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the Report Tata Power – One More Unexciting Quarter by Bharat Parekh >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Ratings / Estimates Change

Bharat Forge — Estimates slashed, Rating cut

Rating Change

Table 16: Stock Data

Price	Rs319.00
Investment Opinion	C-1-7 to C-2-7
Volatility Risk	HIGH
52-Week Range	Rs221.00-Rs396.00
Mrkt Val / Shares Out (mn)	US\$1,751 / 222.3
Average Daily Volume	147,392
ML Symbol / Exchange	XUUVF / BSE
Bloomberg / Reuters	BHFC IN / BFRG.BO
ROE (2007E)	21.60%
Net Dbt to Eqty (Mar-2006A)	44.80%
Est. 5-Yr EPS / DPS Growth	25.0% / 25.0%
Free Float	64.20%

Source: ML Research

Downgrade to Neutral on lowered growth expectations

We are downgrading rating to Neutral, subsequent to ~20% annual revision of EPS forecasts. Despite share price underperformance, we believe that the stock should trade lower to factor our expectations of slower EPS growth. We would consider being buyers of the stock if there is substantial price weakness; we note the company's long term prospects as a low cost, large scale producer in a high growth segment.

EPS revised on strong rupee, weak subsidiary operations

We are lowering EPS estimates by 19.1% in FY08, and 22.3% in FY09, on the back of ~9% alteration of Re/US\$ to Rs 41. We are also pruning sales of wholly owned subsidiaries, given our revised expectations of 2.5% annual sales growth (12% earlier). Our assumptions give benefit of strong 31% export CAGR (21% over past 2 years), and cumulative 195bps margin expansion of subsidiaries.

Multiple orders, non-autos growth factored in

The impact of \$50mn orders over multiple years are built into our forecasts, as are increased supplies of non-auto components from the company's new facilities. Most of the impact is likely only in FY09, when we expect growth to accelerate.

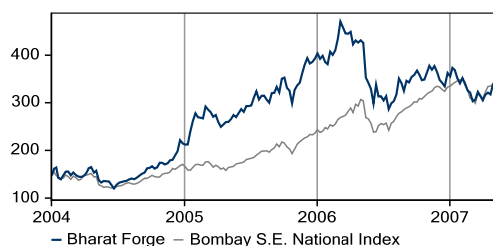
Rate Neutral

Stock trades at 21.7x FY08E and 17.3x FY09E consolidated EPS. We believe stock underperformance has not fully factored reduced earnings expectations, and should trade lower in the 18-20x 1-year rolling forward P/E band.

Table 17: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	1,986	2,492	2,985	3,622	4,542
EPS	10.04	11.21	12.42	15.06	18.86
EPS Change (YoY)	55.60%	11.70%	10.80%	21.30%	25.30%
Dividend / Share	2.5	3	3.5	4	4.5
Free Cash Flow / Share	-20.69	-23.49	5.4	6.89	20.33
P/E	31.77x	28.45x	25.69x	21.18x	16.91x
Dividend Yield	0.78%	0.94%	1.10%	1.25%	1.41%
EV / EBITDA*	17.49x	14.17x	11.46x	10.24x	8.05x
Free Cash Flow Yield*	-5.77%	-7.36%	1.69%	2.16%	6.37%

Source: ML Estimates

Chart 8: Bharat Forge vs. BSE National Index


Source: ML Research

S Arun >>
Research Analyst, DSP Merrill Lynch (India)

Refer to the report Bharat Forge — Estimates slashed, Rating cut by S Arun >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 18: Stock Data

Price (Common / ADR)	Rs1,840 / US\$42.60
Price Objective	Rs1925 to Rs2,150 / US\$43.26 to US\$53.00
Date Established	29-May-2007 / 29-May-2007
Investment Opinion	C-1-7 / C-1-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs902.63-Rs1,874
Market Value (mn)	US\$12,870
Shares Outstanding (mn)	283.3 / 283.3
Average Daily Volume	140,958
ML Symbol / Exchange	LTOUF / BSE
ML Symbol / Exchange	LTORF / LIN
Bloomberg / Reuters	LT IN / LART.BO
ROE (2007E)	31.50%
Net Dbt to Eqty (Mar-2006A)	53.80%
Est. 5-Yr EPS / DPS Growth	22.0% / 22.0%
Free Float	100.00%

Source: ML Research

Larsen & Toubro Ltd. — Raising PO to Rs2150

Country Overview

Margins Surprise in FY07; Raising Earnings & PO to Rs2150

We hike our earnings estimates by 15% for FY08 and 10% for FY09 & PO to Rs2150 (1925) led by better-than-expected FY07 parent EBITDA margins (+300bps) and subsidiary performance. Further L&T had 48%YoY growth in order backlog, rebound in parent sales (+35%YoY in 4Q FY07), 300bps EBITDA margin expansion in E&C to 11% and consolidated rec. PAT growth of 72%YoY.

Buy

FY07 Backlog +48%YoY; Rec. Consolidated PAT +72%YoY

L&T's FY07 met 3 of our key expectations for a Buy i.e.a) order intake - +37%YoY leading to backlog of Rs368bn +48%YoY (~2x sales); b) EBITDA margin expansion by 300bps was led by better priced orders, higher utilization & fall in un-profitable job sites, and c) PAT Rs18.1bn +72%YoY, (ex-one time - Rs4.3bn).

L&T's Subs. & associates (S&AC) did very well led by L&T Infotech - sales +60%YoY and PAT +115%YoY. Real estate business bounced back with 8x growth in PAT and International subs. grew PAT at 131%YoY to Rs1.48bn.

Strong guidance for FY08; We upgrade earnings by 10-15%

We upgrade our consolidated EPS by 15% for FY08 and 10% for FY09 to factor-in order intake & sales growth guidance of 25%YoY for FY08-09E. L&T believes that improved efficiency & better priced orders could boost margins by 50bps.

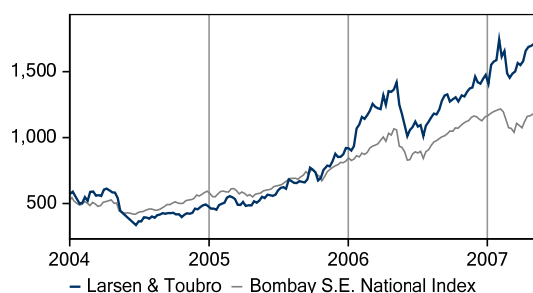
Drivers of 22% earnings CAGR over FY07-09E & Buy rating:

Acceleration in domestic / Middle East capex cycle driving its sales at 24% CAGR over FY07-09E. Likely sustained margins on completion of low margin orders & achieving margin accounting threshold. Our upgraded PO (Rs2150) based on a SOTP approach, is driven by earnings upgrade & higher S&AC valuations.

Table 19: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	7,043	10,707	18,298	22,557	26,696
EPS	27.16	38.96	64.6	79.64	94.25
EPS Change (YoY)	9.90%	43.40%	65.80%	23.30%	18.30%
Dividend / Share	13.78	11	14	16	18
Free Cash Flow / Share	2.61	17.96	4.38	24.9	53.55
ADR EPS (US\$)	0.605	0.881	1.49	1.96	2.32
ADR Dividend / Share (US\$)	0.307	0.249	0.322	0.394	0.443
P/E	67.74x	47.22x	28.48x	23.11x	19.52x
Dividend Yield	0.75%	0.60%	0.76%	0.87%	0.98%
EV / EBITDA*	44.90x	31.34x	19.51x	14.99x	12.54x
Free Cash Flow Yield*	0.13%	0.95%	0.24%	1.35%	2.91%

Source: ML Estimates

Chart 9: L&T vs. BSE National Index


Source: ML Research

Bharat Parekh >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Larsen & Toubro Ltd. — Raising PO to Rs2150 by Bharat Parekh >> 31 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 20: Stock Data

Price (Common / ADR)	Rs461.10 / US\$23.00
Investment Opinion	C-2-8 / C-2-8
Volatility Risk	HIGH / HIGH
52-Week Range	Rs300.05-Rs514.90
Market Value (mn)	US\$3,238
Shares Outstanding (mn)	285.0 / 142.5
Average Daily Volume	157,900
ML Symbol / Exchange	VLSLF / BSE
ML Symbol / Exchange	VSL / NYS
Bloomberg / Reuters	VSNL IN / VSNL BO
ROE (2008E)	7.10%
Net Dbt to Eqty (Mar-2007A)	-19.40%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	24.00%

Source: ML Research

Videsh Sanchar Nigam Ltd. — Right direction, challenging path

Estimate Change

Still early to play global growth; maintain Neutral

We remain Neutral on VSNL due to undemanding valuations of its core biz at ~6x FY09E-EV/EBITDA. The Co's revenues seem better diversified & less dependent on the relatively vulnerable ILD-voice biz in India. However, recent global acquisitions are still small contributors to EBITDA (~11% of consol FY07-EBITDA) & the path to meaningful profit contribution from the same seems challenging.

