

India News

Economy

- The rupee strengthened by 19 paise on Wednesday closing at 40.78 a dollar against the previous close of 40.97 (Business Line).

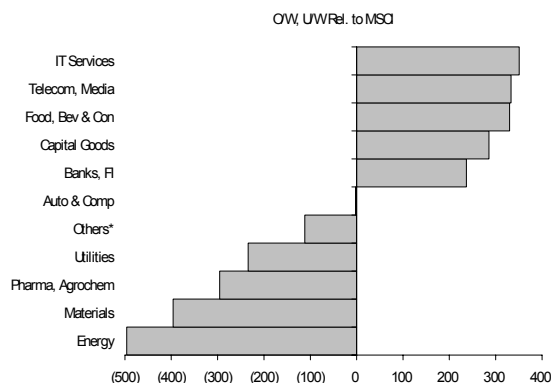
Industry

- The Department of Telecom has sought the views of the Telecom Regulatory Authority of India on allowing mobile operators to offer services using a combination of GSM and CDMA technologies. The move assumes significance in the light of an application from Reliance Communications seeking spectrum for rolling out GSM services (Business Line).

Companies

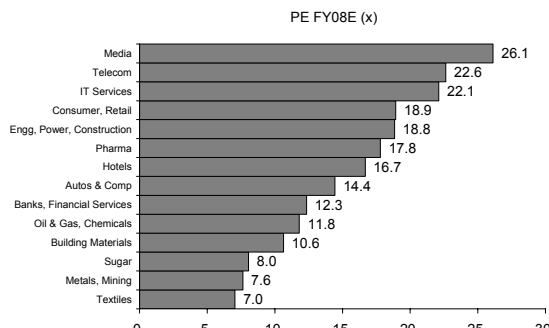
- **Reliance Industries:** Reliance Industries plans to generate 5,000mw of electricity with an investment of Rs.130bn (Economic Times).
- **Wockhardt:** Wockhardt has completed the acquisition of Negma Laboratories, France's fourth largest integrated pharmaceutical group, for \$265m (Business Standard).
- **VSNL:** VSNL plans to expand its Wi-Fi network to 1,000 hot spots from 250 at present but no time-frame has been specified (Economic Times).

Key Overweights/ Underweights



Source: Citigroup Investment Research

CIR Universe P/E FY08E (x)