FY07 result: steady local biz, international biz still evolving

FY07 marked the first full-year of operations for VSNL along with its international acquisitions viz Tyco undersea network (TGN) & Teleglobe. During the year, standalone India operations posted stable profits; international operations were EBITDA positive but posted weaker-than-expected revenues, & net loss. Consolidated rec. profit in FY07 was ~Rs607mn vs standalone profit of ~Rs4.6bn.

Top line growth - a key challenge; Cost synergies feasible

In our view, VSNL's key challenge is to grow its top-line in the international biz. Also, in our assessment, the TGN continues to incur EBITDA losses. This is a focal issue as expansion of cable capacities is a major chunk of VSNL's planned capex. Re cost-synergies, we share the Co's positive outlook; mgt. expects savings of ~US\$23mn over the next 12-18 months.

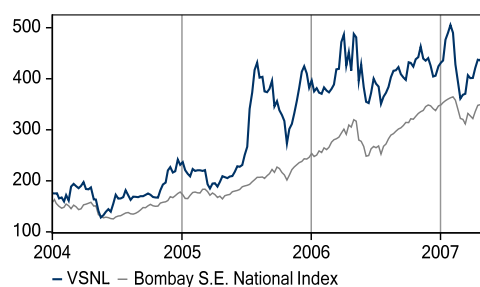
Leadership in IP network; early bird on wireless broadband

VSNL's FY08 capex (~US\$500mn) will be mostly to reinforce its IP-leadership & expand network capacity via 2 new submarine cable systems & more data centers. The Co will also invest in wireless broadband using WiMax & WiFi.

Table 21: Estimates/Valuation (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	4,499	4,545	4,631	5,157	5,654
EPS	15.79	15.95	16.25	18.1	19.84
EPS Change (YoY)	17.60%	1.00%	1.90%	11.40%	9.60%
Dividend / Share	4.5	4.5	4.48	4.99	5.47
Free Cash Flow / Share	-1.38	6.86	-3.68	4.95	18.5
ADR EPS (US\$)	0.714	0.705	0.801	0.892	0.978
ADR Dividend / Share (US\$)	0.204	0.199	0.221	0.246	0.269
P/E	29.21x	28.92x	28.38x	25.48x	23.24x
Dividend Yield	0.98%	0.98%	0.97%	1.08%	1.19%
EV / EBITDA*	13.67x	12.46x	12.10x	11.01x	10.08x
Free Cash Flow Yield*	-0.30%	1.49%	-0.80%	1.07%	4.01%

Source: ML Estimates

Chart 10: VSNL vs. Adj. BSE National Index


Source: ML Research

Reena Verma Bhasin, CFA >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Videsh Sanchar Nigam Ltd. — Right direction, challenging path by Reena Verma >> 29 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 22: Stock Data

Price	Rs221.15
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs186.05-Rs358.50
Mrkt Val / Shares Out (mn)	US\$187 / 34.4
Average Daily Volume	17,034
ML Symbol / Exchange	GKLDF / BSE
Bloomberg / Reuters	GEXP IN / GOKL.BO
ROE (2007E)	18.70%
Net Dbt to Eqty (Mar-2006A)	61.20%
Est. 5-Yr EPS / DPS Growth	20.0% / 0%
Free Float	23.10%

Source: ML Research

Gokaldas Exports Ltd. — Slower growth as rupee strengthens

Estimate change

4Q PAT better than expectations

Gokaldas reported 4Q PAT at Rs181mn (up 21% YoY), helped by a higher duty drawback. But of this, operating results were in line. FY07 profits grew 16%, to Rs705mn, driven by 18% sales growth and 200bp margin expansion, partially set off by higher interest and depreciation.

Domestic opportunity more attractive as exports slow down

Apparel exports from India have suffered lately due to competition from China and other low cost countries. While Gokaldas has remained largely immune from any such slowdown so far, sales to domestic retailers may just become more attractive, especially after the recent re appreciation. Management has identified domestic business to be the key growth driver for the company whose share in total sales is likely to grow up to mid-teens in FY09E from negligible currently.

Earnings cut ~13% over FY08-09E on stronger Re

We have cut our earnings estimate by ~13% for each of the years over FY08-09, primarily to factor in a stronger rupee resulting in lower sales realizations and consequent margin pressure. We now estimate an EPS growth of ~10% in FY08, instead of ~20% growth, estimated earlier. We have not built in any margin dilution due to rising share of domestic biz, whose margin outlook is uncertain.

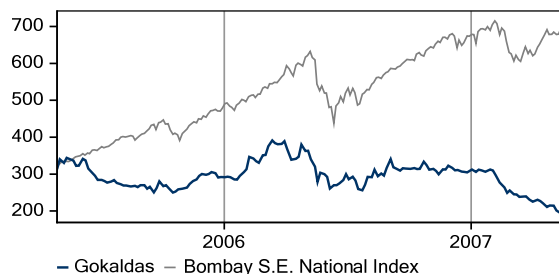
Valuations reflect the slowing earnings trajectory - Neutral

Valuations at ~10x FY08E PER, look undemanding, being at the lowest end of the historic PE band (12-15x). However, with expectations of an earnings slowdown in FY08, these multiples may just about be right, for now. We note that impending labor reforms and the big domestic opportunity remain as key long term growth drivers for Gokaldas. However, in the absence of any near term triggers and the overhanging concern on Re appreciation, we maintain our Neutral rating.

Table 23: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	398	610	705	781	940
EPS	28.29	17.74	20.52	22.73	27.34
EPS Change (YoY)	2.90%	-37.30%	15.70%	10.80%	20.30%
Dividend / Share	2.44	1.5	2	2	2
Free Cash Flow / Share	-35.49	-59.02	-13.75	1.84	4.96
P/E	7.82x	12.47x	10.78x	9.73x	8.09x
Dividend Yield	1.11%	0.68%	0.90%	0.90%	0.90%
EV / EBITDA*	15.59x	11.27x	7.85x	6.82x	5.79x
Free Cash Flow Yield*	-6.37%	-13.22%	-6.22%	0.83%	2.24%

Source: ML Estimates

Chart 11: Gokaldas vs. BSE National Index


Source: ML Research

Manish Sarawagi >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Gokaldas Exports Ltd. — Slower growth as rupee strengthens by Manish Sarawagi >> 29 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 24: Stock Data

Price (Common / GDR)	Rs740.25 / US\$17.98
Investment Opinion	C-2-7 / C-2-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs488.00-Rs1,002
Market Value (mn)	US\$4,256
Shares Outstanding (mn)	233.4 / 233.4
Average Daily Volume	221,733
ML Symbol / Exchange	MAHMF / BSE
ML Symbol / Exchange	MAHMF / LIN
Bloomberg / Reuters	MM IN / MAHM.BO
ROE (2007E)	35.90%
Net Dbt to Eqty (Mar-2006A)	89.80%
Est. 5-Yr EPS / DPS Growth	15.0% / 10.0%
Free Float	73.00%

Source: ML Research

Mahindra & Mahindra – Capex surge increases risk, rate Neutral

Estimate Change

Subsidiaries offset weak standalone operations

Q4 results were disappointing. Based on revised estimates, we expect core operations to register nominal 5% EPS CAGR over FY07-09E. We also expect increased financial and execution risk, due to a surge in capex towards several standalone and joint venture projects. However, our Neutral rating is largely on the back of more exciting subsidiaries, mainly Tech Mahindra, which continues to drive our sum of parts value for M&M.

Standalone performance disappoints

Q4 net profit grew 20.9% to Rs 2.3bn (MLe Rs 2.53bn), as margins declined more sharply than expected, by ~50bps to 11.4%. For the fiscal, standalone net profit grew 35.1%, and margins held up at 12%, mainly due to strong front-ended performance in the preceding quarters.

Forecasts tweaked, as subsidiaries expected to do well

We are raising consolidated EPS forecasts by ~3% for each of the years, to support the recent ML upgrade in Tech Mahindra's financials. This more than offsets downward revision in standalone profit by 6.2% in FY08E, and 9.3% in FY09E.

Sum of parts value offers limited upside

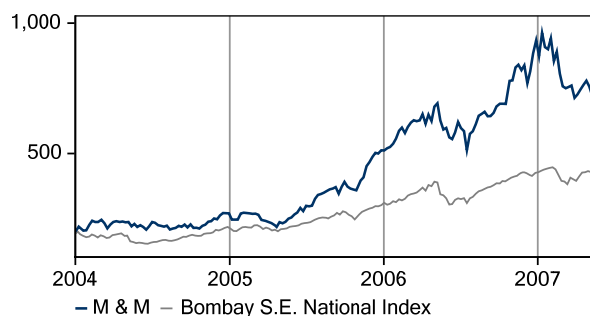
Our sum of parts value, which is based on FY09E financials, is at Rs791. Key subsidiaries account for 50% of imputed value, and the muted prospects of the tractor and auto business limits core value to the balance Rs 397.

Table 25: Estimates/Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	6,729	10,689	15,688	17,950	21,037
EPS	29.01	45.8	65.84	75.33	88.29
EPS Change (YoY)	67.90%	57.90%	43.80%	14.40%	17.20%
Dividend / Share	6.5	10	11.5	12	13
Free Cash Flow / Share	-21.56	-61.42	-72.57	-73.24	-53.59
GDR EPS (US\$)	0.646	1.04	1.51	1.86	2.18
GDR Dividend / Share (US\$)	0.145	0.226	0.283	0.296	0.32
P/E	25.52x	16.16x	11.24x	9.83x	8.38x
Dividend Yield	0.88%	1.35%	1.55%	1.62%	1.76%
EV / EBITDA*	15.99x	11.04x	7.73x	5.69x	4.67x
Free Cash Flow Yield*	-2.89%	-8.30%	-10.01%	-10.10%	-7.39%

Source: ML Estimates

Chart 12: M&M vs. BSE National Index



Source: ML Research

S. Arun >>

Research Analyst, DSP Merrill Lynch (India)

Refer to the report Mahindra & Mahindra – Capex surge increases risk, rate Neutral by S. Arun >> 29 May, 2007 for additional information, as well as important footnotes and disclaimers

Table 26: Stock Data

Price	Rs2,690
Price Objective	Rs3,300
Date Established	28-May-07
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs1,531-Rs2,750
Mrkt Val / Shares Out (mn)	US\$16,220 / 244.8
Average Daily Volume	93,254
ML Symbol / Exchange	BHRVF / BSE
Bloomberg / Reuters	BHEL IN / BHEL.BO
ROE (2007E)	29.10%
Net Dbt to Eqty (Mar-2006A)	-49.00%
Est. 5-Yr EPS / DPS Growth	22.0% / 20.0%
Free Float	NA

Source: ML Research

Bharat Heavy Electricals – Powerful FY07, Exciting FY08

Price Objective Change

Robust FY07: Book +47%YoY; PAT +44%, Raise Earnings & PO

We raise our earnings estimates and Price Objective to Rs3300 post a strong FY07. BHEL audited results confirmed that BHEL has made non-recurring prov. of Rs1bn (6% of EBITDA) in 4Q. PAT came-in +1.5% v/s prov. PAT. Rs550bn backlog +47%YoY & expanding margins, are other highlights of BHEL's FY07 results. Maintain Buy.

Order Inflow +88%, Backlog +47%YoY; Margins Up 150bps

BHEL's 88%YoY growth in order intake to Rs356bn led by flurry of new orders (table 2). Sales at Rs187bn (+29%YoY) and PAT at Rs24.2bn (+44%YoY), were 4% ahead of consensus. 4Q PAT incl. ~Rs1bn prov. for wage hike and ~Rs2bn for post-retirement medical benefits as per AS15R. **Despite these prov. EBITDA margins expanded by 120bps to 22.9% in 4Q and 150bps for FY07 to 19.1%.**

Raise Earnings by 5-6% over FY08 & 09 And PO to Rs3300

BHEL has contained costs well. Considering this, we upgrade our FY08 earnings by 5% and FY09E earnings by 6%. We raise PO to Rs3300 (2760) on roll forward to FY09 & factor-in higher earnings & multiple of 22x – 10% discount to peak.

A Look beyond financials point to more exiting times ahead

A) BHEL utility sets (200-500MW) performed very well with utilization at 83.5% – a competitive advantage v/s Chinese; & B) **Building a solid platform** – R&D spend +58%, productivity (value added / employee) +30%, EVA +42%, Capex +16%.

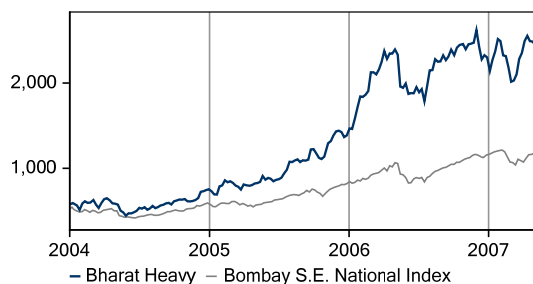
Reiterate Buy on improving pipeline and competitiveness

We expect stock to outperform as company address key concerns on Chinese competition, super-critical orders (likely in FY08) and improve competitiveness through operating leverage – ~67% capacity expansion with <10% rise in labor.

Table 27: Estimates/ Valuation (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	9,653	16,828	24,145	29,628	36,830
EPS	39.44	68.75	98.65	121.05	150.47
EPS Change (YoY)	42.30%	74.30%	43.50%	22.70%	24.30%
Dividend / Share	8	14.5	16	20	25
Free Cash Flow / Share	24.08	46.1	99.1	105.4	116.02
P/E	68.20x	39.13x	27.27x	22.22x	17.88x
Dividend Yield	0.30%	0.54%	0.60%	0.74%	0.93%
EV / EBITDA*	35.52x	23.27x	16.63x	13.87x	11.01x
Free Cash Flow Yield*	0.90%	1.71%	3.68%	3.92%	4.31%

Source: ML Estimates

Chart 13: BHEL vs. BSE National Index


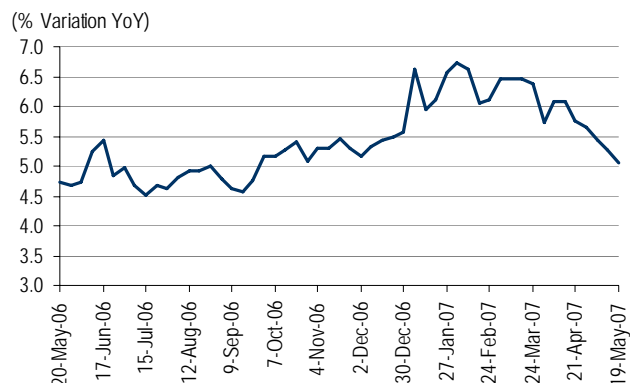
Source: ML Research

Bharat Parekh >>
Research Analyst, DSP Merrill Lynch (India)

Refer to the report Bharat Heavy Electricals – Powerful FY07, Exciting FY08 by Bharat Parekh >> 28 May, 2007 for additional information, as well as important footnotes and disclaimers

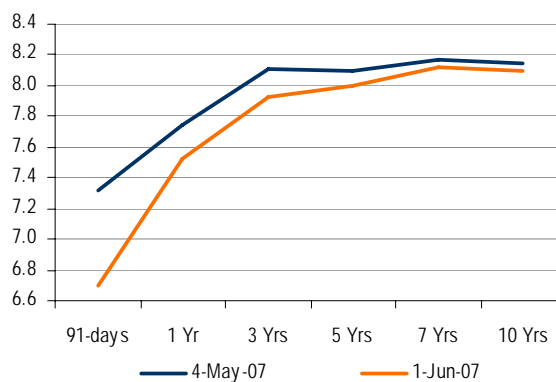
Economic Overview

Chart 14: WPI Inflation



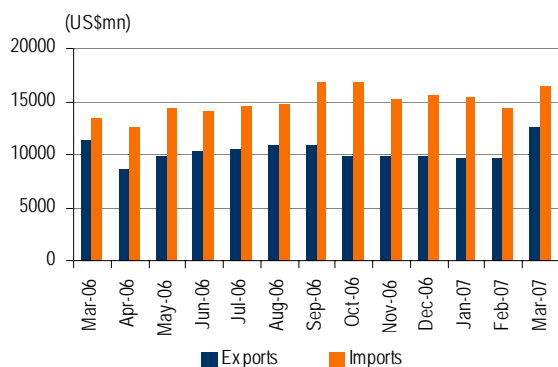
Source: ML Research

Chart 15: Yield Curve (%) – Govt. Bonds



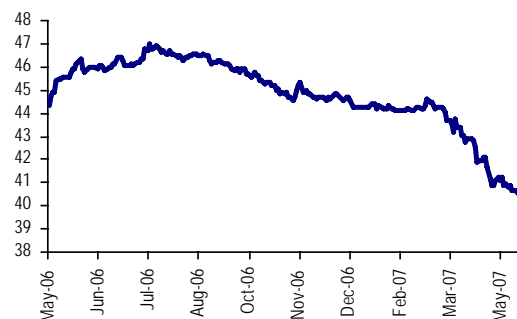
Source: ML Research

Chart 16: Exports and Imports



Source: ML Research

Chart 17: Exchange Rate (Rs vs US\$)