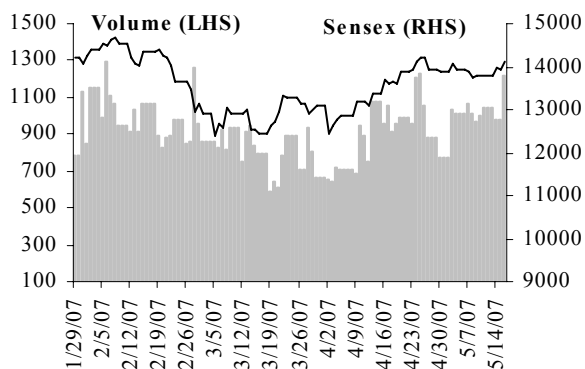
Source: Citigroup Investment Research

Market Snapshot

Performance (%)	1-Day	1-Week	1-Month	3-Month	6-Month	12-Month	YTD	Mkt Volume	
								(Rs Mils.)	(Rs Mils.)
								BSE	51,790
								NSE	106,840
								Top Volume*	(Rs Mils.)
Absolute								HDFC BANK LT	1674.7
BSE Sensex	1.42	2.51	5.55	0.26	4.88	18.98	2.47	GUJARAT AMBUJA CEMENTS LTD.	756.6
CIR India Index	1.61	2.89	8.15	9.78	13.41	12.52	12.36	POWER FINAN	622.6
Aluminum	2.29	0.90	6.19	9.98	(0.78)	(21.08)	1.12	PARSVNATH	513.7
Auto	1.02	0.30	3.13	(13.04)	(7.17)	(15.72)	(12.08)	IDBI LTD	427.6
Banks	2.77	8.16	13.92	3.07	4.33	28.89	2.08	STEEL AUTHOR	294.9
Capital Goods	2.31	3.19	6.42	10.40	14.20	22.93	14.86	REL PET	267.4
Cement	(0.16)	(0.33)	13.98	(12.88)	(15.03)	(3.97)	(20.15)	DENA BANK	260.4
Consumer	0.96	2.18	0.87	1.90	(10.61)	(18.71)	(5.31)	WELSP GUJ SR	235.8
Hotels	(0.42)	6.05	(1.93)	2.49	(3.85)	7.18	(4.41)	ARVIND MILLS LTD.	84.4
IT Services	(0.02)	(0.45)	(3.70)	(16.08)	(9.22)	10.16	(14.37)	Top Gainers*	Close (Rs)
Media	0.65	2.69	15.35	9.93	(10.47)	9.36	0.40	ALFA LAVAL	1,233
Oil & Gas	0.90	0.51	6.87	3.15	2.19	(2.22)	5.22	DENA BANK	45
Petrochemical	2.28	2.32	15.85	19.70	28.76	55.16	28.01	BALAJI TELE	195
Pharmaceutical	0.00	0.38	(1.11)	(2.48)	(5.97)	(16.08)	(3.20)	POWER FINAN	146
Power	0.56	(1.10)	6.35	(3.91)	1.70	(2.27)	1.91	WYETH LTD	534
Steel	1.19	4.90	12.42	31.54	51.08	38.74	45.67	CENTURY TEXTILES AND INI	626
Telecom Equipment	(1.22)	3.48	0.09	(3.09)	(16.38)	(9.67)	(10.41)	GMR INFRASTR	464
Telecom	1.52	2.50	7.72	13.85	39.28	81.16	30.49	ORIENTAL BK	220
								Top Losers*	Chg (-%)
Relative to BSE-30 Sensex								HEROHONDA M	678
CIR India Index	0.19	0.38	2.60	9.52	8.53	(6.46)	9.89	SHIPPING COR	214
Aluminum	0.87	(1.61)	0.64	9.72	(5.66)	(40.06)	(1.35)	MIRC ELECTRO	20
Auto	(0.40)	(2.21)	(2.42)	(13.30)	(12.06)	(34.70)	(14.55)	BRITANIA IN	1,430
Banks	1.35	5.65	8.37	2.82	(0.55)	9.91	(0.39)	ABBOTT INDIA	462
Capital Goods	0.89	0.68	0.87	10.14	9.32	3.95	12.39	HINDUSTAN PETROLEUM CC	296
Cement	(1.58)	(2.84)	8.42	(13.13)	(19.92)	(22.95)	(22.62)	MPHASIS LTD	310
Consumer	(0.46)	(0.33)	(4.68)	1.64	(15.50)	(37.69)	(7.78)	HEXAWARE LTD	168
Hotels	(1.84)	3.54	(7.48)	2.23	(8.73)	(11.80)	(6.88)	CROMPTON GREAVES LTD.	225
IT Services	(1.44)	(2.96)	(9.25)	(16.34)	(14.11)	(8.82)	(16.84)	ISPAT INDUST	16
Media	(0.77)	0.18	9.80	9.67	(15.35)	(9.62)	(2.07)	*BSE-Group A	
Oil & Gas	(0.52)	(2.00)	1.32	2.90	(2.69)	(21.20)	(2.75)	Source: The Economic Times, www.bseindia.com.	
Petrochemical	0.85	(0.19)	10.30	19.45	23.87	36.18	25.54		
Pharmaceutical	(1.42)	(2.13)	(6.66)	(2.74)	(10.85)	(35.06)	(5.67)		
Power	(0.86)	(3.61)	0.80	(4.16)	(3.19)	(21.25)	(0.56)		
Steel	(0.23)	2.39	6.87	31.28	46.20	19.76	43.20		
Telecom Equipment	(2.64)	0.97	(5.46)	(3.35)	(21.26)	(28.65)	(12.87)		
Telecom	0.10	(0.01)	2.17	13.59	34.40	62.18	28.02		

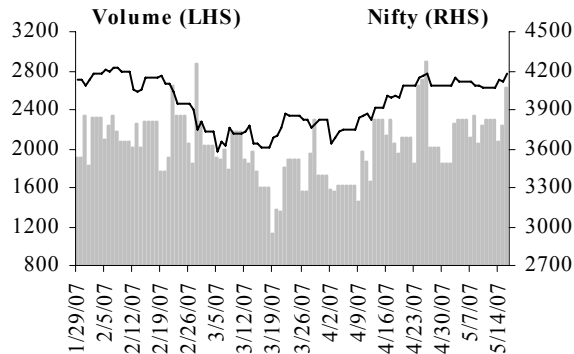
Source: Citigroup Investment Research estimates

BSE-30 – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

NIFTY – Performance & Volume (US\$ Mils.)