Source: ML Research

Table28: India Economic Forecasts

	FY05	FY06	FY07 MLE	FY08 MLE
Real GDP (%)	7.5%	9.1%	8.9%	8.3%
Agriculture	0.7%	6.3%	2.0%	1.8%
Industry	7.4%	8.0%	10.0%	9.0%
Services	10.2%	10.3%	10.8%	10.0%
Wholesale Price Index (Year end)	5.1%	4.0%	5.4%	4.2%
- Oil imports (US\$ bn)	29.86	43.84	58.00	62.00
- Non-oil imports, incl. defense (US\$ bn)	88.92	112.49	140.60	169.30
Imports (fob.; US\$ bn)	118.78	156.33	198.60	231.30
Imports (% YoY)	48.5%	31.6%	27.0%	16.0%
- Non-oil imports (%YoY)	49.7%	26.5%	25.0%	20.4%
Trade Balance (US\$ bn)	(36.6)	(51.6)	(72.9)	(83.9)
Current account (% GDP)	0.8%	-1.1%	-2.1%	-1.9%
Capital Account (US\$ bn)	31	23.4	40.2	37.2

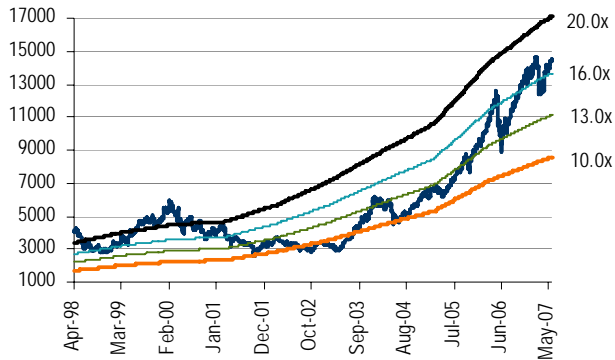
Source: Gol, ML Estimates

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Stock Market Overview

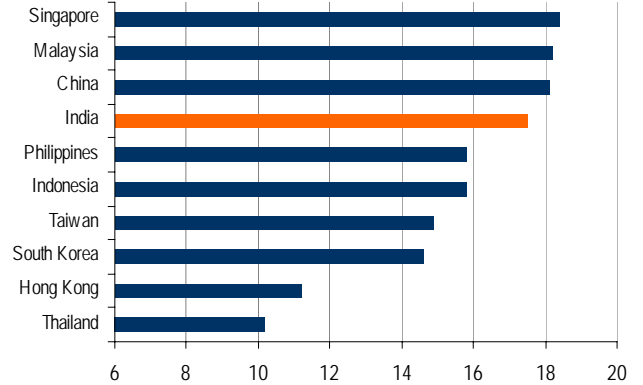
Market Data

Chart 18: 1 Year forward PE



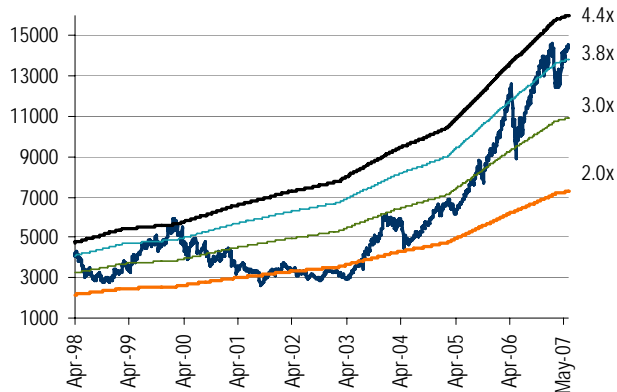
Source: ML Research

Chart 19: PE Regional (x) CY07



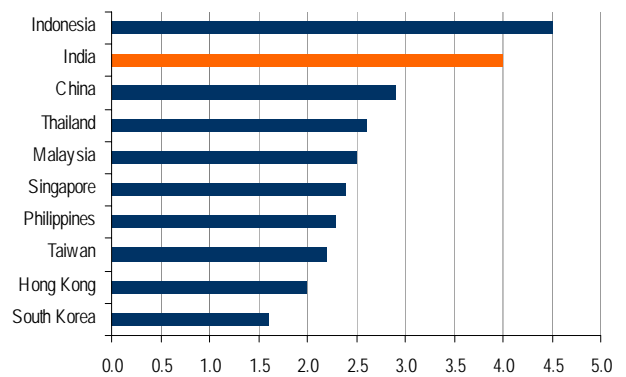
Source: ML Research

Chart 20: 1 Year forward price to book value



Source: ML Research

Chart 21: P/BV Regional (x) CY07



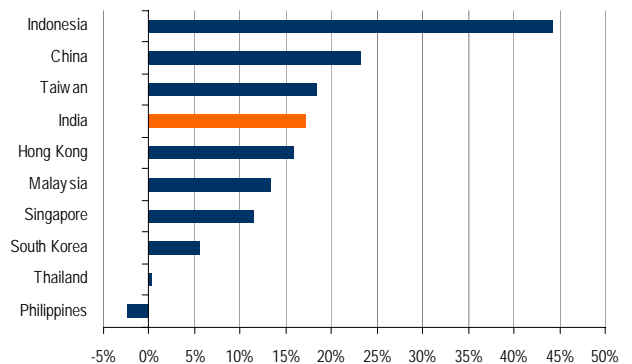
Source: ML Research

Chart 22: EV/EBITDA



Source: ML Research

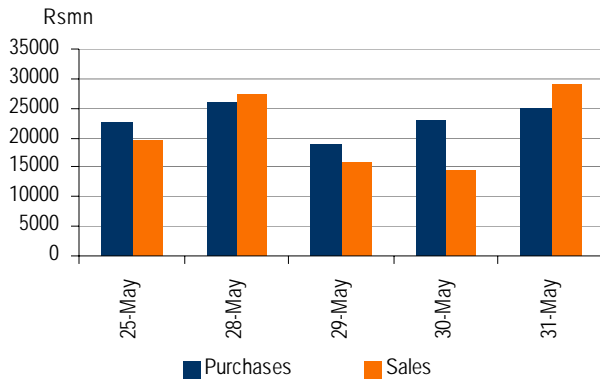
Chart 23: EPS Growth Regional (%) CY07



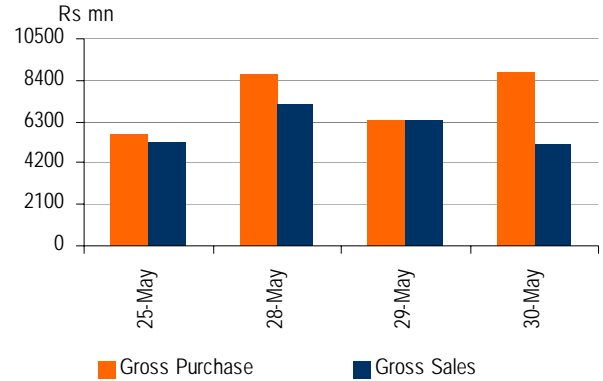
Source: ML Research

04 June 2007

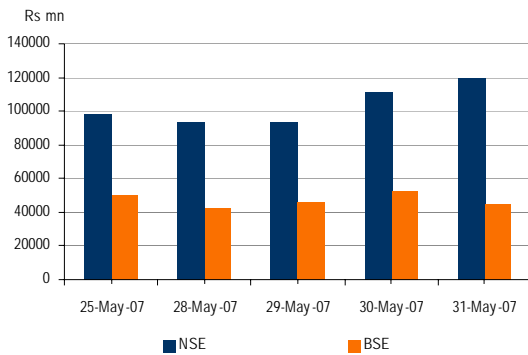
Market Data

Chart24: Daily FII Purchases and Sales (Rsmn)


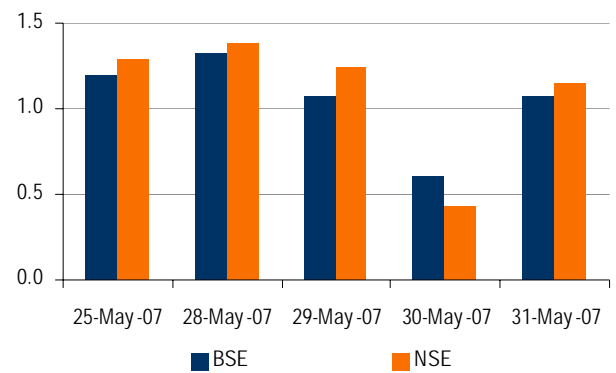
Source: SEBI

Chart25: Daily Mutual Fund Purchase and Sales (Rsmn)


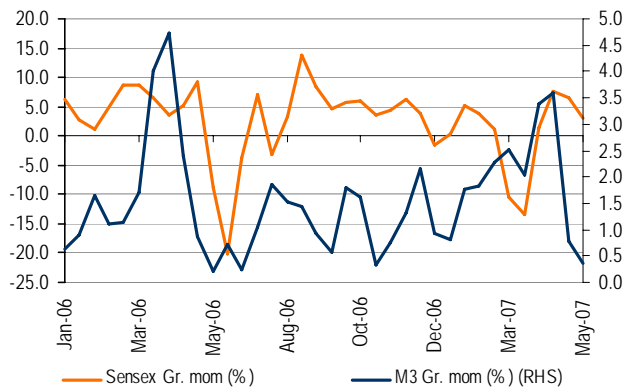
Source: SEBI

Chart26: Daily Turnover


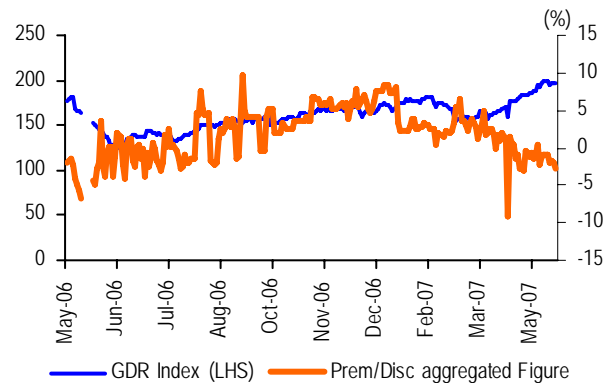
Source: Media

Chart27: Daily Advance: Decline Ratio


Source: Media

Chart28: M3 vs. Index


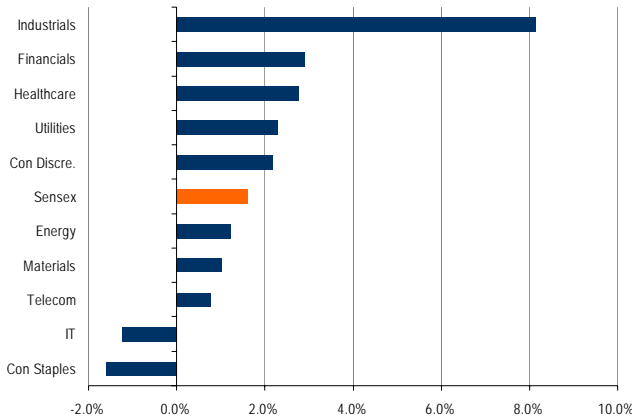
Source: RBI; ML Research

Chart29: Merrill Lynch GDR Index and Premium/Discount


Source: RBI; ML Research

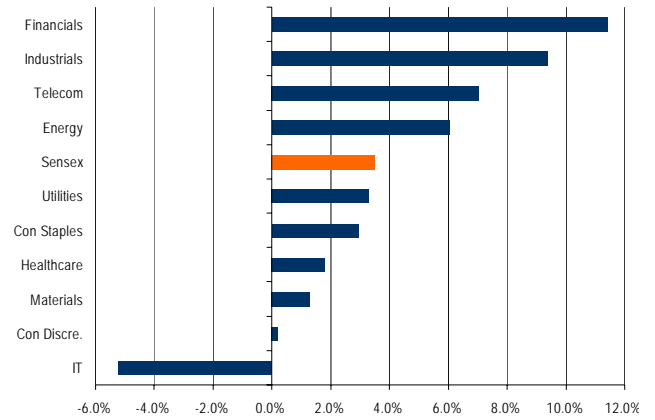
Sectoral Performance Charts

Chart30: 1-Week



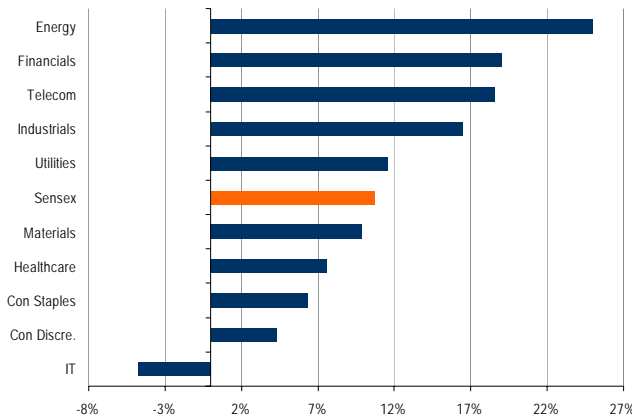
Source: ML Research

Chart31: 1-Month



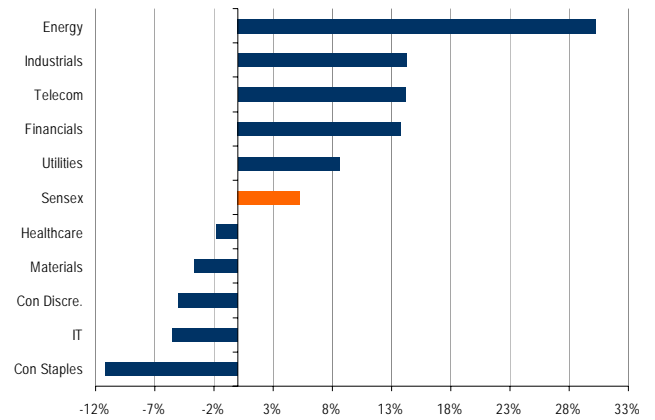
Source: ML Research

Chart32: 3-Months



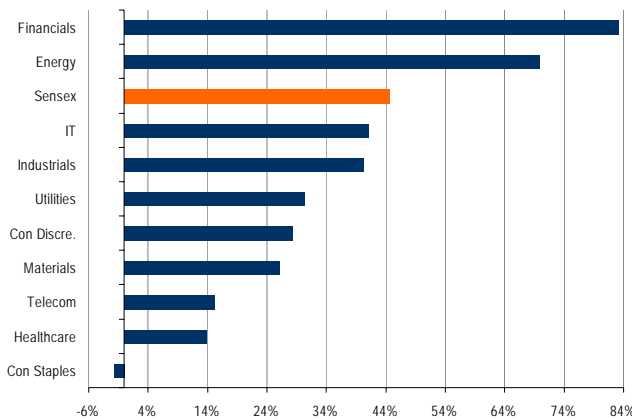
Source: ML Research

Chart33: 6-Months



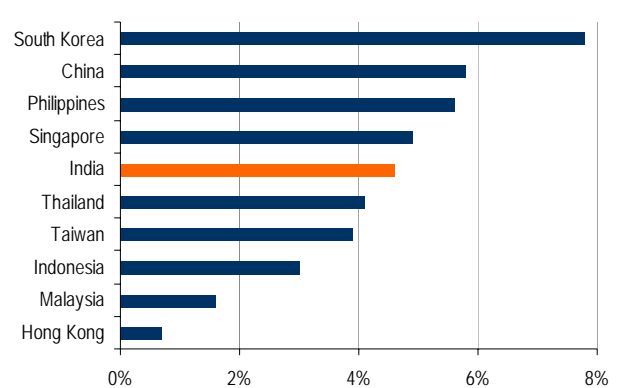
Source: ML Research

Chart34: 1-Year



Source: ML Research

Chart35: Regional Markets 1 Month (%)