Source: Bloomberg, Citigroup Investment Research estimates

Reliance Energy (RLEN.BO)

Downgrade to Sell: Deconstructing the Enigma

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Sell/Low Risk	3L		
<i>from Buy/High Risk</i>			
Price (16 May 07)	Rs507.05		
Target price	Rs510.00		
<i>from Rs784.00</i>			
Expected share price return	0.6%		
Expected dividend yield	1.1%		
Expected total return	1.7%		
Market Cap	Rs115,876M		
	US\$2,858M		
	2006	2007E	2008E
EPS new(Rs)	30.90	31.72	42.83
EPS Growth(%)	10.2	2.7	35.0
P/E	16.4	16.0	11.8
EV/EBITDA	12.5	25.9	17.9
Consensus Data	32.70	na	36.79

Price Performance (RIC: RLEN.BO, BB: RELE IN)



United Spirits (UNSP.BO)

Buy: Whyte & Mackay Acquisition - Positive Surprises Galore

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Buy/Low Risk	1L		
Price (16 May 07)	Rs895.20		
Target price	Rs1,250.00		
<i>from Rs1,114.00</i>			
Expected share price return	39.6%		
Expected dividend yield	0.0%		
Expected total return	39.7%		
Market Cap	Rs84,580M		
	US\$2,086M		
	2007	2008E	2009E
EPS new(Rs)	25.59	41.49	58.48
EPS Growth(%)	246.9	62.1	40.9
P/E	35.0	21.6	15.3
EV/EBITDA	18.6	14.2	11.2
Consensus Data	25.72	34.87	42.51

Price Performance (RIC: UNSP.BO, BB: UNSP IN)



- **Disappointing** — We are downgrading RELE to Sell (3L) from Buy (1H) and cutting our target price to Rs510 given its 1) lack of delivery – four years after EA03, RELE has only 941MW of capacity and distribution licenses in three circles; 2) inefficient capital deployment – its RoCE is in the 2-4 % range, the lowest in our electric utilities universe; and 3) modest long-term earnings growth of ~15%.
- **Lack of delivery** — Many of RELE's announced projects have hit 1) fuel supply issues; 2) land allocation problems; or 3) regulatory snags leading to cash and cash equivalents not being allocated in productive assets.
- **Inefficient capital deployment** — RELE's 2-4% RoCE is the lowest in our rated electric utilities universe because 74% of its assets are in cash and cash equivalents, a clear case of inefficient capital deployment.
- **Not the time to bottom fish** — RELE's stock underperformance versus the BSE Sensex over the past six years and its expected 35% YoY earnings growth in FY08E (from a low base) might seem like a good opportunity to bottom fish. We believe this approach ignores the business realities as RoCE will be low and long-term earnings growth will likely be a modest ~15%.
- **Positive ATE ruling to spur earnings growth** — RELE should grow earnings at 20% CAGR over FY07E-10E driven by positive ATE rulings on the Mumbai business. Despite higher interim growth from a low base, long-term steady state earnings growth should remain a modest ~ 15%.

- **Positive surprises galore** — UNSP's Whyte & Mackay acquisition is full of positive surprises 1) deal value of US\$1.2m lower than our estimate of US\$1.4bn 2) inventory valuation at US\$800m higher than estimates 3) EPS accretive from year-1 and 4) put options on inventory, securing future profits.
- **Good strategic fit at reasonable valuations** — W&M provides access to secure long-term scotch inventory and fits UNSP's aspiration to cater to high-end segments in India, China and Russia. More important, it has been acquired at reasonable valuations at 11.8x FY08E EV/EBITDA, at a significant discount to peer group average and cheaper than recent deals in the liquor space.
- **Over 60% of W&M's future profits underwritten** — W&M has put options for the next 4-5 years on large scotch players for selling its bulk scotch. This will underwrite over 60% of W&M budgeted profits over next 4-5 years and de-risks cash flow profile. Management expects W&M to be debt free over next 4 years.
- **Bullish outlook on scotch** — UNSP management has a bullish outlook on scotch prices. Rising emerging market demand (22% yoy) and resurgence in US markets is fuelling 10% global scotch volume growth and has resulted in 75%-120% increase in bulk scotch prices over the last few months.
- **Incorporating W&M, raising target price** — We are incorporating Whyte & Mackay into our EPS estimates and raise FY08E-FY10E EPS estimates by 13.6%-37%. We raise our target price to Rs1250, not as aggressive as our EPS upgrades, as we now discount for dilution on potential sale of treasury stock.