Source: ML Research

04 June 2007

Table 29: Indian Stock Valuations

			Price	Market Cap	Net Profit			P/E (x)			RoE (%)	P/BV
Company Name	ML Symbol	Recco.	01 Jun 2007	US\$m	2006	2007E	2008E	2006	2007E	2008E	2007E	2007E
ABB	ABVFF	C-1-7	4595.30	4752.2	2187.7	3403.1	4897.6	89.1	57.3	39.8	32.9	16.5
Arvind Mills Ltd	ARVZF	C-3-7	45.80	233.9	806.2	188.0	431.1	11.9	51.0	22.2	1.2	0.6
Ashok Leyland	XDBVF	C-3-7	38.40	1247.1	3116.1	4520.8	4418.9	15.1	11.3	11.6	26.8	2.6
Asian Paints	XAPNF	C-2-7	868.65	2031.8	2122.2	2777.6	3457.0	39.1	30.0	24.1	39.5	10.9
Assoc. Cement	ADCLF	C-2-7	852.00	3894.1	6352.6	12396.0	14124.7	35.0	14.4	11.3	38.5	3.8
Automotive Axles	XATOF	C-1-7	563.40	207.6	368.6	433.6	545.0	23.1	19.6	15.6	51.2	8.9
Bajaj Auto	BJJAF/BJAUF	C-3-7/C-3-7	2235.00	5515.5	11242.7	12730.0	11682.3	20.2	17.8	19.4	24.5	4.0
Balaji Tele	BLJIF	C-2-7	221.45	352.2	611.1	792.5	912.6	23.6	18.2	15.8	28.6	4.8
Bank of Baroda	BKBAF	C-1-7	271.55	2421.0	8269.7	10654.8	14918.2	12.0	9.3	6.7	12.9	1.1
Bank of India	XDIIF	C-1-7	210.95	2511.5	5840.7	11236.3	13526.4	17.6	9.2	7.6	20.7	1.8
Bharat Forge	XUUVF	C-2-7	335.05	1816.7	2492.4	2984.8	3622.4	29.9	27.0	22.3	21.6	5.0
Bharat Heavy	BHRVF	C-1-7	1414.35	8443.3	16827.7	24144.8	29628.2	20.6	14.3	11.7	29.1	3.7
BPCL	XBPCF	C-2-7	358.95	3165.3	5409.4	22641.4	15469.5	23.9	5.6	8.4	21.5	1.2
Bharti	BHTIF	C-1-9	837.95	38744.8	22566.5	42571.0	64689.6	70.3	37.3	24.6	37.4	11.7
BIOCON LTD	BCLTF	C-1-7	463.25	1129.9	1739.9	2004.1	2532.1	26.6	23.1	18.3	20.5	4.3
CADILA HEALTHCAR	CDLHF	C-1-7	335.00	1026.2	1639.0	2078.0	2635.3	25.7	20.2	16.0	25.8	4.6
Cairn India	XCANF	B-1-7	142.75	6193.4	na	1671.7	1454.2	na	151.9	174.6	0.5	0.8
Canara Bank	CNRKF	C-2-7	255.15	2551.5	13432.2	14297.2	17728.8	7.8	7.3	5.9	18.6	1.3
Cipla Ltd.	XCLAF	C-3-7	224.20	4250.5	6076.4	6608.0	7579.2	27.7	26.4	23.0	24.8	5.2
Colgate India	CPIYF	C-1-7	358.15	1187.9	1616.5	1879.1	2252.6	30.1	25.9	21.6	63.5	15.2
Corporation Bank	XCRRF	C-3-7	330.15	1155.0	4444.5	5364.3	6313.3	10.7	8.8	7.5	15.0	1.3
Dabur India	DBUIF	C-1-7	97.75	2052.8	2270.5	2789.6	3355.3	37.0	30.2	25.1	52.5	14.1
Divi's Lab	XXQPF	C-3-7	4972.45	1554.6	695.3	1274.1	1806.2	91.7	50.0	35.3	32.1	14.0
Dr Reddy's Lab	DRYBF/RDY	C-1-7/C-1-7	648.50	2643.0	1467.4	9658.2	6573.0	73.8	11.2	16.5	31.8	2.7
Educomp Solu	EUSOF	C-1-7	1875.80	787.4	133.5	270.4	625.3	223.1	119.4	51.6	17.1	14.3
Eicher Motors	XEICF	C-3-7	350.40	240.1	361.8	675.8	560.9	27.2	14.6	17.6	15.9	2.4
Federal Bank	XFDRF	C-1-7	271.05	565.9	2252.1	2577.7	3400.0	10.3	9.0	6.8	18.8	1.6
Firstsource	FSSOF	C-1-7	84.95	880.6	246.8	972.4	1521.3	106.8	34.0	25.8	13.0	3.4
Gail India	XGLAF/GAILF	C-2-7/C-2-7	315.00	6497.1	23627.6	20466.0	22174.3	11.2	13.0	12.0	19.1	2.3
GSK India	GXOLF	C-1-7	1297.45	2680.4	3109.9	3672.2	4340.0	35.3	29.9	25.3	34.0	9.1
Glenmark Pharm	XVQWF	C-2-7	702.25	2159.5	864.8	3096.7	5232.1	102.4	28.6	16.9	59.0	12.3
Gokaldas Exports	GKLDF	C-2-7	219.65	184.2	609.7	705.3	781.2	12.4	10.7	9.7	18.7	1.8
Grasim	GRSJF/GRSJY	C-2-7/C-2-7	2520.00	5635.5	10364.7	19675.1	22749.1	22.3	11.7	10.2	50.5	4.9
GREAVES COTTON	XGRVF	C-1-7	320.75	382.1	850.9	1069.3	1310.3	18.4	14.7	12.0	44.8	6.0
Ambuja Cements	AMBUF	C-2-7	114.60	4250.5	4682.8	14086.6	15968.3	33.1	12.3	10.9	46.4	4.5
Gujarat Gas Co	GJGCF	C-3-8	291.30	455.6	981.3	867.6	865.7	20.9	21.5	21.6	21.0	4.1
Gujarat Inds	GUJIF	C-2-7	68.30	184.6	1095.4	1145.7	1157.2	6.9	6.6	6.5	15.8	1.2
Gujarat State	GJRSF	C-1-7	57.55	761.1	466.8	976.1	1267.3	66.9	32.0	24.6	10.5	3.2
HCL	HCLTF	C-2-7	345.65	5395.1	7732.0	10645.3	11868.8	28.6	20.8	18.6	24.5	4.8
HDFC	HGDF	C-1-7	1861.75	11332.2	12573.1	15391.7	18601.3	36.9	30.2	25.0	31.4	8.7
HDFC Bank	XHDF/HDB	C-1-7/C-1-7	1152.85	8805.0	8708.3	11421.0	14744.7	41.2	31.6	24.5	19.9	5.8
Hero Honda	HRHDF	C-2-7	717.10	3492.8	9713.4	8573.7	9486.6	14.7	16.7	15.1	38.8	5.9
Hexaware Tech	XFTCF	C-1-7	155.55	495.7	915.0	1242.3	1525.7	20.7	16.6	14.8	22.5	2.7
Himatsingka Seid	HMKFF	C-2-7	110.30	262.1	486.2	598.5	796.6	22.1	18.0	13.5	10.2	1.8
Hindalco	HNDF/HNDNF	C-3-7/C-3-7	141.00	3989.3	15771.9	26878.9	17325.7	8.6	6.1	9.4	25.0	1.3
Hindustan Petro.	XHTPF	C-1-7	295.75	2444.9	4055.7	15711.8	14171.5	24.7	6.4	7.1	17.1	1.0
HLL	HINLF	C-3-7	201.25	10804.9	13104.7	15398.8	17967.3	33.8	28.8	24.7	61.9	16.6
IDBI	XDBIF	C-2-7	97.75	1725.6	5608.9	6300.2	7475.6	12.6	11.2	9.5	9.7	1.1
Infrastruct Dev	IFDFF	C-2-7	115.10	3151.1	3909.3	4804.3	5610.9	33.0	26.9	23.0	17.7	4.5
Idea Cellular	IDEAF	C-1-9	124.95	8031.4	1682.8	5032.4	12152.2	167.8	60.2	26.9	25.1	9.6
Indraprastha Gas	IAGSF	C-3-7	116.60	398.1	1061.4	1337.4	1444.8	15.3	12.2	11.3	31.9	3.6
i-flex	IFXXF	C-2-7	2247.15	4294.3	2190.4	3328.3	4402.0	80.4	52.9	40.0	22.3	10.8
India Cements	INIAF	C-2-9	181.30	1149.7	398.7	5526.7	6784.7	91.8	8.3	6.8	38.8	2.2
Infosys Tech	INFYF/XTILF	C-1-7/C-1-7	1940.05	26349.2	24599.5	37260.0	47445.9	44.3	29.8	23.5	40.9	9.6
Infotech India	IFKFF	C-1-7	372.35	414.6	503.3	836.7	1132.1	33.8	20.3	15.2	33.7	6.0
IOC	IOCOF	C-2-7	465.25	13254.1	44944.3	59887.2	58392.2	12.1	9.3	9.5	18.0	1.5
ITC Limited	ITCTF/ITCTY	C-2-7/C-2-7	161.45	14787.2	22758.2	27498.8	29007.3	26.6	22.0	20.9	28.5	5.9
IVRCL Infrastruc	IIFRF	C-1-7	354.95	1118.1	929.6	1184.6	1823.9	54.0	42.4	27.5	13.8	3.7
Jaiprakash Hydro	XJSHF	C-3-7	36.15	432.9	785.0	1095.3	1247.2	22.6	16.2	14.2	15.9	2.5
Jet Airways	JTAIF	C-1-9	782.60	1647.9	2910.8	-1684.2	-1690.0	23.2	-40.1	-51.6	-7.4	3.0
Larsen & Toubro	LTOUF	C-1-7	2002.95	13837.5	10707.2	18298.1	22556.9	52.4	31.3	25.2	31.5	8.4

04 June 2007

Table 29: Indian Stock Valuations

Company Name	ML Symbol	Recco.	Price 01 Jun 2007	Market Cap US\$mn	Net Profit			P/E (x)			RoE (%) 2007E	P/BV 2007E
					2006	2007E	2008E	2006	2007E	2008E		
M & M	MAHMF/MAHMF	C-2-7/C-2-7	762.45	4340.4	10688.7	15687.8	17949.5	16.6	11.6	10.1	35.9	3.6
Maruti Udyog	MUDGF	C-1-7	810.90	5715.9	11890.5	15619.8	17876.2	19.7	15.0	13.1	25.3	3.4
Mastek	MSKDF	C-1-7	298.80	207.1	690.9	898.1	1136.2	12.2	9.5	7.5	28.0	2.3
Matrix Lab Ltd	MXLBF	C-2-7	239.65	897.8	1375.6	625.8	1368.8	18.4	58.8	26.9	26.1	3.6
Mphasis	MPSSF	C-1-7	310.55	1567.9	1498.6	1789.1	2873.5	33.4	35.9	22.4	23.0	7.2
MTNL	XMTNF/MTE	C-3-7/C-3-7	163.00	2504.6	4103.1	4006.8	4614.3	25.0	25.6	22.3	3.6	0.9
NALCO	NAUDF	C-3-7	254.95	4006.5	14766.1	22769.5	14069.4	11.1	7.2	11.7	33.3	2.1
Nagarjuna Const	NGRJF	C-1-7	171.30	863.8	1039.5	1023.3	2106.4	34.0	23.6	16.8	10.4	3.5
NTPC Ltd	NTHPF	C-1-7	158.35	31845.7	55710.0	64217.9	78622.6	23.4	20.3	16.6	13.7	2.7
Nestle India	XNTEF	C-3-7	1140.00	2680.9	3095.7	3164.7	3786.5	35.5	34.7	29.0	83.6	27.3
Neyveli Lignite	NEYVF	C-2-7	65.50	2680.2	11169.6	12049.1	12665.3	9.8	9.1	8.7	12.7	1.2
Nicholas	XNIGF	C-2-7	260.15	1331.2	1238.9	2285.4	2858.4	44.1	23.9	19.1	22.6	5.1
ONGC	ONGCF	C-2-7	910.15	47479.9	153701.6	175822.6	191040.6	12.7	11.1	10.2	28.7	3.0
ORBC	ORBCF	C-1-7	236.55	1445.5	8031.9	8168.7	10110.5	7.4	7.3	5.9	15.9	1.2
Panacea Biotech	XPEAF	C-1-7	443.35	770.2	604.3	1483.0	1908.7	52.3	21.3	16.5	65.4	10.6
Patni	PATIF	C-1-7	554.00	1863.3	2680.1	2655.6	4376.1	26.8	29.1	18.0	12.6	3.4
Pantaloon	PFIAP	C-3-7	460.05	1578.6	385.5	537.1	713.3	125.6	115.1	90.7	14.3	11.7
Petronet LNG Ltd	POLNF	C-3-7	55.75	1019.8	1949.3	3132.7	3596.5	21.5	13.3	11.6	26.6	3.3
Punjab National Bank	PUJBF	C-1-7	535.30	4116.6	14393.2	18345.4	25017.4	11.7	9.2	6.7	18.0	1.5
Ranbaxy Lab	XIZZF/RBXZF	C-1-7/C-1-7	388.20	3777.8	2283.9	5320.0	6509.9	63.3	29.1	23.8	21.0	5.9
Raymond Ltd	XRAMF	C-3-7	318.70	477.1	854.1	1377.8	1399.9	17.7	13.7	19.3	11.3	1.5
RCVL	RLCMF	C-1-7	505.80	25223.4	4813.0	31934.1	47779.6		33.3	22.8	19.9	5.1
Reliance Energy	RCTDF	C-1-7	541.70	2805.5	6503.4	7859.2	8595.5	17.7	14.6	13.4	10.6	1.5
Reliance Inds	XRELF/RLNIY	B-1-7/B-1-7	1750.35	59476.5	90693.4	122259.4	141770.7	26.9	20.8	19.4	21.7	4.0
Rico Auto Ind	RCATF	C-2-7	41.85	128.2	449.3	452.4	575.7	11.1	11.4	9.1	17.5	2.0
Rolta India	RLTAF	C-1-7	453.60	884.0	1273.9	1739.0	2329.9	24.1	21.3	15.9	17.2	3.4
Sasken Communic	SKNCF	C-1-7	558.80	388.4	229.2	442.7	783.5	55.8	37.4	21.1	11.0	3.8
Satyam	SAYPF/SAY	C-1-7/C-1-7	478.50	7807.7	9819.3	14047.4	17218.4	31.2	22.7	18.8	27.9	5.4
SBI	SBINF/SBKFF	C-1-7/C-1-7	1378.10	17690.1	44066.7	48182.3	60245.7	16.5	15.1	12.0	16.3	2.3
Shree Cements	SREEF	C-2-7	1183.00	1005.2	184.4	3569.9	3730.9	223.5	11.5	11.0	5.2	8.2
Shoppers' Stop	SHPSF	C-3-7	601.00	505.7	242.7	360.1	471.9	85.1	57.6	43.9	13.7	7.2
SIFY Limited US\$	SIFY	C-2-9	8.55	355.7	-3.4	7.5	7.5	-104.8	47.5	47.2	-4.5	3.4
Steel Authority	SLAUF	C-1-7	138.60	13962.8	40219.9	59321.4	67928.8	14.2	9.7	8.4	40.4	3.4
Sun Pharma	SPCEF	C-1-7	1092.00	5516.3	5732.5	7740.7	8834.8	39.5	29.2	25.6	39.7	9.8
Suzlon Energy	SZEYF	C-1-7	1285.40	9021.8	7598.8	8629.9	14315.6	47.9	43.0	25.9	28.1	10.8
Tata Consultancy	TACSF	C-1-7	1219.00	28441.4	28831.0	40728.1	53701.5	41.4	29.3	22.2	55.0	13.3
Tata Motors Ltd.	TENJF/TTM	C-2-7/C-2-7	747.15	7335.2	16139.2	21964.2	23141.3	18.2	13.6	13.0	32.0	4.0
Tata Pwr. Co.	XTAWF	C-2-7	590.05	2848.0	4020.4	5265.4	NA	29.0	22.2	NA	NA	2.0
Tata Steel	TAELF	C-1-7	634.65	13234.4	37346.2	41772.7	80503.5	9.4	8.8	6.7	34.0	2.5
Tech Mahindra	TMHAF	C-1-7	1504.75	4470.9	2421.9	6126.0	9893.6	80.8	31.9	19.8	90.5	24.8
Triveni Engg	TVIEF	C-1-7	55.75	350.7	1315.0	1641.6	2087.0	10.9	8.8	6.9	26.9	2.1
TVS Motor	XFKMF	C-3-7	69.20	400.9	1170.0	666.5	713.0	14.0	24.7	23.0	8.5	2.1
UltraTech Cemen	XDJNF	C-2-7	837.70	2543.5	2298.8	7823.0	9332.2	51.7	13.3	11.2	55.8	5.9
Union Bank India	UBOIF	C-1-7	121.10	1491.9	6751.8	9647.8	12791.3	9.1	6.3	4.8	19.7	1.2
United Phosphoru	UPHHF	C-1-7	292.25	1425.6	2162.8	2774.2	3934.7	27.0	21.1	14.9	19.7	3.8
UTI Bank	UTBK/UTIBY	C-1-7/C-1-7	576.15	3916.3	4852.3	6590.3	8685.1	32.8	24.4	18.5	21.0	4.7
Vijaya Bank	VJYAF	C-3-7	46.05	486.9	1268.8	3172.0	3443.6	15.7	6.3	5.8	17.7	1.0
VSNL	VSLSF/VSL	C-2-8/C-2-8	458.40	3186.4	4499.0	4544.6	4630.8	29.0	28.7	28.2	7.3	2.0
Welspun India	WPNIF	C-1-9	67.50	120.3	382.0	560.1	844.4	12.9	8.8	5.8	10.2	0.9
Wipro	WIPRF/WIT	C-2-7	544.15	18675.5	20673.9	29315.4	35393.6	37.5	26.5	22.1	36.2	8.1
WNS (Holdings) L	WNS	C-2-7	27.09	25.3	18.3	27.2	37.8	51.8	41.8	31.3	20.1	5.4
Wockhardt	XDUVF	C-2-7	425.65	1225.0	2571.1	2393.5	3361.4	18.1	17.3	14.9	25.4	4.7
Yes Bank Ltd	YESBF	C-1-7	169.15	1113.9	NA	916.5	1610.4	NA	50.8	29.4	13.8	6.3
Zee Entertainmen	XZETF	C-1-7	307.35	3250.2	2025.2	2195.4	3778.3	66.0	60.9	35.4	16.5	8.3