Bombay Dyeing (BDYN.BO)

Technical Research – Short-Term Buy (1B): CMP:581

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- **Chart pattern** — Bombay Dyeing has seen a “Bullish” breakout from an Inverse Head and Shoulder Pattern. The construction of “H&S” is: Left Shoulder at 519 (low of 16 March 2007), Head at 481 (low of 2 April 2007), and Right Shoulder at 520 (low of 19 April 2007). Breakout at Neckline was at 561.
- **Price objective** — The minimum price objective has been calculated using the “Maximum Depth” technique. “Maximum depth” is the distance between the Neckline (575) and Head (481) [i.e., $575 - 481 = 94$. Adding 94 to the breakout point at the neckline at 561 gives us the minimum price objective of 655. [$561 + 94 = 655$]
- **Moving averages** — Prices are trading above the 10 dma (558), 20 dma (553), 50 dma (535). The moving average crossover is bullish. The 10 dma has cut the 20 dma and 50 dma from below.
- **Target Price - Stop Loss Price** — Target Price 655. Stop Loss 545.
- **Recommendation**— Short-Term Buy (1B) with Target Price of 655 and Stop loss price of 545.
- Recommendation expires on 17 August 2007.

India Technical Research Daily

Matching High At 4151

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- **Nifty** — The index opened on a flat note and posted an intra-day high at 4150 in the opening trades, after which it drifted down for the day's trading session. The index closed with a loss of 14 points.
- **Resistance** — The index has seen a matching high at 4151 (last two trading session's intra day high at 4151). The index will face resistance around 4151 and 4181 (high of 4 May 2007).
- **Support** — The index has support at 4102 (10dma), a break of 10dma (4102) should see the Nifty dip towards 4088 (20dma) or 4067 (38% retracement level on its rise from a low of 3981 to the high of 4151).
- **Conclusion** — Intra day rise should face resistance around 4151, the index can dip towards the 4088 level.

Figure 1: India Technical Research – Index Snapshot

Indices	Last Close	Current Close	Daily Change(Points)
Sensex	13966	13929	-37
Nifty	4134	4120	-14
Nifty Futures: Current Month	4141	4131	-10

Source: Citigroup Investment Research

Figure 2: India Technical Research – Support and Resistance (Daily)

Indices	Support	Resistance
Sensex	13864-13695-13555	14024-14190-14384
Nifty	4102-4088-4030	4151-4181-4217
Nifty Futures: Current Month	4101-4084-4025	4160-4187-4218

Source: Citigroup Investment Research estimates

Analyst Certification Appendix A-1

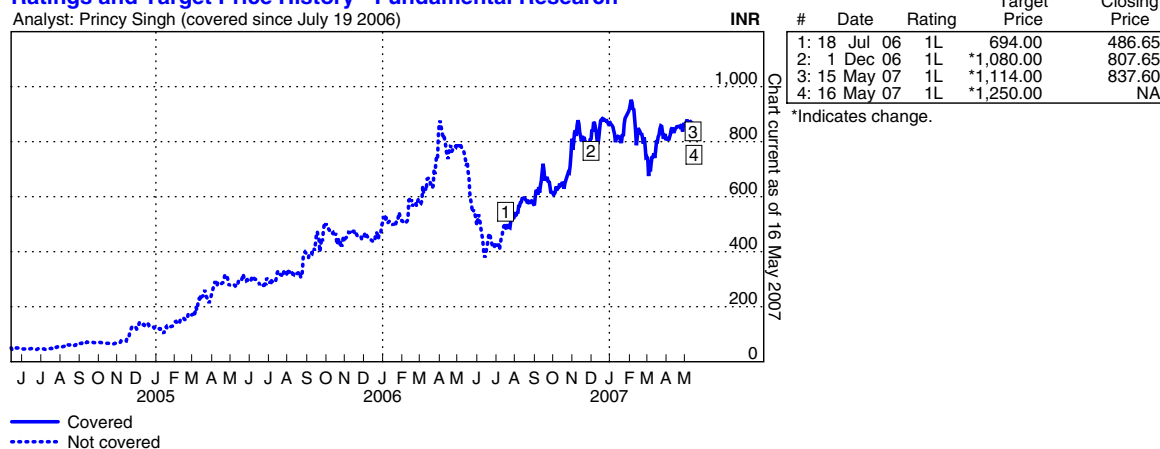
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IMPORTANT DISCLOSURES

United Spirits (UNSP.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since July 19 2006)



Reliance Energy (RLEN.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Venkatesh Balasubramaniam (covered since March 1 2006)



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India -- Asia Pacific (130)	58%	14%	28%
<i>% of companies in each rating category that are investment banking clients</i>	42%	50%	42%
Citigroup Investment Research India Technical Equity Research Coverage (0)	0%	0%	0%
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