*Dec, # June, @Sept. Year ending companies: FY05A is March 05 and Dec 04 for Dec end cos.; Source: ML Estimates

Table 30: Wted. BSE Sensex Valuation

14570.75	FY04	FY05	FY06	FY07E	FY08E
PE	41.1	32.7	27.4	20.3	17.3
EPS Growth	21.4%	27.2%	17.9%	36.5%	17.2%
P/Cash Eps	23.15	24.67	21.43	15.96	13.71
CEPS Growth	16.2%	14.8%	14.8%	33.2%	16.4%
P/BV	8.24	6.90	6.14	4.69	3.97
RoE	19.8%	23.2%	24.2%	25.4%	24.9%
Cor Gearing	27.6%	14.6%	14.3%	3.5%	1.2%
Dividend Yield	1.0%	1.0%	1.0%	1.2%	1.4%
EV/EBIDTA	12.49	10.22	12.64	12.81	11.52

Source: ML Research

Price Objective Basis & Risk

L&T

Our PO of Rs2150 is based on multi-pillar approach of SOTP & consolidated PER.

SOTP is based on the following: We have valued the core business at 22x FY09E - in-line with peers such as BHEL and rest of the parts such as L&T IT at respective industry comps & L&T IDPL based on private equity value, as detailed in Table 1.

At our SOTP valuation, the stock would trade at a consolidated PER of 23x, in-line with L&T's own current multiples and our target multiples for E&C major such as BHEL.

Risks: Raw materials, competition & project execution.

HPCL

Our PO of Rs372 is based on PE and also includes the value of HPCL's 17% stake in MRPL. Target PE used to calculate our PO is 8.2x. It is based on average historical relative PE of 60% applied to target BSE-30 PE of 13.7x. PO is calculated by applying target PE to HPCL's FY08E EPS in four scenarios. One of the scenarios is normalized EPS (Rs61.9), to which only 5% weight is assigned. Other scenarios are EPS at various Brent prices, to which equal weights are assigned. In one scenario where PE based fair value works out below book value, fair value is taken at 0.8x P/BV.

Risks are 1) government not issuing enough oil bonds to keep HPCL in the black 2) Government officially reverting back to cost plus based regulated pricing mechanism 3) Upstream oil companies contributing less than expected subsidy 4) Decline in regional refining margins

IVRCL

Our PO of Rs450 is based on an SOTP approach. We have valued IVRCL's core construction business at PER 14x FY09E – a 30% discount to E&C majors despite its faster growth.

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.

Table 31: IVRCL - Sum of Parts

Parts	Basis	Rs/share
IVRCL Construction business	14x FY09E EPS - 30% discount to majors	260
Hind-dorr-Oliver Equity Stake	Current Market value @52.8% stake	11
IVR-Prime	15% discount to NPV @ 79.99% stake	143
Jalandhar -Amritsar	DCF - 100% stake	6
Chennai Desalination Plant	DCF - 75% stake	13
Kumarapalayam–Chenagmpali Project	DCF - 100% stake	11
Salem - Kumarapalayam Project	DCF - 100% stake	16
Total Value		460
Less Net Debt (FY08E)		10
Total		450

Source: ML Research Estimates

BHEL

Our Price Objective of Rs3,300 is based on FY09E PER of 22x – 10% discount to peak PE in the last cycle (94-97). BHEL currently trades at 18x FY09E PER vs BSE Sensex at 16x. However, we believe, that premium valuation is justified given BHEL's superior market position, earnings growth and RoE.

Risk to our valuation: Chinese & Korean competition & project execution.

Infotech Enterprises

Our PO of Rs450 is at 15x FY09PE, in line with current FY08 multiple, supported by our forecast 31% 2-yr EPS CAGR over FY07-09E. Risks to our estimates are 1) Non-annuity revenues in Geospatial Design 2) Increasing competition from large Indian IT vendors and 3) Rupee appreciation and wage inflation.

Idea Cellular Ltd.

Our PO of Rs145 for Idea is based on sum-of-parts. We capture the widely dispersed maturity of Idea's operations by benchmarking Idea's existing operations to Bharti on FY09E-EV/E while Idea's new circles are valued using DCF. Our base case assumes good execution & places Idea at a narrow 10% discount versus our target valuation for Bharti. We think a 10% discount is reasonable based on the trading pattern of market leaders versus laggards in the GEM wireless universe.

Risks: 1) unforeseen slowdown of subscriber growth in the Indian wireless market; 2) unexpected pressures on Idea's balance sheet; 3) higher-than-peers profit sensitivity to ARPU.

NTPC

Our PO of Rs180 is based on 10% discount to our DCF valuation (assuming a WACC of 10.3% and a terminal growth rate of 2%) led by higher capacity, utilization rates & efficiency gains on the back of increased fuel security.

Risks: Gas supply to existing/new plants till 2008, upstream oil investments & power reforms, entry into nuclear power.

Infotech Enterprises

Our PO of Rs450 is at 15x FY09PE, in line with current FY08 multiple, supported by our forecast 31% 2-yr EPS CAGR over FY07-09E. Risks to our estimates are 1) Non-annuity revenues in Geospatial Design 2) Increasing competition from large Indian IT vendors and 3) Rupee appreciation and wage inflation.

Analyst Certification

We, Jyotivardhan Jaipuria, Reena Verma Bhasin, CFA, Bharat Parekh, Mitali Ghosh, S. Arun, Sarawagi, Manish and Vidyadhar Ginde, 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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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	39	41.94%	Buy	8	25.00%
Neutral	40	43.01%	Neutral	3	8.82%
Sell	14	15.05%	Sell	1	7.69%

Investment Rating Distribution: Energy Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	137	57.81%	Buy	48	41.03%
Neutral	92	38.82%	Neutral	24	30.38%
Sell	8	3.38%	Sell	0	0.00%

Investment Rating Distribution: Engineering & Construction Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	14	63.64%	Buy	1	8.33%
Neutral	8	36.36%	Neutral	4	57.14%
Sell	0	0.00%	Sell	0	0.00%

Investment Rating Distribution: Technology Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	41.76%	Buy	21	20.39%
Neutral	146	53.48%	Neutral	31	22.79%
Sell	13	4.76%	Sell	1	9.09%

Investment Rating Distribution: Telecommunications Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	89	44.50%	Buy	18	24.32%
Neutral	85	42.50%	Neutral	16	22.22%
Sell	26	13.00%	Sell	8	40.00%

Investment Rating Distribution: Textiles/Apparel Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	15	62.50%	Buy	3	20.00%
Neutral	8	33.33%	Neutral	2	25.00%
Sell	1	4.17%	Sell	0	0.00%

Investment Rating Distribution: Utilities Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	62	37.35%	Buy	19	37.25%
Neutral	89	53.61%	Neutral	39	51.32%
Sell	15	9.04%	Sell	2	14.29%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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04 June 2007

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